

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2000-2002)**

VIET NAM

December 1999

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank (ADB) for the Socialist Republic of Viet Nam covering the three-year period 2000-2002. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 1999, in close consultation with the Government of the Socialist Republic of Viet Nam, and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 1999. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

For further information, please visit the Asian Development Bank's website at: <http://www.adb.org> or contact any of the following:

1. Resident Representative
Viet Nam Resident Mission
15 Dang Dung St.
Hanoi, Viet Nam

Telephone (844) 733 0923 / 733 0924
Fax (844) 733 0925
E-mail adbhanoi@netnam.org.vn

2. Programs Manager, Division 3
Programs Department (West)
Asian Development Bank
6 ADB Avenue
Mandaluyong City, Metro Manila

Mailing address:
P.O. Box 789
0980 Manila, Philippines

Telephone (632) 632-5897 or 632-5893 or 632-5894
Fax (632) 636-2648
E-mail adbpub@adb.org

CURRENCY EQUIVALENTS

(As of 30 November 1999)

Currency Unit	-	Dong (D)
D1.00	-	\$0.0000713
\$1.00	-	D14,015

ABBREVIATIONS

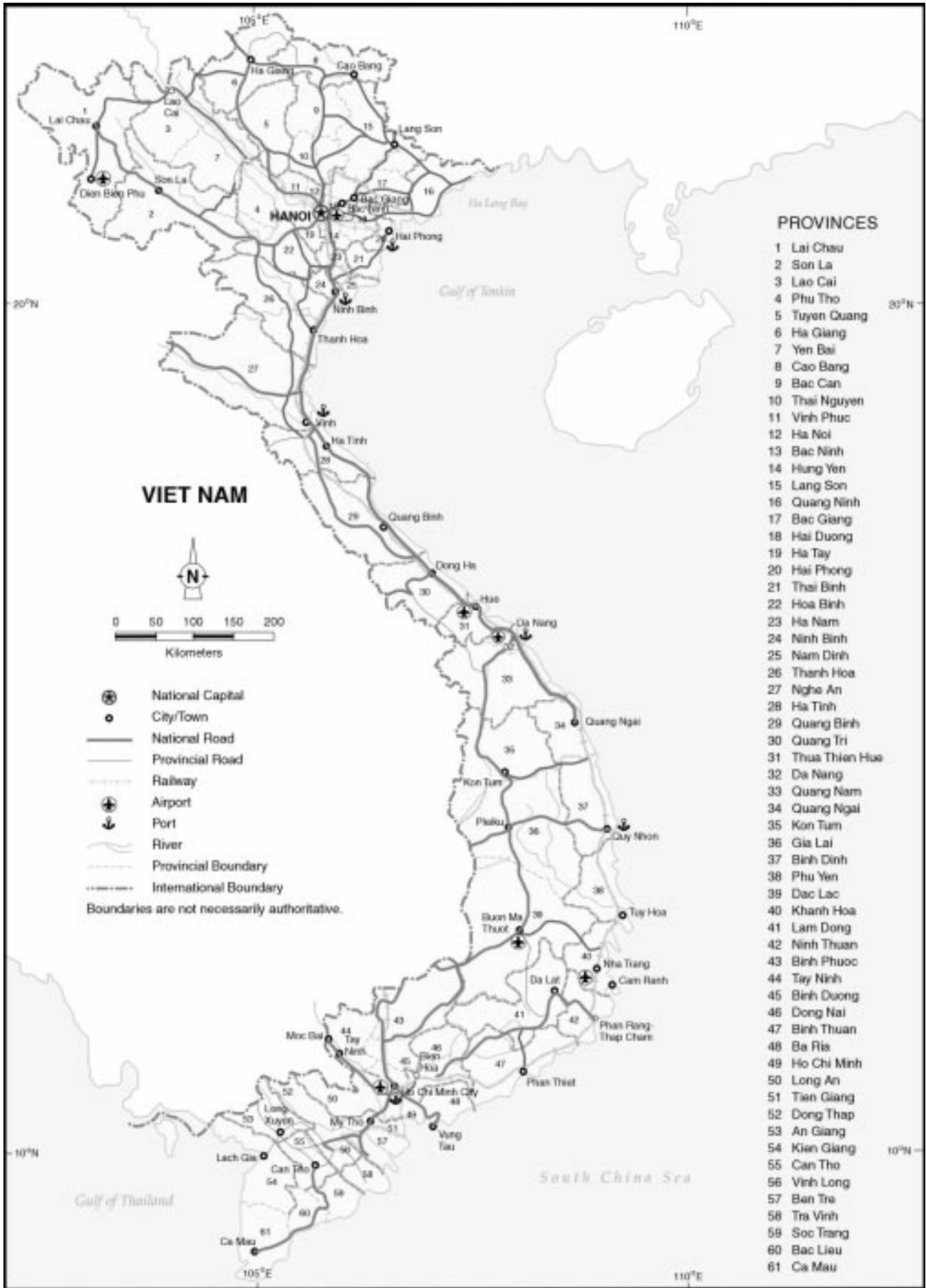
ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
ASPL	-	Agriculture Sector Program Loan
CDF	-	comprehensive development framework
CG	-	Consultative Group
COS	-	country operational strategy
CPRM	-	country portfolio review mission
EA	-	executing agencies
ESAF	-	Enhanced Structural Adjustment Facility
ESW	-	economic and sector work
FDI	-	foreign direct investment
FSPL	-	Financial Sector Program Loan
GDP	-	gross domestic product
GMS	-	Greater Mekong Subregion
HCMC	-	Ho Chi Minh City
HDI	-	Human Development Index
HEPR	-	Hunger Eradication and Poverty Reduction
IPF	-	indicative planning figure
IMF	-	International Monetary Fund
NGO	-	nongovernment organization
OCR	-	ordinary capital resources
ODA	-	official development assistance
OECD	-	Overseas Economic Cooperation Fund
SOE	-	state-owned enterprise
SCPL	-	SOE Reform and Corporate Governance Program Loan
UNDP	-	United Nations Development Program

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this paper, "\$" refers to US dollars.

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SOCIALIST REPUBLIC OF VIET NAM

I. Country Performance Assessment

A. Economic Performance Assessment

1. Viet Nam is one of the few countries in Southeast Asia that continued to grow during 1998. However, the country was not immune from the regional turmoil, which negatively affected exports and foreign investment inflows, and substantially reduced growth rates. The Government estimates GDP growth in 1998 at 5.8 percent; however, staff estimate growth to have been nearly halved to about 4.4 percent, down from annual averages of about 8-9 percent during the last five years. In spite of a slowdown in the GDP growth rate, inflation jumped to 9.2 percent in 1998, double the rate of the previous two years, as a result of food price increases and a 14 percent realignment of the dong. A contraction in imports, accompanied by modest export growth, contributed to reducing the current account deficit (excluding official transfers) to about 4 percent of GDP in 1998, considerably lower than the double-digit levels of recent years. This contraction allowed Viet Nam to absorb the corresponding decline in foreign direct investment (FDI) inflows without excessive pressure on the level of foreign exchange reserves, which remained at approximately 2.5 months of imports.

2. The authorities reacted promptly to the economic slowdown, continuing to adopt a prudent fiscal, monetary, and exchange rate stance, which enhanced macroeconomic stability. Current fiscal expenditures were stabilized in nominal terms (equivalent to an almost 10 percent drop in real terms), while capital spending was preserved to the extent possible, including the allocation of counterpart funds for externally-assisted projects. Monetary policy was also tightened in 1998, with money supply (M2) growing at a slightly lower pace than in 1997 and the previous year, while interest rate ceilings and the yield of treasury bills were raised. The realignment of the dong and slower growth contributed to curb imports. The reduction in the balance of payments current account deficit, however, was mainly achieved through adoption of temporary import restrictions, which raises concern about the distortionary impact on resource allocation, and on growth and investment in the coming years.

3. Preliminary data for the first half of 1999 suggest that the economic slowdown is accentuating. GDP grew at an annualized rate of 4.3 percent between January and June 1999. Agriculture growth remained at 2.7 percent, supported by an increase in the rice harvest which increased by 3.5 percent compared to the same period in the previous year. Industrial output in the first half of 1999 grew by 10.3 percent compared to 12.6 percent in 1998, and the growth of the service sector was down to 2.8 percent. Between January and June 1999, exports grew by only 7.7 percent in value terms, while imports dropped by 12 percent. Foreign investment approvals and inflows during the first six months of 1999 were about 40 percent lower than in the same period in 1998. As a consequence of slower economic activity, inflation also declined to an annualized rate of 4.5 percent at end July 1999. The Government moderately relaxed both fiscal and monetary policy during the first few months of 1999, in order to counteract the economic slowdown.

4. Indications are that the economy is still feeling the impact of the regional crisis. In the absence of positive external shocks or domestic reforms, the growth rate is likely to be around 4-5 percent in both 1999 and 2000. Inflation is projected to stay in single digits. The

balance of payments outlook is cautious. If external demand and oil prices recover gradually, exports will expand at a somewhat faster pace than in 1998, allowing some easing of import compression while the current account deficit will likely be about 3-4 percent of GDP. The level of FDI inflows will also be more modest than in recent years, unless the business climate becomes more attractive as a result of incisive reforms. Diversification in export markets and new sources of FDI inflows will have to be pursued, in order to reduce external vulnerability, and the exchange rate will need close monitoring, and if necessary further adjustment.

5. Though liberalization in the agriculture sector has increased productivity, output, and exports, further private involvement in input and output markets should be pursued. Predominance of state-owned enterprises (SOEs) in the industrial sector implies that production decisions do not always respond or adapt quickly to the demands of the economy. As a consequence, output is stockpiled (as it happened in the steel and cement sectors during 1998), or its use is promoted artificially, by restricting imports of competing goods. Directed lending and preferential treatment of SOEs by state commercial banks still result in the state sector absorbing more than half of domestic credit. Since only about 40 percent of SOEs can be considered profitable, a large stock of potentially unserviceable debt has been building up over time. Yet, banks continue lending to SOEs under the implicit assumption that ultimately the Government would intervene to cover such obligations.

6. This situation can result in serious macro and microeconomic consequences. From a macroeconomic perspective, there is an implicit liability of the public budget towards the banking system. If the state had to intervene to cover borrowing by insolvent SOEs, the impact on the budget and/or the monetary aggregates would be substantial. From a microeconomic perspective, as banks do not exert their natural function of screening risky borrowers as they would in a market economy, misallocation of scarce financial resources can and does occur. This misallocation delays the emergence of a domestic private sector, and reduces productivity and growth potential. It also reduces the trust that the population places in the banking system, with a negative impact on domestic resource mobilization.

7. In addition to improving conditions for domestic resource mobilization, the Government must continue to attract FDI, in direct competition with other regional countries. In March 1999, the Government announced a series of measures aimed at reducing discrimination against foreign firms in the setting of fees for public services, denomination of wages in the local currency and minimizing bureaucratic requirements. It will be important that the timing and implementation mechanisms of these reforms substantively address the concerns raised by the foreign investor community. In the financial sector, after the passage of the Banking and Credit Institutions Law, a number of decrees for deposit insurance scheme, commercial paper and a registration system for secured transactions are being finalized and are soon expected to be adopted by the authorities. A key reform measure introduced by the Government is the recent passage of the Enterprise Law by the National Assembly. This law aims at reduction in requirements of legal capital for all sectors, creation of legal framework to govern risk management, and the protection of legal property rights. Further, the Government for the first time published information on the budget for 1999. However, no information was made available on defense expenditure.

8. While the 1998 growth rate is still good by regional standards, its lowering will undoubtedly affect Viet Nam's capacity to increase employment, redistribute income to the rural areas, and further reduce poverty. Economic reforms have helped Viet Nam to achieve remarkable growth and poverty reduction in recent years. Further reforms would be vital for

Viet Nam to avoid a further deepening of the crisis, and to establish the base for sustained growth, poverty reduction and modernization of the economy. Particular areas where the Vietnamese authorities now need to act convincingly for implementing a second wave structural reforms include, bank restructuring, SOEs and trade sectors. Importantly, there is the pressing need to systematically undertake reform of public administration and implement measures for creating a level playing field between the public and private sectors.

9. Negotiations are ongoing with the International Monetary Fund (IMF) and the World Bank on a new Enhanced Structural Adjustment Facility and the second Structural Adjustment Credit, which will focus on banking, SOE and trade reform. The IMF and World Bank's efforts in these sectors complement well Asian Development Bank's (ADB) own ongoing and planned initiatives in the financial and industrial sectors, which aim at putting in place the legal framework and emphasize improving the corporate governance in SOEs and equalizing conditions for private and state enterprises. During ADB's policy discussions with the Government, the authorities have clarified that they share the general thrust and direction of the reforms being proposed by the IMF and the World Bank, but have expressed reservations about the pace at which they can be implemented. This is due to the low income level of the country, limited capacity to deal with complex economic issues, the duration of the legislative process, and the controversial results of some market-oriented reforms in other countries.

10. The Government's concern for maintaining social and political stability and mitigating the adverse impact of reforms is well founded. The Government, however, is also keen to reduce poverty and income inequalities, and robust growth will be essential to achieve these objectives. In this context ADB has emphasized that, while the above mentioned reforms have costs, they also bring significant benefits in terms of higher growth and employment opportunities, better resource allocation and greater access to domestic and foreign capital. (Appendix 1, page 1, shows economic indicators for Viet Nam).

B. Assessment of Socio-Environmental Performance

1. Poverty Issues

11. Regardless of the benchmark used,¹ poverty incidence in Viet Nam has declined by 15 percentage points between 1993 and 1998, largely as a result of rapid economic growth and improvement in rural incomes induced by the liberalization of agriculture. Groups most affected by poverty are (i) residents of rural areas, especially in the mountainous regions; (ii) ethnic minorities, which represent nearly 13 percent of the population and often live in such areas; and (iii) persons with low education levels (especially the minorities). While rapid economic development has reduced poverty, it has also increased rural-urban income differentials, from 1:6 in the past to 1:10 today. Greater emphasis on cost recovery has also raised user fees and therefore reduced access of the poor to health and education services. Concerned about these growing disparities, the Government has vowed to reorient development policies towards agriculture and rural development, and has launched in 1998 a Hunger Eradication and Poverty Reduction (HEPR) program, targeted at 1,715 poorest communes through a combination of small scale infrastructure, micro-credit, population

¹ According to the World Bank level of \$1 in purchasing power parity per day, poverty has declined from 50 percent in 1993 to 35 percent in 1998. Based on the Government's stricter definitions, equivalent to 15 to 25 kilograms of rice per month depending on the geographic area, the level has declined from 32 to 16 percent during the same period. Both estimates for 1998 are preliminary.

resettlement, transfers and waivers of fees for the poor, and training and extension services. Though several ministries and agencies are expected to be involved in the HEPR program, which aims at mobilizing both domestic resources and external aid, the detailed implementation arrangements are still under discussion between donors and the Government.

2. Gender Issues

12. Overall, the status of women in Viet Nam is more advanced than in other comparable countries. Women enjoy substantial equality under the law, even though access to credit and land is in practice more difficult. Female literacy and labor force participation are comparable to male rates, and contraception is generally available, as evidenced by rapidly declining fertility rates in recent years. Key areas of disadvantage include earnings levels equivalent on average to 70 percent of male counterparts; higher number of hours worked when household chores are accounted for; and some erosion in status due to the uneven impact of the transition to a market economy. The Government approved in October 1997 a National Plan of Action for the Progress of Vietnamese Women, which emphasizes improved education and employment opportunities, preventive health and nutrition, and increased participation in decision-making at the social, political and economic level.

3. Human Development

13. Social indicators in Viet Nam are on par with countries at considerably higher levels of income per capita. In 1998, Viet Nam's rank according to UNDP's Human Development Index (HDI) was 122 out of 174 countries, 26 positions ahead of its ranking according to per capita GDP. Overall literacy and primary school enrollment are very high, together with life expectancy, while infant and maternal mortality rates are fairly low. These results have been achieved with moderate budgetary outlays: health expenditure in 1997 was equivalent to 1 percent of GDP, and education expenditure to 2.4 percent. The demographic transition to low levels of both natality and mortality has advanced markedly in the last fifteen years, and in 1997 the total fertility rate was down to 2.3 births per woman, resulting in a population growth rate of 1.8 percent per year.

14. The most relevant social problems relate to high child malnutrition (39 percent of children under age five); incidence of waterborne diseases caused by fairly low access to safe water and sanitation, particularly in rural areas; the impact of cost recovery measures on access to health and education services by the poor; growing unemployment rates and low levels of work force skills; and an increasing incidence of HIV/AIDs. The Government has set targets for improving both health and education, but the recent economic slowdown and corresponding budget cuts cast uncertainties about the speed at which they will be achieved. An issue of some concern is the use of children (less than 15 years in age) in the labor force. The authorities have been taking strict action against this and have prohibited employers from using underage workers particularly in some industries involving dangerous and hazardous conditions and have issued appropriate restrictions and regulations.

15. Another important issue of concern is the conditions of ethnic minorities in Viet Nam. There are some 50 ethnic minorities in Viet Nam, some with fewer than 200 members, for a total of approximately 10 million people, or 13 percent of the population. They tend to live in more remote highland areas, and some of them have migratory residential patterns, linked to shifting cultivation. Remoteness often translates in more difficult access to education, health services, markets and economic opportunity, leading to higher concentration of poverty and

poorer social indicators among these groups. A Committee for Ethnic Minorities and Mountainous Areas has been created to address their specific concerns. The recently approved HEPR program includes a permanent settlement component, aimed at facilitating delivery of social and economic services and basic infrastructure by concentrating dispersed population in target communes. The impact on ethnic minorities of this program needs careful assessment.

4. Environment

16. Liberalization of agricultural and industrial policies have brought rapid economic growth and increased per capita incomes. Yet, this growth has not been without cost to the environment. Since the economy is predominantly natural resource-based with about two third of the population reliant on exploitation of agriculture and natural resources, rapid growth combined with demographic growth in the past has led to the intensive and wasteful use of natural resources and to environmental pollution. Forest cover has been falling at alarming levels due to the rapidly growing demand for forest products and agricultural land. Quality of land in many areas has declined severely especially the steep terrain in the Northern and Central Highlands through intensive farming, slash-and-burn cultivation and deforestation, all of which are resulting in erosion of top soil.

17. Viet Nam's marine life, especially its fish species, is highly diverse due to the country's long coastline and wide latitude range. However, fisheries that are dependant on the integrity of marine coastal ecosystems are rapidly being converted or degraded due to expansion of agriculture activities, mainly intensive rice cultivation, logging for firewood and forest fires due to exploitation of non-timber products, and overexploitation of coastal waters, poor fishing methodology and technology, and lack of onshore infrastructure for efficient fish landing. Viet Nam has some of the most abundant water and ecological resources in the world; however, because of financial and technical constraints, these resources are not well conserved or efficiently used. Furthermore, urbanization, has been expanding at an alarming rate of 7 percent in recent years. Major urban areas face serious water quality and public health problems due to the discharge of untreated human and industrial waste. Solid waste collection and disposal are inadequate both in terms of population coverage and effectiveness, and access to sewage systems is non-existent in many urban centers.

18. The landscape for environmental protection and natural resource preservation is becoming even more complex, requiring more sustainable use of resources and better environmental management. This, in turn, requires environmentally sound policies and strategies, legislation and regulations, education and training and awareness raising; it will also require better technical tools for monitoring, control and information – all of which are seriously lacking. The Government prepared in 1995 a comprehensive National Environmental Action Plan, and has identified a number of national programs, including a 5 million hectares reforestation program and a Program for Clean Water and Environmental Sanitation in Rural Areas. The challenge that the Government now faces is the systematic implementation of these plans through the necessary policy and institutional reforms, and the allocation of appropriate financial resources to protect the environment and for ensuring that development takes place in an environmentally sustainable manner. (Appendix 1, page 2, shows social and environmental indicators for Viet Nam).

C. Governance: Sound Development Management

19. The economic reform process undertaken since 1986 has not been adequately accompanied by a corresponding streamlining in institutional structures and processes. As a result, the rules governing the functioning of a number of markets are still ambiguous; regulatory frameworks are incomplete and sometimes inconsistent; disclosure of corporate and financial information is limited; accounting and auditing practices are inadequate; and exchange of information between the public and private sector is poorly developed. Lack of transparency in financial practices constrains the ability of the financial sector to mobilize savings, while limited judicial capacity in business matters, ambiguous rules, and uncertain enforcement procedures act as a deterrent to private and foreign investment. The presence of areas of uncertainty and discretion also heightens the potential for corruption, an issue about which the Government and the Party have shown considerable concern in recent times. Public sector management is constrained by a high degree of centralization coupled with weak financial management; cumbersome and opaque decision-making procedures; coordination difficulties between the central and decentralized levels; and limited capacity for development management, including indicative economic planning, policy formulation, and project appraisal, implementation and evaluation. Viet Nam's governance structure has in the past responded to numerous challenges, and the country has shown considerable resiliency. Adapting a governance framework to the needs of a market-oriented and open economy will be one of the major challenges for Viet Nam in the short and medium term.

20. A coherent approach to overcome the major impediments to sound development management should address the following major concerns: (i) establishing the legal and regulatory framework, especially with respect to the development of financial and capital markets, and the promotion of private sector participation in the economy; (ii) undertaking public administration reform including strategies for central-local relations, merit-based recruitment and promotion schemes, and streamlining of decision-making processes through a clearer delineation of responsibilities of line agencies; (iii) enhancing transparency in the exchange of information, particularly between the public and private sectors; and (iv) implementing decentralization policies for greater delegation of authority and fiscal devolution for improving the delivery of public goods and services to citizens. Importantly, there is the need for systematically addressing the problem of corruption that runs across many sectors of the economy and at many levels of Government, and restricts the efficient functioning of both public and private sector operations. In addition, TAs for capacity building and institutional development need to be developed through the provision of consultants who have adequate knowledge of the country, training programs at national and sub-national levels, and more flexible and innovative methods such as beneficiary participation and recourse to nongovernmental organizations (NGOs).

D. Implementation Assessment

1. The Portfolio

21. Since the resumption of ADB operations in October 1993 and to the end of 1998, ADB has approved 22 concessional loans to Viet Nam for a total of about \$1.5 billion, and one loan for a private sector project for \$30 million. ADB has also approved 83 TAs amounting to about \$54 million. Nineteen loans have so far been declared effective, amounting to about \$1.2 billion on a net basis. As of end 1998, cumulative disbursements amounted to about \$357 million and contracts had been awarded for about \$533 million.

Good progress has been made in recent years in project implementation. The disbursement ratio (excluding fast-disbursing program loans) reached about 15 percent in 1998, as compared with only 8.5 percent in 1997 and 5 percent in 1996. In absolute terms, disbursements for project loans increased by almost 5 times, rising from \$26 million in 1996 to \$ 124 million in 1998. Clearly, the Government needs to be commended for the efforts it has taken since the last two country portfolio review missions (CPRM) in 1997 and 1998 to address issues in ODA management, and particularly in the utilization of funds under ADB-financed projects. Indeed, the role played by ADB's Viet Nam Resident Mission (VRM), through monthly project implementation review meetings with the concerned line ministries and executing agencies (EAs) for resolving implementation issues in association with ADB's project administration missions, also needs to be recognized.

2. Issues in Project Implementation

22. Although the progress in project implementation is noteworthy, there is still scope for much improvement, particularly when considering the large backlog of disbursements under ODA commitments made to date. Further, within ADB's own program, portfolio analysis suggests that in some of the sectors (such as power and forestry sub-sectors), disbursement of funds under the projects has been quite slow. This raises the issue of aid absorptive capacity in sub-sectors and underscores the need to more accurately assess the capacity within ministries that are responsible for project implementation, as well as the necessity of providing appropriate TA or loan assistance for capacity building prior to, or in parallel with, loan processing. Further, sector and project performance is also closely linked to sound macroeconomic and structural policies influencing the sector. Timely implementation of sector policies is essential to the success of projects and for maximizing their developmental impact. (Appendix 2 contains information on portfolio performance)

23. A key issue to be addressed for ODA implementation is related to the Government's decision-making procedures. Consensus building is an integral part of decision-making processes. This process is often slow and time consuming. In this regard, the Government is instituting strict time limits on obtaining opinions on official papers so as to expedite decisions. Further, in order to facilitate the work of Project Management Units, EAs have been issuing a set of operational guidelines. However, often these guidelines are issued quite late or are incomplete. Also, at times EA staff are not fully aware of the guidelines or new regulations issued by the Government. Thus, the focus should now be on disseminating of information at all levels through training programs and awareness-raising campaigns. With regard to procurement, delays in awarding of contract are still caused by a centralized decision-making system, and lack of suitable procurement expertise in EAs. In particular, any kind of contract variation has to be approved by the same approval authority as for the original contract. ADB has emphasized that the Government should recognize that minor contract variations are commonly required during implementation of contracts, and recommended that the Government should delegate approval authority of minor contract variations to the appropriate level.

24. Finally, a major concern affecting the implementation of projects, particularly in the road sub-sector, has arisen in recent years. Domestic contractors are providing bids too low to ensure completion of projects in time and to the appropriate quality. The outcome of those contracts raises severe doubt about the actual quality of the pre-qualified local contractors. ADB's projects in the road sector especially have been adversely affected by this problem. ADB has held discussions with the concerned EA on how to improve the bid evaluation process, wherein it has stressed that future pre-qualification requirements will need to be

modified taking into account the existing commitments of contractors to other projects. ADB's periodic project review and administration missions and future CPRMs will continue to work with the Government on these issues with the aim of resolving them and further improving the implementation of ADB-financed projects. Finally, in an effort to resolve some of the more generic issues, ADB recently undertook a joint portfolio performance review mission with two of the other largest donors to Viet Nam, the Overseas Economic Cooperation Fund (OECF) of Japan and the World Bank. Findings of this review will be used for furthering ADB's ongoing dialogue with the Government during subsequent CPRMs and joint review missions.

II. Country Operational Strategy

A. Changing Context for ADB Operations

25. When ADB resumed its operations in Viet Nam in 1993, an interim strategy was formulated which covered the initial years of operations. A full-fledged country operational strategy (COS) was finalized in late 1995. Broadly, the strategies stress policy and institutional reforms, social and economic infrastructure development, and environment and natural resource management. They also emphasize the mobilization of private sector funding for infrastructure development and strengthening of linkages between urban and rural areas, and between Viet Nam and its neighboring countries of the Greater Mekong Sub-region (GMS). ADB has provided broad-based assistance to a number of sectors. This approach has been appropriate, considering Viet Nam's early stages of development and the need to lay the foundations for long-term growth. With the assistance of ADB and other aid agencies, the most acute rehabilitation needs are now being met.

26. However, some major concerns have emerged in recent years that are starting to hamper Viet Nam's development aspirations. First, the leadership of Viet Nam has been increasingly aware about corruption and its impact on efficient development. Second, there is the urgent need for the next generation of reforms which will require changes in the administrative structures for effective development management. Third, concern has been expressed about the threat to social and political stability posed by increasing income disparities between rural and urban areas of Viet Nam. Other critical factors that are influencing ADB operations include: (i) limited availability of concessional resources through the Asian Development Fund (ADF); and (ii) Viet Nam's graduation to a Group B1 country thereby providing it with the opportunity to access a limited amount of loans from ADB's Ordinary Capital Resources (OCR) for revenue-generating projects. Given scarcity of resources, there is the need for greater "selectivity" in the choice of sectors/sub-sectors in which ADB can operate, for stronger synergies among ADB operations, and for establishing a clear link between performance of ongoing projects and ADB's future program. The changed circumstances require a redefinition of ADB's approach to its operations in Viet Nam.

27. In this context, as a first step, ADB prepared a progress report on the existing COS which was first discussed during ADB's country programming mission to Viet Nam in March/April 1999. Discussions were also started with the Government regarding priorities to be reflected in the new COS (see also paragraphs below). ADB has commenced relevant Economic and Sector Work (ESW) which will feed into the preparation of a new COS. These include studies on governance, private sector development, public-private partnerships in infrastructure development, and sector profiles for energy, gender and social dimensions, and the environment. On the basis of this ESW and guided by further analysis being carried

out by ADB's Operations Evaluation Office for an assessment of ADB's earlier country assistance strategy and programs, an ADB COS mission undertook intensive consultations on the direction of the new COS with the Government in May/June 1999. It is expected that the draft COS will be brought forward for Board discussion in the latter half of the year 2000.

B. Strategic Operational Considerations

28. Whilst it is still early to identify the precise direction of the new COS at this stage, there are a number of strategic operational considerations which the country programming mission has borne in mind in formulating the new CAP for the medium-term. These are: (i) consolidation of gains from past reforms and the promotion of a second wave of policy and institutional reforms aimed at improving governance and creating an enabling environment for private sector development; (ii) the need for greater emphasis on the secondary growth centers in rural areas, and on links (physical and administrative) between the center and periphery; (iii) investment in human capital through initiatives in education and health sectors; (iv) continued attention to rural development, especially the need for sustainable natural resource management and environmental protection; (v) support for public-private partnerships and the strategic use of OCR for revenue-generating projects; (vi) geographic focus of sector and project loans, in order to create synergies and reach critical mass in terms of development impact; and (vii) identification of project which promote regional economic cooperation among the countries of the Greater Mekong Subregion (GMS). The loan and TA program of ADB which has been formulated for the medium-term, 2000-2002 in close consultation with the Government, duly takes into account the aforementioned considerations and the Government's priorities.

III. Sector Strategies

A. Agriculture and Natural Resources

29. Viet Nam remains one of the world's poorest countries, with a per capita income of about \$350. About 80 percent of the population live in rural areas, and about 70 percent are dependent on agriculture and natural resources for a living. Poverty, therefore, is mainly a rural problem that is pronounced in hilly and mountainous areas, poorly served with rural infrastructure, markets, and financial and support services. The gap in income between rural and urban areas has widened, as has the income gap between the rich and the poor within rural communities. As noted earlier (para. 11), in response to the pressing needs of the rural poor the Government has adopted the HEPR program targeted at the 1.715 poorest mountainous and remote communes (clusters of villages) in the country. Under this program, Government funds would be allocated over a 3-5 year period for village development activities, and donor-financed rural infrastructure and poverty reduction projects would target assistance to these villages and communes.

30. The management of water resources is a critical factor in achieving sustainable economic growth in the agriculture, industrial, and service sectors in Viet Nam. Economic and population growth, urbanization and industrialization have increased the pressure on the country's water resources, causing problems of water shortages, competition among water uses, water pollution, salinity intrusion, watershed degradation, and increasing flood damages in recent years. To date, the Government's investment program in the water sector has almost exclusively focused on the delivery of water services to meet increasing demands in the sub-sectors of water supply, irrigation, hydropower, and flood protection. Investment in

such sub-sector programs has generally been conducted in the absence of adequate sector coordination and without appropriate consideration for the multipurpose benefits of water resources. In response to these problems, the Government with assistance from ADB and other aid agencies has prepared a Water Resources Law, which was adopted in May 1998. The Law will establish specific institutions and instruments for comprehensive water resources management.

31. In the forestry sector, rapid depletion of forests have prompted the Government to develop an reforestation program covering 5 million hectares with the target of restoring forest cover to post-independence levels by the year 2010. However, the reforestation program lacks appropriate details on a clear strategy and implementation plan, apart from the identification of significant financial resources that would be needed from both internal and external sources to bring this program to fruition.

32. ADB assistance to date has focused on agricultural policy reform, rural infrastructure, rural credit, water resources, forestry and fisheries. ADB's Agriculture Sector Program Loan (ASPL), the only completed loan in 1997, sought to encourage planned Government reforms in the areas of market development, input supply, exports and imports, prices and subsidies, SOEs in the sector, and public support services. The ASPL was generally effective in decreasing the interest rate subsidy to SOEs engaged in rice marketing and export, partially removing trade barriers notably in rice and fertilizer, and issuing titles for agricultural and forest land with rights of transfer and use as collateral to obtain loans. A continuation of reforms are required to realign the sector to market principles. In other areas of ADB assistance, steady progress is being achieved in projects for promoting rural development, notably in rural infrastructure improvement and in rural credit, and in facilitating management of irrigation systems for water use and flood protection.

33. In the future, ADB assistance for the near-term will focus on furthering policy reforms in the agriculture sector through a policy-based lending operation, and examine possibilities to support the Government's priority programs for poverty reduction (such as the HEPR) and the national program for the reforestation of 5 million hectares. Due consideration will also be given to expanding opportunities for non-farm development in the rural sector, and to the sustainable management of coastal and marine resources given their linkages to the rural economy. ADB's strategy and program in the water sector in Viet Nam was initially focused entirely on water service delivery in urban water supply, irrigation and drainage, and flood protection. The first water resource management initiative was to support the establishment of a river basin organization for the Red River. The Second Red River Basin Water Resources Sector Project is now being designed to include both service delivery and resource management investments. A multipurpose water resources investment project is being formulated in the Dong Nai - Song Be basin, and a multipurpose hydropower investment is being considered in the Se San basin. An urban development project in Ho Chi Minh City (HCMC) will address urban wastewater and solid waste management problems. In the forestry sector, ADB is developing a TA for better defining the Government's 5 million hectare reforestation program, which is expected to be followed by project preparatory assistance for a loan for sustainable forest management.

B. Infrastructure

1. Energy

34. Despite lack of access to international funding and the cessation of assistance from the former Soviet Union, the energy sector managed to achieve a modest rate of growth during the last decade contributing about 8 per cent to GDP in recent years. In the hydrocarbon sub-sector, exploration activities have accelerated. The country is now regarded as one of the most promising exploration frontier in Southeast Asia. Many foreign oil companies are either operating or have been awarded exploration rights. The natural gas industry however is still at the early stages of development. The power sub-sector has also been expanding, but it remains excessively dependent on hydroelectric supply. The key concerns in the sector are inadequate levels of investment in power transmission and distribution; low tariffs resulting in uneconomic use of resources; structural and institutional reforms necessary to make the sector operations efficient; introduction of private sector participation; and the need for a clearly defined regulatory structure for the energy industry.

35. ADB's policy support and capacity building initiatives in the sector include assistance for carrying out a national tariff study with a view to rationalize electricity tariffs and make the sector financially viable. TA has also been provided to review the Government's policy for the development of the hydrocarbon sector, including institutional arrangements for sub-sector operations, and identify measures to improve sector efficiency and safety standards. Together with the first Power Distribution Rehabilitation Project (1995), ADB has also provided TA to improve the financial and accounting systems of the power companies and train power company personnel in the areas of power distribution planning. More recently, TA has also been provided to improve the sector governance framework through commercialization of power companies and the establishment of a regulatory framework for the energy sector. In investment terms, ADB's focus is in the power sub-sector through the rehabilitation and upgrading of power transmission and distribution systems. In the future, there is scope to consider hydropower projects, especially in the Se San basin. Further, given the strategic importance of the hydrocarbon sub-sector, particularly offshore gas reserves to the development and diversification of the electric power sub-sector, possibilities for ADB assistance to the hydrocarbon sub-sector are also being explored with the authorities.

2. Transport

36. Viet Nam's dilapidated and inadequate transport infrastructure is a major constraint on the country's rapid economic development. The country's transport network is very extensive comprising of roads, waterways, seaports and airports. Most of the transport system, however, is in poor condition, particularly in the north where there has been little major investment in the network since the early 1950s. In the south, where new construction continued until the 1970s, transport conditions are generally better. The Government has devoted considerable effort to maintaining the network, but funding has been limited and the technical approach adopted has not always been appropriate. As a consequence, the network is deteriorating and this is being exacerbated by the significant increases in traffic volumes. Key concerns in the sector include: the impact of the rapid economic development on a deteriorating transport network; the role of the large state sector in managing construction and maintenance works, and the impact this will have on the nascent private

sector; and the effect of road network improvements and expansion on forests, bio-diversity and environmental conditions in the country.

37. The major focus of ADB operations in the transport sector is in the road sub-sector. ADB support for institutional and policy development is directed at the Ministry of Transport, particularly at the Viet Nam Road Administration, for assisting it to manage and maintain the road network system. In terms of the investment program, ADB has focused on the rehabilitation and upgrading of National Highway No. 1, the country's principal north-south artery which has been assigned very high priority by the Government. The ongoing first, second and third road improvement projects (1993, 1995 and 1998, respectively), together with the assistance provided by the OECF and the World Bank, will complete the Highway. ADB's program also included the financing of the GMS: Phnom Penh to HCMC Highway Project, approved in 1998, and a second GMS: East-West Corridor Project, planned in 1999. Future interventions of ADB for road projects will primarily involve the rehabilitation and development of provincial roads, and on regional links with other GMS countries, such as the Kunming - Haiphong Corridor Project.

3. Industry and Finance

38. ADB endeavors to promote the development of the financial and industrial sectors as part of its overall program of assistance for private sector development. In this context, the sequencing of various program loans in the finance and industry sectors is intended to facilitate an enabling environment for private sector initiatives. ADB's ongoing Financial Sector Program Loan (FSPL I) is laying the legal framework, introducing sound accounting and audit systems, and assisting the Government in re-infusing public trust in the banking system. As a follow-up to the FSPL, ADB is providing a TA for formulating a strategy for the development of financial and capital markets over the medium-term and for the restructuring of state-owned commercial banks. This is expected to result in a second financial sector program. Further, as an important complement to the loans in the financial sector, ADB has been engaged in discussions with the Government on preparing a SOE Reform and Corporate Governance Program Loan (SCPL) for approval in 1999. The broad objectives of the SCPL are to support sustainable economic growth by establishing a legal framework to foster industrial development, allow for SOE restructuring, liberalize the policy on FDI, and promote equal treatment between private enterprises and SOEs. The policy reforms in the SOE and financial sectors will be closely coordinated with the programs of the IMF and the World Bank, as well as the overall macroeconomic policy framework of the Government.

C. Social Infrastructure

1. Education

39. Facilitating the transition to a market economy by directly addressing the needs of the evolving structure of the economy, the changing skill-mix requirements and the potential fallout of the current crisis are major issues in the education sector. Special emphasis needs to be paid to improving the quality of education and making it more responsive to market needs. Persistent inequities in education among different socioeconomic groups and geographical regions are another cause for policy concern. Continuing reliance on the public provision of education and tightening fiscal constraints on public resources are placing increasing pressures on the education system. A more decentralized system of government would enable local authorities to respond more efficiently to deficiencies in the education system. However, decentralization would have to be undertaken in a gradual manner by

carefully considering the need for improvements in management and organizational capacity, and combined with fiscal transfers from the central Government to poor provinces to ensure quality of services and equity of access.

40. ADB's support in the sector focuses on secondary education (1997), whereas the World Bank is assisting the primary education sub-sector. In addition, ADB will assist in reforming the vocational and technical education system (1998), and will provide assistance in the area of teacher training (1999) also focusing in the secondary education sub-sector. ADB has also supported a multi-sector study of financing, contributing to the understanding of financing options, and is providing a TA to review and institutionalize curriculum reform and in-service teacher training for lower secondary education. ADB is also supporting a regional TA to improve the institutional capacity to address the education needs of ethnic minorities. ADB's major policy objective in the sector is to improve quality in the secondary education system on a sustainable basis within the context of the increasingly market-based economy. Rationalizing the mechanisms for the public provision of technical education will require that individual institutions' capacities to plan and implement be strengthened. In addition, the central Government's ability to support individual institutions will be enhanced through support for capacity building in general management, in labor market monitoring and in curriculum development.

2. Health

41. Widely prevalent malnutrition, especially among children and women, is the biggest public health challenge for the country. Critical health issues for policy attention are improving the quality of services and reducing inequities in access. Because of constrained public expenditures, the quality of services has been declining, facilities have become dilapidated, equipment and supplies are not available, and salaries have declined in real terms, leading to low morale and productivity. Although a system of fees for public services has been introduced, overall resources remain inadequate and issues of access by the poor arise. Despite overall success in dramatically increasing contraception rates, the family planning program still needs to improve quality and access. Significantly large prevalence of abortion and reliance on only one contraceptive method indicate the poor quality of contraceptive services. Moreover, some pockets of high fertility and maternal mortality, especially among ethnic minorities, still remain. In recent years, there has also been a spread of HIV/AIDs epidemic.

42. ADB's ongoing Population and Family Health Project (1996) aims at enhancing central and provincial management capacity, including the ability to generate and utilize management information. Service delivery capacity will be enhanced through improved training, health facilities and equipment. The Project focuses on service quality improvements, especially in the areas inhabited by ethnic minorities, and promotion of the private sector for providing contraceptive services. A recent regional TA for nutrition has conducted a situational analysis for the country and has identified investment and policy options in the sector. ADB has approved a TA in 1998 to explore the feasibility of a Rural Health Project. In parallel with the loan, considering the very weak capacity of the concerned line ministry, ADB will provide an advisory TA aimed at strengthening the management capacity of the Ministry of Health for planning, implementing and monitoring health sector programs. In addition, ADB is supporting a regional TA to improve institutional capacity to address the health needs of ethnic minorities. ADB's program also includes a regional TA to address the HIV/AIDS problem which will focus on mobile populations.

3. Urban Development

43. Infrastructure facilities in Viet Nam's urban centers have been deteriorating rapidly due to insufficient investment and weak sector policy and institutions. Production is low, water quality is poor and only about half of the urban population has access to piped water. Operation and maintenance is inefficient and non-revenue water averages 50 percent in urban centers. The tariff structure is inadequate and rates are insufficient to cover even the O&M costs in most cases. Urban water pollution is critical, and aquatic ecosystems are threatened by the high amounts of untreated domestic and industrial wastewater generated in urban centers. The Government has put high priority on urban development, including the rehabilitation and expansion of the existing water supply and sanitation systems.

44. ADB approved a loan for HCMC to undertake rehabilitation of part of the city's water and sanitation systems. Associated with the loan is a TA that aims to establish comprehensive social and financial objectives for water supply companies and develop policies on cost recovery, cross-subsidization and financial management. This study has been completed and the revised water tariff structures have been introduced in HCMC. As a follow-up, ADB has provided loans for the first and second Provincial Towns Water Supply and Sanitation Projects, approved in 1995 and 1997, respectively. As there is already a large amount of funds committed to the sector, it is envisaged that future assistance to the sector will be developed with careful review and assessment of project implementation performance under the ongoing loans. ADB is also currently preparing a loan for the HCMC Environment Improvement Project to address sector policy and institutional issues relating to urban infrastructure development, and effective and sustainable management of urban services including the participation of the private sector, in close coordination with the World Bank, OECF, UNDP and other aid agencies.

D. Governance Dimensions of ADB Operations

45. ADB has been undertaking a series of initiatives through TA for enhancing the capacity of key central institutions and for facilitating good governance practices. Major ADB initiatives include: Capacity Building at the Ministry of Planning and Investment (1995); Institutional Strengthening of National Procurement Office (1994, 1995 and 1996, in three phases), Capacity Building at State Auditor General's Office (1995 and 1998 in two phases), Strengthening Capacity for Public Administration Reform (PAR) at the Government Committee on Organization and Personnel (1996 and 1998 in two phases), and Retraining of Government Legal Officers at the Ministry of Justice (1997). These TAs have already begun to effectively tackle some major capacity constraints in key governance areas. In addition, transparency accountability and predictability in the policy environment at the macroeconomic and sector levels are being supported through the policy and institutional components of lending operations, whether under project, program or sector lending modalities.

46. Furthermore, ADB has also begun preparing an operationally-oriented paper on governance. On the basis of the governance work so far completed, ADB has initiated dialogue with the authorities on key governance dimensions for exploring areas for assistance by ADB and other aid agencies. A key aspect of this initiative is to assist the Government in setting in place an efficient and effective governance framework over the medium- to long-term and help maximize the impact of development assistance. Alongside the governance work, a major output of ADB TA on PAR is the formulation of a PAR strategy

document inclusive of an action plan on policy recommendations for the Government to consider implementing over the medium-term. In this context, the TA will examine the existing structure of the Government and propose ways of achieving more effective coordination among ministries at the center and stronger linkages between the center and the provinces through policies for decentralization. The very essence of ADB's program in governance and PAR in Viet Nam is to assist the Government in developing an effective and accountable public administration and support efforts to combat corruption by setting up appropriate mechanisms and enhancing transparency in decision-making. It is noteworthy that the Government has recently issued a decree to combat corruption which, together with ADB's own Anti-corruption Policy, will help step up efforts to prevent fraud and corruption in externally-financed projects. The Government and aid community will continue to diligently pursue means to ensure that policies on anti-corruption and good governance are implemented effectively.

E. Gender Dimensions of ADB Operations

47. ADB places particular emphasis on gender issues in Viet Nam through its objective of human development. The program includes: (i) special attention to women's needs in health and education; (ii) support for the enhancement of women's productivity and their economic empowerment; and (iii) better collaboration between Government and NGOs in providing targeted interventions. These objectives will be pursued over the program period through several interventions, such as the Vocational and Technical Education Project and Rural Health Project, as well as area-based rural development projects and programs. ADB will initiate policy dialogue with the Government focusing on gender issues affecting women, especially in the education and health sectors. Further, ADB's VRM has recently recruited a gender and development specialist who will develop a gender program for Viet Nam and closely monitor gender issues incorporated in ADB's ongoing and planned operations.

F. Private Sector Operations

48. Viet Nam's investment requirements for infrastructure, in the medium-to-long term, will be substantial. Government and/or Multilateral/Bilateral funding will not be sufficient to meet the demand. It will be necessary to mobilize private domestic and foreign long-term debt and equity, in order to meet Viet Nam's infrastructure financing requirements. Integrating the private sector into infrastructure development is not an objective in itself, but a means to achieve sustainable infrastructure development in the most efficient manner possible to the benefit of Viet Nam. ADB has been discussing with the Government a possible approach in infrastructure development, which explores ways to integrate private sector participation in traditional public sector infrastructure, specifically energy and transport. Such integration would be primarily through public/private partnerships at the project level. This approach encompasses not only the integration of private ownership and operation, etc., but also the mobilization of private financial resources, domestic and foreign, in a project's financial structure. The approach also suggests options for raising long term local currency financing for infrastructure development.

49. The approach takes into consideration the need to: (i) recognize Viet Nam's limited capacity to service larger amounts of "commercial" borrowings and equity investments, (ii) tie into ADB's efforts in developing the proper enabling environment to attract private capital in each sector, (iii) provide adequate gestation time for a pragmatic approach, and close interaction with the Government, (iv) work closely and in cooperation with other multilateral and bilateral aid agencies, and (v) pursue close cooperation with private financial institutions,

businesses and developers. The approach recognizes that ADB should continue its involvement in public sector infrastructure development in those areas where private sector participation may not be possible at the present time.

50. Recently, ADB missions have been discussing with the Government ADB's ability to finance other purely private sector projects. In this regard, ADB's Private Sector Group (PSG) can play a catalytic role in the development of private sector investments. To date, it has committed only one loan for a large cement plant project for which disbursement started in 1999. ADB has also been actively involved in discussions with sponsors of a possible BOT project in the water supply, and a number of other projects which are under consideration by PSG and are presently at early stages of processing, including an education institution, a bitumen producer and an integrated agro- industrial processing plant.

IV. Regional Cooperation

51. Since 1992, when ADB initiated a strategy to forge stronger economic links between the six countries of the GMS, including Cambodia, People's Republic of China (Yunnan Province), Lao PDR, Myanmar, Thailand and Viet Nam, economic cooperation among the participating countries has broadened and deepened in a remarkable manner. Viet Nam stands to gain substantially from the GMS program by establishing links with neighboring countries and capitalizing on the economic gains achievable through emerging trade and investment opportunities. Several priority sub-regional projects in the transport sector involving Viet Nam have been identified. The first GMS project simultaneously involving more than one country for the GMS: Phnom Penh to HCMC Highway Project was approved in late 1998 and loan agreements signed in early 1999 by the Governments of Cambodia, Viet Nam and ADB in Hanoi. In terms of the forward investment program, two additional projects in the transport sector with important subregional linkages are included in the loan pipeline, namely, GMS: East-West Corridor Project (1999), and the GMS: Kunming–Haiphong Corridor Project (2001). Cooperation is also being sought in other sectors covered under the GMS program such as power development, human resource development and the environment.

V. Donor Activities and Aid Coordination

52. The pledges made by the aid community to Viet Nam have gradually grown since the first Consultative Group (CG) meeting in 1993. At the last CG meeting in December 1998 held in Paris, donors pledged another \$2.2 billion, bringing the total amount pledged to approximately \$12 billion. In line with the commitments, progress has been made on the implementation of assistance. Disbursements (including grants) increased from \$430 million in 1995 to \$570 million in 1996, \$1.0 billion in 1997 and to about \$1.5 billion in 1998. However, there still remains a considerable backlog of ODA commitments, amounting to about \$8 billion. The Government is aware of the need to speed up disbursements and has taken important steps to improve project implementation by issuing appropriate decrees to provide for a complete set of consistent budget and ODA management regulations. However, it should also be recognized that it is still rather recent that external assistance to Viet Nam by the major multilateral institutions resumed and thus the program portfolios are still relatively young.

53. There is a pressing need for better coordination of activities of the aid agencies so as to minimize duplication and avoid waste of scarce sources. In this regard, discussions have been held among donors on how best to apply the recent World Bank driven concept of

comprehensive development framework (CDF) for which Viet Nam has been chosen as one of the test cases. The impression that ADB missions have from discussing with donor representatives in Viet Nam is that whilst they appreciate a more holistic way to address issues in development assistance which the CDF proposes, i.e., in coordination with donors, private sector, civil society, NGOs, they also feel that there are clearly major limitations in its application in Viet Nam. This is due to the relatively weak capacity of the Government to quickly respond to heavy claims on its time that the CDF will require, as well as the need to first initiate a more practical approach, such as through the ongoing "partnership" arrangements among donors active in key sectors or a particular geographical area in the country. As a first step to foster partnerships among Government and donors, ADB has signed a memorandum of understanding on a joint approach to address the sustainable development of HCMC with the OECF, World Bank, UNDP, HCMC People's Committee and the Government of Viet Nam. Similar partnership arrangements have also been developed through the assistance of VRM in the water and forestry sub-sectors.

54. The annual CG meetings between the Government and aid agencies are supplemented by in-country sector and sub-sector aid coordination meetings. In its effort to facilitate donor coordination, ADB has been involved in organizing or actively participating in in-country meetings or workshops covering various sectors including agriculture (with World Bank, FAO and IFAD), transport (with World Bank and Japan), urban development (with HABITAT), the water sector (with World Bank, Denmark, Australia and the Netherlands) and the forestry sector (with World Bank and the Netherlands). ADB also contributed in the preparation of the Government's Rural Development Strategy, coordinated by the World Bank by providing inputs in the rural infrastructure and water resource sub-sectors. For the future, ADB expects to organize in-country coordination meetings for agriculture policy development, and natural resources (water and forestry), areas where ADB expects to continue to play a lead role.

55. The UNDP and other United Nations agencies have been an important source of external assistance to Viet Nam since mid-1980s. Support for the transition to a market economy, governance, social development and environmental protection are the main themes of the UNDP's program. UNDP also plays a vital role in aid coordination and mobilization. UNDP's experience in human resource development could be utilized to support capacity building initiatives in ADB's development activities through investment projects.

56. Among bilateral sources of assistance, Sweden and Finland have a long history of support to Viet Nam, while Australia became an important source from the mid-1980s. Japan is now Viet Nam's principal source of external assistance. Its assistance amounts to about \$800 million in soft loans, mainly for physical and social infrastructure rehabilitation projects. Other important bilateral sources are the Netherlands, Switzerland, Belgium, Canada, Denmark, France, Germany, Italy, Spain, and the United Kingdom. The European Union has emerged as an important multilateral donor since 1990, with an annual commitment of about \$60 million.

57. After Japan, the World Bank and ADB are the largest sources of external assistance. The World Bank has a program for lending of around \$500 million per year, in its base case scenario, over the medium-term. Structural reform, banking modernization, rural development, health, education, transport, and energy are major areas of its operations. The World Bank and ADB have regularly conducted discussions to coordinate activities and provide for a better division of responsibility. In the light of recent discussions, a clearer

demarcation has emerged in the education sector where the World Bank is supporting primary and higher education and ADB is taking the lead in secondary and technical education. In the power sector, the World Bank and ADB have discussed sharing responsibilities according to sub-sector and geographic coverage, while maintaining a common approach on policy and institutional issues. Further clarity on the division of work between the two institutions is needed in terms of particular provinces that will be targeted for poverty alleviation through project interventions, especially considering the weak capacity in the poor provinces. (Appendix 3 provides information on external assistance to Viet Nam).

58. NGOs played an important role in providing assistance to Viet Nam before 1993, and continue to do so, especially in grass-roots rural development work and programs targeting disadvantaged groups. NGOs are currently providing support to some 700 generally small-scale projects and programs, ranging from humanitarian/emergency relief to rural credit and the development of small-scale irrigation facilities. A number of bilateral donors are increasingly using NGOs to support development activities in Viet Nam. ADB will also actively pursue associating NGOs in its projects over the medium term. In this context, recently a conference was organized by the NGOs, financed by ADB and World Bank, to explore ways on how to effectively undertake participation of NGOs in development projects. Further, ADB's VRM is playing an important role in fostering relations with NGOs and has organized consultations with NGOs with the view to associating NGOs at early stages of preparation of ADB projects.

VI. Cofinancing and Catalyzing External Resources

59. Resource mobilization and co-financing (both official and commercial) will need to play a greater role in ADB operations, given ADF constraints which have brought about a reduction of ADB's share of project financing. This situation also greatly reinforces the need for close donor coordination. There is the need also for the Government to be more proactive in identifying co-financing possibilities (including commercial co-financing through guarantee operations where ADB can also assist) and solicit participation of interested parties. ADB's missions as well as VRM have kept close association with a number of multilateral and bilateral donors to exchange information about current and planned activities, explore areas for co-financing, and identify areas for a clear division of responsibilities among aid agencies. The Government of Japan has included Viet Nam as part of its extended facility under the New Miyazawa Initiative and ADB has been requested by the Vietnamese authorities to make all efforts to cofinance ADB projects through this Initiative.

60. Moreover, possibilities for further strengthening ADB's cooperation with the UNDP are also being explored. ADB can usefully exploit UNDP's significant experience in human resources development and capacity building in Viet Nam which could be utilized to support capacity building activities in ADB's development initiatives through investment projects. The prospects for cofinancing are good and ADB will endeavor to mobilize an average of about \$100 million a year in joint and parallel cofinancing over the programming period. This would raise ADB's average leveraging ratio to about 30 percent.

VII. ADB's Operational Program

61. ADB's loan and TA program for 2000-2002 is presented in Table 1. Further details are given in Appendix 4. The program takes into account the availability of ADF resources, and Viet Nam's limited access to OCR as a result of the recent graduation to a Group B1 country. Subject to the availability of overall resources within ADB, it is expected that about \$300 million in ADF and another \$70 million in OCR on an annual basis could be available for Viet Nam. As stated earlier, OCR will be used primarily for projects with revenue-generating capacity, such as in the electric power sub-sector, and also for purpose of blending with ADF as in program loan operations. Preliminary analysis shows that the above-mentioned level of OCR lending will not cause any serious impact on the country's debt servicing position. However, the debt servicing capacity will need to be closely monitored on a periodic basis and the OCR lending level adjusted if the situation so warrants. Further, the actual level of ADB lending will depend on country performance including the Government's demonstrated commitment to implement policy and institutional reforms, effectiveness in using ADB resources, and improvements in the governance dimensions of ADB operations.

62. The program emphasizes: support for policy reforms through program operations in the financial and agriculture sectors, building on ADB's earlier policy-based lending operations in these areas; natural resource management by providing assistance for forestry and water resources; social and human development mainly through initiatives in the education, health and water supply sub-sectors; and investment in physical infrastructure, particularly in roads and power sub-sectors. In addition, in accordance with the Government's priority, the program places due emphasis on rural development, with approximately half of the program, amount wise, focused on rural areas. Further, the program includes GMS projects in the spirit of promoting economic cooperation in the GMS.

63. In regard to TA, a major focus is on supporting policy reforms at the national level, and building capacity and introducing good governance measures, especially at the provincial levels, commensurate with the need to facilitate decentralization and fiscal devolution for enhancing rural development. Appropriate TA have also been included for project preparation purpose to ensure the development of an adequate project pipeline in the future.

64. In terms of project mix by strategic development objective, number-wise over the programming period, 2000-2002, projects with economic growth as the primary objective with cross-cutting concerns are dominant at about 38 percent. Growth only projects account for 25 percent, socially-oriented projects for 31 percent and environmental projects for the remaining 6 percent. With respect to the sector distribution, agriculture and natural resources account for about 44 percent of total lending; physical infrastructure for 25 percent; the social sectors for 25 percent, and the balance 6 percent for the financial sector.

65. As regards TA, 65 percent of the TA program is focused on policy support, governance and capacity building initiatives, whilst the remaining 35 percent is dedicated to project preparation. Appendix 5 presents a breakdown of lending program by strategic development objective and sector-wise separately for the first year (2000) and the lending pipeline for subsequent years (2001-2002).

66. It may be noted, however, that the program beyond the year 2000, should be regarded as somewhat tentative as ADB's new COS will be under preparation during 1999 and further refinements may be necessary. Further, the actual level of ADB lending will

depend on country performance including the Government's demonstrated commitment to implement reforms, and effectiveness in using ADB resources. Similarly, ADB TA program for the years 2001 and 2002 has been deliberately kept rather thin and will be developed further once the COS has been discussed with the Government and ADB's Board of Directors.

Table 1: Lending and Technical Assistance Program, 1999-2002

A. Public Sector Lending Program

	1998 (Actual)		1999		2000		2001		2002	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program ^a	3	284	5*	240	5	310	5*	350	6*	359
ADF	3	284	5	200	4	230	5	300	6	259
OCR	-	-	1	40	1	80	1	50	2	100
Lending Pipeline ^b			5	240	5	310	5	350	6	359
ADF			5	200	4	230	5	300	6	259
OCR			1	40	1	80	1	50	2	100

* Blend loans are counted as one.

B. Technical Assistance Program

	1998 (Actual)		1999		2000		2001		2002	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program ^a	10	5,422	13	10,888	13	9,750	5	3,500		TBD
TA Pipeline ^b			13	10,888	13	9,750	5	3,500		TBD

^a The Program is comprised of the firm projects.

^b The Pipeline consists of the Program (firm projects) and standby projects. In 2001 and 2002, there is no distinction between firm and standby.

VII. Economic and Sector Work Program

67. ADB's economic and sector work (ESW) in Viet Nam during recent years has focused on examining the policy issues at the sector/subsector level and identifying the institutional constraints that hamper policy and program implementation. The key topics for ESW in the macroeconomic and sector policy area, as discussed in the section on Sector Strategies, provide the basis for conducting policy dialogue with the Government. Specifically, such ESW entailed: (i) diagnostic study on governance issues; (ii) strategy paper for the energy sector; (iii) social sector financing study; (iv) operational papers on rural infrastructure and water resource management; and (v) urban strategy study. Recently, ADB organized workshops on governance and public administration reform to deepen ADB's policy discussions on issues with the authorities. Further, issue papers on governance, social sectors, and the environment have been prepared which will, together with the ESW completed earlier including a strategy paper on the development of private sector, will provide useful inputs for the next COS and for further deepening ADB's policy discussions with the Government. Further, in response to the ongoing regional economic crisis, ADB organized a *High Level Policy Seminar on Recent Developments in Asia and Viet Nam's Economy* in December 1997. In the light of the discussions at the seminar, ADB has been in a continuing dialogue with the Government on a number of macroeconomic and structural issues facing Viet Nam emanating from the crisis. A follow-up seminar is being planned for

late 1999 or early 2000. ESW during the period 2000-2002 will cover, among others, studies on poverty analysis, gender and development issues, strategy for financial and capital market development, and strategic issues in public administration reform.

IX. Local Cost Financing

68. Viet Nam has made much progress in mobilizing and managing its domestic resources. The large reduction of tariffs in 1995 was followed by the introduction of a comprehensive Budget Law in 1996 and the completion of the public expenditure review and the public investment program. New taxes have also been introduced. Importantly, the Government is making efforts in the financial sector to build confidence among the public through the introduction of appropriate legislation and other mechanisms that promote greater transparency and accountability. It has also published for the first time the budget and projections for 1999. However, there is still a need for greater fiscal transparency, together with the development of a balanced public investment program and sound public expenditure review. Nevertheless, while the need to generate domestic resources to finance investments for sustaining economic growth is well recognized, it will take some time before the country can develop the necessary resource base to adequately finance the required level of investments without external assistance. This would be especially true for those investments which have a long lead time, such as social, environmental and poverty reduction projects. These areas need continued donor support to meet an appropriate part of the local currency costs of investment. Consistent with ADB's policy, a higher percentage of local cost financing will be provided for projects which address priority poverty and environment concerns and/or which are located in geographically and economically less developed regions of the country.

VIET NAM
COUNTRY PERFORMANCE INDICATORS

Item	1994	1995	1996	1997	1998	1999 ^a
ECONOMIC INDICATORS						
A. Income and Growth						
1. GDP per Capita (dollars, current)	224	280	327	350	351	355
2. GDP Growth (% in constant prices)	8.8	9.5	9.3	8.2	4.4	4.0
Agriculture	3.3	4.8	4.4	4.3	2.7	3.0
Industry	13.4	13.6	14.5	12.6	9.3	8.3
Services	9.6	9.8	8.8	7.1	1.8	1.4
B. Saving and Investment (current market prices)						
	(percent of GDP)					
1. Gross Domestic Investment	17.5	16.1	17.8	21.8	22.4	22.0
2. Gross Domestic Saving	25.5	27.1	28.1	28.3	26.7	25.0
C. Money and Inflation						
	(annual percent change)					
1. Consumer Prices (annual average)	14.4	12.7	4.5	3.6	9.2	6.0
2. Broad Money (M2)	27.8	22.6	22.7	25.4	24.6	20.0
D. Government Finance						
	(percent of GDP)					
1. Total Revenue	22.9	22.6	22.4	21.1	18.8	17.7
2. Total Expenditure and Net Lending	26.1	24.6	24.2	22.4	19.9	21.2
3. Overall Surplus/Deficit (-)	-2.3	-1.5	-1.3	-1.7	-1.6	-3.5
E. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	-7.3	-11.3	-12.8	-4.8	-3.6	-2.3
2. Current Account Balance (% of GDP)	-8.0	-11.0	-10.3	-6.5	-4.3	-3.0
3. Export (\$) growth (annual percent change)	35.8	28.2	41.0	26.5	1.0	7.0
4. Import (\$) growth (annual percent change)	48.5	43.8	38.9	0.8	-2.1	3.0
F. External Payments Indicators						
1. Gross Official Reserves (million dollars, end of period)	876	1,376	1,797	2,085	2,098	2,098
(months of imports)	1.8	2.0	2.1	2.4	2.4	2.4
2. External Debt Service (% of exports of goods & services)	13.4	12.2	11.0	11.4	13.4	14.0
3. External Debt (% of GDP)	33.4	31.1	33.6	39.0	45.8	47.8
Memorandum Items:						
GDP (current prices, D billion)	178,534	228,892	272,036	313,623	364,118	405,190
Exchange Rate (local currency per dollar, annual average)	10,978	11,037	11,032	11,683	13,297	14,300
Population (million)	72.51	73.96	75.36	76.71	78.06	79.47

^a Estimate

Source: General Statistical Office; State Bank of Viet Nam; Ministry of Finance; International Monetary Fund reports; and staff estimates.

VIET NAM
COUNTRY PERFORMANCE INDICATORS

	1985	1990	Latest Year
POPULATION INDICATORS			
Total Population (million)	59.9	66.2	78.1 (1998)
Annual Population Growth Rate (%)	2.08	2.25	1.80 (1998)
SOCIAL INDICATORS			
Total Fertility Rate (births per woman)	4.2 (1987)	3.3 (1992)	2.3 (1997)
Maternal Mortality Rate (per 100,000 live births)			105 (1990-96)
Infant Mortality Rate (per 1,000 live births)	47 (1987)	44 (1992)	27 (1996)
Life Expectancy at Birth (years)	65	67	68 (1996)
Female	67	69	70 (1996)
Adult Literacy (%)	64	65	65
Female	84	88	93.7 (1995)
Primary School Gross Enrollment Rate (%) ^a	110 (1986/87)	103 (1991/92)	114 (1995)
Female	-	-	-
Secondary School Gross Enrollment Rate (%) ^b	58 (1986/87)	44 (1991/92)	59 (1995/96)
Female	-	-	-
Child Malnutrition (% of under age 5)	52 (1980-85)		39 (1998)
Population Below Poverty Line (%)			51 (1992/93)
Population with Access to Safe Water (%)	-	-	53/32 (1995)
Population with Access to Sanitation (%)	-	18 (1988-91)	22 (1990-96)
Government Expenditure on Education (% of GDP)	1.0	1.0	2.1 (1998)
Government Expenditure on Health (% of GDP)	0.6	0.9	0.8 (1998)
Human Development Index		0.472	0.56 (1995)
Human Development Index (Rank) ^c		115	122 (1995)
ENVIRONMENTAL INDICATORS			
	1980		1995
Energy Efficiency of Emissions			
GDP per unit of energy use (1987 \$ per kg oil equivalent)	-		7.8
Traditional fuel use (% of total energy use)	53.5		49.1
Carbon dioxide emissions (total metric tons)	16.8		31.7
(per capita metric tons)	0.3		0.4
Water Pollution			
Emissions of organic water pollutants (kg/day)			
Industry share of emissions of organic water pollutants			
Wood			
Primary Metals			
Pulp and Paper			
Chemical			
Food and Beverage			
Textiles			
Land Use			
Cropland (% of land area)	20.0		21.0
Permanent Pasture (% of land area)	1.0		1.0
Forest area (thousand sq. km.)	-		91.0
Annual deforestation (Thousand sq. km.)			1,350.0 (1990-95)
Annual deforestation (Average % change)			1.4 (1990-95)
Nationally protected area (% of total land area)			4.1 (1994)
Threatened species			
Mammals			25.0 (1994)
Birds			45.0 (1994)
Higher Plants			350.0 (1994)
Freshwater			
Access to safe water (Urban % of population)	-		53.0
Access to safe water (Rural % of population)	-		32.0
Urbanization			
Access to sanitation in urban areas (% of urban population)	-		43.0

a Gross enrollment ratio is defined as the number enrolled in a level of education, whether or not they belong in the relevant age group for that level, expressed as a percentage of the population in the age group 6-10 years for primary school, 11-14 years for lower secondary school, and 14-16 years for upper secondary school.

b Percentage of population with reasonable access to sanitary means of excreta and waste disposal, including outdoor latrines and composting.

c For 1990 and 1995, a total of 173 and 174 countries, respectively, were ranked from high to low human development, using the Human Development Index as basis.

Source: General Statistical Office; Ministry of Finance; Ministry of Education and Training; World Bank. 1995. *Poverty Assessment and Strategy*; UNDP. 1995. *Poverty Elimination in Viet Nam*, Hanoi; GSO. 1997. *Demographic and Health Survey*, Hanoi; Human Development Reports, UNDP, various issues; World Development Report, World Indicators of Development, the World Bank, various issues; FAO Production Yearbooks, various issues; and staff estimates.

VIET NAM
PORTFOLIO PERFORMANCE
Table 1 : Implementation, Disbursement Performance and Postevaluation Results
Public Sector Projects only
(as of 31 December 1998)

A. Project Portfolio	Net Loan Amount \$ million %		Rating (No.) ^a									
			Total		Implementation Progress				Development Objectives			
			No.	%	HS	S	PS	U	HS	S	PS	U
Agriculture and Natural Resources	456.4	29.5	8	36.4	0	8	0	0	0	8	0	0
Energy	174.3	11.3	2	9.1	0	0	1	1	0	0	1	1
Finance and Industry	87.6	5.7	1	4.5	0	1	0	0	0	1	0	0
Social Infrastructure	337.0	21.8	6	27.3	2	4	0	0	1	5	0	0
Transport and Communications	493.3	31.9	5	22.7	0	5	0	0	0	5	0	0
Total	1,548.6	100.0	22	100.0	2	18	1	1	1	19	1	1

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)		1,161.9	1,161.9
(2) Disbursed amount (\$ mn, cumulative, active loans only)		357.1	357.1
(3) Percentage disbursed [(2)/(1)] (%)		30.7	30.7
(4) Disbursements (\$mn, active loans only, latest year)		127.8	127.8
(5) Disbursement ratio (%) ^b		14.2	14.2

C. Net Transfer of Resources ^c (\$ million)	OCR	ADF	Total
Net transfer in 1995		45.3	45.3
Net transfer in 1996		25.8	25.8
Net transfer in 1997		145.9	145.9
Net transfer in 1998		124.0	124.0

D. Post-Evaluated Projects	1968 - 1977		1978 - 1987		1988 - 1998		1968 - 1998	
	No.	%	No.	%	No.	%	No.	%
1. Postevaluation Rating (as of 31 December 1998)								
Rated Generally Successful (GS)	-	-	-	-	-	-	-	-
Rated Partly Successful (PS)	-	-	-	-	-	-	-	-
Rated Unsuccessful (US)	-	-	-	-	-	-	-	-
No Rating	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-
2. Postevaluation Rating by Sector								
1968-98 (as of 31 December 1998)	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-
Finance and Industry	-	-	-	-	-	-	-	-
Social Infrastructure	-	-	-	-	-	-	-	-
Transport and Communications	-	-	-	-	-	-	-	-
Others/Multisector	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

^b Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

^c Includes private sector projects for countries with private sector operations.

VIET NAM
PORTFOLIO PERFORMANCE

Table 2: Status of Project Implementation
Public Sector Projects Only
(As of 31 December 1998)

Sector ^a	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Physical Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating ^b	
		OCR (\$ million)	ADF (\$ million)			Original (mm/yy)	Revised (mm/yy)				Implementation Progress	Development Objective
AGR	Agriculture Sector Program	0.0	78.8	Dec-94	Apr-95	Jun-98	-	-	78.78	78.78	S	S
AGR	Rural Credit	0.0	46.5	Sep-96	Apr-97	Jun-01	-	-	35.00	40.20	S	S
AGR	Rural Infrastructure Sector	0.0	108.1	Oct-97	Apr-98	Dec-04	-	5	0.00	5.01	S	S
AGR	Irrigation & Flood Protection Rehab.	0.0	76.3	Oct-93	Mar-94	Dec-98	Jun-99	66	42.88	30.32	S	S
AGR	Red River Delta Water Resources (Sector)	0.0	56.8	Dec-94	Apr-95	Sep-00	-	40	25.49	18.54	S	S
AGR	Fisheries Infrastructure Improvement	0.0	53.6	Nov-95	Apr-96	Dec-02	-	19	15.34	6.02	S	S
AGR	Forestry Sector	0.0	33.6	Mar-97	Oct-97	Dec-03	-	5	0.00	0.50	S	S
AGR	Phuoc Hoa Multipurpose Water Resources	0.0	2.7	Dec-97	Jul-98	Mar-00	-	10	1.83	0.05	S	S
ENE	Power Distribution Rehabilitation	0.0	71.5	Jun-95	Sep-95	Dec-99	-	10	37.50	5.50	PS	PS
ENE	Central & Southern Viet Nam Power Distrib.	0.0	102.8	Nov-97	Feb-99	Dec-02	-	0	0.00	0.00	U	U
F&I	Financial Sector Program Loan	0.0	87.6	Nov-96	Feb-97	Dec-99	-	-	45.00	43.58	S	S
SOC	HCMC Water Supply and Sanitation	0.0	64.0	Nov-93	Apr-95	Jun-99	Jun-01	53	38.26	18.00	S	S
SOC	Provincial Towns Water Supply/Sanitation	0.0	59.2	Aug-95	Dec-95	Dec-00	-	33	14.40	5.55	S	S
SOC	Second Provincial Towns Water Supply	0.0	67.1	Feb-97	Nov-97	Jun-02	-	18	6.00	3.07	S	S
SOC	Population and Family Health	0.0	41.1	Sep-96	Mar-97	Jun-03	-	30	10.79	10.83	HS	S
SOC	Lower Secondary Education Development	0.0	51.8	Sep-97	Mar-98	Jun-04	-	5	0.84	1.93	HS	HS
SOC	Vocational and Technical Education	0.0	54.0	Dec-98	-	Oct-04	-	-	0.00	0.00	S	S
T&C	Road Improvement	0.0	117.9	Nov-93	Nov-94	Dec-98	Dec-99	92	89.42	66.31	S	S
T&C	Saigon Port	0.0	28.7	Mar-95	Jul-95	Dec-98	Jun-00	69	26.27	11.73	S	S
T&C	Second Road Improvement	0.0	116.9	Nov-96	Jul-97	Dec-01	-	10	65.07	10.85	S	S
T&C	Third Road Improvement	0.0	130.0	Dec-98	-	Dec-03	-	-	0.00	0.00	S	S
T&C	GMS: Phnom-Penh to HCMC Highway	0.0	100.0	Dec-98	-	Jun-03	-	-	0.00	0.00	S	S
Total		0.0	1,548.8						532.87	356.77		

^a Sector:

AGR: Agriculture & Natural Resources

ENE: Energy

SOC: Social Infrastructure

F&I: Finance and Industry

T&C: Transport and Communications

^b HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

VIET NAM
OVERALL EXTERNAL ASSISTANCE^a
(\$ million)

External Source	Past 3-5 Years (annual average)		1998 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
A. Multilateral Assistance				
ADB	265.0	10.0	284.0	5.0
EU	-	38.0	-	58.0
IMF	175.0	-	-	-
UNICEF	-	21.0	-	18.0
UNDP	-	15.0	-	25.0
UNHCR	-	10.0	-	7.0
World Bank	398.0	-	360.0	-
WFP	-	10.0	-	16.0
Subtotal	838.0	104.0	644.0	129.0
B. Bilateral Assistance				
Australia	-	45.0	-	44.0
Belgium	-	10.0	-	10.0
Canada	-	8.0	-	13.0
Denmark	28.0	7.0	42.0	12.0
Finland	-	6.0	-	6.0
France	37.0	4.0	88.0	11.0
Germany	35.0	5.0	59.0	9.0
Italy	10.0	-	29.0	-
Japan	470.0	50.0	730.0	100.0
Netherlands	16.0	4.0	20.0	5.0
New Zealand	-	1.4	-	1.4
Sweden	34.0	-	45.0	-
Switzerland	-	-	-	-
United Kingdom	-	7.0	-	7.0
Subtotal	630.0	147.4	1,013.0	218.4
Total	1,468.0	251.4	1,657.0	347.4
Memo Items:				
External Assistance as % of Current Expenditures	-		-	
External Assistance as % of Capital Expenditures	16.1		-	

^a On commitment basis.

Sources: UNDP, each agency's reports and staff estimates.

VIET NAM
LENDING PIPELINE, 2000

Sector/Project Name	Strategic		Responsible Division	Year of PPTA	PROJECT COST (\$ million)					
	Dev't Objectives ^a				TOTAL	Bank			Gov't	Cofinancing (Others)
	Primary	Secondary				OCR	ADF	Total		
2000 FIRM LOANS										
Agriculture and Natural Resources										
1. Rural Savings Credit II	ECO	POV	AWAR	1998	90.0	-	50.0	50.0	20.0	20.0
2. Phuoc Hoa Water Resources	ECO	POV	AWFN	1996	160.0	-	80.0	80.0	30.0	50.0
Subtotal					250.0	0.0	130.0	130.0	50.0	70.0
Energy										
3. Se San 3 Hydropower Development	ECO		IWEN	1999	300.0	80.0	-	80.0	100.0	TBD
Subtotal					300.0	80.0	0.0	80.0	100.0	TBD
Social Infrastructure										
4. Rural Health	HD	GAD	AWEH	1998	100.0	-	50.0	50.0	20.0	30.0
Subtotal					100.0	0.0	50.0	50.0	20.0	30.0
Transport and Communications										
5. Provincial Roads Transport	ECO	POV	IWTC	1999	120.0	-	50.0	50.0	20.0	50.0
Subtotal					120.0	0.0	50.0	50.0	20.0	50.0
Total					770.0	80.0	230.0	310.0	190.0	150.0
2001 LOAN PIPELINE										
Agriculture and Natural Resources										
1. Central Region Poverty Reduction	POV		AWAR	2000	55.0	-	40.0	40.0	15.0	TBD
2. Second Red River Water Resources (Sector)	ECO	POV	AWFN	1998	115.0	-	60.0	60.0	25.0	30.0
Subtotal					170.0	0.0	100.0	100.0	40.0	30.0
Finance and Industry										
3. Financial Sector Development II	ECO		IWFI	1998	140.0	50.0	60.0	110.0	-	30.0
Subtotal					140.0	50.0	60.0	110.0	-	30.0
Social Infrastructure										
4. Third Provincial Towns Water Supply and Sanitation	HD	ENV	AWWU	1999	85.0	0.0	60.0	60.0	25.0	TBD
Subtotal					85.0	0.0	60.0	60.0	25.0	TBD
Transport and Communications										
5. GMS: Kunming-Haiphong Corridor	ECO		IWTC	2000	140.0	0.0	80.0	80.0	30.0	30.0
Subtotal					140.0	0.0	80.0	80.0	30.0	30.0
Total					535.0	50.0	300.0	350.0	95.0	90.0
2002 LOAN PIPELINE										
Agriculture and Natural Resources										
1. Agriculture Sector Development II	ECO	POV	AWAR	1999	150.0	50.0	50.0	100.0	-	50.0
2. Sustainable Forestry Management (Sector) II	ENV	POV	AWFN	2000	100.0	-	50.0	50.0	30.0	20.0
3. Central Provinces Water Resources Development (TA loan)	ECO	POV	AWFN	2000	4.0	-	4.0	4.0	-	TDB
Subtotal					254.0	50.0	104.0	154.0	30.0	70.0
Energy										
4. Power Transmission and Distribution	ECO		IWEN	2000	160.0	50.0	30.0	80.0	30.0	50.0
Subtotal					160.0	50.0	30.0	80.0	30.0	50.0
Social Infrastructure										
5. Lower Secondary Education Development II	HD	GAD	AWEH	2000	70.0	-	50.0	50.0	20.0	TBD
6. Provincial Towns Urban Development	HD	ENV	AWWU	2000	75.0	-	75.0	75.0	-	
Subtotal					145.0	0.0	125.0	125.0	20.0	0.0
Total					559.0	100.0	259.0	359.0	80.0	120.0

^a ECO = Economic Growth; ENV = Environmental Protection; GAD = Gender and Development; HD = Human Development; and POV = Poverty Reduction.

**VIET NAM
TECHNICAL ASSISTANCE PROGRAM, 2000**

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
2000 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 . Strengthening Capacity for Policy and Planning at MARD	AWAR	ADTA	800	-	800
2 . Water Resources Planning and Management in Dong Nai Basin	AWFN	ADTA	600	-	600
3 . Central Region Poverty Reduction	AWAR	PPTA	600	-	600
4 . Sustainable Forestry Management (Sector) II	AWFN	PPTA	600	-	600
5 . Central Provinces Water Resources Management	AWFN	PPTA	500	-	500
	Subtotal		<u>3,100</u>	<u>-</u>	<u>3,100</u>
Energy					
6 . Capacity Building in Power Sector	IWEN	ADTA	800	-	800
7 . Power Transmission and Distribution	IWEN	PPTA	750	-	750
	Subtotal		<u>1,550</u>	<u>-</u>	<u>1,550</u>
Finance and Industry					
8 . Institutional Support for Financial Market Development	IWFI	ADTA	1,000	-	1,000
	Subtotal		<u>1,000</u>	<u>-</u>	<u>1,000</u>
Social Infrastructure					
9 . Capacity Building in Water Supply Management	AWWU	ADTA	600	-	600
10 . Lower Secondary Education Development II	AWEH	PPTA	600	-	600
11 . Provincial Towns and Urban Development	AWWU	PPTA	900	-	900
	Subtotal		<u>2,100</u>	<u>-</u>	<u>2,100</u>
Others					
12 . Pilot Project for Private Sector Participation	IWOD	ADTA	1,000	-	1,000
13 . Institutional Support for Decentralization	PW3	ADTA	1,000	-	1,000
	Subtotal		<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total			9,750	-	9,750
2001 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 . Rural Infrastructure Sector Development II	AWAR	PPTA	600	-	600
2 . Capacity Building in Central Region Poverty Reduction	AWAR	ADTA	800	-	800
	Subtotal		<u>1,400</u>	<u>-</u>	<u>1,400</u>
Transport and Communications					
3 . Provincial Roads Improvement II	IWTC	PPTA	1,000	-	1,000
	Subtotal		<u>1,000</u>	<u>-</u>	<u>1,000</u>
Social Infrastructure					
4 . Vocational and Technical Education II	AWEH	PPTA	600	-	600
	Subtotal		<u>600</u>	<u>-</u>	<u>600</u>
Others					
5 . Capacity Building in Project Performance Management	OEWD	ADTA	500	-	500
	Subtotal		<u>500</u>	<u>-</u>	<u>500</u>
Total			3,500	-	3,500

VIET NAM
LENDING PROGRAM BY TYPE AND SECTOR, 2000-2002

Classification	2000 (Firm)		2001-2002	
	No.	%	No.	%
I. By Type				
A. Economic Growth	1	20.0	3	27.3
B. Projects Directly Aimed at Social Concerns	1	20.0	4	36.4
C. Projects Directly Aimed at Environmental Concerns	0	0.0	1	9.1
D. Economic Growth-oriented Projects with Social and/or Environmental Concerns	3	60.0	3	27.3
Total	5	100.0	11	100.0
II. By Sector				
A. Agriculture and Natural Resources	2	40.0	5	45.5
B. Energy	1	20.0	1	9.1
C. Finance	0	0.0	1	9.1
D. Transport and Communications	1	20.0	1	9.1
E. Social Infrastructure	1	20.0	3	27.3
F. Others/Multisector	0	0.0	0	0.0
Total	5	100.0	11	100.0

VIET NAM

PROJECT PROFILE				
1. Project Name: Rural Credit and Savings II			2. Sector/Subsector: Agriculture/Rural Development	
3. Dev. Objective: Primary: ECO Secondary: POV				
4. Rationale and Objectives: The loan will support private sector investments in rural and agro-based enterprises. Two categories of enterprises will be emphasized: (i) household enterprises that have a direct impact on the production and productivity of farms or the realization of the full economic value of farm produce; and (ii) business enterprises that are not necessarily agro-based but are employment intensive.			5. Beneficiary Participation/Consultation Needs: In order to establish efficient financial operations in the rural areas, beneficiary consultation is absolutely necessary to determine their needs and present weaknesses in the delivery of financial services.	
6. Scope: The Project will assist (i) ongoing rural enterprises by financing their modernization, balancing, and expansion needs; and (ii) new investments in enterprises in rural areas. Priority will be given to small and employment intensive enterprises. A wide geographical spread of loan assisted enterprises where poverty is endemic will be encouraged.				
7. Estimated Cost & Financing Plan (\$):				Remarks New funding for preparing a project is needed. The Project should be prepared before the end of 1999 to ensure a loan is processed for 2000.
Financing (Source)	FC	LC	Amount	
Bank	25.0	25.0	50.0	
Cofinancing	25.0	25.0	50.0	
Borrower	25.0	25.0	50.0	
Total	75.0	75.0	150.0	
8. Estimated Benefits and Beneficiary Groups: (i) Income of beneficiary households increase by at least 50 percent; (ii) about 30,000 rural enterprises, 70 percent of which are ongoing concerns and 30 percent newly started businesses are financed by the Project; (iii) 1,200 VBARD credit officers are able to apply the principals of enterprise credit appraisal (training provided under ADB TA for strengthening corporate governance) in daily credit operations, thereby strengthening their skills and knowledge; (iv) evolution of household as business units into enterprises is promoted thereby ensuring professionalism, proper accounting, and market oriented approach to business; and (v) private sector will shoulder a larger responsibility for the growth in agricultural and agro-based sector development.				
9. Executing Agency: Viet Nam Bank for Agriculture and Rural Development (MARD)			10. Project Implementation Period: Start: 2000 End: 2005	
11. Environment Category: B			12. Processing Year: 1999/2000	

VIET NAM

PROJECT PROFILE				
1. Project Name: Phuoc Hoa Multipurpose Water Resources			2. Sector/Subsector: Agriculture/Water Resources	
3. Dev. Objective: Primary: ECO Secondary: ENV				
4. Rationale and Objectives: Water resources development and management are key areas required to support the current growth in Viet Nam. Expansion of irrigated area is a high priority of Government, particularly in rural areas unaffected by industrial and urban expansion. Control of salinity intrusion in the rivers is essential for municipal water supply. The Project will develop the water resources of the Song Be river to increase agricultural production, provide bulk water for Ho Chi Minh City (HCMC) and control saline intrusion, thereby providing social, economic and environmental benefits.			5. Beneficiary Participation/Consultation Needs: Social assessment/participatory design for irrigation development and management and extensive consultations in development or Resettlement Action Plan are being carried out under an engineering loan. Beneficiaries will be involved in the implementation of the Project.	
6. Scope: The proposed Project involves the development of a reservoir and associated infrastructure for irrigation of 30,000 ha of agricultural land in Song Be Province and 28,000 ha in Dong Nai Provinces, municipal and industrial water supply for HCMC and the HCMC-Bien-Hoa-Vung Tao Economic Zone and water for salinity control in the Saigon River. A PPTA approved in 1996 prepared a feasibility assessment and a TA loan is undertaking survey and geotechnical investigation and preparing preliminary and detailed engineering designs. The Project will comprise a 30m high river barrage, diversion canal and irrigation system.				
7. Estimated Cost & Financing Plan (\$):				Remarks Cofinancing to be identified.
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
Bank	80.0		80.0	
Cofinancing		50.0	50.0	
Borrower		30.0	30.0	
Total	80.0	80.0	160.0	
8. Estimated Benefits and Beneficiary Groups: (i) Increased irrigated area, agricultural production, and reduction in rural poverty; (ii) additional water supply for domestic and industrial use; (iii) environmental improvements; and (iv) improved water resources management				
9. Executing Agency: Ministry of Agriculture and Rural Development			10. Project Implementation Period: Start: 2001 End: 2006	
11. Environment Category: A			12. Processing Year: 2000	

VIET NAM

PROJECT PROFILE																								
1. Project Name: Se San 3 Hydropower Project			2. Sector/Subsector: Energy/Electric Power																					
3. Dev. Objective: Primary: ECO Secondary:			5. Beneficiary Participation/Consultation Needs: Close consultation with beneficiaries and NGOs, in addition to concerned provincial authorities, will be undertaken.																					
4. Rationale and Objectives: The Se San 3 Hydropower Project is included as a priority investment in the Government's least cost development plan. The Sa San River is recognized as one of the top three rivers in Viet Nam in terms of hydropower potential. Se San 3 is technically and economically attractive and will have the least environmental and social impact. In addition to conforming the Government's overall energy strategy, the Se San 3 Project conforms to the Bank's current policy agenda.																								
6. Scope: The Project will involve the construction of a 260MW hydropower station on the Se San River, south of the Ya Li 720 MW facility, which should be fully commissioned by the end of 2000.																								
7. Estimated Cost & Financing Plan (\$): (a) TA: Amount: 998,000.00 Source : JSF Loan Project Cost (\$m)			Remarks Private sector participation will be explored.																					
<table border="1"> <thead> <tr> <th>Financing (Source)</th> <th>FC</th> <th>LC</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Bank</td> <td>80.0</td> <td></td> <td>80.0</td> </tr> <tr> <td>Cofinancing</td> <td>120.0</td> <td></td> <td>120.0</td> </tr> <tr> <td>Borrower</td> <td></td> <td>100.0</td> <td>100.0</td> </tr> <tr> <td>Total</td> <td>200.0</td> <td>100.0</td> <td>300.0</td> </tr> </tbody> </table>					Financing (Source)	FC	LC	Total	Bank	80.0		80.0	Cofinancing	120.0		120.0	Borrower		100.0	100.0	Total	200.0	100.0	300.0
Financing (Source)	FC	LC			Total																			
Bank	80.0				80.0																			
Cofinancing	120.0				120.0																			
Borrower		100.0	100.0																					
Total	200.0	100.0	300.0																					
8. Estimated Benefits and Beneficiary Groups: The Project will increase by 260MW electricity supply to the national grid. In addition, the Project has additive benefits by maximizing electricity produced by the Ya Li Hydropower project located 20 km upstream from the proposed Project site.																								
9. Executing Agency: Electricity of Viet Nam			10. Project Implementation Period: Start: 2000 End: 2003																					
11. Environment Category: C			12. Processing Year: 2000																					

VIET NAM

PROJECT PROFILE				
1. Project Name: Rural Health			2. Sector/Subsector: Health	
3. Dev. Objective: Primary: HD Secondary: POV				
4. Rationale and Objectives: Despite overall good health status in the country, the health system faces several challenges. (i) Access to health care is inequitable, especially the poor and ethnic minorities lack access. (ii) With the decline of the commune system and the transition to a market economy, the quality of health services in rural areas has also begun to deteriorate. (iii) Low utilization of health services in rural areas is also linked to inadequate appreciation about the need for PHC services, misconceptions and myths about modern medicine, and lack of knowledge about the availability of services. (iv) Allocation of resources within the health sector is both inefficient and inequitable. (v) The health sector currently lacks the capacity to effectively monitor, manage, and evaluate programs and interventions in rural areas. The Project will address all these issues.			5. Beneficiary Participation/Consultation Needs: The Project is being formulated through a project preparation technical assistance (TA). The TA involves extensive consultations with communities, community leaders and various other stakeholders. The TA is carrying out a situation analysis with intensive participation of community, NGOs and mass-movement organizations. The proposed project interventions will be widely shared with beneficiaries and all stakeholders and their feedback will be incorporated before they are finalized.	
6. Scope: The Project will seek to achieve the following: (i) Promoting equitable access to primary health care services; (ii) improving quality of health services, especially those used by women and children; (iii) improving demand for MCH, safe motherhood and nutrition related services; (iv) developing an efficient, equitable and sustainable health financing system; and (v) improving management capacity and community participation in provision of health services. The Project will have the following four components: (i) Improvement in service delivery in 12 poor provinces; (ii) organizing information, education and communication (IEC) activities to promote demand for reproductive health services and nutrition and improving capacity for planning and implementing IEC activities; (iii) health financing – development of long term vision and policy for health financing and a pilot for an efficient and equitable health financing mechanism; and (iv) strengthening community participation in provision of services and management capacity building.				
7. Estimated Cost & Financing Plan (\$):				Remarks Some of the potential cofinanciers are SIDA and NORAD.
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
Bank	25.0	25.0	50.0	
Cofinancing	20.0	10.0	30.0	
Borrower	10.0	10.0	20.0	
Total	55.0	45.0	100.0	
8. Estimated Benefits and Beneficiary Groups: The Project will improve health status of people, especially women and children and the poor, by improving access and quality of health services and generating demand.				
9. Executing Agency: Ministry of Health			10. Project Implementation Period: Start: 2000 End: 2005	
11. Environment Category: A			12. Processing Year: 2000	

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2000-2002)
PIPELINE UPDATE**

VIETNAM

June 2000

VIET NAM
LENDING PIPELINE, 2000-2002

Sector/Project Name	Strategic		Responsible Division	Year of PPTA	PROJECT COST (\$ million)					
	Dev't Objectives ^a				TOTAL	Bank			Gov't	Cofinancing (Others)
	Primary	Secondary				OCR	ADF	Total		
2000 FIRM LOANS										
Agriculture and Natural Resources										
1. Tea and Fruit Development	ECO	ENV	AWAR	1997	47.3	-	40.2	40.2	2.2	4.9
2. Rural Savings Credit II	ECO	POV	AWAR	1998	TBD	-	80.0	80.0	TBD	TBD
Subtotal					127.3	-	120.2	120.2	2.2	4.9
Social Infrastructure										
3. Rural Health	HD	WID	AWEH	1998	97.4	-	65.6	65.6	30.0	1.8
Subtotal					97.4	-	65.6	65.6	30.0	1.8
Total					224.7	0.0	185.8	185.8	32.2	6.7
2001 LOAN PIPELINE										
Agriculture and Natural Resources										
1. Central Region Poverty Reduction	POV		AWAR	2000	55.0	-	40.0	40.0	15.0	TBD
Subtotal					55.0	0.0	40.0	40.0	15.0	-
Finance and Industry										
2. Financial Sector Development II	ECO		IWFI	1998	140.0	50.0	60.0	110.0	-	30.0
Subtotal					140.0	50.0	60.0	110.0	-	30.0
Social Infrastructure										
3. Third Provincial Towns Water Supply and Sanitation	HD	ENV	AWWU	1999	85.0	0.0	60.0	60.0	25.0	TBD
Subtotal					85.0	0.0	60.0	60.0	25.0	TBD
Transport and Communications										
4. GMS: Kunming-Haiphong Corridor	ECO		IWTC	2000	140.0	0.0	80.0	80.0	30.0	30.0
5. Provincial Roads Improvement	ECO	POV	IWTC	1999	120.0	-	50.0	50.0	20.0	50.0
Subtotal					260.0	0.0	130.0	130.0	50.0	80.0
Total					540.0	50.0	290.0	340.0	90.0	110.0
2002 LOAN PIPELINE										
Agriculture and Natural Resources										
1. Agriculture Sector Development II	ECO	POV	AWAR	1999	150.0	50.0	50.0	100.0	-	50.0
2. Sustainable Forestry Management (Sector) II	ENV	POV	AWFN	2000	100.0	-	50.0	50.0	30.0	20.0
3. Central Provinces Water Resources Development (TA loan)	ECO	POV	AWFN	2000	4.0	-	4.0	4.0	-	TDB
Subtotal					254.0	50.0	104.0	154.0	30.0	70.0
Energy										
4. Power Transmission and Distribution	ECO		IWEN	2000	160.0	50.0	30.0	80.0	30.0	50.0
Subtotal					160.0	50.0	30.0	80.0	30.0	50.0
Social Infrastructure										
5. Lower Secondary Education Development II	HD	GAD	AWEH	2000	70.0	-	50.0	50.0	20.0	TBD
6. Provincial Towns Urban Development	HD	ENV	AWWU	2000	75.0	-	75.0	75.0	-	-
Subtotal					145.0	0.0	125.0	125.0	20.0	-
Total					559.0	100.0	259.0	359.0	80.0	120.0

^a ECO = Economic Growth; ENV = Environmental Protection; GAD = Gender and Development; HD = Human Development; and POV = Poverty Reduction.



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VIET NAM
TECHNICAL ASSISTANCE PROGRAM, 2000-2001

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
2000 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Central Region Poverty Reduction	AWAR	PPTA	824.0		824.0
2 Strengthening Capacity for Policy and Planning at MARD	AWAR	ADTA	300.0		300.0
3 Capacity Building for Water Resources Management	AWFN	ADTA	1,800.0	2,000.0	3,800.0
	Subtotal		<u>2,924.0</u>	<u>2,000.0</u>	<u>4,924.0</u>
Energy					
4 Se San River Hydropower Development	IWEN	PPTA	1,800.0		1,800.0
	Subtotal		<u>1,800.0</u>	<u>0.0</u>	<u>1,800.0</u>
Transport and Communications					
5 Provincial Roads Improvement	IWTC	PPTA	1,000.0		1,000.0
6 GMS: Kunming-Haiphong Economic Corridor	IWTC	PPTA	600.0		600.0
	Subtotal		<u>1,600.0</u>	<u>-</u>	<u>1,600.0</u>
Social Infrastructure					
7 Low Income Housing and Secondary Towns Urban Development Needs Assessment	AWWU	ADTA	500.0		500.0
8 Secondary Education Sector Masterplan	AWEH	ADTA	600.0		600.0
9 Capacity Building for Prevention of Foodborne Diseases	AWEH	ADTA	500.0		500.0
10 Human Capital of the Poor in Viet Nam: Policy Options	AWEH	ADTA	145.0		145.0 *
	Subtotal		<u>1,745.0</u>	<u>-</u>	<u>1,745.0</u>
Others					
11 Support for the Preparation of the Poverty Reduction Strategy	PW3	ADTA	140.0		140.0
12 Institutional Support to the Office of the Government	PW3	ADTA	400.0		400.0
13 Improvement of Resettlement Legal Framework and Institutional Capacity	SOCD	ADTA	250.0		250.0
14 Development of the Gender Strategy and Implementation Action Plan	SOCD	ADTA	350.0		350.0
15 Improved ODA Effectiveness Through Partnership Initiatives	PW3	ADTA	150.0		150.0
	Subtotal		<u>1,290.0</u>	<u>-</u>	<u>1,290.0</u>
Total			9,359.0	2,000.0	11,359.0
2001 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Rural Infrastructure Sector Development II	AWAR	PPTA	600.0	-	600.0
2 Sustainable Forestry Management (Sector) II	AWFN	PPTA	600.0	-	600.0
	Subtotal		<u>1,200.0</u>	<u>-</u>	<u>1,200.0</u>
Energy					
3 Power Transmission and Distribution	IWEN	PPTA	750.0	-	750.0
	Subtotal		<u>750.0</u>	<u>-</u>	<u>750.0</u>
Finance and Industry					
4 Institutional Support for Financial Market Development	IWFI	ADTA	1,000.0	-	1,000.0
	Subtotal		<u>1,000.0</u>	<u>-</u>	<u>1,000.0</u>
Transport and Communications					
5 Provincial Roads Improvement II	IWTC	PPTA	1,000.0	-	1,000.0
	Subtotal		<u>1,000.0</u>	<u>-</u>	<u>1,000.0</u>
Social Infrastructure					
6 Provincial Towns Urban Development	AWWU	PPTA	900.0	-	900.0
7 Lower Secondary Education Development II	AWEH	PPTA	600.0	-	600.0
8 Vocational and Technical Education II	AWEH	PPTA	600.0	-	600.0
	Subtotal		<u>2,100.0</u>	<u>-</u>	<u>2,100.0</u>
Total			6,050.0	-	6,050.0

Approved.