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Rural Industrial Development in Vietnam

Strategy for Employment Generation and Regionally Balanced Development

(Picture to be inserted)

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Abbreviations

AFTA	ASEAN Free Trade Area
CEPT	Common Effective Preferential Tariffs
CIEM	Central Institute for Economic Management (of MPI)
EPZ	Export Processing Zone
FAO	Food and Agriculture Organization
FEZ	Free Economic Zone
GDLA	General Department for Land Administration
GDP	Gross Domestic Product
GSO	General Statistical Office
HCMC	Ho Chi Minh City
HEPR	Hunger Eradication and Poverty Reduction (programme)
IE	Industrial estate
ISG	International Support Group
LNG	Liquefied Natural Gas
MARD	Ministry of Agriculture and Rural Development
MOET	Ministry of Education and Training
MOI	Ministry of Industry
MOLISA	Ministry of Labour, Invalids and Social Affairs
MOT	Ministry of Trade
MPI	Ministry of Planning and Investment
MSE	Micro and small enterprise
MOSTE	Ministry of Science, Technology and Environment
NGO	Non Government Organization
PCF	People's Credit Fund
PIP	Public Investment Programme
SME	Small and medium-scale enterprise
SOE	State-owned enterprise
TA	Technical assistance
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
VBARD	Vietnam Bank for Agriculture and Rural Development
VCA	Vietnam Cooperatives Alliance
VLSS	Vietnam Living Standards Survey
WTO	World Trade Organization
VWU	Vietnam Women's Union

Exchange Rate¹

US\$ 1.00 = Dong 13,908 (October 1998)

US\$ 1.00 = Dong 12,300 (October 1997)

US\$ 1.00 = Dong 11,015 (October 1996)

US\$ 1.00 = Dong 11,022 (October 1995)

¹ UN Exchange Rate as a reference:

US\$ 1.00 = Dong 14,046 (August 2000)

US\$ 1.00 = Dong 13,942 (October 1999)

US\$ 1.00 = Dong 13,858 (October 1998)

US\$ 1.00 = Dong 11,640 (October 1997)

US\$ 1.00 = Dong 11,000 (October 1996)

US\$ 1.00 = Dong 11,000 (October 1995)

FOREWORD

The present study was funded by UNDP with UNIDO as executing agency. The report was prepared by a team comprising Mr. Mikael Brenning (SME expert, consultant), Mr. Pham Dinh Lan (SME expert, consultant), Ms. Nguyen Minh Nga (gender specialist, consultant) and Mr. Trinh Ngoc Vinh (interpreter, consultant). Task Manager was Mr. Seiichiro Hisakawa (UNIDO). Ms. Minoli de Bresser, Assistant Resident Representative and Head of the Social Development Unit at UNDP, Hanoi, provided support.

The Government counterpart agency was the Department for Agro-Forestry Products Processing and Rural Industries of the Ministry of Agriculture and Rural Development, in cooperation with the Department of Agricultural and Rural Development Policy of the same ministry.

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PREFACE

UNIDO conducted this study under the project “Rural Industry Development for Employment and Income Generation (NC/VIE/98/022)” with funding by the SPPD facility of UNDP.

The Government has been making the fight against poverty a top priority. The Government's Hunger Eradication and Poverty Reduction (HEPR) Programme launched in 1992 aimed at eradicating hunger by the year 2000 and strongly continuing to reduce poverty thereafter. The UN Development Assistance Framework (UNDAF) in Vietnam also places poverty reduction at the core of the mission statement and the fight against poverty as the common denominator for all UN agencies in Vietnam.

The development of rural industry, as “Poverty Alleviation through Rural Industrial Development”, is included as one of UNIDO’s three major programme areas for Vietnam. Thus, the Government-UNIDO Technical Assistance Programme aims at (i) meeting the priorities and needs of the Government and the people of Vietnam, (ii) integrating the development of rural industry into the overall activities of the UN System in Vietnam, (iii) strengthening the social dimension of the UNIDO programme and (iv) matching the priorities of UNIDO with those of potential funding agencies.

Most of the donor support for the rural sector focuses either on the agriculture sector or on rural community development and several donors are currently preparing integrated technical assistance programmes for rural development. However, they do not sufficiently or specifically address the issue of rural industrial development or the need to increase non-farm employment creation for the rural population through the promotion and development of rural industries.

To this end, the Vietnam-UNIDO Programme of Cooperation for 1998-2000 identified the following areas of focus:

- Policy formulation for rural industrial development and the preparation of regional development strategies;
- The development of institutional capacities at regional, provincial, district and commune levels, including business associations and small business clubs;
- Promotion of household and small and medium-sized enterprises;
- Rural business extension services in areas such as management, marketing, finance, and technology; promotion of agro-based industrial development;
- Assistance in developing a rural industrial estate programme to mitigate the effects of rural-urban migration;
- The establishment of information networks and networking existing information sources;
- Distance learning for business development;
- Investment promotion; improvement of capacity to build houses and health centres that can withstand the devastating effects of typhoons in coastal areas;
- Support for non-farm employment and income-generating activities; and
- Assistance for the development of traditional handicraft villages in Vietnam and their linkages with export market networks.

Within the framework of the rural industry sector, this project carried out a review of existing reports and statistics; ongoing and planned donor community support activities,

particularly their strategies and lessons learned from their experiences; characteristics of rural industries in terms of sector distribution, type of products, size of employment per enterprise, direct and indirect income impact of enterprises on the households involved; current markets, rate of investment per job, forward and backward linkages with other economic activities and pollution; problems faced in sustaining, expanding and diversifying their business as well as starting up and establishing new rural industries, existing institutions; and the impact of Government programmes.

The results of this project are recommendations to assist the Government of Vietnam in the formulation of their own strategies and policies to promote and develop rural micro and small- and medium-scale industries. The recommendations are expected to increase non-farm employment and income opportunities in rural areas.

EXECUTIVE SUMMARY

1. Development Context and Background

Over the last two years, increasing attention has been paid to the issue of rural development by the Government and the donor community in Vietnam since 80% of the population and 90% of the poor live in rural areas, urban-rural income disparities are growing and the Government wishes for broad-based and equitable development in Vietnam.

Ten million unemployed and underemployed and over one million potential new entrants to the labour force per year are a social tragedy of immense magnitude and a risk to stability. This is particularly a rural problem. Urban unemployment ranges 4.6 - 7.3% amongst regions. Underemployment is estimated to be greater, totalling 26% in rural areas and 17% in urban areas. Underemployment in the agriculture sector varies from 28% to 35% for most regions.

In 1990-1995, the employed labour force increased by an annual average of 2.6%. During the same period, agricultural GDP grew by an annual average of 4.4% and labour productivity at 3.3%, while employment in the agriculture sector increased only by 1.1%. This pattern continued in 1996-1997.

Employment in the agriculture sector increased at the cost of decreasing labour productivity. The agriculture sector is unlikely to provide significant additional productive jobs in the near future. Thus, the potential to increase employment rests with rapid growth of the industrial sector in rural areas.

The main objective of the study is to provide recommendations on a strategy for employment-generating regionally balanced rural industry development in Vietnam, including projects and programmes.

2. Urban-Rural Dimensions of Industrialization

Only 20 – 25% of total gross industrial output originates from rural areas. Industrial production is highly concentrated in Hanoi-Hai Phong-Hai Duong-Quang Ninh in the north, Ho Chi Minh City-Binh Duong-Dong Nai-Baria Vung Tau in the south and Danang-Quang Nam-Quang Ngai in the centre. The two former triangle zones alone account for almost two thirds of gross industrial output in the country.

55% of the economically active population² in industry and construction sectors³ live in rural areas.⁴ 7.5% of the economically active population who have agriculture as their main occupation also have a secondary job in industry and construction. Another 2 million people in rural areas have temporary or part time work in industry or construction, or have these activities as an additional source of income besides agriculture.

² About 2.2 million people

³ The shares of employment in industry and construction as a percentage of total employment (10% for the whole country) range from 24% in the South East to approximately 4-5% in the Northern Uplands and the Central Highlands. In the North Central Coast the corresponding figure is 7% and in the Red River and Mekong River Delta Regions about 10%.

⁴ According to the MOLISA statistics.

The private sector dominates the generation of employment in rural areas. The State-owned sector and the foreign-owned sector play an insignificant role.

3. Rural Industries

3.1 Overall characteristics

About 80% of all rural industries are based on domestic natural resources.⁵

State-owned enterprises do not operate efficiently, despite the fact that they have better access to land, infrastructure and credits, due to social responsibilities assigned to them.⁶ Non-state enterprises in agro-processing are running on average at a profit before tax equivalent to 5.1% of the turnover or profit on equity before tax of 27%. Non-state incorporated enterprises in industry and construction on average are running at a profit before tax equivalent to 1.2% of the turnover, or profit on equity before tax of 4.3%.

On the one hand, SOE in industry and construction have received an average of 2,400 million dong in credit, equivalent to 22 million dong per employee. On the other hand, non-state enterprises in industry and construction have an average of approximately 140 million dong in credit, equivalent to only 6 million dong per employee. Non-farm household enterprises and mixed-type households, have an average of only 6-7 million dong in credit, equivalent to about 2 million dong per employee.

SOE only pay about half of the current market interest rate, whereas a large proportion of non-state enterprises borrow from relatives and friends charging little or no interest.

80% of rural industries surveyed by MARD fall into the category of agro/forestry/fishery processing, the production of building materials or handicrafts indicating backward linkages with rural resources.

Forward linkages appear to be modest, as production concentrates on final consumer goods rather than on intermediate goods. Non-farm household enterprises and mixed-type households sell 93% of their products within the same province and only 7% to other provinces. None of them exports. Out of the non-state incorporated enterprises, 75-78% sell their products in the same province, 17-19% sell in the domestic market outside the province and only 6% export their products.

“Occupational” communes and villages (OCV) are a feature of rural areas,⁷ typically involving 30-80% of all households in the community in the same product line. There are some 800 OCV in the whole country, with 320,000 households with 500,000 permanent employment.

⁵ Food production units dominate with 36% of total manufacturing units, followed by other agro-processing (other than food and wood processing) (16%), wood processing (15%), textiles and garments (13%), and construction materials (10%).

⁶ State-owned enterprises (SOE) in the agro-processing sector in the northern region are running at a loss equivalent to 13.8% of turnover, or at loss on equity before tax of 23%. SOE in industry and construction in the whole country are running at an average loss equivalent to 8.6% of turnover, or loss on equity before tax of 15%.

⁷ Many of them have emerged over the last 10 years.

3.2 Employment

The share of unskilled labour in non-state owned enterprises is about 45%, non-farm household enterprises 50% and mixed-type households 80%. Owners of non-state and household enterprises often acquire experience from having worked in an SOE.

Labour productivity is higher for non-state enterprises than for non-farm household enterprises and mixed-type households.⁸ SOE produced a larger value added per employee.⁹ This is, however, a low figure considering that these enterprises employ twice as much capital per employee as non-state incorporated enterprises.¹⁰

Average monthly salaries and wages paid to employees in rural areas did not differ between SOE and non-state incorporated enterprises in 1997. Average monthly payments to employees in non-farm household enterprises and mixed-type households were higher than SOE and non-state owned incorporated enterprises. It appears that entrepreneurs earn considerably more than the workers, which raises the average for units with few employees in comparison with larger units with more employees.

About 25% of the economically active population change their place of residence. Out of these, 75% of rural people moved to another rural area. Annual migration from rural to urban areas may be insignificant and remained constant over the last 25 years. It appears that the higher population growth rate in rural areas is balanced by rural-urban migration. However, some estimate that about one million people from rural areas are floating in and out of Ho Chi Min City (HCMC) in search of jobs. One third are said to reside in HCMC. One factor which may have contributed to limited rural-urban migration could be a large allocation of land rights to individuals and households in 1988 and onwards, which opened up considerable income opportunities in agriculture. Restrictions on changing permanent place of residence have also been eased.

Higher school dropout rates for girls and lower participation in higher education for women may contribute to hindering women from taking skilled jobs. This is particularly a problem among ethnic minorities and poor households.¹¹

3.3 Environmental Issues

At an aggregate level, industrial pollution has not yet become a major problem in rural areas. There is geographically limited damage. These are two sources of pollution: (i) large, often State-owned, companies with a lack of environmental control facilities. They include, for example, pollution from chemical and fertilizer plants in Vinh Phu and Ha Bac and pollution from coal production in Quang Ninh; and (ii) small-scale industries that are often attached to the households, affecting the family's living environment. They are often concentrated in villages and cause serious water and air

⁸ In 1997, value added per employee in non-state enterprises was between 7.0 and 7.4 million dong, compared with 6.6 million dong for non-farm household enterprises and 4.6 million for mixed-type households.

⁹ 10.4 million Dong per employee.

¹⁰ For example, 3.5 times of non-farm household enterprises and 7 times the capital per employee of mixed-type households.

¹¹ When training opportunities arise, men rather than women participate as women often find it difficult to leave their duties at home to travel outside their own villages or communes. Also, households' land use certificates are normally issued in the name of the man, which may cause problems in the case of divorce or when the land use certificate is needed as collateral for a loan for business purposes.

pollution. The MARD Survey estimated that 52% of the production units cause some impact on the environment.

3.4 Dynamics of Development of Rural Industries

The MARD Survey indicates that 52% of non-farm household entrepreneurs gave underemployment as a reason to start a business (55% of mixed-type households). Thirty percent mentioned a desire to increase income (33% of mixed-type households), 10% saw market opportunities (9% for mixed-type households) and 8% mentioned other reasons (3% for mixed-type households).

There are a number of factors discouraging or impeding the growth of enterprises. These include bureaucracy and administrative work and an increasing risk of complications with the authorities as enterprises grow, as well as minimum capital requirements for the establishment of sole proprietorship enterprises.

A large number of private entrepreneurs try to overcome these constraints with entrepreneurial spirit. The main task for the Government is to create an environment nourishing that entrepreneurial spirit and to remove obstacles that hamper the entrepreneurial spirit from flourishing.

3.5 Constraints faced by rural entrepreneurs

22% of registered private enterprises mentioned that equipment was insufficient, but only 11-14% of the household type of entrepreneurs think that obsolete technology is a constraint.¹² Equipment is simple and often manually operated. Present equipment is adequate for the small volume of production and the quality demanded by the local market. As the volume of production grows, the technological inadequacy of the production becomes more apparent to the entrepreneur.

Most incorporated private enterprises, non-farm household enterprises and mixed-type households sell their products within the province and consider the lack of market as a problem. Poor road conditions hamper the ability to reach markets outside their own community.¹³

A Provincial People's Committee approves the incorporation of a private sector enterprise and a District People's Committee approves a household enterprise. While procedures have been considerably simplified, additional attention should be paid to the criteria on which the People's Committee should base its decision to approve or reject an application. However, the decision as to whether a business is feasible or whether there is already sufficient production capacity should be left to individual entrepreneurs and business partners.

Legal minimum capital requirements and other obstacles for the incorporation of a sole proprietorship enterprise limit the growth of household enterprises and do not encourage household enterprises to enter the formal sector. Further reduction of the "administrative and procedural gap" between household enterprises and sole proprietorship enterprises, and significant reduction of the legal minimum capital

¹² The MARD Survey

¹³ Rural roads receive only 5.5% from the road and bridge component of PIP.

requirement for incorporation of sole proprietorship enterprises would be a step in the right direction.

An enterprise needs to obtain a customs code with the provincial or municipal Customs Department before exporting. The Customs Department cannot issue a customs code without a tax code number issued by the Ministry of Finance. Without the tax code it is not clear what products are covered by the business registration certificate and for which the Customs Department would be authorised to issue a customs code. Long delays in obtaining export permits could be lessened by separating the customs code from the tax code issue.

Post offices are allowed to receive saving deposits from people and the savings would be channelled into a National Investment Assistance Fund for funding of Government programmes. The scheme may have considerable potential to mobilize savings in rural areas, but the risk is that these funds may be channelled away from rural areas.¹⁴

The Bank for the Poor limits access by businesses by setting the maximum lending at 2.5 million dong per borrower. Ceilings on the *interest rates and for spread* between the lending and deposit interest rates discourage savings and limit banks to cover the high costs of operation in the rural areas. Certificates issued by the commune authority are equivalent to loans without collateral but the loan size is limited by the duration of the land title.¹⁵ This system does not give sufficient value to match the needs of the industry sector.

It is difficult to calculate profit tax¹⁶ for a household enterprise and it can allow discretionary assessment.

Many industrial estates (IE) and export processing zones (EPZ) are struggling to increase occupancy rates. An alternative *could* be to develop the road system and electrification to connect villages, communes and districts with a triangle zone, in order to expand markets for rural industries.

Private institutions in the training sector were legalised in 1992 and private vocational schools and training centres were exempted from business and income tax in 1995. However, these tax exemptions were rescinded in May 1998. Measures to encourage private training institutions need to be considered.

The Civil Code of July 1998 detailed the contractual relationships between the parties involved regarding permitted kinds of technology, prices, duration and other conditions as well as approval and monitoring mechanisms of the Ministry of Science, Technology and Environment and other government bodies. However, it permits discretionary interpretation by the competent authorities and discourages foreign technology transfer.

¹⁴ The post offices have a strong outreach in rural areas.

¹⁵ Although some flexibility has been introduced on the duration of land use and ceiling of the size of land, the problem remains.

¹⁶ Introduced in May 1998.

4. National Framework

4.1 Institutions

Whereas the Ministry of Planning and Investment and the Office of the Government have overall responsibility for coordination, there is a need to streamline the policies of various authorities in order to avoid bias against rural industrialisation.¹⁷

Provincial People's Committees have significant influence on the implementation of rural development policies. Districts and communes appear to differ on policies at provincial level. Provincial officials tend to focus more on larger industries, the development of concentrated crop cultivation zones and industrial estates. It appears that the approach is strongly biased towards setting detailed production targets for different economic sectors.

Private sector organizations are still at an embryonic stage.¹⁸ The Civil Code (Article 114) recognises the possible establishment of social and professional organizations, but many conditions are attached. A Law on Associations (1950s) effectively limits the establishment of associations. A new Law on Associations should be prepared to mobilize industry's own resources to assist each other.

4.2 National Programmes

The "Decree 120 National Programme for Employment Promotion" has been in place since 1995. The study team observed that the impact of this programme might have been limited and uneven between different beneficiaries.¹⁹ The "Hunger Eradication and Poverty Reduction (HEPR) Programme" was initiated in 1992. For 1996-2000, the Government allocated US\$95 million with expectations to mobilise another US\$ 1 billion. The outreach to mixed-type households was 15%, and 52% of the respondents did not find the financial support useful.²⁰ The "National Programme for Employment up to the Year 2000 (1998)" aimed at creating 1.3-1.4 million jobs annually and reducing unemployment to 5%. The impact assessment is too early. It is necessary to sharpen the design of support programmes based on the analysis of previous and on-going programmes.

¹⁷ For example, at the national level, MARD is responsible for rural industrial development, whereas the Ministry of Industry has a strong focus on heavy industries with geographical concentration primarily in urban areas and the triangle zones. The Ministry of Labour is responsible for employment promotion. Other line ministries perform various specialised duties which all have a bearing on rural industrial development one way or another.

¹⁸ The Vietnam Chamber of Commerce and Industry operates in only nine major towns. The Union of Associations of Industry and Commerce operates only in HCMC. The Vietnam Cooperatives Alliance (VCA) is present in every province but the staffing is inadequate. The Farmers' Union has an outreach down to commune level, the Women's Union has outreach to almost all communes.

¹⁹ According to a quick field survey by the research team for this report, 55% of the respondents claimed that the assistance was not particularly useful and that only 3% and 1% of mixed-type households and farm households, respectively, were reached. More detailed and thorough surveys on the national programmes are required to obtain accurate information on their status.

²⁰ The MARD Survey. The outreach to non-farm household enterprises was 21%, with 70% of the respondents not finding the financial support particularly useful.

5. Strategies for Employment-Generating, Regionally Balanced Rural Industry Development

The SOE sector would lay off workers, and foreign owned enterprises have some potential for increased industrial employment in rural areas, but start from a very low base with an estimated 15,000 employees.

Private, domestic incorporated enterprises, mostly SMEs, have a large potential in the medium to long term.²¹ However, this sector starts from a low base, with some 600,000 employees in rural industry and the construction sectors. Even a strong growth rate would not be sufficient to effectively address the unemployment problem in the short to medium term.

The household enterprise sector represents the likely largest potential in the short to medium, and medium to long term. With an estimated 3.5 million people already employed in this sector, even moderate growth rates would provide numerous employment opportunities. In the short to medium term, poor infrastructure would offer natural protection of their market. In the longer term, however, the limits of the household sector are set by local demand. However, as competition increases, only those that become more efficient and eventually transform into incorporated enterprises would survive. This transformation process would be the challenge.

Vietnam has a comparative advantage in the labour-intensive manufacturing sector. Employment growth is not likely to come from capital-intensive industries.

It is important for the Government not to try to “pick winners”, but to leave it to the entrepreneurs themselves to decide, “a self-selecting process”. There are abundant examples that the “picking winners” strategy has not worked. Unfortunately, many of the Government’s current interventions appear to be fostering precisely capital-intensive industries and sectors that are not likely to be “winners”. Government should concentrate on developing efficient market mechanisms and limit its interventions to the correction of “market failures”.

The Government can make rural areas and towns more attractive for people and for industries. Better road communications, extended electrification and improved access to social services in rural areas are fundamental. The overall policy environment has to become more conducive and the infrastructure outside the intended industrial estates has to be developed. It is necessary to focus more on rural towns and district centres thus allowing many workers to commute between their home communes and the district centres/rural towns. A suitable approach would be providing rural towns and district centre zones with serviced land suitable for SME manufacturing activities (small industrial growth hubs) making up an enlarged hinterland of the three Triangle Zones that have opportunities for manufacturing activities.

Economic growth is a necessary, but inadequate, condition to reduce poverty. Experience shows that growth does not automatically reduce the gap between the well-to-do and the poor.

²¹ If the business environment is conducive.

Immediate beneficiaries of the set of programmes presented in this report would be those who have already accumulated some surplus funds for possible investment and who have already satisfied their highest investment needs. However, investment in manufacturing activities would employ people who may belong to poorer segments of the population, the unemployed or underemployed and the landless. The promotion of industrial development outside the Triangle Zones has a higher likelihood of creating employment among the rural poor than the promotion of industries inside the Triangle Zones.

6. Policies to Support the Strategy

The following are some elements of policies that would enhance the strategies presented in this study:

Public Investment Programme

- Abolish subsidised credits to SOEs and reduce the allocation of investments for industrial SOEs;
- Increase the share of PIP funds allocated for rural road construction and maintenance.

Financial Sector

- Abolish lending interest rate ceilings, limits on banks' spread between lending interest rates and interest rates on deposits; phase out subsidised interest rates under various National Programmes and replace them with targeted social safety-nets;
- Establish and promote an umbrella organization for the People's Credit Funds;
- Introduce measures to ensure local investments by a post office savings mobilization scheme and *define* the role of the National Investment Assistance Fund.

Taxation

- Introduce measures to make tax assessment simpler for household enterprises in order to reduce the costs of compliance and eliminate discretionary elements;
- Abolish the surplus tax of 25% on profits from Decree No. 30/1998/ND-CP;
- Streamline Decree No. 30/1998/ND-CP on enterprise income tax.

Land

- Raise the level of hectares allowed for individual and household land use rights;
- Relax restrictions to alter the use of land;
- Facilitate the transfer of land use rights;
- Extend the duration of land use rights;
- Allow private sector enterprises to contribute land use rights as equity in joint ventures with foreign enterprises.

Geographical Distribution

- Give a lower priority to investments in Triangle Zones and attach higher priority to “middle” zones; introduce an industrial growth hub concept for rural towns and district centres;
- Review a strategy for the development of industrial estates, export processing zones and high-tech parks;
- Abolish special incentives for tenants in industrial estates.

Private Sector

- Replace the current business registration procedures with a simple system for registration not requiring approvals and with limited exceptions;
- Lower the minimum legal capital requirement for incorporation of sole proprietorship enterprises;
- Abolish incentives that discriminate against other legal forms of enterprise incorporation contained in the Law on Cooperatives.

Human Resource Development and Technology Transfer

- Train central and provincial officials on the functioning of a market mechanism, and social, financial and economic cost/benefit analysis of policies, programmes and projects;
- Offer incentives to encourage enterprises to invest in skills improvement;
- Increase content on practical technology at all levels of educational institution;
- Amend Decree on Technology Transfer to encourage technology transfer from abroad;
- Develop industrial research programmes at appropriate research institutes to respond to market and demand, and disseminate the research results.

National Programmes

- Improve the outreach of National Targeted Programmes;
- Prepare sub-sectoral strategies and programmes;
- Develop a strategy to transform rural non-farm household enterprises and “occupational” communes/villages to the growth oriented sector;
- Promote efficiency and growth of rural SMEs.

Institutional Set-up

- Ensure coherence of programme formulation and implementation at national and provincial levels and strengthen bottom-up approaches for rural and regional industrial policy development;
- Encourage the establishment of industry and business associations;
- Mainstream gender equality, including statistics, impact of policy decisions, awareness training for both men and women and ensure women's participation in training;
- Add a Technical Working Group under the International Support Group for MARD on rural industrial development.

7. Technical Assistance in Support of the Strategy

7.1 Observations on the Orientation of Technical Assistance Projects

Technical assistance (TA) projects supported by donors in the past have room to improve their effectiveness. The following are observations on ongoing TA projects supported by the donor community:

- TA projects are spread over a number of areas and recipients, with limited coordination on the part of the Government or donors;
- Only a small share of TA (2.8%) is directly geared towards the rural industry sector;
- Donor support for SMEs is limited and concentrated in Hanoi and HCMC; and
- There are numerous schemes for micro-credit, but they lack replication on a larger scale.

In the light of the above observations, and with a view to support the Government's objective for employment-generating rural industrial development, the Government and donor community may consider support to the following areas:

- Strengthen the capacity of central Government institutions to analyse, formulate and coordinate policies and strategy for rural industry development;
- Strengthen the capacity of Government institutions at the central, provincial and district levels to implement coherent policies and strategy for rural industry development;
- Develop a strategy to promote technology transfer with foreign direct investment;
- Promote the establishment and growth of rural industrial household enterprises and small-scale private enterprises;
- Promote demand-driven human resource development programmes for rural industry operators and workers;
- Promote the use of Information Technology facilities by rural industry operators and the promoters of rural industries;
- Promote exports by rural private small- and medium-industries and traditional "occupational" communes and villages; and
- Strengthen non-Government delivery systems for business extension services, i.e. mass organizations, industrial associations, chambers of commerce, business clubs etc.

7.2 Possible TA Projects

In the light of the overview in previous sections, the following areas of Technical Assistance have been identified (more details are presented in sections 7.5.1 – 7.5.3):

Goal: Decrease poverty by improving an environment where rural industries can grow, and create employment and incomes opportunities that are alternative or supplemental to agriculture

Technical assistance areas:

- 1) To assist the Government in developing the institutional capacity to manage strategy and coordination for rural industry development at all levels, i.e. central, provincial, district and grassroots level.

- 2) To strengthen the capacity of training institutions and supervising authorities to improve managerial and technical training programmes that respond to the requirements of rural industry development in an increasingly competitive environment.
- 3) Improve the access of rural industries to business information by establishing a business information network.

1. INTRODUCTION

1.1 Development Context and Background

Over the last two years²², the Government and the donor community in Vietnam have paid increasing attention to the issue of rural development. This increased attention is well justified, given that 80% of the population and 90% of the poor reside in rural areas, that urban-rural income disparities are growing and given the wishes of the Government for broad-based and equitable development in Vietnam. The situation is aggravated by open and hidden unemployment and underemployment, which translated into over 10 million people, or 30% of the labour force, and which is primarily a rural problem. In line with this increased attention, the Consultative Group meeting in December 1998 had a special focus on rural development.

Several studies have been prepared recently on the topic of rural development, for example the World Bank's "Advancing Rural Development in Vietnam - A Vision and Strategy for Action" and UNDP's "Framework for a Rural Development Strategy". Although rural industrial development was covered in these reports, and many of the recommendations are also relevant for rural industrial development, UNDP, UNIDO and the Government agreed to complement these studies with a separate study looking more deeply into some aspects of rural industrial development. This was considered justified on grounds that, for the foreseeable future, industrial growth is likely to play an important role for a major means to spread the benefits of economic growth more equitably in the country.

1.2 Main Objective of the Study

The main objective of the study is to provide recommendations on a strategy, including policies and programmes, for employment-generating, regionally balanced rural industrial development in Vietnam as well as possible donor assistance in support of such a strategy. With this objective in mind, there are two main target groups for the final report, namely policy makers within the Government and the donor community.

1.3 Methodology of the Study

The study started in September 1998 and included field missions to five provinces in the north, central and south of Vietnam (Yen Bai, Ninh Binh, Ha Tinh, Lam Dong and Soc Trang provinces). Consultations were held during the field visits with the authorities of 5 provinces, 8 districts and 14 communes as well as with banks and organizations such as the Farmers' Union, the Vietnam Women's Union and the Youth Union. Visits were also made to some 50 micro, small and medium-scale enterprises, primarily household production units in rural areas.

In addition to drawing on the information received during the field visits and from the team members' previous experience, the study also reviewed a number of previous studies, statistical sources and surveys by GSO, MOLISA and a recent survey of 4,828 non-farm business units in rural areas by MARD (hereafter referred to as the MARD Survey).

²² All analyses mentioned in this document were made in 1998.

Based on an Issues Paper on Rural Industrial Development with preliminary findings prepared by the project, a Consultation Meeting was held on 20 November 1998. The purpose of the meeting was to exchange views with the Government and donor community experts on rural industrial development, particularly on scope, conclusions and recommendations.

This version reflects consultations with MARD carried out until March 2000.

Definitions

Annex 1 provides definitions of various concepts and terminology used in this report, in particular regarding different categories of production units.

2. URBAN-RURAL AND REGIONAL DIMENSIONS OF INDUSTRIALIZATION

“Rural industrialization” is a multifaceted issue. In Vietnam, there are three dimensions of particular relevance, i.e. the urban-rural dimension; the dimension of geographical distribution amongst regions and provinces; and the geographical distribution between three “triangle zones” and the rest of the country. Each of these dimensions is covered by the present study.

2.1 Industry Share of GDP and Industrial Output by Regions

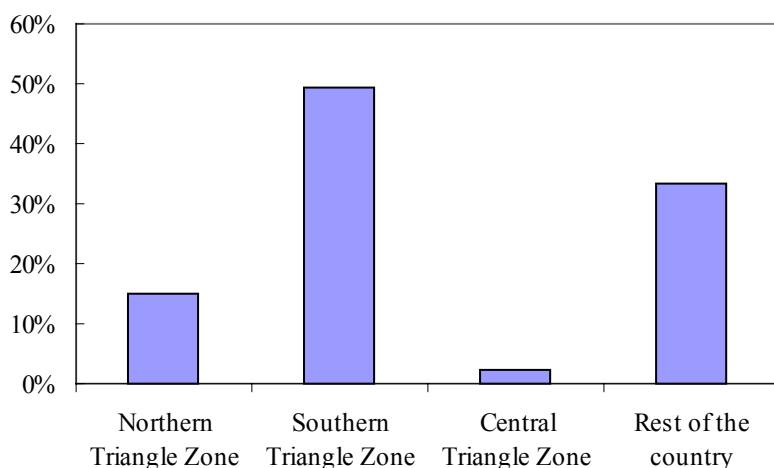
In 1997, industry (which Vietnamese official statistics defines as mining, manufacturing and power generation) accounted for an estimated 31% of GDP, while manufacturing alone accounted for 18%. Construction accounted for another 7%. At more detailed levels, official statistics do not provide information in terms of shares of GDP, but usually refer to gross industrial output. This can be misleading as the value added (which GDP measures) of the same gross industrial output in a labour-intensive activity such as garment production is several times higher than in a capital-intensive activity such as cement or steel production. Despite this deficiency, gross industrial output is referred to frequently below, due to non-availability of statistics on value added. Statistics on industry and construction are often combined in official statistics on production and employment.

Two-third of the gross industrial output is concentrated in the two “triangle zones” in the North and the South, and 80% of foreign owned industrial enterprises are located in the “triangle zone” in the South

Out of total gross industrial output, an estimated 75-80% emanates from urban areas leaving an estimated 20-25% only for rural areas. Industrial production is also highly concentrated on the three zones selected by the Government particularly for industrial development, the so-called “triangle zones” (Table 2). These include Hanoi-Hai Phong-Hai Duong-Quang Ninh in the north, Ho Chi Minh City-Binh Duong-Dong Nai-Baria Vung Tau in the south and Danang-Quang Nam-Quang Ngai in the centre of Vietnam. The two former alone account for almost two thirds of gross industrial output, while the central triangle zone is less developed and only accounts for 2.4% of total gross industrial output. Gross industrial output from foreign owned industrial enterprises is

even more concentrated as 79% emanating from the southern triangle zone and 12% coming from the northern triangle zone. The Hanoi and HCMC triangle zones account for about 60% of gross industrial output by the State. The non-state domestic sector has about half of its gross industrial output from the triangle zones and the other half in other parts of the country.

Figure 1: Share of Gross Industrial Output by the Three Triangle Zones and the Rest of the Country



2.2 Growth of the Industrial Sector

Annual growth of the industrial sector remained at 15% for the period 1991-96. The highest growth rate (about 20%) was accounted for by the southern triangle zone, excluding HCMC, where problems of congestion have slowed down the growth rate in recent years. All other regions also experienced fairly high growth rates, all exceeding 10%, except for the North Central Coast, which grew by 7%. The Mekong River Delta also grew more slowly than the rest of the country, at an annual average rate of about 11%, which means that this region, housing about 20% of the total population, is gradually losing out to the rest of the country. As an indication of the growth of rural industries, industrial growth outside the triangle zones between 1991 and 1996 was lower than inside the triangle zones, i.e. an annual average of 11.7% compared with 16.4% for the triangle zones.

2.3 Rural Industrial Employment

Total employment in industry and construction amounted to about 4.6 million (13% of total employment) in 1996 according to statistics of the General Statistics Office (GSO), while employment in these sectors according to statistics of the Ministry of Labour (MOLISA) on labour and employment in the same year only amounted to about 3.5 million (10% of total employment). Much of the difference between the two sources can be explained by the fact that MOLISA uses a more narrow definition, namely only the economically active population, excluding the unemployed or those employed less than 183 days per year, and only referring to the 12-month period preceding its survey.

According to the MOLISA statistics, 55% of the economically active population in industry and construction live in rural areas, accounting for 20-25% of gross industrial output. Taking the average of the GSO and the MOLISA statistics, there are some 2.2 million people in rural areas whose main income is from industry and construction (Table 4). In addition, according to the Vietnam Living Standards Survey 1992/93, 7.5% of the economically active population having agriculture as their main occupation reported having a secondary job in industry and construction. This indicates that about another 2 million people in rural areas have temporary or part-time work in the industry and construction fields or have these activities as an extra source of income beside their main work in agriculture. The reasons why 55% of the people involved in the industry and construction sectors in rural areas account for 20-25% of gross industrial output may be attributable to the characteristics of the rural industries such as labour intensive technologies, modest value addition per enterprise, non-availability of accurate data etc. The fact that a large number of rural people are engaged in rural industries indicates that people engaged in the agriculture sector consider it valuable to participate in rural industries in order to supplement income and employment opportunities.

Two million, or 55%, of the country's economically active population in the industry and construction sectors live in rural areas.

Regarding employment in industry and construction, there are large differences among regions and provinces (Table 4). The share of employment in industry and construction as a percentage of total employment (10% for the whole country) range from 24% in the South East to around only 4-5% in the Northern Uplands and the Central Highlands. In the North Central Coast the corresponding figure is 7% and in the Red River and Mekong River Delta Regions about 10%.

Shares of total employment in industry and construction vary largely amongst regions, ranging from 24% in the South East to 4-5% in the Northern Uplands and the Central Highlands.

There is no single source with consolidated statistics on the number of enterprises, type of enterprises, ownership and employment in industry and construction in rural areas. Drawing information from a broad range of surveys and statistical sources (GSO, MOLISA, VLSS, MARD Surveys, enterprise registrations etc.), the following estimate is made:

Table 1.1 Numbers of Rural Employees in Industry and Construction by Type of Production Unit

Type of Unit	Number of Units	Average Number of Employees	Total Number of Employees	Percent Share of Total Employees
Foreign-owned	50	300	15,000	-
State-owned	750	200	150,000	4
Private incorporated <u>a/</u>	23,000	25	575,000	14
Non-farm households <u>b/</u>	483,000	3	1,450,000	34
Mixed-type households <u>b/</u>	2,000,000	1	2,000,000	48
Total full time/part time			4,200,000	100

Source: Various statistical sources and study team estimates.

a/ Refers primarily to small and medium-sized enterprises. See definition in Annex 1.

b/ Refers primarily to micro-enterprises, but include also small and medium-sized enterprises.

Even if the numbers are estimates, one conclusion is that the dominant sector from an employment-generating point of view in rural areas is the private sector and that the state-owned enterprises (SOE) and the foreign-owned sectors in this aspect play an insignificant role.

The domestic private sector is the all-dominating source of employment in industry and construction in rural areas, accounting for as much as 96% of employment. State-owned enterprises and foreign enterprises play an insignificant role from an employment-generating point of view.

About 45% of employees are female, a ratio that does not differ significantly amongst SOE, private incorporated enterprises, non-farm and mixed-type household units. Gender specific statistics are not available regarding skills levels, but the general perception is that the female share of higher skilled jobs and at higher positions in the enterprises is lower than for less skilled jobs and positions at lower levels in the enterprises. At the level of head of production units, the MARD survey reveals that only 3.5% of heads of SOE are female, compared with 16% in privately owned enterprises, 22% of non-farm household enterprises and 16% of mixed-type households.

2.4 Skill Levels and Educational Levels of Heads of Production Units

The ratio of unskilled workers varies amongst the categories of production units. For industry and construction, SOEs have only about 25% unskilled workers, while privately owned enterprises have about 45%, non-farm household enterprises 50% and mixed-type households 80%.

Regarding heads of production units in industry and construction, SOEs have 75% with education at college or university level, 15% with vocational or technical school background and only 10% classified as unskilled workers. The corresponding figures for privately owned enterprises are 13%, 35% and 52%, respectively. Field mission discussions with privately owned entrepreneurs and households involved in industry

also revealed that the owners have often acquired experience from having worked in SOE.

Gender disaggregated statistics on educational background of heads of production units are not included in the MARD Survey. However, the fact that women head only 3.5% of SOE and 15.5% of private enterprises indicates that their educational level is lower than that of men.

2.5 Unemployment and Rural Underemployment

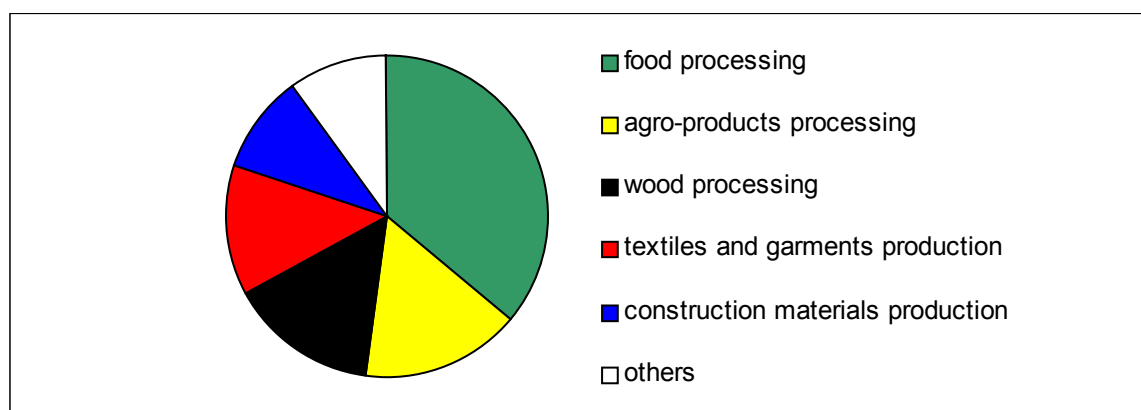
Table 5 provides information on unemployment and underemployment in Vietnam based on MOLISA labour statistics of 1997. Unemployment is considered to be an urban phenomenon as the great majority of the rural population do have land use rights and therefore are assumed to be not entirely unemployed, only underemployed. Urban unemployment, however, runs at about 6% with small variations among regions (range 4.6 - 7.3%).

Underemployment however is large, totalling 26% in rural areas and 17% in urban areas. Underemployment is most accentuated in the agriculture sector with 29% for the whole country, whereas the underemployment rate in industry, construction and service sectors is 17%. Underemployment rates in agriculture vary between 28% and 35% for most regions, while they are lower in the Northern Uplands (22%) and the South East (14%). Most of the underemployment emanates from the seasonal structure of agricultural activities. Female unemployment and underemployment rates consistently score slightly lower than for men, and, in addition, women are the ones carrying out most of the work in the home.

26% of the economically active population in rural areas are underemployed. In the agricultural sector alone, 29% are underemployed – in some regions as much as 34-35%.

2.6 Structure of Rural Manufacturing by Manufacturing Sub-sectors

Figure 2: Structure of Rural Manufacturing by Manufacturing Sub-sectors



Food and foodstuff manufacturing units dominate with 36% of all manufacturing units followed by other agro-processing (other than food and foodstuff and wood processing) (16%), wood processing (15%), textiles and garment (13%), and production of construction materials (10%). In total, about 80% of all rural industries are based on domestic natural resources.

2.7 Labour and Capital Productivity in Rural Industry

Table 9 presents some key data from the MARD Survey. Data is presented separately for SOE, non-state enterprises, non-farm household enterprises and mixed-type households. As the information on SOE is distorted by a few very large enterprises in agro-processing, this sector is excluded from the presentation below on labour and capital productivity.

Labour productivity is higher for non-state enterprises than for non-farm household enterprises and mixed-type households. In 1997, value added per employee in non-state enterprises was between 7.0 and 7.4 million dong compared with 6.6 million dong for non-farm household enterprises and 4.6 million for mixed-type households. SOE produced a larger value added per employee, 10.4 million per employee. This is however a low figure considering that these enterprises employ twice as much capital per employee (27 million dong) as non-state incorporated enterprises (14.5 million dong), 3.5 times as much as non-farm household enterprises (8 million dong) and 7 times the capital per employee of mixed-type households (4 million dong). For the country as a whole, industry and construction value added per employee in 1997 amounted to 14.0 million dong.

The ratio between gross output and total capital employed for the surveyed units amounted to 1 for SOE, 2-3 for non-state enterprises and 5-6 for non-farm and mixed-type households.

Data are incomplete and contain sources of error but support the conclusion that State-owned production units, urban production units and large production units produce a larger value added per employee than private production units, rural production units and small production units. On the other hand, the latter group of production units tend to use capital much more efficiently (ratio between gross output and employed capital) than the former group of production units.

2.8 Profitability of Rural State-owned and Non-state Enterprises

The MARD Survey also collected data on revenues and costs of 63 state-owned enterprises (SOE) and 508 non-state incorporated enterprises in industry and construction in rural areas. A special analysis of these data for the purpose of this study was processed and organized in the form of standard profit & loss statements commonly used in market economies (Tables 10-13). Financial costs (depreciation and interest on borrowed capital) were small in these accounts, and therefore these profit and loss statements were revised so as to reflect adequate depreciation as well as a realistic market rate of interest on borrowed capital. The results from SOE in agro-processing in the south of Vietnam have been excluded as they have been distorted by one or two extreme observations or possibly by some data errors.

The results show that SOE in agro-processing in the north of Vietnam on average are running at a loss equivalent to 13.8% of turnover, or a negative return (loss) on equity before tax of 23%. SOE in industry and construction in the whole country on average are running at a loss equivalent to 8.6% of the turnover or a negative return (loss) on equity before tax of 15%. Non-state enterprises in agro-processing on average are running at a profit before tax equivalent to 5.1% of the turnover or a return (profit) on equity before tax of 27%, which is quite acceptable according to international practice (the return on equity should exceed the current market interest rate plus a bonus for the entrepreneurial risk). Non-state incorporated enterprises in industry and construction on average are running at a profit before tax equivalent to 1.2% of the turnover, or a return (profit) on equity before tax of 4.3%, which is below what should be accepted according to international practice. Financial records of SOEs suffer from the fact that the Government assigns additional obligations to SOEs such as insurance, taxes, contributions to establish nurseries, kindergartens and other social infrastructure.

Although aggregate averages do not reveal the particular causes of poor financial performance in individual cases, which can differ considerably from case to case, it does however appear that SOE are not able to reap adequate efficiency gains from their higher capital intensity compared with the non-state incorporated enterprises, despite the fact that they have better access to land, infrastructure and credits. In many cases, this may also reflect low capacity utilization. In addition, SOE tend to have higher overhead costs than the non-state incorporated enterprises and much larger production facilities (within and outside a factory), on average about 200 square meters per employee compared with 80 square meters for non-state incorporated enterprises (and about 20 square meters for non-farm household enterprises and mixed-type households).

What is also interesting is the notion that despite the fact that SOEs, according to market economy accounting practice, are running at a loss, the Government due to inappropriate accounting practices is still taxing them. This means that they are being deprived from the possibility of generating their own capital for replacement of equipment, and even less for expansion, and thus become even more dependent on external capital.

As their bank credit worthiness erodes and their capability to service their loans deteriorates, they become even more dependant on credit from the State, due inter alia to taxation. The Government's effort to entice state-owned banks to provide additional loans by relieving SOEs from the collateral requirement is a misdirected effort to try to break the vicious circle of taxing SOEs with the one hand and providing subsidized credits with the other. Better accounting practice is one of several preconditions to solving the problem of ailing SOEs.

State-owned enterprises in rural areas are running at a heavy loss, but are still claiming they are making profits due to inadequate accounting practices. The financial situation is further aggravated by the notion that the Government levies taxes on these "paper" profits bringing these enterprises to the brink of collapse. Allowing State-owned banks to lend money to these enterprises without collateral temporarily postpones their collapse, but simultaneously diminishes the solvency of the banks, and could delay the reform. Unless real reform measures are taken in the SOE sector and the banking sector, the current practices are taking both sectors to the risk of collapse.

2.9 Financing of Rural Industries

The easier access to credits by rural SOE and incorporated non-state enterprises (Table 9) compared with rural household enterprises is well demonstrated by the MARD Survey (agro-processing SOE are not included in the numbers below). SOE in industry and construction on average have 2,400 million dong in credits equivalent to 22 million dong per employee. Non-state enterprises in industry and construction on average have about 140 million dong in credits, equivalent to about 6 million dong per employee. Non-farm household enterprises, and mixed-type households, on average have only 6-7 million dong in credits, equivalent to about 2 million dong per employee.

It is also interesting to note that SOE in industry and construction on average pay between 8.7% and 10.1 % annual interest on their loans, whereas non-state enterprises in industry and construction on average only pay between 4.4% and 4.9% annual interest rate (Tables 10-13). This reveals two observations. Firstly, that SOE only pay about half of the current market interest rate. Secondly, that a large portion of the non-state enterprise borrowing emanates from relatives and friends charging little or no interest.

State-owned enterprises in rural areas borrow 3.5 times more per employee than private incorporated enterprises and 11 times more per employee than household production units.

2.10 Salaries and Wages in Rural Industries

Average monthly salaries and wages paid to employees in rural areas do not differ between SOE and non-state incorporated enterprises, which may reflect a well functioning labour market in terms of levels of salaries and wages (Table 9). The range is 263,000 - 288,000 dong per month in 1997 (SOE in agro-processing excluded), which is higher than the average for the country as a whole (227,000 dong in 1996) and is likely to be considerably higher than the average for rural areas alone. Average monthly payments to employees in non-farm household enterprises and mixed-type households were higher, 365,000 and 303,000 dong respectively. This can however be explained by the fact that self-employed business owners earn considerably more than the externally hired labour, which raises the average for units with few employees compared to larger units with more employees. The MARD Survey does not provide gender based information on salaries and wages, but these are known to be lower for women than for men, reflecting women's higher share in less skilled and lower paid jobs. The UNDP report "Vietnam through the lens of gender" (August 1995) states that women's wages average only 72% of men's wages, and in agriculture alone only 62%.

2.11 Backward Linkages by Rural Industries

The MARD Survey did not specifically investigate the backward linkages of rural industries. However, as 80% of the surveyed units fall into the category of agro/forestry/fishery processing or the production of building materials or handicrafts, it is obvious that the backward linkage with the agriculture sector is strong. The opposite is the case for urban small and medium-scale enterprises in Vietnam (Hanoi, HCMC, Hai Phong) surveyed in a recent study by MOLISA and the Stockholm School of Economics. Out of the surveyed enterprises only 8.6% in Hanoi, 6.9% in HCMC and 2.3% in Hai Phong stated that they buy raw materials from rural suppliers (which could of course mask the fact that these enterprises buy from urban traders, which in turn buy from rural industries).

80% of rural industries are based on agricultural products and locally available natural resources, so backward linkages are strong.

2.12 Forward Linkages by Rural Industries

Data are incomplete, but forward linkages appear to be modest, with production (except for exports) concentrated on final consumption goods rather than intermediate goods. Non-farm household enterprises and mixed-type households sell 93% of their products within the same province and only 7% to other provinces. None of them are actually exporting. Out of the non-state incorporated enterprises, 75-78% sell their products in the same province, 17-19% sell outside the province, but still in Vietnam, and only 6% export their products. 20-27% of State-owned enterprises sell outside the province, but within Vietnam. 26% of the agro-processing State-owned enterprises and 14% of other State-owned enterprises state that they have some exports (Table 16).

Forward linkages appear to be modest, reflecting a concentration on production of final consumption goods. About 80% of non-SOEs sell their products in the same province.

2.13 Labour Mobility and Migration Patterns

According to the Vietnam Living Standards Survey 1992/93, about 25% of the total economically active population had at some time in their life changed their place of residence. Out of these, 75% of rural people moved to another rural area, whereas 25% of rural people had moved to an urban area. This means that about 6% had moved from rural areas to urban areas. As this covers the whole lifespan, equivalent to an estimated average for the respondents of 25 years, the annual movements from rural areas to urban areas may be as low as 0.25% (the migration from urban to rural areas is insignificant).

This is also reflected in overall statistics on the shares of urban and rural population of the total population, which have remained constant at 80% and 20% respectively for the last 25 years. If there were no net rural-urban migration at all, the rural share would have been increasing in the light of the higher birth rates in rural areas. However, it appears that the higher population growth rate in rural areas is exactly balanced by the rural-urban migration, so that the net effect is an unchanged ratio between rural and urban population.

Rural and urban shares of the population have remained constant at 80% and 20% respectively over the last 25 years in Vietnam, whereas other countries in the region have experienced a growing share in the urban population of the total population. As new productive employment opportunities in the agricultural sector are fading, rural-urban migration pressure is likely to increase in the future.

This is a different pattern from some other developing countries. Table 3 provides information on urban shares of the total population for seven Southeast Asian countries, in addition to Vietnam, which have experienced growing urban populations.

In Vietnam, one factor which has contributed to limited rural-urban migration, following the large allocation of land use rights to individuals and households in 1988 and onwards, has of course been that the land reform as such opened up considerable income opportunities in agriculture. Restrictions on geographical labour mobility (change of permanent residence site) are likely to have contributed too. Residing in a particular location without permanent residence status deprives a person of access to education, health care and other social benefits. A too restrictive labour mobility policy (including also restrictions on the transfer of land use rights) will actually have a negative effect on agricultural productivity and incomes of farmers as well as on the development of internationally competitive industries. On the other hand, appropriate policies would have to be applied to avoid the negative effects of rural-urban migration and urban agglomeration.

Some observers estimate that about one million people from rural areas are floating in and out of HCMC in search of jobs, reflecting the seasonal underemployment in agricultural activities. Some estimates also have it that, on average, a third of these people are actually residing in HCMC. Similar problems, though on a smaller scale, are experienced in Hanoi, Hai Phong, Danang and a few larger towns, but this does not appear to be a particular problem for the time being in other urban areas.

2.14 “Occupational” Communes and Villages

“Occupational” communes and villages are a feature of Vietnamese rural areas. Such communes or villages have a high concentration of households involved in the same kind of production activity. Typically, 30-80% of all households in the commune or village are involved in the same production activity. Table 21 provides detailed information on the kind of activities involved, geographical distribution of the communes and villages, and the number of households involved.

In the whole country there are some 800 “occupational” communes and villages involving about 320,000 households which provide employment for an equivalent of about 500,000 permanent employees. Although not organized as incorporated enterprises or cooperatives, they can in some aspects be compared to medium to large-sized private enterprises with common procurement of raw materials, shared technology, common distribution etc., thereby being able to reap some benefits of economies of scale.

Some of these communes and villages have a long history, but many of them have emerged over the last 10 years. At one point in time, some households started a particular production activity, somehow picked up the business idea and brought in the technology. Then, by the demonstration effect, others picked up the idea and the technology and started the same kind of production.

In the Government’s report on rural development for the donor Consultative Group meeting in December 1998, the Government provided a projection that 1,000 new “occupational” communes and villages could be established by the year 2010.

A Vietnam-specific feature of rural industry is the 800 “occupational” communes and villages providing employment for about 500,000 people involved in locally specialized and concentrated manufacturing.

2.15 Gender Issues

The division of labour between men and women both in the home and outside affects women’s participation in rural industries. Most of the work at home (child rearing and household management) is being taken care of by women, who spend 3-4 hours per day compared with men who spend only a quarter of an hour for this kind of activity (as a consequence, rural women spend on average as much as 12.5 hours on paid and unpaid work per day). In agriculture, men typically carry out most of the land clearing and preparation work as well as ploughing and other heavy work. Fishing and hunting are exclusively male tasks. Women on the other hand are responsible for weeding, planting,

harvesting, the collection of fuel and water as well as the family's animal husbandry. There are estimates that some 65-70% of agricultural work is carried out by women.

Regarding non-farm activities in rural areas, there are certain activities that are dominated by female or male participation. Typically female-dominated activities include foodstuff processing, embroidery, tailoring, production of rush products (mats, bags, baskets etc) and trading. Typically male-dominated non-farm activities are most machine-related operations, carpentry, mechanical manufacturing and transportation. According to the field trip survey, 5-15,000 dong per day were paid for jobs primarily carried out by women, whereas male-dominated jobs were paid 15-30,000 dong per day. Also the typical situation within enterprises is that hierarchical higher level jobs, and thus better-paid jobs, are held by men rather than women.

The above illustrates that women's potential is not fully realised in the context of rural industrial development and confirms the picture of Vietnamese women as being socially, economically and politically disadvantaged compared to men. The study team also holds the view that discrimination against women is stronger in rural areas than in urban areas.

Stereotyped cultural perceptions are probably the main cause of women's disadvantaged situation and these perceptions tend to be more conservative in rural areas than urban areas. The fact that women's main role is perceived as related to the home or agriculture deprives women from opportunities for education, training and work away from home.

Higher school dropout rates for girls and lower participation in higher education for women may also contribute to hindering women from taking skilled jobs requiring higher levels of education. This is particularly a problem amongst ethnic minorities and poor households. Girls are often considered to be more important for the household economy than boys due to their "perceived" role in providing help at home, and are therefore taken out of school more often than boys. Also, when training opportunities arise, men rather than women participate as women often find it difficult to leave their duties at home and travel outside their own villages or communes. As there is a certain "status" in attending training courses and receiving per diem, men tend to "grab" these training opportunities, based on the observation that men are more "status" conscious than women.

Another factor discriminating against women is that households' land use certificates are normally issued in the name of the husband, which may cause problems in the case of divorce or when the land use certificate is needed as collateral for a loan for business purposes. This, in combination with cumbersome bank procedures which less educated women find hard to deal with, makes access to formal banking sector credits difficult for women.

A strategy for rural industrial development has to explicitly recognise the role of women and the fact that women are not realising their full potential in economic development. A major challenge is to change perceptions in society about gender roles, to reduce differences in educational levels between men and women and to have men and women share the domestic workload more evenly. Thereby, differences in total paid and unpaid work between men and women may be reduced and increased participation of women in qualified and well paid occupations achieved.

Women's potential is not fully taken advantage of in the context of rural industrial development. It is observed that the Vietnamese women are socially, economically and politically disadvantaged compared to men, primarily due to stereotyped cultural perceptions that appear stronger in rural areas than urban areas.

2.16 Environmental Issues

At an aggregate level and nation-wide, industrial pollution has not yet become a major problem in rural areas. Some damage is, however, being caused at geographically limited sites. These could be divided into two sources of pollution: (i) the large, often state-owned, companies with a lack of environmental control facilities. These include pollution from chemical and fertilizer plants in Vinh Phu and Ha Bac and pollution from coal production in Quang Ninh; and (ii) small-scale industries, which are often attached to households and which directly affect the family's living environment. These production units are often agglomerated in villages and therefore locally cause serious water and air pollution. Local water pollution occurs in villages with food processing, tanning, fabrics dyeing and paper production. Much of this pollution emanates from effluents from the food processing industry, which raises the biological oxygen demand (BOD) loads of the surrounding waters. Air pollution is observed in villages engaged in the production of bricks, lime and ceramics or housing small foundries. Thus, although the pollution per enterprise is low, continuous exposure within residential areas results in environmental health problems. The MARD Survey, where 52% of the production units were assessed to cause some adverse impact on the environment, confirms this.

Although not currently a major problem, accelerated industrialization in rural areas may change the situation within a fairly short period. In Thailand, for example, industrial pollution loads were reported to have increased as much as tenfold in the fairly short period between 1975 and 1988. In addition to adverse effects caused by industrial pollution, a major potential threat associated with rapid resource-based rural industrialization consists of over-fishing coastal waters and continued unsustainable logging, which would cause serious damage to various eco-systems.

This report will not elaborate on specific recommendations on environmental issues since there are already a number of specialized reports on this topic. However, it is worth pointing out that two environment-related matters are of particular importance in the context of rural industrialization. The first is the need to strengthen the capacity of the provincial Departments for Science, Technology and Environment (the DOSTEs) to monitor environmental quality and to ensure the enforcement of the existing regulatory framework. The second relates to rural industrial estates, or equivalent clustering of industries, which facilitates monitoring and may result in scale economies regarding waste treatment. Finally, it is strongly recommended that environmental considerations be mainstreamed in the development of rural industry programmes.

At an aggregate level, industrial pollution in rural areas is so far limited, but environmental pollution can still be serious in narrow geographical areas. Over-fishing in coastal waters and continued unsustainable logging also threaten ecosystems and erode future supply of inputs for industries based on these resources.

2.17 Dynamics of Development of Rural Industries

During the field visits of the study team, the question was posed as to how the entrepreneur came to start his or her business in the first place, and what background, conditions or particular capabilities of the entrepreneur enabled him or her to start the business. Not surprisingly, there were various answers and several entrepreneurs could not really explain.

Many entrepreneurs had seen businesses in other communities carrying out that particular kind of production. This reflects the typical pattern of development of Vietnamese “occupational” communes and villages, in particular in the Red River Delta, and the clustering in a geographical area of the same kind of production activity as well as the high propensity of the Vietnamese to imitate and pick up successful activities (in industry as well as agriculture and trade).

Several entrepreneurs had worked at SOEs, where they had learnt a particular profession, and had seen an opportunity to start his or her business.

Others had taken over or inherited their business from parents or relatives and the business was a kind of family tradition, or they just seemed to have seen the business opportunity and had grasped it.

In the view of the study team, many entrepreneurs were self confident and entrepreneurial type of personalities. They were also well connected with local authorities.²³

These observations can be compared with the answers in the MARD Survey (however with given response alternatives only), where 52% of the non-farm household enterprise respondents stated underemployment as the reason to start the business (55% of mixed-type households), 30% mentioned a desire to increase incomes (33% of mixed-type households), 10% responded that they saw a market opportunity (9% for mixed-type households) and 8% mentioned other reasons (3% for mixed-type households).

As elaborated below, there are a number of factors discouraging or impeding the growth of enterprises. These include for example more bureaucracy and administrative work and increased potential for harassment by authorities as enterprises grow, as well as minimum capital requirements for the establishment of sole proprietorship enterprises. This may explain why so few household production unit entrepreneurs, e.g. 20-25% (Table 15), declared that they had any plans for expansion of their businesses.

²³ This could be explained by the possible bias in the selection of entrepreneurs and households visited.

Despite the above-mentioned factors hampering growth, there are, however, a large number of private entrepreneurs who do overcome these constraints and who have been successful in developing their businesses. The "success stories" described in Box 2.1 are just two examples, but there are many more of these entrepreneurial individuals in Vietnam with the potential to establish and develop their own businesses. As in many other countries, the main driving force is the entrepreneurial spirit. The main task for the Government is to create an environment that nourishes entrepreneurial spirit and to remove obstacles that hinder the entrepreneurial spirit from flourishing.

Box 1 Dynamic Entrepreneurs

Dynamic Heads of Rural Industrial Households and Enterprises:

An entrepreneur of a small industrial household is sensitive to business opportunities. When electricity was introduced in his commune, he immediately started a video service. When others started to imitate him, thus decreasing profits of this service, he started trading in motorcycles, the most appropriate means of transportation for this region. When a local coalmine was discovered, he got involved in mining activities too. At the same time, he built two brick kilns to respond to the huge demand for construction material in the region. He also bought two lorries to deliver bricks to construction sites as per customers' requests. When local authorities encouraged farm economy, he ploughed new land and grew 7,000 longan trees. He is now planning to invest in equipment and technology to husk high quality rice and to process longan fruits for export purposes.

A garage employs 12 young workers. Its owner is a dynamic person who takes many initiatives. Previously, the garage used to maintain and repair vehicles. Now that the local economy has developed well, the demand for means of transportation has increased rapidly, hence the need for a simple and cheap vehicle. His initiative was to build a two-ton truck by making full use of the transmission system and chassis of second-hand vehicles and adding a 24 HP engine. He also fabricated a crane to automatically load and unload goods. Could anyone ever have imagined that he, in a small rural town in Vietnam, could compete successfully with large international truck manufacturers?

The prime engine for the establishment and development of rural industries is individuals' entrepreneurial spirit. Unconducive legal framework, bureaucracy and administrative regulations increase business costs, discourage entrepreneurial initiatives and hinder the country from fully benefiting from the potential of these entrepreneurs.

3. CONSTRAINTS PERCEIVED BY RURAL ENTREPRENEURS

This section is based on the MARD Survey (summarised in Tables 14-16) and interviews with the operators of rural, private manufacturing households and enterprises (collectively denominated entrepreneurs below) carried out during the study team's field surveys.

3.1 Lack of Capital and Credits

The lack of capital and difficulty in getting credit from banks were often cited as a major problem to entrepreneurs. Specifically the entrepreneurs referred to complicated procedures, non-availability of collateral or collateral that could only cover fairly small loans. High interest rates were sometimes mentioned too. The officials more frequently mentioned this issue. The most successful entrepreneurs normally had, or had had, some bank credits, but seemed to finance most of the business from their own funds and funds provided by relatives and friends. In the MARD Survey between 74% and 80% of the respondents state lack of capital as a constraint, depending on the type of establishment. The same survey also revealed that access to bank credits differed substantially among different types of production units. 58% of SOEs had loans from banks, but only 39% of incorporated private enterprises, 22% of non-farm household enterprises and 17% of the mixed-type households.

3.2 Inadequate Equipment and Obsolete Technology

By visual inspection the study team could note that equipment was often simple and quite often only manually operated. In many cases, equipment had been bought second-hand from SOEs. In rice milling and some food processing, technically less complex equipment had been produced in Vietnam, whereas more complex equipment often came from China. Weaving looms were produced locally and some special purpose equipment in, for example, noodle production seemed homemade or produced by some local blacksmith or mechanical workshop. Drying equipment for various agriculture products was often some kind of locally built oven or equivalent. As many of the production units were selling only in the local market or within the district, products were either not packed at all or simply put into plastic bags.

In the MARD Survey, between 15% and 21% of the respondents, depending on type of enterprise, referred to inadequate equipment as a constraint. This comparatively low percentage could imply that for the small volume of production and the quality demands from the local market, the present equipment in fact was adequate for many enterprises. In support of this conclusion, some 95% of the respondents do not think that their products are low quality. The responses to the question on obsolete technology as a constraint, however, differed significantly amongst types of enterprises. 31% of SOEs, 22% of the registered private enterprises, but only 11-14% of the household type of entrepreneurs referred to obsolete technology as a constraint. It thus appears that as the volume of production grows, the technological inadequacy of the production becomes more apparent to the entrepreneur. In the case of SOEs, the fact that they are on average older than enterprises in the private sector may also have contributed to their more frequent reference to obsolete technology as a constraint.

3.3 Limited Markets for Products and Marketing

One of the constraints most frequently cited to the study team was the lack of market, both for existing production as well as for possible expansion of production. Several entrepreneurs as well as representatives for authorities said that they thought that “the Government” should provide the market, which appears to be reminiscence from the time when the Government or SOEs were responsible for all that was produced. The notion that, under market economy conditions, markets have to be actively captured does not seem widespread. Accordingly, only about 10% of entrepreneurs in the MARD Survey responded that poor marketing from their side was a constraint.²⁴

In the MARD Survey, 93% of all non-farm household enterprises and mixed-type households stated that they were only selling their products within the province and none claimed that they had any exports. Of the private incorporated enterprises, about 75% have their sales are limited to the province, while 6% are exporters. SOEs are more often exporters - 26% of the agro-products processing SOEs and 14% from other SOEs. 47% of the agro-product processing units are only selling within the province, compared with 66% of other SOEs.

3.4 Poor Infrastructure

Poor infrastructure was one of the constraints most frequently stated by the entrepreneurs. All communes visited by the study teams were connected by road, but in some cases it took the study team with a good four-wheel drive vehicle over two hours to travel 30 kilometres from the district centre. With generally simpler vehicles and longer distances, the travel from a commune to the district centre can take up to one day, and during the rainy season the roads can hardly be used at all. From the commune centre to villages and hamlets, with roads and tracks that cannot be used by motor vehicles, or at least cars, there can easily be an additional day’s travel. In one commune visited there was some production of noodles and popcorn, but due to bad road conditions, they did not find it worthwhile to sell to the district centre, only to the people in the commune centre and surrounding villages.

In the MARD Survey, 13-18% of all surveyed units mentioned poor infrastructure as a constraint to their business. These numbers underestimate the degree to which poor infrastructure is hampering development of household businesses, as the survey had a certain bias towards the better off communes and as households hindered from starting any business at all due to poor infrastructure were not captured by the survey.

3.5 Other Constraints

A broad range of other constraints was mentioned both in the study teams’ discussions with entrepreneurs and in the MARD Survey. These include, with varying degrees of seriousness, constraints such as availability of raw material, too small production facilities, low prices and high taxes. Altogether, of the respondents in the MARD Survey, 70% of the mixed-type households mentioned some kind of constraint, 74% of

²⁴ For example, in a district in Yen Bai province where the growing, drying and packaging of “longan” is a widespread activity, many people including the district and commune authorities complained that they were in the hands of traders from Hanoi or Hai Duong who came to buy their products and then exported them to southern parts of China. Travel to China just 200 kilometres away with a railway connection to get some first hand contact with the Chinese buyers had not been considered.

the non-farm household enterprises, 85% of the incorporated private enterprises and 93% of SOEs. There are several possible interpretations of these differences (including different levels of entrepreneurs' ability to explicitly express constraints), but consistent with other findings of the study team's survey, a likely explanation is that problems seem to increase as the business grows and becomes more organised and institutionalised.

4. GOVERNMENT POLICIES AND PROGRAMMES IMPACTING ON RURAL AND REGIONAL INDUSTRIALIZATION

4.1 Agricultural Policies and Policies to Raise Farmers' Incomes

One of the most powerful means to promote industries and other business activities in rural areas is to raise farmers' incomes. Providing these groups with more purchasing power increases the demand for industrial products. Increased income also enables these people to accumulate some savings, thereby increasing the chances that they themselves may start some small-scale business, including some simple manufacturing activities, or save the surplus which thereby may become available for industrial investments through the banking system.

One of the most powerful means to promote rural industries and other business is to raise the farmers' income thus creating local demand for industrial products and also allowing for accumulation of savings needed for investment in simple manufacturing activities.

Although there are some indications that the general standard of living is improving in Vietnam and even that the incidence of poverty is decreasing (the 1998 update of the Vietnam Living Standards Survey 1992/93 will shed more light on this issue), there are also strong indications that farmers and the poor are benefiting much less from the general increase in income than the rich and the urban population (Table 1). Accordingly, it indicates that income disparities are increasing. Between 1994 and 1996 the ratio between the average income of the 20% highest income group and the average income of the 20% lowest income group rose from 6.48 to 7.31. That ratio in 1996 ranged from 6.44 in the Mekong River Delta to 12.84 in the Central Highlands.

Thus, the net effect of Government policies and other external factors appears to be that farmers and the poor are not reaping their fair share of growth and that, whatever the effect of external factors, Government policies directed at the poor have not been able to counteract these forces.

4.2 Trade Policies

Since the introduction of "doi moi", the Government has taken many measures to improve the trade regime by *inter alia* lowering import duties, replacing most import quotas with import duties and increasingly allowing the private sector to become involved in international trade. There still remain a number of distortions to be removed in order to create a neutral trade regime, many of which are inhibiting the development of rural industries and a regionally balanced pattern of industrialisation.

The current trade regime is strongly biased in favour of import substitution and/or import-dependent heavy industries. Such industries tend to be located close to the large domestic market concentrations and/or close to the points of import, i.e. the areas in and around HCMC and Hanoi. They are also where there are high concentrations of SOE investment and foreign direct investment and where the majority of credits are directed. With a more neutral trade regime, even if these locations would still have advantages over other locations in many cases, at least a more level playing field would be created and, particularly, more credits could be made available for other parts of the country. A relatively more favourable trade regime encouraging exports would also provide more favourable conditions for rural locations. Much of Vietnam's current and likely future exports would consist of agriculture-based products. In many cases, the economically optimal location of agro-processing industries would be close to the raw material cultivation areas in rural areas.

Barriers to entry into international trade facing private enterprises, in particular exporters, are an often-cited trade distortion. In order to export, enterprises had needed the approval of the People's Committees and a license from the Ministry of Trade before. In addition, there was a requirement that exporters must have a working capital of at least US\$ 200,000. By the promulgation of Decree No. 57/1998/ND-CP considerable improvements have been made in conditions in order to facilitate exports by private enterprises. The requirement of approval by the Provincial People's Committees has been abolished, as has the minimum capital requirement. Enterprises are now entitled to export their products directly "according to their business registration certificates".

As has been elaborated in a UNIDO/CIEM report on promotion of SMEs (forthcoming) there are practical problems associated with the implementation of the Decree. Decree No. 57 stipulates that before exporting, the enterprise needs to obtain a customs code with the provincial or municipal Customs Department. According to the Ministry of Trade, the Customs Department cannot issue a customs code without a tax code number issued by the Ministry of Finance. Without the tax code, it is not clear which products are covered by the business registration certificate, or for which the Customs Department would be authorised to issue a customs code. A long delay occurs. It would be desirable to separate the customs code from the tax code issue.

A change of the trade regime to encourage exports, instead of import substitution, would promote rural industrialization.

4.3 Public Investment Programme

One of the most powerful tools for the implementation of Government policies is the Public Investment Programme (PIP). In 1996 the Government prepared its first PIP ever for the period 1996-2000, and in October 1998 adopted a revised version (Table 17). The original PIP showed total projected investment in the country (460 trillion dong, equivalent to about US\$ 41 billion), as well as the projected shares of that total investment by direct State investment (21%), investments by SOEs (31%), private domestic investment (17%) and foreign direct investment (31%), all of these split up according to social and economic sectors. In addition, the share of state credits in total

investments by SOEs (54%) and by social and economic sectors was reported separately.

Although the PIP was adopted by a Prime Minister's decision, its linkage to the Government's annual budgets is weak. As the Government had not released its annual budgets to the donor community at the time of the preparation of this report, it was not possible to establish the actual linkage. To improve that linkage it would be appropriate that the National Assembly approve the PIP in the same way as it approves the annual Government budgets.

In October 1998, the Ministry of Planning and Investment prepared a revised version of the PIP with some details provided in two reports (August and October 1998).

There are several concerns with the PIP from the perspective of the Government's priority to promote rural industrial development.

Firstly, the share of industry and energy is large, both as a percentage of total public investment (28%) and as a percentage of the State capital expenditure budget (16.6%). Energy is certainly a legitimate field for State investment, but - as was pointed out earlier in this report - SOE investment tends to go to highly protected heavy industries located in the triangle zones and to urban areas with little employment creation potential.

Investment in SOE absorbs much of the scarce credit available in the country and is crowding out credits for household and small and medium-sized enterprises in rural areas or with much higher employment potential located outside the triangle zones. Investment per job created in heavy industries such as oil refining, petrochemicals, pulp and paper, other chemicals, cement, steel etc. can easily amount to several hundred thousand US dollars, whereas a job created in a rural non-state enterprise requires only about US\$ 1,000 and a non-farm household enterprise only about US\$ 500. As also pointed out in this report, linkages and "trickle down" from these industries to rural areas and areas outside the triangle zones are highly limited.

A working paper prepared for a workshop of the Development Strategy Institute, UNDP and UNIDO (Dapice, 1996) states that as the experience of Indonesia showed, despite investments in huge LNG plants, fertilizer factories, hydro-power dams, mining and smelting operations in Sumatra, Kalimantan and West Irian, these were still the slowest growing regions of the country. Their per capita growth from 1982 to 1992 was under 1% per year, while the other parts of Indonesia had a growth rate of over 4% per capita per year. For these reasons there is also some doubt whether the US\$ 1.3 billion Dung Quat refinery in the central triangle zone will actually create the kind of employment and "trickle down" effects which the Government wants to promote by broadly stimulating investment and employment in surrounding and peripheral areas in the central region.

Secondly, one of the most important factors to encourage development in general, and rural industry development in particular, is to construct and maintain good roads in rural areas. The importance of roads was well illustrated in the Vietnam Living Standards Survey 1992/93, where it was demonstrated that those living in communities with access to all-weather roads had on average 26% higher expenditure per capita compared to those without such access. For industries and other income raising businesses in rural

areas, roads (or inland waterways) are of paramount importance to improve access markets where the products can be sold. Currently 82% of the population at commune level are connected to the nearest district centre, but most of these roads are low quality (only 10% of roads in the whole country are paved), many cannot be used during the rainy season and the overall condition is deplorable. In sum, there is a huge need for the building of roads, and even more, for the maintenance and upgrading of roads.

In the PIP, out of total public investment for roads and bridges, national roads and bridges receive 63% of the total, whereas rural roads receive only 5.5%. The “Catching Up” report (UNDP, 1996) also claims that main roads and public transport in Hanoi and HCMC take 31% of total spending on roads and bridges. This amounts to US\$ 120 per Hanoi/HCMC resident versus less than US\$ 4 per rural person. Much of the funding of rural roads at commune level and for linking communes to district centres is dependent on local contributions, as well as virtually all funding for road maintenance.

For infrastructure projects at the local level, such as roads and road maintenance, the Government has a scheme whereby the rural population (men aged 15-60, women aged 15-45) are required to contribute in kind 10 days of work per person. They have the option to buy themselves out by paying an amount equivalent to the amount of work (which is often below the market rate of such work). In reality this constitutes an implicit tax on farmers who already receive a disproportionately low share of Government investment in infrastructure. The number of workdays involved in this scheme (14.5 million people multiplied by 10) is 145 million workdays, which, at a daily rate of 10,000 dong, is equivalent to 1.45 trillion dong or about US\$ 100 million. Information on a similar scheme for the urban population is not available to this study team. Consideration could be given to the alternative of commercialising these activities and actually paying the people for the work carried out.

Thirdly, although many have recommended that the share of State investments in industry should be reduced and spending on infrastructure, health and social services increased, the revised PIP actually points in the opposite direction. Industry and energy now receive 28.0% of public investment, up from 16.6%, general and urban infrastructure 26.2%, down from 33.2%, whereas education and training now receives only 3.1%, down from 4.2% (equivalent to a reduction by 26%), and health and social services 2.7%, down from 3.7% (equivalent to a reduction by 27%).

This implies that industry and energy for the period 1999-2000 would get a staggering 45% of public investment. An appendix to the MPI report, however, shows that most of the **new** heavy industry projects (with the exception of the oil refinery) would be postponed until after the year 2000, which from the point of rural industrialization would be positive, as the crowding out effect would be reduced. On the other hand, as the large increase in the total share of industry and energy appears to be predominantly directed towards industry (the list of large power and transmission projects has not changed), this implies that there would be huge capital injections in already existing SOEs, which may conserve the “old” structure of the industry and reinforce the bias against small and medium-sized industries in rural areas and areas outside the triangle zones.

The Government's Public Investment Programme injects huge amounts into State-owned enterprises located in urban areas and with little employment generation potential, whereby investment and credits for labour-intensive industries in rural areas are crowded out.

4.4 Financial Sector Policies

Assets in the formal financial sector and its capacity to provide credits have increased rapidly in the 1990s. At the end of 1996, total credits amounted to 19.6% of GDP, equivalent to 55 trillion dong. There are a number of problems associated with the overall financial system and a reform programme is under way, including *inter alia* a regulatory and supervisory framework, annual audits of banks by external auditors and the adoption of international best practices in banking. Progress in this field will also benefit rural areas. These overall issues will, however, not be dealt with in this report, but only those with particular relevance for rural industries.

Credits by the formal banking system in rural areas are provided primarily by the Vietnam Bank for Agriculture and Rural Development (VBARD), with outstanding loans of 22.0 trillion dong and with loans to 3.66 million households by the end of 1997. VBARD also administers the Vietnam Bank for the Poor with outstanding loans of 2.2 trillion dong to about 1.1 million borrowers in February 1998. The People's Credit Funds (PCFs) has established since its start in 1993 almost 1,000 operating funds primarily in rural areas, with outstanding loans of 1.5 trillion dong to over 600,000 members by August 1998. There are less than 50 Credit Cooperatives left since the collapse of the Credit Cooperatives system in the early 1990s.

In addition to the three above-mentioned formal sector lending institutions, there are a number of special national programmes operated by various line ministries for particular purposes, which sometimes provide credits. There are also various micro-credit schemes operated by NGOs with an outreach to some 60,000 households as well as mass organizations such as the Vietnam Women's Union and the Farmers' Association. Finally, there are informal sector moneylenders, traders and friends, which add up to a great number.

The Government has recently (November 1998) approved, with Prime Minister's Decision No 215/1998/QD-TTGI, a savings account scheme whereby post offices in the country would be allowed to receive saving deposits from people. These savings would be channelled into a National Investment Assistance Fund for funding of Government programmes (Vietnam News 11 November 1998). As the post offices have a strong outreach in rural areas, the scheme may have considerable potential to mobilise savings in rural areas. The risk is that these funds might be channelled away from rural areas.

Most of the credits from the formal banking sector are allocated to agriculture. The industrial sector in rural areas only receives a minuscule part, which is indicated by the fact that the VBARD only had 2.3% of its outstanding loans directed to industry by the end of 1997. SOEs were recipients of 27.3% of the outstanding loans at the same time, while private, joint stock and limited liability companies took up only 1.9% of the loans.

The Bank for the Poor, with maximum lending of 2.5 million dong per borrower, also has limited lending to business and has its concentration in agriculture and livestock.

One disincentive for the development and outreach of the lending institutions in rural areas is that the Government sets ceilings on the interest rates (1.2% per month for VBARD and 1.5% per month for the PCFs) and sets a limit for the difference (“spread”) between the lending interest rates and the interest rates on deposits (0.35% per month), which indirectly implies an upper limit for interest rates on deposits. These regulations have two major drawbacks. Firstly, low deposit interest rates have a negative impact on savings mobilisation, as people with surplus money prefer to keep their money in US dollars or gold or, alternatively, find more attractive options. According to one frequently cited source, some US\$ 900 million of such funds could be floating around the country, corresponding to about 20% of total deposits in the formal financial sector. Secondly, the regulations on the spread discourage the lending institutions from lending to people in less accessible rural areas, as this would involve higher transaction costs that could not be recovered via the spread.

Another disincentive that also has a number of negative effects to a proportionally larger extent in rural areas is the plethora of subsidised credit schemes. They include subsidised credits for SOEs, currently with an interest rate of 8.1% annually according to the revised PIP. This contributes to conserving the already existing urban bias of industrialisation. The Bank for the Poor, with monthly interest rates of 0.8%, the “327” programme for development in rural areas, the Hunger Eradication and Poverty Reduction Programme, the National Investment Fund and various commodity support programmes all include provisions for subsidised loans. They are appreciated by the beneficiaries, but they distort the perception of the real cost of capital and contribute to reallocating capital from more efficient uses, in which the real cost of capital can be accommodated, to depressing the deposit rates and discouraging savings mobilisation.

It would be better to allow the financial sector to develop without distorting interventions, to allow interest rates to be determined in accordance with demand and supply, and not to load financial instruments with social goals. For the latter, well-targeted social programmes would do a better job and transparency both in the financial sector and in the social sector would improve. The rapid development of the PCFs on commercially sustainable terms has demonstrated that there is demand for credits at higher interest rate levels and that the higher interest rates offered on deposits are therefore an effective means for savings mobilisation.

Restriction on the banks’ rights to freely decide on interest rates discourages banks from providing loans in rural areas and cannot be compensated by various Government-subsidised credit schemes

Another drawback is the limited success of the VBARD in attracting deposit savings, especially longer-term savings, which could be channelled into credits. There appears to be further scope for developing new savings products. For example, group-based savings accounts could be established using the same administrative mechanisms as for group-based credits. The PCFs, with their concept of closely linking savings to credits, have been more successful in mobilising savings.

Collateral for loans is a major impediment for people who want to start a business or expand an already existing business. Land use rights are the most commonly used form of collateral, but there are several problems associated with this form of collateral.

Firstly, only about 60% of land users have properly registered land use right titles that can be used as collateral and the General Department for Land Administration involved in this issue has a large backlog of work. However, it appears that the banks would sometimes be prepared to provide small loans if the commune authority provides a certificate (not however legally binding) that the current user of the land actually is the legitimate owner of the land use right. This system probably only serves to put some psychological pressure on the borrower as, from the bank's point of view, this kind of loan is legally equivalent to a loan without collateral.

Secondly, even if the land use right can be used as collateral, its value as collateral depends on the remaining duration of the land use right. One source has it that a pro-rata formula is used, which means that if only 50% of the duration remains, only 50% of the value of the land use right can be used for the purpose of collateral.

Thirdly, the value of the land use rights is established by the Government and at a value that reflects its value for agricultural use in rural areas. This means that the value is comparatively low and that a typical farmer with most of the duration of his land use right remaining could only raise a loan amounting to 2-3 million dong with his land use right as collateral.

Fourthly, there are numerous legal technicalities inhibiting the use of land as collateral that are not properly addressed in existing legislation.

Equipment cannot be used as collateral, but eight leasing companies have now been established to overcome this problem. Their outreach to rural areas is so far insignificant.

New methods of collateral have also been explored. One such method is borrowing money with a guarantee from an individual or organization committing itself to repay the loan, should the borrower default. The Women's Union, in co-operation with VBARD, has tried this form fairly extensively in extending credits to poor rural women.

There is much scope for innovative deposit products, new forms of collateral, credit guarantee schemes and other financing mechanisms associated with a modern banking sector that could much improve financing possibilities for rural industries.

Despite the problems with land use rights as collateral, it is still possible for banks to provide loans without collateral. The VBARD has an upper limit of 5 million dong for such loans. PCFs apply a lower ceiling. The volume of such loans is limited.

4.5 Tax Policies

In 1998/99, the Government is introducing some major changes in its tax system, which will also have implications for private incorporated enterprises and household enterprises in rural areas. What exactly these implications will be is not entirely clear.

The major change is to replace the turnover tax, currently at several different rates, with a value-added tax to become effective as of 1 January 1999. The value-added tax will involve incorporated enterprises, but not household enterprises. The cascading effects of the turnover tax will thus be removed, which was no problem in many one-stage processing activities, but in other cases was, such as in the sugar industry which involves several stages of processing, involving different enterprises at different stages (crushing of sugar cane – sugar juice – brown sugar – refined sugar – sugar containing food and drinks).

The second major change was introduced by Decree No. 30/1998/ND-CP in May 1998 with detailed new regulations to implement the Law on Enterprise Tax (a tax on profits). Some implications for household enterprises and incorporated enterprises are described below.

Before May 1998, household enterprises paid in principle two kind of taxes to the district tax authority, i.e. an annual business registration renewal fee, based on the size of the household enterprise, and the turnover tax. Much discretion is involved in assessing these fees/taxes, but a total of 5-10% of the turnover seem to be commonly paid with most of this amount consisting of the turnover tax. This is not considered to be a major constraint by the household enterprises themselves. The MARD Survey revealed (Table 14) that 10% of mixed-type household enterprises and 20% of non-farm households consider high taxes as a constraint in their business activities, which appears reasonable, given a certain general high tax “complaint factor”.

After the introduction of the above-mentioned Decree No. 30, household enterprises will not pay any turnover tax, but household enterprises “engaged in goods production and trading and/or service provision” are now covered by Decree No. 30 and obliged to pay the enterprise income (profit) tax. Thus, these enterprises will have to continue to pay the annual business registration renewal fee plus the enterprise income tax. The universal enterprise income tax is 32%, but considering the difficulties in calculating the “profit” for a household enterprise, it is likely that the tax assessment will be as discretionary as before and would remain at the same level, unless some specific instructions were issued for district tax authorities’ tax collection. However, the inclusion of household enterprises to be covered by the income tax reflects the Government’s aim to broaden the tax base.

In addition to the above taxes/fees, various local fees also exist that are applied by district authorities, with big differences amongst provinces and districts.

For incorporated enterprises, the replacement of the turnover tax by a value-added tax implies higher tax for those enterprises with high value added activities and lower tax for those with low value added activities. The net impact remains to be seen.

For incorporated enterprises the new income tax system provides some simplifications, but some biases still remain. For enterprises that generate profits in excess of 12% of

their internal capital (which is below the market interest rate), a surplus tax of 25% is levied raising the marginal tax to 57%, which is extremely high in an international perspective and discourages profit-making enterprises from generating their own capital to finance expansion. This surplus tax is not applied to foreign enterprises. The abolishment of this surplus tax, which in fact equates to a progressive enterprise income tax, should be strongly considered.

A marginal enterprise income tax as high as 57% levied even on moderately profitable enterprises, effectively hinders successful enterprises from generating their own capital to finance further expansion.

Before the promulgation of Decree No. 30, the move from status as a legal household enterprise according to Decree 66-HDBT (see Annex for definition) to an incorporated sole proprietorship enterprise according to the Law on Private Enterprises, was considered huge for a number of reasons (this issue is further elaborated upon in Section 4.9), including taxation reasons. The inclusion of household enterprises in Decree 66-HDBT fulfils the function of reducing the difference in tax status between household enterprises and sole proprietorship enterprises. As such, it is a positive factor in reducing the barriers for enterprises to move from a more simple form of enterprise organization (household enterprise with business license) to a more complex form (sole proprietorship), as the latter form may be more appropriate as the enterprise grows.

The Decree includes an array of tax holidays and reductions in the universal rates for selected enterprises in order to encourage the establishment of enterprises in mountainous areas, employment of women, exports, new enterprises, high technology etc. Normally better targeted incentives aimed at eliciting certain behaviour and actually reducing specific costs of enterprises, such as subsidies for training, would be cost-effective.

4.6 Land Policies

Currently, the Civil Code, the 1993 Land Law and numerous decrees and Prime Minister's decisions regulate land issues in Vietnam. In December 1998, the National Assembly adopted certain amendments of the Land Law (No. 10/1998/QH 10, December 2, 1998), which partly addresses the concerns raised below and allows the Government to prescribe regulations introducing some flexibility regarding, for example, the duration of land use rights and the ceiling of number of hectares of land to be used. However, it also decided to initiate the drafting of a completely new Land Law to address a number of fundamental land-related issues.

The land issue is fundamental, particularly in rural areas, for people and for the optimum use of land for the purpose of fast, equitable and environmentally sustainable

development in Vietnam.²⁵ Much work is currently being put into this field by Vietnamese and international experts. From the point of view of developing rural industries, there are however a few issues that could be mentioned which particularly inhibit industrial development in rural areas.

In addition to the issue of using land as collateral, they include the decision to preserve land for agricultural use, guided by the objectives of food security, rather than allowing a more flexible use of land, in line with the natural transition of Vietnam from a predominantly agriculture-based country towards a more industrialized type of country.

The setting of a ceiling on the number of hectares of ownership of land use rights, guided by the concern of not allowing too much concentration of such ownership, may also, if not applied with flexibility, prevent concentrations which would allow economies of scale in agriculture and the production of good quality and competitively priced raw materials for industrial production.

Furthermore, the 30-40% tax range on transfer of agriculture land for rice cultivation to another owner for the purpose of industrial production also has a negative impact on the transition of land use from agriculture to use in more productive areas. The same effect also emerges from the centralised system of fixing the value of land use rights instead of allowing such values to be established by market mechanisms of supply and demand.

In summary, the lack of a liberalised land market tends to conserve the established pattern of production in rural areas. The Government's concern that too much concentration of land could create a poor landless class is fully acknowledged. However, as can be seen all around the world, as countries develop, an increasingly large share of the population become landless by their own choice, as they move into other higher income-generating activities not based on the use of land. The key issue is to apply such policies so that alternative income opportunities arise and that people are given a chance to grasp these opportunities.

Rigid land market tends to conserve the established agricultural pattern of the rural economy and hinders the growth of efficient industries in rural areas.

4.7 Policies Regarding Geographical Distribution of Industries

The Government has adopted policies and plans to develop three so-called triangle zones for concentrated industrial development, one in the north (Hanoi- Hai Duong-Hai Phong-Quang Ninh), one in the centre (Danang-Quang Nam-Quang Ngai) and one in the south (HCMC-Binh Duong-Dong Nai-Baria Vung Tau). By developing these triangle zones, the idea is that economic growth in these areas would spread to neighbouring areas and beyond. The Government, SOEs and foreign investors have

²⁵ Although the Government permits the transfer of allocated land, many people who are already involved in productive activities appear to be reluctant to transfer their land to others. They may mobilize their resources to hire labour and invest in improved inputs, aiming at higher productivity per unit of land. Uncertainties of future prospects for new economic activities such as small-scale business and handicrafts may be contributing to the decision of farmers to retain their land as their security rather than releasing it to others. The retention of small farming lands by farmers also contribute to reduced pace of concentration of land and of agricultural mechanization.

already invested considerably in the southern and the northern triangle zone (in particular the HCMC triangle zone) with associated strong industrial growth, whereas the central triangle zone has still not taken off.

The Government also has a national plan for the development of industrial estates (IEs), which would also include export-processing sub-zones, until the year 2010 with 70 projected industrial estates to be located in 27 cities and provinces and using up to 10,000 hectares of land. In addition, there are some initiatives to set up free economic zones (FEZs), although the conceptual and legislative basis for FEZs has not been developed yet.

Some 60 IEs have already been licensed, covering an area of about 10,000 hectares. Out of these, 44 are considered to have been established, five of which are EPZs. However, many of these, particularly outside the triangle zones, only consist of allocated but undeveloped land. Furthermore, actual production in these IEs/EPZs or signed lease contracts so far only covers 1,500 hectares and includes about 500 enterprises with a total registered capital of about US\$ 3 billion. There is however a strong concentration of these to one EPZ in HCMC (Tan Thuan) and a few other IEs in HCMC and the neighbouring provinces of Dong Nai and Binh Duong. Those few others that have been developed, most of them as a State-foreign joint venture, are struggling with extremely low occupancy rates. They are also developed as enclaves with little connection to the surrounding areas and lack of adequate infrastructure outside the IEs constituting bottlenecks for their efficient operation.

In line with the Government's desire to develop IEs, it has also introduced certain tax holiday and tax reduction schemes to encourage enterprises to establish themselves inside the IEs. Such incentives are less desirable for two reasons. Firstly, if rents are reasonable, the mere availability of serviced and undisputed land should be a sufficient incentive for enterprises to establish themselves inside IEs and the tax reductions would merely constitute a cost to the Government. Secondly, there are hardly external factors that would constitute sufficient justification to discriminate against enterprises establishing themselves outside the IEs.

Unless infrastructure has been developed outside the triangle zones, the spread effects from the triangle zones will not occur, as experience from the HCMC triangle zone and from abroad demonstrates. That principle is also valid for IEs in the provinces. Unless infrastructure in surrounding areas has been developed, the IEs will develop as isolated enclaves. Taiwan and Malaysia were quite successful in developing IEs, but their establishment only took place after rural infrastructure was established, as well as reasonably well-functioning institutions in support of rural development.

There are plans to develop the central triangle zone by developing an IE in Quang Ngai province which would host an oil refinery at a cost of US\$ 1.3 billion as well as petrochemical industries, steel industries, a cement factory, other heavy industries and a port. The total investment would probably be in the magnitude of US\$ 5 billion. At an estimated US\$ 100,000 per job, that amount could probably currently create direct employment for some 50,000 people and another 150,000 jobs in indirect occupations in the close surroundings. However, if that amount was instead spread over time and into areas outside the triangle zones and with strong linkages to agriculture, the direct employment creation could well amount to 2.5 million people with many more times that in agricultural activities.

An alternative to developing the central region triangle zone in the short term would be to invest heavily in the region's road system and electrification, and connect villages, communes and districts with the triangle zone and National Highway No 1. This would provide an impetus for development of the triangle zone and only after that could the focus be turned more strongly towards the triangle zone itself. Experience from efforts to develop IEs in the provinces suggests that the same principle should be adhered to at provincial level.

There are advantages for industries in locating in areas where there is a concentration of industries and services or in urban areas. Here there is easier access to skilled labour, various kind of technical services, banks, law firms, markets etc. representing advantages of agglomeration. Such agglomerations are also associated with various "externalities" (advantages which arise as a consequence of several similar enterprises clustered together in one geographical area) in the fields of labour, intermediate goods and technology.²⁶

There are external diseconomies associated with agglomeration such as congestion and environmental pollution, as well as increased costs for labour, land and real estate. Decisions on where to locate should however be left to the entrepreneurs and investors, based on their assessment of commercial considerations.

The Government can, however, intervene in order to change the preconditions on which enterprises base their decisions and thereby gear the decisions of enterprises to be more in line with the Government's socio-economic goals. A certain rural area or district town, for example, can be made a more attractive location by improving roads, access to electricity and social services. The Government can, and should, also intervene in order to minimise the disadvantages of agglomeration by providing appropriate physical land use plans.

For household businesses at commune and village level the most important Government intervention to stimulate micro-enterprises and small and medium-sized enterprises is to provide infrastructure, thereby enlarging the reachable market for these enterprises. The Government has under-invested in rural infrastructure, thus creating a policy bias against rural industrialisation.

The Government's promotion of triangle zones and industrial estates, developed without due consideration to surrounding infrastructure and overall land use planning, has resulted in low occupancy rates and has not contributed to rural industrialisation.

4.8 Policies that Discourage Private Sector and Enterprise Growth

It is frequently recommended that the Government should put more effort into creating a "level playing field" for the different economic sectors, e.g. SOEs, cooperatives and other private enterprises. Currently SOEs enjoy a favoured position vis-à-vis the other

²⁶ See, for example, Mundle and Van Arkadie, ADB, 1998

sectors regarding for example access to land, access to credits, subsidised interest rates on credits, non-requirement to provide collateral for loans and allocation of export quotas. These are general benefits applicable to urban as well as rural enterprises. However, some of these restrictions discriminate against rural industries and industries at the province, district and commune levels.

Incorporation of a private sector enterprise in a province needs the approval of the Provincial People's Committee. A household enterprise needs the approval of the District People's Committee and cannot operate in the fields banned by the Provincial People's Committee. The complicated procedures are well known, and the Ministry of Planning and Investment and the Ministry of Justice introduced a Joint Circular 05/1998/TTLT-KH-DT-TP in August 1998, which considerably simplified procedures. A more important aspect of the registration process is, however, the fact that there are no criteria on which the People's Committee should base its decision to approve or reject an application. Therefore, the criteria for approval and rejection give room for discretionary decisions.

As at the national level, the criterion of whether there is already sufficient production capacity to meet demand in a particular province or district appears to be frequently applied. Application of this criterion is a disincentive for competition. It would be more appropriate for the entrepreneurs themselves to decide whether they can compete efficiently.

Another criterion is the feasibility of the enterprise/project, applied with the good intention of protecting the entrepreneur and preventing the establishment of inefficient or uncompetitive industries, and also to protect the banks and business partners of the enterprise. This is hardly an appropriate criterion. Government officials are rarely in a better position than the entrepreneur to judge whether a project is feasible or not and, moreover, it is the entrepreneur's own money that is put at risk, a matter which should be entirely the responsibility of the entrepreneur. As to the argument of protecting banks and other "third party" business relations, it should be up to them to protect their interests themselves.

The most discriminating criterion, however, appears to be whether the proposed project would compete with centrally or, in particular, provincially owned SOEs or threaten the Provincial Government's interests, which strongly acts against the principle of levelling the playing field for all economic sectors. This principle appears to be applied in particular regarding projects which would be competing with provincially owned SOEs for scarce agricultural raw materials, in which case the Provincial Government can even issue a general ban.

The preferred solution that has often been put forward is that the approval process should be eliminated entirely and replaced with a simple registration of the enterprise for identification and tax purposes only, as is the case in most market economies.²⁷ Other legislation takes care, or should take care, of adherence to environmental standards, hygiene standards for food processing, educational background for certain activities such as operating a pharmacy etc.

²⁷ Limited liability companies and share-holding companies are required to have a certain minimum capital.

The approval of a business license for household enterprises from the District People's Committee does not appear to be a particular problem. However, it is entirely a personal decision in the light of the smallness and close personal relations in the communes. Normally, a business license is processed within a few weeks.²⁸ Speedy procedures are in the interests of the District authorities as the business license forms the base for taxation and the levying of fees from household enterprises.

Authorities' attitudes towards the private sector seem to become more positive when moving down in the hierarchical level from provinces to districts and communes, according to the observation of the study team on the interviews. It is likely that the authorities at district and commune level are closer to their communities and are in a better position to assess the benefits of private sector activities at the appropriate community level.

In 1996, a new Law on Cooperatives was promulgated. In comparison with the previous law, it allows dividends to be paid in proportion to contributed capital. No single person however can have a share larger than 30%. Provision is made for Government to promote cooperatives by providing preferential support in the areas of land, taxation, credit, investment, exports and imports, training, education, and scientific and technological information as well as providing tax exemptions in certain sectors and regions. Although the law does not discriminate against the private sector as such, it does discriminate against other forms of organised economic activities that may be more efficient. As such, it contributes to further discrimination amongst different organisational forms instead of moving towards a desirable unified, non-discriminatory legal framework for all kinds of organisation of economic activities.

"Complications" caused by local inspection authorities have also been mentioned frequently (although not reflected in the MARD Survey), and appear to be part of a petty corruption system, whereby people have to pay their way through the whole administrative bureaucracy. Better paid Government officials, more transparent rules and fewer regulations are generally mentioned as remedies to this problem.

In addition to favourable treatment of SOE sector compared to the private sector, there are also a number of factors impeding the growth of household enterprises. This includes the legal minimum capital requirement for the incorporation of a sole proprietorship enterprise under the Law on Private Enterprises. The minimum legal capital requirement for establishing a sole proprietorship enterprise is 150 million dong in agriculture, forestry and fisheries, 300 million dong in industry and construction and 250 million dong in trade and services.²⁹

Another impeding factor for incorporation as a sole proprietorship is that the enterprise has to adhere to more regulations and enters into a much smaller group of enterprises than household enterprises, which means that it is much easier for authorities at Province and District level to subject it to various kinds of fees and local regulations.

The Budget Law provides these authorities with considerable scope for raising various kinds of fees, which can therefore vary from one province/district to another. In addition, the higher "visibility" of the sole proprietorship enterprises compared with household enterprises, and the fact that the former are considered "richer", makes them

²⁸ UNIDO/CIEM, forthcoming.

²⁹ Decree No. 26/1998/ND-CP as quoted in UNIDO/CIEM, forthcoming.

more vulnerable to various kinds of perceived obstacles. Further reduction of the “administrative and procedural gap” between household enterprises and sole proprietorship enterprises should be promoted. Significant reduction of the legal minimum capital requirement for incorporation of sole proprietorship enterprises would be a significant step in that direction.

Government’s business registration procedures and its discretionary application at provincial level, together with a minimum capital requirement of 300 million dong to incorporate an industrial sole proprietorship enterprise, constitute major obstacles for the growth of small household enterprises.

With these increased problems associated with an incorporated sole proprietorship enterprise, it is no surprise that household enterprises prefer to stay out of the more formalised sector, even when they grow quite large. Spontaneous “production units” without legal foundation or registration exist, which, however, appear to be treated as formally incorporated enterprises from a tax purpose sometimes.

4.9 Human Resource Development and Technology Transfer Policies

For a low-income developing country, Vietnam scores well on many indicators on education, including for example that almost 90% of the working-age population is literate, constituting a favourable condition for people involved in rural industries to absorb new knowledge.

In the field of technical education and vocational training, Vietnam has extensive pre-employment school-based vocational and technical training facilities. However, enrolment in vocational and technical school-based training presented about half a percent of the workforce in 1995, whereof about 25% was in industry-related subjects. Vietnam also has basic education and enterprise-based on-the-job training opportunities.

A striking observation also comes from Table 8, providing MOLISA statistics on what kind of training people have received in selected occupations during the last 12 months. Strong focus is placed on mechanical engineering, electricity/electronics, construction engineering, tailoring/textiles and carpentry. Out of the total trained, only 0.7% of those who had received vocational training received training in agro-processing and food technology, 1.4% of those at technical secondary education level and 0.4% of those at university/college level. It needs to pay much more attention to the system of education and training programmes that quickly respond to the market demand for certain skills.

Another striking feature of Vietnam’s technical training system is the Government’s favourable attitudes and policies in respect of private sector involvement in vocational and technical training. Since 1992, private institutions in these fields were legalised and, in 1995, in a Government Instruction (No 347/KTTH), private vocational schools and training centres were exempted from business and income tax. This tax exemption status was however rescinded by the introduction of the May 1998 decree on enterprise income tax.

Vietnam has favourable conditions to avoid the negative aspects of a supply-driven approach to the development of vocational and technical training experienced by many

developing countries. Further promotion of demand-driven technical training could be enhanced by, for example, introducing a voucher system for trainees, where vouchers provided by the Government free of charge, or including a subsidy element, could be provided to trainees who could themselves decide which training institute to choose. This would encourage competition amongst suppliers of technical training. Enterprises could also be offered incentives schemes such as the deduction of training costs for the purpose of calculation of tax.

Regarding technology transfer from abroad, a Government Decree (No. 45/1998/ND) from July 1998, with reference to the Civil Code, stipulates in great detail contractual relationships between the parties involved regarding permitted kinds of technology, prices, duration and other conditions as well as approval and monitoring mechanisms by the Ministry of Science, Technology and Environment and other government bodies. The terms are strongly biased against the foreign party and, despite its detail, the Decree provides much room for discretionary interpretation by the competent authorities. Instead of providing an incentive for technology transfer from abroad, the Decree will efficiently discourage foreign technology transfer, in particular for domestic and foreign SMEs, which would have particular difficulties in dealing with all the procedures, and would therefore particularly discourage technology transfer to rural areas.

Education and training should be more geared towards the demands of the market. Institutional and legal framework for technology transfer from abroad should be improved to encourage technology transfer from foreign sources, in particular for small-scale production in rural areas that cannot commercially bear the bureaucratic and administrative burden.

Foreign enterprises establishing themselves in Vietnam are another potential source of technology transfer from abroad. Overall improvement of the conditions for foreign direct investment (FDI) would also benefit rural areas. A thick document of MPI contains the main laws, decrees, decisions, ministerial circulars etc. regulating FDI in Vietnam. Specific concerns expressed by the foreign business community are widely known. Key measures to be taken by the Government to encourage FDI include: the merging into one single set of laws, decrees, decisions etc. legal regulation of both foreign and domestic investment; the separation of FDI promotional functions of MPI from the FDI regulatory functions by establishing a separate FDI promotion body outside MPI; and, the preparation of a professional programme for FDI promotion in line with other countries in the region.

A further aspect on technology is the domestic transfer of technologies from various industrial research and development institutes to the enterprise sector. This link is weak, and to the extent that it exists, it is primarily with SOEs. There is a need to review industrial research and development institutes with a view to making them more oriented towards the needs of rural industries, to find means to disseminate their technologies and to make their technologies more easily accessible on a broad base for example by the means of Internet.

4.10 National Programmes

There are several special purpose “national programmes”, some of which are briefly mentioned below.

“Greening the Barren Hills Programme” (Programme 327) was established in 1992 and aims at protecting natural forests and reforestation of barren hills. The area of natural forest has been declining rapidly for a long time in Vietnam. Timber is, of course, a prerequisite for the wood processing industry, which provides considerable employment in rural areas. In the country as a whole, wood processing accounts for 3% of total gross industrial output from manufacturing. However, in the MARD survey 1997, the number of wood processing units of all surveyed rural units amounted to 15%. Large amounts of timber are imported from Cambodia and Laos to compensate for the decline in supply from domestic forests. In 1997, a ban on logging in natural forests was introduced, but illegal logging continues. The programme is considered to have had limited success and has been criticised for having an excessively top-down, bureaucratic approach.

The “Five Million Hectares Reforestation Programme” came into force as of 1 July 1998 and will to some extent supersede Programme 327. Total projected investments amount to US\$ 2.5 billion up to the year 2010, with considerable amounts expected to be contributed by the donor community. The success of this programme is essential to maintaining a sustained rural wood processing industry in the long run in Vietnam.

“Decree 120 National Programme for Employment Promotion”, at an initial total cost of US\$ 78 million, has been in place since 1995 and has provided subsidised credits to incorporated enterprises as well as household enterprises and households. In the MARD Survey 1998, this programme had reached 23% of incorporated enterprises. 38% of the respondents thought the assistance was significantly useful, whereas 55% of the respondents claimed the assistance was not particularly useful. The programme reached 12% of household enterprises, and 58% of the respondents thought the assistance was significantly useful, whereas 37% of the respondents did not find the assistance particularly useful. The outreach to mixed-type households and farm households was much lower – 3% and 1%, respectively. The respondents here were about equally divided between those who assessed the assistance as significantly useful and those who assessed it as not particularly useful.

A recent MARD Survey found that up to 70% of the recipients of financial assistance under various Government National Programmes rated the assistance as not particularly satisfactory.

The “National Programme for Employment up to the Year 2000” adopted in 1998 aims at creating 1.3 - 1.4 million jobs annually, reducing unemployment to 5% and increasing the rate of useful working time in rural areas to 75% by the year 2000. The estimated cost of the programme is about US\$ 350 million with contributions expected from the donor community.

The “Hunger Eradication and Poverty Reduction (HEPR) Programme” was initiated in 1992 for the period up to 1997 and later extended for the period 1998-2000. Initial funds allocation for the programme was US\$ 30 million for the period 1992-1995, but 60% of

another US\$ 400 million for 14 other socio-economic programmes was also earmarked to support the HEPR. The Government allocated US\$ 95 million for the period 1996-2000 with expectations of mobilising another US\$ 1 billion for the programme, which has for the most part not been forthcoming. A UNDP assessment of the programme in 1996 indicated the need *inter alia* for integrated coordination between the national Government and the communities, especially in financial resource mobilisation, and the need to unify sub-sectoral policies at all levels of the Government administration. The MARD Survey found that the HEPR reached out to 33 % of farm households, but noted that 70% of the respondents did not find the financial support particularly useful. Among mixed-type households the outreach was 15%, and 52% of the respondents did not find the financial support particularly useful. The outreach among non-farm household enterprises was 21%, with 70% of the respondents not finding the financial support particularly useful.

This study does not have any explanation for the negative assessments on the employment and HEPR programmes, whether they depend on too small amounts being disbursed too spread around, or whether there are other explanations. A further in-depth evaluation is certainly justified to assist the Government in assessing the efficiency of its targeted credit schemes.

The “Socio-economic Programme for Disadvantaged Communes in Mountainous and Remote Areas” adopted in 1998 aims at food security, improved living standards and the integration of 1,715 communes into the mainstream of the national socio-economic development. The programme will run until the year 2005 and will involve an estimated cost of US\$ 1.67 billion, of which 70% is planned to be funded from domestic sources and 30% from abroad.

4.11 Institutional Framework

The overall responsibility for policy coordination is vested with the Ministry of Planning and Investment. At the national level, the Ministry of Agriculture and Rural Development is assigned the responsibility of state management over the agricultural sector and issues related to rural development, *inter alia* rural industrial development. Supporting the Ministry’s steering in this area are the Department for Agro-forestry Processing and Rural Industries (DAFPRI) at the central level and the Division for Agro-forestry Processing and Rural Industries, if any, at provincial Departments of Agriculture and Rural Developments. But at present no steering institution has been set up at the district level. The capacity to develop rural industries is still very limited at all levels. In order to help formulate sound policies, the steering of the operation of rural industries should also include institutional consolidation and capacity building for these institutions. As demonstrated in previous sections of this report, a broad range of policies affects rural industry development. There is a need to develop the institutional capacity to coordinate and formulate coherent policy framework with respect to rural industrialization.

At the national level, MARD has been entrusted with major responsibilities regarding overall rural development and also performs functions to promote rural industrial development. The Ministry of Industry has a strong focus on heavy industries, with geographical concentration primarily in urban areas and the triangle zones. The Ministry of Labour has the responsibility for employment promotion - a highly relevant matter with regard to rural industrial development. Other line ministries perform various

specialised duties which all have a bearing on rural industrial development one way or another. There are also a number of specialised research and technical institutes providing services in their respective fields. Altogether, however, there is as yet no mechanism in place to synchronise efforts by all these agencies.

Having considerable discretionary powers as well as extensive responsibilities for the geographical allocation of investment and current expenditure within the provinces, the provincial People's Committees in reality have significant influence on the actual implementation of rural development policies. In the process of decentralising decision-making in accordance with the new Budget Law, it is important to ensure that actual implementation of policies reflects the intentions of the central Government.

Districts and communes appear to have little involvement in policy related issues and are primarily involved in the administrative aspects of implementation. At these levels, based on the experience from the study team's visits to districts and communes in five provinces, priorities often seem to differ from those held at provincial level. Construction and maintenance of simple roads and bridges and the provision of adequate education and health are often considered as top priority, urgent matters but frequently have to be financed from funds collected at local level. These priorities are not always adequately reflected at the provincial level, where officials tend to focus more on the establishment of larger industries, the development of concentrated crop cultivation zones and the establishment of industrial estates.

At provincial level, and still quite extensively at national level, the approach towards planning is strongly biased towards the thinking of the pre-"doi moi" period. Planning consists of setting detailed production targets for different economic sectors but the particular measures or policies to be applied to achieve these targets are rarely specified. Success is measured in terms of how these production targets have been achieved. Despite some training courses, the capability to prepare and assess the economic, financial and social feasibility of different projects and the relative merits of projects in different sectors is still rudimentary.

Institutional support for development of micro-business and small and medium-sized industries is extremely limited, almost non-existent, at commune and district level. Out of 50 such units visited during the field trips of the study team, when asked if they had received some assistance, or had anywhere to turn for assistance on any matter related to their business, only one could identify any such support agency (the Vietnam Women's Union). In a few cases, colleagues in the same business were mentioned and in a few other cases the customers buying their products had specified the product properties they wanted to have.

This is typical of the experience from many other developing and developed countries that the best source of various kinds of technical support is not so much formal business extension institutions, but rather business associates,³⁰ from suppliers (of raw materials and equipment) and customers (on product specifications, quality and design). Encouraging the establishment of such associations and closing the distance between suppliers-producers-customers by improving the efficiency of market mechanisms are therefore vital in supporting rural industrial development.

³⁰ Example: business and professional associations, business clubs, chambers of commerce and industry and the like.

A UNIDO study in 1995 of 240 small and medium-sized enterprises in HCMC, Hanoi and Hai Phong found that only 15% of the enterprises were members of the Vietnam Chamber of Commerce and Industry, which was not yet established in rural areas. Another 15% were members of some professional organization, mainly along academic lines, e.g. economists, technical scientists, architects etc. In addition, 23% of the SMEs in Hanoi were members of a business organization established by the Hanoi People's Committee. In addition to these, there were virtually no other associations mentioned at all. Thus, industry associations and business oriented organizations typically found in market economies are virtually non-existent,³¹ and this is particularly so in rural areas. In many market economies, a typical small or medium-sized enterprise would belong to business associations. The potential to mobilise businesses' and industries' own resources to help each other by the institutional mechanism of associations is therefore large.

Line ministries and associated research and technical institutes seem as a whole to have limited outreach in rural areas in industry related matters.

Under the Civil Code there is a provision (Article 114) that recognises the possible establishment of social and socio-professional organizations, but there are many strings attached. In addition, there is a Law on Associations from the 1950s, which strongly limits the possibilities of establishing associations. The Government has for some time attempted to draft a new Law on Associations, but has allegedly abandoned this idea and is instead considering addressing this matter by the issuance of a Decree that includes less complex procedures. In order to mobilise industry's own resources to assist each other, it would be crucial to promulgate a legal framework which encourages the establishment and development of industrial and business associations owned by the members and free to promote the business interests of the members. Such a legal framework should also encourage the development of national NGOs, some of which would also become involved in rural industrial development.

The outreach of business extension services by existing agencies to district and commune level is extremely limited. Independent business associations, potentially a major source for self-help support system, is largely lacking in Vietnam.

The Vietnam Cooperatives Alliance (VCA) provides assistance in the field of business and has offices in every province. The staffing level does not, however, enable it to have any significant outreach beyond provincial capitals. The organization was renamed VCA in 1998 from the former VICOPSME (Vietnam Institute for Cooperatives and Small and Medium-sized Enterprises), presumably dropping the affix "Small and Medium-sized Enterprises" to underline its prime focus on cooperatives as defined in the Law on Cooperatives adopted in 1996.

Since 1993, the Vietnam Chamber of Commerce and Industry is a self-financing non-State organization providing inter alia extension services to primarily small and medium-sized enterprises. As it is a self-financing organization, it has only found it feasible to establish operations in nine major towns. Outreach outside these places is therefore limited.

³¹ The Union of Associations of Industry and Commerce in Ho Chi Minh City appears to be one of the exceptions, although it lacks some of the characteristics of similar organizations in market economies.

Three mass organizations have an extensive outreach in rural areas, i.e. the Farmers' Union, the Vietnam Women's Union (VWU) and the Youth Union. The Farmers' Union has an outreach down to commune level, the Women's Union to district level and to almost all communes. The VWU is the most active of these organizations with extensive community activities, also including some business related training, often in association with NGOs and other donors.

5. STRATEGY FOR EMPLOYMENT-GENERATING, REGIONALLY BALANCED, RURAL INDUSTRIAL DEVELOPMENT

5.1 Linkages with Other Sectoral and Functional Strategies

The present report elaborates on a strategy for employment-generating, regionally balanced, rural industrial development. With its multi-dimensional nature, it is part of, and would feed into, other strategic work being carried out by the Government. By its **rural** focus, it would be a part of the Government's overall strategy for rural development. By its focus on **industrial** issues, it would be part of the Government's overall strategy for industrial development. By its focus on **employment generation**, it would form part of the Government's overall strategy for employment creation and poverty reduction. And, by its focus on **regional balance**, it would be a part of the Government's overall strategic regional planning of the country.

Each one of the above-mentioned overall strategies would have a set of objectives and associated policies and programmes aimed at optimally supporting that particular strategy. Amongst these overall strategies highlighting four different dimensions of development, there are however both trade-off and complementarity. Singular focus on industrial growth, for example, might have a less than desirable impact on rural development and poverty reduction, and there would thus be a trade-off between the objectives of the two strategies. On the other hand, promoting an industrialization strategy based on Vietnam's comparative advantage of having abundant, cheap and comparatively skilled labour would simultaneously be promoting employment creation, and in this case there would form a strong complementarity between the strategies.

In practical policy making, the Government would not only have to strike an appropriate balance amongst the above-mentioned four dimensions of development, but would also have to consider issues such as social concerns, equity, gender, poverty reduction, stability, environment etc. by steadily moving in "the right direction", and would have to make policy adjustments accordingly.

The strategy also has strong links to the agricultural sector. Firstly, increased incomes of farmers raise their purchasing power and the demand for industrial goods. Secondly, increased incomes of farmers raise the investible surplus of farmers, of which a part may be invested directly in manufacturing or indirectly by savings that are channelled into manufacturing investment. Thirdly, rural industry development would be greatly dependent on high quality and low priced inputs from the agricultural sector. Although it is beyond the reasonable scope of the present study to elaborate in detail on appropriate agricultural policies and policies to raise farmers' incomes, such policies have been explicitly included in the strategy.

5.2 Employment Generation in Rural Areas - the Thrust of the Strategy

When balancing various objectives, the conclusion of this study is that the single most important issue to be addressed is productive employment creation. Open unemployment and underemployment, in combination with hidden unemployment and underemployment in the form of unproductive employment, may translate into the magnitude of 10 million people. This is a huge waste of Vietnam's most valuable resource - its people - a social tragedy of immense magnitude and a risk factor to stability. With over one million new entrants to the labour force every year, the existing problem of unemployment and underemployment is likely to be aggravated. As this unemployment and underemployment is predominantly a rural problem, the thrust on employment generation, in particular in the short and medium term, represents a thrust on employment generation in rural areas.

5.3 Employment Generation Potential of Agriculture, Industry and Services

In the period 1990-1995, the employed labour force increased by an average of about 860,000 people every year, equivalent to an average annual increase of 2.6%. About half of that growth was absorbed by the service sector, with the remaining half about equally shared between the agriculture and the industry sectors (Table 18). During the same period, agriculture GDP grew by an annual average of 4.4% with labour productivity increasing at a reasonable annual average of 3.3%, while employment in the agriculture sector only increased by an average annual 1.1% (Table 19). Industrial sector GDP growth averaged an annual 13.8% with employment and labour productivity increasing by an average annual 5.0% and 7.4%, respectively. A worrying trend was indicated by the fact that only minimal labour productivity gains were achieved in the service sector, an average annual increase of 0.6% only.

During the period 1996-1997, the total employed labour force increased even faster than in the period 1990-1995, by an annual average of about 1.2 million. Employment in the industrial sector with the highest labour productivity however virtually stagnated, whereas employment in the agriculture sector was absorbed at the cost of decreasing labour productivity.

A major challenge for the future consists of creating productive employment in agriculture and industry, and at such a pace that the employment thus generated in associated services would become increasingly productive. The agriculture sector, however, is unlikely to provide any new productive jobs in the medium term, on the assumption of an annual average economic growth of the sector by 3.5%,³² and continued annual average labour productivity growth of 3.3%. Thus, the potential for increased employment rests with the rapid growth of the industrial sector - for direct employment in the industrial sector as well as indirect employment generated in the service sector. And, since there is a limit to urban industrial growth, the key solution to the employment problem lies in creating employment by rural industry development.

³² World Bank medium term projection under an accelerated reform scenario.

5.4 Employment Generation Potential by Category of Enterprises

The SOE sector, given its capital-intensive nature and bad financial performance, even if rationalized and subject to accelerated equitization, would be more likely to lay off workers than actually create new job opportunities.

Foreign owned enterprises, given a conducive business environment regime, have some potential for increased industrial employment in rural areas, but start from a very low base with only an estimated 15,000 employees in rural industry and construction.

Private, domestic labour-intensive incorporated enterprises, mostly small and medium-sized enterprises (SMEs), geared both towards the domestic market and exports, if provided with a conducive business environment, have a large potential in the medium to long term. However, as this sector starts from a fairly low base, with some 600,000 employees in rural industry and construction only, even a fairly strong employment growth rate would not be sufficient to efficiently address the huge employment problem in the short to medium term. In the longer term, however, as is well demonstrated in other successful countries in South East Asia and elsewhere in the world, a dynamic domestic private sector in both urban and rural areas is one of the key issues for economic growth and employment.

The household sector, comprising both household enterprises with a business license and households involved in manufacturing activities as a complementary activity to agriculture without a business license, represents the probably largest potential in the short to medium, and medium to long term, for new employment in industry and construction as well as indirect employment in rural service job generation, frequently referred to as micro-enterprises and small enterprises (MSEs). With an estimated 3.5 million people already employed in this sector, even moderate growth rates would provide many employment opportunities in the short to medium term. The growth of this sector may come from farm households taking up manufacturing activities or from farm households already carrying out some manufacturing activities expanding their business.

In the long term, however, the household sector has to overcome its limitations by moving to the SME sector category. As the production units in this sector typically market their products only locally, local demand sets a limit (the elasticity of demand on the domestic market is typically much lower than that on the export market). On the other hand, in the short to medium term, with markets not so well developed and bad road communications, this sector enjoys a natural protection which allows it to survive even with low product quality and low efficiency as compared to the incorporated enterprise sector. As markets improve and competition stiffens, many of these household units will not be able to survive, while others will reap the opportunities of the improved market conditions, will grow, become more efficient and eventually transform into incorporated enterprises. To support this transformation process is a challenge of the strategy.

5.5 Sub-sector Focus of the Strategy

In the light of Vietnam's factor endowment and revealed competitiveness in international markets, and assuming that industry and trade policy distortions are reduced, the probable largest employment-generating sector would be in primarily

labour-intensive manufacturing, almost by definition. To a large extent too, most employment growth is also likely to be, but not necessarily, associated with manufacturing based on raw materials from agriculture, fishery and forestry and other natural resources available in Vietnam. Employment growth is not likely to come from heavy, capital-intensive industries utilising large amounts of scarce capital not in line with Vietnam's factor endowment.

What is important for the Government is to avoid "picking the winners", but to leave it to the entrepreneurs themselves to decide. There are abundant examples where the "picking the winners" strategy has not worked.³³ Unfortunately, much of the Government's current interventions seem to foster precisely the capital-intensive industries and sectors that are not likely to be "winners". Only in cases of "market failures" or where there are strong and well-researched justifications for some intervention creating "externalities" should the Government intervene in the market.

5.6 Geographical Location of Industries

The Government could address the migration issues in two complementary ways. One is to encourage appropriate development in recipient urban areas by promoting appropriate urban planning and zoning as well as housing in these areas (this aspect will, however, not be further elaborated upon in this report). The other way is to make rural areas and rural towns more attractive for people and for industries.

Better road communications, extended electrification and improved access to social services in rural areas are fundamental. As elaborated upon previously, the Government's and the Provincial People's Committees' ambitious plans to establish industrial estates primarily in provincial cities have met with limited success. There appear to be two main reasons for this. Firstly, the overall policy environment has not been conducive. Secondly, the infrastructure outside the intended industrial estates has not been put in place. A more appropriate approach would be to focus more on rural towns and district centres.

There may be appropriate geographical locations for many agro-based processing incorporated private enterprises with physical proximity to sources of raw material and labour, and would allow many workers to commute between the district centres/rural towns and their home communes. Rural towns and district centre zoning, making provisions for serviced land suitable for SME manufacturing activities (small industrial growth hubs), may be a viable approach. It would, however, be futile to spread the Government's scarce resources too thinly over the entire country. It would be more appropriate to focus on rural towns and district centres in provinces making up an enlarged hinterland of the three Triangle Zones and those with a priori best opportunities for manufacturing activities.

The above-mentioned conclusions and assumptions regarding employment generation, economic sectors, types of enterprises and geographical dimensions underlie the recommendations regarding objectives of the strategy as well as specific policies and programmes comprised by the strategy.

³³ Although in some countries, during certain periods and under a set of very specific conditions it has worked for some time.

5.7 Main Objectives of the Strategy

The main objective of the strategy is to generate employment by regionally balanced rural industrial growth. In the light of the considerations in Sections 5.1-5.6, this objective can be made more specific in order to achieve:

- i) Regionally balanced growth and productive employment by rural MSEs (micro-enterprises and small enterprises) in primarily domestic resource-based manufacturing (short to medium term);
- ii) Growth and exports in labour intensive manufacturing by private SMEs (primarily incorporated enterprises) outside the northern and southern Triangle Zones (medium to long term); and
- iii) Increased productive employment in the rural service sector, primarily as a result of growth by the sectors mentioned above.

In the following chapter, the particular policies and programmes required to achieve these objectives are elaborated.

5.8 Linkage to Poverty Reduction

Economic growth is a necessary, albeit not sufficient, condition to reduce poverty. Experience worldwide has demonstrated that economic development does not automatically “trickle down” to the poor. Experience from several economies in Southeast Asia has also shown that sustained fast growth is associated with economic growth shared by large segments of the population, increasing the share of the middle class. Economic growth and equitable development strategies reinforce each other to attain sustaining development.³⁴

In contrast to a purely growth-oriented strategy, the present strategy is to include a number of policies and programmes aimed specifically at broad-based sharing of the benefits of economic growth generated by increased industrialization, with a rural focus. Examples are policies aimed at increasing the farmers’ incomes, the strategy’s focus on employment generation, reorientation of public investment towards construction and maintenance of rural roads, policies to facilitate access to bank credits for those with limited possibilities to raise collateral, and the promotion of rural household enterprises.

Admittedly, however, many policies aimed at creating a conducive business environment do not necessarily benefit the poorest segments of the rural population directly. Studies of farmers’ economic behaviour in Vietnam indicate that when farmers generate investible surplus funds their first priority is to make investments to improve productivity in agriculture, next in priority come investments in fruit trees, animal husbandry and fish ponds, and only further down on the priority list come investments in manufacturing. This implies that those reaping the immediate benefits of

³⁴ “Inequality can be harmful to long run economic growth by making economic reforms less plausible. Inequality can reduce the base of support for fundamental structural transformations necessary to embark on a path of high growth. The basic reason is that inequality tends to result in polarized societies and polarized societies may be in a weaker position to undertake fundamental economic reform”. Inequality, Economic Growth and Economic Performance. Francisco Rodriguez C. Department of Economics, University of Maryland, U.S.A.

a more conducive business environment would be those who have already accumulated some investible surplus and who have already satisfied their highest investment needs.

On the other hand, those investing in some manufacturing activity would employ people who may belong to poorer segments of the population, the unemployed or underemployed and the landless, and they would benefit from non-farm activities as the supplement and alternative sources for household income. As the policies are aimed at promoting industrial development outside the Triangle Zones, the likelihood of achieving the "trickle down" effect to the poor is stronger, compared with policies that would aim at promoting industrial development inside the Triangle Zones.

6. POLICIES AND PROGRAMMES OF THE STRATEGY

It is well acknowledged that a number of broad, economy-wide policies have a tremendous impact on the development of rural industries, e.g. financial sector reform, SOE reform, continued trade liberalization etc. As these matters have been, and are, extensively dealt with in other contexts, this report and its recommendations on policies and programmes will only focus on specific policies and programmes which have a direct bearing on employment-generating, regionally balanced rural industrial development.

The outline of this chapter follows closely the outline of Chapter 4, in which Government policies and programmes were analysed. The recommendations below are therefore presented in a summarised form.

6.1 Agricultural Policies and Policies to Raise Farmers' Incomes

- a. Support research on high yielding crops, irrigation, agricultural intensification, diversification from rice, reforestation, sustainable fisheries and competitive market mechanisms with a view to increasing farmers' incomes and to providing the agro-based industrial sector with high quality inputs at competitive prices;
- b. Examine the replacement of the Government's "10 days free labour for infrastructure work" programme with a commercial alternative to pay for this work in order to increase incomes in rural areas and promote the development of rural, small-scale construction units;
- c. Phase out regulations on prices for agricultural commodities that do not encourage farmers to respond to the cultivation of certain crops as inputs for agro-processing SOEs while the policies to improve the competitiveness of the SOE sector is in progress;
- d. Slow down or stop the establishment of new agro-processing SOEs supported by subsidised credits and unduly high protection by import restrictions or tariffs; and
- e. Improve information flow to farmers, including the use of radio and TV, on domestic and international price developments of agriculture commodities.

6.2 Trade Policies

- a. Replace export and import quotas with tariffs, and include the products concerned in the time schedule for CEPT tariff reductions;
- b. Implement the intentions of Decree 57 liberalising imports and exports, provide temporary exemption in the short term from the requirement to have a tax code as a prerequisite to receive a customs code, and unlink completely on a permanent basis the issue of obtaining a customs code from the tax code issue;
- c. Revise the list of priority import substitution products as a basis for allocation of foreign exchange in order to remove biases against SMEs and exports; and
- d. Negotiate access protocols for Vietnamese products to other countries.

6.3 Public Investment Programme

- a. Abolish subsidised credits to SOEs;
- b. Reduce allocation of investments and credits for industrial SOEs;
- c. Increase funds allocated for rural road construction and maintenance in PIP;
- d. Increase in the share of PIP funds allocated for basic social services;
- e. Introduce decentralized “bottom-up” investment programming combined with measures to ensure provincial level compliance with national objectives in connection with the preparation of the PIP for 2001-2005; and
- f. Link the annual budgets and PIP for 2001-2005, to be approved by the National Assembly.

6.4 Financial Sector Policies

- a. Abolish lending interest rate ceilings for banks;
- b. Abolish limits on banks’ spread between lending interest rates and interest rates on deposits;
- c. Phase out subsidised interest rates under various National Programmes and replace these with targeted social safety nets;
- d. Revise decision to exempt SOEs from providing collateral for bank loans;
- e. Establish an umbrella organization for the People’s Credit Funds, promote of its further expansion and introduce business advisory services linked to loans;
- f. Review the post offices’ savings mobilisation scheme and the role of the National Investment Assistance Fund;

- g. Examine the feasibility of introducing a Government credit guarantee scheme for rural industries; and
- h. Draft regulations for individual and organizational guarantees as collateral for loans.

6.5 Tax Policies

- a. Abolish the surplus tax of 25% on profits exceeding 12% of internal capital according to Decree No. 30/1998/ND-CP; and
- b. Further streamline Decree No. 30/1998/ND-CP on enterprise income tax, replacing many of the broad tax holidays and the whole array of reduced tax rates with better targeted cost reducing business incentives.

6.6 Land Policies

- a. Raise the number of hectares allowed for individual and household land use rights (partly implemented);
- b. Relax restrictions to alter the use of land from rice cultivation to other purposes by inter alia classifying land with low potential for high rice yields and allow such land to be used for other purposes (partly implemented);
- c. Facilitate the transfer of land use rights by inter alia reducing the tax on transfer of land;
- d. Accelerate land registration procedures and extension of the duration of land use rights to expand the applicability of land use rights as collateral (partly implemented); and
- e. Allow private sector enterprises to contribute land use rights as equity in joint ventures with foreign enterprises.

6.7 Policies Regarding Geographical Distribution

- a. Give a lower priority to investments in Triangle Zones and attach higher priority to “middle” zones;
- b. Prepare Government strategy for the development of industrial estates, including revision of the current law on industrial estates, export processing zones and high-tech parks;
- c. Abolish special incentives for tenants in industrial estates; and

- d. Develop an industrial growth hub concept for rural towns and district centres.³⁵

6.8 Discriminatory Policies against Private Sector and Enterprise Growth

- a. Replace the current business registration procedures (Joint MPI/Ministry of Justice Circular 05/1998/TTLT-KH-DT-TP) requiring approvals on a discretionary basis by Provincial People's Committees with a simple system for registration not requiring approvals, except for well justified and specified cases;
- b. Lower the minimum legal capital requirement for incorporation of sole proprietorship enterprises included in Decree No 26/1998/ND-CP; and
- c. Amend the Law on Cooperatives to abolish incentives that discriminate against other legal forms of enterprise incorporation.

6.9 Human Resource Development and Technology Transfer Policies

- a. Train officials at central and provincial level in the understanding of the functioning of a market economy and social, financial and economic cost/benefit analysis of policies, programmes and projects;
- b. Introduce double deduction of training costs for tax calculation purposes to encourage enterprises to invest in skills improvement and a voucher-based vocational training system with trainees free to choose training institute, with a view to promoting demand-driven vocational training, encouraging competition amongst vocational training institutes and promoting the development of private sector participation in vocational training;

³⁵ The Industrial-Agricultural and Service Hub is a sector specific development area or large state-owned farms. For example, Moc Chau in the mountainous Northern province of Son La, has been developed since the 1960s to an Industrial-Agricultural and Services Hub/Centre for dairy production. There is good weather and plenty of meadows for the cattle to grow and dairy production factories have been set up.

Industrial Growth Hubs are small industrial estates in rural areas, on average less than 50 hectares, developed specifically for rural enterprises. Many rural enterprises have their initial set-up as household businesses with limited capacity to expand. Therefore, small industrial estates with a simple infrastructure are developed in rural areas to address land issues, with ready workshops, basic common services, common effluent treatment etc. There are, for example, 4 – 5 such industrial estates developed in Bac Ninh province next to Hanoi and two in the suburbs of Hanoi.

The Government's promotion of Triangle Zones and industrial estates, developed without due consideration to the surrounding infrastructure and overall land use planning, has resulted in low occupancy rates and has not contributed to rural industrialisation. Industrial estates in rural towns, in combination with appropriate planning of infrastructure and physical land use planning can, however, make a significant contribution to rural industrial development. If established in rural towns with reasonable preconditions for industrial development, such industrial estates can also relieve some of the pressure on migration from rural areas to the large cities and provincial capitals.

The Government has a national plan for development of the three Triangle Zones and industrial estates until the year 2010 including 70 projected industrial estates to be located in 27 provinces and involving huge investments. This programme may become a big waste of money and a burden to the economy unless a new approach is adopted. The Government has realised that a change is necessary and has assigned to the Vietnam Industrial Zones Authority (VIZA) to revise the Law on Industrial Estates and to develop a strategy for development of industrial estates in Vietnam. VIZA was established in 1997 as an agency directly under the Prime Minister's Office with the mandate to guide and monitor the development of industrial estates in Vietnam.

- c. Amend Decree No 45/1998/ND-CP on Technology Transfer to simplify regulations regarding contractual conditions and procedures for technology transfer from abroad;
- d. Further improve FDI legislation, the establishment of an investment promotion body outside MPI and the preparation of a FDI promotion programme; and,
- e. Review activities of industrial research and development institutes with a view to rendering their activities more market oriented, to strengthening their links with the enterprise sector, and to disseminating information on technologies and make such information more easily accessible to rural enterprises.

6.10 National Programmes

- a. Review the outreach and efficiency of National Targeted Programmes, in particular the credit components of these programmes;
- b. Prepare sub-sectoral policies and programmes for development of agro-industrial processing based on maize, cassava, peanuts, soybeans, fruits, tea, rubber as well as production of meat and milk;
- c. Implement a programme targeting rural farm households and non-farm household enterprises, broadly disseminating information about non-farm business ideas and simple technologies for non-farm manufacturing activities, utilising mass media, e.g. TV, and mass organizations, international and emerging national NGOs and private sector enterprises; and
- d. Implement a programme to promote the development of new “occupational” communes/villages.

6.11 Institutional Framework

- a. Introduce a central mechanism to coordinate the formulation and implementation of policies and programmes at national, provincial and district levels for rural industrial development;
- b. Establish a Technical Working Group on Rural Industry Development under the International Support Group attached to MARD focusing on rural industrial development;
- c. Develop participatory approaches to rural and regional industrial planning;
- d. Establish a legal framework for the establishment and development of industry and business associations; and
- e. Mainstream gender issues in all developmental work, including issues such as systematic collection and compilation of gender disaggregated statistics, compulsory gender analysis of the impact of policy decisions, gender awareness training for both men and women and organization of training at times and venues and in forms making it easier for women to participate.

7. TECHNICAL ASSISTANCE IN SUPPORT OF THE STRATEGY

7.1 Review of Current Official Development Assistance (ODA)

ODA disbursements, as reported in UNDP's annual development co-operation reports, have increased from US\$ 274 million in 1993 to US\$ 1,015 million in 1997 and an estimated US\$ 1,430 million in 1998. Actual pledges by the donor Consultative Group steadily increased from US\$ 1.9 billion in 1993 to US\$ 2.4 billion in 1997 and reached US\$ 2.2 billion in 1998. The gap between pledges and actual disbursements has gradually decreased over the years as pledges have translated into implementable projects and co-operation procedures between the Government and the donors have improved. Over the last few years, about 80% of ODA refers to concessional loans, with the remaining 20% consisting of grant assistance.

As can be seen from Table 20, substantial structural changes in overall ODA have occurred over the years. As loans from major lenders such as the World Bank, the Asian Development Bank (ADB) and OECF of Japan have materialised for heavy investments, the shares of ODA for the energy and transportation sectors have increased substantially, up to about 20% and 17%, respectively, in 1997. The share of ODA classified in the industry sector in the same year amounted to 2.8%, equivalent to US\$ 23 million, down from 6.0 % in 1994, equivalent to US\$ 25 million.

Major ODA disbursements in 1997 by major donors are indicated below.

The World Bank disbursed US\$ 170 million for investment projects, primarily in the energy, transportation (highway upgrading) and agriculture sector, and US\$ 17 million for grant technical assistance (TA). It is also providing a rural finance loan of US\$ 122 million, whereof US\$ 97 million still remains unspent. It has also just approved a loan for power transmission and distribution of US\$ 199 million, of which US\$ 193 million still remains to be disbursed.

Japan disbursed US\$ 147 million for investment-related projects, with more than half of that amount for the energy and transport sectors. US\$ 13 million was for TA.

The ADB channelled most of its US\$ 154 million disbursements into economic management (US\$ 43 million for financial sector reform), agriculture (US\$ 37 million), rural credit (US\$ 21 million) and road improvements (US\$ 17 million).

The United Nations system disbursed US\$ 57 million as pure TA, thereby rendering it the largest provider of TA in Vietnam. Major areas covered from this TA were the health sector, basic social services, agriculture and rural development, public administrative reform and poverty alleviation, all with a strong focus on capacity building.

Major bilateral donors were France (US\$ 60 million), Sweden (US\$ 55 million), Australia (US\$ 29 million), Germany (US\$ 26 million), Denmark (US\$ 21 million) and the Netherlands.

The international NGO community claims to have disbursed nearly US\$ 80 million.

Although international NGO projects are not fully counted, there are currently well over one thousand TA projects in operation, with a roughly estimated annual average disbursement of US\$ 150,000 per project. With a view to providing the reader with a sense of what is going on with some bearing on employment-generating, regionally balanced rural industrial development, a broad review of ongoing TA projects is provided below.

Economic management. The World Bank and UNDP are supporting SOE reform. TA to support the equitization process is planned by Sweden. TA is planned in a broad range of fields by ADB under an Enterprise Reform Loan. Several TA projects are aiming at facilitating the transition to a market economy (e.g. EU, UNDP, Canada, Sweden and Japan). Support was provided for preparation of the first PIP (Netherlands, UNDP) and is also planned for the second PIP. Germany is providing TA for reform of the budget system. Support is provided for financial sector reform and rural credit (World Bank, ADB, Germany, Canada and Sweden). TA is being provided for industrial strategy formulation and international competitiveness studies (UNIDO, Japan and other donors).

Financial Sector Reform. Support for financial sector reform and rural credit is being provided and planned by several donors (World Bank, ADB, Germany, Canada and Sweden). Examples are support to the State Bank of Vietnam (IMF), capacity building TA for the Bank for Agriculture and Rural Development (ADB), TA to develop the People's Credit Funds (Canada) and several TA projects with the Ministry of Finance.

Micro-finance schemes. Numerous projects are ongoing at the grassroots level, in particular by international NGOs and the Vietnam Women's Union. The schemes primarily target poor women, to promote saving habits, to introduce group-based savings and credit schemes and are often combined with poverty alleviation and income-generating schemes.

Trade Policies and Export Promotion. UNDP and Switzerland are providing support to the Ministry of Trade and the Office of the Government to facilitate Vietnam's process of accession to WTO. Finland is providing support to strengthen the capacity of the Ministry of Trade. No significant support is specifically focusing on export promotion.

Industrial planning. A few TA projects are being provided for industrial strategy formulation and international competitiveness studies (UNIDO, UNDP, Sweden and Japan). The ADB is planning an agriculture sector policy development TA project, which *inter alia* is intended to programme an agro-industry development loan in 2001.

Promotion of private sector development and SMEs. UNDP is providing support to CIEM to improve the legal and regulatory framework for private sector enterprise development. Support is being provided by UNIDO and Germany to MPI and five service provider organizations. Germany provides TA to Vietnam Cooperatives Union. The Mekong Project Development Facility (MPDF) assists private SMEs in preparing projects and accessing credits. The Netherlands and SNV are supporting the Non-State Economic Development Centre. Sweden/ILO is providing support to the Chamber of Commerce and Industry.

Promotion of micro-enterprises. A few international NGO micro-credit schemes have an explicit target to promote micro-enterprises. There is also a US\$ 7 million small-loans fund established by German KfW to support micro-enterprises as well as a UNCDF fund of US\$ 4 million for the same purpose. The Netherlands is providing TA for improving the training capacity of the Vietnam Women's Union in micro-enterprises in combination with community development. EU is providing credits for Vietnamese returnees.

Land Use Planning. Sweden is providing TA to the General Department of Land Administration on land use planning and amendment of the Land Law.

Regional Planning. ADB is starting up a TA to introduce a new approach to regional planning by assisting with the preparation of a plan for the development of the Central Region.

Rural Development. Rural development TA projects are classified in the UNDP development co-operation reports as area development projects. This type of project has increased their share of total ODA somewhat in recent years. The projects are often managed on the Vietnamese side by the provincial People's Committees, although the focus is often on one or a few districts or communes in the province. Area-based TA projects are often focusing on the poorest people or ethnic minorities, on social dimensions of development, on income generation, on credit schemes for women, and are often designed as integrated rural development projects (UNDP, IFAD and international NGOs, UNICEF and bilateral donors).

Human Resource Development. Some major TA interventions are targeting broad areas such as primary education (World Bank), overall vocational and technical training (ADB) or tertiary education in economics or business administration (Australia, Sweden, France). In addition, most TA projects have human resource development in some form as the major objective, or one of the major objectives. The range of areas covered is extremely wide.

7.2 Conclusions and Proposed Orientation of Technical Assistance in Support of the Strategy

From the above review of ongoing TA in Vietnam and other reviews of donor TA and donor-Government co-operation, the following observations are made and conclusions drawn which appear to be relevant in assessing the adequacy of donor support for an employment-generating, regionally balanced rural industrial development strategy.

- a. There are a large number of TA projects spread over broad areas and recipients and with limited co-ordination on the part of the Government or on the part of the donors. Some efforts are made to achieve programmatic co-ordination and to achieve synergy, e.g. on an area base, such as in Ha Giang or Ben Tre provinces or on a functional base, such as in the field of rural development utilising the International Support Group for MARD as a forum;
- b. There are a number of TA projects which are intended to encourage income generation and to some extent micro-enterprises, but most are focused on agricultural diversification and animal husbandry and few are focused on industrial micro-enterprises with competent staff involved to support people in identifying

industrial business opportunities, in absorbing technologies, in managing growth of the enterprises and in marketing their products;

- c. Donor support for the development of private incorporated SMEs is generally limited and those few TA projects in place are primarily focused on Hanoi and HCMC. This partly reflects the Government's relatively low priority to provide support to this sector;
- d. Although quite a few TA projects have been, and are being, provided in the field of trade policy, little support is being provided specifically for export promotion;
- e. Virtually no TA has been, or is being provided, in the field of foreign direct investment (regarding the legal framework, the establishment of a separate FDI promotion body, the incentives framework and specific promotional measures) although the donor community is prepared to assist in this field;
- f. There are a number of TA schemes for income generation and micro-credit which are claimed to be on a pilot scale, but few which are actually implemented on a larger scale based on the experience of such pilot schemes. It is believed that the time has now come for the donor community to take stock of "best practices" and aim at implementing these in a co-ordinated fashion on a larger scale;
- g. With the exception of some TA regarding labour and employment statistics, the conduct of studies of SMEs in primarily Hanoi and HCMC and some recent support for employment exchanges, the Ministry of Labour, Invalids and Social Affairs has not been provided with much support to address broader labour market issues.³⁶

In the light of the above observations and conclusions, and with a view to supporting the Government's strategy for "employment-generating, regionally balanced, rural industrial development", and in complement to other ongoing and planned TA, the following main areas are proposed:

- 1) To assist the Government in developing institutional capacity for the management of strategy and policy coordination for rural industry development at all levels, i.e. central, provincial, district and grassroots level.
- 2) To strengthen the capacity of training institutions and supervising authorities to improve training programmes to respond to the requirements of rural industries in an increasingly competitive environment.
- 3) To establish a business information system for rural industries.

The main issues addressed are the creation of a foundation for standard business environment for rural industry development, bringing Information Technology opportunities to rural industry operators and human resource development. These are three areas where the national authorities, rural industry operators and the donor community can cooperate on common ground.

³⁶ For example, labour market policies, amendment of the labour code, analysis of employment, unemployment and underemployment issues, analysis of employment creation programmes etc.

As to the modalities for delivery of donor TA, emphasis on the following issues is considered:

- i) Programming of specific TA projects to be co-ordinated with other donors and the Government in support of Government-led programmes in order to achieve synergy and complementarity;
- ii) Establish a donor-Government Technical Working Group under the MARD International Support Group with focus on rural industrial development, including representatives from other relevant ministries such as MOLISA, MOSTE, MOET, MOI and MOT;
- iii) Develop larger TA projects with a longer duration addressing the sustaining capacity building for improved self-help efforts, thereby more realistically taking into account the absorptive capacity of TA beneficiaries;
- iv) Mainstream TA projects within the mandates and operations of counterpart agencies to avoid project activities leading a separate life in isolation and not being sustained beyond the duration of the TA; and
- v) Increase the use of creative communication systems in the delivery of TA.

7.3 Action Programme and Technical Assistance Relationship

Based on the above recommendations on policies and programmes comprising the strategy and recommendations regarding donor technical assistance, an action programme and technical assistance matrix has been prepared. The relationship consists of four items, namely (i) policy and programme areas; (ii) specific actions to be taken; (iii) selected ongoing, recent and planned technical assistance and (iv) scope for further technical assistance.

Some major conclusions to come out of this relationship are:

Many policy recommendations consist of fairly simple measures, deregulation, technically minor amendment of laws or decrees (but with major impact) and in some cases just abolishing or rescinding current policy measures (also with major impact), which the Government could implement itself with low costs and without any particular technical assistance;

The Government would highly benefit from donor technical assistance related to policy issues; and

In addition to the above-mentioned complex policy areas, the assessment is also made that TA is particularly beneficial in human resource development and targeted Government programmes.

7.4 Recommendations regarding selected TA Project Concepts

In the light of the overview of ongoing technical assistance and ideas about suitable areas for technical assistance, several possible project concepts are elaborated below. It

should be pointed out that the formulation of TA projects requires careful preparation involving all stakeholders from the very beginning of the formulation process.

Such stakeholders include the beneficiaries of the TA, the suppliers of the services, counterpart agencies, co-operating partners, donor agencies, the Ministry of Planning and Investment, Provincial People's Committees etc. and can in some cases be numerous. Within the timeframe of the present project it has not been possible to go through all the requisite consultations.

The project concepts should therefore be regarded as tentative with a possibility for modification. The main purpose of the outline of the TA project concepts is to communicate an overall idea of the possible TA project which, if found interesting, would serve as a starting point for a dialogue with the stakeholders with a view to jointly formulate a more detailed TA project proposal.

The following section presents the project profiles of three Technical Assistance projects:

7.5 Project Profiles

The following profiles are possible areas of Technical Cooperation for consideration.

Goal: Decrease poverty by improving environment where rural industries can grow, and create employment and income opportunities that are alternative or supplemental to agriculture

Immediate objectives:

- 1) To assist the Government in developing institutional capacity to manage strategy and coordination for rural industry development at all levels, i.e. central, provincial, district and grassroots level.
- 2) To strengthen the capacity of training institutions and supervising authorities to improve managerial and technical training programmes that respond to the requirements of rural industry development in the increasingly competitive environment.
- 3) Improve the access of rural industries to business information by establishing a business information network.

7.5.1 Capacity building for the coordination of rural industry development

Background

The overall responsibility for policy coordination is vested with the Ministry of Planning and Investment. At the national level, the Ministry of Agriculture and Rural Development (MARD) is responsible for state management over the agricultural sector and issues related to rural development, including *inter alia*, rural industrial development. Supporting the Ministry in this area are the Department for Agro-forestry Processing and Rural Industries (DAFPRI) at the central level and the Division for Agro-forestry Processing and Rural Industries at provincial Departments of Agriculture

and Rural Developments. The Ministry of Industry has a strong focus on heavy industries, with geographical concentration primarily in urban areas and the triangle zones. The Ministry of Labour has the responsibility for employment promotion - a highly relevant matter with regard to rural industrial development. Other line ministries perform various specialised duties which all have a bearing on rural industrial development one way or another. There are also a number of specialised research and technical institutes providing services in their respective fields.

Having considerable discretionary powers as well as extensive responsibilities for the geographical allocation of investment and current expenditure within the provinces, the provincial People's Committees in practice have significant influence on the actual implementation of rural development policies. In the process of decentralising decision-making, it is important to ensure that actual implementation of policies reflects the intentions of the central Government. Districts and communes appear to be primarily involved in the administrative aspects of implementation, and have insufficient involvement in policy related issues.

The capacity to develop rural industries is still very limited at all levels. In order to formulate coherent multi-sectoral strategies and carry out the implementation, it is necessary to strengthen the institutional capacity to coordinate strategy and policy implementation at all levels for rural industrial development since that is affected by a broad range of policies of different authorities.

Activities

- 1) Establish an inter-ministerial working group to map out the role of various ministries as well as provincial, districts and commune authorities that affect rural industry development
- 2) Identify possible overlapping functions of each authority by preparing position papers of each authority.
- 3) Decide measures to avoid overlapping areas of each authority.
- 4) Prepare a flowchart of the decision making process.
- 5) Prepare the Terms of Reference of a national coordinating mechanism for rural industrial development.
- 6) Agree on the Terms of Reference of the national coordinating mechanism.
- 7) Prepare a government policy document that describes the role of the national coordinating mechanism for rural industrial development and respective functions of each authority at the central level as well as provincial, districts and commune levels.
- 8) Train key officials at the central, provincial, districts and commune levels on the role of the respective authority in rural industry development functions, based on the policy document on national coordination.

7.5.2 Human resource development for rural industry development

Background

Vietnam scores well on indicators on education, for example that almost 90% of the working-age population is literate, contributing to favourable conditions for people involved in rural industries to absorb new knowledge.

In the field of technical education and vocational training, Vietnam has extensive facilities for pre-employment school-based vocational and technical training. However, enrolment in vocational and technical school-based training represented about 0.5% of the workforce in 1995, of which about 25% was in industry-related subjects. Vietnam also has basic education and enterprise-based on-the-job training.

Strong focus is placed on mechanical engineering, electricity/electronics, construction engineering, tailoring/textiles and carpentry. Out of the total trained, 0.7% of those who had received vocational training received training in agro-processing and food technology, 1.4% of those at technical secondary educational level and 0.4% of those at university/college level. It is necessary to pay attention to the system of education and training programmes that quickly respond to the market demand for certain skills.

Another feature of Vietnam's technical training system is the Government's favourable attitudes and policies in respect of private sector involvement in vocational and technical training. Since 1992, private institutions in these fields were legalised and, in 1995, in a Government Instruction (No 347/KTTH), private vocational schools and training centres were exempted from business and income tax. This tax exemption status was, however, rescinded by the introduction of the May 1998 decree on enterprise income tax.

Vietnam has favourable conditions to avoid the negative aspects of a supply-driven approach to the development of vocational and technical training. Further promotion of demand-driven technical training could be enhanced so that people could decide which training institute to choose from. This would encourage competition amongst suppliers of technical training and improve the response to demand. Enterprises could also be offered incentives schemes such as the deduction of training costs for the purpose of calculation of tax.

The objective of this TA project is to invigorate managerial and technical training programmes appropriate to rural business people, which respond to the demand for the skill requirement by rural industries, so that rural population engaged in low productive activities will be absorbed in growth-oriented rural industries.

The major potential for employment creation and increased income consists of rural farm households taking up non-farm manufacturing activities. The actual start of a small household business mostly has its origin in some entrepreneurial individual observing somebody already carrying out a certain type of business activity and then he or she imitating that activity. They will be major target beneficiaries.

The TA project will review different set-ups for human resource development programmes for managerial and technical skills development and skill absorbing capacity of various institutions, such as public vocational institutions, privately operated

training institutions, involvement of business associations in the training programmes, possible role of general education schools, the utilization of mass media to stimulate the human resource development for rural industry development.

Under the coordinating role of MARD, the Distance Learning Department of the Ministry of Education and Training may be involved in this TA project in cooperation with other institutions such as organizations with the requisite knowledge of manufacturing methods, e.g. Government research and extension service institutes, commercial enterprises, suppliers of equipment, MOSTIE etc.

Activities

- 1) Review existing capacities and impact of various institutional set-ups to invigorate human resource development for the promotion and development of rural industries.
- 2) Identify legal and administrative obstacles to further develop various institutions for human resource development, including tax incentives for enterprises to encourage staff training, apprenticeship programmes, privately operated training programmes etc.
- 3) Develop a practical and action-oriented comprehensive human resource development programme for growth-oriented rural industry promotion and development, that will respond to the needs of the rural industry sector, with costs and benefits analysis of various measures, for specific skills as well as skills absorbing capacity.
- 4) Obtain the agreement of the decision-making authorities on the comprehensive human resource development programme for rural industry promotion and development.
- 5) Prepare detailed programme concept for the institutions with high potential for effective human resource development and an implementation plan with resource requirements.
- 6) Assist the respective authorities to introduce and implement the human resource development programme for the selected institutions.
- 7) Train key staff of the selected institutions in implementing the human resource development programme.

7.5.3 Information System for Rural Industry Development

Background

Rural entrepreneurs face constraints in accessing business information due to limited communication facilities in the rural environment.

There are two challenges in this context. The first one is to make information accessible that is already available in various agencies and enterprises in Vietnam and which would be useful to rural industrial entrepreneurs.

In the field of technology, the knowledge and information are available in ministries such as the Ministry of Industry, the Ministry of Science, Technology and Environment and the Ministry of Agriculture and Rural Development as well as at institutes such as the Food Industry Research Institute, the Vietnam Institute of Agricultural Engineering, Hanoi University of Technology, Institute of Post Harvesting Technology, the Research Institute of Agricultural Machinery etc. and, maybe most importantly, also industrial enterprises, agents and suppliers of equipment. There are also companies, which are trading various equipments, raw and intermediate materials and products relevant for rural industries.

The second challenge is to make this information physically accessible to rural industrial entrepreneurs. Some advanced entrepreneurs already subscribe to the Internet. The vast majority, however, do not have that access and will not be in a position to afford the investment in a computer and an Internet subscription for a long time. In addition, a certain amount of knowledge is required to efficiently search for information on Internet.

The rural entrepreneurs and the sources of information have to be linked by various means such as telephone, fax and Internet. A link could be developed by business organizations, but these organizations are not sufficiently developed in rural areas. The MARD and MOI departments (often combined) at the district People's Committees could not be expected to perform as effectively as an organization owned and operated by the industries themselves. For the near future, such a role could be initiated at the local level with mass organizations that have membership and an organizational structure in the rural areas.

In light of the above-mentioned challenges, the objectives of this TA project are to develop organizations that link the rural entrepreneurs with the sources of information, and develop the physical facilities as a sort of business centres. A key areas of the project is to make a system that is demand driven and self-propelling, supported by a business oriented central office which will provide technical maintenance of the system and marketing staff who will maintain the contacts with the users and update the contents.

The project aims at establishing a network of information conveying systems consisting of a central office and nodes as business centres scattered in the rural areas. The flow of information is not a one-way direction from the centre to the business centres. Inputting and accessing information can be made at any node, technically supported by the central office.

With this system, suppliers of technological information, trading houses and rural industries will utilize the system as a means for business communication. The Internet-based system will be supplemented by telephone and fax facilities of the business centres for further communication between the suppliers of information and users of such information.

The marketing staff of the central office will sell the system as marketing media, such as newspapers and a more elaborate version of the “yellow pages” of the telephone directory, to those who are interested in selling the services to the business community, particularly rural industry operators. The information will be like a business directory, listed in an easy-to-understand and categorized manner with cross-indexing. Rural industries can put up the advertisements so that other business operators can contact them, e.g. for buying their products or selling products of others. Rural industry operators can access the information through a computer located at the business centre in the community. If the rural industry operator is interested in more information or in contacting the source of information, he can do so via telephone, fax, e-mail or postal mail system.

The system can also be used to disseminate any announcements from the government on the information that the rural industry operators or local level of authorities should have for their operations.

The costs for the business centres, i.e. nodes, are subscription fees for connection to Internet services, which should be covered from user fees. The costs of the central office are not excessively high but are substantial and should not be ignored. The costs should be recovered from advertising fees from those who wish to put up company information on the directory. Charging fees to the users of the nodes is not possible since Internet is accessible by any party. Restriction at the node may reduce the number of users, and may negatively affect the promotional objectives.

The role of the central office is to increase the sale of the Internet space, e.g. advertising sites, to as many potential business partners of rural industries as possible, make the presentation of the advertisement, i.e. business information, as attractive as possible in order to increase the users’ interest and use, and keep the system going.

The business centres would be operated by any of the rural institutions in the public or private sector, and assist the rural industry operators and other users who are not familiar with the Internet system and the information system in utilizing the system to establish business contacts.

The system could be established as a joint venture with already existing operators or alone. Effectiveness of the system would be affected by the degree of demand oriented contents and the marketing management of the central office, attractiveness of the website and accessibility of rural and other business operators to computers, the spread of which would be facilitated by the establishment of business centres throughout the country.

Activities

- 1) Develop a detailed concept on internet and business centre based business information network, including contents concept, management system, nodes development plan and financial plan;
- 2) Obtain agreement from the appropriate authorities on the business information system concept plan;
- 3) Develop an implementation plan for the establishment of the business information system;
- 4) Develop a market focused business plan for the business information system;
- 5) Develop a website for the business information system that is appropriate for the information needs of rural industries, and rural enterprises in general;
- 6) Obtain funding for information equipment such as computers, telephone and fax and associated equipment from such sources as the Vietnamese authorities, private sector and external aid agencies;
- 7) Establish a pilot business information system including the central office and rural business centres in selected locations, including the training of staff;
- 8) Evaluate the performance and carry out fund raising campaigns, and
- 9) Depending on fund raising results, expand the system to other rural areas including the training of staff.

ANNEXES

ANNEX 1: Definitions

There are several definitions in place referring to kinds of enterprises, which differ amongst sources and purpose of the definition.

Legal Definitions

Foreign enterprise	An enterprise incorporated in accordance with the Law on Foreign Investment. Does sometimes, in some statistics, also include joint ventures with State-owned enterprises.
State-owned enterprise	An enterprise owned by the State and incorporated in accordance with the Law on State-owned Enterprises. Does sometimes, in some statistics, also include joint ventures with foreign enterprises. There is also a special type of State-owned enterprises classified as State-owned Corporation, which operates very much like a holding company.
Limited liability enterprises, Share-holding company, and Sole proprietorship enterprise	Limited liability companies, share-holding (or joint stock) companies and sole proprietorship enterprises (the latter in English translations of legal texts referred to as just “private enterprises”) incorporated under the Companies Law and the Law on Private Enterprises. Minimum legal capital for a sole proprietorship enterprise is 150 million dong in agriculture, 300 million dong in industry and construction, and 250 million dong in trade and services. Minimum capital requirements for limited liability companies and share-holding companies are higher. Incorporated enterprises require approval by the Provincial People’s Committees and sometimes by higher level authorities.
Households enterprise	Household enterprises carrying out predominantly non-farm business and having received a business license by the District People’s Committee in accordance with Decree 66-HDBT (1992) and normally having less capital than the minimum capital required for a sole proprietorship enterprise. The application for a business license has to be certified by the Commune People’s Committee. The business license is valid for one year at a time and limits the household enterprise to carry on business within that particular district only.
Cooperative	An enterprise incorporated in accordance with the Law on Cooperatives.

Definitions in the MARD Non-farm Survey 1998

Non-State enterprise	Refers to the entities defined legally as cooperatives or incorporated private domestic enterprises.
Non-farm household	A household with at least 80% of income or employment derived from non-farm activities. Would normally be a household enterprise according to Decree 66-HDBT. Referred to as “non-farm household enterprise” in the main text of the report.
Mixed-type household	A household with 20-80% of income or employment derived from non-farm activities. Some of these may be household enterprises according to Decree 66-HDBT, but most of them not (a certain discretion can be applied at district and commune level).
Farm household	A household with maximum 20% of income or employment from non-farm activities. Not registered for any business purpose.
MOLISA	
Informal	Refers in some MOLISA statistics to household enterprises with a business license according to Decree 66-HDBT (e.g. Table 6 of the report).
Office of the Government	
SME	In Decision No. 681/CP-KTN dated 20 June 1998 an SME is defined as an incorporated enterprise with less than 5 billion dong in capital and employing less than 200 persons.

Definition of Other Concepts used in the Report

Micro-enterprise	Only indicative, typically less than 5 employees.
Small enterprise	Only indicative, typically 5-25/50 employees.
Medium-sized enterprise	Only indicative, typically 25/50-300/500 employees.
MSE	Micro-enterprises and small enterprises in less organized form and normally without capacity for exports.
SME	Small and medium-sized enterprises in somewhat more organized form and with some capacity or potential for exports.
Rural	Includes also rural towns.
Regional	Refers to the seven regions as defined in GSO statistics or in the context “regional balance” to the balance between the three Triangle Zones and the rest of the country or amongst provinces – whichever should be clear from the context in which the word “regional” is used.
Production unit	Refers to any kind of entity, independent of legal form or size, carrying out manufacturing activities.

Definition of Rural Industry

There is no universal standard definition for “rural industries”. The authorities should decide the definition of the type of rural industries according to their policy objectives as required for implementation.

“Rural industries” are the industrial enterprises located in rural areas. A narrow definition of “industries” is those economic activities classified as “manufacturing” according to International Standard Industrial Classification (ISIC). See below.

“Rural area” does not have a standard definition either. Urban-rural classification of population in internationally published statistics follows the national census definition, which differs from one country or area to another. National definitions are usually based on criteria that may include any of the following: size of population in a locality, population density, distance between built-up areas, predominant type of economic activity, legal or administrative boundaries and urban characteristics such as specific services and facilities. (Technical note of Population Division of the United Nations Secretariat, *World Urbanization Prospects: The 1998 Revision*, United Nations publication, forthcoming). The United Nations Centre for Human Settlement

(HABITAT) states in its technical notes on statistics that “rural and urban definitions vary considerably from country to country”, and “urban” is defined in the national context (the definitions of urban are generally the national definitions incorporated in the latest available census)”.

Often, “rural areas”, compared to “urban areas”, have less access to various physical infrastructures such as road networks, electricity, drinking water supply, sewage, telecommunication, transport etc. Some countries have an administrative definition for rural and urban areas. It is not possible to draw a clear line between rural and urban areas. The outskirts of urban areas could be called “suburban areas” with mixed characteristics of rural and urban areas.

“Rural area” is often defined according to a particular policy context by respective authorities at each situation in different countries by characterization. In this study, the rural areas are considered in relation to the more developed areas, which have more urban characteristics by recognizing that there are areas with overall characteristics which are lagging behind compared to “urban areas”.

Explanatory note on manufacturing sector from ISIC, revision 3

Manufacturing is defined here as the physical or chemical transformation of materials or components into new products, whether the work is performed by power-driven machines or by hand, whether it is done in a factory or in the worker's home, and whether the products are sold at wholesale or retail.

Assembly of the component parts of manufactured products is considered as manufacturing, except in cases where the activity is appropriately classified in any class of division 45 (Construction). Assembly on the site of prefabricated, integral parts into bridges, water tanks, storage and warehouse facilities, railroad and elevated rights-of-way, lifts and escalators, plumbing, sprinklers, central heating, ventilation and air conditioning, lighting and electrical wiring, etc., systems of buildings, and all kinds of structures, are classified as Construction. Assembly and installation of machinery and equipment in mining, manufacturing, commercial or other establishments, when carried out as a specialized activity, is classified in the same class of manufacturing as manufacture of the item installed. Assembly and installation of machinery and equipment that is performed as a service incidental to the sale of the goods by a unit primarily engaged in manufacturing, wholesale trade or retail trade, is classified with its main activity.

Activities of units primarily engaged in maintenance and repair of industrial, commercial and similar machinery and equipment are, in general, classified in the same class of manufacturing as those specializing in manufacturing the goods. However, units engaged in the repair of office and computing machinery are classified in class 7250. Units of which the main activity is repair of household appliances, equipment and furnishings, motor vehicles and other consumer goods are, as a general rule, classified in the appropriate class of division 50 (Sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel) or 52 (Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods) in accordance with the kind of goods which are repaired. Substantial alteration, renovation or reconstruction of goods is generally considered to be manufacturing.

Manufacture of specialized components and parts of, and accessories and attachments to, machinery and equipment is, as a general rule, classified in the same class as the manufacture of the machinery and equipment for which the parts and accessories are intended. However, making specialized components and accessories by moulding or extruding plastics materials is included in class 2520 (Manufacture of plastics products). Manufacture of unspecialized components and parts of machinery and equipment, e.g. engines, pistons, electric motors, electrical assemblies, valves, gears, roller bearings, is classified in the appropriate class of manufacturing, without regard to the machinery and equipment in which these items may be included.

Also included is the recycling of waste materials.

ANNEX 2: Some Methodological Aspects of the MARD Survey on Non-farm Activities 1998

The survey was carried out during 1997. Units to be surveyed were selected from all 7 regions of Vietnam covering 9 provinces, 27 districts and 81 communes. At district and commune level the districts and communes were selected so as to be “representative” for the provinces and districts, respectively (thus no random sample).

At commune level, stratified random sampling was used to select units to be surveyed. Units surveyed covered State-owned and Non State-owned establishments being, or belonging to, a registered enterprise; non-farm households (exclusively or with more than 80% of household income or employment referring to non-farm activities); mixed-type households (with 20-80 % of households income or employment referring to non-farm activities); and agricultural households (exclusively involved in agriculture, including fishery and forestry, or with less than 20 % of income or employment referring to agricultural activities). Number of surveyed units and estimated statistical population were as follows:

Type of Surveyed Unit	Units Surveyed (number)	Estimated Statistical Population (number) <u>f/</u>
Registered establishments <u>a/</u>		
- industry and construction	<u>798</u>	
- services	571	50,451 <u>b/</u>
	227	
Non-farm households		
- industry and construction	<u>1,583</u>	
- services	912	483,000 <u>c/</u>
	671	
Mixed-type households		
- industry and construction	<u>2,447</u>	
- services	1,220	2,000,000 <u>d/</u>
	1,207	
Agricultural households	<u>856</u>	
		9,000,000 <u>e/</u>
Total units surveyed	5,648	

a/ One registered enterprise can have several establishments. The concept of “registered” is however not quite clear.

b/ GSO Statistical Yearbook 1997.

c/ MOLISA, Status of Labour – Employment in Vietnam 1997.

d/ Study team estimate.

e/ Calculated based on MOLISA 1997 and VLSS 1992/93.

f/ Total number of units in the country.

According to MARD, more or less all registered establishments were surveyed in the 81 communes covered. In summary, however, it is not possible to statistically express the representativeness of the survey sample.

The percentage of non-responses was negligible, but for some specific questions a few responses could not be processed.

Amongst the registered establishments involved in industry and construction, out of 571 surveyed establishments there were 63 SOE establishments and 508 Non-SOE establishments (no foreign enterprises were included).

The responses from the units involved in industry and construction were distributed as follows according to manufacturing sub-sector and construction:

Type of economic sector	Registered Establishments		Non-farm Households		Mixed-typed Households		Total	
	Number	%	Number	%	Number	%	Number	%
Food & foodstuff processing	142	28	255	35	460	37	857	35
Wood processing	106	21	112	16	134	11	352	14
Other agro-products processing	50	10	56	8	267	22	373	15
Mechanical Engineering	32	6	120	17	44	4	196	8
Textiles and Garments	22	4	85	12	198	16	305	12
Construction material	110	21	61	8	69	6	240	10
Handicraft	21	4	22	3	17	1	60	2
Construction	29	6	8	1	47	4	84	3
Total a/ b/	512	100	719	100	1,236	100	2,467	100

a/ Numbers do not add up to 100% due to round-offs. b/ Total number on previous page of units in this computation differs from those in the entire survey presented.

The GSO does not have readily available statistics on the number of enterprises by manufacturing sub-sectors. However, the above structure of the number of manufacturing units (thus excluding construction) can be compared with the structure of gross industrial output by manufacturing subsectors in GSO Statistical Yearbook 1997, which provides the following result:

Type of Manufacturing sub-sector	MARD Survey (Percent)	GSO (Percent)
Food & foodstuff processing	36	31
Wood processing	15	3
Other agro-products processing	16	14
Mechanical engineering	8	12
Textiles and garments	13	10
Construction material	10	10
Handicraft	3	-
Others	-	20
Total	100	100

There appears to be a fairly good consistency between the structures, and the differences seem reasonable in the light of the fact that the MARD Survey covers rural industries only, whereas the GSO statistics cover all industries in the country. This comparison therefore provides some support to the MARD survey's representativeness for rural industries in the whole country. In addition, qualified enumerators from GSO provided with specific training for this survey were used in order to ensure consistent questions and interpretation of the responses.

ANNEX 3: List of Provinces, Districts and Communes and Their Key Characteristics Included in the Field Survey

	North(N) Central (C) South (S)	Mountainous (M) Delta (D) Coastal (C)	Natural Resources	Natural Calamities Typhoon (T) Flood (F) Drought (D)	Infrastructure Good (G) Fair (F) Medium (M) Poor (P)	Share of Poor Households High (H) Medium (M) Low (L)	Non-farm Activities Good (G) Medium (M) Poor (P)
1. Province Yen Bai District Yen Chan Commune Phu Nhan Commune Suoi Giang Commune Son Tinh	N	M M D M D	Land, Coal Land, Forest Land	F, D F, D F, D	M P M	M H M	M P M
2. Province Ninh Binh District Hoa Lu Commune Ninh Hai Commune Ninh Thang District Kim Son Commune Minh Chinh Commune Yen Lap	N	D D, M D, M D D, C D D	Land, Mountain Land Land Land	T, F T, F T, F T, F	F F F F	L M L H	G M G P
3. Province Ha Tinh District Thach Ha Commune Thach Dong Commune Thach Kim District Huong Son Commune Son Tinh	C	D, C D D, C D, M M	Land Land, Sea Land, Forest	T, D T, D T, F, D	F M P	M M H	M M M
4. Province Lam Dong District Duc Trong Commune Lien Nghia Commune Da Loan	C	M D, M M	Land Land	F, D F, D	M P	L H	G P
5. Province Soc Trang District Long Phu Commune Dai Ngai District My Xuyen Commune Vien An	S	D, C D, C D D D	Land, Sea Land	T, F T, F	P M	M H	M P

ANNEX 4: List of Production Units and Their Key Characteristics Included in the Field Survey

<i>Province, District and Commune</i>	<i>Rural Industrial Households and Establishments</i>	
	<i>Occupation</i>	<i>Number of Permanent labourers</i>
<p>1. Yen Bai Province (Oct. 5-8, 1998)</p> <ul style="list-style-type: none"> - PDARD, PDOI, PDPI, PBARD - Van Chan District + Phu Nham Commune <p>PE Suoi Bac Exploiting coal 23</p> <p>MTH Mr. Quang Van Binh Producing lime 3</p> <p>IHH Mr. Nguyen Van Dung Producing brick 16</p> <p>MTH Mr. Thanh Husking rice 3</p> <ul style="list-style-type: none"> + Suoi Giang Commune <p>MTH Mr. Mang Textile 1</p> <p>SOE Tea Processing Processing green tea 30</p> <ul style="list-style-type: none"> + Son Tinh Commune <p>MTH Mr. Le Xuan Cao Processing Longan 2</p> <ul style="list-style-type: none"> + Surrounding of Nghia Lo & Yen Bai <p>MTH Mr. Mai Van Can Traditional medicines 2</p> <p>MTH Mrs. Dinh Thi Men Textile 2</p> <p>IHH Mrs. Dao Thi Nhai Textile, making blankets 4</p> <p>SOE Tea Processing Yen Binh Processing tea 110</p>		
<p>2. Ninh Binh Province (Oct. 12-14, 1998)</p> <ul style="list-style-type: none"> - PPC, PDARD, PDOI, PDPI, PBARD - Hoa Lu District + Ninh Hai Commune <p>PU Dong Tam Embroidery & Lace 22</p> <p>IHH Mr. Chu Duc Luong Embroidery & Lace 3</p> <ul style="list-style-type: none"> + Ninh Thang Commune <p>IHH Mr. Nguyen Cong Cay Embroidery, Processing wood, Husking rice, etc. 5</p> <p>MTH Mr. Nguyen Van Cuong Transportation 1</p> <ul style="list-style-type: none"> + Ninh Van Commune <p>PU Mr. Pham Ngoc Hoan Carving stone 20</p> <p>MTH Mr. Do Duc Thinh Carving stone 4</p> <p>IHH Mr. Do Quang Binh Carving stone 10</p> <ul style="list-style-type: none"> + Ninh Phong Commune <p>IHH Mr. Pham Van Hung Processing wood 6</p> <ul style="list-style-type: none"> - Kim Son District + Minh Chinh Commune <p>MTH Mr. Hoang Tien Processing rush 5</p> <p>PE Xuan Hoa Processing rush 40</p> <ul style="list-style-type: none"> + Yen Lap Commune <p>MTH Mr. Dau Producing rush mats 2</p> <ul style="list-style-type: none"> + Luu Phuong Commune <p>IHH Mr. Nguyen Duc Thinh Mechanical engineering 8</p> <p>MTH Mr. Pham Huu Chinh Processing wood 2</p>		

<p>3. Ha Tinh Province (Nov. 2-5, 1998) - PPC, PDARD, PDOI, PDPI, PBARD - Thach Ha District + Thach Dong Commune IHC Tan Tien MTH Tran Han Dinh IHH Mr. Duong Hai Duong + Thach Kim Commune IHC Doan Ket PE Mrs. Van Thi Van - Huong Son District + Son Tinh Commune MTH Mr. Nguyen Nguyet MTH Mr. Le Thang + Huong Son Townlet IHH Mr. Thanh PE Mr. Tu Dang Khoa</p>	<p>Recycling cotton Weaving towel Producing blanket Processing sea products Processing sea products Producing bamboo baskets Producing & trading bamboo products Processing wood Processing wood</p>	<p>35 4 13 14 8 3 3 6 15</p>
<p>4. Lam Dong Province (Oct. 19-22, 1998) - PPC, PDARD, PDOI, PDPI, PBARD - Duc Trong District + Lien Nghia Commune IHH Mrs. Phang Thi Xuan IHH Mr. Pham Duoc IHH Mrs. Van Phap IHH Mr. Nguyen Tuan Nhu IHH Mr. Tran Dinh Huong PE Tan Phat Garage PU Mr. Dang Van Phong + Da Loan Commune MTH Mr. La Viet Nguyen MTH Mr. Nguyen Van Trung</p>	<p>Processing noodles Mechanical engineering Textiles Processing sugar Mechanical engineering Assembling small trucks Processing wood Producing ice, popcorn Processing rice noodles</p>	<p>6 10 5 15 4 12 15 2 2</p>
<p>5. Soc Trang Province (Oct. 23-26, 1998) - PPC, PDARD, PDOI, PDPI, PBARD - Long Phu District + Dai Ngai Commune IHH Mr. Nguyen Huu Phuoc IHH Mr. Ut Thanh IHC Hiep Hoa Ltd. Co. Hong Hung IHH Mr. Truong Thanh Diem IHH Mr. Nguyen Van Bay - My Xuyen District + Vien An Commune MTH Mr. Kim Seng PE Duc Thanh</p>	<p>Mechanical engineering Processing sugar Processing sugar Producing ice Drying and husking rice Producing bread Producing rush mats Milling rice</p>	<p>7 24 175 4 10 8 3 10</p>

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Table 21. Number of “Occupational” Communes and Villages by Region, Kind of Occupation and Number of Households Involved

Table 1. Statistics on 7 Regions of Vietnam in 1996

Region	Population		Average Monthly Income per Capita (000 dong)	Ratio 20% Highest to 20% Lowest Income Groups	Gross Output per Capita from Agriculture (000 dong)	Per Capita (000 dong)	Average Annual increase 1991-1996 (Percent)	Gross Industrial Output			Region's Share of Total (Percent)
	Total (000 Persons)	Percent Rural Pop.						Share of (Percent)			
								State Owned Enterprises	Non-State Owned Enterprises	Foreign Owned Enterprises	
Red River Delta	14,698	81	223	6.55	1,224	1,741	17	53.0	25.7	21.3	16.4
Northern Uplands	13,019	86	174	6.07	884	862	16	76.7	15.2	8.0	7.5
North Central Coast	10,196	89	174	5.93	851	467	9	60.5	34.4	5.0	3.2
South Central Coast	7,947	77	195	5.67	650	875	10	56.7	33.9	9.4	4.7
Central Highland	3,315	77	266	12.84	1,417	340	21	40.2	58.1	1.8	0.8
South East	9,870	52	339	7.88	1,252	7,692	16	38.8	19.8	41.4	50.8
Mekong River Delta	16,619	84	222	6.44	1,901	1,005	8	45.9	47.5	6.5	11.2
Not Classified	---	---	---	---	---	---	---	100.0	---	---	5.4
Whole Country	75,664	79	227	7.31	1,216	1,974	15	49.6	23.9	26.5	100

Source: GSO Statistical Yearbook 1996 and 1997, GSO and calculations by the study team.

Table 2. Shares of Gross Industrial Output by the Three Triangle Zones and by Ownership Groups in 1996 (Percent)

Triangle Zones/Regions	Total	State-Owned	Non-State Owned	Foreign Owned
Hanoi - Hai Phong - Hai Duong - Quang Ninh	15.1	20.3	7.9	12.3
HCMC - Binh Duong - Dong Nai - Ba Ria Vung Tau	49.2	38.4	38.5	78.6
Da Nang - Quang Nam - Quang Ngai	2.4	2.2	3.3	1.4
Other regions	33.3	39.1	50.3	7.7
Total	100.0	100.0	100.0	100.0

Sources: GSO Statistical Yearbook 1997 and study team calculations.

Table 3. Shares and Growth Rates of Urban Population in Selected Countries for Selected Years (Percent)

Country	Shares of Urban Population			Growth Rates of Urban Population		
	1975	1985	1996	1970-75	1980-85	1991-96
China PR	17.3	22.5	31.1	2.0	4.2	3.9
Indonesia	19.4	26.1	36.3	4.9	5.3	4.4
Laos	11.4	15.9	22.3	5.5	5.6	6.0
Malaysia	37.7	45.9	54.4	4.8	4.4	3.8
Philippines	35.6	43.0	55.1	4.2	5.2	4.1
Taiwan (China)	43.9	50.7	-	5.0	3.5	-
Thailand	15.1	17.9	20.4	5.5	2.8	2.6
Vietnam a/	20.6	19.0	20.3	-0.1	0.0	0.0

Sources: GSO Statistical Yearbook 1997.

a/ For Vietnam 1976 instead of 1975 and 1979-85 instead of 1980-85.

Table 4. Labour Force and Employment in Industry and Construction by 7 Regions in 1997

Region	Labour Force (000 Persons)	Economically Active Population (000 Persons)	Economically Active Population in Industry and Construction			
			Total (000 Persons)	Percent of Total EAP	Urban Share (Percent)	Rural Share (Percent)
Red River Delta	7,433	6,946	721	10.4	36	64
Northern Uplands	6,455	6,314	284	4.5	60	40
North Central Coast	4,685	4,489	318	7.1	22	78
South Central Coast	3,776	3,590	371	10.3	43	57
Central Highlands	1,453	1,428	62	4.3	59	41
South East	4,614	4,391	1,038	23.6	65	35
Mekong River Delta	7,880	7,559	681	9.0	28	72
Whole Country	36,297	34,716	3,476	10.0	45	55

Source: MOLISA, Status of Labour-Employment in Vietnam 1997.

Footnote: Economically active population refers to those having been economically active at least 183 days during the last 12 months preceding the survey.

Table 5. Profile of Underemployment and Unemployment of Economically Active Population (EAP) a/

Region	Economically Active Population				Underemployment (Percent) of:										Urban employment (Percent) b/	
	Total 000 Persons	Urban Percent	Rural Percent	Total EAP	Urban EAP	Rural EAP	Female EAP	Total EAP in:			Rural EAP in:			Total	Female	
								Agriculture	Industry & Construction	Services	Agriculture	Industry & Construction	Services			
Red River Delta	6,946	18	82	29	22	31	25	35	18	20	35	17	18	7.3	5.6	
Northern Uplands	6,314	13	87	21	23	21	19	22	17	21	22	16	16	6.1	4.7	
North Central Coast	4,489	10	90	29	22	30	25	32	18	21	32	18	21	6.4	4.5	
South Central Coast	3,590	22	78	28	19	31	26	34	19	19	34	22	20	5.2	5.5	
Central Highlands	1,428	23	77	15	16	14	13	15	18	12	14	16	10	4.8	4.3	
South East	4,391	47	53	17	11	22	15	27	9	14	28	11	16	5.8	5.8	
Mekong River Delta	7,559	15	85	25	15	27	24	31	20	14	31	21	16	4.6	4.8	
Whole Country	34,716	20	80	25	17	26	22	29	16	17	29	17	17	5.8	5.3	

Source: MOLISA, Status of Labour-Employment in Vietnam 1997 and calculations by the study team.

Table 6. Employment Situation in the Informal Sector in Rural Areas

Region	Number of Heads of Household Business or Self-employed (000 Persons)	Share of Total Number of Households (Percent)	Number of Employees (Percent) a/			Estimated Total Employees (Persons)
			< 5	5 - 10	> 10	
Red River Delta	27	0.98	84	8	8	
Northern Uplands	9	0.43	90	4	6	
North Central Coast	25	1.30	87	9	4	
South Central Coast	19	1.48	77	11	12	
Central Highlands	41	8.85	97	3	-	
South East	40	3.79	76	19	7	
Mekong River Delta	328	11.93	93	5	2	
Whole Country	483	3.96	90	7	3	1,300,000

Source: MOLISA, Status of Labour-Employment in Vietnam 1997 and calculations by the study team.

Table 7. Registered Business Owners by 7 Region in 1997

Region	Registered Business Owners		
	Number of Persons	Urban Share (Percent)	Rural Share (Percent)
Red River Delta	10,749	56	44
Northern Uplands	3,168	42	58
North Central Coast	1,540	49	51
South Central Coast	4,530	45	55
Central Highlands	666	82	18
South East	17,001	73	27
Mekong River Delta	12,953	37	63
Whole Country	50,607	55	45

Source: MOLISA, Status of Labour-Employment in Vietnam 1997.

Table 8. Economically Active Population Having Received Training (000 Persons) in the Last 12 Months in Selected Fields

Field	Vocational Technical Training			Technical Secondary Education			University/College Education		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
Total number trained in all fields	1,590	891	700	1,380	612	768	911	638	273
Mechanical engineering	232	147	85	60	33	27	24	21	3
Electricity/electronics	41	22	19	78	46	32	30	24	6
Construction engineering	140	58	82	64	29	35	26	19	7
Tailoring/textiles	312	174	138	NA	NA	NA	2	2	0
Carpentry	115	37	78	NA	NA	NA	NA	NA	NA
Agro-processing, food technology	11	5	6	20	12	8	4	3	1

Source: MOLISA, Status of Labour-Employment in Vietnam 1997 and study team calculations.

Table 9. Selected Data on Rural Industrial Production and Construction Units by Category of Production Unit in 1997

Selected Data	Unit	SOE Establishments		Non-SOE Establishments		Non-farm Households	Mixed-type Households a/
		Agro-processing	Other Industry and Construction	Agro-processing	Other Industry and Construction		
Number of establishments in the survey	Number	33	30	284	224	912	1,240
Number of permanent employees b/	Number/unit	44	107	22	27	3	3
Whereof female	Percent	27	52	46	48	43	48
Monthly salaries/wages per employee	Thousand dong	441	277	263	288	365	303
Average gross output	Million dong	13,977	2,823	945	851	124	60
Total capital/unit	Million dong	3,546	2,904	292	428	23	11
Total capital/employee	Million dong	81	27	13	16	8	4
Value of production means/employee	Million dong c/	19	7	4	4	6	3
Value added per employee	Million dong	53.1	10.5	7.4	7.0	6.6	4.6
Start-up from 1989 onwards	% of all units	49	30	84	77	-	-
Start-up from 1993 onwards	% of all units	18	27	50	55	-	-
Area of facilities/employee	m2	187	206	51	107	18	22
Insufficient electricity supply	% of all units	3	3	15	19	3	3
Insufficient water supply	% of all units	-	-	-	-	18	20
Borrowed capital/unit	Million dong	1,358	2,356	82	204	8	5

Source: MARDD Non-farm Survey 1998 and calculations by the study team.

a/ Includes also services.

b/ Includes the owner/head of households.

c/ Includes equipment, tools, instruments etc. and buildings (but not land use rights) valued at current value.

Table 10. Profit & Loss (P&L) Statement of Rural State-owned Enterprises in Agro-products Processing in the North of Vietnam

Revenue / Cost Item	MARD Survey		Revised P & L Statement a/	
	Million Dong	Percent	Million Dong	Percent
Total Revenues	1,836	100.0		100.0
Operational Costs	1,621	88.3		
- raw materials	1,277	69.6		
- labour	165	9.0		
- energy	83	4.5		
- marketing	1	0.0		
- administration	56	3.0		
- others	39	2.1		
Profit before Financial Costs and Tax	215	11.7	215	11.7
Financial Costs	113	6.2	469	25.5
- depreciation	63	3.4	370	20.2
- interest (10.1 % annually)	50	2.8	99	5.3
Profit before tax	102	5.5	-254	-13.8
Tax (100 %)	102	5.5		
Net Profit	0	0.0		
Social Contribution to Employees?				
<u>Memo Items</u>				
Equity (fixed capital)	1,112			
Total capital	1,504			
Borrowed capital	495			
Present value buildings/equipment	616			
Estimated replacement value of buildings/equipment	2,464			
Debt/equity ratio b/	45%			
Profit before tax on equity	0%		-23 %	
Profit before tax on total capital	0%		-17 %	
Monthly salaries/wages per employee (dong)	251,000			
Value added per employee	7.9			

Source: Data from MARD Non-farm Survey 1998 and calculations by the study team.

a/ In the revised profit & loss statement, interest has been assumed at 20 % per annum on borrowed capital. The estimated replacement value of buildings and equipment has been estimated at 4 times the present value (60 % of the units were established before 1989 and 40 % before 1981) and depreciation calculated at 15 % of the replacement value.

b/ Includes only borrowed capital, not other external financing sources such as suppliers' credits.

Table 11. Profit & Loss (P&L) Statement of Rural State-owned Enterprises in Industry and Construction in the Whole Country

Revenue / Cost Item	MARD Survey		Revised P & L Statement a/	
	Million Dong	Percent	Million Dong	Percent
Total Revenues	2,823	100.0		100.0
Operational Costs	2,136	75.7		
- raw materials	945	33.5		
- labour	356	12.6		
- energy	346	12.2		
- marketing	11	0.4		
- administration	171	6.1		
- others	307	10.9		
Profit before financial costs and tax	687	24.3	687	24.3
Financial Costs	388	13.7	931	33.0
- depreciation	184	6.5	460	16.3
- interest (8.7 % annually)	204	7.2	471	16.7
Profit before tax	299	10.6	-244	-8.6
Tax (66.2 %)	198	7.0		
Net Profit	101	3.6		
Social Contrib. to Employees?				
<u>Memo Items</u>				
Equity (fixed capital)	1,599			
Total capital	2,904			
Borrowed capital	2,356			
Present value buildings/equipment	766			
Estimated replacement value of buildings/equipment	3,064			
Debt/equity ratio b/	147%			
Profit before tax on equity	19%		-15%	
Profit before tax on total capital	10%		-8%	
Monthly salaries/wages per employee (dong)	277,000			
Value added per employee	10.5			

Source: Data from MARD Non-farm Survey 1998 and calculations by the study team.

a/ In the revised profit & loss statement, interest has been assumed at 20 % per annum on borrowed capital. The estimated replacement value of buildings and equipment has been estimated at 4 times the present value (69 % of the units were established before 1989 and 53 % before 1981) and depreciation calculated at 15 % of the replacement value.

b/ Includes only borrowed capital, not other external financing sources such as suppliers' credits.

Table 12. Profit & Loss (P&L) Statement of Rural Non-State Enterprises in Agro-products Processing in the Whole Country

Revenue / Cost Item	MARD Survey		Revised P & L Statement a/	
	Million Dong	Percent	Million Dong	Percent
Total Revenues	945	100.0		100.0
Operational Costs	857	90.7		
- raw materials	735	77.8		
- labour	69	7.3		
- energy	33	3.5		
- marketing	1	0.1		
- administration	5	0.5		
- others	14	1.5		
Profit before Financial				
Costs and Tax	88	9.3	88	9.3
Financial Costs	14	1.5	40	4.2
- depreciation	10	1.1	24	2.5
- interest (4.9 % annually)	4	0.4	16	1.7
Profit before tax	74	7.8	48	5.1
Tax (18.9 %)	14	1.5		
Net Profit	60	6.3		
Social Contrib. to Employees?				
<u>Memo Items</u>				
Equity (fixed capital)	173			
Total capital	292			
Borrowed capital	82			
Present value buildings/equipment	81			
Estimated replacement value				
of buildings/equipment	162			
Debt/equity ratio b/	47%			
Profit before tax on equity	43%		27%	
Profit before tax on total capital	25%		16%	
Monthly salaries/wages per				
employee (dong)	263,000			
Value added per employee	7.4			

Source: Data from MARD Non-farm Survey 1998 and calculations by the study team.

a/ In the revised profit & loss statement interest has been assumed at 20 % per annum on borrowed capital. The estimated replacement value of buildings and equipment has been estimated at 2 times the present value (84 % of the units were established in 1989 or later) and depreciation calculated at 15 % of the replacement value.

b/ Includes only borrowed capital, not other external financing sources such as suppliers' credits.

Table 13. Profit & Loss (P&L) Statement of Rural Non-State Enterprises in Industry and Construction in the Whole Country

Revenue / Cost Item	MARD Survey		Revised P & L Statement a/	
	Million Dong	Percent	Million Dong	Percent
Total Revenues	851	100.0		100.0
Operational Costs	766	90.0		
- raw materials	608	71.4		
- labour	95	11.2		
- energy	36	4.2		
- marketing	1	0.1		
- administration	8	0.9		
- others	18	2.1		
Profit before Financial Costs and Tax	85	10.0	85	10.0
Financial Costs	24	2.8	75	8.8
- depreciation	15	1.8	34	4.0
- interest (4.4 % annually)	9	1.0	41	4.8
Profit before tax	61	7.2		
Tax (24.6 %)	15	1.8		
Net Profit	46	5.4		
Social Contribution to Employees?				
<u>Memo Items</u>				
Equity (fixed capital)	232		232	
Total capital	428		428	
Borrowed capital	204		204	
Present value buildings/equipment	114		114	
Estimated replacement value of buildings/equipment	228		228	
Debt/equity ratio b/	98%			
Profit before tax on equity	26%		4%	
Profit before tax on total capital	14%		2%	
Monthly salaries/wages per employee (dong)	288,000			
Value added per employee	7.0			

Source: Data from MARD Non-farm Survey 1998 and calculations by the study team.

a/ In the revised profit & loss statement interest has been assumed at 20 % per annum on borrowed capital. The estimated replacement value of buildings and equipment has been estimated at 2 times the present value (77% of the units were established in 1989 or later) and depreciation calculated at 15 % of the replacement value.

b/ Includes only borrowed capital, not other external financing sources such as suppliers' credits.

Table 14. Constraints Perceived by Surveyed Units

Type of Constraints	Share (percent) of Surveyed Units Facing Constraints by Main Type of Constraint a/			
	SOE Establishments	Non-SOE Establishments	Non-farm Households Units	Mixed-type Households Units
Any kind of constraint	93	85	74	70
By type of constraint:				
Lack of capital	80	76	74	77
Inadequate equipment	21	15	18	18
Poor facilities	12	22	24	14
Inadequate management capacity	6	9	6	8
Obsolete technology	31	22	14	11
Inadequate support services	19	9	7	10
Poor marketing	9	12	9	11
Low products prices	23	13	11	21
Lack of skilled workers	4	5	5	4
High taxes	25	33	20	10
Local authorities	2	2	--	1
Poor infrastructure	16	13	15	18
Raw material supply	13	20	10	21
Security problems	3	3	1	1

Source: Based on data by MARD Non-farm Survey 1998.

a/ Includes in addition to industry and construction also wholesale and retail trade, restaurants, repair and transportation services.

Table 15. Recommendations by Heads of Surveyed Units

Type of Recommendation	Share (percent) of Surveyed Units Providing Recommendations by Main type of Recommendation a/			
	SOE and Non-SOE Establishments	Non-farm Household Units	Mixed-type Household Units	Agriculture Household Units
Share (percent) having plans for further development and new products	50	25	20	9
Any kind of recommendation	92	93	96	98
By type of recommendation:				
Credit	77	73	70	67
Training	15	8	5	3
Business extension services	12	16	14	19
Raw material supplies	14	7	9	10
Marketing services	38	14	10	2
Protection of traditional occupations	6	27	23	14
Protection of agro-product prices	25	10	54	72
Upgrading of infrastructure	10	30	24	22
Policies for promotion of non-farm act.	42	30	18	17
Technology transfer	-	5	13	26

Source: Based on data by MARD Non-farm Survey 1998.

a/ Includes in addition to industry and construction also wholesale and retail trade, restaurants, repair and transportation services.

Table 16. Forward Linkages and Marketing a/

	SOE Establishments		Non-SOE Establishments		Non-farm Household Units	Mixed-type Household Units
	Agro-products Processing	Other Industry and Construction	Agro-products Processing	Other Industry and Construction		
Sales (percent) by market:						
Domestic, within province	47	66	75	78	93	93
Domestic, outside province	27	20	19	17	7	7
Exports	26	14	6	6	-	-
Total	100	100	100	100	100	100
Share (percent) of units carrying out marketing	58	30	29	30		
By means of (percent of those carrying out marketing)						
Advertising	74	89	16	24		
Local exhibitions	5	33	9	10		
International exhibitions	-	11	4	3		
Through formal market channels (agents, traders)	58	67	33	37		
Through informal business partners and friends	47	33	87	81		
Share of units having business relations with urban industries	27	30	11	12		

Source: Based on data by MARD Non-farm Survey 1998.

a/ Percentage shares may not add to 100% due to round-offs.

Table 17. Government Public Investment Programme 1996-2000 Prepared in 1996 and Revised in October 1998

Sector	State Investment (Trillion Dong)	SOE Investment			State Investment plus SOE Investment (Public Investment)		Public Investment a/		Public Investment Revised Oct. 1998 (Percent)	Public Investment 1999-2000 (Percent)
		Total (Trillion Dong)	of which State Credits (Trillion Dong)	Trillion Dong	Percent	Trillion Dong	Percent			
Industry and energy	1.9	65.0	27.0	66.9	28.0	28.9	16.6	28.0	45.0	
Agriculture	21.9	42.9	22.5	64.8	27.1	44.4	25.6	25.2	21.0	
Tourism	-	2.5	2.0	2.5	1.0	2.0	1.2	b/	b/	
Transport	32.9	15.0	10.0	47.9	20.0	42.9	24.7	26.2	16.0	
Urban infrastructure	10.7	4.0	4.0	14.7	6.1	14.7	8.5	c/	c/	
Telecommunications	0.9	13.0	11.4	13.9	5.8	12.3	7.1	5.8	c/	
Education and training	7.3	-	-	7.3	3.1	7.3	4.2	3.1	b/	
Health and social Services	6.5	-	-	6.5	2.7	6.5	3.7	2.7	b/	
Others	9.7	-	-	9.7	4.1	9.7	7.1	11.0	18.0	
Total	96.8	142.4	76.9	239.2	100.0	173.7	100.0	100.0		

Source: Government PIP for 1996-2000 and reports on the October 1998 revised Public Investment Programme as of August and October 1998 by the Ministry of Planning and Investment.

a/ State Investment plus State Credits to SOEs according to Government definition.

b/ Included in "Others".

c/ Included in Transport.

Table 18. Employment by Economic Sectors in 1990, 1995 and 1997

Economic Sector	1990		1995		1997		Average Annual Increase			
	Thousand People	Share (Percent)	Thousand People	Share (Percent)	Thousand People	Share (Percent)	1990-1995		1996-1997	
							Thousand People	Share (Percent)	Thousand People	Share (Percent)
Industry a/	2,936	13.0	5,032	14.5	5,110	13.8	219	25.5	39	3.2
Agriculture b/	22,319	73.7	23,521	68.0	24,814	67.1	240	27.9	647	53.8
Services	4,034	13.3	6,037	17.5	7,070	19.1	401	49.6	516	43.0
Total Economy	29,289	100.0	34,590	100.0	36,994	100.0	860	100.0	1,202	100.0

Source: General Statistical Office as reported in World Bank "Vietnam Rising to the Challenge" (1998) and study team calculations.

a/ Includes mining, manufacturing, power generation and construction.

b/ Includes agriculture, forestry and fishery.

Table 19. Employment and Labour Productivity 1990-1995

Economic Sector	1990	1995	Change 1995 over 1990	Average Annual Change 1990-1995 (Percent)
Industry and Construction a/				
Value added (GDP at constant 1989 prices, billion dong)	6,629	12,114	5,485	+13.8
Employment (thousand people)	3,936	5,032	1,096	+5.0
Labour productivity (value added per employee, million dong at constant 1989 prices)	1.684	2.407	0.723	+7.4
Agriculture and Forestry				
Value added (GDP at constant 1989 prices, billion dong)	12,003	14,892	2,889	+4.4
Employment (thousand people)	22,319	23,521	1,202	+1.1
Labour productivity (value added per employee, million dong at constant 1989 prices)	0.538	0.633	0.095	+3.3
Services				
Value added (GDP at constant 1989 prices, billion dong)	10,894	16,792	5,898	+9.0
Employment (thousand people)	4,034	6,037	2,003	+8.4
Labour productivity (value added per employee, million dong at constant 1989 prices)	2.700	2.782	0.082	+0.6
Total economy				
Value added (GDP at constant 1989 prices, billion dong)	29,526	43,797	14,271	+8.2
Employment (thousand people)	30,289	34,590	4,301	+2.6
Labour productivity (value added per employee, million dong at constant 1989 prices)	0.975	1.266	0.291	+5.4

Source: GSO Statistical Yearbook 1997 regarding GDP data, General Statistical Office and study team calculations regarding employment data as reported in World Bank "Vietnam Rising to the Challenge" (1998).

a/ Includes "Marine Products" which are reported under a separate heading in the GSO employment data

Table 20. Disbursements of ODA by Sector in 1994 and 1997

Sector	1994		1997	
	US\$ million	Share (Percent)	US\$ million	Share (Percent)
Energy	16	3.8	161	19.8
Transport	21	5.0	139	17.1
Agriculture	86	20.5	127	15.6
Health	70	16.7	75	9.2
Human Resource Development	57	13.6	72	8.9
Economic Management	37	8.8	64	7.9
Social Development and Humanitarian Aid	88	21.0	61	7.5
Area Development	20	4.8	61	7.5
Development Administration	<u>a/</u>	<u>a/</u>	29	3.6
Industry	25	6.0	23	2.8
Total b/	420	100.0	812	100.0

Source: "Overview of Official Development Assistance in Viet Nam, UNDP, Hanoi, December 1998, and "Viet Nam Development Co-operation 1994 Report", UNDP, Hanoi, October 1995.

a/ Not reported separately for 1994.

b/ Does not include balance of payments loans.

Table 21. Number of "Occupational" Communes and Villages by Region, Kind of Occupation and Number of Households Involved

Kind of Occupation	Number of "Occupational" Communes and Villages							Total No. of Households Involved in Occupation
	Total	Northern Uplands	Red River Delta	North Central Coast	South Central Coast	South East	Mekong River Delta	
Textiles and garments <i>a/</i>	45	6	34	-	1	1	3	30,875
Carpentry and wood-based products <i>b/</i>	126	23	53	15	5	9	21	52,743
Agro-based products <i>c/</i>	153	22	70	8	20	8	25	61,061
Fishery-aquaculture-based products <i>d/</i>	14	1	8	3	1	1	-	3,989
Pottery and ceramics	16	4	4	-	1	5	2	3,059
Construction materials <i>e/</i>	47	6	23	7	5	4	2	9,339
Mechanical engineering <i>f/</i>	32	8	13	-	4	1	6	11,488
Decorative and fine art items <i>g/</i>	31	5	16	-	1	9	-	15,327
Miscellaneous consumer goods <i>h/</i>	58	2	33	10	6	-	7	35,311
Carpentry + others <i>i/</i>	6	5	-	-	-	-	1	5,485
Others and mixed activities	43	3	20	2	3	-	15	12,906
Total	571	85	274	45	47	38	82	241,583

Source: MARD Survey of Occupational Communes and Villages in 41 provinces 1998 and study team calculations.

a/ Includes textiles, garments, lace and silk making, knitting, weaving and embroidery.
b/ Includes carpentry, bamboo/rattan furniture, paper, wood and forest-products processing.
c/ Includes food/foodstuffs processing, agricultural/industrial crops processing.
d/ Includes aquaculture/fishery processing and fish sauce production.
e/ Includes production of stone, lime, bricks and other construction materials.
f/ Includes tools/implements manufacture, engineering, repair, blacksmiths and casting.
g/ Includes wood/stone carving, lacquer painting, golden/silver carving.
h/ Includes hats, nets, carpets, ropes, hammocks, incenses, brooms and paper fans.
i/ Includes carpentry construction material; carpentry + mason; carpentry + embroidery/lacing.

ANNEX 6 Bibliography

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