



DEVELOPMENT EFFECTIVENESS COUNTRY BRIEF

Viet Nam

Selected Country Indicators

Country Indicators	Comparison year	Most recent year
Gross domestic product per capita (constant year 2000 in US\$)	–	\$622 (2005)
Population living on less than \$1 a day (%)	58.0 (1993)	23.2 (2004)
Primary completion rate, total (% of relevant age group)	103 (1991–1992)	106.8 (2002)
Ratio of girls to boys in primary and secondary education (%)	89	94 (2005–2006)
Under-5 child mortality (per 1,000 live births)	58 (1990)	31.5 (2004)
Births attended by skilled health staff (% of total)	–	93 (2005)
Prevalence of HIV/AIDS (% , 15–49 years)	0.28 (2002)	0.44 (2005)
Population with access to an improved water source (%)	–	99% of urban population (2004) 44% of rural population (2004)
Cost required for business start-up (% of GNI per capita)	–	44.5 (2006)
Time required for business start-up (days)	–	50 (2006)

GNI = gross national income.

COUNTRY DEVELOPMENT SETTING

Overview of Country Achievements and Development Challenges

1. Over the last 20 years, Viet Nam's economy has been significantly transformed. It has become one of the fastest growing economies in Asia, recording average annual gross domestic product (GDP) growth of 7.5% over the last decade. GDP per capita increased from \$288 in 1993 to \$716 in 2006 with only a marginal increase in income inequality.
2. The incidence of poverty was also significantly reduced over the last decade from 58% in 1993 to 23.2% in 2004 and an estimated 22% in 2005. Poverty reduction has been underpinned by rapid, stable, inclusive economic growth. The Millennium Development Goal (MDG) of halving poverty has been achieved well ahead of the 2015 target date. Good progress has also been made toward achieving the goals of universal primary education, gender equality, child mortality and maternal health, and access to safe drinking water. Enrollment rates continue to rise, and infant mortality and child malnutrition rates continue to fall. All major population groups have experienced a decline in poverty albeit more slowly in rural than in urban areas. These remarkable outcomes were achieved through sustained, business-led growth in economic output and employment combined with government-led, targeted poverty reduction interventions. Viet Nam's transition from central planning to a socialist-oriented market economic system has liberalized markets, recognized private property rights, and gradually opened up the economy to external markets for trade and investment. The growth of the private sector has been a significant feature of economic development. The structure of the economy is changing markedly with a steady increase in the share of industry and services. Greater diversification in industrial production and services is laying the foundation for sustained growth in output and employment.
3. Viet Nam's accession to the World Trade Organization in January 2007 brought great opportunities but also challenges. Maximizing the benefits from greater regional and international integration requires focused efforts to enhance national competitiveness and to attract private investment. Businesses are seeking support and interventions in areas such as infrastructure development, removal of policy and institutional bottlenecks to private investment, financial intermediation, and human resource development.
4. Social inclusiveness and environmental sustainability are growing concerns that accompany rapid economic growth. Despite past successes, regional inequalities remain high. The poverty that prevails is of a complex nature and is entrenched in many isolated districts and communes and in remote rural areas, particularly among ethnic minorities. Providing the basic services and infrastructure needed to access markets and removing administrative obstacles to

private investment will generate income and employment opportunities in poor areas.

5. The key targets of the 2006–2010 Socio-Economic Development Plan (SEDP) is to achieve a GDP growth of 7.5%–8% and to reduce the incidence of poverty to 10%–11% by 2010. The strategic orientations of the SEDP include, among

others (i) to accelerate and sustain economic growth; (ii) to improve people's material, cultural, and spiritual lives; (iii) to create the foundation for boosting industrialization and modernization and at the same time for gradually developing a knowledge-based economy; and (iv) to enhance Viet Nam's status in the region and in the world.

ADB'S CONTRIBUTIONS TO DEVELOPMENT RESULTS

Volume and Performance of ADB Operations

6. From 1995 to 2006, a total of \$1.999 billion was disbursed for 62 loans and grants in 10 sectors (figures 1 and 2). Project completion reports (PCRs) have been done for 18 projects. Of those, 1 was rated highly satisfactory, 13 were rated satisfactory, and 2 each were rated generally or partly satisfactory (figure 3).
7. **Impact of ADB Assistance.** ADB support to pro-poor economic growth has demonstrated that efforts to link rural infrastructure with emerging national and regional infrastructure networks can derive major benefits. ADB's assistance to develop the road and energy sectors and to establish policy and regulatory environments supportive of business and market institutions, has contributed to a rapid increase in the number and size of private firms. ADB successfully combined such interventions with poverty-targeted support through its health and education sector programs and through

Official Development Assistance (ODA)-supported poverty reduction programs including the multi-donor policy dialogue platform Poverty Reduction Support Credit (PRSC). A self-assessment of the last Country Strategy and Program (CSP) concluded that ADB's assistance was focused and selective, presented a coherent rationale, and was highly responsive to national strategies with poverty reduction as its overarching thrust. Constructive partnerships have been developed with the Government and other development partners for advancing reform agendas in key sectors.

Highlights of ADB Results

8. **Gender.** Viet Nam leads Asia and the Pacific in key aspects of gender equality and ranks 108 out of 177 countries on the United Nations Development Programme's gender-related development index.¹ Viet Nam performs well in equitably delivering education and health services to both men and women. There is little difference between genders in

1 Viet Nam had a gender-related development index value of 0.702 in 2005. International index values ranged from 0.96 (Norway) to 0.27 (Niger).

Figure 1

Loan and Grant Disbursements by Sector, 1995–2006 (\$ million)

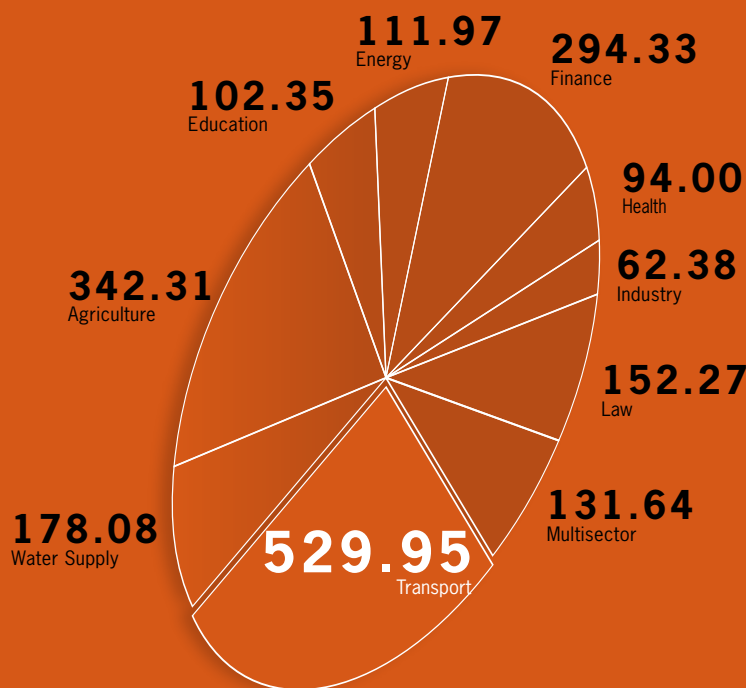


Figure 2

Loans and Grants Approved by Sector 1995–2006 (number of projects)

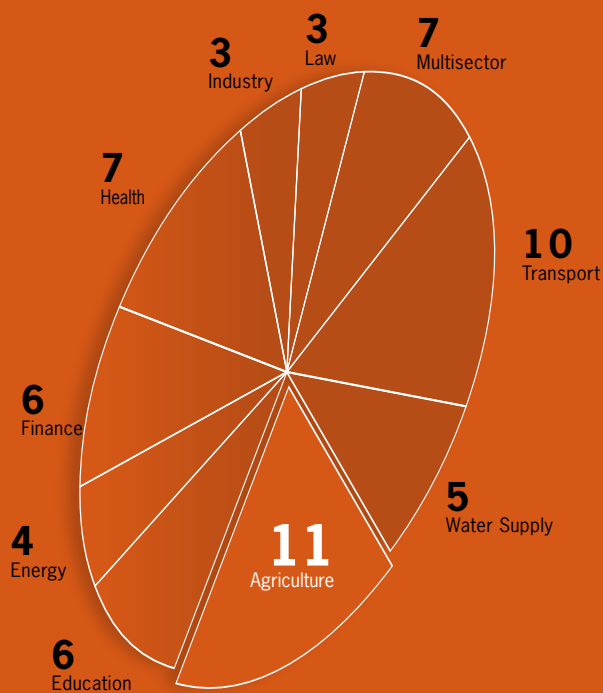
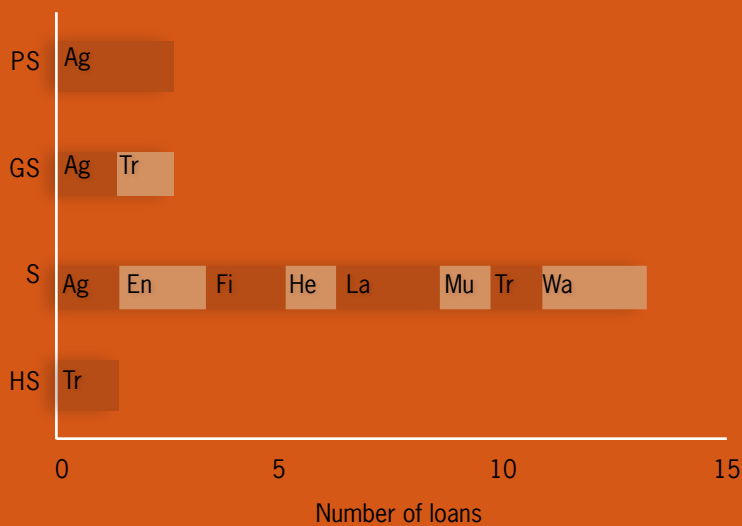


Figure 3

Project Completion Report Ratings, 1995–2006



Ag Agriculture
 En Energy
 Fi Finance
 He Health
 La Law
 Mu Multisector
 Tr Transport
 Wa Water Supply

PS = partly successful, GS = generally successful, S = successful, HS = highly successful.

terms of school enrollment rates. Adult literacy is universally high, and the gender gap in literacy rates has been declining. Most men (85%) and women (83%) are economically active. Viet Nam also has a strong legal and policy framework to promote gender equality. Vietnamese women have legal rights that women in many developing countries are still fighting for, including affirmative policies for political participation, generous maternity benefits, and the right to make reproductive decisions. ADB contributed to these achievements through technical assistance (TA) grants including the Gender Strategy and Implementation Plan for Agriculture and Rural Development (completed in February 2004), Gender Mainstreaming Action Plan for Agriculture and Rural Development (ongoing), and Support for the Preparation of the Law on Gender Equality (almost completed). Gender analyses were also carried out for community-based loan projects (e.g., in health, education, microcredit, and water supply and sanitation) where the impact on gender is more direct.

9. **Transport.** Since resuming operations in 1993, major funding agencies have focused their attention on rehabilitating transport infrastructure. The result of this considerable support has been impressive. The paved road network increased from 13,000 kilometers (km) in 1997 to 42,200 km in 2004. Roads carry 1.0 billion passengers covering 31.7 billion passenger-km and over 80% of total passenger traffic movements; they are by far the major conduit for the circulation of goods, especially over short distances. All ADB transport sector projects have supported the rehabilitation of the national and provincial road networks, with the exception of a loan extended to improve Saigon Port. Investments in large infrastructure projects have played a major role in attracting private investment and generating employment

that has underpinned Viet Nam's remarkable success in reducing poverty.

10. **Improved Access to Electricity.** Viet Nam has adopted a unique approach to rural electrification in which *Électricité du Vietnam* (EVN) provides a medium voltage connection to the commune center and the local communities are responsible for installing and operating a low voltage network. This innovative approach has enabled Viet Nam to increase household electrification from 51% in 1995 to over 90% by 2005. ADB has approved two ordinary capital resource (OCR) loans amounting to \$480 million and three Asian Development Fund (ADF) loans amounting to \$186.3 million in the power sector. The ADF loans were primarily for extending and rehabilitating distribution networks. The TA for "Road Map for Power Sector Reform" made significant contributions to the new electricity law and also laid the framework for the ongoing sector reforms. Another TA project for "Power Market Design" provides advice to the Government on the implementation of the sector reform road map. Substantial OCR-based assistance is envisaged to help Viet Nam keep up with the rapid increase in power demand while concerted efforts are being made to catalyze private sector participation in the power sector.
11. **Financial Sector.** ADB played a leading role in supporting the development of the nonbank financial sector through the first Financial Sector Program Loan (FSPL), the State Enterprise Reform and Corporate Governance Program Loan, and the ongoing second FSPL which is supporting alternative channels of financial intermediation (insurance, leasing, money, and capital markets). ADB is also supporting the development of the social security system and housing finance industry. A social security law drafted with ADB assistance has been approved, and housing loans were

provided to lower-income groups through housing finance intermediaries under the ADB Housing Finance Project. A decree on money laundering, also prepared with an ADB TA became effective in August 2005 and is now being implemented with ADB support.

12. **Poverty Reduction Support Credit.** The PRSC supports Viet Nam's overall reform program and is a vehicle for ADB, the World Bank, and other funding agencies to engage the Government on broad poverty reduction policy issues. Expected outcomes of PRSC include reducing structural weaknesses and improving the business environment, promoting socially inclusive and environmentally sustainable development, and modernizing governance. One of the strengths of PRSC is that all funding agencies can participate regardless of financial inputs. At present, PRSC involves 16 participating funding agencies and 24 government agencies. The number of cofinanciers has been increasing every year since the first PRSC in 2002. Total PRSC funding has ranged from \$120 million (in 2002) to \$220 (in 2006) million annually.
13. PRSC is an example of development partners' joint financing of a program-based approach making use of country systems. This mechanism embodies the tenets set forth in the Rome Declaration on harmonizing the procedures of the multilateral development banks and in the Paris Declaration on Aid Effectiveness. A practical benefit of this coordinated approach is the reduction of transaction costs for both the Government and the funding agencies. This approach also enables each funding agency to focus its support on its own areas of expertise and comparative advantage while working with other partners under a comprehensive poverty reduction framework.
14. **Education.** Secondary education is key for ensuring the country's high level of economic growth as well as inclusive social development. ADB has been the principal donor in this sector. Joint efforts of the Government and ADB have resulted in notable achievements in terms of access to lower secondary education with a gross enrollment rate reaching 90.4% in the 2005/2006 school year. Upper secondary enrollments also increased steadily to 55.3% in 2005/2006. Efficiency indicators such as completion rates, pupil/teacher ratios, and average learning outcomes have also shown improvement. Promoting equity of access, raising quality to international standards, and ensuring sustainable service delivery, however, remain priority challenges.
15. ADB currently manages an education portfolio valued at approximately \$150 million. It comprises four ongoing loan projects and a Japan Fund for Poverty Reduction (JFPR) grant. The ADB loan for teacher training has contributed to modernize and upgrade pre-service teacher training at the lower secondary level through curriculum revision, rehabilitation of facilities in teacher training colleges, and provision of equipment and overseas training. The upper secondary education development project supports both access to and quality of in-service teacher training. The second lower secondary education development project launched in March 2005 aims at improving quality through a new assessment framework for student learning and the development of education quality standards. A loan project for upper secondary and professional teacher development was approved in December 2006 to improve pre-service teacher training at the upper secondary and primary levels. An innovative JFPR grant for expanding learning opportunities combines scholarships and academic support to allow ethnic minority students to attend

Dien Bien Ethnic Minority Boarding School

Dien Bien Ethnic Minority Boarding School was established in 1955 to provide education to minorities living in remote areas. While initially it provided primary, lower secondary and upper secondary education, in 1997 the school was designated as an upper secondary school exclusively.

The total enrollment is 400, but only 28% of the students are female. Women face the obstacles of low primary completions rates and over-age enrollment that leads to starting lower and upper secondary education at marriageable ages. Women's enrollment has increased over the last 2 years as the number of primary school graduates has grown and a preferential policy for females was introduced.

The school is in high demand. Entrance is determined by criteria favoring ethnic minorities with the most difficult socioeconomic conditions and most remote living conditions. Currently only 33% of ethnic minority lower secondary graduates can be enrolled. Most minorities in the province are represented. Minorities that receive preference include the Hmong, Dao, Lao and Kho Mu. Currently Hmong students predominate with nearly 60% of enrollments.

The recurrent cost per student in 2006 was 6.25 million dong. Students receive all textbooks and notebooks free and pay no tuition or living costs. They also receive a monthly allocation of 280,000 dong to cover meals and incidentals. When additional funding is available to the school, tuition is offered in the form of tutoring and exam preparation. Salaries and direct costs for students take up 93% of the recurrent budget leaving 180 million dong to pay for teaching and learning materials, teacher in-service training, extra tuition, and additional equipment.

In 2005, the school had a completion rate of more than 80%. Of the 133 graduates in that year, 3 passed university entrance exams, and 18 passed college entrance exams representing 16% of the graduating class. Others entered higher education under the nomination procedure.

teacher training and become teachers in lower secondary schools in their communities (see box).

- 16. Health System Development.** The Government has long recognized the importance of investing in health, and government estimates for 2005 suggest that Viet Nam has reached or surpassed some of its targets. The infant mortality rate fell from 30/1,000 live births in 2002 to 19/1,000 in 2005. Declines in child malnutrition and maternal mortality ratios are observed. ADB contributed to these outcomes through a strategy of long-term involvement in the sector. The Population and Family Health Project, a joint ADB-World Bank project, supported primary health care and family planning services in 15 provinces. The Rural Health Project contributed to expanding health facilities and strengthened management capacity in 14 provinces. The Health Care in the Central Highlands Project, cofinanced by the Swedish International Development Agency, supports the implementation of the health care for the poor national policy, while the Preventive Health System Support Project is strengthening nationwide coverage of preventive health. The HIV/AIDS Prevention among Youth Project promotes behavioral change for HIV prevention with communication interventions targeted towards high-risk and vulnerable youth. In addition, the Greater Mekong Subregion Communicable Disease Control Project, in partnership with the World Health Organization, assists Cambodia, the Lao People's Democratic Republic, and Viet Nam in their efforts to improve disease surveillance and control. This effort is supplemented by a regional TA for malaria control in ethnic minority communities.

ADB'S AGENDA FOR ENHANCING PARTNERSHIPS AND AID EFFECTIVENESS

Current ADB Portfolio and Assistance Pipeline

17. As Viet Nam has accelerated its pace of economic development, ADB's assistance portfolio has been changing rapidly. This is reflected in the adoption of the 2007–2010 Country Strategy and Program (CSP) in October 2006 which followed the Government's adoption of the 2006–2010 SEDP. Approval of large infrastructure projects (OCR-funded) is envisaged in the energy, water supply,

and transport sectors while continued efforts are necessary to support socially inclusive and environmentally sustainable growth under the ADF program (figures 4 and 5). The performance of the portfolio is good: among 33 ongoing loans, 1 is rated "partly satisfactory" and 2 are rated "unsatisfactory" (figure 6). The major reason for low rating is project implementation and disbursement delays. Implementation delays are experienced by most donors and are persistent problem of the ODA portfolio in Viet Nam.

Figure 4

Projected ADF and OCR Approvals, 2005–2008 (\$ million)

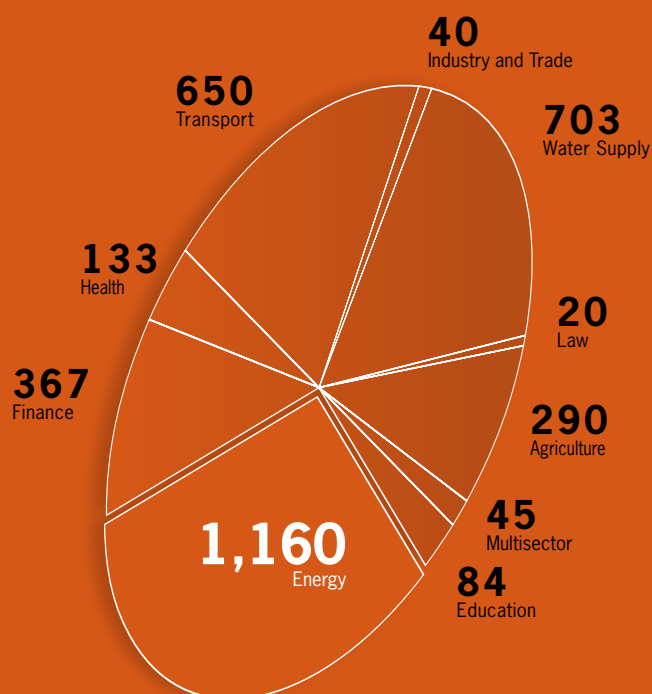


Figure 5

Projected ADF and OCR Approvals, 2005–2008 (number of loans)

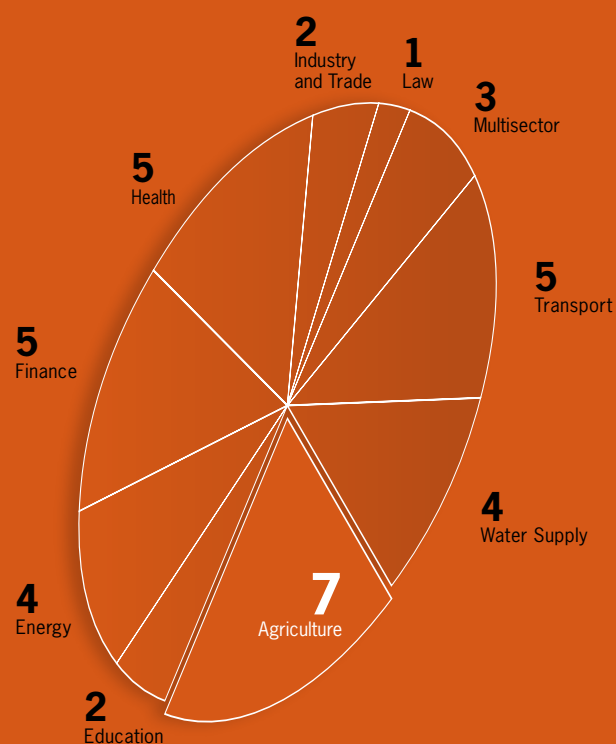
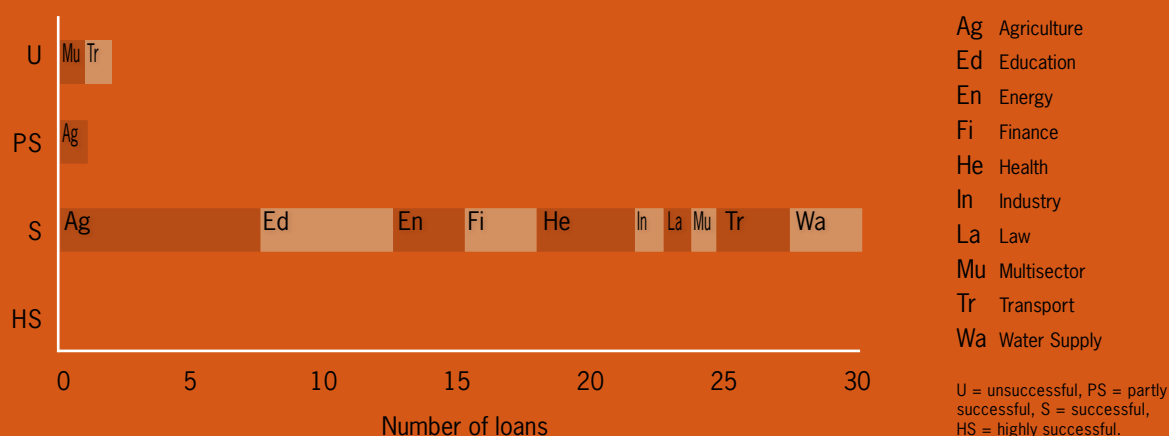


Figure 6

Project Performance Report Ratings (as of 30 June 2007)



Ownership, Alignment, and Managing for Results in ADB Operations

18. **Alignment of the CSP.** In the spirit of the Paris Declaration on Aid Effectiveness, the SEDP was prepared by the Government in a result-based approach, largely supported by development partners and through extensive consultations with provincial governments and civil society. The SEDP is now considered the common strategic foundation for partners to develop their own assistance strategies. It includes concrete actions to achieve the objectives set out in various sector development strategies including the comprehensive poverty reduction and growth strategy. The SEDP has a strong focus on poverty reduction through increased private sector investment and job growth combined with targeted programs to meet the needs of the most vulnerable groups in society.
19. ADB's country strategy organized around three pillars of pro-poor economic growth, inclusive social development and sustained environmental management, was specifically designed to support the Government's medium-term development agenda as formulated under the 2006–2010 SEDP. The following table illustrates the alignment of ADB's assistance program for 2007–2010 and provides examples of key expected outputs.
20. **Participation of Civil Society.** In the process of developing the CSP and preparing and implementing individual projects, ADB has worked with a wide range of civil society organizations, domestic and foreign nongovernment organizations (NGOs), local mass organizations, and private sector representatives. More generally, ADB has encouraged the Government to work together with civil society in the implementation of aid projects.

Government's Medium-Term Development Agenda	ADB's Contribution to Outcomes	Programmed ADB Interventions, 2007–2010
Pillar I: Business-Led, Pro-Poor, and Sustainable Economic Growth		
Goal: High economic growth (growth rate of 7.5%–8.0% per annum with an increase in per capita GDP of up to \$1,050–\$1,100 by 2010)		
<ul style="list-style-type: none"> • Access to infrastructure (transport, power, etc) improved 	<ul style="list-style-type: none"> • 5,800 kilometers (km) of highways to be built in 2006–2010 (4,575 km built during 2001–2005) • 100,000 km of trunk and rural roads to be built in 2006–2010 (65,000 km built in 2001–2005) • Generation doubled to 83 billion kilowatt hours (kwh) in 2008 and 112 billion kwh by 2010 (53.3 billion kwh in 2005) • Electricity losses around 10% by 2010 (from 12.1% in 2005) 	<ul style="list-style-type: none"> • Investments in expressways, railways, highways, private-public partnership financing • Technical assistance to strengthen transport • Investments in power sector to increase capacity in generation and high-voltage transmission • Cross-border power transmission networks
<ul style="list-style-type: none"> • More efficient access to financial services 	<ul style="list-style-type: none"> • Total leased assets increased by 20% compared with 2005 • Equity for three of the five state-owned commercial bank by 2010 	<ul style="list-style-type: none"> • Financial sector development programs • Private sector operations in financial sector
Pillar II: Inclusive Social Development		
Goal: Improve living standards		
<ul style="list-style-type: none"> • Reduce poverty, especially in isolated areas 	<ul style="list-style-type: none"> • 8 million jobs created by 2010 (of which 50% for women) • Poverty rate reduced to 10–11% by 2010 (from 22% in 2005) 	<ul style="list-style-type: none"> • Program-based support for selected targeted programs
<ul style="list-style-type: none"> • Reduce morbidity, and improve health, life expectancy, and quality of life 	<ul style="list-style-type: none"> • Child mortality (under 5 years old) reduced to 25 per 1,000 by 2010 • Health care expenditures to reach 2.7% of total investment capital from 2006 to 2010 • 26 beds per 10,000 people by 2010 (from 24 in 2005) • 75% of communes to have doctors and facilities with Ministry of Health standards by 2008 and 80% by 2010 (from 68% in 2005) • HIV/AIDS infection rate lowered to 0.4% by 2010 (from 0.44% in 2005) 	<ul style="list-style-type: none"> • Financial support focusing on health sector reforms, reaching the vulnerable, and control of communicable diseases • Regional initiatives on HIV/AIDS prevention • Regional Greater Mekong Subregion (GMS) communicable disease control programs
Pillar III: Sustainable Environmental Management		
Goal: Maintain renewable natural resources and protect the environment		
<ul style="list-style-type: none"> • Manage, extract and use natural resources to sustain growth, and eradicate hunger, poverty and vulnerability while preserving the environment 	<ul style="list-style-type: none"> • Biodiversity (proportion of forested areas that has a close canopy and is highly biodiverse) increased to 11.2% by 2010 (from 7.5% in 2005) 	<ul style="list-style-type: none"> • Technical assistance and financial support to improve resource management and rural and coastal livelihoods • GMS Program to encourage sustainable management of shared natural resources • GMS biodiversity corridor initiative

21. **Use of and Support to Country Systems.**

ADB is providing several TA projects to strengthen country systems and results-based management in the public sector. These include legal system development and capacity building for secured transaction registration; support to the implementation of administrative modernization (including computerization and e-government initiatives); institutional and capacity development assistance to the Ministry of Home Affairs; policy coordination support to the Office of the Government; results-based monitoring of poverty reduction and growth; support for aid management and implementation; capacity building support for the Government's Inspectorate of Viet Nam; support for implementing the anti-money laundering decree; and capacity strengthening of Viet Nam's regional cooperation coordination and public investment planning.

ADB's Role in Donor Coordination and Harmonization Initiatives

22. **Hanoi Core Statement.** The Hanoi Core Statement was developed to establish country-specific objectives and targets to implement the Paris Declaration on Aid Effectiveness. A Partnership Group for Aid Effectiveness, co-chaired by the Government and development partners, was established to implement and monitor the implementation of the Hanoi Core Statement. The Partnership Group reports progress on implementation to the mid-term consultative group meeting in June and at the annual meeting in December each year.

23. **Donor Coordination and Harmonization.** Under the Partnership Group for Aid Effectiveness, ADB is particularly involved in promoting harmonization in environmental and

social safeguards (as the co-chair of the thematic groups for environmental and social impact assessments). ADB is also actively participating in a number of partnership groups at the sector level. Donor coordination and harmonization has been improving among the "five banks" i.e., ADB, Agence Française de Développement (AFD), Japan Bank for International Cooperation (JBIC), Kreditanstalt für Wiederaufbau (KfW), and the World Bank. Joint portfolio performance reviews (JPPR) have been conducted since 1999 by the five banks. As the assistance from these five partners amounts to 80% of overall ODA in Viet Nam, effective coordination mechanisms can promote developmental impact. As a follow up to the fifth JPPR conducted from March to May of 2007, the Government reported findings and recommendations to the Prime Minister who accordingly developed an action plan to improve the implementation of aid projects.

24. A number of development partners including ADB supported the Government to develop the result-based SEDP 2006–2010, and in turn, each agency is using SEDP as the foundation for its assistance strategy. Analytical inputs to SEDP formulation were also coordinated through the PRSC and the preparation of the annual Viet Nam Development Report that is submitted to consultative group meetings.

25. **Cofinancing of ADB Operations.** In the active ADB public sector portfolio of \$1.086 billion, grant cofinancing amounts to \$289.78 million, cofinancing of concessional loans is \$693.29 million, and commercial cofinancing is \$11.30 million. For private sector operations, out of the total active ADB loan portfolio of \$87.50 million, cofinancing of concessional loans is \$22.00 million and commercial cofinancing is \$479.90 million. There are 22 cofinanciers of ADB public sector operations including

the Agence Française de Développement, the Australian Agency for International Development, the Canadian International Development Agency, the Danish International Development Agency, the United Kingdom's Department for International Development, the French Direction Générale du Trésor et de la Politique Économique, the European Commission, the Industrial Development Agency of Ireland, JBIC (ODA), the Japan International Cooperation Agency, Germany's Kreditanstalt für Wiederaufbau, the Nordic Development Fund, the Government of the Netherlands (Ministry of Foreign Affairs), the Norwegian Agency for Development Cooperation, the New Zealand International Aid and Development Agency, Participating Financial Institutions in Viet Nam; the Swedish International Development Agency, the Government of Spain (Agencia Española de Cooperación Internacional), the Trust Fund for Forests, the United Nations Fund for Population Activities, the United Nations Children's Fund, and the World Health Organization. There are 18 cofinanciers of ADB private sector operations including the Bank for Investment and Development of Viet Nam, Bank of Tokyo-Mitsubishi, Ltd.; Credit Agricole Indosuez; Credit Lyonnais; Dai-ichi Kangyo Bank, Ltd; Fortis Bank S.A/N.V.; Fuji Bank, Ltd; IFC 'A'; IFC 'B'; Industrial Bank of Japan, Ltd; JBIC (non-ODA); Mitsubishi Trust and Banking Corp; Mizuho Corporate Bank, Ltd.; Multilateral Investment Guarantee Agency (MIGA); Nippon Export and Investment Insurance Insured Loan; Norinchukin Bank; Promotion et Participation pour le Coopération Économique (PROPARCO); and Yasuda Trust and Banking Company, Ltd.

26. Program-Based and Sector-Wide

Approaches. Opportunities for program-based approaches at the sector level remain limited in Viet Nam given concerns related to institutional capacity and good governance. ADB has been helping the Government to develop the foundations for program-based approaches in its main areas of assistance including through the development of sector road maps, results-based evaluation and monitoring frameworks at the sector level, and strengthening of financial management and fiduciary control.

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