



Country Partnership Strategy

July 2012

Viet Nam 2012–2015

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 12 July 2012)

Currency unit	–	dong (D)
D1.00	=	\$0.000048
\$1.00	=	D20,860.00

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CAPE	–	country assistance program evaluation
CPS	–	country partnership strategy
CSP	–	country strategy and program
EGM	–	effective gender mainstreaming
ENV	–	environment
GDP	–	gross domestic product
GEN	–	gender equity
GMS	–	Greater Mekong Subregion
kWh	–	kilowatt-hour
MIC	–	middle-income country
OCR	–	ordinary capital resources
PPP	–	public–private partnership
PSD	–	private sector development
PSM	–	public sector management
PSO	–	private sector operations
RCI	–	regional cooperation and integration
SEDP	–	Socio-Economic Development Plan
SMEs	–	small and medium-sized enterprises
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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COUNTRY AT A GLANCE

Economic	2007	2008	2009	2010	2011
GDP (\$ billion, current)	71	91	97	106	124
GDP per capita (\$, current)	843	1,070	1,130	1,224	1,409
GDP growth (% , in constant prices)	8.5	6.3	5.3	6.8	5.9
Agriculture	3.8	4.7	1.8	2.8	4.0
Industry	10.2	6.0	5.5	7.7	5.5
Services	8.9	7.4	6.6	7.5	7.0
Gross domestic investment (% of GDP)	43.1	39.7	38.1	38.9	32.6
Gross national saving (% of GDP)	33.1	27.8	31.3	34.9	32.8
Consumer price index (annual % change)	8.3	23.0	6.9	9.2	18.6
Liquidity (M2) (annual % change)	46.1	20.3	29.0	33.3	12.1
Overall fiscal surplus (deficit) (% of GDP)	(4.6)	(3.1)	(9.3)	(7.9)	(5.0)
Merchandise trade balance (% of GDP)	(14.7)	(14.0)	(7.8)	(4.8)	(0.4)
Current account balance (% of GDP)	(10.0)	(11.9)	(6.8)	(4.0)	0.2
External debt service (% of exports of goods and services)	3.8	3.3	4.2	3.4	...
External debt (% of GDP)	32.5	29.8	39.0	42.2	...
Poverty and Social	2000		2010		
Population (million)	77.6		87.8 [2011]		
Population growth (annual % change)	1.35		1.04 [2011]		
Maternal mortality ratio (per 100,000 live births)	91		60		
Infant mortality rate (below 1 year/per 1,000 live births)	27		19		
Life expectancy at birth (years)	72		75		
Adult literacy (%)	90		93 [2009]		
Primary school gross enrollment (%)	108		106		
Child malnutrition (% below 5 years old)	33 [1995-2000]		20		
Population below poverty line (%)	37.4 [1998]		14.5 [2008]		
Population with access to safe water (%)	77		95		
Population with access to sanitation (%)	56		76		
Environment				2010	
Carbon dioxide emissions (million tons)				114 [2009]	
Carbon dioxide emissions per capita (metric tons)				1.3 [2009]	
Forest areas (million hectares)				13.4	
Urban population (% of total population)				32 [2011]	
ADB Portfolio (sovereign loans, as of 31 March 2012)	OCR		ADF		Total
Total number of loans		13	46		59
Net loan amount (\$ million, cumulative)		4,454.39	2,624.00		7,078.30
Disbursements					
Total funds available for withdrawal (\$ million)		3,592.58	1,800.43		5,393.01
Disbursed amount (\$ million, cumulative)		861.72	823.57		1,685.29
Percentage disbursed (disbursed amount/total available)		19	31		24

... = not available, () = negative, [] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, M2 = broad money, OCR = ordinary capital resources.

Sources: Government of Viet Nam, International Monetary Fund, World Bank, Asian Development Bank.

I. DEVELOPMENT TRENDS AND ISSUES

A. Country Background

1. **Overall achievements.** Viet Nam has achieved rapid economic growth over the past two decades by continuously implementing market-oriented reforms. With average annual gross domestic product growth of 6.6% from 2007 to 2011, Viet Nam's gross domestic product per capita rose from \$843 in 2007 to \$1,409 in 2011.¹ The country is now classified as a lower middle-income country (MIC). Its development has benefited from political and social stability. While this process has been effective, policy makers acknowledge that the growth impetus unleashed by early reforms is losing momentum, requiring that reform deepen and accelerate.

2. **Millennium Development Goals.** Viet Nam is generally on track to achieve the Millennium Development Goals. It has already achieved the 2015 targets for under-5 and infant mortality. Net primary school enrollment reached 97% in 2009 with good regional, urban–rural, and gender parity. Much progress has also been made in maternal health. Greater efforts are needed, however, to address geographical disparities related to the control of HIV/AIDS and other diseases, as well as to environmental sustainability. This will require effective development planning to appropriately target public resources and improve the efficiency of social expenditures.

3. **Poverty reduction.** Viet Nam has made good progress in reducing poverty, lowering the incidence of poverty from 58.1% in 1993 to 14.5% in 2008.² However, the incidence of poverty varies significantly across regions. It is low in the southeast, Red River and Mekong deltas, and south central coast but high in the northern mountains, north central coast, and central highlands. While ethnic minority groups account for less than 15% of the total population, they make up more than half of the poor. The large difference between the proportion of the population living on less than \$2 per day (43.4% in 2008, based on purchasing power parity) and \$1.25 per day (16.9% in 2008) suggests that many households remain vulnerable to even a small external or internal shock pushing them back into poverty.

4. **Gender equity.** Viet Nam has made considerable progress toward gender equity by narrowing gender gaps in education and health and expanding economic opportunities for both genders.³ Women's participation in the labor force is high. The gender gap in earnings is much narrower than in many other Asian countries. Women are 25.8% of National Assembly representatives, which is one of the highest rates in the region. However, significant challenges remain regarding the high incidence of gender-based violence, low women's participation in public decision making, the highly gender-segregated labor market, and rising male sex ratios at birth. Gender disparities are more marked in rural areas and among ethnic minorities.

B. Economic Assessment and Outlook

5. **Structural roots of macroeconomic imbalances.** Viet Nam has weathered global macroeconomic instability well, posting an average growth rate higher than regional comparator countries. Growth has come, however, at the cost of high inflation, which averaged about 13% during 2007–2011. In 2011, Viet Nam addressed the symptoms of its macroeconomic problems

¹ Gross national income per capita at current market price in 2011 is \$1,173.

² Poverty Analysis (Summary) (accessible from the list of linked documents in Appendix 2).

³ Gender Analysis (Summary) (accessible from the list of linked documents in Appendix 2).

by tightening monetary and fiscal policies, lowering inflation from a peak of 23% to single digits by April 2012. Inflation pressures are likely to reemerge if supply-side constraints, especially shortages of skilled labor and inadequate infrastructure, are not addressed. Strong foreign capital inflows since Viet Nam's accession to the World Trade Organization in 2007 have accentuated supply-side bottlenecks that predated the global financial crisis. At the core of structural rigidities are inefficiencies in state-owned enterprises (SOEs), less-effective public infrastructure programs, and a shallow banking system that relies on a few large state-owned banks. Microeconomic policies have mainly intensified state investment, especially in SOEs, to generate growth rather than to improve productivity and efficiency. Consequently, investment efficiency and labor productivity are decreasing and low compared with regional countries when at a similar stage of economic development.

6. **Productivity and competitiveness.** Although Viet Nam is considered successful in reforming business-related regulations and practices, national competitiveness is held back by persistent structural rigidities.⁴ Maintaining growth that is sufficiently high and long term to escape the middle-income trap requires improved efficiency, starting with public investment that effectively addresses supply-side bottlenecks.⁵ There is need for greater transparency and disclosure of information related to policy-making, as well as for a more transparent and effective regulatory environment that enables all enterprises to compete on equal terms. High credit growth and inadequate surveillance of banks has heightened financial risks. The finance sector needs strengthened supervision, while the longer-term challenge is to develop a deeper and more diversified domestic finance system capable of mobilizing funds for investment, including for critical infrastructure. These measures will promote private sector development (PSD).

7. **Remaining poverty.** The main constraints on further poverty reduction are low returns on social sector investments due to inefficient planning and implementation, lack of access to social infrastructure, an inadequate social safety net, and vulnerability to natural disasters and climate change. The poor are particularly vulnerable to food inflation, which is considerably higher in Viet Nam than in other regional countries due to its market structure.

8. **Environmental degradation and vulnerability to climate change.** A key challenge is to manage rapid economic development in an environmentally sustainable manner, especially in relation to environmental degradation and climate change.⁶ Industrialization, urbanization, and agricultural intensification have degraded land and water. Continued discharges of untreated waste to water and soil threaten water safety and, thereby, food security and reliable energy supply. The effective management of these environmental and climate change concerns is critical to Viet Nam's long-term development prospects.

C. Highlights of Previous Asian Development Bank Country Strategy

9. **Focus and themes.** The Asian Development Bank (ADB) Viet Nam country strategy and program (CSP), 2007–2010 primarily focused on business-led, pro-poor economic growth; two complementary themes were (i) social equity and balanced development and (ii) the environment.⁷ A subtheme of “creating conditions for efficient enterprises in a changing global economy” was adopted under the CSP midterm review after the global economic turmoil in

⁴ World Bank. 2010. *Doing Business 2011: Making a Difference for Entrepreneurs*. Ha Noi.

⁵ ADB. 2012. *Viet Nam: Critical Development Constraints*. Ha Noi.

⁶ Environment Assessment (Summary) (accessible from the list of linked documents in Appendix 2).

⁷ ADB. 2006. *Country Strategy and Program: Viet Nam, 2007–2010*. Manila.

2008–2009.⁸ Opportunities to promote governance and regional cooperation were sought in all interventions. The CSP's basic thrust and scope aligned well with the government's Socio-Economic Development Plan (SEDP), 2006–2010,⁹ as well as with Strategy 2020 of ADB.¹⁰ The CSP was implemented through ADB's engagement in selected sectors: education, energy, finance, urban infrastructure, rural infrastructure, transport, agriculture and natural resources, health, trade, and public finance and economic management. PSD, governance, and social development also supported the CSP focus and themes.

10. **Lessons learned.** The country assistance program evaluation (CAPE) reviewed ADB's assistance strategies and programs for 1999–2008 and confirmed their relevance and effectiveness.¹¹ The CAPE identified the strengths of ADB operations in Viet Nam as (i) alignment with the government's development plans, (ii) replication of past successful practices in the subsequent projects, and (iii) aid coordination; weaknesses include (i) poor implementation performance, (ii) lack of institutional capacity building, and (iii) weak geographic focus. Based on these findings, the CAPE recommended that the next country partnership strategy (CPS) sharpen selectivity in operations, improve implementation performance and support decentralized project implementation, strengthen government commitment to the sustainability of investments after project completion, increase engagement in governance and public finance, expand support to PSD, and enhance government ownership of grant-funded technical assistance (TA). CAPE recommendations were integral to CPS preparation.

11. **Portfolio performance.** On 31 March 2012, the ongoing portfolio comprised 59 loans and 48 TA projects in the net amount of \$7.1 billion. Of this amount, \$3.4 billion (54%) has been awarded and \$1.7 billion (24%) has been disbursed. Viet Nam's portfolio has rapidly expanded since 2007 through increased ordinary capital resources (OCR) committed to energy and transport. Because contract awards and disbursements in these sectors are affected by start-up delays and the complexity of land acquisition and resettlement, overall portfolio performance was not strong during 2006–2009. The annual performance improved in 2011 with the disbursement ratio rising to 16.1% from 12.3% in 2010.

12. **Varying sector performance.** Performance of assistance in the education sector has been constantly successful. Projects in agriculture and natural resources, health, and water supply and other municipal infrastructure and services showed relatively slow start-up, but they progress well after 2–3 years. In the finance sector, most assistance used the policy-based lending modality, which disbursed quickly. Energy and transport projects showed some variation, with some moving ahead more than others. Delays were encountered in the procurement process, which arose from the ineligibility of SOEs to bid for ADB-financed projects and the financial viability of contractors. Some transport projects faced additional difficulty caused by price escalation and the complexity of land acquisition and resettlement, and in securing needed counterpart funds under recent fiscal tightening. Improvements in portfolio performance will benefit from (i) further quality-at-entry improvement in project preparation and design; (ii) advance action to avoid start-up delays; (iii) stronger capacity in executing agencies; (iv) harmonization between ADB and the government regarding procedures and guidelines,

⁸ ADB. 2010. *Country Strategy and Program Midterm Review: Viet Nam, 2007–2010*. Manila.

⁹ Ministry of Planning and Investment (MPI). 2006. *Socio-Economic Development Plan, 2006–2010*. Ha Noi.

¹⁰ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

¹¹ Country Assistance Program Evaluation (accessible from the list of linked documents in Appendix 2). The Independent Evaluation Department advised that the new CPS does not need to be preceded at this stage by a final review self-evaluation and a validation report.

particularly procurement and safeguard compliance; (v) project coordination; and (vi) actions to address the abovementioned sector-specific issues. These issues are being addressed through better project management, capacity building undertaken through ADB projects and training programs, harmonization efforts with the six banks group,¹² and policy dialogue with the government.

II. THE COUNTRY STRATEGY

A. Government National Strategy

13. **Government development strategy and plan.** The Socio-Economic Development Strategy, 2011–2020, approved in January 2011, envisions Viet Nam becoming a modern industrialized nation by 2020.¹³ After a thorough analysis of existing weaknesses and emerging challenges facing an MIC, the strategy acknowledges the need to shift the economy from heavy reliance on cheap labor and intensive capital investment toward higher efficiency, productivity, and competitiveness as the bases of growth. The SEDP, 2011–2015¹⁴ intends to meet its objective by (i) improving socialist-oriented market economy institutions; (ii) quickly developing high-quality human resources; and (iii) gradually constructing comprehensive infrastructure systems with modern facilities, especially the transportation network and major urban infrastructure. The government considers economic restructuring—particularly of the finance sector, public investment, and SOEs—as key to long-term development. Strategic focus and specific actions recommended for each sector and crosscutting issues center on strong reform and renovation.

14. **Intersection of Strategy 2020 and the Socio-Economic Development Plan.** The SEDP and Strategy 2020 have as common goals inclusive economic growth, environmentally sustainable growth, and regional cooperation and integration (RCI). Strategy 2020 enables ADB to help Viet Nam respond to environment and climate change concerns to ensure sustainable development and protection for the poor, as well as to benefit from the empowering of women. ADB's programs in RCI will contribute to strengthening Viet Nam's resilience regarding external shocks and cross-boundary challenges through the provision of regional public goods and the benefits derived from better connectivity. The SEDP focus areas of economic restructuring, human resource development, and infrastructure improvement are shared with Strategy 2020. Good governance and capacity development, finance sector development, and PSD, which SEDP considers important to enhancing Viet Nam's economic efficiency and productivity, are highlighted in Strategy 2020. Partnerships and knowledge solutions are important in ADB's operations.

15. **Development partners' support.** The coordination and harmonization of development partners¹⁵ with active operations in Viet Nam is effective, in line with the Paris Declaration, Hanoi Core Statement, and Accra Agenda for Action. Development partners focus on their areas of comparative advantage coupled with coordinated action through joint frameworks and mechanisms have enhanced aid effectiveness and development results. ADB is the lead donor in agriculture and natural resources, education, and public sector management (PSM), in which

¹² Comprising ADB, L'Agence Française de Développement, the Japan International Cooperation Agency, the Export-Import Bank of the Republic of Korea, KfW, and the World Bank, all of which are active lenders to Viet Nam.

¹³ MPI. 2011. *Socio-Economic Development Strategy, 2011–2020*. Ha Noi (January).

¹⁴ MPI. 2011. *Socio-Economic Development Plan, 2011–2015*. Ha Noi (November). This is the first of the two 5-year plans to implement the strategy for 2011–2020.

¹⁵ Country and Portfolio Indicators (accessible from the list of linked documents in Appendix 2).

ADB plays a key role assisting sector-level strategy formulation, institutional reform, and capacity development. Partnerships with stakeholders, including nongovernment organizations and civil society, will enhance the effectiveness of ADB's assistance.

B. ADB Country Strategy

16. **Country partnership strategy thrust.** ADB will support Viet Nam's goal to rise to upper MIC status through three pillars: inclusive growth, enhancing economic efficiency, and environmental sustainability. The key principles of the new CPS are (i) alignment with the priorities of the SEDP, 2011–2015 that intersect with Strategy 2020; (ii) focus on value-addition and innovative solutions; (iii) response to the government's commitment to economic restructuring and related reforms; and (iv) strategic partnerships with other development partners to implement commitments under the Paris Declaration. To maximize development impacts, thematic considerations such as good governance and capacity building, PSD, climate change, RCI, and gender equity will be actively pursued.

17. **Inclusive growth.** ADB's assistance will help integrate the poor and other vulnerable groups and segments of society in the development process through better access to opportunities arising from improved infrastructure, microfinance, rural development, and social services. ADB will strive to empower the poor, the vulnerable, and women, addressing the issues of income and other gaps in society that require enhanced social services and attention to gender equity. ADB will support gender equity by adopting gender mainstreaming across sectors. It will scale up its support to education, including technical and vocational education and training, to ensure human resource development and inclusive growth through the provision of expanded education services with improved accessibility and quality. Support will be targeted to disadvantaged provinces and communities, particularly in the central and northern mountainous regions.

18. **Enhancing economic efficiency.** Based on CAPE recommendations, ADB will support structural and policy reforms including governance and public finance that enhance the business-enabling environment and thus promote PSD. Interventions will be designed to foster a transparent and effective regulatory environment to help all enterprises compete on equal terms and to provide public goods efficiently. SOE reform will focus on improving SOE efficiency. As suggested in the CAPE, there will be a focus on institutional capacity building through strengthened PSM, specifically in public administration reform, public investment planning, and macroeconomic management. ADB will continue supporting the government's long-term task of deepening the finance sector, which will help mobilize greater resources and allocate them more efficiently. In view of diminishing official development assistance, in particular grants and concessional financing, this is critical for mobilizing the private capital needed to improve infrastructure and the delivery of utility and social services, including education. ADB will continue to provide direct financing to fill the significant resource gaps in these sectors, which are key to addressing critical supply-side bottlenecks and enhancing productivity and competitiveness.

19. **Environmental sustainability.** Well-planned and timely responses to environment and climate change challenges at the national and subregional level, appropriate natural resource management, and the adoption of clean technology in infrastructure development are key to achieving sustainable development while protecting the poor. Improving environmental governance, in particular strategic environmental assessment and environmental impact assessment for investment projects, will ensure long-term sustainability. Focusing climate change responses on adapting critical infrastructure and building resilience in coastal and low-

lying areas will safeguard productive sectors of the Vietnamese economy, including human and natural resources. ADB's support to RCI will reinforce the resilience of countries and the region in a collective and coordinated manner.

20. **Selective sector engagement.** As recommended by the CAPE, ADB will maximize the development impact of its operations in Viet Nam by selectively focusing on those Strategy 2020 sectors in which ADB can add the most value in the form of financing and knowledge transfer. ADB will prioritize six sectors: (i) agriculture and natural resources, (ii) education, (iii) energy, (iv) finance, (v) transport, and (vi) water supply and other municipal infrastructure and services. Support to improving PSM will be crosscutting and strengthen sector operations. ADB will focus engagement in health on sector management issues including improving human resources and the quality of service delivery and supporting disadvantaged areas to ensure inclusive growth. Meanwhile, ADB will phase out operations in the industry and trade sector.

21. **Thematic issues.** The CPS will address governance and capacity development, gender equity, and PSD and private sector operations (PSO) as drivers of change wherever possible in ADB's operations. All ADB-financed projects and programs will have policy and reform-oriented interventions to strengthen governance, public finance and administration, sector management, and institutional and capacity development. As per CAPE recommendations, ADB will promote PSD and PSO during the CPS period by helping to foster a business-enabling environment and providing action-oriented support to developing public-private partnership (PPP). Gender is mainstreamed in relevant projects.

22. **Cross-sector considerations.** Following CAPE recommendations, ADB builds capacity at the project level in the sectors and subsectors where project preparation and implementation are decentralized to subnational implementers, including rural development and infrastructure, provincial roads, and water supply and other municipal infrastructure and services. For both urban and rural projects, focused operations will more actively adopt an integrated development approach to address common needs in cities and localities of similar size or in the same geographical areas. Knowledge focus and value addition from ADB support will also be enhanced.

III. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

23. **Assistance modalities.** To implement the proposed strategy and respond to Viet Nam's dynamic needs as an MIC, ADB offers a wide range of financing resources and assistance modalities, including loans, equity investments, TA and other knowledge products, and policy advice. Cofinancing will provide both financial support and technical expertise. The proposed lending program provides investment projects to support civil works and equipment and policy-based lending including sector development programs to implement policy and institutional reform and capacity building. To maximize the development impact of ADB operations in Viet Nam, the CPS systematically applies selectivity principles and project readiness filters when preparing the project pipeline. The performance of the existing project portfolio will be carefully reviewed when new lending is considered.

24. **Available resources.** The indicative OCR planning figures are \$943 million per year for 2013–2014 and \$760 million for 2015. The indicative ADF planning figures are \$385 million per year for 2013–2014 and \$395 million for 2015. Actual ADF allocations to Viet Nam for 2013–2014 will depend on country performance assessments under performance-based allocation.

Within the national program, the ADF will be used mainly for projects supporting social service delivery and rural development in disadvantaged areas, often without generating revenue, to ensure inclusive growth. Additional ADF resources outside the performance-based allocation may be available to Viet Nam from the ADF regional pool to support RCI projects that meet the selection criteria, and from the ADF hard-term facility. The indicative TA resources show that an annual program of about \$8 million will be provided to supplement and complement the lending program through support to project preparation as well as capacity development and policy advisory TA with a particular focus on reforms and sector management. Other resources will be mobilized for project preparation, including government funds and cofinancing. The cost-sharing arrangement allows ADB to finance up to 95% of loan project costs and up to 90% of TA costs.¹⁶

25. **Private sector operations.** ADB's PSO are integral to the CPS and important in promoting private sector engagement in the development process, its role in the economy, and its potential to finance Viet Nam's significant development needs, including infrastructure and selected social services. ADB will accelerate efforts to finance infrastructure projects with private sector participation and to mobilize commercial cofinancing and credit enhancement projects. PSO will support finance sector development and broad economic growth through a range of activities. These include support for trade finance through ADB's Trade Finance Program; possible equity investments in banks, other financial institutions, and private equity funds; credit lines to finance sector entities to support microfinance, insurance, small and medium-sized enterprises (SMEs), and housing; and leasing. In addition, ADB can strengthen capacity development in the finance sector through targeted TA combined with financing. ADB's PSO will focus on the sectors and subsectors that the CPS prioritizes. Within those sectors, PSO may also support viable transactions in other subsectors where ADB can add value and where the transaction has demonstrational effects and clear development impact.

B. Program Overview

26. **Agriculture and natural resources.** ADB's engagement will focus on urgent remaining challenges concerning inclusive growth and environmental sustainability through support to disadvantaged areas, water resource management, and knowledge development. ADB assistance will continue responding to modernization and market orientation in the rural economy, which is still in transition from central planning, and institution and capacity building to address complex natural resource management and climate change concerns affecting environmentally sustainable development and disaster control at the national level but also subregionally and globally.

27. **Education.** In response to the importance the SEDP places on improving the quality and relevance of education and skills development for Viet Nam's industrialization, ADB will focus on higher education and the transfer of higher skills. This will strengthen students' skills needed to participate productively in industrialization, particularly in high-tech industries, and build capacity for research and innovation. ADB will continue to support upper secondary and higher education, as well as college-level skills development, emphasizing greater relevance to the needs of society and the labor market. This will be achieved by increasing the participation of industry and the private sector in the planning and provision of training. At the same time, the strong focus on inclusiveness, for which ADB's assistance has been successful with due

¹⁶ Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters (accessible from the list of linked documents in Appendix 2).

consideration to the disadvantaged, will be maintained to enhance social and gender equity. ADB will help government agencies strengthen their knowledge and capacity to conduct policy planning and management for education finance more strategically and innovatively.

28. **Energy.** ADB assistance in the energy sector focuses on reform and market development to meet electricity demand with reliable, environmentally sustainable supply. For investment projects, ADB will support energy efficiency, renewable energy, and the expansion of the power transmission network. The assistance pipeline includes support to regional power interconnection based on power trade agreements with neighboring countries under the Greater Mekong Subregion (GMS) program. The operational and financial viability of energy SOEs will be assessed in consultation with other development partners. Private sector financing will be explored for power projects, including through PPP.

29. **Finance.** In the finance sector, assistance aims to strengthen legal, regulatory, and institutional frameworks and market infrastructure to sustain the financing of investments using domestic and foreign sources. The proposed policy-based assistance will improve efficiency in the money market and deepen the capital market for enhanced financial intermediation, which is essential for raising economic efficiency and competitiveness. The development of the money market in particular will help the government better manage inflation through monetary interventions, while a deeper bond market will enable long-term funding to be channeled to much-needed infrastructure projects. Continued support will be provided to SMEs, which comprise a large part of Viet Nam's private sector. Policy-based support to microfinance will promote inclusive growth.

30. **Transport.** Support to the transport sector will improve its institutional, financial, and operational efficiency to maintain sufficient transport infrastructure including provincial roads, national highways, and expressways, as well as improve road safety. Assistance will include support and policy advice to government agencies and SOEs to improve their performance and decentralize project implementation. Proposed projects affecting urban transport systems will manage transport demand and promote low-carbon public transportation services to ease urban transport congestion and reduce greenhouse gas emissions. The sector contributes to enhancing connectivity in the GMS and turning transport corridors into economic corridors to improve subregional competitiveness. ADB will support private sector participation in viable transport projects where ADB can add value, using various modalities including PPP.

31. **Water supply and other municipal infrastructure and services.** ADB will support institutional and capacity development in subnational agencies responsible for water supply and wastewater management. ADB's long-term commitment to the urban and water sector includes technical and policy support combined with OCR lending designed to leverage future private sector investment. One area of assistance is decentralizing the planning, budgeting, and management responsibilities of subnational service providers. ADB encourages comprehensive socioeconomic development in urban areas, fostering balanced growth and social stability. The program emphasizes environmental improvement in selected secondary cities, particularly those on borders or along transport and economic corridors in the GMS, as well as coastal cities that need to prepare for possible early impacts of climate change. Assistance will ease the congestion and environmental degradation associated with urbanization and prepare cities to attract business and investment by defining a vision of development and identifying their advantages to create new growth hubs. PPP will be promoted in urban water supply and waste water treatment.

32. **Public sector management as a crosscutting concern.** Effective PSM is critical to implementing the ongoing reform agenda and strengthening social service delivery. ADB's engagement will aim to improve transparency, accountability, and predictability in public administration and help the state sector to shift from the inputs-based management to results orientation. The CPS will address SOE reform as a crosscutting theme for major sectors. For commercially oriented SOEs, ADB continues to support corporate-level financial and business restructuring on a selective basis, institutionalizing successful corporate and equity restructuring models tested under the ongoing SOE reform program. ADB works with SOEs responsible for utilities and other public services, which often act as executing agencies of ADB-funded projects, to improve their financial and operational efficiency through sector-specific reforms and project-level capacity strengthening. Such support to SOEs will improve financial accountability and sustainability. Developing capacity in economic management is key to maintaining macroeconomic stability. ADB will continue strengthening policy dialogue on macroeconomic issues in coordination with other development partners. Assistance will be considered for public sector capacity building, especially in macroeconomic management and public investment planning. ADB will continue focused and action-oriented support for public administration reform, particularly strengthening the civil service.

IV. RESULTS MANAGEMENT

A. Monitoring

33. **Results frameworks of the country partnership strategy and Socio-Economic Development Plan.** The CPS results framework uses performance indicators set under the SEDP, 2011–2015 and government's sector strategies (Appendix 1). The progress of CPS implementation will be monitored primarily through a review of sector-level output and outcome indicators. For this, the sector assessments, strategies, and road maps that formed a basis of the CPS will be relevant monitoring tools. Sector-level findings and recommendations will be discussed with the government at country programming and portfolio review missions and reflected in annual country operations business plans. The CPS results framework follows the government's annual monitoring and reporting mechanism under the SEDP. ADB is implementing TA for institutional and capacity development to operationalize a more comprehensive nationwide mechanism of results monitoring, reporting, and evaluation at the central and local government level under the SEDP.

34. **Improved project-level results delivery.** In response to CAPE recommendations to improve project implementation and sustainability, the CPS includes measures to (i) enhance ADB's value addition and development impact using its unique position and comparative advantage, (ii) improve project implementation including through the systematic application of project readiness filters, and (iii) propose innovation in project design and modality. The lending and nonlending pipeline will be carefully reviewed to ensure successful project processing and implementation, and may adopt the selective introduction of larger but fewer projects and other measures to reduce the transaction cost. To strengthen projects' results delivery, ADB actively initiates and participates in collective measures and actions, especially within the six banks group, to improve project processing and implementation. These measures and actions include joint portfolio review, advance actions, the review of procurement requirements, and measures to harmonize the government's and development partners' procedures and guidelines. ADB is supporting the government in revising Decree 131, a legal framework for managing official

development assistance.¹⁷ ADB has provided TA and training to strengthen executing agencies' capacity to manage projects, their finances, and post-completion project sustainability, including the establishment of a permanent and/or common project management unit. ADB and the government have agreed to require executing agencies to secure counterpart funds early in project processing and more strictly adhere to processing schedules.

B. Risks

35. **Fiscal risk associated with structural reform costs.** The implementation of reforms and restructuring across the finance and corporate sectors is likely to be challenged by vested interests and weakness in supervisory and monitoring agencies. The required reforms are complex, will take years to complete, and are potentially very costly. Fiscal costs associated with bank recapitalization, SOE restructuring, land reform, and raising civil service salaries to compensate for rapid inflation put at risk public capital spending, including counterpart funding of ADB projects. Except in 2009, when the government implemented a large fiscal stimulus, the ratio of current to capital expenditure on budget has trended up since 2003. Additionally, an increasing proportion of public spending is being channeled off budget and consequently reported on less frequently and subject to less-stringent budgetary controls. ADB has closely collaborated with other development partners to design and implement direct budget support programs that have successfully provided incentives for the reform process.¹⁸ Development partners are now contemplating further action, including a joint general budget support operation to support reforms under the SEDP, 2011–2015. ADB is committed to conducting knowledge work that supports the government's reform efforts, particularly in SOE reform. The social, political, and fiscal implications of ongoing and planned land reforms need to be better understood. ADB will closely monitor the fiscal impact of ongoing structural reforms and, if necessary, adjust the lending and nonlending program and increase the focus on PSM.

36. **Inadequate public sector capacity.** Suboptimal public investment returns may risk CPS implementation if public administration continues to rely on a traditional input-based approach to development planning. To mitigate this risk, ADB will provide capacity-building TA toward adopting an outcome- and results-based management approach to investment planning. ADB must monitor and mitigate risk associated with weak fiduciary controls on procurement, particularly at the subnational level.¹⁹ If not managed well, ongoing decentralization will worsen this risk. ADB will provide TA to support capacity building in the central and local governments in investment planning and project implementation. Improved investment planning will make public investment more efficient and minimize the economic and social impact of fiscal consolidation.

¹⁷ 131/2006/ND-CP approved on 9 November 2006.

¹⁸ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 3 to the Socialist Republic of Viet Nam for Support for the Implementation of the Poverty Reduction Program V*. Manila.

¹⁹ Risk Assessment and Risk Management Plan (Summary) (accessible from the list of linked documents in Appendix 2).

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

Country Development Goals (based on the SEDP 2011–2015)			
1. GDP growth rate: 6.5%–7.0% per annum (ADB priority theme: economic growth) 2. Poverty rate: below 5% (ADB priority theme: social development) 3. Budget deficit: below 4.5% of GDP (ADB priority themes: governance and capacity development) 4. Poor pregnant women delivering in health facilities increased from 42% to 48% (ADB priority theme: gender equity) 5. Forested ground cover increased from 40.0% to 42.5% of total land area. (ADB priority theme: environment)			
Sectors Selected for ADB Support			
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities
1. Education (Core Area 5: Education)			
Radically improving and enhancing the quality of education, training, and human resources	<p>Outcome: Knowledge and skills of graduates from secondary and higher education and skills development meet the needs of a modernizing labor market and society.</p> <p>Indicators:</p> <p>The Ministry of Education and Training registers in the Programme on International Student Assessment by 2015.</p> <p>Participation rate in the labor market of upper secondary school graduates increase from 15% to 20% from school year 2010/2011 to 2014/2015.</p> <p>Graduates in 15 occupational training programs increase by 20% by 2015, of which 30% are female (baseline in school year 2010/2011).</p>	<p>Education</p> <p>Lower secondary education</p> <p>Upper secondary education</p> <p>Technical education and vocational skills training</p> <p>Higher education</p>	<p>\$220 million in 2012–2014, 5.7% of total CPS envelope, of which:</p> <p>ENV – 0.0%</p> <p>GEN + EGM – 100.0%</p> <p>PSD – 0.0%</p> <p>RCI – 0.0%</p>
2. Energy (Core Areas: 1: Infrastructure 2: Environment 3: Regional Cooperation and Integration)			
Power provided to industrial, commercial, and residential consumers in a reliable and economically and environmentally sustainable manner	<p>Outcome: Industrial, commercial, and residential consumers in Viet Nam use more electricity more efficiently.</p> <p>Indicators:</p> <p>Per capita electricity consumption increases to 1,720 kWh by 2015 (2010 baseline: 985 kWh)</p> <p>System losses are reduced to 9% by 2015 (2010 baseline: 10%).</p> <p>Electricity intensity measured by the elasticity of electricity consumption to GDP growth is reduced to 1.5 by 2015 (2010 baseline: 2.0)</p>	<p>Energy</p> <p>Electricity generation</p> <p>Electricity transmission</p> <p>Oil and gas transmission</p> <p>Energy efficiency and conservation</p> <p>Energy sector development</p>	<p>\$257 million in 2012–2014, 6.7% of total CPS envelope, and additional \$300 million cofinancing, of which:</p> <p>ENV – 0.0%</p> <p>GEN + EGM – 0.0%</p> <p>PSD – 3.9%</p> <p>RCI – 12.5%</p>
3. Finance (Strategy 2020 Core Area: 4: Finance Sector Development)			
Strong and sustainable financial markets are capable of promoting and/or supporting investments, business development, and access to microcredit.	<p>Outcome 1: Nonbank financial markets provide an increased share of financing to support domestic investment.</p> <p>Indicator:</p> <p>The share of nonbank finance sector assets in total finance sector assets increases from 15% in 2010 to 25%–30% in 2015.</p>	<p>Finance</p> <p>Banking system:</p> <p>Money and capital market development</p> <p>Nonsovereign operations in trade finance</p>	<p>\$190 million in 2012–2014, 5% of total CPS envelope, and additional \$30 million cofinancing, of which:</p> <p>ENV – 0.0%</p> <p>GEN + EGM – 47.4%</p> <p>PSD – 0.0%</p> <p>RCI – 0.0%</p>
	<p>Outcome 2: Poor and low-income households enjoy increased access to sustainable and</p>	Finance	

Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities
	affordable microfinance. Indicators: Number of microfinance borrowers increases by 10% by 2014 (2010 baseline: 12.5 million). Number of savings accounts increases by 10% by 2014 (2010 baseline: 9.7 million).	Microfinance Microfinance institutional development Finance sector policies and strategies strengthened	
4. Transport, and Information and Communication Technology (Core Areas: 1: Infrastructure 3: Regional Cooperation and Integration)			
Transport costs are minimized with the pursuit of a synchronous, rational, and gradual modernization program while maintaining the existing transport infrastructure.	Outcome: The transport of people and goods is more efficient and safe. Indicators: 95% of the rural population has access to an all-season road by 2015 (2004 baseline: 83.5%). Public transport's passenger share in Ha Noi and HCMC increases to 11% by 2015 (2011 baseline: 8%). Road traffic accident fatalities reduce to below 9,000 by 2015 (2007 baseline: 12,800).	Transport, and Information and Communication Technology Road transport: Construction and improvement of expressways and national and provincial roads Improvement of public transportation in major urban areas Improvement of railways Sectorwide management and reforms	\$1,350 million in 2012–2014, 35.1% of total CPS envelope, and additional \$1,437 million cofinancing, of which: ENV – 3.7% GEN + EGM – 66.0% PSD – 0.0% RCI – 54.7%
5. Water Supply and Other Municipal Infrastructure and Services (Core Areas: 1: Infrastructure 2: Environment)			
The urban environment improves in cities and towns across the country, benefitting in particular poor households.	Outcome: Urban environmental infrastructure and services improve. Indicators: The collection and treatment of domestic waste water increase from 10% in 2010 to 20% in 2015 in class III towns and larger. By 2015, 90% of domestic solid waste is collected and disposed of in improved landfills (2010 baseline: 80%) and 50% of landfills classified as sanitary (2010 baseline: 19 out of 91 landfills). Water supply coverage with household connection, 24 hours and 120 liters per capita per day, in towns class III and above increases from <60% in 2010 to 90% in 2015. Average nonrevenue water is reduced from >30% in 2010 to 25% in 2015 in towns class IV and above. Number of industrial zones with a functioning centralized wastewater treatment facility increases from < 40% in 2010) to 80% in 2015.	Water supply and municipal infrastructure and services Urban development and urban environment in Greater Mekong Subregion economic corridors Provision and improvement of basic urban services	\$797 million in 2012–2014, 20.7% of total CPS envelope, and additional \$145 million cofinancing, of which: ENV – 72.4% GEN + EGM – 66.0% PSD – 59.0% RCI – 8.8%

ADB = Asian Development Bank, CPS = country partnership strategy, EGM = effective gender mainstreaming, ENV = environmental sustainability, GDP = gross domestic product, GEN = gender equity, kWh = kilowatt-hour, PSD = private sector development, RCI = regional cooperation and integration.

Sources: Asian Development Bank, Government of Viet Nam. 2011. Socio-Economic Development Plan, 2011–2015. Ha Noi.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=VIE-2012>

1. Economic Analysis (Summary): Asian Development Outlook (Viet Nam Chapter)
2. Poverty Analysis (Summary)
3. Gender Analysis (Summary)
4. Environment Assessment (Summary)
5. Private Sector Assessment (Summary)
6. Sector Assessment (Summary): Education
7. Sector Assessment (Summary): Energy
8. Sector Assessment (Summary): Finance
9. Sector Assessment (Summary): Transport
10. Sector Assessment (Summary): Water Supply and Other Municipal Infrastructure and Services
11. Risk Assessment and Risk Management Plan (Summary)
12. Country and Portfolio Indicators
13. Country Performance Assessment Ratings
14. Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters
15. Country Partnership Strategy Formulation
16. Country Partnership Strategy Final Review
17. Country Operations Business Plan
18. Country Assistance Program Evaluation

Supplementary Documents

19. Sector Assessment (Summary): Agriculture, Natural Resources, and Environment
20. Sector Assessment (Full): Education
21. Sector Assessment (Summary): Health
22. Sector Assessment (Summary): Public Sector Management
23. Sector Assessment (Full): Transport