



Report and Recommendation of the President to the Board of Directors

Project Number: 38392-03
September 2006

Proposed Program Loan Socialist Republic of Viet Nam: Support the Implementation of the Poverty Reduction Program III

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 August 2006)

Currency Unit	–	dong (D)
D1.00	=	US\$0.00006246
US\$1.00	=	D16,011.00

ABBREVIATIONS

ADB	–	Asian Development Bank
CPRGS	–	Comprehensive Poverty Reduction and Growth Strategy
FSQL	–	fundamental school quality level
GDP	–	gross domestic product
IMF	–	International Monetary Fund
HEPRP	–	Hunger Eradication and Poverty Reduction Program
LUC	–	land-use right certificate
MARD	–	Ministry of Agriculture and Rural Development
MOET	–	Ministry of Education and Training
MOF	–	Ministry of Finance
MOH	–	Ministry of Health
MTEF	–	Medium-Term Expenditure Framework
NTP	–	national targeted program
NPL	–	nonperforming loan
ODA	–	official development assistance
PER-IFA	–	Public Expenditure Review-Integrated Fiduciary Assessment
PRSC	–	Poverty Reduction Support Credit
SBV	–	State Bank of Viet Nam
SEA	–	strategic environmental assessment
SEDP	–	Socioeconomic Development Plan
SOCB	–	state-owned commercial bank
SOE	–	state-owned enterprise
VDR	–	Vietnam Development Report
WTO	–	World Trade Organization

NOTE

The fiscal year of the Government ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2000 ends on 31 December 2000.

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LOAN AND PROGRAM SUMMARY

Borrower	Socialist Republic of Viet Nam
Classification	<p>Targeting classification: General intervention</p> <p>Sectors: Multisector</p> <p>Subsectors: Finance sector development, social protection, public finance and expenditure management</p> <p>Themes: Sustainable economic growth, governance, inclusive social development</p> <p>Subthemes: Promoting economic efficiency and enabling markets, public governance, other vulnerable groups</p>
Environment Assessment	Category C. Environmental implications were reviewed and no adverse environmental impacts identified.
Program Description	<p>The program loan will support implementation of the Poverty Reduction Program III outlined under the development partner-funded Fifth Poverty Reduction Support Credit (PRSC 5), as part of the Government's overall Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The CPRGS provides a medium-term framework (2002–2006) for poverty reduction policies, programs, and actions in Viet Nam with specific targets for development outcomes by 2006. This annual PRSC is the last credit under this 5-year PRSC cycle. In general, targets for the development outcomes were well achieved. Several development outcomes have already outperformed their targets.</p>
Rationale	<p>The official development assistance (ODA) community in Viet Nam considers the PRSC to be an important instrument for supporting CPRGS implementation. As a multisector instrument covering a range of issues related to poverty reduction, the PRSC framework provides the Asian Development Bank (ADB) with an opportunity to (i) advance and widen national policy dialogue in a well-coordinated and comprehensive manner, (ii) provide lending and nonlending assistance in coordination with other ODA partners, and (iii) ensure that key policy issues affecting ADB operations in Viet Nam are addressed in the policy dialogue between the Government and the ODA community to help achieve the common goal of poverty reduction and growth.</p> <p>In addition to ADB, the World Bank and other major ODA partners intend to contribute both financial and intellectual resources to PRSC 5. ODA partners include Australia, Canada, Denmark, European Commission, Germany, Ireland, Japan, Netherlands, Spain, and United Kingdom. Switzerland, while not a cofinancier, provided financial support for coordinating the process. The International Monetary Fund, France, and United Nations Development Programme participated in PRSC policy dialogue.</p>

ADB has been actively involved in formulating PRSC 5, and has promoted policy dialogue on similar issues through its program lending activities and sector policy reforms. PRSC 5 complements ADB support of Viet Nam's policy and institutional reforms.

The proposed loan adheres to ADB's recent endeavors to adopt program-based and sector approaches in its lending operations to reduce transaction costs for its developing member countries as well as for its own operations. The approach is consistent with ADB's reform agenda, long-term strategic framework, and medium-term strategies I and II, and will directly help fulfill ADB's obligations to the Rome Declaration on harmonizing procedures of multilateral development banks (2003) and the recent Paris Declaration on Aid Effectiveness (2005).

Impact and Outcome

The expected impact of the proposed loan is to reduce poverty and sustain high economic growth in Viet Nam. The proposed loan will help fund PRSC 5 and thereby (i) reduce structural weaknesses and improve the business environment, (ii) promote socially inclusive and environmentally sustainable development, and (iii) modernize governance.

Cost Estimates

Some of the reforms supported by the PRSC process entail substantial cost to the budget. Policy measures supported by the PRSC operations, such as the safety net for redundant state-owned enterprise (SOE) workers, recapitalization of state-owned commercial banks, provincial health care for the poor, and increased education budget allocation, require additional spending. These are costly and PRSC-specific programs. The cost of adjustment of the PRSC is therefore greater than the cost of these four items, which is estimated at US\$400 million per year on average for the past 4 years.

The estimated cost of some specific PRSC-related programs for the 2006 budget is approximately US\$601 million, i.e., (i) health funds for the poor—about US\$44 million due to expanded coverage of beneficiaries according to the new poverty definition, (ii) increased spending on education proportional to the Government budget—about US\$184 million, (iii) social safety net program for the retrenched SOE workers—about US\$219 million, and (iv) maintenance cost of transport infrastructure—about US\$154 million.

Financing Plan

A total of more than US\$210 million is expected to be funded for PRSC 5 operations through ODA resources. The World Bank has already approved a US\$100 million credit from the International Development Association to support PRSC 5. Cofinanciers providing concessional loans include ADB (US\$15 million), Japan Bank for International Cooperation (to be determined), and Germany (€6 million). Cofinanciers providing grants include Agencia Española de Cooperación Internacional (€3 million), Australian Agency for International Development (A\$10 million [to be confirmed]), Canadian International Development Agency (Can\$4 million), Danish International Development Agency (DKr61 million), European Commission (€10 million), Ireland (€3 million), Netherlands Ministry of Development Cooperation (€9 million–€14 million), and United Kingdom's Department for International Development (£20 million). Swiss Development Cooperation, while not a cofinancier, provided financial support for coordination of the process.

Loan Amount and Terms

A loan equivalent to US\$15 million in special drawing rights from ADB's Special Funds resources will be provided. The loan will have a 24-year term including a grace period of 8 years, an interest rate of 1.0% during the grace period and 1.5% during the amortization period, and such other terms and conditions set forth in the draft loan agreement. The loan proceeds may be used to finance eligible imports incurred within 180 days prior to the date of loan effectiveness. The loan reflects ADB's support for implementation of the CPRGS following the policy framework of the PRSC 5 program. The loan will contribute to financing adjustment costs resulting from implementation of the policy matrix, particularly prior actions for PRSC 5, and will support and facilitate the Government's continued and deepened reform program for poverty reduction.

Disbursement

The loan will be disbursed in a single tranche upon declaration of loan effectiveness.

Period of Utilization

The loan will be fully utilized by 31 December 2007.

Executing Agency

The State Bank of Viet Nam (SBV) will be the Executing Agency. SBV works in close collaboration with the World Bank to prepare and implement the PRSCs.

Implementation Arrangements

Three main arrangements have been made to implement this program. First, the National Steering Committee, established in May 2002 to implement the CPRGS and PRSCs, is chaired by the deputy prime minister in charge of economic reforms, and consists of representatives from 24 relevant line ministries and government agencies. An SBV deputy governor acts as the standing vice chairperson. To represent PRSC 5's policy reform areas, the steering committee has several representatives from key economic ministries, such as the ministries of agriculture and rural development; education and training; finance; justice; labor, invalids, and social affairs; and trade; as well as the Office of the Government; the Party's Economic Commission.

Second, an interministerial working group, established in the Ministry of Planning and Investment, comprises representatives from key ministries responsible for the policy reform areas under the PRSCs. Its goal is to help implement the CPRGS at subnational levels. Third, the CPRGS Secretariat, established with the Ministry of Planning, supports provincial governments in adapting the CPRGS to their own context, and reformulating plans and budgets accordingly. SBV is assigned as the agency responsible for preparing and implementing the PRSCs.

Procurement

The loan proceeds will be used to finance the full foreign exchange costs (excluding local duties and taxes) of items produced and procured in ADB member countries, excluding ineligible items and imports financed by other bilateral and multilateral sources. In accordance with the provisions of ADB's Simplification of Disbursement Procedures and Related Requirements for Program Loans, the proceeds of the program loan will be disbursed to Viet Nam as the Borrower.

No supporting import documentation will be required, if during each year that loan proceeds are expected to be disbursed, the value of Viet Nam's total imports minus imports from nonmember countries, ineligible imports, and imports financed under other official development assistance is equal to or greater than the amount of the loan expected to be disbursed during such year. The Government will certify its compliance with this formula with each withdrawal request. Otherwise, import documentation under existing procedures will be required. ADB reserves the right to audit the use of loan proceeds and verify the accuracy of the Government's certification.

Project Benefits and Beneficiaries

The proposed loan will benefit Vietnamese people and businesses on three fronts. First, through policy actions designed to facilitate Viet Nam's transition to a market economy, the loan will increase efficiency, accelerate economic growth, and create jobs. These policy actions will help improve the regulatory framework for private sector development, and enhance transparency and accountability in SOE operations and in banking. Second, through policy actions addressing social inclusion and environmental sustainability, the benefits include improved quality of education (especially in poor areas), improved access of the poor to health services, and help for securing asset ownership through the implementation of the Land Law, and more sustainable management of natural resources including through strategic environment assessments. Third, through policy actions addressing modern governance, the benefits are increased transparency and accountability of public finances, and improved legal transparency and accessibility. These will be achieved through, among others, better coordination plans and budgets, adoption of the medium-term expenditure framework, and greater accountability in public finance and public administration.

Risks and Assumptions

Three potential risks are associated with the proposed loan: containment of contingent liability, social inclusion and environmental sustainability, and a fiduciary risk related to public financial management.

First, benefits from World Trade Organization accession will accrue if complementary reforms take place in areas such as trade logistics, infrastructure and financial services, taxes, and the investment climate. Through the PRSC process, the Government has already decided to adopt such complementary reforms including a classification of loans based on international accounting standards. Through the PRSC process, the Government has continuously strengthened macroeconomic management.

Second, as this program prepares for the next 5-year cycle of PRSCs, in support of the Socioeconomic Development Plan 2006–2010, a potential risk of income disparities exists between urban and rural as well as Kinh majority and ethnic minorities. Such disparities could increase over the medium to long term as Viet Nam strives to become a middle-income country. However, this risk is mitigated by the strong commitment of the Government to keep growth inclusive and sustainable. This risk could be addressed through improvements in data availability and analytical work on issues arising from rural-urban disparities included as part of the PRSC process.

Third, in a rapidly growing economy the opportunities for graft could outpace improvements in anticorruption policies for some time. While considerable progress has been made in enhancing budget transparency, the emerging institutional architecture for managing and investing state capital faces governance risks. However, the Anticorruption Law, passed by the National Assembly in November 2005, introduced stronger accountability requirements for heads of agencies, the monitoring of assets of senior government officials and their families, and a more effective mechanism to support individual reporting of corruption. The Government has encouraged the media to apply a more proactive approach to detecting and reporting corruption.

The Government is aware of the potential risks. Through appropriate measures and proactive programs during program implementation, the Government will undertake risk-mitigating measures. ADB and the other PRSC cofinanciers have provided technical assistance and conducted analytical studies to help policy makers formulate and execute mitigating and corrective measures in anticipation of these potential risks.

THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Socialist Republic of Viet Nam for the Support the Implementation of the Poverty Reduction Program III (SIPRP III). The loan follows a program-based approach and is part of the Fifth Poverty Reduction Support Credit (PRSC 5), jointly processed by several development partners, in support of the Government's Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The design and monitoring framework for the proposed loan is in Appendix 1.

I. THE MACROECONOMIC CONTEXT

2. The Government of Viet Nam is committed to poverty reduction and considers poverty reduction as an overarching objective in its national socioeconomic development process. Evidence of the Government's commitment includes a series of strategic plans and documents, including the 5-Year Socioeconomic Development Plan (SEDP) 2001–2005, the CPRGS 2002–2006, and the 10-Year Socioeconomic Development Strategy 2001–2010. The CPRGS is unique and widely recognized as a blueprint for development because it is based on empirical analysis and broad consultation with the identification of clear development goals, specification of policies to attain the goals, and alignment of public resources to implement these policies.

A. Development Objectives, Strategies, and Plans

3. Viet Nam's development strategy is embodied in the CPRGS. The CPRGS embraces three broad pillars: Pillar I high growth through the transition to a market economy, requiring implementation of an ambitious structural reform agenda; Pillar II: equitable, socially inclusive and environmentally sustainable growth, requiring appropriate sectoral and social policies and programs; and Pillar III: adoption of a modern public administration, legal, and governance system, which is essential for attainment of the first two goals. The CPRGS pillars are intertwined with cross-cutting themes such as employment generation for poverty reduction, and the link between public financial management and effective delivery of social services to the poor. Details on the CPRGS are given in Appendix 2.

4. In June 2006, the National Assembly endorsed a new 5-Year SEDP (2006–2010), following the April 2006 endorsement by the 10th Party Congress. The SEDP is expected to be Viet Nam's new national strategy for poverty reduction and growth, incorporating the commendable principles used in CPRGS formulation. Preparation of SEDP 2006–2010 involved broad-based consultations at the grassroots, with the business sector, and with the international Vietnamese community. A monitoring and evaluation framework is being developed under the SEDP to track implementation progress. Equally important, the SEDP represents a move away from material production targets toward development objectives with a strong poverty focus. This transformation reflects lessons learned in the process of preparing the CPRGS, and subsequently of "rolling it out"¹ to the provinces. The financiers of the PRSC process, as well as the CPRGS roll out, actively support SEDP 2006–2010, which is seen as a defensible poverty reduction strategy for the coming years. Joint work on translating SEDP 2006–2010 into a series of strategic, well-prioritized policy actions to be supported by PRSCs 6–10 will be discussed with the Government at the Consultative Group meeting of December 2006.

¹ "Rolling out" refers to expanding the activity to provincial, district, and commune governments.

5. Viet Nam is making good progress in improving its policy environment. The legislative program of the last National Assembly focused on developing a legal framework to facilitate World Trade Organization (WTO) membership. During 2005, at the 8th session, the National Assembly approved 14 statutes including, among others, Anticorruption Law, Bidding Law, Enterprise Law, Investment Law, Law on Intellectual Property, and Housing Law, Law on Environmental Protection (revised), Law on Thrift Practice and Waste Combat, and Law Amending the Complaint and Denunciation Law. In addition, the National Assembly approved amendments for the Civil Code. This code will clarify rights and obligations of citizens and facilitate private sector transactions. At its 9th session from 15 May to 28 June 2006, the National Assembly passed 10 laws including, among others, Law on Information Technology, Law on Legal Aids, Laws on Real Estate Business, Law on HIV/AIDS Prevention and Control, and Law on Securities,² and Social Insurance Law. Viet Nam recently finalized bilateral negotiations with the United States (US) to secure its planned WTO accession at the end of 2006.³ In addition, Viet Nam plays an important role in regional cooperation given its strategic location. Viet Nam has been active in the Greater Mekong Subregion Economic Cooperation Program activities. It is also actively pursuing implementation of the Organisation for Economic Co-operation and Development's Development Assistance Committee Paris Declaration 2005.

B. Recent Economic Performance

6. In the past decade, Viet Nam experienced both high economic growth and impressive poverty reduction. This trend continues in spite of adverse shocks experienced in recent years including an avian influenza; flood and droughts; rising oil prices; a sharp rise in prices of key imported inputs; antidumping suits; and other market barriers to exports of textiles, garments, and other products. In spite of these adverse conditions, annual GDP growth averaged about 7.5% over the last decade, with a high of 8.1% in 2005 (Table 1).⁴ This makes Viet Nam one of the fastest growing economies in Asia. Robust growth in domestic demand and strong export performance has fuelled growth. Growth in consumption was underpinned by higher farm incomes reflecting rising prices for agricultural commodities, increases in the employment share of manufacturing and service sectors, and buoyant inward remittances. The investment to GDP ratio has been increasing, and was relatively high at 37.6% in 2005.⁵ The ownership pattern of investment has changed; the share of the domestic private sector in total investment increased from 23% in 2001 to more than 32% in 2005, while the share of the state-owned sector declined from 60% in 2001 to 52% in 2005. Foreign direct investment commitments soared to US\$6.3 billion in 2005 compared with US\$4.2 billion in 2004.

7. For the external sector, export growth accelerated during the past few years. Being a net oil exporter, on balance Viet Nam has benefited from higher crude oil prices. The trade deficit narrowed to 1.6% of GDP in 2005 from 5% in 2004. Remittance inflows and tourist receipts were strong during the same period. As a result, the current account deficit has narrowed more than the trade deficit. The current account deficit has been mainly financed by foreign direct investment inflows and concessional lending. Consequently, external debt was maintained at a manageable 33% of GDP in 2005, with debt service at around 5% of exports. The August 2005

² ADB technical assistance support helped with the drafting of key legislation and implementing regulations.

³ Deputy Minister of Trade Luong Van Tu and US Deputy Trade Representative Karan Bhatia signed a bilateral market access agreement on 1 June 2006.

⁴ Economic growth exceeded that in all other regional countries except the People's Republic of China. At the same time, Viet Nam recorded unprecedented reductions in poverty; sustained macroeconomic development; and continued improvements in key human development indicators such as education, health, and life expectancy.

⁵ This is the second highest in the region after the People's Republic of China. While Viet Nam's savings ratio is also relatively high, an increase in capital efficiency is urgently needed to sustain high growth.

joint International Monetary Fund (IMF)-World Bank debt sustainability assessment placed Viet Nam at low risk of external debt distress. External reserves rose to US\$8.6 billion dollars (about 11 weeks of imports of goods and services).⁶ Reserves have doubled in the past 3 years.

8. The industry and service sectors continue to drive economic growth. Industry's share in GDP has consistently increased, reaching 40% of GDP in 2005, partly reflecting ongoing liberalization and promotion of the private sector, a relatively inexpensive labor force, and improved infrastructure. The two sectors together account for nearly 80% of GDP. Greater diversification in industrial production and services is laying the foundation for sustained growth in output and employment. The services sector expanded by 8.2% in 2005, the highest rate since the 1997 Asian financial crisis, reflecting buoyant performance of domestic and export trade, tourism, transport and telecommunications, and financial subsectors. The share of agriculture in the economy continued to decline to about 21% of GDP in 2005, although it still accounts for the majority of employment. The consumer price index rose by 8.3% in December 2005, partly reflecting a rise in food prices, which accounts for 47% of the total price basket. A number of factors contributed to the rise in inflation, including higher international commodities prices, impact of avian Influenza, increase of salaries for professionals and skilled laborers, and salary increases in the public sector. Financial sector development and robust economic growth contributed to strong growth in monetary aggregates, prompting concerns about the impact of too rapid an expansion in credit on its quality and on inflationary pressures. The central bank, State Bank of Viet Nam (SBV), has adopted tighter policies, with an increase in the required reserve ratio and discount rate. Credit growth is estimated to have declined from nearly 40% in 2004 to about 25% in 2005. Growth in broad money supply fell commensurately from 30.4% in 2004 to 27% in 2005.

9. During the last 2 years, the Government's fiscal deficit has been limited to about 2% of GDP. In spite of falling trade tax revenue as import tariffs are cut to comply with ASEAN (Association of Southeast Asian Nations) Free Trade Area commitments, total revenues have remained strong at around 22% of GDP largely because of higher oil revenues, improvements in tax administration, and a growing number of businesses in the formal sector. GDP growth is projected at around 7.8% in 2006, and 8.0% in 2007, supported by strong domestic demand and export growth.⁷ The fiscal position is expected to remain expansionary but manageable to cover the cost of reforms and infrastructure. Inflation (average for the period) will likely be moderate at 6.0% in 2005 and 5.2% in 2006.

10. The fiscal deficit during the last 2 years, including official development assistance (ODA) onlending, was financed entirely through public debt. In both 2004 and 2005, revenue collection exceeded budgeted amounts owing to buoyant oil revenues. As a result, the deficit remained below budgeted levels despite higher expenditures. Off-budget investment expenditures represented 1% of GDP in 2004 and 2% in 2005. Such expenditures, chiefly related to roads, irrigation, and upgrading of education facilities, were presented along with the government budget, and approved by the National Assembly. The expenditures include bonds issued mainly by Ho Chi Minh City and Hanoi to fund municipal infrastructure. The Development Assistance Fund onlends resources raised domestically for investment purposes. Such onlending amounted to 1.0% of GDP in 2004 and 0.5% in 2005. Public debt, including realized contingent liabilities from banking reforms, and off-budget and guaranteed items, was around 43% of GDP

⁶ World Bank. 2006. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Fifth Poverty Reduction Support Operation* (May 24, 2006). Washington, DC.

⁷ ADB. 2005. *Asian Development Outlook 2005*. Manila.

at the end of 2005. In net present value terms, it only amounted to 33% of GDP, as a large fraction of public debt is on concessional terms.

Table 1: Major Economic Indicators, 2003–2007
(%)

Item	2003	2004	2005	2006e	2007e
GDP growth	7.1	7.5	8.1	7.8	8.0
Gross domestic investment/GDP	33.7	35.5	37.6	38.4	39.0
Inflation rate (average for the year)	3.2	7.7	6.0	6.0	5.0
Money supply (M2) growth	21.0	28.0	27.0	27.0	28.0
Fiscal balance/GDP	(4.6)	(3.7)	(2.1)	(2.4)	(2.1)
Merchandise export growth	20.4	30.3	20.5	18.0	10.9
Merchandise import growth	37.4	26.0	16.0	15.0	15.0
Current account balance/GDP	(6.9)	(5.7)	(3.6)	(2.7)	(2.8)
Debt service ratio	8.0	6.7	5.7	6.0	6.0

() = negative, GDP = gross domestic product.

Sources: General Statistics Office; State Bank of Viet Nam; Ministry of Finance; International Monetary Fund; staff estimates.

Asian Development Bank. 2006. *Asian Development Bank Outlook*. Manila.

11. Under the baseline scenario of the IMF-World Bank debt sustainability assessment (para. 7), public and publicly guaranteed debt is projected to increase slightly from about 41% of GDP in 2004 to around 43% in 2009, before stabilizing. In net present value terms, the debt increases from 28% of GDP in 2004 to about 29% of GDP and stabilizes over the long-term. The main risk to medium-term debt sustainability stems from contingent liabilities associated with reform of state-owned commercial banks (SOCBs). Given the uncertainty surrounding bank balance sheets, the debt sustainability assessment considers two alternative reform scenarios associated with contingent liabilities of 8% and 20% of GDP. In these two scenarios, the net present value of public debt reaches peaks of 35% and 49 of GDP, before declining to 30% and 33% over the long term. The assessment will be updated in the third quarter of 2006 to reflect the impact of the investment program contemplated in SEDP 2006–2010. In addition, IMF has provided a letter of assessment (Appendix 3).

II. THE SECTOR

A. Sector Description and Performance

1. Progress with Reducing Poverty

12. Viet Nam continued to make remarkable progress in social development. Its success in reducing general poverty by almost two thirds over 11 years is unprecedented. Results from the 2004 Viet Nam Household Living Standards Survey indicate that the poverty headcount declined substantially from 28.9% in 2002 to 19.5% in 2004. Progress toward attainment of the country's development goals and other key development outcomes has been sustained. Broad-based and vigorous economic growth, greater macroeconomic stability, and targeted programs

to provide basic public infrastructure and services to vulnerable groups have all helped reduce poverty. While income inequality has only increased marginally,⁸ significant pockets of poverty remain. Households whose consumption is presently just over the poverty line are vulnerable to any external shocks (e.g., low agriculture commodity prices and public health outbreaks). They remain at risk of returning to life below the poverty line.

13. Poverty reduction has been underpinned by rapid, stable, and inclusive economic growth,⁹ following Viet Nam's steady transition from central planning to a socialist-oriented market economic system. This transition has involved the liberalization of markets, recognition of private property rights, and gradual opening up of the economy to external markets for trade and investment. Political stability, prudent macroeconomic management, relatively equitable distribution of the factors of production, and relatively high and equitable human resource development facilitated a strong response to reforms. Sustained agriculture sector growth, and growth in retail trade played a pivotal role in reducing poverty in the early stages of reforms. More recently, rapid growth in private sector investment has generated many new employment opportunities in the industry and service sectors.

14. The rate of poverty reduction has, however, slowed in recent years, i.e., 4.8 percentage points during 2002–2004 compared with 9 percentage points during 1998–2002.¹⁰ Poverty reduction is slow or unchanged in the northern mountains and in pockets of the Red River delta and North Coastal regions, contributing to regional disparities. Work to attain the Viet Nam Development Goals resulted in steady improvement in social indicators, such as school enrollment, infant mortality, and other human development indicators. Viet Nam ranks 112 out of 177 countries in terms of the human development index, i.e., 0.691 in 2004,¹¹ which is much lower than other countries in the regions; but ranks much higher at 41 in terms of the human poverty index.

15. Although Viet Nam, like many other countries in the region, has experienced a high economic growth rate, income per capita is still low. With US\$600 annual per capita income, Viet Nam is considered one of the least income countries.¹² With around 24% of the population still living below the poverty line, poverty remains a major concern for the Government. Poverty is entrenched in some regions, such as the east and west northern regions, and the north coastal and central highland regions. Social tension, lack of access to social services, demographic reasons like migration, land ownership, gender and ethnic constraints, and environment-affected risks are additional obstacles for economic growth and the main reasons for people to fall back to poverty. Thus, a careful approach in terms of planning and delivery is required to reduce poverty and to prevent the return to poverty. This is, among others, reflected in CPRGS implementation.

2. The Comprehensive Poverty Reduction and Growth Strategy

16. In May 2002, Viet Nam embarked on CPRGS implementation. The CPRGS was prepared with support of the development assistance community, including ADB, and in

⁸ The estimated Gini coefficient for consumption increased from 0.34 in 1993 to 0.37 in 2002 and 2004.

⁹ The elasticity of poverty reduction has been higher than one—e.g., a per capita growth rate of about 6% was associated with a reduction in poverty of about 7% from 1993 to 2002.

¹⁰ ADB-Development Strategy Institute. 2005. *How to accelerate socioeconomic development in the Central Region?* Hanoi, Viet Nam

¹¹ United Nations Development Programme. 2004. *Human Development Report 2004: Cultural Liberty in Today's Diverse World*. New York. Indicators are for 2002.

¹² The World Bank criterion for a least income country is US\$765 annual per capita income for 2005.

consultation with stakeholders and civil society (Appendix 2). Implementation of the CPRGS policy reform agenda has been largely through pooling of ODA resources, both grant and lending, under the PRSC framework, prepared by the development partners in close consultation with government agencies, and the Government's own resources. With this support, the roll-out of the CPRGS into socioeconomic development plans was conducted in more than 20 provinces to ensure the planning process captures the CPRGS principles of increased focus on poverty and social inclusion, results-based planning and monitoring, and broad consultation. This planning reform is important to ensure all policy actions are captured into the long- and medium-term strategies at all levels and all sectors. The development partners must align their country strategic plans with the Government plans, while moving toward policy-based lending. Several development partners have jointly and actively conducted PRSC formulation and review. The PRSC framework has gradually shifted from narrowly defined structural reform, such as the reform of the SOCB and state-owned enterprise (SOE) sector to a broader and deeper policy reform agenda, encompassing the three pillars of the CPRGS: (i) transition to a market economy; (ii) social inclusion and environmental sustainability, and (iii) modern governance, as well as embracing many sectors and issues related to sustainable poverty reduction and economic growth.

17. The Government has well-established coordinating, monitoring, and oversight arrangements for poverty reduction programs funded by various ODA resources. The National Steering Committee, established in September 2002, is chaired by a deputy prime minister, with an SBV deputy governor as standing deputy chair. Its members come from all concerned government ministries and agencies. The steering committee guides implementation of the poverty reduction programs under the CPRGS. The Government undertakes detailed reviews of implementation progress of the CPRGS reform agenda, and discusses findings and emerging issues with its development assistance partners, usually at annual Consultative Group meetings.

B. Issues and Opportunities

1. Problem/Constraints Analysis

18. Overall, CPRGS progress has been significant, but important structural issues and social challenges need to be addressed. Regarding the transition to a market economy, the reform agenda has relied on restructuring the state sector, and not on massive divestiture. Important steps have been undertaken, especially in terms of liberalizing trade and fostering competition. But addressing hard budget constraints faced by the SOEs has proved more difficult. On the social side, regional disparities may widen as Viet Nam integrates with the world economy. Also, ethnic minorities have benefited less from economic growth than the majority of the population. The effective delivery of social services to the poor, especially for disadvantaged regions and ethnic minorities, is essential to keep development inclusive. But reform in the social sectors requires changes in their financing, and needs to be carefully sequenced and aligned with the decentralization process. As for governance, institutional reform lags the rapid economic transition, creating opportunities for abuse. The Government has recently taken measures to strengthen the State Inspectorate and State Audit. An ambitious initiative to strengthen public financial management is under way. But considerable weaknesses persist in the selection of public investment projects; in the integration of capital and recurrent expenditures; and in the supervision of project implementation, especially at the local level. Weak financial management systems and insufficient transparency create the risk of inefficiency in the allocation of resources, mismanagement, and corruption.

19. In 2003, major movements and initiatives were undertaken on a broad range of reforms, especially in relation to integrating with the world economy, permitting public investment in large SOEs and SOCBs, and designing a new approach to fight corruption. The Government is committed to following these activities through as they promise to solidify and accelerate the needed reforms. The Government is also committed to adopting a more decisive stance on banking reform. As part of this, the Government will outline a clear separation of the functions of SBV as owner of commercial banks and supervisor of the system, and take actions to restructure the SOCBs and improve their credit culture. The Government recognizes that for it to increase lending from the ODA community, it will need to expedite implementation of its recent decision on accession to WTO; increase private sector investment in large SOEs and SOCBs; tackle directed lending; and make progress on governance and public administration reforms, the anticorruption agenda, and financial sector reform.

2. Country Strategy and Program of the Asian Development Bank

20. ADB's poverty reduction strategy is based on three pillars: (i) pro-poor economic growth, (ii) social development, and (iii) good governance. ADB's country strategy and program for Viet Nam 2002-2004,¹³ emphasizes (i) generating economic growth and new employment through private sector development; (ii) improving governance and public administration; and (iii) focusing on socially inclusive development especially in the central region, where the incidence of poverty remains high.

21. The joint poverty assessment, completed in 2003 by the Government and a number of development partners including ADB,¹⁴ confirms that economic growth continues to reduce poverty in Viet Nam, but that since the pace of poverty reduction is slowing, targeting of the poor is becoming more necessary. In addition, a comprehensive poverty analysis in terms of poverty participatory assessments as well as poverty survey data¹⁵ was jointly carried out as background to the preparation of PRSC 5.¹⁶ ADB also prepared the country poverty assessment¹⁷ to provide analytical inputs to the preparation of PRSC 5 and the country strategy and program 2007–2010¹⁸ (to be approved by the ADB Board of Directors in September 2006). To deal successfully with the accelerating pace of international economic integration, Viet Nam needs to modernize its economy and institutions, and accelerate investment. Faster growth, which is likely to benefit the more advanced areas, will need to be accompanied by measures to distribute the benefits of growth, including targeting of poor areas and groups.

3. Lessons Learned

a. Multiple-Tranche Program Loan

22. A special evaluation on program lending by the Operations Evaluation Department (OED) reported that since 1987 program loans have generally been limited to two tranches. The report suggested abandoning the uniform adherence to two-tranche program loans. Multiple and

¹³ ADB. 2001. *Country Strategy and Program: Viet Nam 2002-2004*. Manila.

¹⁴ ADB, Australian Government's Overseas Aid Program, DFID, German Agency for Technical Cooperation, Japan International Cooperation Agency, Save the Children UK, United Nations Development Programme, and World Bank. 2003. *Vietnam Development Report 2004: Poverty*. Hanoi: Printing and Cultural Product Company. (The report was distributed at the Consultative Group meeting on 2–3 December 2003.)

¹⁵ World Bank and Vietnam Academy of Social Sciences, draft report of Poverty Update 2005.

¹⁶ See reference in footnote 14.

¹⁷ ADB. 2006. *Poverty Analysis: Background Paper for the Country Strategy and Program 2007-2009 of Socialist Republic of Viet Nam*. Hanoi.

¹⁸ ADB. 2006. *Draft Country Strategy and Program: Viet Nam 2007-2010*. Manila.

floating tranches could effectively provide flexibility in meeting policy change, in preserving an incentive for policy changes, and in maintaining continuous engagement with a longer term outlook.¹⁹ The innovative lending modality for the PRSCs is also referred to in the recent OED study *Good Practices for the Evaluation of Policy-Based Lending by Multilateral Banks*.²⁰

23. The proposed loan uses an innovative approach of a single-tranche program loan that is actually part of continuum of a multiple-tranche program loan. Since all of the 46 policy actions, including 15 tranche release conditions, have already been achieved before loan approval, the loan proceeds will be disbursed as soon as the loan becomes effective. While this arrangement may seem overly flexible, PRSC operations are outcomes oriented with ambitious but specific outcomes/targets set to be achieved in 5 years after the CPRGS is concluded. To identify the prior conditions for each annual PRSC, the Government and cofinanciers undergo several rounds of policy dialogue to discuss and select effective but feasible prior actions from a pool of many more policy measures. Identification and sequencing of a comprehensive reform agenda that covers the medium term require strong analytical work. Lessons learned from similar World Bank programs suggest that conducting joint analytical work between development partners is important along with wide consultation with academia, civil society, and the Government. The development partners and academia can assist the Government in terms of analytical tools and sharing of international experience. This arrangement of a multiple-tranche program loan could therefore be effective in providing flexibility in meeting policy change, in preserving incentives for policy changes, and in maintaining continuous engagement with a longer term outlook than the usual two-tranche program loan.

24. Over time, PRSC operations have expanded in terms of reform areas and number of development partners involved. The increasingly broader scope of the policy dialogue adds logistical challenges to the process. An effective coordination mechanism is required for PRSC operations to be delivered on an annual basis. Given the comprehensive nature of the PRSC reform process and the ever-growing number of cofinanciers, a unit responsible for coordination activities is necessary. This unit would deal with the program agenda, including monitoring and reporting, awareness raising, capacity building, and reform outcome dissemination. Another important lesson learned from implementing previous PRSCs is that the Government is appreciative of the predictability of the financial assistance funds from various cofinanciers. The timing of PRSC support is closely aligned with the Government's budget cycle.

25. The PRSCs complement, rather than replace, other initiatives of ADB, World Bank, and other development partners. They complement other analytical studies, policy dialogue, and programs and projects, and vice versa. ADB has confirmed its plan for continuing participation in the next 5-year PRSC cycle. The program loans to support PRSCs 6–10 are included in the country strategy and program for 2007–2010 (footnote 18). The coexistence of ADB sector-specific program loans and PRSCs is envisaged to leverage ADB's development efforts in Viet Nam with other stakeholders. PRSC operations also provide a complementary forum to aid harmonization in the country's development agenda (Figure A2.2). As a comprehensive reform program, the identification and sequencing of a comprehensive reform agenda for the PRSC requires strong analytical work. In October 2005, a workshop on stock taking of the PRSC process was organized by ADB, World Bank, and the Government to identify lessons learned for improving future PRSC operation. The upcoming *Vietnam Development Report 2007* will

¹⁹ ADB. 2001. *Special Evaluation Study on Program Lending*. Manila.

²⁰ ADB. 2005. *Good Practices for the Evaluation of Policy-Based Lending by Multilateral Banks*. Manila. (Available at <http://www.adb.org/Evaluation/r-pbl.pdf>.)

derive lessons from the last 5-year period, and distill the SEDP 2006–2010 into a concrete action plan for the next 5 years. Lessons confirm the importance of conducting joint analytical work between development partners in a wide consultative manner.

b. Asian Development Bank Policy-Based Lending

26. Lessons from the experience of previous program loans and postevaluation studies are that (i) continued government ownership and commitment are fundamental to achieving development outcomes; (ii) monitoring and evaluation should be based on both process (inputs and outputs) and outcome indicators; (iii) outcome indicators will depend on successful follow-on actions (as passage of a decree or law alone will not produce any meaningful results if the law is not brought into effect (requiring regulations, circulars, etc.) with proper enforcement (requiring institutional capabilities); and (iv) sector or subsector-based program loans have limited scope to address economy-wide policy and institutional issues.

4. Justification for the Poverty Reduction Support Credit 5

27. PRSC 5 addresses three key areas of macro policy and institutional reforms for (i) supporting the transition to a market economy by removing structural weaknesses and improving the business environment, (ii) making development socially inclusive and environment friendly, and (iii) modernizing governance and the public administration system. The 46 policy actions identified in the PRSC 5 policy matrix are built on the reform measures achieved under previous PRSCs (Appendix 4 and Supplementary Appendix A). The preparation of PRSC 5 was built on the strong ODA community's commitment to support Viet Nam's reform agenda through nationwide implementation of the CPRGS, and galvanize interest for the reform program among stakeholders. Increasingly development partners have united around the PRSC as an instrument for policy dialogue. They have been actively involved in supporting implementation of the reform agenda, analytical work, technical assistance, project lending, and program lending or grant support. The rationale for providing financial support under PRSC 5 comes from the external financing needs to cover the cost of adjustments of the reforms. The policy actions supported by the PRSC process entail a substantial additional cost to the Government. Among these are recapitalization of SOCBs, operation of a safety net for workers who become redundant as a result of SOE restructuring, expansion of budget appropriations for the education sector, and creation of provincial health care funds for the poor.

28. Justification for PRSC 5 is grounded on three criteria: (i) prudent macroeconomic management to ensure that progress with the long-term reform agenda will not be undermined by short-term instability; (ii) the Government's own assessment of progress accomplished in CPRGS implementation; and (iii) the reform triggers (measures and actions) for PRSC 5 that need to be met, except for unforeseen circumstances.

29. IMF's assessment of Viet Nam's economic performance confirms the country's solid macroeconomic performance in 2005, despite the adverse effects of droughts and the outbreak of avian influenza. The Government's progress report²¹ on CPRGS implementation was presented to the Consultative Group meeting in December 2005. The report highlights the accomplishments in reform implementation (e.g., opening of the economy, more favorable investment climate, better public financial management, substantial poverty reduction, and attainment of the Millennium Development Goals), but it also points out bottlenecks in structural

²¹ Government of Viet Nam. 2004. *Progress Report of the Comprehensive Poverty Reduction and Growth Strategy*. Hanoi.

reform and key outstanding social issues (e.g., growing inequality, poverty among ethnic minorities, rural–urban migrants, and challenges in promoting good governance and combating corruption). The joint assessment of the CPRGS led by the World Bank and observations by other key development partners acknowledges the frankness in reporting and notes the challenges. The assessment indicates that the progress with all 15 triggers chosen for the preparation of PRSC 5 was satisfactory. These triggers were evenly distributed across all three pillars of the reform program (Appendix 4).

5. Rationale for the Proposed Program Loan

30. The ODA community in Viet Nam considers the PRSC an important instrument for supporting CPRGS implementation. As a multisector instrument covering a range of issues related to poverty reduction, the PRSC framework provides ADB with an opportunity to (i) advance and widen national policy dialogue in a well-coordinated and comprehensive manner, (ii) provide lending and nonlending assistance in coordination with other ODA partners, and (iii) ensure that key policy issues affecting ADB operations in Viet Nam are addressed in the policy dialogue between the Government and the ODA community to help achieve the common goal of poverty reduction and growth.

31. In 2006, 11 major ODA partners plan to cofinance PRSC 5 with the World Bank (Appendix 5). All cofinanciers participated in PRSC 5 preparation, and are actively involved in policy areas where they are strong. Given the many active development partners in Viet Nam, several cofinanciers are involved in the same reform sectors. However, certain cofinanciers may have more comparative advantage in a subsector than others. For example, for the financial sector, while the World Bank and Japan Bank for International Cooperation specialize in banking reforms, ADB specializes in nonbanking reforms. ADB has participated in policy dialogue related to many reform sectors in comparison to other development partners. PRSC 5, which has a national economy-wide reform agenda, complements these ADB-assisted activities (Appendix 2, Figure A2.2). In addition, ADB staff have actively participated in PRSC policy dialogue with other cofinanciers, thus ensuring synergy between the PRSCs' multisector policy actions and ADB sector-based programs/projects. This allows ADB to verify that PRSC 5 conditions do not conflict with policy conditions under ADB's ongoing sector loans. In fact, ADB's participation in this dialogue enables it to influence the reform agenda in a way that complements ADB's ongoing sector loans, because the PRSC provides a clear picture of ADB's intervention as part of and in relation to the aggregated efforts of all of Viet Nam's development partners.

32. The proposed program is expected to lead to substantial improvements in development outcomes. The current PRSC cycle covers the same 5-year implementation period as that of the CPRGS. The targeted development outcomes under this PRSC cycle have been well attained (Appendix 6) as the PRSC process has been supported by a series of comprehensive analytical reports covering the three pillars of the CPRGS. The analytical reports have helped both the Government and development partners strategically identify and adjust policy actions adopted under the program. Such major analytical reports are the annual VDRs, which provide crucial information and analyses on focal issues relevant to the Government's reform agenda. VDR 2004, entitled Poverty, examined issues regarding social inclusion. VDR 2005, entitled Governance, focused on building modern institutions. VDR 2006, entitled Business, examined all types of businesses and structural reforms in the area of private sector development. And the forthcoming VDR 2007, entitled Aiming High, will include a review of the experience of the last 5 years.

33. To reduce transaction costs for the Government and the participating development partners in a rather complex operation, the proposed loan pursues a program-based approach. This approach is in line with ADB's recent move and practices toward adopting program-based and sector approaches in its lending operations to reduce transaction costs for its developing member countries as well as for its own operations. The approach is not only consistent with ADB's reform agenda,²² Long-Term Strategic Framework,²³ and Medium-Term Strategy II,²⁴ but also will directly help fulfill ADB's obligations to the Rome Declaration on harmonizing procedures of multilateral development banks (2003) and the recent Paris Declaration on Aid Effectiveness (2005).

III. THE PROPOSED PROGRAM

A. Impact and Outcome

34. The program loan aims to provide support to Viet Nam's policy and institutional reforms to maintain high growth and reduce poverty. The outcomes envisaged include numerous development targets that reduce structural weaknesses, promote socially inclusive development, and modernize governance and public administration (Appendix 1) by supporting the Government's Poverty Reduction Program under the policy framework of PRSC 5. To reduce poverty and sustain rapid economic growth, the program loan will strengthen Viet Nam's reform program through 46 policy actions, of which 15 are a tranche release condition for the loan. The policy matrix is presented in Appendix 4 and the development policy letter in Appendix 7. Supplementary Appendix B provides detailed information demonstrating that all 46 policy actions have already been complied with. The policy matrix comprises policy measures that can be categorized into three reform pillars:

- (i) **Pillar I: Transition to market economy.** Promote growth and create employment by increasing internal and external competition, improving efficiency and resource allocation in the economy, strengthening the regulatory framework for private sector development, and enhancing transparency and accountability in SOE operations and the financial sector;
- (ii) **Pillar II: Social inclusion and environmental sustainability.** Advance human development by upgrading the quality of education (especially in poor zones); promoting inclusive education for children with disabilities; improving access of the poor to health services; helping secure asset ownership through the implementation of the new Land Law; addressing inequalities in health and education outcomes across regions and population groups; and encouraging important policy measures leading to more sustainable management of natural resources; and
- (iii) **Pillar III: Modern governance.** Increase transparency and accountability of public finances, and improve legal transparency and accessibility by promoting greater accountability in public finance and public administration as part of a broader effort to build modern governance; improving the coordination between 5-year plans and budget formulation; and supporting the Government's comprehensive and ambitious agenda of the Legal System Development Strategy.

²² President Chino's memo of 25 August 2004 entitled Today: Achieving Results Together.

²³ ADB. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific: the Loan-Term Strategic Framework of the Asian Development Bank (2001-2005)*. Manila.

²⁴ ADB. 2006. *Medium-Term Strategy II (2006-2008)*. Manila.

B. Policy Framework and Actions

35. The program loan's outputs include (i) policy advisory services by all PRSC participants to assist the Government in formulating and implementing the reform policies; (ii) laws, regulations, and policies that are conducive to reforms under the program framework; (iii) amendment or strengthening of laws, regulations, and policies; and (iv) action plans and strategies that are strategically important for attaining targeted development outcomes; and (v) self assessments and sector studies that are of strategic importance. These were achieved through 46 policy actions in the Program's policy matrix. The following paragraphs will elaborate in detail certain outputs achieved under the reform program through the policy actions considered strategic and critical under the program framework.

1. Pillar I: Transition to a Market Economy

36. **Trade Integration.** The Law on Intellectual Property passed by the National Assembly is consistent with requirements of WTO's Trade-Related Aspects of Intellectual Property. A number of Viet Nam's trading partners have identified strengthening the protection of intellectual property as a key factor for enhancing trade and investment relations. Viet Nam states that it will be in compliance with the agreement upon WTO accession. While the WTO requirements could have been met by amending existing pieces of legislation, this approach would have had the disadvantage of scattering the changes over many legal documents. The Government is currently taking steps to remove overlaps between the responsibilities of different agencies in order to smooth implementation of the law and ensure its effective enforcement. It has also eliminated quantitative restrictions on imports in accordance with WTO requirements.

37. **SOE Reform.** Continuing SOE reform and enhancing SOE operational efficiency are considered priorities. The critical policy action accomplished under the Program is the requirement for SOEs to be classified by performance according with Decision 271.²⁵ Decision 271 set up a mechanism to monitor SOE performance and apply sanctions in the case of consistently poor performance. SOEs are to be classified into one of three groups (A, B, or C) based on four criteria: turnover, profitability, solvency, and compliance with laws and regulations. For the first three criteria, quantitative benchmarks are in place; SOEs with a strong performance are classified as A whereas those with a weak performance are rated C. The four criteria are combined into a single ranking. Only those SOEs with a strong performance in all four criteria are ranked as A, whereas weak performance on any single indicator leads to a C ranking. Enterprises ranked as C for 2 consecutive years are in principle subject to reorganization, including changes in management. Until recently, few SOEs had complied with the reporting requirements under Decision 271 and government agencies in charge had not made serious enforcement efforts. But during 2005 and early 2006, the Ministry of Finance (MOF) compiled reports on the performance of most SOEs during 2004, and is now conducting an in-depth evaluation of the reliability of the reports. Meanwhile, an application of the three quantitative criteria of Decision 271 to individual SOE records from the enterprise census yields a similar ranking. More SOEs are classified as B when using census data, rather than Decision 271. But few large SOEs fall in the C category, and overall solvency appears better than is usually assumed, in spite of cautious assumptions regarding the valuation of assets. While implementation of Decision 271 needs to be strengthened, preliminary results for 2004 are encouraging.

²⁵ The Prime Minister issued Decision 271/2003/QĐ-TTg on 31 December 2003 with the main objection to set up a mechanism to monitor SOE performance and applying sanctions in the case of consistently poor performance.

38. **Financial Sector Reform.** The PRSC includes banking reform as a core component. Following the announced separation of SBV's management of SOCBs from its supervision function during the previous PRSC operation, a comprehensive road map for banking reform was issued through the Prime Minister's Decision 112 of May 2006. The road map will lead to the creation of a modern central bank focused on monetary policy, banking supervision, and the equitization of SOCBs within the next 5 years. The reform of the banking system entails fundamentally rewriting the laws on credit institutions and on SBV. The issuance of the revised laws, initially planned for 2010, has been brought forward to 2008 or earlier. The modernized SBV will be charged with executing monetary policy and supervising the banking system. At present, SBV is responsible for exercising the ownership rights of the state in the SOCBs, a function that conflicts with its role as supervisor of the same banks. Under the proposed changes to the legal framework, SBV's ownership role is to be eliminated. Its supervision functions will be separated from its management functions in relation to SOCBs, and SOCB operation on a commercial basis will be ensured.

39. The reform program will include a transformation of central bank governance to clarify and enhance management and accountability structures. The strengthening of banking supervision is expected to happen in two phases. In the first, SBV's banking supervision department will be upgraded. The focus of its activities will mainly be on banks as they are likely to remain dominant players in the financial sector in the medium term. In the second and longer term phase, an independent financial supervision board will be established. SBV has already started to upgrade its supervision functions. In October 2005, it initiated an assessment of its supervision practices against international standards, the Basel Core Principles. The first draft assessment was prepared and presented in a consultative workshop held in Hanoi in May 2006. The assessment report analyzes current status and weaknesses pertaining to the institutional framework of the supervisory agency, the legal framework, supervision methodology, supervision procedures, and prudential regulations; and makes recommendations to address the weaknesses. SBV reviewed the draft assessment and incorporated the suggested revisions to the first draft. The assessment report, including a comprehensive supervision development plan, was revised and finalized in June 2006. The pace of reform will be tailored to the human resource capacities within SBV and the SOCBs. As the envisaged changes are fundamental in nature, they will need to be accompanied by an equally major development of human resources and a realignment of the incentives structure to the objectives of the institutions.

40. The organizational and financial restructuring of SOCBs to support their commercial orientation is to happen alongside the opening up of their capital. All SOCBs are due to be equitized by 2010. The process is already under way for two of them. Vietcombank has sold convertible bonds worth D1.36 trillion to boost its capital before equitization. Share sales are to take place through auction at the securities exchange and will begin toward the end of 2006 or in early 2007. Mekong Housing Bank will be equitized with the participation of strategic investors. The state's shareholding in these two banks is to be gradually reduced to no less than 70% by end-2006 and eventually to 51% by 2010. Under current regulations, total foreign holding of shares will be limited to 30% with a single institutional investor allowed to hold a maximum of 10%. But these limits, especially the latter is likely to be revised upward in line with WTO commitments. The valuation of both banks is to be conducted through reputed external advisers selected through a competitive process. The external advisers will also help in selecting strategic investors.

41. The Program also supports the development of a well-balanced financial sector. In this regard, development of the securities market is essential to provide long-term capital in support of economic growth. The Law on Securities, approved by the National Assembly in June 2006,

provides a comprehensive framework for the operation and development of the securities market. It also provides a legal base for investor protection and market transparency, including a disclosure-based approach. Initial emphasis is placed on disclosure promptness and the quality of information being disclosed and available to public investors. The disclosure-based approach also permits a free market to function within limits established to provide a fair marketplace. Strong inspection, fact-finding, and enforcement powers are provided to the State Securities Commission under the draft law. These powers are essential to provide the tools required to oversee a market adequately and to protect public investors. Also related to investor protection is the issue of insider trading, which is clearly defined and prohibited. In addition to the improvement of the legal framework for the securities market, the PRSC supports greater participation of foreign investors in the capital market. The Prime Minister issued Decision 238, in September 2005, increasing the limit of foreign holding of shares in local listed companies from 30% to 49%. This will foster demand for securities, especially from foreign investment funds, thereby contributing to market stability.

42. **Private Sector Development.** Improving the business environment for the private sector presents the most remarkable and persistent achievement of Viet Nam over the last 5 years. The new unified Enterprise Law provides for equal treatment of firms, regardless of ownership. Under the law, approved in December 2005 and effective from 1 July 2006, domestic and foreign enterprises are governed by the same corporate legislation. Foreign enterprises are subject to the same registration procedures as domestic firms, and are able to choose the form of corporate entity that is most suitable to their business operations. At present, they are only allowed to operate as limited liability companies. Foreign enterprises will be allowed to restructure, expand, or diversify their business rather than be limited to the specific lines in which their business was initially registered. Alongside the Enterprise Law, the new Investment Law introduces a common investment regime for domestic and foreign investors. It opens the possibility of foreign investment into a wider range of sectors, and makes Viet Nam's investment policies consistent with current and prospective international commitments.

43. The Enterprise Law also requires that all SOEs be transformed into limited liability companies or joint stock companies within 4 years. Under these corporate forms, SOEs will move under the corporate governance models of the new law alongside private enterprises, rather than be governed by a separate law as at present. The law also provides for principles to guide the exercise of ownership rights by the state. These should provide significantly greater autonomy to the transformed enterprises in defining their business strategies, and making investment and personnel-related decisions. At present, business decisions are often directed by line ministries or provinces, often in inconsistent ways.

44. Seven decrees are currently being drafted to provide guidelines for implementing the two laws. The content of these decrees will greatly shape the investment climate in Viet Nam. For the Enterprise Law, these include regulations governing business registration, licensing regime, reregistration of foreign invested enterprises, as well as SOE transformation. Under the Investment Law, one of the decrees being drafted governs build-operate-transfer projects, considered crucial for attracting private participation in the infrastructure sector. The Government has followed a consultative drafting process for these decrees involving domestic and foreign businesses, as well as development partners.

2. Pillar II: Social Inclusion and Environmental Sustainability

45. **Education.** Regulations for inclusive education for children living with disabilities have been issued to ensure equal access to education services. The regulations apply to all

educational institutions in the public education system. The preparation of these regulations is the result of effective coordination among ministries such as the Ministry of Education and Training (MOET); Ministry of Health (MOH); and the Ministry of Labor, Invalids, and Social Affairs; and agencies dealing with child protection. The regulations address the special needs of children living with disabilities in terms of classrooms, school facilities, equipment, and textbooks. Individual education plans will be prepared with materials and methodological designs tailored to their special requirements. The regulations allow for educational institutions to hire specialized staff and helpers, and entitle them to make investments in facilities and equipment that meet the special needs of children living with disabilities. Inclusive education staff will be entitled to training and refresher courses and to reduced norms for teaching hours. Early intervention is promoted by the regulations to minimize disability-caused constraints. People living with disabilities will also be given priority in entrance exams for vocational secondary schools and institutions providing continuing and higher education services.

46. A sustained effort is under way to raise the quality of primary schools nationwide, with an emphasis on schools in poorer areas. A baseline assessment of compliance with fundamental school quality level (FSQL) standards nationwide was compiled at the end of the 2004 school year. The annual audit conducted 1 year later assessed progress. The comparison, finalized at the end of 2005, showed that the average FSQL ratio, across all the quality indicators considered, increased from 62.1 to 66.1, out of a maximum of 100. This represents an annual 6.4% increase in the average FSQL index. A subsequent analysis, combining the results of the FSQL audits with a poverty map, shows that gains are more important in poorer districts.

47. A larger, increasingly diversified and decentralized education system has made sector governance, planning, and budgeting more complex. The ongoing work on the education sector medium-term expenditure framework and provincial planning is aimed at rationalizing the planning and budgeting processes. These tools reinforce the roles of different stakeholders in sector governance: the Ministry of Planning and Investment for the provision of a clear economic framework for planning; MOF for integrating planning and deployment of resources, and balancing sectoral spending; MOET for sector stewardship in setting and guaranteeing service quality, and helping provinces achieve national objectives; and the provinces for integrating investment and recurrent funding for school system operations, and being accountable for sector output and outcomes.

48. **Health.** The financing of health care for the poor and near poor has been considerably strengthened. Politburo Resolution 46 of February 2005 urged the Government to finance curative care for the poor, children under the age of 6, and other social policy beneficiaries, as a first step in upgrading health care and to advance toward universal health insurance by 2010. These aspects of the resolution were operationalized by Decree 63 on health insurance, in effect from 1 July 2005.²⁶ The decree represents a key step in shifting from the direct funding of health care providers to demand-side funding. It mandates compulsory health insurance for several groups, including workers on fixed-term contracts of 3 months and more, pensioners, children under the age of 6, and beneficiaries under Decision 139 on the provision of health care to the poor. Decision 139 replaced Health services can be received from public or private providers as long as they are contracted by Viet Nam Social Insurance. Compulsory health insurance holders will be entitled to both in-patient and out-patient services. Transportation

²⁶ The Government's issuance of Decree 63 dated 16 May 2005 has adopted a regime of compulsory health insurance for the poor. Compulsory health insurance's coverage expanded to cover more citizens, and supported by increased budget allocation. The existing Prime Minister's Decision 139/2002/QĐ-TTg on the health care system for the poor was proposed to be revised in order to extend the coverage to the poor based on the new poverty line as well as include provisions to protect the near-poor and all ethnic minorities.

costs will be covered in case of referrals for the poor and those in remote areas. Voluntary health insurance is available to all, including those under compulsory health insurance who wish to obtain higher coverage. Viet Nam Social Insurance is in charge of the implementation of the health insurance policy. MOH will issue technical standards against which Viet Nam Social Insurance will assess and contract providers. MOH and MOF will provide guidance on the management of insurance funds. MOH will deal with complaints relating to health care, while MOF will deal with complaints on fund management.

49. Decision 139 is being revised to expand the number of households eligible for benefits. The new, substantially higher poverty line will be employed to define poor households. Such households will be entitled to compulsory health insurance with a premium of D60,000 provided by the state budget. Near-poor households with an income of up to 1.5 times the poverty line will be provided a subsidy to enroll in the voluntary health insurance scheme. In addition to these budgetary outlays, provincial health care funds for the poor will support treatment costs not covered by compulsory health insurance, up to a maximum of D10 million per hospital stay. For the near poor, these funds will provide support to cover catastrophic illnesses.

50. **Social Protection.** The Program for Socio-economic Development in Communes faced with Extreme Difficulties, or so-called Program 135 was revised to more effectively support the development of communes facing extreme hardship in ethnic minority and mountainous areas.²⁷ Program 135 is one of the national targeted programs (NTPs) that Viet Nam employs to ensure that national goals are met in the context of increasing decentralization. Under Program 135, communes receive a resource allocation that is most often used to develop local infrastructure, such as roads, irrigation systems, schools, and health centers. Seven years of implementation have resulted in successes and shortcomings. The revision of the program design, components, and procedures builds on the success and addresses the shortcomings. The main objective of Program 135 is to eliminate food poverty and achieve a poverty rate of less than 30% in the selected communes by 2010, thereby also reducing the widening poverty gap between ethnic minorities living in remote areas and the rest of the country. In its second phase, Program 135 is better targeted. In the past, only the poorest communes were targeted, but now the aim is to reach the poorest and most remote villages within the poorest and less poor communes. This should also help in reaching a higher proportion of remote ethnic minority communities. The budget allocation for agriculture and forestry extension and support has been considerably increased, from around 3–4% to around 20%. This reflects the recognition that infrastructure investments alone are not enough to reduce poverty among ethnic minorities and that greater effort is needed to improve their livelihood opportunities. The allocation for operation and maintenance of infrastructure was increased to about 10%. This will reduce the burden of local contributions borne by already poor communes. The revised Program 135 will devolve greater control over investment decisions to communes and villages, with measures to increase participation and capacity in scheme selection, technical design, and construction supervision. Increased effort will be devoted to promoting public access to information as a key tool in achieving greater transparency and accountability.

51. **Land and Forest.** Land registration offices have been set up in nearly all provinces in compliance with the 2003 Land Law. A major shortcoming of land management in Viet Nam has been the lack of an effective land registration system. The law requires that provincial land

²⁷ Program 135, approved in July 1998, is implemented by the Committee for Ethnic Minorities. Several old existing programs with broadly similar objectives were merged into Program 135 by the Prime Minister's Decision 135/2000/QĐ-TTg. These included the infrastructure components of the fixed cultivation and fixed settlement programs, the commune cluster program, and the program for training of cadres in remote and ethnic minority areas.

registration offices be set up, and if deemed necessary on the basis of demand, district offices as well. By April 2006, land registration offices had been set up in 62 of 64 provinces, and in 20% of the high-demand districts. Fifty of the 62 offices have received land records that were previously maintained by the departments of natural resources and the environment, and the process of transferring the records is to be completed by June 2006. Land registration offices are responsible for registering all land transactions, managing land files, and carrying out land-related administrative formalities. Decree 181 empowers the offices to provide information on land to any land user to promote transparency in land transactions.

52. **Water.** The second NTP (NTP II) on Rural Water Supply and Sanitation (2006–2010) has been submitted for approval, assigning clearer responsibilities for its implementation. Perhaps the only Millennium Development Goal where Viet Nam has not advanced well relates to rural water and sanitation, with weaker progress on the sanitation front. A recent joint government-development partner review pointed to fragmentation and lack of coordination between different ministries involved in the sector. The Ministry of Agriculture and Rural Development (MARD) will perform the state management functions and be the main agency in charge of coordinating, monitoring, and supervising NTP II implementation. Within MARD, the Department of Water Resources will take the lead. MOH will produce guidelines for the provision of clean water, construction of household sanitation facilities, and personal hygiene. It will also be in charge of monitoring water quality in rural areas. MOET will monitor water supply, sanitation, and hygiene in schools. The Ministry of Natural Resources and the Environment will be responsible for addressing issues related to the pollution of water resources, including in craft villages. NTP II improves upon the earlier program by strengthening community participation and upgrading the mechanisms for monitoring and evaluation. Specific indicators have been defined and responsibilities allocated for commune, district, provincial, and central collection and management of information. NTP II also seeks to accelerate the decentralization process to ensure a more active role for provinces in planning, implementation, and management of water supply and sanitation facilities. In addition, NTP II recognizes the weaker achievement on sanitation, and proposes both technological solutions as well as an enhanced role for households and communities in the provision of sanitation facilities.

53. **Environment.** Economic tools for environmental protection have been developed and strategic environmental assessments piloted. The Law on Environmental Protection took effect from 1 July 2006. The law (i) includes provisions for adoption of polluter-pay measures, for instance, for waste discharge into water bodies, and the disposal of hazardous wastes; (ii) foresees payments for natural resources use and rehabilitation, and reliance on environmental protection funds; (iii) improves the requirements for environmental impact assessments; and (iv) introduces a requirement for strategic environmental assessments (SEAs) of sectoral and regional development plans.

54. The first decree to guide the implementation of the environmental protection law focuses on the application of national environmental standards, responsibilities for hazardous waste management, and procedures for environmental impact assessment and SEA application. The Ministry of Natural Resources and the Environment has also developed regulations to implement Decree 67 on Environmental Protection Charges for Wastewater,²⁸ which will enable improved control of water pollution. The draft circular on Wastewater Pollution Coefficients, identifying the volume of pollutants in industrial wastewater as a basis for fees to be levied under Decree 67, was submitted in August 2006.

²⁸ This refers to Decree 67/2003/ND-CP.

55. The Government has adopted provisions for undertaking SEAs to improve the integration of measures for environmental protection into strategies, plans, and programs. They represent an important step for Viet Nam, at a stage of rapid economic growth and massive public investment in infrastructure, when large cumulative impacts in the regions and on the landscape can be expected. Two SEA pilots were carried out on socioeconomic development plans, one for Ha Tay province and the other for Dai Tu district, to promote sustainable development and management of the Tam Dao National Park and its buffer zone. Two additional SEA pilots are under way, one for the Vung Tau port development plan and the other for Electricity Viet Nam's hydropower master plan, focusing on biodiversity impacts and program level mitigation.

3. Pillar III: Modern Governance

56. **Planning Process.** The Government issued its SEDP 2006–2010 with a poverty focus, and is developing a mechanism to monitor its implementation. The SEDP was built on extensive consultations not only within government but also with a broad range of stakeholders (including mass organizations, academics, private sector, civil society, and development partners). The National Assembly discussed the draft SEDP in its November 2005 session and adopted it in June 2006. The SEDP received the endorsement of the Party Congress in April 2006. The document represents considerable progress in developing an outcome-focused, medium-term plan that combines the twin objectives of economic growth and social inclusion, and describes the reforms that will ensure sustainability in the long term. Importantly, the document explicitly recognizes the institutional and regulatory challenges associated with completing the transition to a market economy. It describes a large number of planned legislative actions that, together with the reform agenda implied in the accession to WTO, will strongly support this transition. The SEDP should thus serve as a framework to allocate public resources over the medium term and as a mechanism to align development partner support to national priorities. A monitoring and evaluation system for SEDP implementation is being finalized.

57. **Public Financial Management.** The circular guiding the preparation of the 2006 budget took an important step toward preparing the government budget within a medium-term framework. While the submission and approval of the budget by the National Assembly will continue to be done on an annual basis, line ministries and provincial governments were asked to prepare a budget framework for 2006–2010, based on the SEDP. The 5-year framework should be conducive to better integration of the capital and recurrent budgets. It should also help ministries and provinces prepare more realistic plans, better prioritize their spending, and improve overall efficiency of public expenditures. The draft circular for the 2007 budget includes instructions to line ministries and provinces to align budget submissions to the SEDP over the next 3 years.

58. The Government issued new regulations to strengthen the delivery of public services through improved monitoring, introduction of user feedback, and limits on salary expenditure. By allowing public service delivery units to charge fees, the earlier Decree 10²⁹ introduced powerful incentives to improve quality. However the provision of basic services to be provided free of charge, or at low prices established by government regulations, appear to have suffered as a result of such incentives. Moreover, many service delivery units face limited local competition. Because Decree 10 allowed considerable flexibility to use revenue from fees to pay higher salaries, it provided an incentive to charge excessively high prices for services. The new

²⁹ By allowing service delivery units to charge fees, Decree 10/2002/ND-CP had introduced powerful incentives to improve quality while substantially increasing the resources available to such units.

regulation, Decree 43,³⁰ requires that service delivery units set aside 25% of their net revenues to improve service quality, thereby limiting the amount available for salary increments. Decree 43 also includes salary caps that are inversely related to the amount of financial support received from the government budget. The decree requires that performance standards be set for service delivery units under guidelines provided by the responsible line ministry. The criteria to evaluate service delivery units will include workload, service quality, time taken to provide the service, and compliance with relevant regulations. Monitoring and evaluation is to be conducted by the line ministries and by relevant state inspection and audit agencies. The decree also introduces mechanisms for eliciting feedback from service users that go beyond “mailboxes”³¹ to potentially include instruments such as “citizens’ report card” surveys.

59. **Legal Development.** The Politburo has approved strategies for strengthening the legal and judiciary systems. Both strategies have been made public and shared widely. The Legal System Development Strategy is a broad-ranging document that seeks to build legal institutions and systems that will ensure the rule of law. The Strategy is a comprehensive roadmap to renovate the country’s legal system to build the rule of law and support the transition to a market-oriented economy and rapid international integration. An important complement to it is the Judicial Reform Strategy to 2020, which seeks to improve criminal and civil policy and legislation in line with the transition to a market economy. It aims to reduce prison sentences considered excessively high, as well as increase the use of financial penalties and noncustodial measures rather than imprisonment. The categories of officials who have the authority to make decisions on the application of detention measures will be narrowed. The court system will be reorganized to make courts jurisdiction-based rather than their existing geographic affiliations.

60. **Public Administration.** Several ministries and provinces are implementing action plans to simplify and increase transparency of administrative procedures. The Prime Minister’s Directive 09 instructs ministries, government agencies, and provinces to conduct a review of existing procedures with a view to reducing bureaucracy and red tape. By the end of 2005, 17 ministries, five government agencies, and 26 provincial people’s committees had submitted action plans to implement new, simplified administrative procedures. Progress has been made in areas such as birth, death, and marriage records; notary services; residential registration permits; business registration and related licenses; land-use right certificates; and customs and tax procedures. In the case of business registration, investment licenses, and construction permits, processing times have generally come down to 7–10 days and even 3–5 days in some cases.

61. **Anticorruption.** A law on corruption prevention and control was passed by the National Assembly in November 2005, and will take effect in June 2006. In February 2006 the Prime Minister issued an action plan delineating the roles of various ministries and agencies in ensuring effective implementation of the Anticorruption Law. The law was drafted in parallel with preparation of the first comprehensive diagnostic study on corruption in Viet Nam. It includes chapters on corruption prevention and detection, handling of corruption, organizations and mechanisms for investigation, prosecution and judicial agencies in anticorruption, role of society and media in anticorruption, international cooperation in anticorruption, and implementation provisions. The law is thus more comprehensive than typical anticorruption legislation. This comprehensiveness also translates into implementation challenges.

³⁰ The Government issued Decree 43/2006/NĐ-CP on 25 April 2006 on the autonomy of public service delivery entities in organizational arrangement, human resources and finance (replacing Decree 10/2002/NĐ-CP).

³¹ Each public service delivery unit posts a mailbox that accepts notes from service users who voluntarily comment or complain about the quality of the services.

62. The main initiatives introduced for fighting and controlling corruption include increased public disclosure and transparency in areas such as public procurement, civil works, management and equitization of SOEs, auditing of the state budget, management and use of land, and personnel management. The law specifies the contents and modalities of such disclosure. It also provides individuals with the right to request information from specified bodies, such as people's committees. The law strengthens the accountability of heads of organizations and agencies by specifying that they are responsible for corruption occurring inside the entities under their management and authority. Greater simplification of administrative procedures, including increased reliance on electronic interfaces, is another tool for preventing corruption. The Government will also specify and regulate transactions that must be settled through the banking system. The law encourages exposure of corruption by the public and other agencies, and the rewarding of such actions.

63. A key provision of the law relates to the compulsory declaration of assets and income of state employees. The broader definition of the "declarer", so as to include "spouses and children in the same residential certificate", is commendable. A separate decree will be prepared by the Government Inspectorate to guide implementation of this provision. Widespread application of asset declaration in the initial period could risk overwhelming the capacity of inspectors, thereby diluting its efficacy. To ensure its effectiveness a phased approach could be employed, for instance, by piloting asset declaration in the most corruption-prone agencies or for high-ranking public officials. The Ministry of Home Affairs, in coordination with MOF and SBV, is to prepare a plan for monitoring incomes of high-ranking officials or those holding a position of power.

C. Important Features

64. Based on the mission's initial assessment, the SIPRP III is categorized as C under ADB's environment classification system. An environmental assessment of the potential environmental impacts associated with the policy matrix of the SIPRP III is available in Supplementary Appendix C. The assessment reveals that many policy actions will produce positive impacts on urban and rural environments. Some policy actions will likely not have any impact on the environment. A few policy actions that promote WTO accession have unknown impact. The assessment offers some recommendations on environmental enhancements for future policy dialogue in subsequent program loans supporting PRSCs 6–10.

65. The SIPRP III will not have any impact on involuntary resettlement impact or on indigenous people as it has no investment component. None of the policy actions associated with this Program will trigger any activities related to indigenous people during the implementation period. Activities that may have any adverse impact on indigenous peoples or involve involuntary resettlement may occur in the future under a separate government-initiated program financed by other development partners. Adequate assessment and mitigation measures providing safeguards to indigenous people and resettlement will be carried out under that separate program. However, as the SIPRP III paves the way for the next 5-year cycle of PRSCs, in support of the SEDP 2006–2010, it has flagged potential risk for income disparity between urban and rural as well as Kinh majority and ethnic minorities. Such disparity could increase over the medium to long term as Viet Nam strives to become a middle-income country. The Government is aware of this potential risk and commits to formulate and implement preventive and mitigation measures. This potential risk is not foreseen to noticeably occur and damage Viet Nam's track record on this front during the short span of this Program's implementation. A social and poverty impact assessment was undertaken in relation to the SIPRP III (a summary is in Appendix 8 and additional details in Supplementary Appendix D).

The assessment concludes that the activities will have no adverse impacts on indigenous people or have gender implications.

D. Financing Plan

66. A total of more than US\$210 million is expected to be funded for PRSC 5 operation through ODA resources. The World Bank has already approved a US\$100 million credit from the International Development Association to support PRSC 5. Cofinanciers providing concessional loans include ADB (US\$15 million), Japan Bank for International Cooperation (amount to be determined), and Germany (€6 million). Cofinanciers providing grants include Agencia Española de Cooperación Internacional (€3 million), Australian Agency for International Development (A\$10 million [to be confirmed]), Canadian International Development Agency (Can\$4 million), Danish International Development Agency (DKr61 million), European Commission (€10 million), Ireland (€3 million), Netherlands Ministry of Development Cooperation (€9 million–€14 million), and the United Kingdom's Department for International Development (£20 million). Swiss Development Cooperation, while not cofinancing, provided financial support for the coordination of the process.

67. The Government has requested a loan of US\$15 million from ADB's Special Funds resources as ADB's support to CPRGS implementation following the policy framework of PRSC 5. The program loan would contribute to financing the cost of adjustment resulting from implementation of the policy matrix, particularly the prior actions for PRSC 5, and to supporting and facilitating the Government's continued and deepened reform program for poverty reduction. The loan will be disbursed upon declaration of loan effectiveness.

68. The loan will have a 24-year term including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan agreement. The loan proceeds may be used to finance eligible imports incurred within 180 days prior to the date of loan effectiveness. The loan closing date will be 31 December 2007.

69. Some of the reforms supported by PRSC 5 entail substantial cost to the budget. Policy measures supported by the PRSC operations, such as the safety net for redundant SOE workers, recapitalization of SOCBs, provincial health care for the poor, and increased education budget allocation, require additional spending. These are costly and specific to the PRSCs. The cost of adjustment of the PRSC is therefore greater than the cost of these clearly PRSC-specific items, which is estimated at US\$400 million per year on average during the past 4 years. The estimated cost of some specific PRSC-related programs for the 2006 budget is approximately US\$601 million, i.e., (i) health funds for the poor—about US\$44 million due to expanded coverage of beneficiaries according to the new poverty definition; (ii) increased spending on education proportional to the Government budget—about US\$184 million; and (iii) social safety net program for retrenched SOE workers—about US\$219 million; and (iv) maintenance cost of transport infrastructure—about US\$154 million.

E. Implementation Arrangements

1. Program Management

70. SBV, as the Executing Agency, will be responsible for overall program implementation, including administration and disbursement of loan proceeds, maintenance of accounts, and preparation of semiannual progress reports on program implementation. The Program is being

implemented through 24 line ministries and government agencies in accordance with the Loan Agreement. While the ODA funds raised through the PRSC process provide resources to the state budget to implement the reforms, the PRSC operations have also served as an effective coordination device between the Government and the many development partners. On behalf of the Government, SBV coordinated the overall processing of PRSC 5. The World Bank coordinated the process for the development partners. The number of cofinanciers has been continuously increasing—from four in the case of PRSC 1 approved in 2002, to 11 for PRSC 5. The development partners have participated in the PRSC process by forming working groups with the Government, which cover all economic policy areas. Staff of ADB's Viet Nam Resident Mission are actively participating in several other working groups including Partnership to Support National Target Program, Viet Nam Business Forum, People's Participation Working Group, SME (Small- and Medium-Sized Enterprise) Development, and Public Administrative Reform Partnership. Given the comprehensive nature of the PRSC reform process and the ever-growing number of cofinanciers, in January 2005 SBV established the Program Coordination Unit comprising competent staff. The unit deals with the program agenda, including monitoring and reporting, awareness raising, capacity building, and reform outcome dissemination. It has frequently interacted with the World Bank and the cofinanciers of PRSC 5, including ADB.

71. The National Steering Committee for implementation of the CPRGS and PRSCs is headed by a deputy prime minister, and consists of representatives from 24 relevant line ministries and government agencies. SBV is assigned as the agency responsible, in close collaboration with the World Bank, for preparation and implementation of the PRSCs. A deputy governor of SBV acts as standing vice chairperson of the steering committee. This quasi-advisory body has several representatives from key ministries, such as MARD; MOET; MOF; Ministry of Justice (MOJ); Ministry of Labor, Invalids, and Social Affairs (MOLISA); Ministry of Trade (MOT); Office of the Government; Party's Economic Commission; SBV; etc., representing the policy reform areas under the PRSCs. An interministerial working group and a secretariat to implement and monitor the CPRGS and PRSCs are functional at the Ministry of Planning and Investment. The interministerial working group consists of representatives also from abovementioned key ministries, representing the policy reform areas under the PRSCs. Among the goals of the interministerial working group is subnational implementation of the CPRGS and PRSCs. The CPRGS Secretariat at the Ministry of Planning and Investment supports provincial governments in adapting the CPRGS to their own context, and reformulating plans and budgets accordingly.

2. Implementation Period

72. The program period will be from 30 June 2006 to 31 December 2007.

3. Disbursement and Procurement

73. The loan will be disbursed in a single tranche, contingent upon loan effectiveness. The loan proceeds will be disbursed for a broad range of imports, subject to a negative list of ineligible items (Appendix 9). The loan proceeds will be used to finance the full foreign exchange costs (excluding local duties and taxes) of items produced and procured in ADB member countries, excluding ineligible items and imports financed by other bilateral and multilateral sources. In accordance with the provisions of ADB's *Simplification of Disbursement Procedures and Related Requirements for Program Loan*,³² the proceeds of the program loan

³² ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila

will be disbursed to Viet Nam as the Borrower. No supporting import documentation will be required, if during each year that loan proceeds are expected to be disbursed, the value of Viet Nam's total imports minus imports from nonmember countries, ineligible imports, and imports financed under other official development assistance is equal to or greater than the amount of the loan expected to be disbursed during such year. The Government will certify its compliance with this formula with each withdrawal request. Otherwise, import documentation under existing procedures will be required. ADB will have the right to audit the use of loan proceeds and to verify the accuracy of the Borrower's certification. As such, the procedures for procurement and disbursement of funds, and the use of counterpart funds are felt to be satisfactory.

4. Financial Accountability and Fiduciary Assessment

74. Various measures have been taken to ensure that the overall fiduciary policies and institutions are adequate to proceed with support from the proposed program lending. The analytical underpinnings for the operation are largely complete: (i) the cross-cutting assessment of the country's development policies (social, structural, and sectoral) covering the policy reforms and institutional development priorities for sustainable growth and poverty reduction has been discussed with the Government in a number of recent joint reports; and (ii) an assessment of the country's financial accountability arrangements has been made in the World Bank's following assessments: Public Expenditure Review-Integrated Fiduciary Assessment (PER-IFA), Country Financial Accountability Assessment, and Country Procurement Assessment Review. The recent integrated PER-IFA, published in May 2005, reviewed the accounting and reporting processes in the public sector, the oversight functions in the public sector, and financial reporting and auditing in SOEs. The fiduciary risks of the current public financial management budgeting, accounting, reporting, and auditing systems of government are assessed as moderate. The PER-IFA identifies areas for continued improvement. Key areas to be addressed include unifying budget classification and accounting to ensure effective and consistent budgeting, accounting and reporting across all sectors of government; streamlining the internal control framework and public expenditure accounting processes, strengthening asset management, establishing public sector accounting standards in line with international standards, improving financial management reporting and use of reporting for management control, establishing an effective internal audit review function as part of the internal control regime, and strengthening the effectiveness of the State Audit of Viet Nam. The implementation of the PER-IFA recommendations is being supported by the PRSC program and grant funds.

75. The PER-IFA also recognizes the recent changes to improve transparency and accountability. Among the most recent are the audit and anticorruption laws passed by the National Assembly in 2005. The Audit Law significantly enhances oversight by the National Assembly and the provincial people's councils over public finances, and increases public access to information on government finances. The Anticorruption Law reflects strong commitment to improve the effectiveness and efficiency in using budgetary funds, including ODA. The World Bank is preparing the Treasury and Budget Management Information System (TABMIS) for implementation during 2008–2009. This will improve public financial management and assist in establishing an integrated financial management system in Viet Nam.

76. The Government has consistently improved the transparency of public procurement. Nationwide open competitive bidding in public procurement was introduced in 1996. This system was improved in 1999, with the introduction of the concept of the "responsive lowest evaluated bid." Decree 66/2003/CP of June 2003, adopted under PRSC 3, established a department of public procurement and strengthened the procurement process by mandating standard bidding documents and publication of bidding opportunities in the Public Procurement

Bulletin. The standard bidding documents for procurement of goods, issued in September 2005, will promote consistency in the application of procurement regulations. In April 2005, the Government also initiated the paper version of the Public Procurement Bulletin, which is now proposed to be upgraded to a procurement newspaper, and an e-procurement bulletin/website has been established. The Government has substantially unified and elevated the legislative framework for public procurement by passing a new Bidding Law instead of the originally expected procurement ordinance. A decree for implementing the new law is at an advanced stage of preparation and is planned to be issued shortly. The Bidding Law, which became effective on 1 April 2006, retains the improvements of earlier decrees and introduces some improvements, most notably the establishment of a complaint handling mechanism, albeit not yet fully independent; provisions against conflicts of interest; clearer remedies for dealing with fraud and corruption; and removing the previous requirement for mandatory joint ventures between foreign and local firms bidding on public contracts. However restricting the use of lesser competitive methods such as direct contracting and limited bidding will be important, as well using merit point systems in the evaluation of bids for goods and works. Another area to be addressed is the prevention of collusive practices in public procurement, particularly common place at the local level.

77. Since IMF does not currently have a program in Viet Nam, its assessment of the control environment of SBV is not available. However, the enactment of the Audit Law of 2005 will assist in addressing issues related to audit and accounting arrangements. The Audit Law established the State Audit of Viet Nam as an independent institution reporting to the National Assembly with the auditor general being appointed and dismissed by the National Assembly. Audit reports will be made public. SBV will be subject to annual auditing and disclosure of the audit reports.

5. Accounting, Auditing, and Reporting

78. The Government will prepare and provide progress reports on the program loan. ADB will participate in all joint assessments by the Government and development partners on the outcomes of PRSC 5 and PRSC 5 triggers (measures and actions). Further details are presented the program framework in Appendix 1.

6. Program Performance Monitoring and Evaluation

79. Viet Nam continues to make good use of information and analysis in its policy making and development of individual components of the PRSC program. PRSC 5 continues to build on this experience, streamlining the numerous ongoing monitoring and evaluation initiatives. Key sources of monitoring information for poverty and program outcomes include the proposed biannual household living standard survey, periodic participatory poverty assessments, small business registration survey, public expenditure tracking survey, as well as quarterly progress reports from the relevant sector ministries and committees implementing the reform program.

80. Efforts for national and provincial implementation of the CPRGS rely on the development of appropriate monitoring indicators. Gradually, the number of indicators for monitoring the CPRGS, including monitoring development outcomes for Viet Nam development goals, has been narrowed to around 140, of which 40 can be selected by the provinces. These narrower indicators were merged with 285 indicators of the national statistical system collected by the General Statistics Office, which are partly generated by the household living standard surveys. The recent survey in 2004 by the General Statistics Office is a source of information for many indicators in the system. However, despite the efforts to refine the indicator system, the line

ministries have not agreed to about 47 indicators, and 16 are considered unknown by the General Statistics Office.³³ Indicators to monitor the coming SEDP have been in the process of being identified. For monitoring arrangements, ADB, World Bank, and United Nations Development Programme are doing some joint work on strengthening the monitoring system for the CPRGS and SEDP, which will give definite results to monitor outcomes of the PRSCs.

IV. PROGRAM BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS

81. The SIPRP III will benefit the Vietnamese people and businesses on three fronts. First, through policy actions designed to facilitate Viet Nam's transition to a market economy, the loan will increase efficiency, accelerate economic growth, and create jobs. These policy actions will help improve the regulatory framework for private sector development, and enhance transparency and accountability in SOE operations and in banking. Second, through policy actions addressing social inclusion and environmental sustainability, the benefits include improved quality of education (especially in poor areas), improving access of the poor to health services, and helping secure asset ownership through the implementation of the Land Law, and more sustainable management of natural resources including through strategic environment assessments. Third, through policy actions addressing modern governance, the benefits are increased transparency and accountability of public finances, and improved legal transparency and accessibility. These will be achieved through, among others, better coordination plans and budgets, adoption of the medium-term expenditure framework, and greater accountability in public finance and public administration.

82. Three potential risks are associated with the proposed loan: containment of contingent liability, social inclusion and environmental sustainability, and a fiduciary risk related to public financial management. First, benefits from WTO accession will accrue if complementary reforms take place in areas such as trade logistics, infrastructure and financial services, taxes, and the investment climate. Second, disparities between urban and rural areas, and between the Kinh majority and ethnic minorities, could widen. Inequality could increase and new forms of urban poverty could emerge. Reaching the latest group of out-of-school children is proving difficult. Health care remains underfunded. The incentives given to service providers to charge fees have not been matched by sufficient accountability on the delivery of basic services. And increasingly sophisticated environmental legislation still needs to translate into effective tools for natural resource management and pollution control. Third, in a rapidly growing economy the opportunities for graft could outpace improvements in anticorruption policies for some time. While progress on enhancing budget transparency has been considerable, the emerging institutional architecture for managing and investing state capital faces governance risks. Further, rapidly emerging and fast-growing provincial investment funds could contribute to the development of local infrastructure, but their transparency and accountability are still matters of concern. While the Government is working toward effective anticorruption measures, a rapid growing economy and the opportunities for graft could outpace improvements and efforts in anticorruption policies.

83. Through appropriate measures and proactive programs during program implementation, the Government will introduce risk-mitigating measures. ADB along with other PRSC cofinanciers have provided technical assistance and conducted analytical studies to help policy makers formulate and execute mitigating and corrective measures in anticipation of these

³³ ADB. 2005. *Technical Assistance to the Socialist Republic of Viet Nam for Results-Based Monitoring of Poverty Reduction and Growth*. Manila (TA 4612-VIE). The United Nations Development Programme has been implementing a US\$1.6-million project for strengthening capacity of the statistical system.

potential risks. The risk related to growing contingent liabilities could be addressed by enhancing the credibility of government policies regarding nonperforming loans, and strengthening the commercial orientation and autonomy of SOCBs with decisive policy actions. Through the PRSC process, the Government has already decided to adopt the classification of loans based on international accounting standards. In addition, the Government has continuously strengthened macroeconomic management. The second risk related to social inclusion and environmental sustainability could be mitigated by the strong commitment of the Government to keep growth inclusive and sustainable. This risk could be addressed through improvements in data availability and analytical work on issues arising from rural-urban disparities included as part of the PRSC process. Regarding environmental sustainability, the country environmental assessment and PRSC policy actions on land, water, and environmental protection should help mitigate risks. Finally, the fiduciary risk related to public financial management caused by uncontrollable corruption could be addressed by initiatives that provide effective counter mechanisms. A comprehensive diagnostic of corruption and its modality was finalized and publicly disclosed in December 2005. The Anticorruption Law, passed by the National Assembly in November 2005, has introduced stronger accountability requirements for heads of agencies, monitoring of assets of senior government officials and their families, and introduction of a more effective mechanism for exposing corruption. The Government has also encouraged the media to apply a more proactive approach in detecting and reporting corruption.

V. ASSURANCES

84. In addition to the standard assurances, the Government and SBV have given the following assurances, which are incorporated in the legal documents:

- (i) Such measures and actions will continue to be in effect for the sustainability of the poverty reduction program under the CPRGS and PRSC frameworks.
- (ii) Adequate and timely counterpart funds will be provided for the implementation of the poverty reduction program under PRSC 5.

VI. RECOMMENDATION

85. I am satisfied that the proposed loan would comply with the Articles of Agreement of ADB and recommend that the Board approve the loan in various currencies equivalent to special drawing rights 10,062,000 to the Socialist Republic of Viet Nam for Support the Implementation of the Poverty Reduction Program III from ADB's Special Funds resources with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board.

Haruhiko Kuroda
President

6 September 2006

DESIGN AND MONITORING FRAMEWORK

Design Summary	Program Performance Targets/Indicators (by end-2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
Impact Reduced poverty and high economic growth sustained	<ul style="list-style-type: none"> Poverty incidence below the level of the Viet Nam Household Living Standard Survey, conducted in 2004 (i.e., 24.1% of population)^a Annual gross domestic product (GDP) growth 7.5% or higher 	<ul style="list-style-type: none"> Progress reports on the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) Draft 5-Year Socioeconomic Development Plan (SEDP) 2006–2010 Progress reports on the SEDP 	Assumption <ul style="list-style-type: none"> Feasible and effective policy reform measures Risk <ul style="list-style-type: none"> Coordination and cooperation among various stakeholders including development partners and government agencies
Outcomes Attainment of development outcomes specified under the three pillars of the Poverty Reduction Support Credit (PRSC) Framework: transition to market economy, social inclusion and environmental sustainability, and modern governance 1. Transition to market economy (reduced structural weaknesses and improved business environment)	Baselines and progress of the outcome targets are presented in Appendix 6: Development Outcomes Move to a market economy and integrate with the global economy <ul style="list-style-type: none"> Ratio of exports (value) to GDP is 55% Share of private sector exports in total exports is 85% All quantitative restrictions on imports removed Modern customs procedures are in place Viet Nam becomes a member of the World Trade Organization with good legal regulations and mechanism for integration 	<ul style="list-style-type: none"> Summary of progress status on all program outcomes identified under the three pillars is updated annually by sector specialists of the World Bank with inputs from government agencies and other development agencies as presented in Appendix 9: Development Outcomes Quarterly progress reports of relevant ministries/committees implementing the CPRGS; partnership and taking stock reports (every 6 months) Sector progress reports Annual reports on the SEDP, CPRGS Investment climate assessment survey Comprehensive diagnostic study on corruption Assessments of the new SEDP 2006–2010 by development partners 	Assumptions <ul style="list-style-type: none"> Adequate capabilities to enforce measures Actions based on clear understanding and pragmatic resolution of issues Regular monitoring and feedback to policy makers Risk <ul style="list-style-type: none"> Unmatched macroeconomic management capacities of government agencies due to more complex and liberalized economy Wider disparities between urban and rural areas and between Kinh majority and ethnic minorities due to rapid economic growth Opportunities for graft could outpace improvements of anticorruption policies in the short run due to rapid economic growth

Design Summary	Program Performance Targets/Indicators (by end-2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p>Promote competition in product markets by tightening the budget as incentive for state-owned enterprises (SOEs) to restructure</p> <ul style="list-style-type: none"> • Number of SOEs down to 2,100 • Share of bank credit to SOEs is less than 25% • Increased number of profitable SOEs • Most nonperforming interenterprise debts resolved • Data on performance of SOEs available annually <p>Strengthen the institutional and regulatory framework of the financial sector</p> <ul style="list-style-type: none"> • Delinquent joint-stock banks closed or merged; all banks compliant with regulations • Reduced nonperforming loan ratio and appropriate mechanisms in place to prevent resurgence of nonperforming loans • State Bank of Viet Nam more focused on supervision and regulation • Reform of policy lending—transferred to the budget, with well-specified eligible sectors and terms of support <p>Foster private sector development by providing an equitable investment environment</p> <ul style="list-style-type: none"> • Private domestic investment is at least 20% of GDP • Around 5 million people are employed in the formal private sector • All regulations apply to all firms 	<ul style="list-style-type: none"> • Annual SEDP, CPRGS, and PRSC progress reports • Annual budget report • Annual SEDP, CPRGS, and PRSC progress reports • Draft law discussed publicly • Laws amended and approved by the National Assembly • Annual CPRGS and PRSC progress reports • Laws amended and approved by the National Assembly 	

Design Summary	Program Performance Targets/Indicators (by end-2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p>Improve use of land and water resources</p> <ul style="list-style-type: none"> • All land allocated, with all upland areas allocated to locals and ethnic communities • A functioning land market is in place and land tenure secured • Increased access of population to water, and sanitation services • Integrated river basin planning and increased participation of users in irrigation management <p>Upgrade the legal framework for environmental protection</p> <ul style="list-style-type: none"> • Forest cover expands to 38% • No further degradation of highly biodiverse forest and wetlands • A framework is in place to assess the environmental impact of projects • Mechanisms are in place to handle waste discharge and pollution offenders <p>Address gender issues</p> <ul style="list-style-type: none"> • All newly issued or reissued land-use right certificates are in the name of both spouses 	<ul style="list-style-type: none"> • Annual CPRGS and PRSC progress reports • Laws amended and approved by the National Assembly • Review of Land Law implementation. <ul style="list-style-type: none"> • Annual CPRGS and PRSC progress reports • Sector reports <ul style="list-style-type: none"> • Review of work on the Gender Equality Law • Review of Land Law implementation 	
<p>3. Modern governance and improved service delivery</p>	<p>Improve planning processes</p> <ul style="list-style-type: none"> • Planning toward development goals (moving from output- to outcome-oriented) • A number of provinces and sectors have pro-poor socioeconomic development plans • Substantially improved integration of the public investment projects with budget <p>Improve public financial management</p> <ul style="list-style-type: none"> • Expansion of pilot implementation of the 	<ul style="list-style-type: none"> • Approved plan for implementation of working rules, etc. • Annual CPRGS and PRSC progress reports <ul style="list-style-type: none"> • Annual budget report • Annual CPRGS and PRSC progress reports 	

Design Summary	Program Performance Targets/Indicators (by end-2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p>medium-term expenditure framework continues in some sectors and provinces</p> <ul style="list-style-type: none"> • Appropriate budget is allocated for operation and maintenance costs • Budget plan and approved budget accounts are publicly disclosed at all levels of state budget entities • Public debt ratios are sustainable, with assessment of contingent liabilities <p>Strengthen financial accountability and transparency</p> <ul style="list-style-type: none"> • Accounting norms in accordance with international practice <p>Provide legal and public administration reform</p> <ul style="list-style-type: none"> • A legal system in place based on the rule of law and promoting development • Progress toward administrative simplification and administration procedures <p>Address anticorruption</p> <ul style="list-style-type: none"> • Reduced corruption and perception of corruption as rated by independent monitors <p>Provide information</p> <ul style="list-style-type: none"> • Reliable, publicly available economic and social data, allowing evaluation of public policies 	<ul style="list-style-type: none"> • Evaluation of implementation of the 2002 Law on State Budget <ul style="list-style-type: none"> • Annual CPRGS and PRSC progress reports <ul style="list-style-type: none"> • Annual CPRGS and PRSC progress reports • Investment climate survey (by World Bank) • Doing business survey (by International Finance Corporation) • Business sentiment survey (by Japan Bank for International Cooperation) <ul style="list-style-type: none"> • Annual CPRGS and PRSC progress reports • Public administration reform progress reports • Investment climate survey (by World Bank) • Doing business survey (by International Finance Corporation) <ul style="list-style-type: none"> • Annual CPRGS and PRSC progress reports • Report state inspectorate • Diagnostic study findings 	

Design Summary	Program Performance Targets/Indicators (by end-2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Outputs</p> <ol style="list-style-type: none"> 1. Extend policy advisory services in a coordinated manner to 19 PRSC participants to assist the Government in formulating and implementing the reform policies under the program framework 2. Issue regulations and policies conducive to reforms specified under the reform program's three pillars 3. Strengthen or amend regulations and policies conducive to the reform program 4. Issue action plans conducive to the reform program 5. Prepare self assessments to identify the status quo as prerequisite for reforms 	<ul style="list-style-type: none"> • Policy measures and actions as per policy matrices of PRSC 1–5 (Supplementary Appendix A) • Sector road maps and strategies (including banking sector road map and National Water Resource Strategy) • New laws, ordinances, decisions, and decrees (e.g., Law on Intellectual Property, Law on Securities, Investment Law, Enterprise Law, Bidding Law, and Anticorruption Law) • Amended laws (including Amended Law on Environmental Protection, Revised Accounting Law in accordance with international practice) • Sublaws and implementation guidelines to new laws (e.g., guiding circular for the Construction Law) • Action plans including equitization plan for certain state-owned commercial banks, and action plans for simplification and greater transparency of administrative procedures • Self assessment reports (including Basel Core Principles self assessment, assessment of social and economic impacts of World Trade Organization accession, fiscal risk assessment, etc.) 	<ul style="list-style-type: none"> • Policy matrices • Official copies of laws, decrees, regulations, etc. from relevant government agencies • Annual CPRGS and PRSC progress reports • Review and progress reports by sector specialists of the Asian Development Bank (ADB) and other development partners • Reports by other stakeholders including private sector and nongovernment organizations (e.g., reports from Viet Nam Business Forum, newsletters from business associations, newsletters from nongovernment organizations) 	<p>Assumptions</p> <ul style="list-style-type: none"> • Commitment of State Bank of Viet Nam (the Executing Agency), Ministry of Planning and Investment (the Implementing Agency) all line ministries and agencies, as well as all development partners participating in the reform program <p>Risks</p> <ul style="list-style-type: none"> • Poor coordination or inappropriate sequencing with related reforms • Insufficient local resources and skills • Inadequate capital, maintenance, and operating budgets • Resistance of impacted agencies and officials • Insufficient support from development partners in sector-specific projects/programs (that are being implemented in parallel) to supplement this multisector policy-oriented program in terms of technical capacity and financial resources

<p>Activities with Milestones</p> <ul style="list-style-type: none"> • Meetings to discuss reform policies under the PRSC framework. Processing of each annual PRSC program; each participant attends at least 40 meetings including (i) internal meetings with sector specialists, (ii) meetings of development partners, and (iii) meetings between development partners and government agencies. • In addition to the direct PRSC-specific meetings, ADB staff participate in relevant partnership group meetings on several development issues related to the reform program of this proposed loan. The partnership group meetings of 20-plus groups are held at least quarterly. The main reports from all partnership group meetings are compiled and reported at the semiannual Consultative Group meetings. • Assessments of the Vietnamese economy as well as socioeconomic and development strategy and policies by development partners including the annual <i>Vietnam Development Reports</i> (prepared jointly by several development partners including ADB) and the joint staff advisory note on the Poverty Reduction Strategy (prepared jointly by the International Monetary Fund and World Bank with inputs from all development partners including ADB) 	<p>Inputs (Tentative)</p> <p>Policy dialogue and program loan proceeds of</p> <ul style="list-style-type: none"> • World Bank: US\$100 million equivalent • Asian Development Bank: US\$15 million equivalent • Japan Bank for International Cooperation: to be determined • Germany: €6 million <p>Policy dialogue and program grant proceeds of</p> <ul style="list-style-type: none"> • Australian Government Overseas Aid Program: A\$10 million • Agencia Española de Cooperación Internacional: €3 million • European Commission : €10 million • Canadian International Development Agency: Can\$4.0 million • Danish International Cooperation Agency: US\$10.3 million equivalent • Ireland: €3 million • The Netherlands : €9–14 million (to be confirmed) • United Kingdom's Department for International Development: £20 million <p>Total official development assistance of over US\$210 million</p>
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A\$ = Australian dollar, Can\$ = Canadian dollar, € = euro, £ = pound sterling, US\$ = United States dollar.

^a The Government set a target for the poverty rate using a local version of the Millennium Development Goals, the Viet Nam Development Goals, to achieve a lower poverty rate of 14–16% by 2010 in the Draft Socioeconomic Development Plan 2006–2010.

SECTOR ANALYSIS

A. The Comprehensive Poverty Reduction and Growth Strategy

1. Evolution of the Strategy

1. The Comprehensive Poverty Reduction and Growth Strategy (CPRGS), approved by the Prime Minister in May 2002, translated the vision of a market economy with a socialist orientation presented in the 10-year Socioeconomic Development Strategy for 2001–2010 into concrete public actions. Unlike previous planning documents, the CPRGS is focused and clearly defines development targets, identifies appropriate policies to attain those targets, and aligns resources to those policies. The country's development goals, which are a local version of the Millennium Development Goals, are among the key targets pursued in the CPRGS (Table A2). In 2003, the CPRGS was expanded, with a thorough discussion of the role of large infrastructure in promoting economic and social development. The formulation of the CPRGS was coordinated by the CPRGS Secretariat based in the Ministry of Planning and Investment and supported by several official development assistance (ODA) partners, including the Asian Development Bank (ADB).

2. The CPRGS provides a framework for poverty reduction policies, programs, and actions in Viet Nam (Figure A2.1). The ODA community has adopted the CPRGS as the reference document for planning and formulating external assistance.

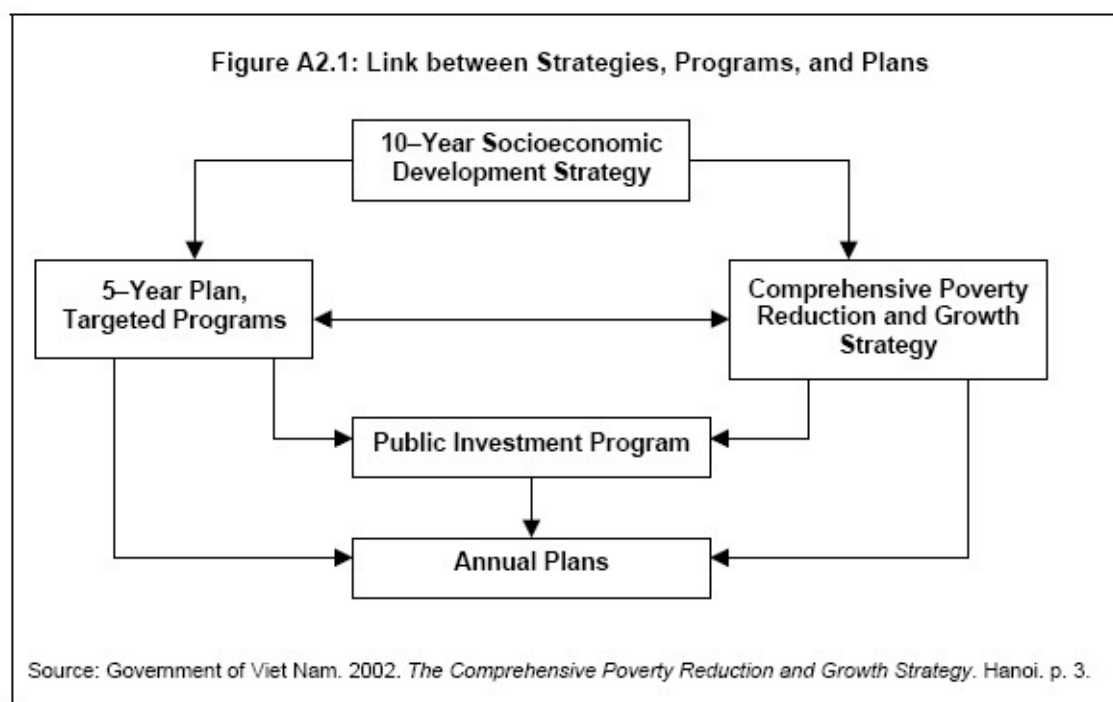


Table A2.1: The Development Goals of Viet Nam

Goals and Targets Directly Based on the Millennium Development Goals	Indicators			
	1998	2002	2003 ^a	2004 ^b
Goal 1: Reduce the percentage of poor and hungry households.				
Target 1: Reduce by 40% the proportion of people living below the internationally accepted poverty line by 2010.	37.4%	28.9%	27.0%	19.5%
Target 2: Reduce by 75% the proportion of people living below the internationally accepted food poverty line by 2010.	15.0%	10.9%	—	7.4%
Goal 2: Universalize education and improve education quality.				
Target 1: Increase the net enrolment in primary school to 97% in 2005 and to 99% in 2010.	91.4%	92.0%	93.4%	93.6%
Target 2: Increase the net enrolment rate in junior secondary school to 80% in 2005 and 90% by 2010.	61.7%	67.0%	76.3%	79.9%
Target 3: Eliminate the gender gap in primary and secondary education by 2005, and the gap with ethnic minorities in 2010.	99.0% 88.2%	99.0% 86.8%	—	—
Target 4: Increase the literacy rate of under-40-year-old women to 95% by 2005 and 100% by 2010.	93.2%	94.3%	—	—
Target 5: By 2010 improve the quality of education and increase full-day schooling at the primary level.	—	—	—	—
Goal 3: Ensure gender equality and empower women.				
Target 1: Increase the percentage of women in elective bodies at all levels.	18.0% (1992)	27.0%	26.0%	27.3%
- women in elective national assembly	17.8% (1992)	26.2% (1997)	27.3% (2002)	27.3%
Target 2: Increase the leadership participation of women in ministries, central agencies, and enterprises at all levels by 3% to 5% in the next 10 years.	—	—	—	
- ministry level and central agencies				12.0%
- enterprises				20.0%
- supreme court				22.0%
- Peoples' Councils at all levels				16.5–23.8%
Target 3: Ensure that the names on both husband and wife appear on all land-use right certificates by 2005.	—	10.0%	—	12.5%
Target 4: Reduce the vulnerability of women to domestic violence.	—	—	—	—
Goal 4: Reduce child mortality, child malnutrition, and the birth rate.				

Goals and Targets Directly Based on the Millennium Development Goals	Indicators			
	1998	2002	2003 ^a	2004 ^b
Target 1: Reduce the infant mortality rate to 30 per 1,000 live births by 2002 and 25 by 2010, and at a more rapid rate in disadvantaged regions.	36.7	31.0	32.0	18.0
Target 2: Reduce the under-5 mortality rate to 36 per 1,000 live births by 2005 and 32 by 2010.	48.4	42.0	40.0	35.0
Target 3: Reduce under-5 malnutrition to 25% by 2005 and 20% by 2010.	37.0%	30.0%	28.0%	26.6%
Goal 5: Improve maternal health.				
Target 1: Reduce the maternal mortality rate to 80 per 100,000 live births by 2005 and 70 by 2010	200	165	90	90
Goal 6: Reduce HIV/AIDS infection and other major diseases.				
Target 1: Slow the increase in the spread of HIV/AIDS by 2005 and halve the rate of increase by 2010 (cases).	12,500	70,000	75,000	86,000
Goal 7: Ensure environmental sustainability.				
Target 1: Extend forest cover to 43% by 2010 (from 33% in 1999).	30.0%	36.0%	37.5%	38.5%
Target 2: Ensure that 60% of the rural population (80% of urban) has access to clean and safe water by 2005 and 85% in 2010.	48.0%	52.0%	54.0%	62.0% (2004–2005)
Target 3: Ensure there are no slums and temporary houses in all towns and cities by 2010.	13.6%	12.2%	—	9.4%
Target 4: Ensure that all wastewater in towns and cities is treated by 2010.	—	—	—	—
Target 5: Ensure that all solid waste is collected and disposed of safely in all towns and cities by 2010.	—, 59.0% (1999)	15.0%, 64.0% (2001)	—	16.2%, 76.1%
Target 6: Ensure national air and water pollution standards are achieved by 2005. - % of water and air quality monitoring stations showing improvement)	58.0%	64.0%	—	—
Goal 8: Reduce vulnerability.				
Target 1: Increase the average income of the lowest expenditure quintile to 140% of that in 2000 and 190% in 2010.	29% (1993–1998)	8% (1998–2002)	—	9% (2002–2005)
Target 2: Reduce by half the rate of poor (in households) people falling back into poverty due to natural disasters and other risks by 2010.	—	—	—	1.5%
Goal 9: Improve governance for poverty reduction.				

Goals and Targets Directly Based on the Millennium Development Goals	Indicators			
	1998	2002	2003 ^a	2004 ^b
Target 1: Effectively implement grassroots democracy.	—	—	—	—
Target 2: Ensure budget transparency.	—	—	—	—
Target 3: Implement legal reform agenda.	—	—	—	—
Goal 10: Reduce ethnic inequality.				
Target 1: Preserve and develop the reading and writing ability of ethnic languages (literacy rates of ethnic minorities aged 15–24). <ul style="list-style-type: none"> - ethnic minority children enrolled at all educational levels <ul style="list-style-type: none"> o primary o lower secondary o upper secondary 	—	—	—	17.7% 12.9% 8.5%
Target 2: Ensure entitlement of individual and collective land-use rights for a large percentage of the population in ethnic minority and mountainous areas.	—	—	—	—
Target 3: Increase the participation of ethnic minorities in authority bodies at various levels.	—	—	—	—
<ul style="list-style-type: none"> - ethnic minorities as members of parliament (center) 	—	17.3% (1997–2002)	—	16.8% (2002–2004)
Goal 11: Ensure pro-poor infrastructure development.				
Target 1: Provide basic infrastructure to 80% of poor communes by 2005 and 100% by 2010.				
<ul style="list-style-type: none"> - poor communes with car accessible roads to center 	—	—	57.3%	92.2%
<ul style="list-style-type: none"> - poor communes with health stations 	—	—	98.6%	98.9%
<ul style="list-style-type: none"> - poor communes with primary schools, kindergartens, and nursery classes 	—	—	86.9%	93.0%
<ul style="list-style-type: none"> - poor communes with markets 	—	—	10.3%	50.2%
<ul style="list-style-type: none"> - poor communes and districts with safe clean water system 	—	—	23.3%	67.4%
<ul style="list-style-type: none"> - poor communes with electricity 	—	—	57.7%	95.4%

^a The Viet Nam Household Living Standards Survey is conducted every 2 years; some 2003 data are not available.

^b The General Statistics Office is still completing data processing for the 2004 Viet Nam Household Living Standards Survey, some 2004 data are not available.

Sources: Government of Viet Nam. 2005. *Comprehensive Poverty Reduction and Growth Strategy, Government's Millennium Development Goal Report 2005*. Hanoi.; Joint Development Partners. 2003. *Vietnam Development Report 2004: Poverty*. Hanoi: Printing and Cultural Product Company; General Statistics Office data; Government of Viet Nam. 2004. *Vietnam Household Living Standards Survey (2002–2004)*; Government of Viet Nam. 2004. *Annual Progress Report on the Comprehensive Poverty Reduction and Growth Strategy 2003–2004*. Hanoi.

2. The Poverty Reduction Support Credit Process

3. The policy actions supported through the Poverty Reduction Support Credit (PRSC) process can be seen as a distillation of the CPRGS and other development strategies and plans. The PRSC policy actions are aimed at identifying a coherent sequence of key measures in each area over the medium term. Identification of the policy actions needed to attain the development outcomes documented in the CPRGS has been strongly influenced by the CPRGS progress reports, and analytical work carried out by the development partners in recent years. The annual Viet Nam Development Reports have played a very important role in this respect. These reports are prepared in partnership by the World Bank and other development partners, including ADB. In addition to, the CPRGS/PRSC-related studies and reports, sector work reports and assessments done under sector-based programs/projects of each development partner also provide input to ensure the complementarity and efficiency of the PRSC reform agenda. Figure A2.2 illustrates the timing and relation of the strategy, implementation, analyses, and sector work.

3. Financing

4. The ODA community in Viet Nam considers the PRSC an important instrument for supporting CPRGS implementation. In addition to ADB, other major ODA partners intend to contribute both financial and intellectual resources to PRSC 5 with the World Bank in 2006. The ODA partners include Australia, Canada, Denmark, European Commission, Germany, Ireland, Japan, Netherlands, Spain, and United Kingdom. Switzerland, while not a cofinancier, partially funds the PRSC Program Coordination Unit, which is responsible for coordinating the PRSC process between government agencies and development partners. The International Monetary Fund (IMF), France, and United Nations Development Programme also participate in policy dialogue to provide intellectual contributions to the PRSC process.

4. Progress with Implementation

5. The CPRGS, though approved by the Prime Minister, was formulated on the margins of mainstream planning processes and coexisted with the 5-year SEDP 2001–2005, which was discussed by the Party Congress and approved by the National Assembly. But the process of formulating, implementing, and monitoring the outcomes of the CPRGS has initiated permanent changes in the approaches to socioeconomic planning. In late 2004 the Government decided to draft SEDP 2006–2010 according to the same principles that governed preparation of the CPRGS, and during the last year has made concerted efforts to reform the planning process and incorporate these principles. ADB and other development partners expect to use SEDP 2006–2010 as a basis for their development assistance. ADB's country strategy and program 2007–2010 for Viet Nam was formulated in close alignment with the new SEDP.

6. Implementation of the ambitious reform agenda articulated in the CPRGS and other government strategies and plans has been supported through four PRSC operations so far. The focus of PRSC 1 was mainly on the structural reform agenda, with policies articulated around five main areas: liberalizing trade, reforming state-owned enterprises (SOEs), strengthening the banking subsector, creating an enabling environment for the private sector, and improving management and transparency of public finances. Under PRSC 2, the range of economic reforms supported by the international community was considerably broadened. In addition to the mainly structural reforms covered by PRSC 1, PRSC 2 included various policy actions aimed at keeping development inclusive and building modern governance. Measures related to the education and health sectors, environmental sustainability, land management, legal

**Figure A2.2 Timing and Relation of the Strategy,
Implementation, Analysis, and Sector Work**

Government Strategy	SEDP (2001–2005)	CPRGS (2002–2006)	Expanded CPRGS (2002–2006)	Integration of CPRGS in to the SEDP	Preparation and Adoption of SEDP (2006-2010)	
Budget Cycle	2001	2002	2003	2004	2005	2006
Implementation						
Government and development partners		PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
Number of cofinanciers (including the World Bank and ADB)		5 No ADB cofinancing	4 No ADB cofinancing	8 including ADB	11 including ADB	12 including ADB
Government			CPRGS Progress Report	CPRGS Progress Report	CPRGS Progress Report	CPRGS Progress Report
Analysis		VDR 2003: Delivering On Its Promises	VDR 2004: Poverty	VDR 2005: Governance	VDR 2006: Business	VDR 2007: Aiming High
ADB Sector Programs/Projects						
2001: Red River Basin Sector; Third Provincial Towns Water Supply; Central Region Livelihood Improvement; Provincial Road Improvement						
2002: Financial Sector Development II; Greater Mekong Subregion Tourism Development; Agriculture Sector Development; Upper Second Education Development; and Housing Finance						
2003: Public Administration Reform; Phuoc Hoa Water Resources; and Central Region Urban Environment Improvement.						
2004: Health Care in the Central Highland; Small and Medium Sized Enterprise Development Program; Second Lower Secondary Education Development; Financial Sector Development II; Support to Implementation of Poverty Reduction Program; and Northern Power Transmission						
2005: Preventive Health System Support; Central Region Transport Network; Northern Power Transmission Expansion; Support the Implementation of the Poverty Reduction Program II; Central Region Water Resources; Greater Mekong Subregion Kunming–Haiphong Transport Corridor: Noi Bai–Lao Cai Expressway Technical Assistance						
2006: Support the Implementation of the Poverty Reduction Program III; Small and Medium Sized Enterprise Development Program loan II; First Song Da, Mong Duong Thermal Power Generation; Forests for Livelihood Improvement in Central Highland; Agriculture Science and Technology; HIV/AIDS Prevention among Youth; Central Region Small- and Medium-Sized Town Development; Upper Secondary and Professional Technology Development; Song Bung 4 Hydropower						
Ongoing Projects (%)		Agriculture = 18.0 Education = 10.2 Energy = 21.3 Financial = 6.9 Health = 5.6 Industry and nonfuel mineral = 3.1 Multisector = 6.3 Transport and communications = 20.9 Water supply = 7.7 (as of 30 July 2006)				

CPRGS = Comprehensive Poverty Reduction and Growth Strategy; GMS = Greater Mekong Subregion; HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome; PRSC = Poverty Reduction Support Credit; SEDP = Socioeconomic Development Plan; VDR = *Vietnam Development Report*.

development, and public financial management, were all part of PRSC 2 PRSC 3 and 4 broadened sectoral coverage from PRSC 2 (Supplementary Appendix D provides detailed policy actions undertaken in PRSCs 1–5).

7. In addition to providing resources to the budget, PRSC operations have served as an effective coordination device, supported by an increasingly large number of development partners. The National Steering Committee for the PRSCs is led by the deputy prime minister in charge of economic reforms, and brings together representatives from more than 20 line ministries and government agencies. On the development partners' side, PRSC operations have been cofinanced by several bilateral and multilateral agencies, either through grants or parallel lending. More importantly, the process saw a transition in the role of cofinanciers, from providers of finance to partners substantially engaged in the preparation of operations and policy dialogue with government. This dialogue is organized by policy areas, in which development partners engage selectively, based on their interests and technical capacity on the ground. The number of development partners participating in this process has increased from 4 in PRSC 1 to 7 in PRSC 3 to 9 in PRSC 4 and possibly to 11 in PRSC 5. All development partners who seriously consider the possibility of partnering in this process are invited to participate in the preparation of PRSC operations, even if they cannot commit to cofinance them in the short term. Nineteen have actively contributed to preparation of PRSC 5. The PRSC group dominates the landscape of development assistance in Viet Nam.

8. The implementation of Viet Nam's ambitious reform agenda was initially supported by the International Monetary Fund (IMF), through a Poverty Reduction and Growth Facility (PRGF) credit approved at the same time as PRSC 1. However, disbursements were suspended at the end of 2002 due to a disagreement between IMF and the Government on the auditing of the State Bank of Viet Nam.¹ The credit expired in April 2004. IMF has remained engaged in several policy areas, especially in the monitoring of macroeconomic policies. In the absence of an active PRGF, IMF has provided an assessment of the macroeconomic framework as part of the preparation of each of the PRSC operations.

B. Toward PRSCs 6 to 10

9. SEDP 2006–2010 could be used as the document of reference for the implementation of economic reforms and alignment of development partner support over the next 5 years. The adoption of the CPRGS principles in the preparation of the new SEDP signals a departure from the traditional command and control approach. Broad-based consultation, a strong poverty focus, identification of the most appropriate policies to attain the chosen development objectives, and application of a monitoring and evaluation framework make use of a government planning document as the next poverty reduction strategy possible. Viet Nam would be one of the first countries to make this move. SEDP 2006–2010 was approved by the National Assembly in June 2006. The Joint Staff Advisory Note for the latest CPRGS annual progress report notes that staff of the World Bank and IMF are supportive of government efforts to bring these positive reforms to the planning process. This advisory note is to be presented to the Board at the same time as the current credit. The staff will also submit SEDP 2006–2010 to the boards of the World Bank's International Development Association and IMF for discussion as

¹ Under the PRSC operations, efforts have been made to ensure that the State Bank of Viet Nam and all government agencies are annually and satisfactorily audited. The agency responsible for such auditing is the State Audit of Viet Nam, which was made independent as a result of PRSC policy.

Viet Nam's next poverty reduction strategy following National Assembly's approval of the SEDP in June 2006.

10. Because of its broad coverage of policy areas and the multiplicity of decisions reflected in it, SEDP 2006–2010 needs to be translated into a workable action plan. This requires clearly assessing the level expected for key development outcomes in each of the policy areas, as of 2011. It also requires that the key policy actions needed to attain those outcomes be identified, and their budgetary implications evaluated. Prioritization and sequencing will be essential in this respect. For instance, the latest version of the SEDP includes three main pillars: economic, social, and environmental; but the cross-cutting reforms associated with modern governance are somewhat subsumed in each of these pillars, and need to be given clear prominence. Without those cross-cutting reforms, progress in each of the three pillars is bound to be partial. Finally, the most appropriate indicators need to be selected from the monitoring and evaluation framework and possibly from the broader statistical system as well, in order to assess progress with reform agenda implementation.

11. The translation of SEDP 2006–2010 into a workable action plan should serve as the basis for discussion of the next PRSC cycle and its contents with the Government. Indeed, the SEDP will only be approved by the time this proposed credit is negotiated. And even then, a considerable amount of analytical work will be needed to derive a broad policy matrix in each of the main policy areas. The translation of the SEDP into an outline of PRSCs 6–10 will be jointly done by the World Bank and the development partners cofinancing the PRSCs during the second half of 2006. Progress in improving development outcomes will be assessed to identify areas lagging. The major annual analytical report, *Vietnam Development Report 2007* (prepared in partnership with PRSC cofinanciers, including ADB, with substantive inputs from Vietnamese policy makers and academics), will attempt to translate the new SEDP, which is also the national poverty reduction and growth strategy into concrete, properly sequenced policy actions for the subsequent 5-year cycle of the PRSC. This exercise will be conducted in close collaboration with policy makers and academic researchers, and the outcome will be brought to the Consultative Group meeting at end-2006. Agreement on the possible contents of the proposed PRSCs 6–10 will then play a similar role to that of assessing triggers under the current PRSC cycle. After PRSC 6, however, annual triggers may be used as the instrument of choice to determine activities for the next operation.

12. The design of the next cycle of PRSCs will also be informed by an evaluation of the current PRSC cycle. This evaluation is expected to be conducted by an independent party, and will seek views from government as well as from all development partners involved in the PRSC process. A similar evaluation covering the previous PRSCs was completed in 2005 with development partner funding. That study employed the standard evaluation criteria of the Development Assistance Committee of the Organisation for Economic Co-operation and Development: relevance, effectiveness, efficiency, impacts, and sustainability. The proposed evaluation could employ a similar methodology to update the findings of the previous study and cover the entire cycle from PRSC 1 to 5.

13. While the contents of the next cycle of PRSCs have not yet been prepared, the benefits and risks identified for the current operation provide some guidance. In relation to the transition to a market economy, the focus should be on implementation. Viet Nam has made a large number of commitments in the context of World Trade Organization accession, and needs to follow them through. Implementing the ambitious banking reform road map will be an equally important challenge. The announced transformation of the Development Assistance Fund into a development bank will need to be closely monitored. As for state-owned enterprises, the

establishment of the State Corporation of Investment Capital opens the prospect of a more efficient and transparent management of state assets, with a clear separation of ownership and regulation functions, and reliance on credible performance indicators to allocate capital. However, the large economic groups being created are bound to be powerful global players, and achieving an unambiguous delimitation of responsibilities and liabilities between these groups and the Government is bound to be challenging. Meanwhile, the enormous infrastructure needs of the coming period call for effective regulation of access to networks and pricing of services. Strong incentives for private participation and transparent regulation will be needed.

14. On the social front, enabling ethnic minorities to move out of poverty will remain one of the most important objectives. Issues related to urban migration and the consequences of the registration system in relation to access to services are bound to become increasingly important. In parallel, the foundations for more modern social protection systems will need to be built, combining the coverage of universal programs with reliance on strong economic incentives. The model being adopted for the health sector is promising in this respect, as it involves various access modalities to the same services, from compulsory but not subsidized coverage for the formal sector, to compulsory but fully subsidized for the poor, to voluntary for the rest of the population, with partial subsidies for the near poor. A similar model could be adopted in relation to old-age, survivor, and disability pensions. The passage of the first-ever law on social insurance in 2006 offers an opportunity to establish a system that is financially viable and does not distort incentives. But implementing and designing such a system will be challenging. Preventing the degradation of natural resources and increasing the efficiency of tools for pollution control will be the main challenge in relation to the environmental pillar.

15. Finally, the governance area will be central in the next PRSC cycle. The relationship between planning and budgets will have to be strengthened, and modernization of the management of public revenues and public expenditures completed. Work against corruption will involve better and more accountable systems to manage state assets, especially in relation to capital investments and land conversion. A reliable system to monitor progress, building on the strengths of the first diagnostic study while extending its coverage, could be set up. Streamlined administrative procedures, increased reliance on e-government, and more transparent public procurement are bound to feature prominently in the next PRSC cycle. Some of the most difficult challenges may be associated with judiciary reform, especially in relation to the reorganization of courts by jurisdiction and the revamping of processes to enhance access.

VIETNAM – IMF STAFF ASSESSMENT OF RECENT DEVELOPMENTS

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Macroeconomic performance and policy

1. **Overall macroeconomic performance was strong in 2005 and has remained broadly favorable so far in 2006.** Real GDP growth picked up to 8.4 percent in 2005, led by strong consumption and investment. Non-oil import growth slowed significantly and the resulting improvement in the current account, together with strong ODA and FDI, helped increase gross official reserves by more than US\$2.2 billion in 2005. While imports have rebounded somewhat in recent months, on the strength of robust exports, reserves have increased by another US\$2.3 billion in the first five months of 2006. The recently-approved Socioeconomic Development Plan (SEDP) for 2006–10 targets growth of 7½–8 percent, to be spurred by a sustained increase in investment, which would rise from 35½ percent of GDP in 2005 to 40 percent of GDP by 2010. While rising FDI is envisioned to contribute to the achievement of these objectives, the government and State-Owned Enterprises (SOE) would continue to account for about half of new investment.

2. **Inflation has shown some signs of moderation in recent months.** The year-on-year (yoy) rate of inflation edged down from 8.7 percent in December 2005 to 7½ percent in July. However, inflation has remained well above the rates prevailing in Vietnam's major trading partners and care needs to be taken to ensure that inflationary expectations do not become entrenched. The effects of the pass-through of the April and August hikes in domestic petroleum prices are likely to be compounded by necessary adjustments in key administered prices (e.g., power tariffs, cement and steel prices), and by a further large increase in public sector wages scheduled for October.

3. **The dong has remained broadly stable vis-à-vis the U.S. dollar during the first seven months of 2006, after having depreciated by less than 1 percent in 2005.** No pre-announced maximum depreciation has been set for 2006 (as against a limit of 1 percent in 2005). Vietnam's inflation differential relative to trading partners, together with movements in major currencies, has resulted in significant fluctuations in the real effective exchange rate (REER) of the dong. The REER appreciated by about 13 percent in 2005, but this appreciation was partly reversed in the first seven months of 2006, as the Euro, the yen, and other major Asian currencies strengthened vis-à-vis the U.S. dollar. At present, the ongoing increase in Vietnam's export market share, together with the comfortable balance of payments position, would seem to suggest that the exchange rate is not misaligned to any significant extent.

4. **Credit growth has decelerated considerably over the last year, but monetary policy needs to remain vigilant.** Credit growth has come down significantly since 2004 to near the State Bank of Vietnam's (SBV) revised 2006 target of 20 percent as a result of state-owned commercial banks' (SOCB) efforts to improve loan quality. However, excess bank liquidity has been boosted in recent months, largely as a result of a sharp increase in SBV purchases of foreign exchange, and credit growth could easily pick up again during the second half of the year, especially if the SOCBs were to step up the financing of a number of large SOE

projects that are in the pipeline.

5. Fiscal policy was eased in 2005, and looks set to remain expansionary in 2006.

Despite the oil revenue windfall, the narrowly-defined official budget balance shifted from a surplus of 1 percent of GDP in 2004 to a deficit of about 1 percent of GDP in 2005, spurred by increasing public sector wages and oil subsidies. A surge in off-budget investment and net lending increased the overall deficit (as measured in accordance with the IMF's definition, which includes broader coverage of the government's fiscal operations) from less than 3 percent of GDP in 2004 to almost 6 percent of GDP in 2005, with an even larger widening of the non-oil deficit. The 2006 budget implies a further expansion of the overall deficit notwithstanding a significantly larger than expected increase in oil revenues, with the total stock of public debt projected to rise from 43½ percent of GDP in 2005 to 45½ percent of GDP in 2006.

Implementation of the large state sector investment program contained in the SEDP would keep public sector debt on a rising path over the medium term. While debt service on the mostly-concessional external debt would remain manageable, the debt burden would be increased by contingent liabilities from the SOCB and SOE sectors that the government may eventually have to absorb. The amount of such liabilities depends critically on the progress of reforms in these sectors in coming years, but is potentially large, adding a degree of uncertainty to the outlook.

Structural Reforms

6. Good progress has been made over the last year in adopting legislation and market opening measures required for WTO compliance. The much-awaited Common Investment Law (CIL) and Unified Enterprise Law (UEL), which were approved by the National Assembly in November 2005, are expected to take effect in the near future. While it is difficult to assess the effectiveness of these measures pending the finalization of implementing regulations, the new laws are intended to level the playing field between domestic and foreign firms, and introduce a common investment regime for domestic and foreign investors, consistent with Vietnam's international commitments. Vietnam has also completed all bilateral negotiations and hopes to accede to the WTO prior to hosting the APEC Summit in November. With the accession, Vietnam is expected to lower its trade barriers to a wide range of industrial and agricultural products and services.

7. Progress in banking sector reform has been uneven in recent years, but it is expected to gather pace in the period ahead. The issuance of SBV's Decision 493 in April 2005 has brought prudential regulations closer into line with international standards, and is likely to have contributed to the adoption of more cautious lending practices by SOCBs. However, difficulties in the proper application of the Decision have delayed the development of NPL resolution and SOCB recapitalization plans, with reported discrepancies between SOCBs' initial NPL estimates and those of international auditors leading to continuing uncertainty regarding the size of potential contingent liabilities. Progress on SOCB equitization has also been slow and the existing equitization plans envisage the retention of a controlling ownership share by the state. Faster financial restructuring, and an enlarged role for participation by strategic foreign investors, would be key to improving the SOCBs' governance, profit orientation, and competitiveness ahead of Vietnam's planned liberalization of foreign entry into its banking system from April 2007. In this connection, the approval of the long-awaited banking

sector reform road map in May 2006 has been a welcome development. Under this road map, the restructuring of commercial banks is to be accelerated, with all SOCBs to be gradually equitized and with international standards of loan classification, provisioning, and capital adequacy to be applied by 2010. In addition, the SBV is to be transformed into a modern central bank by 2010, with more clearly-defined responsibilities and enhanced independence and autonomy in the conduct of monetary policy.

8. **In the SOE sector, progress towards restructuring larger enterprises has been slow, but the government has recently taken some steps to speed up needed reforms.** Despite over 3,000 SOE transformations to date, equitized firms represented only 12 percent of SOE assets as of end-2005. A new directive was issued in 2005 to step up equitization, and a new State Capital Investment Corporation (SCIC) was established to improve the management of government stakes in equitized SOEs. In addition, SOEs were instructed to submit to the Ministry of Finance audited financial reports to be used as the basis of a performance-based rating exercise. However, the recent formation of eight “economic groups” that are to remain wholly state-owned could potentially strengthen state control over key industries and complicate efforts to reform larger SOEs. In the meantime, the need to prepare SOEs for the challenges of WTO accession has heightened the urgency of reform, and the need to provide incentives to SOE managers to move operations onto a commercial basis. In this context, the recently completed first round of the rating exercise is welcome and could be used as a basis for early equitization of larger SOEs.

Status of Fund Relations

A three-year arrangement supported by the IMF’s Poverty Reduction and Growth Facility (PRGF) expired on April 12, 2004. Since then, the IMF has remained fully committed to an effective partnership with the government of Vietnam in support of its growth and poverty reduction goals, through its advisory role comprised of surveillance missions and the resident representative office, coupled with focused technical assistance in areas of core Fund expertise.

POLICY MATRIX AND COMPLIANCE STATUS

Sector	Pillar I: Transition to a market economy
	Actions achieved under PRSC 5
Trade integration	<ul style="list-style-type: none"> • Issue Intellectual Property Law in accordance with WTO requirements. • Eliminate quantitative restrictions on imports in accordance with WTO requirements.
SOE reform	<ul style="list-style-type: none"> • Classify SOEs by performance in accordance with Decision 271. • Approve plans for restructuring selected large SOEs based on the holding company model. • Establish State Capital Investment Corporation to exercise state ownership rights in equitized independent SOEs instead of ministries and provinces. • Require valuation of assets for all transactions by the state by independent appraisal enterprises, unless through auctions.
Financial sector reform	<ul style="list-style-type: none"> • Issue a comprehensive roadmap for reform of the banking sector. • Complete the Basel Core Principles self-assessment to identify weaknesses in banking supervision. • Complete preparations for equitization of Mekong Housing Bank with a strategic investor. • Issue plan for equitization of Vietcombank allowing the participation of a strategic investor. • Increase provisioning for NPLs in SOCBs based on their classification in line with international practice. • Submit a Securities Law for capital markets development and strengthened disclosure for publicly held companies. • Increase the cap for foreign shareholding in listed companies to 49%.
Private Sector	<ul style="list-style-type: none"> • Issue a unified Enterprise Law leading to equal treatment for firms regardless of ownership. • Issue an Investment Law applicable equally to domestic and foreign investors. • Establish an independent competition authority to address restrictive commercial practices.
Infrastructure	<ul style="list-style-type: none"> • Establish a regulator for electricity responsible for guidance on prices, licenses, and market organization. • Prepare pilot MTEF for transport sector to better balance maintenance and capital expenditures.
Pillar II: Inclusive and sustainable development	
Education	<ul style="list-style-type: none"> • Issue regulations for inclusive education for children with disabilities. • Use the pilot MTEF in preparing the education sector budget. • Raise average FSQI index of primary schools by 6.4%, with faster progress in poorer districts.
Health	<ul style="list-style-type: none"> • Make health insurance compulsory for the poor, with greater coverage and increased budget allocation. • Employ MTEF on a pilot basis to address the underfunding of key programs.
Social protection	<ul style="list-style-type: none"> • Revise Program 135 to support the development of communes facing extreme hardship in ethnic minority and mountainous areas.

Sector	Actions achieved under PRSC 5
Land and forests	<ul style="list-style-type: none"> • Set up provincial land registration offices in compliance with the 2003 Land Law.
	<ul style="list-style-type: none"> • Pilot a MTEF for agriculture and rural development.
Water	<ul style="list-style-type: none"> • Assign institutional responsibilities to implement the national targeted program on rural water and sanitation. • Issue the National Water Resources Strategy. • Adopt cost recovery principle for the water supply sector with provisions to assist the poor.
Environment	<ul style="list-style-type: none"> • Develop economic tools and pilot strategic environmental assessments for environmental protection. • Issue implementing guidelines for the Clean Development Mechanism under the Kyoto protocol.
Gender	<ul style="list-style-type: none"> • Pilot the planning manual for selected ministries and provinces including the mainstreaming of gender.
Pillar III: Modern governance	
Planning processes	<ul style="list-style-type: none"> • Submit SEDP based on broad consultation with a poverty focus, and develop monitoring tools • Initiate assessment of social and economic impacts of WTO accession, identifying countermeasures.
Public financial management	<ul style="list-style-type: none"> • Require all ministries and provinces to prepare forward-looking budgets in support of SEDP. • Monitor service quality, introduce user feedback and cap salary bill in public service delivery entities. • Reformulate norms for allocating recurrent and capital budget to provinces with a pro-poor focus. • Unify the management of foreign debt and reckon all government guarantees on it. • Scale up autonomy for government entities under the block grant modality for administrative expenditures.
Financial accountability	<ul style="list-style-type: none"> • Issue all relevant accounting and auditing standards consistent with international practice.
Legal development	<ul style="list-style-type: none"> • Require stakeholder consultation and condition the effectiveness of legal documents on publication. • Approve strategies for the improvement and development legal and judiciary systems.
Public administration	<ul style="list-style-type: none"> • Issue action plans for simplification and greater transparency of administrative procedures.
Anticorruption	<ul style="list-style-type: none"> • Issue Anticorruption Law including denunciations and monitoring of assets. • Complete and make public a diagnosis of corruption and its modalities. • Issue Procurement Law focused on publicity and addressing bidders' complaints.

FSQL= fundamental school quality level, MTEF = medium -term expenditure framework, NPL = nonperforming loan, SEDP = Socioeconomic Development Plan, SOCB = state-owned commercial bank, SOE = state-owned enterprise, WTO = World Trade Organization.

Note: Actions highlighted in **bold** are tranche conditions as they were documented in the World Bank's Financing Agreement. These conditions have been built on actions identified as triggers for PRSC 5 during the World Bank's loan negotiations for PRSC 4. The other actions were achieved but are nontranche conditions.

Source: World Bank. 2006. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Fifth Poverty Reduction Support Operation (May 26, 2006)*. Washington DC.

Compliance Status of Policy Actions/Conditions ^a

No.	Actions/Conditions	Compliance Status
1.	Issue Intellectual Property Law in accordance with WTO requirements	<p>Complied with. Intellectual Property (IP) Law was passed by the National Assembly in November 2005, and became effective on 1 July 2006.</p> <p>The IP Law is in accordance with WTO requirements regarding (i) national treatment in the area of copyright protection (Article 13); (ii) exclusion of certain types of works from protection for reasons of public interest (Article 8.1); (iii) compulsory licensing of inventions that is fully in line with the Trade-Related Aspects of Intellectual Property Rights Agreement (Section 3, Articles 145, 146, 147); (iv) enforcement provision, notably border measures, and regulations on administrative offences and crimes in the area of IP (Section 2, Chapter XVIII); and (v) regulations relating to geographical indications (Article 80.3).</p>
2.	Classify SOEs by performance in accordance with Decision 271	<p>Complied with. Decision 271/2003/QD-TTg of December 31, 2003 stipulated that SOEs have to be classified according to their 2004 performance, and the results of this classification be disclosed. SOEs are to be classified into one of three groups (A-strongest, B-average, or C-weakest) based on four criteria: turnover, profitability, solvency, and compliance with laws and regulations. As of 22 May 2006, the Ministry of Finance (MOF) has received self-assessment reports from 3,763 SOEs. It has prepared a first classification based on these reports with nearly 86 percent of the enterprises falling in categories A and B. In the coming months MOF will reappraise the reports for accuracy, and based on its first experience will suggest changes to Decision 271.</p>
3.	Issue a comprehensive roadmap for the reform of the banking sector	<p>Complied with. The Prime Minister issued Decision 112/2006/QD-TTg on 23 May 2006 on a comprehensive roadmap for the reform of the banking sector. The banking sector reform roadmap covers action agenda to 2010 and orientation to 2020. SBV will be responsible for monitoring the implementation of the roadmap.</p>
4.	Issue a unified Enterprise Law leading to equal treatment for firms regardless of ownership	<p>Complied with. The Law was passed in November 2005 and became effective on 1 July 2006. Under this Law, domestic and foreign enterprises will be governed by the same corporate legislation. Foreign enterprises will be subject to the same registration procedures as domestic firms, and will be able to choose the form of corporate entity that is most suitable on business grounds. The law also requires that all SOEs be transformed into limited liability companies or joint stock companies within a period of four years. With this stipulation, the SOEs will move under the corporate governance models of the new Law alongside private enterprises, rather than be governed by a separate</p>

No.	Actions/Conditions	Compliance Status
		law as present.
5.	Issue regulations for inclusive education for children with disabilities	<p>Complied with. Decision 23/2006/QĐ-BGDĐT was issued on 22 May 2006 by the Minister of Education and Training on the issuance of regulations for inclusive education for people (adults as well as children) with disabilities. Regulations for inclusive education for children living with disabilities have been issued, aiming for equal access to education services. The regulations apply to all educational institutions in the public education system. The preparation of these regulations is the result of effective coordination among ministries such as the Ministry of Education and Training (MOET), Ministry of Health (MOH), and the Ministry of Labor, Invalids and Social Affairs (MOLISA), and agencies dealing with child protection. The regulations address the special needs of children living with disabilities in terms of classrooms, school facilities, equipment, and textbooks. Individual education plans will be prepared with materials and methodological designs tailored to their special requirements. The regulations allow for educational institutions to hire specialized staff and helpers, and entitle them to make investments in facilities and equipment which meet the special needs of children living with disabilities. Inclusive education staff will be entitled to training and refresher courses and to reduced norms for teaching hours. Early intervention is promoted by the regulations in order to minimize disability-caused constraints. People living with disabilities will also be given priority in entrance exams for vocational secondary schools and institutions providing continuing and higher education services.</p>
6.	Make health insurance compulsory for the poor, with greater coverage and increased budget allocation	<p>Complied with. Decree 63/2005/ND-CP dated 16 May 2005 on the issuance of Health Insurance Regulations has adopted a regime of compulsory health insurance for the poor. Compulsory health insurance's coverage expanded to cover more persons, and supported by increased budget allocation through: (i) the revised Decision 139/2002/QĐ-TTg on the health care system for the poor, which was submitted on to the Prime Minister for approval, extends coverage based on the new poverty line, and includes provisions to protect the near-poor and all ethnic minorities. The poor and the ethnic minorities are to be entitled to free compulsory health insurance; and (ii) the reformulated norms for budget allocation to provinces taking into account poverty rates by MOF, which was approved on 29 June 2006 by the Prime Minister in Decision 151/QĐ/TTg (to be applied for the 2007 budget and period from 2007-2010).</p>
7.	Revise Program 135 to support the development of communes facing extreme hardship in ethnic minority and	<p>Complied with. Decision 07/2006/QĐ-TTg dated 10 January 2006 revised the National Targeted Program 135. Program 135, phase II, comprises policies, actions and procedures to be carried out by the Committee on Ethnic</p>

No.	Actions/Conditions	Compliance Status
	mountainous areas	Minority Affairs which is working together with line agencies and local authorities to develop detailed guidelines for the implementation of the program so as to support the development of poor communes in the mountainous and ethnic minorities areas.
8.	Set up provincial land registration offices (LRO) in compliance with the 2003 Land Law	Complied with. In accordance with the requirements of the 2003 Land Law, to date, provincial LROs have been set up in 62 out of the 64 provinces and cities under central jurisdiction. LROs have also been established in districts with high demand for land registration and LUC issuance (reportedly about 20% of districts).
9.	Assign institutional responsibilities to implement the national targeted program on rural water and sanitation	Complied with. The institutional responsibilities to implement the national targeted program on rural water and sanitation have been assigned among line agencies and departments under the National Targeted Program phase II (NTP II), 2006-2010, which has been submitted for final approval by the Prime Minister. In the draft NTP, the implementation responsibilities among line agencies and departments (MARD, MOH, MOET and others) have been clearly assigned. MARD will perform the state management functions and will be the main agency in charge of coordinating, monitoring, and supervising the implementation of the NTP II. In addition, Decision 17/2005/QDD-BNN dated 22 March 2005 of the Ministry of Agriculture and Rural Development assigned the responsibilities within MARD. The Center for Rural Water and Sanitation will be the implementing agency for targeted program for rural water and sanitation and Department for Water Resources will be the monitoring agency and will also be responsible for setting standards.
10.	Develop economic tools and pilot strategic environmental assessments for environmental protection	Complied with. Economic tools refer to payments for natural resources use and rehabilitation, and reliance on environmental protection funds. The Government has developed economic tools for environmental protection. The Law on Environment Protection was passed by the National Assembly in November 2005 and became effective on 1 July 2006. The Law includes provisions for adopting 'polluter pays' measures. The circular on Wastewater Pollution Coefficients, which identifies the volume of pollutants in industrial waste water as a basis for fees to be levied under Decree 67/2003/ND-CP, was submitted in August 2006. The law also foresees payments for natural resources use and rehabilitation, and reliance on environmental protection funds. The Government allocated 1% of total budget expenditure for 2006 for environmental protection funds for all relevant ministries. The Strategic Environmental Assessments have also been piloted: one for the Ha Tay masterplan and the other for the Socioeconomic Development Plan for Dai Tu District, to promote

No.	Actions/Conditions	Compliance Status
		sustainable development and management of Tam Dao National Park and its buffer zone.
11.	Submit SEDP based on broad consultation, with a poverty focus and develop monitoring tools	Complied with. The SEDP 2006-2010 was formulated under broad consultation with local governments, communities, private sector, local associations, NGOs, and researchers. Poverty focus goes beyond targeted programs. Monitoring indicators being developed, identifying data sources and responsible agencies. The Plan was approved by the National Assembly Resolution Number 56 in June 2006.
12.	Require all ministries and provinces to prepare forward-looking budgets in support of SEDP	Complied with. Directive 18/2005/CT-TTg dated 31 May 2005 of the Prime Minister instructed ministries and provinces to prepare multi-year budget plans to support the implementation of the SEDP 2006 - 2010. Separate estimates to be prepared for capital and recurrent expenditures.
13.	Monitor service quality, introduce user feedback and cap salary bill in public service delivery entities	Complied with. Decree 43/2006/NĐ-CP was issued on 25 April 2006 on the autonomy of public service delivery entities in organizational arrangement, human resources and finance (replacing Decree 10/2002/ND-CP). Decree 43 was issued to strengthen the public service delivery through (i) improved monitoring; (ii) introduction of user feedback; and (iii) limits on salary expenditure. Through a requirement that performance standards be set and specific criteria to evaluate the performance, mechanisms to monitor service delivery by responsible line ministry or agency have been improved. The limits on salary expenditure and salary caps that vary inversely with budget support would prevent the service delivery units from charge excessively high prices for services. The basic services are also protected from the stipulation that 25% of net revenues have to be set aside to be used to improve the quality of service delivery. The decree introduces mechanisms for eliciting feedback from service users including the possibility of "report card surveys" in addition to mailboxes or websites.
14.	Issue action plans for simplification and greater transparency of administrative procedures	Complied with. The implementation of the Public Administration Reform including review, revision and admin procedures simplification in the areas under management was indicated in document 1108/VPCP-CCHC dated 2 March 2006, on the final review of admin procedures in compliance with the Prime Minister's Directive 09/2005/CT-TTg dated 5 April 2005 on the strengthening the administrative reform, prepared by the Office of the Government to the Prime Minister. This has also been emphasized and strengthened by (i)

No.	Actions/Conditions	Compliance Status
		<p>Directive 10/2006/CT-TTg dated 23 March 2006 of the Prime Minister and Decision 94/2006/QD-TTg dated 27 April 2006; and (ii) Decision 94/2006/QD-TTg dated 27 April 2006. This former regulates responsibilities of each concerned entity in planning, implementing and simplifying administrative procedures of the government agencies and offices. The latter includes 6 main areas: institutional reform, administrative system reform, human resources development, public financial reform, administration modernization and governance of public administration reform. Plans for revising and streamlining procedures have been prepared, adopted and are being implemented at varying speeds across agencies. Positive progress has been recognized in the critical areas such as tax and customs, civil and household registrations, business registration, land use certificates, building permits.</p> <p>Local governments submitted the plans for decentralization of state management functions to the Office of Government. A number of provincial and local governments have implemented the decentralization program.</p>
15.	Issue Anticorruption Law including denunciations and monitoring of assets	<p>Complied with. Anticorruption Law was passed by the National Assembly in November 2005 and became effective in June 2006. The new law includes compulsory declaration of assets and income by state employees including spouses and children. It makes organizational heads accountable for corruption in entities under their management. An action plan specifying the tasks of different ministries and agencies in implementing the law has been issued by the Prime Minister. The Law specifies the contents and modalities for public disclosure and transparency in the areas such as public procurement, civil works, management and equitization of SOEs, auditing of the state budget, management and use of Land, and personnel management. The law encourages 'whistle-blowing' by the public and other agencies, and the rewarding of such actions.</p>

LUC = land-use right certificate, MARD = Ministry of Agriculture and Rural Development, NGO = nongovernmental organization, SBV = State Bank of Viet Nam, SEDP = Socioeconomic Development Plan, SOE = state-owned enterprise, WTO = World Trade Organization.

a. The policy conditions included in this compliance status matrix are tranche conditions as documented in the World Bank's Development Financing Agreement. The compliance status was recorded as of 24 August 2006 during the loan negotiations for the proposed SIPRP III.

Sources: State Bank of Viet Nam, Ministry of Finance, Ministry of Planning and Investment, World Bank, and Asian Development Bank staff.

DEVELOPMENT PARTNERS COORDINATION MATRIX

Development Partner	Main Areas of Involvement in Policy Dialogue	PRSC 5 Cofinancing	
		Amount	Modality
Asian Development Bank	Trade integration, state-owned enterprise (SOE) reform, financial sector reform, private sector development, infrastructure, education, health, land, water, environment, planning processes, public administration reform, legal development, anticorruption	US\$15 million	A single-tranche program loan on the Fifth Poverty Reduction Support Credit (PRSC 5) policy framework
Agencia Española de Cooperación Internacional	Land, water, environment, social protection, planning processes	€3 million (about US\$3.8 million)	Parallel financing to the state budget as a grant
Australian Agency for International Development	Trade integration, private sector development, public administration reform, public financial management, anticorruption, water	A\$10 million (about US\$7.4 million, to be confirmed)	Grant
Canadian International Development Agency	Trade integration, financial sector, private sector development, education, environment, gender, public financial management, anticorruption, legal reform	Can\$4 million (about US\$3.6 million)	Grant
Danish International Development Agency	Trade integration, SOE reform, private sector development, land, water, environment, planning processes, public financial management, financial accountability, public administration reform, legal development, anticorruption, social protection	DKr61 million (about US\$10.4 million equivalent)	Grant
Department for International Development (United Kingdom)	Trade integration, SOE reform, private sector development, infrastructure, education, gender, planning processes, public financial management, financial accountability, anticorruption, social protection	£20 million (about US\$37.0 million)	Grant
European Commission	Trade integration, SOE reform, financial sector reform, private sector development, health, education, planning processes, public financial management, financial accountability	€10 million (about US\$11.6 million)	Grant
Ireland	Social protection, gender,	€3 million (about US\$3.8 million)	Grant

Development Partner	Main Areas of Involvement in Policy Dialogue	PRSC 5 Cofinancing	
		Amount	Modality
	financial sector reform, private sector development, anticorruption	million)	
Japan Bank for International Cooperation	Trade integration, SOE reform, financial sector reform, private sector development, infrastructure, land, environment, planning processes, public administration reform, legal development, anticorruption, social protection	¥ (to be determined) billion	Concessional parallel lending with a separate loan agreement following the PRSC 5 policy framework
Germany	Water, environment	€6 million (about US\$7.6 million)	Concessional parallel lending with a separate loan agreement following the PRSC 5 policy framework; the terms of the loan are the same as World Bank's International Development Association
Netherlands Ministry of Development Cooperation	Trade integration, financial sector reform, health, water, environment, gender, public financial management, financial accountability, public administration reform, legal development, anticorruption	€9 million–€14 million (about US\$11.4 million–US\$17.7 million)	Grant
World Bank	All	US\$100 million	A single-tranche program loan with standard International Development Association terms approved by World Bank board on 22 June 2006; the development credit agreement was scheduled to be signed on 5 September 2006
Total		More than US\$210 million	

Source: World Bank. 2006. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Fifth Poverty Reduction Support Operation (May 26, 2006)*. Washington DC.

DEVELOPMENT OUTCOMES

Pillar I: Transition to a Market Economy

Sector	Originally expected as of 2006	In 2001	Latest Available
Trade integration	<p>Ratio of exports to gross domestic product (GDP) is 55%</p> <p>Share of private sector exports in nonoil exports is 85%</p> <p>All quota restrictions removed</p> <p>Modern customs procedures are in place</p> <p>Viet Nam becomes a member of the World Trade Organization (WTO)</p>	<p>47%</p> <p>56%</p> <p>Quota restrictions on many products</p> <p>Customs procedures are burdensome</p> <p>Slow progress in WTO negotiations</p>	<p>61%</p> <p>77%</p> <p>All quota restrictions removed</p> <p>Modernization project being implemented under the revised Customs Law; e-customs piloted</p> <p>Substantial progress toward accession</p>
State-owned enterprise (SOE) reform	<p>About 2,100 SOEs</p> <p>The share of bank credit going to SOEs is less than 25%</p> <p>High proportion of profitable SOEs</p> <p>Most nonperforming interenterprise debts resolved</p> <p>Data on performance of SOEs available annually</p>	<p>5,334 SOEs</p> <p>42%</p> <p>High proportion of unprofitable SOEs</p> <p>Large volume of nonperforming inter-enterprise debts</p> <p>Data about SOE sector is sketchy</p>	<p>About 3,000 SOEs; large SOEs are being transformed; SOE shares sold through auctions</p> <p>32%. Marginal share of bank credit to SOEs in last 5 years was 27%</p> <p>Operational reviews and General Statistics Office surveys reveal better than expected performance</p> <p>Most SOEs make profits, but profits are generally low</p> <p>Analytical work needed to measure the extent of interenterprise debts</p> <p>Performance monitoring of SOEs in progress; financial disclosure requirements strengthened through Decision 192</p>
Financial sector reform	<p>Banks in full compliance with banking regulations</p> <p>Low estimated nonperforming loan (NPL) ratio in banking system</p> <p>The State Bank of Viet Nam (SBV) focused on supervision and regulation</p>	<p>No commercial bank in full compliance</p> <p>NPLs represent 15% of credit</p> <p>Conflicting SBV responsibilities as owner and regulator</p>	<p>Improved compliance on provisioning, capital adequacy, and disclosure; prudential standards raised and being complied with in a phased manner; profitability improved; joint-stock banks consolidated and perform better than state-owned commercial banks</p> <p>Estimate of NPLs is 8–10%, but is subject to revision</p> <p>Limited progress</p> <p>Banking reform road map approved to remove conflicts and focus SBV on supervision; Basel core principles self assessment under way</p>

Pillar I: Transition to a Market Economy			
Sector	Originally expected as of 2006	In 2001	Latest Available
	Sound regulation of policy lending	Policy lending still done through state-owned commercial banks	Policy lending shifted to Development Assistance Fund and the Viet Nam Bank for Social Policies under stricter regulation
Private sector development	Private investment is equal to 20% of GDP Around 5 million people are employed in the formal private sector Regulations applicable for all firms	14% 0.6 million registered with social security; 1.3 million in formal wage employment; 7 million in wage employment Discrimination on access to land, taxes, and public contracts	18% 2.8 million registered with social security; 3.6 in formal wage employment; 9.1 million in wage employment New land law improves access to land
Infrastructure	Liberalized entry in telecommunications and information technology services Improved infrastructure provision and operations Rational pricing policies for infrastructure services	State monopoly in telecommunications and information technology-services Provision of infrastructure services often inefficient Infrastructure services are expensive	Telecommunications sector open to competition Telecommunications sector opened to competition for mobile and internet service providers; further opening imminent under WTO Gradual convergence to regional prices; cost recovery in telecommunications and electricity. operation and maintenance costs covered in water sector.
Pillar II: Social Inclusion and Environmental Sustainability			
Education	Net primary school enrollment rate 98% School quality improved, especially in poor areas Net lower secondary school enrollment rate 80%	88% (in 1998) School quality is uneven and low in poor areas 62% (in 1998)	94% Fundamental school quality level standards under implementation, with poorer areas recording faster progress 80%
Health	Infant mortality rate per 30/1,000 Under five mortality rate 36/1,000	37/1,000 (in 1998) 48/1,000 (in 1998)	18/1,000 (95% confidence interval ranges from 9 to 27 per thousand) 24/1,000 (95% confidence interval ranges from 14 to 33 per thousand)

Pillar II: Social Inclusion and Environmental Sustainability			
Sector	Originally expected as of 2006	In 2001	Latest Available
Health	<p>Effective mechanisms to reduce out-of-pocket payments by the poor</p> <p>A public health approach is in place to tackle the HIV-AIDS epidemic</p>	<p>Out-of-pocket payments deter use of health services</p> <p>No appropriate framework to prevent HIV/AIDS spreading</p>	<p>Compulsory health insurance for the poor funded by government budget, with top up for uncovered amounts from health care funds; free health care for children under 6 years; 30% subsidy for near-poor to buy voluntary insurance; voluntarily insured to rise from 9.1 million in 2005 to 10 million in 2006</p> <p>HIV/AIDS strategy under implementation; new cases fell from 16,980 in 2003, to 14,200 in 2004, and to 13,731 in 2005.</p>
Social protection	<p>A financially viable social insurance system</p> <p>Expansion of mandatory system and voluntary scheme for informal sector</p>	<p>Unsustainable formula for pension benefits, especially in the public sector</p> <p>4.4 million (11%) workers covered under mandatory system</p>	<p>New law in 2006 to increase coverage and address financial viability</p> <p>Estimated 6.9 million (16%) of workers covered at end-2006, and voluntary scheme to be launched</p>
Land and forests	<p>All land allocated with all upland allocated to locals and ethnic communities</p> <p>A functioning land market is in place and land tenure has been secured</p> <p>Forest cover expands to 38%</p>	<p>Not all land allocated especially in urban and upland areas; in 1998, 42% of households had land-use right certificates (LUCs) for agricultural land; 34% for urban residential land; 42% for forestry land</p> <p>7.9% of rural households rent-in agricultural land (1998)</p> <p>35%</p>	<p>In 2004, 72% of households have LUCs for agricultural land, 68% for urban residential land, 64% for forestry land</p> <p>10.7% in 2004; and tenure secured by a rapid rise in LUC allocation</p> <p>Cover expanded to 37%, but its quality has not improved</p>
Water	<p>Increased population access to water and sanitation services</p> <p>Integrated river basin planning and participation of irrigation users</p>	<p>76% have access to improved water and 25% to latrines (in 2002)</p> <p>Inefficient irrigation and limited participation of users</p>	<p>79% have access to improved water and 32% to latrines (in 2004)</p> <p>Greater participation of water users expected following new decree</p> <p>Institutional conflicts impede integrated river basin planning</p>
Environment	<p>A framework in place to assess environmental impact of projects</p>	<p>Environmental impact assessments are uncommon</p>	<p>Departments of natural resources and environment established in all provinces for environmental review of projects</p>

Pillar II: Social Inclusion and Environmental Sustainability			
Sector	Originally expected as of 2006	In 2001	Latest Available
Environment	<p>No further degradation of highly biodiverse forests and wetlands</p> <p>Mechanisms in place to handle waste discharge and pollution offenders</p>	<p>Cover of rich closed-canopy forest is 3.4% (2000) Protected area coverage 4.1% (1999); widespread loss of mangrove forest; degradation of wetlands and coral reefs</p> <p>Urban pollution is unchecked and affects the poor</p>	<p>Rich closed-canopy forest 4.6% (in 2004), although more fragmented. Protected area coverage 5.5% (in 2005); stabilization of mangrove forest area; degradation of wetlands and coral reefs continues</p> <p>Polluter pays principle introduced for wastewater, with fees collected in 2005; implementation weaknesses remain</p>
Gender	All newly issued or reissued LUCs are in the name of both spouses	Low percentage of LUCs issued in the name of both spouses	Progress on newly issued LUCs but no reissuance of old LUCs Convergence in other development indicators by gender.
Pillar III: Modern Governance			
Sector	Originally expected as of 2006	In 2001	Latest Available
Planning Process	<p>Planning toward development goals</p> <p>A number of provinces and sectors have pro-poor socioeconomic plans</p> <p>Substantially improved integration of the PIP with budget</p>	<p>Planning focused on production targets but CPRGS under preparation</p> <p>Planning is not well-gearred toward pro-poor goals</p> <p>PIP is a compilation of projects with few links to the budget</p>	<p>Draft SEDP based on broad consultation and focused on development outcomes; poverty focus beyond targeted programs alone; monitoring tools being developed, identifying data sources, and responsible agencies</p> <p>Provincial CPRGS roll-out piloted in 20 provinces and to be scaled up to all provinces</p> <p>Improved criteria to prepare, appraise, and implement public investment projects leading to better selection and more transparent funding</p>
Public financial management	<p>A publicly disclosed medium-term fiscal framework is used</p> <p>Operation and maintenance costs are fully taken into account</p> <p>Annual publication of detailed and accurate budget data at all levels</p> <p>Sustainable public debt ratios, with assessment of contingent liabilities</p>	<p>Budget preparation is based on a short-term perspective</p> <p>Little integration of capital and recurrent expenditures</p> <p>Partial central and commune budget data available</p> <p>Limited knowledge of contingent liabilities</p>	<p>MTEF for 3-years prepared and will be disclosed in 2006. Budget for 2006 linked to 5-year plan</p> <p>Ban on public investment projects without proper funding; MTEFs better integrate capital and recurrent expenditure in four sectors</p> <p>Full disclosure of the central budget aggregate categories</p> <p>Assessment of contingent liabilities launched debt ratios at sustainable levels</p>

Pillar III: Modern Governance			
Sector	Originally expected as of 2006	In 2001	Latest Available
Financial accountability	Accounting norms in accordance with international practice	Accounting practices differ from international standards	Convergence to international standards ; 37 auditing and 26 accounting standards issued
Legal development	A legal system based on the rule of law and promoting development	Limited legal transparency	Effectiveness of legal documents is conditional upon publication in <i>Official Gazette</i> ; legal and judiciary system strategies approved, but effective implementation measures needed
Public administration reform	Progress toward simplifying administrative procedures	Cumbersome procedures and murky payments	One-stop shop model adopted in 63 provinces, but quality needs attention Action plans for simplification under implementation
Anticorruption	Reduced corruption as rated by independent monitors	Perception of widespread corruption	Comprehensive diagnostic study on corruption and its modalities is available. Its findings are corroborated by the investment climate assessment survey. Bribes as a proportion of sales are low by international standards; no evidence of state capture; petty corruption is widespread
Information availability	Reliable, publicly available economic and social data	Limited statistical development and data difficult to access	Poverty measurement in line with international standards. Household and enterprise surveys regularly conducted with publicly available data

CPRGS = Comprehensive Poverty Reduction and Growth Strategy, GDP = Gross National Product, HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, LUC = land-use right certificate, MTEF = medium term expenditure framework, OSS = One-stop shop, PIP = public investment plan, SOE = state-owned enterprise, SEDP = Socioeconomic and Development Plan, WTO = World Trade Organization.

Source: World Bank. 2006. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Fifth Poverty Reduction Support Operation (May 26, 2006)*. Washington DC.



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Hanoi, 24 August 2006

Mr. Haruhiko Kuroda
 President,
 The Asian Development Bank
 Manila, Philippines

Dear Mr. President,

It has been two decades now since Viet Nam launched *Doi Moi*, an ambitious economic renovation program. The objective of *Doi Moi* was to rely more systematically on market mechanisms, while maintaining the poverty alleviation focus which has characterized the economic policies of Viet Nam since its independence. This combination of economic incentives and social inclusion reflects Viet Nam's determination to build a market economy with a socialist orientation. While much remains to be done, economic developments have confirmed the wisdom of the reform agenda initiated with *Doi Moi*. The economy has grown by 7.7% per year since 1991(1991-2005), in real terms, with GDP per capita attaining \$640 in 2005, compared to \$143 in 1991. The poverty rate, measured in internationally comparable terms, declined from 58% of the population in 1993 to less than 20% in 2004. Other social indicators, like those monitored under the Millennium Development Goals, have also improved steadily. These accomplishments took place without the major turmoil experienced by several transition economies in the initial stages of their reform process, in the early 1990s. Viet Nam also managed to avoid a recession during the East Asia crisis, in the late 1990s.

The proposed Poverty Reduction Support Program loan (PRSC), is the last one in a series of five operations, fully aligned with our own planning cycle. The *Doi Moi* agenda for economic renovation has been articulated through a series of Government strategies and plans. In recent times, the broadest statement was provided by the Ten-Year Socio-Economic Development Strategy 2001-2010. Key planning documents for the period covered by the current cycle of PRSCs are the 5-year Socio-Economic Development Plan (SEDP) 2001-2005, and the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The CPRGS, approved by the Prime Minister in May 2002, was presented in July 2002 to the Board of Executive Directors of the International Development Association, as the strategy to implement the SEDP 2001-2005. The policy actions supported by the proposed program loan reflect the reform directions set out in our planning documents and in the CPRGS in particular.

Important developments and policy breakthroughs have also contributed to further shaping the reform agenda along this 5-year cycle. In 2003, the CPRGS was "expanded" to include a development policy for large-scale infrastructure and review its role in promoting economic growth and poverty reduction. In that same year, the decision was made to accelerate Viet Nam's accession to the World Trade Organization (WTO) and this, in turn, has influenced policy actions related to international trade and the legal framework. There has also been considerable progress regarding public financial management. The Public Expenditure

Review-Integrated Fiduciary Assessment of 2005, jointly prepared by the Ministry of Finance and the World Bank with support from several donors, is charting the way to increase the efficiency and transparency of public financial management. Since 2004, the Government Inspectorate has been leading a process to make anti-corruption policies and tools more effective. And starting in early 2005, the State Bank of Viet Nam prepared a strategy to substantially accelerate the reform of the banking system.

The proposed program loan also supports some of the policy orientations being developed in view of the next planning cycle. As Viet Nam emerges from massive poverty, the focus is moving in the direction of becoming a middle-income country towards the end of the decade. Without downplaying the importance of a continued and effective fight against poverty, the new orientations highlight the need for institutional development, with more appropriate mechanisms to support an increasingly sophisticated economy and modern social protection arrangements to keep development inclusive. These new orientations include the strengthening of the legal foundations for business, a transparent financing and efficient regulation of infrastructure, a drive towards universal systems in the social sectors, a much stronger protection of the environment, a more transparent public administration and reduced corruption. While rapid economic growth remains a priority, the next planning cycle will also focus on the quality of growth.

The preparation of the SEDP 2006-2010 has actually built on the strengths of the CPRGS. The decision to integrate the CPRGS principles and the Millennium Development Goals into the SEDP was made in late 2004. Since then, there has been a large-scale consultation process with stakeholders in and out of Government, and an active involvement of the donor community. The new SEDP discussed by the tenth Party Congress last month and submitted to the National Assembly for approval this month, pays greater attention to the attainment of development outcomes, over production targets. A system to monitor and evaluate the progress in attaining those outcomes is currently being set up. And for the first time, forward-looking exercises are being conducted at aggregate and sectoral levels to translate the broad orientations of the SEDP into the preparation of annual budgets. The integration of the CPRGS approach into the SEDP removes the need for two separate planning documents.

One of the main objectives of Viet Nam's development strategy under the current 5-year cycle is to complete the transition to a market economy, as reflected in Part III sections I and II, and Part IV of the CPRGS. In this respect, over the last twelve months we have come close to concluding WTO negotiations, and several important laws and regulations have been issued in preparation for accession. A level playing field is being attained, with all firms and investors being treated equally, regardless of whether they are privately owned, foreign-owned or state-owned. After having equitized a large number of State-Owned Enterprises (SOEs), including increasingly large ones, the decision has been made to transfer the management of state shareholder rights out of line ministries and agencies, so as to avoid a conflict between ownership and regulation. In the financial sector, an ambitious reform roadmap has been adopted at the highest level of Government. Its objective is to separate the management of State-Owned Commercial Banks (SOCBs) from their supervision, to create a modern central bank, and to strengthen the commercial orientation of SOCBs through their equitization.

Another important policy objective is to ensure that growth remains socially inclusive and environmentally sustainable. In this respect, the proposed program loan is grounded on Part V section I, Part III sections I and III, Part IV section IV and Part V section I of the CPRGS. The program loan also builds on recent decisions to combine universal systems in the social sectors,

with contributions by beneficiaries towards defraying the cost of service provision, and mechanisms to finance the participation of the poor. A sustained effort is under way to increase the quality of education, with an emphasis on primary schools in poorer districts. The financing of health care is being revamped, with the introduction of health insurance to separate funding from service provision. Resources are allocated to cover the health insurance premium of the poor and to improve infrastructure and economic opportunities in the communes facing the greatest hardship. An effort is also under way to complete the issuance of land-use right certificates and to strengthen the management of water resources. While not as fast as it could be desired, economic and information tools to protect the environment are being developed.

Success in promoting economic growth, and in ensuring the social and environmental sustainability of development, crucially depends on building modern governance. This area is covered in Part VII section I, and Part III sections I and II and Part VII section I in the CPRGS. The much strengthened process followed to prepare the SEDP 2006-2010, with its emphasis on stakeholders' consultation and its reliance on development outcomes, is in itself an illustration of the drive towards modern governance. Equally important are the actions aimed at bridging the gap between planning and budgeting, through the preparation of medium-term frameworks, and between capital and recurrent expenditures, through the development of budget allocation norms. A strategy has been adopted to develop the legal system and reform the judicial system. Its implementation will entail a substantial change in the way courts operate and will strengthen access to justice. Among the policy actions supported by this program loan is the first-ever anti-corruption law in Viet Nam, including a mechanism to monitor the assets of civil servants and their close families.

The opening speech of Deputy Prime Minister Nguyen Tan Dung to at the opening of the ninth session of the National Assembly, on May 16, 2006, articulated the same themes and reviewed some of the same actions covered by the proposed program loan. Deputy Prime Minister Nguyen Tan Dung is also the Chairman of the Steering Committee for the PRSC process. His speech to the National Assembly confirms that the proposed program loan is fully aligned with the reform agenda of Viet Nam.

Over this planning cycle, the Government of Viet Nam has regularly assessed the progress accomplished, and identified the implementation challenges faced, sharing its findings and views with the donor community. The annual CPRGS Progress Reports, presented at the Consultative Group meetings in December of each year, have been one of the main communication channels in this respect. The latest of these reports, produced in November 2005, is currently being circulated to the Executive Directors of the World Bank and the International Monetary Fund, alongside an advisory note jointly written by the staff of the two organizations.

The proposed program loan and the previous program loans cofinancing a series of PRSCs have also been an effective tool for harmonization. In the spirit of the Paris Declaration on Aid Effectiveness and the associated Hanoi Core Statement on Aid Effectiveness: Ownership, Harmonization, Alignment, Result, PRSCs have allowed a coordinated policy dialogue between line ministries and Government agencies on the one hand and an increasingly large number of donors on the other hand. The Government of Viet Nam appreciates this increased coherence of the policy dialogue, and the considerable reduction in transactions costs resulting from the PRSC approach.

We have noted gratefully the increasing number of cofinanciers, which has increased from four in the case of PRSC 1 to twelve, including ADB, for the current PRSC 5. The

Government recognizes that the support of donors goes beyond filling the gap for external financing needs. Donors also participate in partnership groups with the Government, which cover all economic policy areas, and are instrumental in providing factual information and analysis, thus contributing to the monitoring of progress in reform implementation, sharing international good practices.

We have been committed to pursuing the PRSC process in creating momentum to promote and sustain national growth and development. We assure you that the measures and action outlined in this Development Policy Letter and specified in the Policy Matrix of PRSC 5 document and subsequent ADB loan documents have been adopted in a timely and sustainable manner. With PRSC 5 being the last PRSC operation in the current 5-year cycle, we look forward to ADB's continued support alongside with other cofinanciers beyond this planning cycle.

Yours sincerely,

Le Duc Thuy
Governor
State Bank of Viet Nam

SUMMARY POVERTY STRATEGY AND ASSESSMENT

A. Summary Poverty Reduction and Social Strategy

A. Linkages to the Country Poverty Analysis			
Is the sector identified as a national priority in country poverty analysis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p>Contribution of the sector or subsector to reduce poverty in Viet Nam:</p> <p>The program loan will contribute to poverty reduction by supporting implementation of the Government's medium-term Comprehensive Poverty Reduction and Growth Strategy (CPRGS), covering 2002–2006. The program loan in the form of a poverty reduction support credit (PRSC) is a multisector instrument covering a range of issues in a broad-based reform agenda related to poverty reduction through three main reform areas (i) for the transition of the economy, (ii) on social inclusion and environmental sustainability, and (iii) on modern governance. The PRSCs and the program loan provide an opportunity to advance restructuring of the economy to achieve equitable economic growth and well-being. The CPRGS is an important vehicle to reduce poverty and improve social service delivery and other social indicators in a sustainable, equitable, and cost-effective manner. The program loan, which follows the PRSC 5 policy framework, calls for accelerating policy changes and reforms that increase efficiency, transparency, and accountability; and stimulate growth, thereby reducing poverty and improving social services to poor people. The CPRGS and thus the program loan are consistent with the poverty reduction strategy, the Asian Development Bank (ADB) country strategy and program update for Viet Nam 2006–2008,¹ the final draft of the country strategy and program for Viet Nam 2007–2010, and the attainment of the Viet Nam Development Goals (the country version of the Millennium Development Goals).</p>			
B. Poverty Analysis		Targeting Classification: General intervention	
<p>What type of poverty analysis is needed?</p> <p>A comprehensive poverty analysis in terms of poverty participatory assessments and poverty survey data² was jointly carried out as background to the preparation of PRSC 5.³ ADB also prepared the country poverty assessment to provide analytical inputs to the preparation of PRSC 5 and the country strategy and program 2007–2010. Viet Nam's achievements in terms of social development and poverty reduction have been remarkable. Almost one third of the total population was lifted out of poverty in less than 10 years. Poverty incidence was halved during 1993–2002, from 28.9% in 2002 to 24.1% in 2004.⁴ Economic growth underpinned the rapid poverty reduction. The elasticity of poverty reduction to economic growth was higher than one. The decline in poverty was widespread as the increase in inequality was modest. Social indicators improved markedly, positioning Viet Nam well to attain key Millennium Development Goals. The country has shown remarkable progress in access to education, health care for children and the poor, and gender equality. The last decade was thus characterized by undeniable progress in the lives of the Vietnamese population.</p> <p>Poverty incidence is high in remote mountain and highland areas and in the pockets of densely populated deltas and river basins. Living standards in these areas are much lower than other regions. Ethnic people account for 14% of population, but 30% of the poor. Ethnic minorities in remote mountainous areas have not been afforded the same development pace and have limited access to resources, infrastructure, markets, and government services.⁵ The share of poverty in these regions increased during 2002–2004.⁶ Aware of this phenomenon, the Government prepared an explicit section on ethnic support in the draft SEDP 2006–2010, which means poverty reduction interventions are integrated in the overall socioeconomic development strategy. Also the Government has preferential and special programs for the poor and special programs for ethnic people in these regions, e.g., the comprehensive Hunger Eradication and Poverty Reduction Program 2001–2005 and other targeted programs, such as Program 135, which are in place and have generally benefited the poor. The two programs are under design for the new phase that would be further decentralized, focus on capacity building, and include participation of people in planning, monitoring, and evaluation to increase the programs' effectiveness.</p>			

¹ ADB. 2005. *Country Strategy and Program Update (2006–2008): Viet Nam*. Manila.

² World Bank and Vietnam Academy of Social Science. 2006. Draft report of the Poverty Update 2005.

While decentralization has many advantages, the trend to decentralized government could amplify disparities between rich and poor regions, because rich regions have higher local resources and revenues, and thus will be able to spend considerably more on development and social services than poorer regions, which are dependent on central Government transfers. However, in the context of World Trade Organization accession and with the possible social impact of economic integration, Government transfers and support to the provinces can be seen as positive mitigation measures.⁷

The comprehensive *Vietnam Development Report 2005* involved seven major development agencies, including ADB. The Vietnam Academy of Social Science took a proactive role in studies and data analysis such as on poverty and social impact assessment of World Trade Organization accession. The World Bank, in collaboration with the Development Strategy Institute prepared reports on regional perspectives on poverty and growth for the central, Mekong delta, and northern mountainous regions. These reports provided inputs for PRSC 4 and this program loan outlined under the PRSC 5 framework.

To continue to reduce poverty and sustain the high economic growth, Viet Nam needs to remove structural weaknesses, promote socially and environmentally inclusive development, and modernize governance and the public administrative system. Viet Nam needs to develop policy solutions for poverty reduction, such as create an environment for sustainable growth, successfully implement the social safety net, and socialize the poverty reduction programs.

C. Participation Process

Is there a stakeholder analysis? ☒ Yes ☐ No

Formulation of the CPRGS and PRSCs (and thus the program loan) involved comprehensive consultations and discussions with a wide range of stakeholders. It included stakeholder consultations with beneficiaries, national and local officials, development agencies, and nongovernment organizations. The international development community has supported this process by financing studies, participatory poverty assessments, surveys, and analysis under a number of activities. The participatory poverty assessment was widely conducted in 12 provinces in 7 regions and will contribute significantly to monitoring of the CPRGS. The annual CPRGS progress reports continue to provide good monitoring and evaluation tools for the Consultative Group meeting. The Government, during 2005, worked to integrate the CPRGS into SEDP 2006–2010 by organizing wide stakeholder consultation including the local grassroots communities, local government officials, nongovernment organizations, associations, business and private sector communities, researchers, etc. With the commitment and proactive approach of the Government, official development assistance (ODA) partners and nongovernment organizations have provided support to the Ministry of Planning and Investment in technical and financial matters. The results of this process will be very useful for the Government to formulate the SEDP at both national and local levels and ODA partners to align their strategy with the Government's SEDP. ADB would also align its new country strategy and program 2007–2010 with SEDP 2006–2010.

The joint stocktaking workshop on the PRSC in October 2005, supported by ADB, was participated in by the various

³ ADB, Australian Government's Overseas Aid Program, DFID, German Agency for Technical Cooperation, JICA, Save the Children UK, United Nations Development Programme, and the World Bank. 2003. *Vietnam Development Report 2004: Poverty*. Hanoi. (The report was distributed at the Consultative Group meeting on 2–3 December 2003.)

⁴ Government Statistic Office. 2004. *Vietnam Living Household Standard Survey*. Hanoi: GSO. The Government of Viet Nam made efforts to merge two poverty line into one to be the international accepted poverty line.

⁵ ADB-Committee for Ethnic Minorities–Development Strategy Institute. 2006. Draft Research Report. Speed up the development for the Northern Mountainous Areas in Viet Nam.

⁶ ADB-Development Strategy Institute. 2005. *How to accelerate socioeconomic development in Central Region?* Hanoi.

⁷ ADB, DFID, Japan Bank for International Cooperation, United Nations Development Programme, and the World Bank. 2005. *Vietnam Development Report 2006: Business*. Hanoi. (The report was distributed at the Consultative Group meeting on 6–7 December 2005.)

stakeholders and the Government took strong ownership in seeking views and perspectives of other related line ministries and development partners and also civil society in lessons learned, and advantages and challenges for the PRSCs.⁸ The PRSCs are found relevant to the Government and development partners that support the Government's pursuit of ongoing reforms. Stakeholders' perspectives are well captured in the process of negotiation on policy actions for PRSC 5.

Is there a participation strategy? ☒ Yes ☐ No

Participatory processes were followed during the formulation of the CPRGS. It continued with the roll-out of the CPRGS in more than 20 provinces during PRSC 3 and 4. The CPRGS is being integrated into the SEDP in many provinces as indicated in one of the PRSC 4 policy actions. During 2005, ODA partners and nongovernment organizations committed to conduct participatory community consultation, together with a series of regional workshops with local governments, workshops with ministries, and workshops with business groups and ODA communities on the SEDP. Development agencies, including ADB, financed the roll-out and the capacity building for local governments to conduct studies, such as participatory poverty assessments, and participatory planning and strategic planning of key programs for the poor.⁹ This progress reflects effective CPRGS implementation in the context of the pillar III reforms, which aim to encourage greater participation of the poor, ethnic minorities, and other marginalized groups in commune decision making. The SEDP, adopting the CPRGS principles, serves as the national poverty reduction strategy. The Government has shared its experience in developing more participative strategy with other nations (regional workshop, Vientiane, April 2006). The new approach in planning is also envisaged in the Budget Law and the Grassroots Democracy Decree. Training support, career development, and mechanisms to increase participation of groups (large and small) in local authorities, management boards, and service delivery are being promoted by the Government working jointly with development agencies, including ADB.

D. Gender Development

Strategy to maximize impacts on women:

The CPRGS and PRSC 5 support actions to benefit women. The Government is committed to gender equality through policies and actions that will require gender sensitive implementation of the program loan. The Government has signed the Convention on the Elimination of All Forms of Discrimination Against Women. The National Committee for the Advancement of Women comprises 18 members at the deputy-minister level from key ministries and central organizations. The National Strategy for the Advancement of Women in Viet Nam by 2010 includes discrete targets for 2010, which relate to equal rights for women in labor, employment, education, and health care; an increase in the number of woman candidates for leadership positions at all levels and in all sectors; and strengthening of the mechanisms for the advancement of women.

The 2001–2005 National Plan of Action for the Advancement of Women guides the first 5 years of implementation of the national strategy and has recorded good progress toward five objectives (i) women's equality in labor and employment, (ii) women's equality in education, (iii) women's equality in health care, (iv) improvement of quality and effectiveness of women's participation in sociopolitical and economic activities, and (v) strengthened mechanisms for women's advancement. The midterm review of the action plan, organized in early May 2006, identified achievements over the last 5 years and recommended attention be given to (i) the need to strengthen the capacity of women to ensure their ability to take up/influence policies for women's advancement, and (ii) the monitoring system and database on women for all action plan components to improve plan implementation.

The draft gender equality law, drafted by the Viet Nam Women's Union, was submitted to the National Assembly in summer 2006. The Government asked ADB to provide advisory technical assistance to support preparation of this law. ADB has also supported gender mainstreaming in the agriculture sector. Gender mainstreaming has been implemented in the national SEDP; ADB supported the Government in organizing the gender mainstreaming workshop during August 2005. Gender mainstreaming was also conducted in several ministries, e.g., the ministries of education and training; agriculture and rural development; and labor, invalids, and social affairs. ADB also supported mainstreaming of gender into the socioeconomic development planning manual being finalized by the Ministry of Planning and Investment. The manual requires that gender issues be integrated into all levels of planning cycles.

⁸ ADB. 2006. Minutes of Joint Stock Taking Workshop on PRSC 24–25 October 2005 (internal document).

⁹ ADB. 2005. *CPRGS integration into the Socioeconomic development planning in Central Highlands*. Manila (support under TA4163 and TA4252)

Has an output been prepared? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No A social and poverty impact assessment of the program loan was prepared and is presented as Supplementary Appendix D. The appendix includes an assessment on gender, as well as the impact of the program loan on gender development. From the assessment, the overall impact on gender is expected to be positive.			
E. Social Safeguards and Other Social Risks			
Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	The program loan does not include land acquisition or resettlement. ADB has completed two studies on the potential implications of the development of a land market; the World Bank and Institute of Ethnicity have jointly conducted studies on resettlement, land and poverty, and land law practice for private sector development. These studies were used as inputs for the preparation of PRSC 5. ADB and the Committee for Ethnic Minorities have prepared a joint study on a northern mountainous areas situational analysis that reviews resettlement policies in the region. These studies help to ensure any policy actions needed under PRSC 5.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Short <input type="checkbox"/> None
Affordability	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	Targeted programs are already in place to assist the poor in need of social services. Early in 2006, the Government approved a second phase for both the Hunger Eradication and Poverty Reduction Program and Program 135 for up to 2010. However, more concrete guidelines and strategies to implement these programs are needed. The United Nations Development Programme and some other development partners are supporting the Government in developing clearer guidelines that prepare the capacity of the Government at all levels to better undertake these targeted programs. The action to improve the targeted program is set as one policy action in the PRSC 5 policy matrix. Development partners should coordinate as envisaged in the Hanoi Core Statement (June 2005) to develop a plan to ensure readiness and synergy of numerous projects supporting the Government's targeted programs. The focus should be the Government's absorptive capacity.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Labor redundancy in rural areas and lack of off-farm work are slowly being solved by economic restructuring. However, according to the studies on World Trade Organization accession by the World Bank and Vietnam Academy of Social Science, this will have little impact on labor redundancy and challenges in getting higher labor skills in several competitive export sectors. Urban labor and the labor market become unstable especially when faced with migrants. Negative labor impacts will be minimized by some Government measures such as the creation of an environment and market for labor export, promotion of vocational training, and development of a viable voluntary social insurance system. A social safety net program has been prepared for retrenched SOE workers; the program will comply with national labor legislation. The labor code will be revised during 2007. Therefore, no further plan is required.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Indigenous Peoples	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	<p>Even though the record on poverty reduction has been impressive, the potential risk exists in the medium-to long-term for increased disparities between the majority Kinh and ethnic minorities. Thus, the program loan includes two policy measures to ensure that indigenous people are included and well-targeted as beneficiaries in the Government-initiated poverty targeting programs, such as Health Care Funds for the Poor and Program 135. The implementation of these programs will be carried out in parallel outside of the PRSC operations. No adverse impact on indigenous people associated with these two policy actions is foreseen. The Government is committed to advancing the well-being of these indigenous groups, public awareness, and incorporation of needs and interests of ethnic minorities in plans and programs through their active involvement. Besides targeted support to areas, like specific programs to support the advancement of ethnic minorities and regional socioeconomic development under decisions 168, 173, and 186 for the central highlands, Mekong delta, and northern mountainous areas, the new land legislation and land transfer to ethnic people is likely to have a positive impact. Grassroots democracy is more strongly implemented in terms of more participation of ethnic people, and training and leadership for ethnic people. Other programs in education and health also address the ethnic issues to ensure access to social services.</p>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	<p>The Government is responding to the evolving HIV/AIDS epidemic. The national strategy for combating HIV/AIDS and the setup of a national steering committee on the prevention of AIDS illustrate the Government's commitment to combating AIDS. The risks for environmental sustainability, like waste management in urban and industrial zones and natural resource management, may be increasing in the future, as per the Government evaluation. Negative impacts on the environment are likely when enterprises compete in economic integration, causing environmental and pollution pressure. However, the Government has established a long-term strategy and action plan under Agenda 21 to address environmental issues.</p>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

B. Summary Poverty Impact Assessment of the Program

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
Labor Markets and Wages	<p>Direct Short Term</p> <ul style="list-style-type: none"> The reforms and the pro-poor growth strategy will have a positive effect on economic growth in an equitable and sustainable fashion. However, initially adjustments are likely to have some adverse implications. With trade liberalization, in a more open economy, the least competitive sectors (especially state-owned enterprises [SOEs]) could be forced to shed many workers. Equitization and restructuring of SOEs will lead to labor retrenchment and unemployment. <p>Indirect Short Term</p> <ul style="list-style-type: none"> Employment will be created for infrastructure development and maintenance, especially in rural areas. Part-time and seasonal jobs for the poor and even the ethnic people will be created. Expansion of forest cover will provide employment in poor upland areas, but may reduce land available for annual production. <p>Indirect Medium Term</p> <ul style="list-style-type: none"> Expansion of trade will increase employment opportunities. The reforms will attract foreign investment, which will create jobs. Better access to education will provide for better paying jobs and higher status. In the medium and longer term, the impact of the reforms on employment and wages of the poor will be positive, because of increased and higher quality employment opportunities. The consultation on SEDP 2006–2010 among the population/community will facilitate the inclusion process. 	<ul style="list-style-type: none"> Fostering private sector development and providing an equitable investment environment will accelerate economic growth and employment. The flexible labor market should reduce the social cost of churning, but some workers losing jobs in formal sector may end up in the informal sector. Joining the World Trade Organization (WTO) will increase foreign investment in key strategic sectors. Numerous laws and regulations will be amended, all having a positive effect on economic growth, employment generation, and income. Better access to social services will, in the case of education, increase availability of educated and trained workers and create jobs for teachers. Destruction of protected sectors will affect livelihood of suppliers to protected sectors. A series of consultations on SEDP (2006–2010) with stakeholders, especially with the private sector, is under way and will encourage more demand-oriented needs thus creating more employment opportunities. Improved growth prospects will raise labor demand and wages. Improved service delivery will help develop human resources. 	<ul style="list-style-type: none"> Several packages and other compensatory measures are in place to offset initially adverse impacts. Improving the access to social insurance and its mechanism could improve job equality. Other targeted programs including vocational training for youth in rural areas have been mentioned as a strategic direction in SEDP 2006–2010 Hunger Eradication and Poverty Reduction Program (HEPRP) and similar other measures in job creation for the poor are already in place, which can mitigate adverse impacts. Restructuring of SOEs will be carried out in consultation with employees to minimize adverse effects. Rapid creation of wage employment is necessary for the involuntarily landless households.
Access to Markets and Prices	<p>Direct Short Term</p> <ul style="list-style-type: none"> Exposure to world markets may lead to higher risk/variability in prices and market share, but 	<ul style="list-style-type: none"> Liberalization is usually an advantage for agriculture and thus rural households, but less lenient terms for farmers from state-owned 	<ul style="list-style-type: none"> The Vietnam Academy of Social Science prepared an assessment of the poverty and social

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
	<p>also increase efficiency of production. Some irregularities emerged in some sectors from the economic integration and in an array of changes in the level of trade barriers, like textile, garment, footwear</p> <p>Indirect Short Term</p> <ul style="list-style-type: none"> • The world integration also has environmental impacts that influence the techniques of production and the sectoral composition of outputs. The adverse impact leads to likely environmental issues dealing with production of more pollution-intensive goods • Instability of land prices and inaccuracies of land boundaries in land-use right certificates (LUCs) make cautious in valuing collaterals for the poor to access credit • The reforms will attract direct foreign investment, which will increase demand for skilled and educated workers, and transfer of technology and know how; and make goods available to domestic markets. Competition and privatization will lead to higher efficiency and therefore lower consumer prices. • Expansion of trade will increase employment opportunities. <p>Indirect Medium Term</p> <ul style="list-style-type: none"> • Viet Nam's stock market remains relatively small and less attractive in the formal market. Lack of effective financial and capital markets may hinder private sector development. 	<p>trading organizations may affect rural populations .</p> <ul style="list-style-type: none"> • Environmental abuse and exploitation of natural resources to make the sectors more competitive , may result in loss of the client's trust and hence market as world consumers require high environmental standards in products and more social responsibility of enterprises. • Capital market development, transparency, and accountability will increase private investment and improve enterprises' performance. • Reinforcing open competitive bidding for public goods will give greater access to private business and reduce wrongdoings in bid consideration and selection . • More efficient enterprises are more competitive and therefore contribute to economic expansion and provide more rewarding employment opportunities. • Investment and capital mobilization seems slower for foreign direct investment and enterprises without an effective stock and bond market. • Improved infrastructure will result in better access to markets and price setting. • Protection of intellectual property rights will lead to innovative development and attract foreign investment. 	<p>implications of WTO accession for 24 sectors .</p> <ul style="list-style-type: none"> • Analytical studies assess whether access of the poor to services is improved or preserved, in particular in the areas of education and health. • Compensation to coffee farmers may be considered. For example, SOEs trading in coffee may transfer land and bushes to farmers. • SEDP 2006–2010 and various regulations feature the need to strengthen monitoring of environment and enforceable environmental standards , and for environmental compliance mechanism and tools. The SEDP third pillar 3 is "to ensure environmental and natural resource protection." • The Unified Enterprise Law will lead to equal treatment for firms . • A diversified informal, semiformal, and formal microfinance mechanism will mitigate the adverse impact on land and LUCs for collateral. Targeted programs that include microfinance and programs through nongovernment organizations , and mass organizations provide an example. • The local development investment fund and regulatory mechanisms in many sectors , e.g., road, electricity, telecommunications, and water supply will

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
			encourage private sector participation.
Access to Assets	<p>Direct Short Term</p> <ul style="list-style-type: none"> Land was distributed quite uniformly across households. Only in the case of perennial and forestry land was the initial allocation unequal. Recognizing community based land-use right certificates, secure registration of certificates, and improved tenure rights to forestland will improve access to land and security. As the land market develops, households could gradually be forced to sell some of land. <p>Indirect Short Term</p> <ul style="list-style-type: none"> Migration policy to specific regions like the central highlands has made the native hill-tribe people a minority group; they are vulnerable to livelihood options. <p>Indirect Medium Term</p> <ul style="list-style-type: none"> Various institutional and regulatory barriers impeding domestic and foreign enterprises still exist, and are to be addressed under the program. Improved access to credit has helped households and entrepreneurs to continue growth of their businesses. Mechanisms for lending, such as cumbersome documentation procedures and need for collateral still prevent the poor from accessing credit. Growth and poverty reduction are the guiding principle for public investment projects. 	<ul style="list-style-type: none"> Improvements of the institutional and regularly framework will lead to a more commercially oriented financial system (in particular at state-owned commercial banks), improve access to commercial credit and acquisition of assets, and increase the creation of private businesses and expansion of household businesses into larger businesses. Landlessness is not necessarily associated with poverty, especially for the poor, and specifically the middle poor. The poor who moved out of poverty also moved out of farming Increased participation of users in irrigation management will give greater efficiency in water use. Some reform measures could have adverse social impacts of distress sales of land. The poor and middle poor should have better benefits from job creation and credit by opportunities given by local enterprises and by expanding household businesses. 	<ul style="list-style-type: none"> The Government has implemented land registration with the registration office, the one-stop shop, which facilitates the registration process. Land-use rights are under names of both husbands and wives. Two studies have been undertaken to offset potential implications for the land market. A well-developed market for land may prevent distress sales of land. The new Land Law, a functioning land market, and secure land tenure will stimulate investments, economic growth, and employment. In the central highlands, the main policy response is to protect the ethnic minorities from encroachment on their land. The Government has developed the legal framework for semiformal microfinancial institutions to help enhance the access to credit for the poor.
Services Access	<p>Direct Short Term</p> <ul style="list-style-type: none"> Employment will be created by expanding services and improving access to services. Changes in the financing of the health system and social service delivery, which increasingly relies on user fees, may become too expensive for the poor. Some increase in retail prices of services is likely in the short term. 	<ul style="list-style-type: none"> Increased transparency, improved access to information, simplified administrative procedures, and access to a comprehensive range of services in one center provide for better access. Curbing corruption will increase efficiency in allocation of resources and reduce transaction costs. 	<ul style="list-style-type: none"> Effective mechanisms to reduce out-of-pocket expenses for health services for the poor may need to be expanded. Health programs for the poor are already in place (the provincial health care funds for the poor). HEPRP, and PDCED are already in place.

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
	<p>Indirect Short Term</p> <ul style="list-style-type: none"> • Reduction in government budget support to SOEs frees up budget that may be used for other public service investments (e.g., health and education). • Reform of SOEs will create an efficiency gain in service delivery. <p>Indirect Medium Term</p> <ul style="list-style-type: none"> • Improved access of the poor to services, particularly education, will result in skill enhancement and better access to employment opportunities. • Decentralization and increased participation of stakeholders will better address their needs. • Obstacles to entry in services dominated by the state will be removed, delivery of services expanded, and increased efficiency provided at reduced costs. Several of the reforms will free resources for a significant increase in other (pro-poor) expenditures with positive employment effects. 	<ul style="list-style-type: none"> • Piloting of the report card system for public services will have a positive impact on service delivery. • Reduction of petty corruption in education and health makes these services less expensive and more accessible. • In the medium term, the reform measures will generate beneficial price effects for all segments of society through better growth and production efficiency. • Opening of the Internet and mobile telephone services to competition will increase availability and reduce prices. 	<ul style="list-style-type: none"> • A multisector action program to implement an HIV/AIDS strategy has been adopted, and a public health program to tackle HIV/AIDS epidemic is proposed. • Consultations on SEDP 2006–2010 with provincial governments, communities, and private sector will ensure better access to social services.
Direct Transfers	<p>Direct Short Term</p> <ul style="list-style-type: none"> • Subsidized programs to address the needs of the poor (e.g., health, education) and offset the adverse effects of retrenchment are in place and constitute a direct transfer to the poor. <p>Indirect Short Term</p> <ul style="list-style-type: none"> • Completion of the transfer of land-use rights to households, especially in upland and ethnic minority areas, and for communal use will have a highly positive effect. <p>Indirect Medium Term.</p> <ul style="list-style-type: none"> • A number of provinces and sectors will have developed pro-poor socioeconomic development plans. • WTO brings could have unforeseen impacts on the provinces including price, investment, and market. 	<ul style="list-style-type: none"> • Measures to improve water resources management will be beneficial for the (rural) population. • Reduction of corruption will reduce transaction costs of private business and lower the costs of public investment projects. • The allocation and titling of lands provides for secure assets and will induce investment, economic growth, and employment. • None of the provinces is expected to be adversely affected while some of them will benefit from economic reforms. 	<ul style="list-style-type: none"> • The programs that directly transfer resources are already in place (for example, the Social Safety Net Fund, health care funds for the poor, HEPRP, Education for All). • Budget allocations that redress regional inequalities may become necessary. In the new HEPRP (2006–2010) a community development fund, among others, is planned to give the community more autonomy and resources to tackle immediate issues. • Budget transfer from the provinces benefiting to those with adverse affected will reduce gaps between provinces and

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
	Protectionism or any assistance to firms would be against WTO rules.		support social inclusion.
Net Impact: Positive			
Information Basis and Crucial Assumptions: <p>The program loan will support the provision of reforms and policies that will stimulate and promote sustainable, equitable growth, as stipulated in PRSC 5 documents, on three main fronts. First, it will promote growth and create employment through greater internal and external competition, accelerate the divestiture of SOEs and state-owned commercial banks, establish a sound regulatory framework, and improve transparency and accountability in SOE operations and in the financial sector. Second, it will advance human development and economic growth through an expanded budget appropriation and higher quality standards for education, resources to cover the health care costs of the poor, mechanisms to complete the transfer of land-use rights to households, more secure asset ownership in the form of a new land law especially in upland and ethnic minority areas, and measures to improve environmental and water resources management. Third, the program loan will increase transparency and accountability of public finances, promote simplified administrative procedures, reduce corruption, and revamp the planning processes as part of a broader effort to build modern governance. The reforms will pursue the attainment of specified development goals based on empirical analysis and wider consultations.</p> <p>The reforms will result in increased private investment and exports, which will lead to additional job creation. Further decentralization of public administration leading to better service delivery to the poor and increased local beneficiary participation are other expected benefits. Through appropriate measures and proactive programs, the Government will need to mitigate the potential adverse economic, social, and environmental impacts of increased trade openness, reduction of state enterprises, and liberalization of land transactions.</p> <p>Strong direct and indirect benefits are expected to reach the poor in terms of increased and more rewarding employment opportunities, improved service delivery, decentralized planning, and promotion of beneficiary participation. Any increase in employment opportunity and efficiency gain in service delivery will directly benefit the poor. The Government has special programs and policies in place to ensure that women and the poor have access to jobs, basic health services, education, and infrastructure, especially in the mountainous regions and in poor urban areas. Its commitment to enhancing the well-being of ethnic minorities is reflected in the country's constitution and the creation in 1983 of the Committee for Ethnic Minorities with ministry equivalent status.</p> <p>Greater exposure to world markets and WTO accession could lead to higher risk/variability in prices and hence the income of wage earners and farmers, but its overall impact is likely to be positive for the rural sector. Further commercialization of the economy may increase inequality, unless rectifying measures are taken early. Analytical work has been done for 24 sectors under an assessment of the poverty and social impact of WTO accession. This work includes a combination of analyses at three levels (a computable general equilibrium model to predict changes in prices of goods and services; regional models to determine changes in prices of factors of production that are not mobile, such as land and labor; and estimated impact on household consumption). Rural sectors such as livestock raising, fisheries, rice, and sugar show positive economic impacts but some show negative social impacts (sugar, rice). The regions of Danang City, Hai Phong, Hanoi, and Ho Chi Minh City are expected to benefit most from WTO accession, while the poverty reduction effect for the mountainous areas could be more modest.</p> <p>Restructuring and divesting of SOEs will cause labor retrenchment. To offset the adverse impact of retrenchment, the Government has established a fund for retrenched SOE workers. This fund has been in place since mid-2002 and an evaluation rates the fund as highly effective.</p> <p>Reliance on market forces and private sector involvement in providing basic services could help expand the availability of services and create new employment opportunities, but prices of services may go up. To minimize such impacts, basic services for low-income groups are provided free of charge or at reduced costs and as part of safety nets. These programs already exist but may need to be expanded depending on the scope and pace of privatization/cost recovery. Careful consideration must be given to interregional equity when reforming service delivery, particularly for health, education, transportation, and communication infrastructure.</p> <p>Decentralization should make local government more accountable to the poorest for their participation in decision</p>			

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
			<p>making on development programs and delivery of services. The current participation of the poor in the planning and decision-making process is low, but ongoing efforts to increase the participatory process will have positive impacts: Community consultations on SEDP 2006–2010, participatory small infrastructure planning in selected projects run by the Government or supported by ODA funds, better harmonization principles, and enhanced ownership of the government through budget support, will strengthen the decentralization through budget transfer. Experiences with community participation will provide substantial inputs for the design of the new 135 program. Because poor households are usually physically remote and socially marginalized, the Government has programs in place to accelerate access to social services and education for the poor and ethnic minorities in remote areas. The recent Viet Nam Inequality Report 2005 (funded by Department for International Development, United Kingdom) provides insights for better inclusion of the poor, thus ensuring access of the poor to basic social services.</p> <p>The Land Law is expected to benefit poor and vulnerable people. As the land market develops in the medium term, potential adverse social impacts may have to be addressed. Two studies on the potential implications of a land market were undertaken as part of the ongoing Making Markets Work Better for the Poor Project being implemented by ADB to contribute to preparation of PRSC 5.</p> <p>Incomplete structural reform could jeopardize growth and stability in the longer term. A fiduciary risk is associated with inadequate progress on enhancing budget transparency and tackling corruption. Haphazard introduction of market forces in the social sectors, and the trend toward decentralization have put service delivery under strain. At the same time, fast integration with the world economy may lead to increased inequality, at least temporarily, as the benefits accrue to specific regions. Growth in Viet Nam could become less inclusive in the years to come. These issues are well understood and several programs are already well established to offset the adverse effects.</p> <p>Further details are presented in Supplementary Appendix D.</p>

LIST OF INELIGIBLE ITEMS

1. The proceeds of the loan will be utilized to finance foreign exchange expenditures for the reasonable cost of imported goods (excluding any duties or taxes) required during implementation of the program loan for Support the Implementation of the Poverty Reduction Program. All imported goods financed from the proposed loan must be produced in, and procured from, member countries of the Asian Development Bank (ADB).
2. Notwithstanding the provision in para. 1, no withdrawals will be made for
 - (i) expenditures for goods included in the groups or subgroups of the United Nations Standards International Trade Classification, Revision 3 (Table A7), or further revisions as designated by ADB by notice to the Government;
 - (ii) expenditures for goods intended for military and paramilitary purposes or for luxury consumption;
 - (iii) expenditures for pesticides categorized as extremely hazardous or highly hazardous in class 1a or 1b, respectively, of the World Health Organization's Classification of Pesticides by Hazard and Guidelines to Classification;
 - (iv) expenditures for goods supplied or to be supplied under any contract that a national or international financing institution or any other financial agency has financed or agreed to finance, including any contract financed or to be financed under any loan from ADB; or
 - (v) expenditures incurred more than 180 days prior to the date of effectiveness of the loan.

Ineligible Items		
Group	Subgroup	Description of Items
112	—	Alcoholic beverages
121	—	Tobacco, unmanufactured tobacco refuse
122	—	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	—	Radioactive and associated materials
667	—	Pearls; precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
897	897.3	Jewelry of gold, silver, or platinum group metals (except watches and watch cases); goldsmiths' or silversmiths' wares (including set gems)
971	—	Gold, nonmonetary (excluding gold ores and concentrates)

Source: Schedule 3 Loan Agreement.