INCLUSIVE AND SUSTAINABLE GROWTH ASSESSMENT

A. Recent Growth, Poverty, Inequality, and Other Development Dynamics

1. Socioeconomic Development Context

1. Within one generation, Viet Nam has undergone a triple transformation from a centrally planned to a market-oriented economy, from an import substitution and closed economy to an export-driven and open economy, and from one of the world's poorest nations to a lower middle-income country.

2. Viet Nam has been on a sustained path of market reform since the launching of its Doi Moi (renovation) process in 1986. Doi Moi commenced with the agricultural reform that transformed Viet Nam from a country chronically short of food into a food surplus country in less than 5 years. Trade and investment liberalization measures after the lifting of the economic embargo, and the accession to the Association of Southeast Asian Nations (ASEAN) and Asia Pacific Economic Cooperation in the 1990s rapidly opened market access and spurred foreign direct investment (FDI) flows into Viet Nam. Bolder economic liberalization measures were taken after the country’s accession to the World Trade Organization in 2007. Subsequent memberships in multiple regional and bilateral trade agreements further expanded Viet Nam’s economic integration.

3. These liberalization measures and accelerated regional economic integration fueled a profound structural economic transformation and sustained strong economic growth, averaging more than 6.8% annually during 1990–2019. Viet Nam achieved two consecutive years of exceptional growth at 7.1% in 2018, and 7.0% in 2019. Its gross domestic product (GDP) per capita reached $2,702 in 2019 and $3,684 in 2021 (an updated estimate). However, the coronavirus disease (COVID-19) pandemic lowered economic growth to 2.9% in 2020, and 2.6% in 2021. Nevertheless, Viet Nam is set for a strong rebound, forecast at 6.5% for 2022 and 6.7% for 2023, thanks to its high COVID-19 vaccination coverage, the shift to a more flexible pandemic containment approach, recovered mobility, expanding trade, and monetary and fiscal stimulus measures. The business environment also improved significantly. Doing business was made easier, and many restrictions on foreign investment were abolished. As a result, Viet Nam was ranked 67th (out of 141 countries) in 2019—an improvement from the rank of 77th in 2018—in creating an enabling business environment in 2019-3

4. Average headline inflation in 2016–2020 was contained below 4%, compared with 7.7% in 2011–2015. A broadening of the tax base, other tax reform, the rationalization of administrative structures, increased export earnings, and reduced subsidies to state-owned enterprises (SOEs) collectively narrowed the fiscal deficit during 2016–2020 to below 4%. Despite the COVID-19 impacts, state revenue in 2020–2021 rose steadily thanks to an increase in tax collection from securities trading (+300% in 2021 year-on-year) and real estate transfers (+150% in 2021 year-on-year). The government tightened public and publicly guaranteed debt and managed to contain public debt levels at 55% of GDP in 2019, from 63.7% in 2016; the levels slightly increased to 55.9% in 2020 (or 44.1% according to the newly adjusted GDP) but remained comfortably below the 65% statutory level.5

---

### Viet Nam: Economic, Social, and Environment Indicators

#### Economic

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP ($ billion, current) (year-end rate)</th>
<th>GDP per capita ($, current)</th>
<th>GDP growth (% in constant prices)</th>
<th>Consumption (annual % change)</th>
<th>Investment (annual % change)</th>
<th>Consumer price index (annual % change)</th>
<th>Overall fiscal surplus (deficit) (% of GDP)</th>
<th>Tax revenue (% of GDP)</th>
<th>Merchandise export ($ growth (annual % change)</th>
<th>Merchandise import ($ growth (annual % change)</th>
<th>Consumption (annual % change)</th>
<th>Investment (annual % change)</th>
<th>Consumer price index (annual % change)</th>
<th>Overall fiscal surplus (deficit) (% of GDP)</th>
<th>Tax revenue (% of GDP)</th>
<th>Merchandise export ($ growth (annual % change)</th>
<th>Merchandise import ($ growth (annual % change)</th>
<th>Consumption (annual % change)</th>
<th>Investment (annual % change)</th>
<th>Consumer price index (annual % change)</th>
<th>Overall fiscal surplus (deficit) (% of GDP)</th>
<th>Tax revenue (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>223.3</td>
<td>2,383.3</td>
<td>6.8</td>
<td>7.3</td>
<td>9.8</td>
<td>3.5</td>
<td>(1.2) (0.1) (3.5) (3.8)</td>
<td>18.3</td>
<td>21.2</td>
<td>22.3</td>
<td>9.8</td>
<td>2.4</td>
<td>3.0</td>
<td>2.4 (4.7 (4.4) (2.0)</td>
<td>48.9</td>
<td>51.7</td>
<td>51.7</td>
<td>4.7</td>
<td>4.4</td>
<td>3.0</td>
<td>4.4 (4.7 (4.4) (2.0)</td>
<td>48.9</td>
</tr>
<tr>
<td>2018</td>
<td>242.5</td>
<td>2,560.8</td>
<td>7.1</td>
<td>7.2</td>
<td>8.2</td>
<td>3.5</td>
<td>1.2 (0.1) (3.5) (3.8)</td>
<td>18.5</td>
<td>13.9</td>
<td>12.2</td>
<td>7.0</td>
<td>3.7</td>
<td>3.0</td>
<td>4.7 (4.4) (2.0)</td>
<td>47.1</td>
<td>48.0</td>
<td>48.0</td>
<td>4.7</td>
<td>3.7</td>
<td>3.0</td>
<td>4.7 (4.4) (2.0)</td>
<td>47.1</td>
</tr>
<tr>
<td>2019</td>
<td>260.7</td>
<td>2,702.5</td>
<td>7.0</td>
<td>7.2</td>
<td>7.9</td>
<td>2.8</td>
<td>0.4 (3.8)</td>
<td>18.6</td>
<td>8.4</td>
<td>7.0</td>
<td>7.0</td>
<td>3.7</td>
<td>4.7 (4.4) (2.0)</td>
<td>37.8 (38.4)</td>
<td>40.0</td>
<td>48.0</td>
<td>48.0</td>
<td>4.7</td>
<td>3.7</td>
<td>4.7 (4.4) (2.0)</td>
<td>37.8 (38.4)</td>
<td>40.0</td>
</tr>
<tr>
<td>2020</td>
<td>344.4</td>
<td>3,529.3</td>
<td>2.9</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>(3.8)</td>
<td>13.3</td>
<td>7.0</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
<td>4.7 (4.4) (2.0)</td>
<td>39.4 (39.1)</td>
<td>39.1</td>
<td>48.0</td>
<td>48.0</td>
<td>4.7</td>
<td>3.7</td>
<td>4.7 (4.4) (2.0)</td>
<td>39.4 (39.1)</td>
<td>39.1</td>
</tr>
<tr>
<td>2021</td>
<td>362.9</td>
<td>3,683.6</td>
<td>2.6</td>
<td>2.1</td>
<td>4.0</td>
<td>4.0</td>
<td>(3.8)</td>
<td>12.6</td>
<td>7.0</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
<td>4.7 (4.4) (2.0)</td>
<td>39.1 (39.1)</td>
<td>39.1</td>
<td>48.0</td>
<td>48.0</td>
<td>4.7</td>
<td>3.7</td>
<td>4.7 (4.4) (2.0)</td>
<td>39.1 (39.1)</td>
<td>39.1</td>
</tr>
</tbody>
</table>

#### Poverty and Social

<table>
<thead>
<tr>
<th>Year</th>
<th>Population (million)</th>
<th>Population growth (annual % change)</th>
<th>Unemployment rate</th>
<th>Maternal mortality ratio (per 100,000 live births)</th>
<th>Infant mortality rate (below 1 year/per 1,000 live births)</th>
<th>Life expectancy at birth (years)</th>
<th>Number of years of schooling</th>
<th>Completion rate for primary education</th>
<th>Child malnutrition (% below 5 years old)</th>
<th>Population below poverty line (%)</th>
<th>Proportion of population using safely managed drinking water services (%)</th>
<th>Proportion of population using (a) safely managed sanitation services, and (b) a handwashing facility with soap and water (%)</th>
<th>Average exchange rate (D/$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>93.64</td>
<td>1.0</td>
<td>1.9</td>
<td>44.0</td>
<td>17.3</td>
<td>75.2</td>
<td>...</td>
<td>105.9</td>
<td>...</td>
<td>9.8</td>
<td>...</td>
<td>85.8</td>
<td>22,370.0</td>
</tr>
<tr>
<td>2021</td>
<td>98.5</td>
<td>0.8</td>
<td>2.4</td>
<td>43.0 [2017]</td>
<td>16.7 [2020]</td>
<td>75.5 [2020]</td>
<td>...</td>
<td>110.0 [2018]</td>
<td>11.7</td>
<td>6.7 [2018]</td>
<td>...</td>
<td>86.1 [2020]</td>
<td>22,603.0</td>
</tr>
</tbody>
</table>

#### Environment

<table>
<thead>
<tr>
<th>Year</th>
<th>Carbon dioxide emissions (kt)</th>
<th>Carbon dioxide emissions per capita (tons)</th>
<th>Forest area (km²)</th>
<th>Urban population (% of total population)</th>
<th>Renewable energy share in total final energy consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>336,490.0</td>
<td>3.5</td>
<td>146,430.0 [2020]</td>
<td>38.1 [2021]</td>
<td>18.7</td>
</tr>
</tbody>
</table>

#### ADB Portfolio (active loans and ADF grants)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total number of loans and ADF grants</th>
<th>Total loan and ADF grant amount ($ million)</th>
<th>Disbursements (sovereign)</th>
<th>Disbursed amount, total ($ million, 2021)</th>
<th>Disbursed amount, excluding PBL ($ million, 2021)</th>
<th>Disbursement ratio, excluding PBL (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>As of 31 December 2021</td>
<td>Sovereign 3,902.7 Nonsovereign 1,263.6</td>
<td>Sovereign 277.5</td>
<td>277.5</td>
<td>9.8</td>
<td></td>
</tr>
</tbody>
</table>

... = not available, ( ) = negative; [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, D = dong, GDP = gross domestic product, kt = kiloton, PBL = policy-based lending.

* GDP data for 2020 and 2021 are newly adjusted figures provided by the General Statistics Office of Viet Nam.
* These are on-budget figures. Data for 2019–2021 are preliminary estimates.

2. Poverty Reduction and Equality Trends

5. **Impressive poverty reduction and development achievements.** The past (pre-pandemic) high growth performance contributed to significant poverty reduction, resulting in an average annual decrease in poor and near-poor households of 0.95% during 2010–2019. Poverty reduction has been impressive by all accounts and standards, and the population below the poverty line decreased to 6.7% in 2018, from 9.8% in 2016.6 However, poverty remains high in remote areas and among ethnic minorities. In 2019, 89% of the population in rural areas had clean water supply, compared with 83% in 2016. The population with improved sanitation facilities increased to 90% in 2018, from 83% in 2016, while 100% of the urban population and 98% of the rural population had access to electricity in 2018.7

6. **Impacts of COVID-19.** COVID-19 caused a sharp decline in economic growth and had severe social impacts. At the peak time of the pandemic, in the third quarter (Q3) of 2021, the unemployment rate increased to 3.98% of the labor force, compared with 1.16% in 2017. People in the service industry had their income reduced by 14.3% in Q3 2021, compared with Q2 2021, and those in the dining service segment lost 21.2% of their income in Q3 2021, compared with the previous quarter. Workers in transport and logistics suffered income losses of 20.3% over the same period.8 The labor market has not fully recovered. About 16.9 million people aged 15 and over were still seriously affected in Q1 2022: 0.9 million had lost their jobs, 5.1 million suspended their businesses, and 5.7 million had to reduce working hours.9

7. Household incomes declined on average by 10.4%, of which 94.2% were wage income losses and 5.8% were losses of domestic and international remittances. It is estimated that the poorest income group experienced an income drop of about 10.9%, while the richest income group lost on average 10.6% per capita (Figure 1).

![Figure 1: Impacts of COVID-19 on Income in Viet Nam (% reduction)](image)

COVID-19 = coronavirus disease, h/h = household.

---

6 This follows the international poverty line of $1.9 per day (in purchasing power parity) as of 2018.
8. Rural households experienced bigger losses of remittances than those living in urban households. People in the poorest income quintile were affected by reduced domestic remittances, while those in the richest income quintile were affected by reduced international remittances. Households headed by women experienced higher reduction rates for both domestic and international remittances than those headed by men (Figure 2).

9. The ex-ante assessment as cited in Figures 1 and 2 also suggests that the increase in the poverty rate of households headed by ethnic minorities—from 20.27% to 27.41%, a rise of more than 7 percentage points—might be higher than that of households headed by the majority (e.g., Kinh)—from 1.24% to 1.99%, a rise of about 0.7 percentage points. The assessment further suggests that the absolute number of poor minority households will be higher than that of other households, and that the poverty rate of households in the poorest income quintile may have risen by 40%.

10. Gender equality. Viet Nam is steadily improving gender equality, particularly in areas such as health and education. During 2016–2021, women's representation exceeded 30% in the People's Council of 16 out of 63 provinces, and 27% in the National Assembly, more than the average level in Asia and the world (footnote 7). Among the general population, women and men are equally benefiting from investments in health care, education, and gross national income. In 2018, about 32% of enterprises were owned by women, although 98% of these were micro, small, and medium-sized enterprises. While about 73% of women participate in the workforce, this is still low compared with 83% of men, and a gender gap remains in salary terms. Gender inequality persists across several other domains. In agriculture, given their higher representation, women and ethnic minority groups are particularly disadvantaged by the limited earnings and fewer worker protection measures typical for employment in that sector. In water and other urban infrastructure services, despite gender-differentiated needs, women have fewer forums to articulate their needs regarding the quality, affordability, accessibility, design, and safety of urban services.\footnote{ADB. 2021. Viet Nam Gender Equality Profile for Agriculture, Natural Resources and Rural Development sector and Water and Urban Development sector. Ha Noi. (An internal assessment for the Country Partnership Strategy 2023–2026).}
3. Progress toward Achieving the Sustainable Development Goals

11. Viet Nam’s National Sustainable Development Goal (SDG) action plan and implementation road map, approved in July 2017, mainstreamed the international SDG agenda by adopting and localizing SDG indicators and targets in successive socioeconomic development plans. Viet Nam made strong progress across all 17 SDGs and in 2020 ranked 49th out of 166 ranked countries (footnote 7).

12. Viet Nam is expected to achieve 5 of 17 SDGs by 2030 (goal 1: no poverty; goal 2: zero hunger; goal 4: quality education; goal 13: climate actions; and goal 17: global partnerships) but it still faces challenges in attaining the other 12 SDGs (footnote 7). Cross-agency and cross-sector actions are weak. Both the mobilization and use of financial resources, especially from domestic private sources, are fraught. Despite sustained economic growth and social improvements, ethnic minorities, the disabled, and urban migrant groups still lag others in many dimensions of well-being, e.g., income, health, education, water, and sanitation. A system for data collection and management to monitor the SDG implementation is not yet in place. Challenges stemming from the COVID-19 pandemic may delay the implementation of the SDGs.

4. Environmental Dynamics

13. Impacts of climate change and vulnerability. A 2019 study shows that land which is currently home to one-third of Viet Nam’s population could fall below the high-tide line and that large proportions of the national population would be threatened with displacement by 2050. Viet Nam is considered one of 30 “extreme vulnerable countries to climate hazards” in the world (Figure 3).

![Figure 3: Viet Nam at Risk of Climate Hazards](https://drmkc.jrc.ec.europa.eu/inform-index)


---


5. Increasing Greenhouse Gas Emissions

14. Viet Nam has relied on fossil fuels to meet its fast-rising energy demand. Carbon dioxide (CO₂) emissions have therefore increased at a rapid rate of 7.9% annually, faster than the real GDP rate (6.5%–7.0% annually).¹³

![Figure 4: Viet Nam’s Carbon Dioxide Emissions](image)

**GDP** = gross domestic product, **kg** = kilogram, **PPP** = purchasing power parity.

15. Viet Nam’s carbon intensity, which measures carbon dioxide (CO₂) emissions per unit of GDP was higher than that of other countries in the ASEAN in 2015–2019, and fossil CO₂ emissions in Viet Nam in 2019 was highest in ASEAN (Figure 4). According to the 2016 greenhouse gas (GHG) inventory, the energy sector is the major source of GHG emissions, accounting for about 65.0% of total GHG emissions, and fuel combustion for electricity accounted for 20.6%. Industrial processes and product use accounted for 14.6%; agriculture, forestry, and other land use for 13.9%; and the waste management industry for 6.5%. By 2030, the energy sector is forecast to account for more than 73% of total emissions, industry for 15%, and agriculture for 12%. In addition, cars and motorcycles in urban areas increased rapidly during 2008–2018. Meanwhile, the government’s target is to reduce GHG by 15% (under the business-as-usual scenario) and ultimately achieve net-zero emissions by 2050, as announced at the 26th United Nations Climate Change Conference (COP26) in Glasgow, Scotland in 2021.

6. Digital Transformation

16. As for progress in digital transformation, the value of Viet Nam’s digital economy was estimated at $21 billion in 2021, making it one of the fastest digitalizing economies in ASEAN, at a compound annual growth rate of 29% in 2016–2021. The digital economy is expected to add 1.20%–1.95% to Viet Nam’s GDP and increase productivity by 8.5%–10.0% by 2030.¹⁴ The government therefore prioritized digital transformation and innovation as key drivers of growth in the medium and long term.¹⁵

---


7. Regional Economic Cooperation and Integration

17. Viet Nam has intensified its regional cooperation and integration (RCI) efforts, and more opportunities and potential for further gains exist. It is an active member of the Asian Development Bank (ADB)-supported Greater Mekong Subregion (GMS) Economic Cooperation, and the GMS economic corridors served as socioeconomic development frameworks for most of the regions in Viet Nam. The country successfully hosted the ASEAN summit and its related activities in 2020.

18. As shown in Figure 5, Viet Nam benefits from the Regional Comprehensive Economic Partnership and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Viet Nam tends to gain most from these free trade agreements in both income and exports. Exports expanded 10.5% annually on average in 2016–2020, shifting the chronic trade balance from deficit to surplus. FDI flows to Viet Nam hit a record level of $39 billion in 2019, from $20 billion in 2010. Weakening external demand in 2020 because of the COVID-19 pandemic did not reverse the trade expansion. The country still recorded more than $20 billion of trade surplus and attracted more than $25 billion of FDI in 2020. Severe COVID-19 impacts on Viet Nam in 2021 were offset by recovered external demand, which helped maintain a trade surplus at $4 billion. Despite rising inflation and geopolitical instability, Viet Nam’s trade surplus in the first half of 2022 was recorded at $720 million thanks to the faster-than-expected recovery of manufacturing, agriculture, and services.

![Figure 5: Impacts of Regional Economic Comprehensive Partnership on Viet Nam's Income and Exports](image)

ASEAN = Association of Southeast Asian Nations; AUS = Australia; BRU = Brunei Darussalam; CPTPP = Comprehensive and Progressive Agreement on Trans-Pacific Partnership; HKG = Hong Kong, China; INO = Indonesia; JPN = Japan; KOR = Republic of Korea; MAL = Malaysia; NZL = New Zealand; Other ASEAN = Cambodia, the Lao People’s Democratic Republic, and Myanmar; PHI = Philippines; PRC = People’s Republic of China; RCEP15 = Regional Comprehensive Economic Partnership (15 members); SIN = Singapore; TAP = Taipei, China; THA = Thailand; VIE = Viet Nam; US = United States.


---

8. Increasing Demand for Nonsovereign Operations and Decentralized Management of Official Development Assistance

19. Viet Nam’s development finance needs are diversifying. Cautious public debt management practices shifted the preference to nonsovereign financing, a demand also strengthened by the increasing private sector orientation of the economy and the shifting of some SOEs from sovereign to nonsovereign borrowing. ADB’s nonsovereign operations, support for public–private partnerships (PPPs), and sovereign lending that incorporates private sector elements are therefore increasing and will be an integral component of ADB’s overall support to Viet Nam in 2023–2026. Also, the government decentralized some of the responsibilities for managing official development assistance (ODA), such as project design and implementation, to the provinces. The Law on Public Debt Management and the Law on Public Investment explicitly favor projects led by provinces. On 21 January 2022, the government endorsed the delegation of project approvals from the central government to local governments, which will further facilitate the transition from the earlier centrally managed projects to provincially driven project design and implementation. It creates an opportunity for holistic, integrated, multisector approaches to local development challenges.

B. Key Impediments to Inclusive and Sustainable Growth

1. Lack of a Competitive Private Sector

20. The lack of a competitive private sector lowers Viet Nam’s productivity and efficiency. After the Doi Moi process in the 1980s (para. 2), the private sector was formally recognized as one of the important economic players of Viet Nam’s economy. The 1999 Enterprise Law further boosted private sector development. Private enterprises were almost nonexistent in 1986 but rapidly grew to 758,610 by 2019. Reform also reduced the number of SOEs from 12,000 in 1986 to about 500 in 2017. However, the private sector consists predominantly of household businesses, and micro and small enterprises. There is a dearth of medium-sized and large domestic corporations. Regulatory barriers; slow SOE reform; absence of research and development capacity; and lack of access to finance, land, and skilled labor have all hampered private sector development (Figure 6).

Figure 6: The “Missing Middle” – Viet Nam’s Enterprise Structure by Size

![Enterprise Structure Chart]


Viet Nam’s labor productivity in 2019 was about one-fourth of Malaysia’s, one-third of Thailand’s, half of Indonesia’s, and even lower than that of the Lao People’s Democratic Republic. Viet Nam’s incremental capital output ratio (ICOR), which measures the efficiency of an economy (the lesser the ICOR, the more efficient the economy), was higher than the ICOR of other countries in Asia. Viet Nam’s ICOR was 6.25 on average in 2011–2015 and improved to 6.13 in 2018, but was still higher than that of Cambodia (3.30) and Thailand (1.87) in 2018.

2. Infrastructure Deficits

Rapid economic growth put stress on Viet Nam’s infrastructure. Notwithstanding significant past investments, the road network consists predominantly of unpaved, narrow, and local road sections. Only 65% of Viet Nam’s total road network are paved in 2018, compared to over 77% in Thailand or Malaysia. The Directorate for Roads of Viet Nam estimates that the current expenditure for road maintenance works meets only 44% of the minimum annual requirements. As a result, more than 65% of the national roads are not regularly maintained. Underdeveloped infrastructure and weak multimodal links have increased Viet Nam’s logistics costs, which are 18.0% of GDP in 2017. This is much higher than logistics costs of Thailand (8.5% of GDP), undermining the country’s economic competitiveness (footnote 233).

The rapid expansion of agriculture, and its transformation from quantity to quality in the face of a changing climate, will require vast investments in measures that strengthen the resilience of agriculture and rural infrastructure (e.g., irrigation, farm-to-market roads). Water scarcity because of climate change, limited investments in urban flood risk management, and shortages of clean water are becoming more acute and placing more pressure on water supply.

Waste management has increasingly become a more pressing challenge for Viet Nam. Only about 15% of wastewater generated in urban areas is collected by centralized systems. In 2019, about 71 centralized wastewater treatment (VWT) plants with a total design capacity of 1.4 million cubic meters per day were in operation. An additional 78 WWT plants with a capacity of 2.9 million cubic meters per day were under design and construction. Municipal solid waste generation is increasing rapidly. The total volume of generated household waste was 31.2 million tons in 2018—a volume of about 49,600 tons per day from urban households and 35,800 tons per day from rural households. As of June 2019, Viet Nam had 370 economic zones (327 industrial and 53 special economic zones), but only 242 of them had proper WWT systems. About 27 million pigs, 327 million poultry, and 7.7 million of other livestock discharge more than 76 million tons of solid waste and 30 million cubic meters of

---

25 Ministry of Construction. 2021. Presentation material for a workshop on Climate Change Adaptation in Viet Nam’s Wastewater and Drainage Sector, jointly held on 21 December 2021 by Japan’s Ministry of Land, Infrastructure, Transport and Tourism; Japan International Cooperation Agency; and Viet Nam’s Ministry of Construction.
wastewater annually, and only 20% of that waste is properly treated.27 It is therefore imperative to develop urban, industrial, and agricultural waste, wastewater, and sanitation infrastructure if the country wants to curb environmental degradation and surface water pollution and improve livability in urban areas.

3. **Meeting Rapidly Increasing Energy Demand**

25. Viet Nam is facing the twin challenges of meeting rapidly growing energy demand while simultaneously decarbonizing. Energy demand has increased continuously at a higher rate than economic growth. According to Viet Nam Electricity, power demand grew by an annual 10.3%–11.3% during 2016–2020, turning Viet Nam from an energy exporter into an energy importer. Further growth is projected at 8.0%–8.5% per year over 2021–2030. This means that power supply infrastructure capacity would need to more than double every decade. To meet demand, Viet Nam has been relying on fossil fuels, so CO2 emissions increased at an annual rate of 7.9%, faster than the real GDP rate (6.5%–7.0% annually). As a result, Viet Nam’s GHG emissions reached 369 million tons of CO2 equivalent in 2018, and a significant portion of which comes from fossil fuels.28

4. **Climate Change, Disasters, and Environmental Degradation**

26. Climate change, disasters, and environmental degradation are impeding growth. Viet Nam was the sixth country in the world most affected by climate variability and extreme weather events during 1999–2018.29 Most of Viet Nam’s transport infrastructure is in low-lying areas, vulnerable to storm damage, flooding, and sea-level rise. A sea-level rise of 1 meter could damage more than 4% of the railway system, 9% of the national highway system, and 12% of the provincial roadway system.30 Parts of the Mekong Delta subregion are projected to be under water by 2050. Climate change is exacerbating the frequency and intensity of natural hazards (including floods and droughts). Between 1900 and 2018, storms were responsible for the greatest number of people affected (53.5 million), fatalities (19,000), and total damage ($10 billion) in Viet Nam.31 Climate vulnerability affects more than 74% of the population, especially the poor who lack resilience to shocks (footnote 31).

5. **Underdeveloped Financial Markets**

27. Financial markets—i.e., the banking system, bond market, stock market, and insurance providers—are critical foundations of a market economy and assume a vital role in allocating resources and creating liquidity for businesses. In Viet Nam, banks still dominate, and the ratio of credit to GDP is reaching 140%—one of the highest in the world. The bond market is growing quickly, albeit from a low base, but the rapid growth of the corporate bond segment is heightening risks. Microfinance in Viet Nam is underdeveloped compared with countries at a similar level of development. Despite impressive achievements, the stock market remains a frontier market, rather than being recognized as an emerging market, mainly because of its limited openness to foreign investors. The insurance market is present in both the life and non-life segments but remains very small (less than 1.5% of GDP). Private pensions (dominated by the state) and mutual funds are both at early development stages.

---

Domestic credit rating agencies are nascent, which is a significant constraint on the development of the corporate bond market.

6. Inadequate Social Protection

Inadequate social protection and healthcare hinder the social inclusiveness of growth. Although the social protection has made some progress, its coverage remains limited. Compulsory social insurance covers about 33% of the formal sector. A high level of informality in the economy has resulted in a significant number of the workforce with unsecured social benefits. As a result, the voluntary social insurance covers only 1% of the informal sector. Further, Viet Nam will become an aged economy by 2035, which is placing an additional burden on social protection, especially pension funds. These factors lower Viet Nam's productivity and impede its competitiveness, as well as diminish the social inclusiveness of growth. Moreover, the COVID-19 pandemic revealed weaknesses in the local health systems, and thus the need for further capacity development and modernized equipment and facilities in the provincial centers for disease control. Expanding social protection coverage and healthcare are therefore critical for Viet Nam to achieve sustainable and inclusive growth.

7. Governance Reform Challenges

Governance reform has gained encouraging outcomes. However, more can be done to improve the governance system. Public procurement practices are still beset by a lack of clarity on institutional frameworks and responsibilities, weak enforcement of the procurement law, a legal framework that does not fully support nondiscriminatory participation of foreign bidders, limited openness and transparency of procurement procedures, functionality issues of the electronic government procurement system, absence of a properly functioning complaint mechanism, and lack of professional ethics standards for procurement staff.

Major public finance management issues that need to be addressed by the government include unrealistic revenue forecasts and a weak revenue structure, generally limited budget transparency, a weak medium-term budgeting approach, operating and maintenance expenditures not consistently calculated for new capital projects, underdeveloped fiscal risk monitoring and reporting, various shortcomings in public investment management, including the lack of a full overview of contingent liabilities, and land acquisition.

Reforms of SOEs and public administration of provinces also form part of the governance reform. Viet Nam made some progress reforming its SOEs, but more is needed. According to the Ministry of Finance, as many as 183 enterprises had been approved for equitization from 2016 to June 2021, but only 39 of them were equitized. In addition, the acquisition of shares in publicly listed firms by foreign investors is still subject to an equity ownership limit of 49% in many sectors. This reflects an economy where several sectors are still dominated by SOEs with direct government involvement in business operations. In the provinces, public administration procedures, accountability, and transparency indicators also declined in 2019–2021, partially owing to the COVID-19 pandemic.

C. Implications for ADB Country Engagement

Lessons from past engagement. ADB’s country partnership strategy (CPS), 2016–2020 for Viet Nam focused on achieving inclusive and environmentally sustainable growth and

---

developing a competitive market economy over the long term.\textsuperscript{35} The CPS final review report\textsuperscript{36} and the validation report by the Independent Evaluation Department\textsuperscript{37} assessed the CPS’s relevance as aligned with Viet Nam’s development priorities, challenges, and needs. In terms of efficiency, the country portfolio performance declined over the CPS period given the extraordinary changes in Viet Nam’s ODA priorities. Despite challenging circumstances, the validation report found the CPS to be efficient, albeit at the lower end of the scale. As a result, the validation report rated the CPS 2016–2020 generally successful. However, the report assessed ADB was not able to update its strategy and country operations business plan in a timely manner in response to the changing development context.

33. The validation report also highlighted the need for the following: a more flexible programming approach in the context of the constantly changing ODA regulatory environment, further support to improve the business environment and private sector participation, and capacity development. Other recommendations included (i) adjusting ADB’s approach to changing ODA regulations and needs in Viet Nam; (ii) tackling remaining poverty and inequality, deficits in infrastructure, impacts of the COVID-19 pandemic, and vulnerability to natural hazards and climate change; and (iii) maximizing beneficial impacts on environmental sustainability through a combination of sovereign and nonsovereign operations and knowledge assistance. The lessons and recommendations helped shape the framing and design of the CPS for 2023–2026.

34. **Strategic alignment with national development priorities.** It is important that the new CPS is fully aligned with Viet Nam’s long-term and medium-term development strategies. Viet Nam’s aspiration to become an upper middle-income country by 2030 is embedded in the Socio-Economic Development Strategy endorsed in July 2021. ADB should support the government in the implementation of (i) the National Strategy for Green Growth for 2021–2030 and Vision to 2050, and the Updated Nationally Determined Contributions to the Paris Agreement, including a commitment to reduce its GHG emissions by at least 15\% by 2030 and ultimately achieve net zero by 2050; and (ii) the National Strategy for Digital Transformation by 2025–2030. ADB should also help implement the National Target Program for Ethnic Minorities for 2021–2025, which aims to eradicate poverty and promote economic development for ethnic minority groups. Finally, ADB should assist the implementation of the post-pandemic Economic Recovery Program, 2022–2023.

35. **Close coordination with relevant ministries and provinces.** In implementing the new CPS implementation, ADB should closely coordinate with the Ministry of Planning and Investment, the Ministry of Finance, the State Bank of Viet Nam, relevant ministries and provinces through the annual country programming missions, and other regular progress monitoring meetings.\textsuperscript{38}

36. **Strategic framework and priorities.** ADB needs to support Viet Nam in solving its socioeconomic challenges and to reflect the key strategic reorientations. To help build the foundations for realizing Viet Nam’s ambition to become an upper middle-income country by 2030, the objectives of the strategic framework should include (i) a green recovery and resilient economy, and (ii) private sector-led growth and social equity. The sector focus should be on water and urban services, transport, energy, and agriculture; while support to finance, health,
and education will continue. Pursuing projects in these areas would be well-aligned with the operational priorities of ADB’s Strategy 2030 as well as Viet Nam’s socioeconomic development priorities, its implementation of the Paris Agreement and net-zero commitment under the GOP26, and its Economic Recovery Program, 2022–2023.

37. **Crosscutting themes and value addition.** The CPS can encompass four crosscutting themes—gender equality, governance, digital transformation, and RCI. ADB’s value addition can include the One ADB approach, generation and sharing of knowledge solutions, development partnerships and cofinancing, project readiness, quality-at-entry, and efficient implementation; and program selectivity and flexibility to continue to remain relevant to the country needs and government priorities.39

38. **Operational reorientation.** ADB’s new operational approach in Viet Nam requires a triple reorientation: (i) diversify the operational focus from the central to the provincial level in response to rising and diverse socioeconomic development needs and pockets of poverty in the provinces and the accelerated decentralization of ODA management to the provinces, while continuing to support selected large national projects at the central level; (ii) promote greater synergies among sovereign and nonsovereign operations and knowledge work to appropriately respond to the diverse needs of the country’s economic recovery; and (iii) reposition the resident mission in line with ADB’s resident mission empowerment agenda.40 To fully operationalize this integrated approach, a dedicated Private Sector Development Unit established in 2019 within the resident mission focuses on upstream work to create an enabling environment for private investment, with a view to seizing downstream opportunities for nonsovereign financing and PPPs.

39. **Risks.** During the CPS period, following risks will need to be considered.

   (i) **Regulatory complexity.** Despite improvements in ODA regulations, complex ODA regulations still present risks to timely ODA project delivery. Periodic changes to the regulations and lengthy review and clearance processes may delay project preparation and implementation. Together with development partners, ADB will continue to engage with the government to simplify and improve ODA regulations. Under the CPS, a shift in the government’s focus toward multisector provincial interventions that target development constraints in a more holistic manner, and the shift toward more provincial decision-making on such projects, appear to be making a difference in timely government consideration and approval processes.

   (ii) **Implementation delays.** Three outstanding risks that have often delayed disbursements include (a) slow investment policy adjustment decisions,41 (b) delayed land clearance, and (c) counterpart fund shortages. ADB, together with other development partners, will work with the government, as appropriate, to improve the ODA regulations and ensure high quality of projects at entry by better aligning its project appraisal processes with the government’s ODA procedures.

   (iii) **Prolonged execution of large infrastructure projects.** Although the government has reiterated high-level political commitment to accelerating the delivery of large infrastructure projects, implementation delays remain the

39 The One ADB approach encourages collaboration between ADB’s sovereign and nonsovereign operations, synergy in knowledge activities between operations and non-operations departments, and integrated solutions through collaboration across sector and thematic groups.


41 In Viet Nam, the “investment policy” is the detailed project approval document. Changes during implementation require revision and re-approval of the project’s investment policy (paper).
norm, including in government-financed projects. A large part of the problems underlying the execution of mega projects, such as urban transport systems, involve regulatory issues (e.g., insufficient autonomy of the executing and implementing agencies, the requirement for multiple high-level approvals, and coordination with multiple government agencies relevant to the large infrastructure projects) and inconsistent requirements for detailed engineering design and bidding. ADB and other development partners have learned considerable lessons since 2010. Building on these, and in collaboration with other development partners, ADB will continue its dialogue and engagement across all government levels and promote regional knowledge exchange between Viet Nam and other developing member countries.

(iv) Climate change, natural hazards, and health risks. Viet Nam’s vulnerability to natural hazards, such as floods, storms, and drought, presents major risks to the country’s economy and infrastructure. Future COVID-19 waves or new variants could jeopardize the achievement of the objectives of the Socio-Economic Development Plan, 2021–2025 and the CPS. ADB will continue to play a proactive role in disaster risk reduction efforts in Viet Nam as well as provide support for health system resilience.