

I. INTRODUCTION

12. In March 2000 the Asian Development Bank (ADB) adopted a Private Sector Development Strategy (PSDS), to articulate how private sector development (PSD) will be supported in order to provide the economic and employment growth needed to achieve ADB's overarching objective of poverty reduction in Asia. To implement the PSDS, Private Sector Assessments (PSA) are to be formulated for each developing member country (DMC). This paper presents the PSA for Viet Nam.

13. The PSA begins with a profile of the private sector in Viet Nam: its typology, contribution to the economy, its role in the infrastructure sector and its contribution to poverty reduction. It then analyzes the principal constraints to its development (section III) and reviews current donor activities in support of PSD (section IV). Based on this analysis, it recommends (Section VI) a focus for future ADB operations in Viet Nam during the 2006-2008 period, to be implemented through the new Country Strategy and Program.⁵

II. THE PRIVATE SECTOR IN THE MACROECONOMIC ENVIRONMENT

A. Overview of Macroeconomic Environment

14. Viet Nam is a country of about 80 million people, the majority (approximately 76%) of whom live in rural areas. Although still one of the poorest countries in the region, Viet Nam has made steady progress toward adoption of a market-oriented economy (through Doi Moi or economic renovation since 1986) and has achieved rapid economic growth. Viet Nam's average gross domestic product (GDP) growth rate (7.7%) during the 1990s marked the second fastest growth in the region, after the People's Republic of China (10.1%).⁶ In 2003, Viet Nam posted a GDP growth of 7.1%, which is expected to repeat in 2004. Per capita GDP increased from \$361 in 1997 to an estimated \$455 in 2003 (Table 2). Although the share of foreign direct investment to GDP declined recently, exports have continued to rise. Gross domestic savings and capital formation also increased during the period.

15. The investment to GDP ratio rose to 35.1% in 2003 and 35.8% in 2004, compared with 27% of GDP in 1999. The share of domestic private sector investment - including both investments by individuals and by private companies - within total national investment has increased progressively in recent years from 20 percent in 2000 to an estimated 27 percent in 2003. Investment by domestic private companies registered under the Enterprise Law has now surpassed that of state-owned enterprises (SOEs) and nearly reached the level of SOE investment combined with

Table 1: Investment Trends 2001 - 2010

	2001-2005 estimates (VND trillion)	2006-2010 Plan (VND trillion)
SOE investment	226.0	336.5-356.0
Private investment	328.5	568.0-607.1
Foreign Direct Investment	206.0	252.7-277.5
Source: MPI, Draft Five-Year Socio-Economic Development Plan 2006-2010, June 2005		

⁵ This PSA was prepared by Laure Darcy and To Dhin Thai, Consultants, with support from Kanokpan Lao-Araya, Head Finance, Trade, Governance, and Private Sector, VRM and Bui Trong Nghia, Financial Sector Officer, VRM. It draws from numerous background papers and field interviews conducted in Hanoi in June/July 2005. The previous PSA, revised in March 2003, was also used as background.

⁶ In comparison, the world average during the period was about 2.7%, while the average for the low-income countries was about 3.3%.