

# Report and Recommendation of the President

RRP: VIE 38392

## Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam to Support the Implementation of the Poverty Reduction Program II

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 15 September 2005)

Currency Unit	–	dong (D)
D1.00	=	US\$0.0000629129
US\$1.00	=	D15,895.00

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CPRGS	–	Comprehensive Poverty Reduction and Growth Strategy
CSP	–	country strategy and program
DFID	–	Department for International Development
GDP	–	gross domestic product
GSO	–	General Statistics Office
HIV/AIDS	–	human immunodeficiency virus/acquired immunodeficiency syndrome
LUC	–	land use certificate
MOF	–	Ministry of Finance
MPI	–	Ministry of Planning and Investment
NPL	–	nonperforming loan
ODA	–	official development assistance
PCU	–	Program Coordination Unit
PER-IFA	–	Public Expenditure Review-Integrated Fiduciary Assessment
PRSC	–	Poverty Reduction Support Credit
SAV	–	State Audit of Viet Nam
SBV	–	State Bank of Viet Nam
SEDP	–	Socioeconomic Development Plan
SOCB	–	state-owned commercial bank
SOE	–	state-owned enterprise
VDG	–	Viet Nam development goal
VDR	–	Viet Nam development report
WTO	–	World Trade Organization

## **NOTE**

The fiscal year (FY) 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

<b>Borrower</b>	Socialist Republic of Viet Nam
<b>Classification</b>	<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>
<b>Environment Assessment</b>	<b>Category C.</b> Environmental implications were reviewed and no adverse environmental impacts identified.
<b>Program Description</b>	<p>The program loan will support implementation of the Poverty Reduction Program outlined under the Fourth Poverty Reduction Support Credit (PRSC 4), as part of the Government's overall Comprehensive Poverty Reduction and Growth Strategy (CPRGS). This annual PRSC is part of the current PRSC cycle, which covers 5-years, the same as the CPRGS. The CPRGS provides a medium-term framework (2002-2006) for poverty reduction policies, programs, and actions with specific targets for development outcomes by 2006.</p>
<b>Rationale</b>	<p>Over the last decade the Government has quickly reduced poverty and achieved a high level of economic growth. Poverty reduction largely resulted from economic growth, which created jobs and provided better livelihoods. To maintain this trend, the Government must continue its program of effective policy reform, to remove remaining structural weaknesses, promote socially inclusive development, and modernize governance and public administration. The proposed program loan supports implementation of the CPRGS, which is designed to reduce poverty and realize other Viet Nam Development Goals. As part of the official development assistance (ODA) community, the Asian Development Bank (ADB) has adopted the CPRGS as the reference document for planning external assistance. The CPRGS is consistent with ADB's poverty reduction strategy, country strategy and program, and the poverty partnership agreement with Viet Nam.</p> <p>World Bank support includes four PRSCs, approved in 2002 (US\$250 million), 2003 (US\$100 million), 2004 (US\$100 million), and 2005 (US\$100 million). The focus of these operations has gradually shifted from reform of state-owned commercial banks (SOCBs) and state-owned enterprises (SOEs) to a broader policy agenda, covering a number of sectors and issues affecting poverty reduction and growth.</p>

The ODA community considers the PRSC an important instrument for supporting CPRGS implementation. In 2005, 10 major ODA partners, namely ADB, Canada, Denmark, European Commission, France, Ireland, Japan, Netherlands, Spain, and United Kingdom, are cofinancing PRSC 4 with the World Bank.

ADB has been actively involved in formulating PRSC 4. ADB has promoted policy dialogue on similar issues through its program lending activities and sector policy reforms. PRSC 4 complements ADB support of Viet Nam's policy and institutional reforms. 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 goals of poverty reduction and growth.

The proposed program 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 Strategy, and will directly help fulfill ADB's obligations to the Rome Declaration on harmonizing procedures of multilateral development banks (February 2003) and the recent Paris Declaration on Aid Effectiveness (February–March 2005).

## **Impact and Outcome**

The expected impact of the proposed program loan is to reduce poverty and sustain high economic growth in Viet Nam. The loan will help fund PRSC 4 and thereby produce the following outcomes: (i) reduced structural weaknesses and improved business environment, (ii) promotion of socially inclusive and environmentally sustainable development, and (iii) modernized governance.

## **Cost Estimates**

Policy measures supported by PRSC operations, such as the safety net for redundant SOE workers, restructuring of SOCBs, or creation of provincial health care for the poor require additional spending. These are costly and PRSC-specific programs. The PRSC cost of adjustment is therefore greater than the cost of these four items. The external financing needs for the 2005 budget (including grants) is estimated at US\$1.4 billion, calculated as financing needs less revenue carried over from 2004 and domestic borrowing.

The estimated cost of some specific PRSC-related programs for the 2005 budget is approximately US\$770 million, i.e., (i) health funds for the poor—about US\$90 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\$400 million; and (iii) social safety net program for retrenched SOE workers, covering more than 50,000 workers—at least US\$80 million; and (iv) resolution of nonperforming loans and other related costs—about US\$200 million.

## **Financing Plan**

A total of approximately US\$225 million is expected to be funded for PRSC 4 operations through ODA resources. The World Bank has already approved a US\$100 million credit from the International Development Association to support PRSC 4. Three other cofinanciers will provide concessional loans, namely ADB (US\$15 million), Japan Bank for International Cooperation (US\$22.8 million equivalent), and Agence Française de Développement (€10 million). The remaining seven cofinanciers will provide grants, i.e., Agencia Española de Cooperación Internacional (€2 million), Canadian International Development Agency (Can\$6 million), Denmark (US\$10.8 million equivalent), European Commission (€8 million), Ireland (€1.5 million), Netherlands (€8 million), and United Kingdom's Department for International Development (£20 million).

## **Loan Amount and Terms**

A loan of US\$15 million 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 4 program. The loan will contribute to financing adjustment costs resulting from implementation of the policy matrix, particularly prior actions for PRSC 4, 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 2006.

## **Executing Agency**

The State Bank of Viet Nam (SBV) will be the Executing Agency; it 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 was established in May 2002 to implement the CPRGS and PRSCs. It is chaired by the deputy prime minister in charge of economic reforms, and comprises representatives from 24 relevant line ministries and government agencies. An SBV deputy governor acts as standing vice chairman. 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; and SBV; representing PRSC 4's policy reform areas.

Second, an interministerial working group was established in the Ministry of Planning and Investment, comprising 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, also established with the Ministry of Planning and Investment is the CPRGS Secretariat, which 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 ODA 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 program 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 include preparing for World Trade Organization accession, accelerating the divestiture of SOEs and SOCBs, intensifying banking reforms, improving the business environment, and introducing a regulatory body for infrastructure services. Second, through policy actions addressing social inclusion and environmental sustainability, the benefits include improved quality of education (especially in poor areas), availability of medicines at affordable prices, secured asset ownership through the implementation of a new land law, and more sustainable management of forests and improved environmental quality. 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, financial disclosure of all state budget entities, piloting of the Medium-Term Expenditure Framework, and decentralizing public investment decisions to lower governments.

## **Risks and Assumptions**

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

First, the ambitious economic growth target could be a source of pressure to expand commercial and policy loans for infrastructure development especially at local levels, without proper appraisal. The overall quality of lending may be undermined by such pressure, thereby undermining the banking reform agenda and leading to a build-up of contingent liabilities. This risk 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 loan classification based on international accounting standards.

Second, some key service delivery programs are underfunded even though policies in health and education aim to target the poor and improve the quality of service delivery. While service providers were given incentives to charge fees, they are not accountable to provide basic services at a low or no fee. To protect the environment, increasingly sophisticated legislation and its implementation are still needed to ensure effective administrative, economic, and information tools. 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 the PRSC policy actions on land, water, and environmental protection should help mitigate risks.

Third, while gains have been made in budget transparency and execution, the management of state assets and liabilities will need much improvement. Concerns have been raised regarding the rapidly emerging and fast-growing provincial investment funds, which suffer limited transparency and accountability. While the Government is working toward effective anticorruption measures, a rapidly growing economy and the opportunities for graft could outpace improvements and efforts in anticorruption policies. This risk could be addressed by initiatives that provide effective counter mechanisms. A comprehensive diagnostic of corruption and its modality will be finalized and publicly disclosed. An anticorruption law, to be passed by the National Assembly in November 2005, will introduce stronger accountability requirements for heads of agencies, monitoring of assets of senior government officials and their families, and introduction of a more effective whistle-blowing mechanism. The Government has also encouraged the media to apply a more proactive approach in detecting and reporting corruption.

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

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Socialist Republic of Viet Nam to Support the Implementation of the Poverty Reduction Program II. The loan follows a program-based approach and is part of the Fourth Poverty Reduction Support Credit (PRSC 4), jointly processed by several development partners, in support of the Government's *Comprehensive Poverty Reduction and Growth Strategy* (CPRGS).<sup>1</sup> The design and monitoring framework is in Appendix 1.

## II. THE MACROECONOMIC CONTEXT

2. The Government is committed to poverty reduction. Poverty reduction is an overarching objective in its national socioeconomic development process and is addressed in the 2002 Poverty Reduction Partnership Agreement<sup>2</sup> with the Asian Development Bank (ADB) and a series of strategic plans and documents, including the CPRGS, the *5-Year Socioeconomic Development Plan* (SEDP) (2001-2005),<sup>3</sup> and the *10-Year Socioeconomic Development Strategy* (2001-2010).<sup>4</sup> The CPRGS is unique and widely recognized as a blueprint for development. Based on empirical analysis and broad consultation, it identifies clear development goals, specifies policies to attain the goals, and aligns 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, which requires implementation of an ambitious structural reform agenda; Pillar II—Equitable, socially inclusive, and environmentally sustainable growth, which requires appropriate sector and social policies and programs; and Pillar III—Adoption of a modern public administration, and legal and governance system, which is essential for the first two goals to be attainable. The CPRGS pillars are intertwined with crosscutting 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. The Government is currently preparing a new 5-year SEDP (2006–2010), to be issued in 2006. The new SEDP is expected to provide Viet Nam's new national strategy for poverty reduction and growth, incorporating the fundamentals of the CPRGS, 2002 development goals, and Poverty Reduction Partnership Agreement with ADB. The SEDP has a target of 7.5–8.0% annual average gross domestic product (GDP) growth, elimination of hunger by 2010, and halving of poverty from 29% in 2002. In response to public health scares, the Government is controlling public health outbreaks, including human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) and avian influenza, with special strategies and programs supported by official development assistance (ODA) partners.

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<sup>1</sup> Inter-Ministerial Group of the Comprehensive Poverty Reduction and Growth Strategy. 2002. *The Comprehensive Poverty Reduction and Growth Strategy (CPRGS)*. Document No. 2685/VPCP-QHQT. Hanoi.

<sup>2</sup> The Poverty Reduction Partnership Agreement, signed on 25 February 2002 by ADB and the Government, covers a subset of the CPRGS objectives, whose preparation ADB supported as a member of the Poverty Task Force.

<sup>3</sup> Ministry of Planning and Investment. 2000. *The Five-Year Socio-economic Development Plan 2001-2005*. Hanoi.

<sup>4</sup> Ministry of Planning and Investment. 2000. *The Ten-Year Socio-economic Development Plan 2001-2010*. Hanoi.

5. Viet Nam is making good progress in improving its policy environment. During 2003-2004, the National Assembly approved, among others, laws on land, bankruptcy, competition, and electricity. In 2005, it passed 15 laws in the first session, and plans to consider 14 other laws for approval, including a law on anticorruption and unified laws on enterprises and investments. In addition, the Civil Code amendment is expected to be approved in 2005. The code will clarify rights and obligations of citizens, and facilitate private sector transactions. In April 2005, the Government hosted the Sixth Steering Committee meeting of the ADB–Organization for Economic Cooperation and Development Anticorruption Initiative in Hanoi. It is implementing the Association of Southeast Asian Nations Free Trade Agreement; and it has been active in the Greater Mekong Subregion Economic Cooperation Program activities with Prime Minister Phan Van Khai participating in the second Greater Mekong Subregion Leaders Summit in Kunming in July 2005. Viet Nam has advanced negotiations for its planned World Trade Organization (WTO) accession at the end of 2005. It is also actively pursuing implementation of the Development Assistance Committee (Organization for Economic Cooperation and Development) Paris Declaration 2005. Preparations for holding the 10th National Party congress in the first quarter of 2006 are under way.

## **B. Recent Economic Performance**

6. In the past decade, Viet Nam has experienced both high economic growth and impressive poverty reduction. This trend continues in spite of recent adverse shocks, including an outbreak of avian influenza; severe flood and droughts; a sharp rise in key imported commodity prices; and the introduction of market barriers in textile, garments, and other export products. In spite of those adverse conditions, GDP has grown by more than 7% for the third consecutive year (Table 1). The strong economic performance reflects the increasing strength and buoyancy of the private sector, as evident in buoyant private consumption and investment, and fast export growth. While the number of state-owned enterprises (SOEs) is steadily declining, an additional 35,000 new businesses were registered in 2004, representing a year-on-year increase of 26% in number and 24% in registered capital. Private sector industrial production rose 23% in 2004, compared with 12% for the state sector. Foreign direct investment commitments reached a 7-year high of US\$4.2 billion in 2004, or nearly 10% of GDP. Overall, helped by high oil prices, exports grew by 29%, reaching 57% of GDP. Being a net oil exporter, Viet Nam has benefited from high crude oil prices in the past couple of years. With its stable political regime and robust macroeconomic fundamentals, Viet Nam has been among the world's fastest growing economies in recent years. Along with the broad-based growth, the Vietnamese population has enjoyed widespread improved living conditions. Results from the 2004 Viet Nam Household Living Standards Survey indicate that the number of people living in poverty has substantially declined since the 2002 survey. While a poverty rate cannot yet be reported with confidence, sustained progress toward the attainment of the Viet Nam Development Goals (VDGs) and other key development outcomes is expected.

7. The sectors that contributed most to overall economic growth were industry and services, together accounting for nearly 80% of GDP. Industry expanded by 10.2% and the services sectors by 7.4%, while agriculture grew at 2.8%, marking the slowest growing sector. The consumer price index rose by 9.5% in December 2004 and annual average inflation was estimated at 7.7%, up from 3.2% in 2003. Broad money supply rose by 28% in 2004. Credit growth also accelerated to 42% in 2004, mainly after the inflationary peak. The credit growth raised concerns over the quality of lending. Since then, the Government has taken measures, including raising the reserve ratio and discount rate on refinancing of commercial banks, to reduce the credit growth rate in 2005 to 25-30%. The fiscal deficit, estimated at 3.8% of GDP, is below the Government's target of 5.0%. GDP growth is projected at around 7.6% for 2005, 7.6%

in 2006, and 7.5% in 2007, supported by strong domestic demand and export growth.<sup>5</sup> 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 moderate to 6% in 2005 and 5.2% in 2006.

**Table 1: Major Economic Indicators, 2002–2006**  
(%)

Item	2002	2003	2004	2005	2006
GDP growth	6.4	7.1	7.5	7.6	7.6
Gross domestic investment/GDP	31.3	33.7	35.5	36.5	36.9
Inflation rate (average for the year)	3.9	3.2	7.7	6.0	5.2
Money supply (M2) growth	17.6	21.0	28.0	28.0	27.0
Fiscal balance/GDP	(3.8)	(4.6)	(3.7)	(4.4)	(5.0)
Merchandise export growth	7.4	20.4	30.3	19.5	10.9
Merchandise import growth	19.5	37.4	26.0	20.0	12.0
Current account balance/GDP	(2.8)	(6.9)	(5.7)	(5.6)	(5.5)
Debt service ratio	8.3	8.0	6.7	5.7	6.0

GDP = gross national product.

Sources: Asian Development Bank. 2005. *Asian Development Bank Outlook Update*. Manila; Government Statistics Office; State Bank of Viet Nam; Ministry of Finance; International Monetary Fund; Asian Development Bank estimates.

### III. THE SECTOR

#### A. Sector Description and Performance

##### 1. Progress with Reducing Poverty

8. Viet Nam has made impressive progress in social development and in reducing poverty during the last decade. The achievements should be seen in the context of the experience of some other transition economies where poverty reduced and social indicators deteriorated in the initial stage of transition. Viet Nam halved poverty in about 10 years. The poverty rate dropped from 58.1% in 1993 to 37.4% in 1998, 28.9% in 2002, and 24.1% in 2004. However, the rate of poverty reduction slowed in recent years, i.e., 4.8 percentage points during 2002–2004 compared with 9 percentage points during 1998–2002.<sup>6</sup> Poverty reduction is slow or unchanged in the northern mountains and in pockets of the Red River delta region and north coastal region, contributing to regional disparities. The VDGs show a steady improvement in social indicators, such as school enrollment and infant mortality, and improvements in other human development indicators. Viet Nam ranks 112th of 177 countries in terms of the human development index, i.e., 0.691 in 2004,<sup>7</sup> which is much lower than other countries in the region, but ranks much higher at 41 in terms of the human poverty index.

<sup>5</sup> ADB. 2005. *Asian Development Outlook 2005*. Manila.

<sup>6</sup> ADB - Development Strategy Institute. 2005. *How to Accelerate Socioeconomic Development in the Central Region?* Hanoi, Vietnam (A joint study).

<sup>7</sup> United Nations Development Programme. 2004. *Human Development Report 2004: Cultural Liberty in Today's Diverse World*. United Nations Development Programme: New York. Indicators are for 2002.

9. Although Viet Nam, like many other countries in the region, has experienced high economic growth, income per capita is still low. With US\$600 annual per capita income, Viet Nam is still categorized as a “least income” country.<sup>8</sup> With around 24% of the population still living below the poverty line, poverty remains a major concern for the Government. 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 return to poverty. Support for these people should come on time and be delivered effectively. Thus, a careful approach (in terms of planning and delivery) will be required to reduce poverty and to prevent the return to poverty. This is reflected in CPRGS implementation.

10. Poverty reduction efforts must (i) focus on high impact and sustainable poverty reduction programs and projects (i.e., asset creating, infrastructure, and/or income-generating activities); and (ii) improve opportunities for the poor to access market facilities and social services especially targeting to women, children, and ethnic groups (i.e., creating an investment environment and strengthening market institutions, improving quality of services with effective policies, decentralizing, and strengthening local public administration). Forests, water resources, and tourism/ecotourism should and can play an important role in moving and keeping these communities out of poverty.

## **2. The Comprehensive Poverty Reduction and Growth Strategy**

11. In May 2002, Viet Nam embarked on CPRGS implementation. The CPRGS was prepared with support of the development assistance community, including ADB, and in consultation with stakeholders and civil society (Appendix 2 provides details). Implementation of the policy reform agenda as stipulated in the CPRGS, 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 these supports, incorporation of the CPRGS into socioeconomic development plans has been conducted in more than 20 provinces to ensure the planning process captures CPRGS principles, which 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 sectors. In addition, development partners must align their country strategic plans with Government plans while moving toward policy-based lending. Several development partners have jointly and actively conducted the formulation and review of PRSCs. The PRSC framework has gradually shifted from narrowly defined structural reform, such as the reform of state-owned commercial banks (SOCBs) and SOE sector to a broader and deeper policy reform agenda, encompassing the three pillars of the CPRGS (para. 3).

12. 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 a deputy governor of the State Bank of Viet Nam (SBV) as standing deputy chair. Its members come from all concerned government ministries and agencies. The steering committee guides implementation of CPRGS poverty reduction programs within the PRSC framework. 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 the annual Consultative Group meeting. The Poverty Task Force meetings provide a

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<sup>8</sup> The World Bank criterion for a least income country is US\$765 annual per capita income for 2005.

forum to review and discuss emerging issues in line with CPRGS implementation. These meetings are usually cochaired by one aid representative and the Government. ADB, World Bank, and Department for International Development (DFID) cochair the meetings on a rotating basis.

## **B. Issues and Opportunities**

### **1. Problem and Constraints Analysis**

13. 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 of 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.

14. 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, as well as financial sector reform.

### **2. Country Strategy and Program of the Asian Development Bank**

15. 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 (2002-2004)<sup>9</sup> emphasizes (i) generating economic growth and new employment through private sector development; (ii) improving governance and public administration; and (iii) paying attention to socially inclusive development and focusing on the central region, where the incidence of poverty remains high.

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<sup>9</sup> ADB. 2001. *Country Strategy and Program: Viet Nam 2002–2004*. Manila.

16. The 2003 joint poverty assessment completed by the Government and several development partners, including ADB,<sup>10</sup> confirmed that economic growth continues to reduce poverty, but that since the pace of poverty reduction is slowing, targeting of the poor is becoming more necessary. At the same time, to deal successfully with the accelerating pace of international economic integration, Viet Nam needs to modernize its economy and institutions, and accelerate investment (to an estimated 35% of GDP). 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**

17. A special evaluation on program lending<sup>11</sup> reported that since 1987 program loans have generally been limited to two tranches. The report suggested that uniform adherence to two-tranche program loans should be abandoned; and that multiple and floating tranches could be effective in providing flexibility in meeting policy change, preserving an incentive for policy changes, and maintaining continuous engagement with a longer term outlook.

18. The proposed program loan uses an innovative approach of a single-tranche loan that is actually part of a continuum multiple-tranche program loan. Since all of the 15 policy actions included in the proposed program loan have already been achieved prior to loan approval, the loan proceeds will be disbursed as soon as the loan becomes effective. While this arrangement may on the surface seem overly flexible, the PRSC operation is outcome oriented with ambitious but specific outcomes/targets set to be achieved in 5 years after the inception of the CPRGS. 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. The identification and sequencing of a comprehensive medium-term reform agenda require strong analytical work. Lessons learned from similar World Bank programs note the importance of conducting joint analytical work between development partners and the Government, with wide consultation with academia, and civil society. The development partners and academia can help the Government in terms of analytical tools and sharing of international experiences.

19. The flexibility of the PRSC operations is evident in the expanding reform areas covered under the last few PRSCs. In addition, the PRSC operations promote coordinated aid effort in assisting Viet Nam under an overall development framework as evident by an increasing number of PRSC cofinanciers. The identification and sequencing of a comprehensive reform agenda that covers a medium-term period requires strong analytical work. It is important to conduct joint analytical work between donors with wide consultation with academia and the civil society with the Government.

20. The assessment of the first three PRSC programs showed that progress was achieved within most sectors, but with room for improvement, particularly for SOE and financial sector reform. However, Government leaders are committed to accelerating banking reform. This includes a partial equitization of SOCBs and movement for SBV to focus entirely on monetary

<sup>10</sup> World Bank. 2003. Viet Nam Development Report 2004—Poverty. Poverty paper presented at the Consultative Group meeting, Hanoi, 2–3 December 2003.

<sup>11</sup> ADB. 2001. *Special Evaluation Study on Program Lending*. Manila.

policy by 2008. The National Assembly has been considering a large backlog of laws and regulations necessary for WTO accession. The acceleration in considering and passing those laws and regulations would limit progress in passing laws in other areas.

#### **b. Asian Development Bank Policy-Based Lending**

21. Lessons from the experience of previous program loans and postevaluation studies are that (i) continued ownership and commitment of government 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 (which will require regulations, circulars, etc.), and proper enforcement (which will require institutional capabilities); and (iv) sector or subsector-based program loans have limited scope to address economywide policy and institutional issues.

#### **4. Justification for the Fourth Poverty Reduction Support Credit**

22. PRSC 4 aims to address 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. PRSC 4 preparation was expected to build on the foundations of the existing strong ODA community's commitment to support Viet Nam's reform agenda through nationwide CPRGS implementation 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 already been actively involved in supporting implementation of the reform agenda, through analytical work, technical assistance, project lending, and direct budget support. The PRSCs, including PRSC 4, fall in the last category. The rationale for direct budget support comes from the external financing needs under the state budget. The policy actions supported by the PRSC process entail a substantial additional burden on the budget. 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.

23. The justification for PRSC 4 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 the progress accomplished in CPRGS implementation; and (iii) the need to meet the reform triggers (measures and actions) for PRSC 4 (established with PRSC 3), except for unforeseen circumstances.

24. The International Monetary Fund's assessment of Viet Nam's economic performance<sup>12</sup> confirms the country's solid macroeconomic performance in 2004, despite the adverse effects of droughts and the outbreak of avian influenza. The Governments' progress report<sup>13</sup> on CPRGS implementation was presented to the Consultative Group meeting in December 2004. 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 identifies

<sup>12</sup> Letter of assessment prepared by the International Monetary Fund to accompany PRSC 4, available on request.

<sup>13</sup> Government of Viet Nam. 2004. *Progress Report of the Comprehensive Poverty Reduction and Growth Strategy*. Ministry of Planning and Investment: Hanoi.

bottlenecks in structural reform and key outstanding social issues (e.g., growing inequalities, poverty among ethnic minorities, rural-urban migration, and challenges in promoting good governance and combating corruption. The joint staff assessment of the CPRGS led by the World Bank and observations by other key development partners acknowledges the frankness in reporting and also notes the challenges. The assessment indicates that the progress across most of the 15 triggers chosen for PRSC 4 preparation was generally satisfactory or highly satisfactory with a few partially satisfactory. The progress of all triggers related to the first pillar (transition to a market economy) was either satisfactory or highly satisfactory. The progress of the trigger related to the second pillar (social inclusion and environmental sustainability) was mostly satisfactory or highly satisfactory with one trigger on the water sector assessed as partially satisfactory. The progress of the third pillar (modern governance) was noted markedly uneven in relation to the other two pillars. Slow progress was noted for public financial management and legal development reforms.

## **5. Rationale for the Proposed Program Loan**

25. PRSC 4, which was jointly processed by major development partners including ADB, deepens the reforms supported by PRSCs 1-3 and the Poverty Reduction and Growth Facility. The policy actions it endorses are all firmly rooted in the three pillars of the CPRGS. It identifies actions to support the unfinished reform agenda, including the preparations for WTO accession, opening of the equity capital of large SOEs and SOCBs to private investors, progress in planning processes and public financial management, and the move to a more systemic approach to addressing corruption. In addition, the PRSC 4 policy agenda includes several measures to promote socially inclusive economic development. These are consistent with ADB's poverty reduction strategy, country strategy and program for Viet Nam, and poverty reduction agreement with Viet Nam.

26. CPRGS implementation supported by the PRSC programs is expected to lead to substantial improvements in development outcomes. The current PRSC-cycle covers 5 years, much the same as the CPRGS. While the reform program focuses on a set of strategic policy actions, its implementation should translate into improved economic and social indicators. The preparatory work for PRSC 4 commenced in late 2004. The identification of the policy actions needed to attain the development outcomes spelled out in the CPRGS has been strongly influenced by analytical work. ADB and other development partners, including the International Monetary Fund<sup>14</sup> are instrumental in providing factual information and analysis, thus contributing to the monitoring of progress in implementing reforms and sharing international good practices. The PRSC process has been supported by a series of comprehensive analytical reports covering the CPRGS's three pillars. The analytical work also helps the development partners and the Government identify the PRSC policy actions needed to attain the development outcomes outlined in the CPRGS. The annual Viet Nam development reports (VDRs), a joint donor report to the Viet Nam Consultative Group meeting, provide crucial information and analyses on focal issues relevant to the Government's reform agenda. VDR 2004, entitled Poverty,<sup>15</sup> examined issues regarding social inclusion. VDR 2005, entitled Governance,<sup>16</sup>

<sup>14</sup> The International Monetary Fund's 3-year loan arrangement with Viet Nam under the Poverty Reduction and Growth Facility expired in April 2004. However, the International Monetary Fund remains fully committed to continuing a partnership with the Government to support CPRGS implementation. It has contributed actively to the broader dialogue between the Government and its development partners, and also provides the required letter of assessment for the PRSCs.

<sup>15</sup> ADB, Australian's 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: Printing and Cultural Product Company.

focused on building modern institutions. And the forthcoming VDR 2006, entitled Business, will mainly deal with structural reforms. VDRs are prepared in partnership with PRSC cofinanciers including ADB, with substantive inputs from Vietnamese policymakers and academics.

27. The ODA community has adopted the CPRGS as their reference document for planning external assistance for the country. The focus of these operations has gradually broadened to include all the essential pillars of poverty reduction and sustainable economic growth, and is incorporated in PRSC programs. The ODA community in Viet Nam considers the PRSC a useful instrument in support of CPRGS implementation. In 2005, 10 major ODA partners, namely ADB, Canadian International Development Agency, Denmark, European Commission, Agence Française de Développement, Ireland, Japan Bank for International Cooperation, Netherlands, Agencia Española de Cooperación Internacional, and United Kingdom's DFID are cofinancing PRSC 4 with the World Bank. All cofinanciers have participated in the preparation of PRSC 4, and have been actively involved in the policy areas where they are strong. Because many development agencies are active in Viet Nam, several cofinanciers are involved in the same reform sectors. However, when considering subsectors, certain cofinanciers may have more comparative advantage than others. For example, for the financial sector, while the World Bank and Japan Bank for International Cooperation specialize on banking reform, ADB is specialized on nonbanking reform. Through the ongoing Financial Sector Program loans I and II, ADB has assisted the Government in developing the capital market, insurance market, leasing sector, money market, secured transactions, and accounting and auditing system, and anti-money-laundering regulation. ADB has participated in policy dialogue related to many reform sectors as it has a large portfolio of about US\$2.0 billion, compared with the World Bank's portfolio of about US\$2.7 billion. Appendix 3 provides the aid coordination matrix.

28. ADB has promoted policy dialogue in Viet Nam on similar sector issues through its program lending activities (such as loans for the Agriculture Sector Program, Financial Sector Program I, Public Administration Reform Program Cluster in 2003; and the Small- and Medium-Sized Enterprise Development and Financial Sector Program II in 2004). PRSC 4, which has a national economywide 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 PRSC's multisector policy actions and ADB sector-based programs/projects. This allows ADB to verify that PRSC 4 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 to complement ADB's ongoing sector loans. In other words, ADB's participation in the PRSC operations complements ADB's own sector programs, because the PRSC provides a clear picture of ADB's intervention as part of and in relation to the aggregated efforts of all Viet Nam's development partners. The proposed loan therefore would provide great leverage in aid coordination and formulation of the results-based country strategy and program for Viet Nam.

29. As a multisector instrument covering a range of issues related to poverty reduction, the PRSC will provide ADB with an opportunity to (i) advance policy dialogue in a well-coordinated manner with other relevant ODA partners of Viet Nam, and (ii) ensure that key policy issues for implementation of ADB operations in Viet Nam are adequately considered and addressed in the policy dialogue between the Government and the ODA community. The proposed program loan

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<sup>16</sup> ADB, CIDA, Danish International Development Agency, DFID, Norwegian Agency for Development Cooperation, Swedish International Development Agency, Swiss Agency for Development and Cooperation, United Nations Development Programme, and the World Bank. 2004. *Vietnam Development Report 2005: Governance*. Hanoi: Printing and Cultural Product Company.

provides strategic crosscutting coverage that sector- or subsector-based program loans cannot provide. By participating in this multilateral cross-sector loan, ADB gained insight to permit fine-tuning of the sector-based loan.

30. 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 is in line with ADB's recent move and practices to 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,<sup>17</sup> *Long-Term Strategic Framework*,<sup>18</sup> and *Medium-Term Strategy*,<sup>19</sup> but also will directly help fulfill ADB's obligations to the Rome Declaration on harmonizing procedures of multilateral development banks (February 2003) and the recent Paris Declaration on Aid Effectiveness (February–March 2005).

#### IV. THE PROPOSED PROGRAM

##### A. Impact and Outcome

31. The program loan aims to help Viet Nam reduce poverty and sustain high-level economic growth, as envisaged in the CPRGS. The outcome envisaged is to support the Government's Poverty Reduction Program under the policy framework of PRSC 4, together with other development partners, with a focus on reducing structural weaknesses, promoting socially inclusive development, and modernizing governance and public administration. To reduce poverty and sustain rapid economic growth, the program loan will strengthen Viet Nam's reform program on three main fronts:

- (i) Promote growth and create employment by increasing internal and external competition; accelerating the divestiture of SOEs and SOCBs; and improving transparency and accountability in SOE operations, banking, and the financial sector.
- (ii) Advance human development by increasing the budget appropriation for education and increasing education standards; providing resources to cover the health care costs of the poor; developing mechanisms to complete the transfer of land-use rights to households, especially in upland and ethnic minority areas; and providing support measures to improve environmental and water resource management.
- (iii) Increase transparency and accountability of public finances; promote simplified administrative procedures, and work to decrease corruption as part of a broader effort to build modern governance; and revamp the planning processes by moving away from a command approach to aligning policies and resources with the attainment of well-specified development goals based on empirical analysis and wider consultations.

##### B. Policy Framework and Actions

32. Preparatory work to formulate PRSC 4, aiming to support the Government with CPRGS implementation, was initiated in September 2004 with the participation of key development

<sup>17</sup> President Chino's memo of 25 August 2004 entitled Today: Achieving Results Together.

<sup>18</sup> Asian Development Bank. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific: the Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila.

<sup>19</sup> ADB. 2001. *Medium-Term Strategy (2001–2005)*. Manila.

assistance partners and government agencies.<sup>20</sup> ADB, as a key development partner, was invited and participated in the preparation of PRSC 4, including in the policy discussions, program formulation, and program negotiations with the Government, even though ADB could not confirm if Special Funds resources would be available to allow cofinancing. SBV coordinated the overall processing of PRSC 4 on behalf of the Government, while the World Bank took the lead for the development partners (Appendix 2 provides summary details of the formulation of the program loan).

33. The PRSC 4 policy framework includes both deepening and broadening reforms under three pillars: (i) transition to a market economy, (ii) social inclusion and environmental sustainability, and (iii) modern governance. The policy matrix is presented in Appendix 4 and the development policy letter in Appendix 5.

## **1. Pillar I: Transition to a Market Economy**

34. Under this pillar, PRSC 4 supports reform actions in areas such as trade integration, SOE reform, financial sector reform, and improving the business environment. Such reforms are critical to maintain the momentum of high economic growth. The key thrusts in trade integration are Viet Nam's accession to WTO and harmonization of the legal environment pertaining to trade and investments in the integration process. Under previous PRSCs, quantitative restrictions on a number of imports were removed and a strategy for lowering tariffs adopted. Viet Nam continues to make significant progress in the negotiations for WTO accession. In parallel with the negotiation process, related legislation is being formulated or revised. In March 2005, the Prime Minister issued Decision 41 on regulations of import licensing consistent with WTO requirements. The Government also revised the Decree on Foreign Investment to abolish the requirement that foreign invested companies must export as least 80% of their outputs.

35. Viet Nam also committed to comply with WTO's Sanitary and Phytosanitary Agreement from the date of accession. As part of the commitment, a national phytosanitary notification body and enquiry point was established under Decision 99 in May 2005. This is to facilitate communication both between Viet Nam and other countries and among government agencies. The Ministry of Agriculture and Rural Development is the focal agency in this process. An action plan is being developed to address phytosanitation, food safety, and agriculture health issues. This aims to support the exploitation of new export opportunities in agriculture and fisheries, as well as protect Viet Nam from cross-border, disease-related threats.

36. The revised Customs Law, passed in May 2005, shifts the approach of the customs administration from control to trade facilitation. In the past, customs documents were manually filled and processed while goods were subject to physical inspection. This delayed goods clearance and raised the transaction cost. The new law introduces an electronic environment for interactions between traders and customs, allows self-assessment of traders' liabilities, and facilitates risk management techniques to minimize physical inspections.

37. Restructuring and ownership transformation of SOEs constitute a major component under the PRSCs. The agenda for SOE reform is evolving with some progress. Equitization of SOEs is accelerating. Positive developments include the Government's determination to decrease government ownership in certain sectors and to facilitate the divestiture or restructuring of large enterprises. Decision 155/2004/QD-TTg reduced the list of sectors in which full state control is justified: 100% state ownership is now stipulated only for strategic

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<sup>20</sup> Adapted from the jointly processed PRSC 4 report.

sectors such as explosives, national defense, printing of banknotes, national electricity grid, rail network, and major ports. Decision 155 provides for equitization of electricity generation units, an area previously deemed strategic. A hydropower plant was equitized through auction in March 2005. An action plan for the equitization of another seven power plants was approved.

38. The significance of Decision 155 extends beyond the equitization of large SOEs. In 2003 every line ministry, government agency, province, and general corporation drew up an equitization list defined according to the criteria in Decision 58.<sup>21</sup> These were the so-called 104 restructuring plans approved by the Prime Minister to serve as the basis for the equitization process over the following 3 years. The necessary revision of all these plans in light of Decision 155 will lead to the divestiture of many more SOEs, including large ones. A preliminary count indicates that 736 SOEs will be added to the 2,400 already identified for equitization, sale, or liquidation in the so-called 104 restructuring plans. Also SOEs whose equitization plans have been approved are being reexamined as the proportion of shares to be sold may now increase.

39. The Government also issued Decree 153 in August 2004 to convert large groupings of SOEs, currently organized under the form of a general corporation, into holding companies. The holding company model was recommended by a series of operational reviews, and promises to improve corporate governance of general corporations. The conversion of general corporations into holding companies should greatly strengthen their management. As defined in Decree 153, a holding company in Viet Nam is not a large entity involved in a wide variety of industries. Converting into a holding company involves the corporatization of entities whose activities are largely restricted to one sector. The general corporation structure of Viet Nam is unique. General corporations do not control the SOEs in their clusters through ownership of equity in the manner that conventional limited liability companies own their subsidiaries. This has resulted in suboptimal performance of general corporations in terms of their ability to drive sector growth and competitiveness. Decree 153 is designed so that a “mother” general corporation can exercise appropriate management control over its “children” companies. In the future, this structure rationalization should make equitization of whole general corporations, including their children companies, easier.

40. Decree 187 also introduced key changes on conversion of SOEs into joint stock companies, as of 16 November 2004, to facilitate the equitization process, whereby valuations must be conducted by outside agencies, the ability of strategic investors and other outsiders to buy shares has been extended, the shares themselves are to be sold through auctions, and incentives for linkage between equitization and listing are enhanced. Decree 187 defines the responsibilities of SOE managers in financial settlement, and stipulates the transfer of assets and debts not included in enterprise valuation to the Debt and Assets Trading Company. The two sources of subsidies for retrenched SOE workers include (i) the redundant workers fund, and (ii) the SOE equitization support fund. The Ministry of Finance manages both funds. The decree stipulates that a proportion of equitization proceeds must be contributed to the funds. The redundant workers are eligible for retraining and the redundancy allowances.<sup>22</sup> The decree mandates the employment of outside agencies to carry out valuations, and makes land valuation consistent with the new Land Law. It extends the ability of strategic investors and other outsiders to buy shares, and links share prices to market value determined by auctions.

<sup>21</sup> On 26 April 2002 the Prime Minister issued Decision 58/2002/QĐ-TTg issuing criteria for classifying SOEs and general corporations and a list of sectors where the state must retain 100% ownership or more than 50% ownership. Based on the list of sectors and the criteria, line ministries and local authorities formulated a list of SOEs to be equitized that do not fall into the categories in Decision 58.

<sup>22</sup> The redundant workers' pension fund is managed by an independent agency, namely the Viet Nam Social Security.

The decree also provides clearer guidelines on how sales proceeds are to be used: for severance benefits, to support retraining, and transfer of the remaining funds to the Ministry of Finance.

41. The PRSC includes banking reform as a core component. Restructuring SOCBs to improve their financial health and operational efficiency is imperative to sustain economic growth especially as the financial sector is mostly bank-based, through which most investments are financed. As the sector is more liberalized in light of WTO accession, strengthening bank supervision should be on the top of the banking reform agenda. Under PRSC 4, SBV announced separation of SBV's management of SOCBs from its supervision functions. This announcement is based on inputs prepared for the Banking Development Strategy up to 2010. The strategy was submitted to the Government, which is expected to endorse most if not all of it. Through a separate document, the Government has confirmed the noncontroversial aspects of this submission. They include the development of new laws on SBV and credit institutions, to be passed in 2008 based on WTO requirements and Basel core principles. This document also envisages the transformation of the SBV into a modern central bank, charged with the conduct of market-based monetary policy and financial sector supervision. The commercial orientation and autonomy of SOCBs is another key objective of the reform. The equitization of all SOCBs is seen as an important step in that direction.

42. As the banking reform proceeds, an assessment of the asset quality of banks is needed. This is important to provide for substandard assets and to develop a realistic plan to address nonperforming loans (NPLs). In April 2005, SBV promulgated Decision 492 on asset classification and loan-loss provisioning for banks in line with international practices. The regulation includes a mandatory classification of debt based on repayment status into five categories, with associated specific provisioning ratios. Banks will also have to apply a qualitative risk-based classification of debts using internal credit-rating systems, which need to be approved by SBV. Initially banks will have the option to defer the qualitative risk-based classification, but they must have implemented it after 3 years. The regulation represents a significant improvement over the use of Vietnamese accounting standards and will enhance the overall evaluation of asset quality in the banks, as well as ensure appropriate provisioning for potential losses. All banks will have to produce their first reports based on the new classification by June 2005, and submit the corresponding NPL resolution plans shortly after. SBV provided a preliminary estimate of NPLs, based on the new regulation. The estimate is in line with independent audits of the SOCBs using international accounting standards.

43. Along with the measures to address financial aspects of the banking reform, PRSC 4 also supported the strengthening of banking practices and operations. Adoption of the credit manual and loan computerization are among the measures taken. This helps banks to standardize their credit policy and procedures, and to enhance the efficiency of lending activities and portfolio monitoring. Banks are also required to establish internal audit committees to improve accountability and governance.

44. The Government, for the first time, established an anti-money-laundering regime through issuance of Decree 74 on June 2005. The decree requires suspicious transactions to be recorded and tracked. Financial institutions are obligated to set an internal procedure for the prevention of money laundering. An information center for anti-money laundering will be established within SBV to receive and process information and reports on individuals and organizations that perform suspicious financial transactions. Interim measures to combat money laundering include suspension of transactions, freezing the account, and temporary seizure of assets. The decree specifies the responsibilities of the SBV, Ministry of Public Security, and

other relevant ministries in tracking and dealing with money-laundering activities. It also defines the mechanism for international cooperation to fight money laundering. The Government is also proceeding to become a member of the Financial Action Task Force on Money Laundering.

45. Decree 28, issued on 9 March 2005, sets out a framework for establishment, operation, and regulation of microfinance institutions. Despite some restrictions with regard to geographic operation coverage and range of services, the decree represents a significant step forward in recognizing microfinance operations and improving their outreach and governance. To date, this area has not had any formal regulation despite the existence of a wide variety of organizations that provide financial services. Decree 28 defines microfinance institutions and licensing criteria; and provides for supervision of the institutions based on specific parameters in areas such as capital, corporate governance, and business plans. The supervision of the microfinance institutions is not as strict as for banks as the institutions are much smaller in scale and therefore should not have to contend with the relatively complex regulations that apply to banks.

46. Improving the business environment for the private sector has presented the most remarkable and persistent achievement of Viet Nam over the last 5 years. The streamlined business registration procedures have led to a significantly increased number of new enterprises—27,700 enterprises with the registered capital of D58 trillion in 2003 and 37,230 enterprises with the registered capital of D76 trillion in 2004. Under PRSC 4, progress is being made to enhance the environment for private sector development. The National Assembly passed the Competition Law in December 2004, which serves as a governing framework for fair competition. Open competition will apply to all sectors and types of enterprises including SOEs. Under the open competition policy, private enterprises will be protected against anticompetition acts from dominant public sector competitors, and enterprise monopolies are discouraged. A competition commission will be established under the law. Effective implementation of the law and independent operation of the competition commission are critical to ensure fair market access and competition

47. In infrastructure, the Electricity Law passed by the National Assembly in November 2004 will facilitate restructuring of the power sector, including the separation of generation, transmission, and distribution. It will allow for greater diversity of ownership and financing of power sector assets, as well as create the conditions for greater competition in power sector generation and supply markets in the longer term. The law foresees the establishment of an electricity regulator to ensure more transparent oversight of existing operators and new operators; as well as to evaluate electricity tariffs, investment, quality of service, and operation.

## **2. Pillar II: Social Inclusion and Environmental Sustainability**

48. Issues related to social inclusion and environmental sustainability include policy actions in education, health, water, and environment. For education, concern for quality has taken priority as strategies to improve access and equity are being implemented. A standards-based approach is being employed to upgrade quality. The fundamental school quality standards for primary schools have been adopted nationwide. They refer to physical infrastructure, teaching staff, school organization and management, social participation in education, educational activities and quality, and expected educational outcomes. A survey covering all districts was conducted to audit the current situation relative to the standards. Typically, schools in poorer zones fall far short. To ensure equity, poorer zones are given priority in upgrading quality.

49. Low teaching skills and content knowledge are major constraints for enhancing student achievement, as demonstrated by a recent study of academic performance at the end of the

primary school cycle. These constraints are being addressed through the introduction of a clear teacher profile as an assessment tool to improve teaching competencies, to guide professional development, and to set up a remuneration-related grading system. The teacher profile consists of three dimensions (attitudes, knowledge, and pedagogical skill) defined through four levels of competency (beginning, regular, senior, and lead). The profile has been refined through stakeholder consultation and a trial application with 2,200 teachers. By now 25,000 primary school teachers (or 7% of the total) have been evaluated against the new profile.

50. Recent legal changes will promote and safeguard poor people's access to forestland and forest resources as a source of livelihood. State forestry enterprises currently control 40% of the 11 million hectares of land classified as forested, which are often located in the poorest parts of the country. State forestry enterprises generally have contracted out all forest management activities to local households. But because tenure security is weak and arrangements lack clarity, the local population benefits only marginally from forestry activities. A clear separation between the public service provision role of state forestry enterprises and their business activities is needed to improve the well-being of those whose livelihoods depend on forestland and to enhance conservation. Decree 200/2004/ND-CP on the restructuring of state forestry enterprises provides criteria for their transformation into either commercially viable wood businesses or effective public service entities, in particular, for forest protection. In the process, land use certificates (LUCs) for the remaining underused land and scattered forestland will be transferred to households, communities, and other users, including private sector enterprises.

51. The revised Law on Forest Protection and Development, approved by the National Assembly in November 2004, provides the overall framework for the move to more social and community-based forestry. For the first time, it recognizes the forest use right of households, communities, and other sectors, as well as their ownership of plantation forest. It provides a framework for multiple uses of the vast areas of protection forest in the uplands, and exploitation rights in these areas, which could lead to new management systems combining protection with production. The law provides terms and conditions for the leasing of production forest to economic units including farm households, and proposes to assign an economic value to each forest production area as the basis for its allocation or lease. In parallel, key stakeholders have started the consultation process to revise the Forest Sector Strategy, which is expected to produce a long-term broad positive impact not only on poverty reduction but also on sustainable management of forest, land, water, and environment in upland areas.

52. The foundations for an effective set of policies, tools and incentives for environmental protection are being laid out. Viet Nam's development over the last decade has created sustainability challenges that are not appropriately addressed by the existing legislation. The amendments to the Law on Environmental Protection, submitted to the National Assembly in May 2005, should lead to improvements in two main areas. First, they clarify line ministries' responsibilities for environmental protection, and decentralize responsibilities within the Ministry of Natural Resources and Environment to its local and regional departments. Second, they enable new policy tools and remedies for various environmental issues such as pollution prevention and cleanup, adjustments to cover the private sector, improvements in financial mechanisms for environmental protection, and initiatives for raising public awareness and support for environmental protection.

53. Guidelines for the implementation of the Land Law represent a key step in strengthening land registration and land valuation. Under the new law, the limitations previously imposed on districts and provincial governments for their authorities to issue LUCs have been abolished. A

unified system of land administration agencies is also to be set up. Decree 181/2004/ND-CP covers these aspects. It also addresses zoning issues, with the requirement that provinces submit their complete land-use plans in 2005. The recalling of unused or inappropriately used land is assigned to provincial People's Committees. Decree 188/2004/ND-CP provides guidelines in the crucial area of valuation, serving as the basis to calculate taxes on LUC transfers, and to set the value of LUCs and rents when the government decides to lease or allocate land to businesses. The system will also be used to define the value of LUCs for compensation claims when the government withdraws land. The new valuation system is much more flexible than the previous one and will be adjusted in accordance with changing market values. The previous mechanism often fixed land prices at much lower rates than their market value, resulting in residents being reluctant to move out of construction areas because of low resettlement packages.

### **3. Pillar III: Modern Governance**

54. The focus of this reform pillar is on improving the planning process, public financial management, delivery of public administration services to people and businesses, and anticorruption initiatives. The CPRGS approach is more integrated into the 5-year SEDP at national and local levels. The Prime Minister recently issued Directive 33/2004/CT-TTg to guide the preparation of the 5-year SEDP for 2006–2010. The last planning period (2001–2005) involved the production of both a SEDP and the CPRGS. The CPRGS was described as an action plan for the SEDP by the Ministry of Planning and Investment (MPI) and accepted as a poverty reduction strategy by the international development community. The Prime Minister's instructions state that these two planning instruments—which have differed in both approach and substance—will be merged in the coming plan period. The CPRGS has not had the same central role in directing government activities but has pioneered some new approaches to socioeconomic planning, both in terms of process and substance. The SEDP takes most of the CPRGS important principles, with a result that consultations for planning this SEDP were broader, involving groups outside of government including local organizations and some poor communities. The process has involved three main activities: (i) regional workshops to discuss the approach and its implications for sector and local planning processes, (ii) community and local consultation, (iii) other stakeholder workshops, and (iv) an international consultation workshop. The SEDP also has a stronger analytical framework for growth and poverty reduction uses of a wider range of credible data mechanisms to monitor progress, framed around VDGs (localized versions of the Millennium Development Goals); some of the participatory approaches to planning were emulated; and achievement of strategic outcomes—rather than production targets—motivates the policy measures and public actions identified for the SEDP.

55. Implementation of the CPRGS over the past 2 years has been 'rolled out,' i.e., decentralized, with more ownership of MPI and local government line ministries. The roll-out was started with 32 subnational governments. With collaborative MPI-province-aid activities under way in 18 provinces, supported by 10 funding agencies, skills are being built to enable national and subnational governments to adjust to a more bottom-up style of planning. This will be important over the next year as provincial authorities seek to implement the Prime Minister's directive for a more participatory, evidence-based, and bottom-up planning process. These changes locate the responsibility for identifying strategic actions for growth and poverty reduction where much of the responsibilities for allocating public resources are provincial. Experience with the CPRGS implementation has been mixed. At a recent meeting of the Poverty Task Force,<sup>23</sup> representatives from the more advanced provinces described a planning

<sup>23</sup> Poverty Task Force meeting in Hanoi, October 2004 and April 2005.

renovation process that incorporates a more strategic thinking, results-oriented and participatory approach. Some provinces have already organized training courses to prepare officials in those areas. However, planning reform that changes the whole mindset, skills, and approach away from more centrally directed approaches is challenging. Thus, MPI proposed to expand the roll-out process in all provinces and cities based on the experience and lessons learned, which identified the need for more attention to capacity building. This will be important and essential for maintaining momentum.

56. The preparation of the 2006–2010 SEDP provides an opportunity to strengthen national and provincial planning. Directive 33 instructs that CPRGS principles be incorporated into the SEDP. Not only does this bode well for modernizing national planning, but it holds promise for provincial plans. Over the last 2 years, 20 provinces have experimented with preparing strategic plans, in the context of an aid-supported initiative to implement the CPRGS at subnational levels. Based on the experience and lessons learned from the ongoing process, MPI has proposed to scale up the roll-out process in all provinces and cities in Viet Nam. Because of the ongoing decentralization process, local governments will play an increasingly important role in attaining national development goals. Roughly half of budget spending is now under the control of provinces, districts, and communes. The success of decentralization, and the ability to keep development inclusive, will crucially depend on the ability of local governments to embrace strategic planning, leading to sound policy choices, supported by commensurate budget allocations, and monitored through an appropriate set of provincial development indicators.

57. Disclosure requirements for the state budget at all levels, as well as for entities using state budget resources, have been considerably strengthened. The regulation is applicable to funds financed by state budget resources, such as the Development Assistance Fund, Viet Nam Social Security, provincial investment funds, SOEs, and organizations financed by contributions from the public. Under the regulation, allocation norms approved by the National Assembly and the People's Councils must be publicized at each budget level. Organizations funded from the state budget must disclose their state budget support, budget plans and final accounts, and methods used to determine their state budget support. For state capital investment projects, annual budget allocations, budget plans, final accounts, and bidding results for procurement must be disclosed. Funds financed by the state budget must make public their charters, financial arrangements, annual financial plan, and operational performance. For SOEs, mandatory disclosure includes their financial position, operational performance, provision for and use of welfare funds, remittances to the state budget, per employee income, and return on state equity. Methods of disclosure include announcements at public meetings, printed documents, posting at offices and websites, and publicity through the mass media. Ministries and provincial People's Committees are responsible for monitoring compliance of their subordinate bodies. The normal requirement for responses to questions regarding disclosures is within 10 days.

58. The launching of a comprehensive assessment of the fiscal risks associated with SOEs, SOCBs, and the Development Assistance Fund signals the Government's intention to venture into more active management of assets and liabilities. Much of the focus has been on estimating the share of NPLs in the portfolios of commercial banks and policy-lending institutions. A somewhat implicit assumption is that the delinquent debtors, most of them SOEs, do not have the ability to repay their debts. However, not servicing the debts is not the same as not making profits. More importantly, most of the delinquent SOEs are occupying prime land, whose sale or lease could be an important source of revenue.

59. The newly acquired independence of the State Audit of Viet Nam (SAV), which is now an agency established under the National Assembly, is a milestone for transparency. The SAV law approved in May 2005, gives the National Assembly the authority to appoint, and if necessary to dismiss, the auditor general. SAV reports that have been approved by the National Assembly will be publicly disclosed through several channels, including the official gazette, the SAV website, and mass media. This is in sharp contrast with the situation that prevailed previously, when audit findings were not made public except with government authorization. In this context of increased transparency, the audit of SBV financial statements for 2003 was launched in April 2004, and the Government intends to submit a copy of the audit report to the National Assembly.

60. The move to increase transparency is reflected in the emerging approach to fighting corruption. The appointment of the Government Inspectorate as the leading agency for the preparation of a new anticorruption strategy has been associated with an invitation to development agencies to cooperate with its implementation. Previous efforts to curb corruption focused on punitive measures, rather than on rigorous diagnoses and systemic remedies. Launching the first comprehensive study on the modalities and mechanisms of corruption in Viet Nam took years, with little information about this study being filtered to outsiders. In sharp contrast, the findings of pilot surveys in seven cities are being brought to the mid-2005 informal Consultative Group meeting for discussion with development partners, jointly with a framework to ask for support with key components of the emerging anticorruption approach. A call to the media to be more proactive in the investigation and reporting of corrupt acts suggests that transparency is seen as an important component of the new approach.

61. The criteria for measuring poverty have been brought into line with international standards. Based on the recommendations of a task force led by the Ministry of Labor, Invalids, and Social Affairs and the General Statistics Office (GSO), an expenditure-based poverty line will be estimated using GSO's Viet Nam household living standards survey. The poverty line comprises a food component, which is the value of a typical basket of food items in Viet Nam providing 2,100 calories per person per day, and a nonfood component. The latter is the value of a set of basic nonfood items that are typically consumed by people whose food expenditures are around the food poverty line. The earlier method combined a participatory approach with a rudimentary survey to estimate household incomes of those generally considered poor. The participatory approach consists of village consultations to classify households according to their poverty status. While this method accurately identified the poorest of the poor households it did not necessarily identify all the poor. The methodology was inconsistently applied across provinces and was subject to manipulation by provinces who wished to report faster progress.

### **C. Important Features**

62. A social and poverty impact assessment was undertaken in relation to the program loan (a summary is in Appendix 6 and additional details in Supplementary Appendix A). The assessment concludes that the activities will have no adverse impacts on indigenous people or have gender implications. The loan will not involve land acquisition and/or resettlement.

63. An environmental assessment of the potential environmental impacts associated with the program loan policy matrix is available in Supplementary Appendix B. The assessment reveals that most policy reforms will produce positive impacts on urban and rural environments. Most reforms aimed to improve governance, accountability, and transparency. While not specifically designed for environmental protection, these reforms tend to promote optimal and efficient use of resources, including natural resources. Some reforms aim to improve

environmental protection and management; and some aim to improve health and education, which tend to have indirect positive impacts on environmental sustainability. These reforms fit well with Viet Nam's environmental policy needs, and are therefore considered practical and necessary next steps for the nation's environmental management framework.

64. Some policy reforms will likely have no impact on the environment. These include reforms related to public financial management and financial sector reform. These could have a positive "trickle-down" effect. The reforms related to trade integration, private sector development, and SOE reform may cause indirect negative impacts if they lead to pressure on the environment and natural resources due to increased economic activities. The links between such indirect positive and negative impacts cannot easily be evaluated or monitored. No environmental impact assessment has been conducted to evaluate the policy implications of the Viet Nam's WTO accession and the CPRGS.

#### **D. Cost Estimates**

65. Policy measures supported by PRSC 4, such as the safety net for redundant SOE workers, restructuring of SOCBs, or the creation of provincial program Health Care for the Poor, 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. While total government revenue is increasing from US\$10.5 billion in 2004 to US\$11.3 billion in 2005, the total budget expenditure is increasing even faster from US\$13.3 billion in 2004 to US\$15.2 billion in 2005. The financing needs are increased from US\$1.5 billion in 2004 to US\$2.1 billion in 2005. The external financing needs for 2005 (including grants) is estimated at US\$1.4 billion, resulted from the financing needs less revenue carried over from 2004 and domestic borrowing. The cost estimate for financing requirements for PRSC activities includes the cost of some specific PRSC-related programs and the external financing need of US\$1.4 billion. The estimated costs of some specific PRSC-related programs for the 2005 budget add up to about US\$770 million, i.e., (i) health funds for the poor—about US\$90 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\$400 million; and (iii) social safety net program for the retrenched SOE workers that covers more than 50,000 workers—at least US\$80 million; and (iv) resolution of nonperforming loans and other related costs—about US\$200 million.

#### **E. Financing Plan**

66. ODA resources of approximately US\$225 million are expected to fund PRSC 4 operations, led by the World Bank, which has already approved a US\$100 million credit from the International Development Association to support PRSC 4. Three other cofinanciers will provide support in the form of concessional loans in parallel, namely ADB (US\$15 million), Japan Bank for International Cooperation (US\$22.8 million equivalent loan), and Agence Française de Développement (€10 million). The remaining seven cofinanciers will contribute financial support as grants, channeling the fund to the multi-aid trust fund. These donors include Agencia Española de Cooperación Internacional (€2 million), Canadian International Development Agency (Can\$6.0 million), Denmark (US\$10.8 million equivalent), European Commission (€8 million), Ireland (€1.5 million), Netherlands (€8 million), and DFID (£20 million).

67. The Government has requested a loan of US\$15 million from ADB's Special Funds resources as ADB's support to CPRGS implementation of the following policy framework of

PRSC 4 program. The program loan would contribute to financing the cost of adjustment resulting from implementing the policy matrix, particularly the prior actions for PRSC 4, 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 2006.

## **F. Implementation Arrangements**

### **1. Program Management**

69. SBV will be the Executing Agency. The program is being implemented through 24 line ministries and government agencies in accordance with the Loan Agreement. The ODA fund raised through the PRSC process and providing resources to the state budget to implement the reforms, and the PRSC operations serve as effective coordination devices between the Government and large number of cofinanciers. On behalf of the Government, SBV coordinated the overall processing of PRSC 4, while 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 10 for PRSC 4. The cofinanciers have participated in the PRSC process by forming working groups with the Government, which cover all economic policy areas. ADB, DFID, and World Bank rotate as cochair of the Poverty Working Group/Poverty Task Force with MPI. Staff of the ADB resident mission actively participate in several other working groups including Partnership to Support the National Target Program, Viet Nam Business Forum, People's Participation Working Group, 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, which is comprised of competent staff. It deals with the program agenda, including monitoring and reporting, awareness raising, capacity building, and reform outcome dissemination. The unit has frequently interacted with the World Bank and the cofinanciers of PRSC 4, including ADB.

70. The National Steering Committee for implementation of the CPRGS and PRSCs is led by the deputy prime minister in charge of economic reforms, and consists of representatives from relevant line ministries and government agencies. SBV is assigned as the agency responsible, in close collaboration with the World Bank, for preparing and implementing the PRSCs. An SBV deputy governor acts as standing vice chair of the National Steering Committee. This quasi-advisory body has several representatives from key ministries representing the policy reform areas under PRSC 4 and subsequent PRSCs. Among the goals of the interministerial working group is subnational implementation of the CPRGS. The CPRGS Secretariat at MPI supports provincial governments in adapting the CPRGS to their own context, and reformulating plans and budgets accordingly. Several provinces<sup>24</sup> have already started implementing pilot projects to (i) build capacity of provincial officials on new planning methods, and (ii) form working groups to carry out policy dialogue. At present, more than 20 provinces are going through this process, with financial support from development partners.

<sup>24</sup> Ten pilot projects are being implemented in 10 provinces, of which 5 projects are administered by the Ministry of Agriculture and Rural Development and the other five by the Ministry of Natural Resources and the Environment.

71. PRSC operations have been cofinanced by several bilateral and multilateral agencies, either through grants or parallel lending. The role of cofinanciers has been transformed from providers of finance to reform partners. Cofinanciers have collectively and substantially engaged in the preparation of the operations and the policy dialogue with government. The dialogue is organized by policy areas, in which development partners engage selectively, based on their interests and technical capacity.

## **2. Implementation Period**

72. The program period will be from 30 June 2005 to 31 December 2006.

## **3. Procurement and Disbursement**

73. 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*, 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

## **4. Disbursement Arrangements**

74. 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 7). Loan proceeds will be disbursed on the basis of a certification provided by the Government that the value of total imports minus (i) imports from nonmember countries, (ii) ineligible imports, and (iii) imports financed under other ODA, is equal to or greater than the amount expected to be disbursed during the year. 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 user of counterpart funds are felt to be satisfactory.

75. 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 crosscutting 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; (ii) an assessment of the country financial accountability arrangements has been made in the World Bank's following assessments: Public Expenditure Review-Integrated Fiduciary Assessment (PER-IFA), the Country Financial Accountability Assessment, and the Country Procurement Assessment Review. In addition, the implementation arrangements adopted for the loan have been effective. The Country Financial Accountability Assessment (5 October 2001) concluded that the public

financial management system then represented some level of fiduciary risk. However, since 2001 many Country Financial Accountability Assessment recommendations have been implemented, or are in the process of being implemented. The PER-IFA (May 2005) reviewed the accounting and reporting process in the public sector, the oversight functions in the public sector, and financial reporting and auditing in SOEs. The PER-IFA recognizes recent changes to improve transparency and accountability, including the new Audit Law passed by the National Assembly in May 2005. This law will significantly enhance oversight by the National Assembly and the provincial People's Councils over public finances and substantially increase public access to information on government finances. SBV's data management, financial reporting, and internal control system are also expected to be improved through a planned World Bank International Development Association credit in 2006. The implementation of the Treasury and Budget Management Information System to support establishment of an integrated financial management system is expected to improve financial management in the public sector. The PER-IFA identifies, however, a large agenda for improvement. The key areas include strengthening SAV effectiveness, streamlining the internal control framework, and adopting international public sector accounting standards. Implementation of the PER-IFA recommendations is being supported by the PRSC program and other World Bank grant funds.

## **5. Accounting, Auditing, and Reporting**

76. The Government will prepare and provide semiannual progress reports on the program loan. ADB will participate in all joint assessments by the Government and development partners on the outcomes of PRSC 4 and PRSC 5 triggers (measures and actions). Details are presented the program framework in Appendix 1.

## **6. Project Performance Monitoring and Evaluation**

77. 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 4 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.

78. 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 VDGs, has been narrowed to around 140, of which 40 were proposed to provinces to choose. These narrower indicators were merged with 285 indicators of the national statistical system collected by GSO, which are partly generated by the household living standard surveys. The recent survey in 2004 by GSO will provide information for many indicators in the system. However, despite the efforts to refine the indicator system, line ministries do not agree on about 47 indicators and GSO considers 16 as unknown.<sup>25</sup> The indicators for monitoring the SEDP have not been specified as integration of the CPRGS into the SEDP is in progress. In that context, for monitoring arrangements, ADB, World Bank, and UNDP are doing some joint work to strengthen monitoring system for the CPRGS and SEDP, which will give definite results to monitor outcomes of the PRSCs.

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<sup>25</sup> TA 4612-VIE (ADB. 2005. *Technical Assistance to the Socialist Republic of Viet Nam for the Results-based Monitoring of Poverty Reduction and Growth*. Manila) UNDP has also been implementing a US\$1.6-million project for strengthening capacity of statistical system.

## **V. PROJECT BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS**

79. The proposed program loan will benefit Vietnamese people and businesses in three fronts. First, through policy actions addressing transition to a market economy, the benefits include increased efficiency, rapid economic growth, and job creation. The reforms under this pillar aim to move the economy toward greater competition and faster integration with the world economy. This entails policy actions aimed at gaining accession to WTO, accelerating the divestiture of SOEs and SOCBs, adopting a more determined approach to banking reform, improving the business environment, and introducing the regulatory bodies for infrastructure services. Second, through policy actions addressing social inclusion and environmental sustainability, the benefits include improved quality of education (especially in poor areas), availability of medicines at affordable prices, secured asset ownership through the implementation of the new Land Law, and more sustainable management of forests and improved environmental quality. Third, through policy actions addressing modern governance, the benefits are increased transparency and accountability of public finances, and improved legal transparency and accessibility. These were to be achieved through, among others, financial disclosure of all state budget entities, independence of the State Audit, increased effectiveness of anticorruption actions, and improved information systems especially in relation to poverty measurement and targeting, piloting of the Medium-Term Expenditure Framework, and decentralized public investment decisions to lower levels of government.

80. Three potential risks are associated with the proposed program loan: containment of contingent liability, social inclusion and environment sustainability, and a fiduciary risk related to public financial management. First, the ambitious economic growth target could be a source of pressure to expand commercial and policy loans for infrastructure development especially in the local levels, without proper appraisal. The overall quality of lending may be undermined by such pressure, thereby undermining the banking reform agenda and leading to a build-up of contingent liabilities. Second, some key service delivery programs are underfunded even though policies in health and education aim to target the poor and improve the quality of service delivery. While service providers were given incentives to charge fees, they are not accountable to provide basic services at low or no fee. To protect the environment, increasingly sophisticated legislation and its implementation are needed to ensure effective administrative, economic, and information tools. Third, while gains have been made in budget transparency and execution, the management of state assets and liabilities will need much improvement. Concerns have been raised regarding the rapidly emerging and fast-growing provincial investment funds, which suffer limited transparency and accountability. 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.

81. The Government is aware of the potential risks. Through appropriate measures and proactive programs during the program implementation, the Government will take into consideration risk-mitigating measures. ADB along with other PRSC cofinanciers have provided technical assistance and conducted analytical studies to help policymakers formulate and execute mitigating and corrective measures in anticipation of these 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 decided to adopt a loan classification based on international accounting standards. The second risk related to social inclusion and environmental sustainability 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 environment sustainability, the country environmental assessment and the PRSC policy actions on land, water, and environmental protection should help mitigate the risk. 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 will be finalized and publicly disclosed. An anticorruption law, to be passed by the National Assembly in November 2005, will introduce stronger accountability requirements for heads of agencies, monitoring of assets of senior government officials and their families, and introduction of a more effective whistle-blowing mechanism. The Government has also encouraged the media to apply more proactive approaches in detecting and reporting on corruption issues.

## **VI. ASSURANCES**

82. In addition to the standard assurances, the Government and the State Bank of Viet Nam have given the following assurances, which are incorporated in the legal documents:

- (i) The measures and actions included in the program and specified in the Development Policy Letter and the policy matrices will continue to be in effect for the sustainability of the poverty reduction program under the CPRGS and PRSC frameworks; and
- (ii) Adequate and timely counterpart funds will be available for the implementation of the poverty reduction program under PRSC 4.

## **VII. RECOMMENDATION**

83. 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 10,349,000 to the Socialist Republic of Viet Nam to Support the Implementation of the Poverty Reduction Program II 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

14 October 2005

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
<b>Impact</b> Reduced poverty and high economic growth sustained	<ul style="list-style-type: none"> <li>Poverty incidence below the level of the last Viet Nam Household Living Standard Survey conducted in 2004 (i.e., 24.1% of population)<sup>a</sup></li> <li>Gross domestic product (GDP) growth 7.5% or above annually</li> </ul>	<ul style="list-style-type: none"> <li>Progress reports on the Comprehensive Poverty Reduction and Growth Strategy (CPRGS)</li> <li>Draft 5-year Socioeconomic Development Plan (SEDP) 2006–2010</li> <li>SEDP progress reports</li> </ul>	
<b>Outcome</b> Support implementation of the Government's Poverty Reduction Program within the framework of the Fourth Poverty Reduction Support Credit (PRSC 4) focusing on <ol style="list-style-type: none"> <li>reducing structural weaknesses, and improving the business environment;</li> <li>promoting socially inclusive development; and</li> <li>modernizing governance.</li> </ol>	<ul style="list-style-type: none"> <li>Greater trade openness (higher trade/GDP ratio)</li> <li>Divestiture of more than 2,000 state-owned enterprises (SOEs) and state-owned commercial banks (SOCBs)</li> <li>Low level of nonperforming loans</li> <li>Increased private sector investment</li> <li>Improved telecommunication services and lowered cost</li> <li>State budget appropriation for health, education, and training in 2006 accounts for above 17% of total budget expenditure</li> <li>Improved administrative service delivery</li> <li>Substantive measures taken to reduce corruption</li> <li>Revamped planning processes, with proper alignment of policies and resources to the attainment of well-specified development goals</li> </ul>	<ul style="list-style-type: none"> <li><i>Asian Development Outlook</i> report, the World Bank's <i>Taking Stock</i> report, and the International Monetary Fund's annual review (Article IV consultation)</li> <li>Small business registration survey report</li> <li>Public expenditure tracking survey report and annual public administration reform progress reports</li> <li>General Statistics Office's household living standard survey reports (conducted every 2 years, last survey was in 2004)</li> <li>Participatory poverty assessment and report level surveys</li> <li>Public investment program</li> <li>Annual socioeconomic plan</li> <li>Public administration reform progress reports</li> <li>Asian Development Bank (ADB) participation in joint (government-development agency) assessments of PRSC 4 outcomes and PRSC 5 triggers (i.e., measures and actions)</li> </ul>	<b>Assumptions</b> <ul style="list-style-type: none"> <li>Continued strong political commitments</li> <li>Timely release of budget/counterpart funds</li> <li>Social safety net for retrenched workers in place and functioning</li> </ul> <b>Risks</b> <ul style="list-style-type: none"> <li>Improper sequencing of reforms and incomplete policy and institutional reforms</li> <li>Conflict between the Government's ambitious economic growth objective and efforts to increase transparency and contain growth of contingent liabilities</li> <li>Less socially inclusive and environmentally unsustainable because of the dynamics of rapid economic growth and insufficient accountability of public service providers to deliver basic public services to the poor</li> <li>Fiduciary risk associated with the proposed loan, if progress on enhancing fiscal transparency and tackling corruption is not adequate</li> </ul>

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
<b>Outputs</b> 1. Transition to a market economy	<p><b>Move to a market economy and integrate with the global economy</b></p> <ul style="list-style-type: none"> <li>Ratio of exports (value) to GDP is 55%</li> <li>Share of industrial products in total exports is 70% (2010 target is 75%)</li> <li>Share of private sector exports in total exports is 85%</li> <li>All quantitative restrictions on imports have been removed</li> <li>Modern customs procedures are in place</li> <li>Viet Nam becomes a member of the World Trade Organization with good legal regulations and mechanism for integration</li> </ul> <p><b>Promote competition in product markets by tightening the budget as incentives for SOEs to restructure</b></p> <ul style="list-style-type: none"> <li>Number of SOEs reduced to 2,100 in 2006 from the current 4,200</li> <li>Share of bank credit going to SOEs is less than 25%</li> <li>Increased number of profitable SOEs</li> <li>Most nonperforming inter-enterprise debts resolved</li> <li>Data on performance of SOEs available annually</li> </ul> <p><b>Strengthen the institutional and regulatory framework of the financial sector</b></p> <ul style="list-style-type: none"> <li>Delinquent joint-stock banks closed or merged; all banks compliant with regulations</li> <li>Reduced NPL ratio and appropriate mechanisms in place to prevent NPL resurgence</li> <li>SBV more focused on supervision and regulation, with progress on the divestiture of SOCBs</li> <li>Reform of policy lending—transferred to the budget, with well-specified eligible sectors and terms of support</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly progress reports of relevant ministries/ committees implementing the CPRGS. Six-monthly partnership and taking stock reports</li> <li>Sector progress reports</li> <li>Annual reports on SEDP, CPRGS</li> <li>ADB's participation in joint (government-development agency) assessments of PRSC 4 outcomes and PRSC 5 triggers</li> <li>Annual SEDP, CPRGS, and PRSC progress reports</li> <li>Annual budget report</li> <li>Annual SEDP, CPRGS, and PRSC progress reports</li> <li>Draft law discussed publicly</li> <li>Laws amended and approved by the National Assembly</li> <li>Annual CPRGS and PRSC progress reports</li> <li>Laws amended and approved by the National Assembly</li> <li>Annual budget reports</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>Adequate capabilities to enforce measures</li> <li>Actions based on clear understanding and pragmatic resolution of issues</li> <li>Regular monitoring and feedback to policymakers</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Poor coordination or inappropriate sequencing with related reforms.</li> <li>Insufficient local resources and skills</li> <li>Inadequate capital, maintenance, and operating budgets</li> <li>Resistance of impacted agencies and officials</li> </ul>

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p><b>Foster private sector development by providing an equitable investment environment</b></p> <ul style="list-style-type: none"> <li>Private domestic investment (20% of GDP)</li> <li>Job creation in formal private sector (5.0 million jobs, increased from the latest figure of 2.5 million)</li> </ul> <p><b>Focus infrastructure development on the quality of investment</b></p> <ul style="list-style-type: none"> <li>Free entry in telecommunication and information technology services</li> <li>Improved infrastructure provision and operations (i.e., telecommunications)</li> <li>Rational pricing policies for infrastructure services</li> </ul>		
<b>2. Social inclusion and Environmental Sustainability</b>	<p><b>Provide satisfactory coverage for the poorest groups and the quality of the education imparted</b></p> <ul style="list-style-type: none"> <li>Net primary school enrollment rate attains 98% (from 88% in 1998).</li> <li>School quality in terms of qualified teachers has improved, with a substantial catch up of poor areas</li> <li>Net lower secondary school enrollment rate attains 80%; increased from 62% in 1998 and recent figure of 72% (2010 target is 90%)</li> </ul> <p><b>Change in the financing of health services and improve health indicators</b></p> <ul style="list-style-type: none"> <li>Infant mortality rate is 30:1,000, reduced from 37:1,000 in 1998 and recent rate of 27:1,000 already outperformed the 2006 target (2010 target is 20:1,000)</li> <li>Under 5 mortality rate is 36:1,000, reduced from 48:1,000 in 1998 and recent rate of 35:1,000 already outperformed the 2006 target (2010 target is 27:1,000)</li> </ul>	<ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> <li>Sector reports</li> </ul> <ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> <li>Sector reports</li> </ul>	

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<ul style="list-style-type: none"> <li>A public health approach is in place to tackle HIV/AIDS epidemic, SARS, H5N1</li> </ul> <p><b>Improve use of land and water resources</b></p> <ul style="list-style-type: none"> <li>All land has been titled and allocated, and all upland areas has been allocated to local and ethnic communities</li> <li>A functioning land market is in place and land tenure has been secured</li> <li>Increased population access to water, sanitation, and waste services</li> <li>Integrated river basin planning and increased participation of users in irrigation management</li> </ul> <p><b>Upgrade the legal framework for environmental protection</b></p> <ul style="list-style-type: none"> <li>Forest cover expands to 38%, increased from 35% in 2001 (2010 target is 43%)</li> <li>No further degradation of highly biodiverse forest and wetlands</li> <li>A framework is in place to assess environmental impact of projects</li> <li>Mechanisms are in place to handle waste discharge and pollution offenders</li> </ul> <p><b>Address gender issues</b></p> <ul style="list-style-type: none"> <li>All newly issued or re-issued land-use right certificates are in the name of both spouses</li> </ul>	<ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> <li>Laws amended and approved by the National Assembly</li> <li>Review of New Land law implementation</li> </ul> <ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> <li>Review of work on the Gender Equality Law.</li> <li>Review of the New Land law implementation.</li> </ul>	
3. Modern Governance	<p><b>Improve planning processes</b></p> <ul style="list-style-type: none"> <li>Planning toward development goals</li> <li>A number of provinces and sectors have pro-poor socio-economic development plans</li> <li>Substantially improved integration of the public investment projects with budget</li> </ul> <p><b>Improve public financial management</b></p> <ul style="list-style-type: none"> <li>Continue to expand the implementation of pilot MTEF in some sectors and</li> </ul>	<ul style="list-style-type: none"> <li>Approved plan for implementation of working rules, etc.</li> <li>Annual CPRGS and PRSC progress reports</li> </ul> <ul style="list-style-type: none"> <li>Annual budget report</li> <li>Annual CPRGS and</li> </ul>	

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p>provinces</p> <ul style="list-style-type: none"> <li>Fully taken into account appropriate budget allocation for operation and maintenance costs</li> <li>Publicly disclose budget plan and approved budget accounts at all levels of state budget entities</li> <li>Sustainable public debt ratios, with assessment of contingent liabilities</li> </ul> <p><b>Strengthen financial accountability and transparency</b></p> <ul style="list-style-type: none"> <li>Accounting norms in accordance with international practice</li> </ul> <p><b>Provide legal and public administration reform</b></p> <ul style="list-style-type: none"> <li>A legal system based on the rule of law and promoting development</li> <li>Progress toward administrative simplification and administration procedures</li> </ul> <p><b>Address anticorruption</b></p> <ul style="list-style-type: none"> <li>Reduced corruption and perception of corruption as rated by independent monitors</li> </ul> <p><b>Provide information</b></p> <ul style="list-style-type: none"> <li>Reliable, publicly available economic and social data, allowing the evaluation of public policies</li> </ul>	<p>PRSC progress reports</p> <ul style="list-style-type: none"> <li>Evaluation of the implementation of the 2002 Law on State Budget</li> </ul> <ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> </ul> <ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> <li>Public administration reform progress reports</li> </ul> <ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> <li>Report of the State Inspectorate</li> <li>Diagnostic study findings</li> </ul> <ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> </ul>	

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p><b>Activities with Milestones</b></p> <p>Measures and actions as per policy matrix of PRSC 4 and measures and actions (triggers) for PRSC 5 with detailed milestones identified by responsible government agencies</p>			<p><b>Inputs</b></p> <p><b>Policy dialogue and program loan proceeds of</b></p> <ul style="list-style-type: none"> <li>• The World Bank—US\$100 million equivalent</li> <li>• Asian Development Bank—US\$15.0 million equivalent</li> <li>• Japan Bank for International Cooperation—US\$22.8 million equivalent</li> <li>• Agence Française de Développement/France—€10 million</li> </ul> <p><b>Policy dialogue and program grant proceeds of</b></p> <ul style="list-style-type: none"> <li>• Agencia Española de Cooperación Internacional—€2 million</li> <li>• The European Commission—€8 million</li> <li>• Canadian International Development Agency—Can\$6.0 million</li> <li>• Denmark—DKr65 million (US\$10.8 million)</li> <li>• Ireland—€1.5 million</li> <li>• The Netherlands—€8 million</li> <li>• The United Kingdom's Department for International Development—£20 million</li> </ul> <p><b>Total official development assistance of approximately US\$225 million</b></p>

Can\$ = Canadian dollar, € = euro, £ = pound sterling, US\$ = United States dollar.

HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, H5N1 = highly pathogenic avian influenza A, MTEF = Medium Term Expenditure Framework, PRSC = Poverty Reduction Support Credit, SARS = Severe Acute Respiratory Syndrome.

Note:

<sup>a</sup> The Government set a target to achieve a lower poverty rate of 14–16% (using an international poverty measurement) by 2010 in the draft Socioeconomic Development Plan 2006–2010.

## SECTOR ANALYSIS

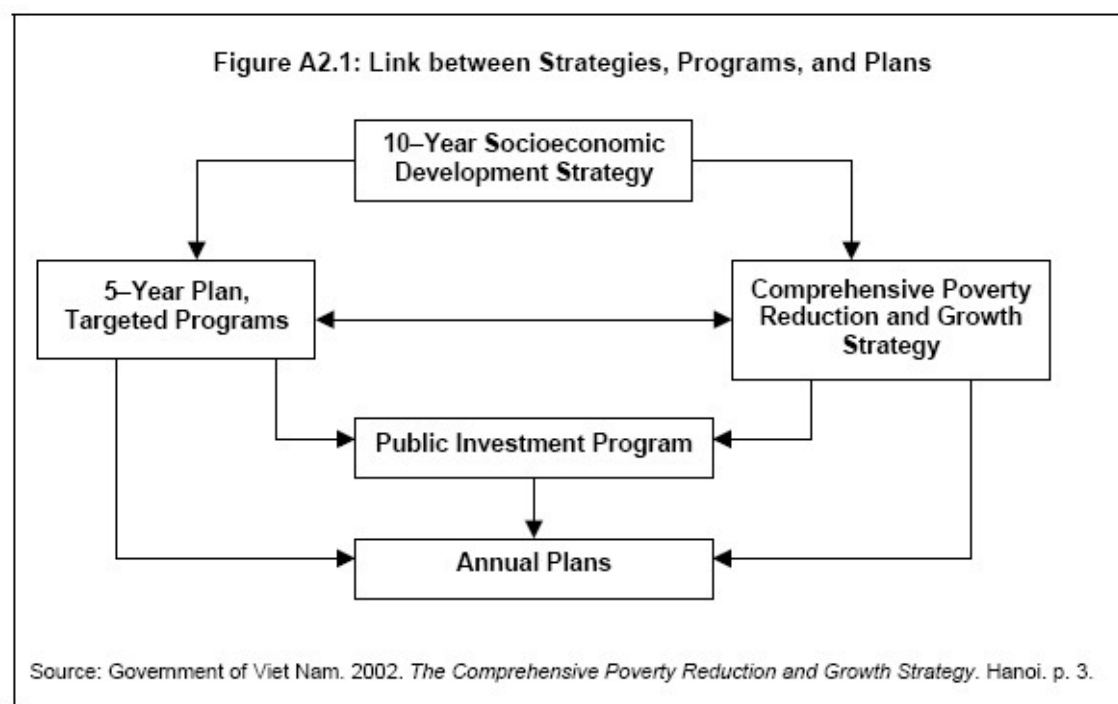
### A. The Comprehensive Poverty Reduction and Growth Strategy

#### 1. Evolution of the Strategy

1. The Comprehensive Poverty Reduction and Growth Strategy (CPRGS)<sup>1</sup> is the outcome of extensive discussions, stakeholder consultations, and review work undertaken by the Government, working closely with development agencies through the Poverty Task Force. 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, approved by the Prime Minister in May 2002, translated the vision of a market economy with a socialist orientation presented in the Ten-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.

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



<sup>1</sup> Inter-Ministerial Working Group of the Comprehensive Poverty Reduction and Growth Strategy. 2002. *The Comprehensive Poverty Reduction and Growth Strategy (CPRGS)*. Hanoi.

**Table A2: The Viet Nam Development Goals**

Goals and Targets Directly Based on the Millennium Development Goals	Indicators			
	1998	2002	2003	2004
<b>Goal 1: Reduce the percentage of poor and hungry households.</b>				
Target 1: Reduce by 40% the proportion of people living below the internationally accepted poverty line by 2010.	37.4%	28.9%	27	24.1%
Target 2: Reduce by 75% the proportion of people living below the internationally accepted food poverty line by 2010.	15.0%	10.9%	—	8.6%
<b>Goal 2: Universalize education and improve education quality.</b>				
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 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 to 95% of under 40-year-old women 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.	—	—	—	—
<b>Goal 3: Ensure gender equality and women empowerment.</b>				
Target 1: Increase the percentage of women in elective bodies at all levels.	18% (1992)	27.0%	26.0%	27.3%
- Rate of 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%
- People's 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%	—	12.5%
Target 4: Reduce the vulnerability of women to domestic violence.	—	—	—	—

Goals and Targets Directly Based on the Millennium Development Goals	Indicators			
	1998	2002	2003	2004
<b>Goal 4: Reduce child mortality, child malnutrition, and the birth rate.</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%
<b>Goal 5: Improve maternal health.</b>				
Target 1: Reduce the maternal mortality rate to 80 per 100,000 live births by 2005 and 70 by 2010	200	165	90	90
<b>Goal 6: Reduce HIV/AIDS infection and other major diseases.</b>				
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
<b>Goal 7: Ensure environmental sustainability.</b>				
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: Air and water pollution must attain national standards by 2005. - % of water and air quality monitoring stations showing improvement)	58.0%	64.0%	—	—
<b>Goal 8: Reduce vulnerability.</b>				
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%

Goals and Targets Directly Based on the Millennium Development Goals	Indicators			
	1998	2002	2003	2004
<b>Goal 9: Improve governance for poverty reduction.</b>				
Target 1: Effectively implement grassroots democracy	—	—	—	—
Target 2: Ensure budget transparency.	—	—	—	—
Target 3: Implement legal reform agenda.	—	—	—	—
<b>Goal 10: Reduce ethnic inequality.</b>				
Target 1: Preserve and develop the reading and writing ability of ethnic languages <ul style="list-style-type: none"> <li>- (literacy rates of ethnic minorities aged 15–24).</li> <li>- Ethnic minority children enrolled at all educational levels <ul style="list-style-type: none"> <li>o primary,</li> <li>o lower secondary,</li> <li>o upper secondary</li> </ul> </li> </ul>	—	—	—	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 minority people in authority bodies at various levels.	—	—	—	—
- Percentage of ethnic minorities who are members of parliament (center)	—	17.3% (1997–2002)	—	16.8% (2002–2004)
<b>Goal 11: Ensure pro-poor infrastructure development.</b>				
Target 1: Provide basic infrastructure to 80% of poor communes by 2005 and 100% by 2010.				
- Poor communes with car-accessible roads to center	—	—	57.3%	92.2%
- Rate of poor communes with health stations	—	—	98.6%	98.9%
- Rate of poor communes with primary schools, kindergartens, and nursery classes	—	—	86.9%	93.0%
- Rate of poor communes with markets	—	—	10.3%	50.2%
- Rate of poor communes and districts with safe clean water system	—	—	23.3%	67.4%
- Rate of poor communes with electricity	—	—	57.7%	95.4%

— = not available.

Notes:

1. The Viet Nam Household Living Standards Survey was conducted every 2 years; hence many data for 2003 are not available.

2. The Government statistic officer is still completing the data processing of 2004 from the Viet Nam Household Living Standards Survey hence many 2004 data are not available.

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

## 2. The Poverty Reduction Support Credit Process

4. 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 aimed to identify a coherent sequence of key measures in each area over the medium term. The identification of the policy actions needed to attain the development outcomes spelled out in the CPRGS is strongly influenced by the CPRGS progress reports, funding agencies' analytical work carried out 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 these CPRGS-PRSC-related studies and reports, sector work reports and assessments done under sector-based programs/projects of each development partner provide input to ensure the complementarity and efficiency of the PRSC reform agenda. Figure A2.2 below illustrates the timing and relation of the strategy, implementation, analyses, and sector work.

## 3. Implementation and Monitoring

5. Formulation of policy reforms and programs under the CPRGS involves many ministries and is coordinated by the National Steering Committee. The committee is led by the deputy prime minister in charge of economic reforms, and comprises representatives from relevant line ministries and government agencies. The State Bank of Viet Nam (SBV) is assigned as the agency responsible, in close collaboration with the World Bank, for preparation and implementation of PRSCs. A deputy governor of SBV acts as standing vice chair of the National Steering Committee. This quasi-advisory body has several representatives from key ministries representing the policy reform areas under PRSC 4 and subsequent PRSCs. Among the goals of the interministerial working group is subnational implementation of the CPRGS. The CPRGS Secretariat at Ministry of Planning and Investment supports provincial governments in adapting the CPRGS to their own context, and reformulating plans and budgets accordingly. Several provinces<sup>2</sup> have already started implementing pilot projects to (i) build capacity of provincial officials on new planning methods, and (ii) form working groups to carry out policy dialogue. At present, more than 20 provinces are going through this process, with financial support from development partners.

6. SBV is responsible for formulating and implementing the PRSCs. To improve consultation and coordination with all stakeholders and to promote public discussion of the PRSCs, given the comprehensive nature of the PRSC reform process and the ever-growing number of cofinanciers, in January 2005 SBV established a program coordination unit, comprising competent staff. This unit deals with program agenda, including monitoring and reporting, awareness raising, capacity building, and reform outcome dissemination. The unit has frequently interacted with the World Bank and the cofinanciers of PRSC 4, including ADB. The development partners have participated in the PRSC process by forming working groups with the Government, including all economic policy areas. ADB, Department for International Development, and the World Bank rotate to cochair the Poverty Working Group/Poverty Task Force with the Ministry of Planning and Investment. Staff of ADB's Viet Nam Resident Mission are active in other working groups including Partnership to Support National Target Program, Viet

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<sup>2</sup> Ten pilot projects are being implemented in 10 provinces, of which 5 projects are administered by MARD and the other 5 by MONRE.

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

Implementation, Analysis, and Sector Work						
Government Strategy	SEDP (2001–2005)	CPRGS (2002–2005)	Expanded CPRGS (2003–2005)	Integration of CPRGS in to SEDP	SEDP (2006–2010)	
Budget Cycle Implementation	2001	2002	2003	2004	2005	2006
Government and Funders Number of cofinanciers with the World Bank Government		PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
		4 (No ADB cofinancing)	3 (No ADB cofinancing)	7 (including ADB)	10 (including ADB)	15 expected
			CPRGS Progress Report		CPRGS Progress Report	
Analysis		Cross-sectoral update	VDR 2004: Poverty	VDR 2005: Governance	VDR 2006: Business	Cross-sectoral update
ADB Sector Programs/Projects						
Approved Projects	Red River Basin Sector; Third Provincial Towns Water Supply; Central Region Livelihood Improvement; Provincial Road Improvement	Financial Sector Dev (FSP) II; GMS Mekong Tourism Dev; Agriculture Sector Dev; Upper Second Education Dev; and Housing Finance	Public Admin Reform; Phuoc Hoa Water Resources; and Central Region Urban Environment Improvement	Health Care in Central Highlands; SME Sector Dev; Second Lower Secondary Education Dev; FSP II (Subprogram II); Support to Implementation of Poverty Reduction Program (SIPRP I); and Northern Power Transmission	Preventive Health System Support; Central Region Transport Network; Northern Power Transmission Expansion; SIPRP II-as outlined by PRSC 4; Central Region Water Resources; GMS Kunming-Haiphong Transport Corridor—Noi Bai-Lao Cai Expressway Technical Assistance	
Ongoing Projects	Agriculture = 17.4%; Education = 12.8%; Energy = 6.4%; Financial = 8.3%; Health = 6.7%; Industry and nonfuel mineral = 3.7%; Law = 3.0%; Multisector = 12.2%; Transport and communications = 20.0%; Water supply = 9.5%. (As of 31 August 2005)					

CPRGS = Comprehensive Poverty Reduction and Growth Strategy; GMS = Greater Mekong Subregion; PRSC = Poverty Reduction Support Credit; SEDP = Socioeconomic Development Plan; SME = small and medium sized enterprise; VDR = Vietnam Development Report.

Nam Business Forum, People's Participation Working Group, and Public Administrative Reform Partnership. Key monitoring programs for measuring impact on poverty include the 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. The Government presents its annual CPRGS progress report in December at the Consultative Group meeting.

#### **4. Financing**

7. ODA resources of approximately US\$225 million are expected to fund PRSC 4 operations. Led by the World Bank, which has already approved a US\$100 million credit from the International Development Association to support PRSC 4, the other three cofinanciers will provide support in the form of concessional loans, namely ADB (US\$15 million), Japan Bank for International Cooperation (US\$22.8 million equivalent loan), and Agence Française de Développement (€10 million). The remaining seven cofinanciers will contribute financial support as grants. They include Agencia Española de Cooperación Internacional (€2 million), Canadian International Development Agency (Can\$6.0 million), Denmark (US\$10.8 million equivalent), European Commission (€8 million), Ireland (€1.5 million), Netherlands (€8 million), and the United Kingdom's Department for International Development (£20 million).

#### **5. Progress with Implementation**

8. The Government has steadily pursued its reform agenda. It recently completed the first annual progress report on growth and reduction of poverty for 2003–2004. The CPRGS progress report was presented at the midterm Consultative Group meeting in June 2005 and indicated that implementation of the reform agenda was on schedule. Although considerable progress in the transition to a market economy has been achieved, the Government recognizes that to keep development inclusive and to modernize governance, important challenges remain. Key recommendations of the CPRGS progress report include (i) improving the coordination between the ministries, agencies, and provincial governments for CPRGS implementation; (ii) strengthening the capacity of the ministries, agencies, and provincial governments in the preparation of their respective 5-year plans (2006–2010) linking with the CPRGS; (iii) strengthening data collection and analysis for plan implementation, monitoring, and evaluation; (iv) continuing to integrate the targets and policies of the strategy in the 5-year socioeconomic development plan (SEDP) (2006–2010) and the annual development plan 2006; (v) strengthening the participation of the community/population in the planning, monitoring, and evaluation of the SEDP; (vi) designing the handbook on integrating the CPRGS in the SEDP; and (vii) strengthening resource mobilization for implementing the objectives and targets of the development plan. The Government presented the Viet Nam Report 2005 on Implementation of the Millennium Development Goals and Vietnam development goals. This report is still in the process of generating comments from various stakeholders, including development partners. In September 2005 this report will be presented at the United Nations in New York. It is a laudable effort of the Government to finalize this specific report.

9. Over the last 12 months, the Government has adopted many substantive actions for implementing its socioeconomic reform agenda. It has taken steps for trade liberalization in pursuit of World Trade Organization (WTO) accession and integration with the world economy. The Government has substantially accelerated the pace of ownership transformation of state-owned enterprises, improved the transparency and accountability in the financial sector,

strengthened the regulatory framework for policy lending by the Government, encouraged competition in telecommunications, and unified corporate tax rates. Several initiatives are currently under way to strengthen the capacity of the Ministry of Finance to exercise the state's shareholders rights. A production of more reliable data on state-owned enterprises (SOEs) and state-owned commercial banks (SOCBs) is much needed.

10. In respect of social inclusion and environmental sustainability, Viet Nam has ensured appropriate budget allocation for education and for contribution to the provincial health funds for the poor; raised the quality standards of primary education, and adopted a multisector action program to implement its national human immunodeficiency syndrome/acquired immunodeficiency virus (HIV/AIDS) strategy. To improve environmental management, the Government has implemented the polluter pays principle, issued regulations to handle the worst pollution offenders, and strengthened the environmental assessment capacity of local administrations. The new Land Law—effective 1 July 2004—supports access to land for all sectors and recognizes community land-use practices—an important issue for upland and ethnic minority areas.

11. To build modern governance, the Government has taken measures to increase transparency in public finances, improve financial accountability, and ensure dissemination of its legal documents and consultation with stakeholders. It continues to move forward on public administration reform by simplifying administrative procedures using the one-stop shop model. It has taken steps to strengthen the public procurement process, and to curb abuses in business transactions. The Government intends to integrate the CPRGS approach into future 5-year and 1-year planning processes. A series of consultations on the SEDP (2006–2010) was conducted in more than 10 provinces (ongoing and planned including Ben Tre, Cao Bang, Gia Lai, Hoa Binh, Ninh Binh, Ninh Thuan, Quang Tri, and Thua Thien-Hue). Preliminary results are encouraging since the quality of inputs/community feedbacks as well as the sense of ownership is highly appreciated by the different stakeholders (i.e., provincial governments, agencies, private sector, and especially different groups of the communities).

## **B. Socioeconomic Performance and Key Policy Issues**

12. The overall assessment of the Government shows that economic growth has only nearly reached the planned targets but productivity is still low. Contribution to growth mainly comes from capital and labor. Though scientific and technological factors have been promoted, they only account for a small proportion. The current quality of development is shown in three aspects: economically, the competitiveness of products as well as the whole economy is still limited and weak; socially, social advances are not parallel to economic growth, social evils still prevail, social morality worsens, corruption has become more serious; environmentally, the environment has been badly polluted and ruined, as no effective solution has been found.

13. While the Government has had great success in reducing poverty, regional income disparity remains a concern. The recent DFID *Vietnam Inequality Report 2005: Assessment and Policy Choices* (June 2005) provides new insights and directions for pro-poor and pro-equity growth. Key “drivers of inequality” such as state-sector bias, urban bias, secondary education bottleneck, limited access to safety nets, gender bias, multiple reinforcing vulnerabilities of ethnic minorities, and corruption will provide inputs for the formulation process of the SEDP (2006–2010). Coastal development and further urbanization should cater to the employment needs of the surplus labor coming from rural areas. This should also take into account possible restructuring and modernization of the agriculture sector.

14. Agriculture continues to develop. The production value of agriculture, forestry, and fisheries, on average, has increased by 5.4% for the past 5 years, higher than the planned target of 4.8%. The production value of agriculture increased by 4.0%, forestry by 1.3%, fisheries by 10.7%. The average added value of agriculture, forestry, and fisheries is 3.6% (the target is from 4.0% to 4.3%). Agricultural production has moved in the direction of producing goods with higher quality and value, which is responsive to market demands. However as in the past, agriculture sector growth resulted from (i) reliance on higher input use (labor, land, fertilizer, tractors, and irrigation); (ii) policy reforms for land, markets, and trade; and (iii) high public investment, mainly in irrigation and roads. This strategy will not likely be able to sustain growth in the future because (i) the potential for expanding the rural labor force and land under cultivation is limited; (ii) new investment in irrigation exhibits decreasing marginal returns, as the stock of irrigation capital is already very high and requires increased operation and maintenance rather than new expansion; and (iii) net revenue from rice export is declining. Viet Nam is already experiencing overproduction of rice, coffee, and other commodities, and declining export revenues from unprocessed primary commodities.

15. The Government has made a good progress in specializing in a number of agriculture and fishery products (e.g., coffee, shrimps, catfish) and by taking advantage of increased market access to regional and international high-income countries. However, predominantly traditional farming practices that produce relatively low-value crops are holding back further success. Advanced agriculture technology needs to be developed and disseminated. Agribusinesses and small- and medium-sized enterprises need to be developed for agroprocessing to increase added value. Credit delivery to farmers needs to be improved, with consideration for introducing crop and livestock insurance schemes in collaboration with the private sector or by promoting a full-fledged microfinance system.

16. Carefully planned and efficiently managed large infrastructure projects such as seaports, airports, power plants, and national railways and roads properly linked with feeder roads can actively contribute to national socioeconomic development, as well as regional and international economic integration. Nationally and subregionally they help (i) strengthen linkages between poor and developed regions; (ii) provide access to socioeconomic opportunities as well as public services; (iii) create conditions for exploiting local resources for meeting national, regional, and international demands; (iv) improve connectivity between people and businesses; and (v) eventually facilitate transformation of economic structures toward industrialization.

17. The Government has emphasized the importance of large infrastructure development in the context of economic growth and poverty reduction. Infrastructure development also has a subregional dimension, whereby the potential demand from neighboring countries/subregions should be taken into account. Development of large infrastructure will require large capital investments. Preliminary estimates suggest that in total the Government will need to invest about 35% of gross domestic product over the next 15 years to achieve the planned growth rate of 7.5% per year.<sup>3</sup> Better project planning, implementation, and management, following internationally accepted good practices, coupled with necessary policy and institutional reforms to facilitate trade (including customs- and immigration-related reforms) will be required to ensure the expected net economic benefits are fully realized.

18. In the country the realization is growing that serious environmental degradation and insufficient investment in environmental protection and management are beginning to impinge

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<sup>3</sup> Based on the preliminary results of a recent joint study by the Government and ADB.

on the country's economic productivity. This could adversely affect economic competitiveness, result in productivity losses due to pollution-related health problems in the workforce, and reduce the welfare and quality of life of the people. The Prime Minister approved the National Strategy for Environmental Protection until 2010 and Vision towards 2020 on 2 December 2003. The strategy outlines the rapid deterioration of the environment and offers 36 priority programs to strengthen environmental protection through the expected future of continued rapid industrialization and modernization. Viet Nam's Agenda 21 was approved in August 2004, and a new, expanded environmental protection law is expected to be approved in 2005.

19. To achieve efficient management of its development process and poverty reduction, the Government should ensure (i) transparency and accountability of central as well as local budget/spending; (ii) proper accounting and auditing of public revenue and expenditure; (iii) simplification and harmonization of internal central and provincial procedures; (iv) accelerated implementation of public administration reform (including computerization of state administration, and training of civil servants to build local capacity/capabilities); and (v) regular monitoring and evaluation of development projects, involving beneficiaries and civil society.

20. The Government is preparing a new 5-year SEDP (2006–2010). The plan will be fundamentally different from the past 5-year plans. The next plan will anticipate further opening of the economy through implementation of the Association of Southeast Asian Nations (ASEAN) Free Trade Area; bilateral agreements with the European Union, Japan, and the United States; and WTO commitments. This will result in increased access to regional and global markets, and increased external competitive pressure (through imports) for domestic suppliers, which may result in short-term adjustment costs affecting mainly poor households. A major thrust of the next 5-year plan should be on removing development weaknesses and exploiting the country's opportunities and strengths.

21. On the macroeconomic front, prudence is required to ensure stability and sustain high economic growth and poverty reduction. The Government should aim to achieve economic growth from (i) more efficient utilization of existing stock of capital (i.e., improving competitiveness by removing inefficiencies, and maximizing capacity utilization in productive sectors); and (ii) efficient allocation and use of new capital investments (i.e., health and education, infrastructure development, modernization and restructuring of agriculture, industry, and service sectors). New investments should ideally be maintained around 35% of the gross domestic product, above this level may mean excess money supply leading to high inflation and other associated problems as the economy may have difficulty absorbing that extent of additional capital deployment.

22. On the social front, income disparity, both geographic and demographic, will increase if economic growth is not socially inclusive, and policy loopholes and weak governance continue. Reducing poverty for the remaining 29% of the population will become increasingly difficult. ODA (i.e., grants and soft loans) should be targeted at developing remote areas and reducing chronic poverty. The implementation of the ASEAN Free Trade Area and WTO commitments (assuming successful WTO accession in 2005) should be carefully planned and monitored to mitigate likely social costs.

23. The Government has indicated that the next 5-year plan will be integrated with the CPRGS and the master program for public administration reform (2001–2010). This would mean (i) integrating CPRGS strategic and process elements into socioeconomic development planning, and (ii) strengthening public administration to efficiently implement Government policies and provide public services to people and businesses.

## C. Chronology

### 1. Background

24. During the Country Programming Mission of ADB (15 April–4 May 2005), the Government formally asked ADB to provide financing for implementation of the CPRGS,<sup>4</sup> under the multi-development partner assisted PRSC 4 led by the World Bank.<sup>5</sup> ADB, recognizing the importance of this request and the Government's commitment to poverty reduction, responded positively. Subsequently, the proposed program loan was considered "firm" for 2004 in the Country Strategy and Program Update 2005,<sup>6</sup> and endorsed by the ADB Board of Directors on 30 August 2004.

25. Preparatory work to formulate PRSC 4 was initiated in September 2004 with the involvement of key development partners and government agencies. ADB was invited to participate in the formulation of PRSC 4, including in the policy discussions and negotiations with the Government. On behalf of the Government, SBV coordinated the overall processing of PRSC 4. For the development partners, the formulation process was led by the World Bank.

### 2. The Program Loan Proposal Formulation Process

26. From the outset, the Government and the ADB mission recognized the very tight timetable within which the ADB loan proposal had to be prepared, and the need to ensure that the program loan proposal be conceived as substantive, credible, and defensible. From the ADB perspective, for a program loan proposal, the Government had to (i) demonstrate commitment and support at all government levels, and (ii) facilitate the fullest possible participation by all key stakeholders during the formulation and implementation of the program loan. These two crucial conditions were accomplished during PRSC 4 processing.

27. The Fact-Finding Mission from 15 April–4 May 2005, used the diagnostic work on the issues and challenges that the Government is seeking to address in PRSC 4 under the CPRGS framework. The mission identified the policy and institutional measures, actions, and implementation arrangements necessary to ensure effective CPRGS implementation utilizing ODA funding. The mission reached an understanding with the Government and other development partners on the objectives, scope, financing, and implementation arrangements for the proposed loan. The Government proposed that the processing of the loan follow simplified procedures since ADB was one of the key development partners that had participated in the preparation of the CPRGS and formulation of PRSC 4; PRSC 4 has already been approved by the Government and the World Bank, and the Government would follow simplified procedures for its internal processing and approval.

28. To reduce transaction costs for the Government and ADB, the mission pursued the possibility of applying a program-based approach in close consultation with ADB's Strategy and Policy Department. This approach is in line with ADB's recent move to adopt program-based

<sup>4</sup> Ministry of Planning and Investment. 2003. *The Comprehensive Poverty Reduction and Growth Strategy*. Hanoi.

<sup>5</sup> Following the joint processing of PRSC 4, the World Bank approved a US\$100 million International Development Association credit. Details can be found in International Development Association Program document for a proposed credit for SDR69.0 million (\$100 million equivalent) to the Socialist Republic of Viet Nam for a third Poverty Reduction Support Operation, 25 May 2004.

<sup>6</sup> ADB. 2004. *Country Strategy and Program Update (2005–2006): Viet Nam*. Manila.

and sector approaches.<sup>7</sup> The approach is not only consistent with ADB's *Reform Agenda Today: Achieving Results Together*<sup>8</sup> but also with the Rome Declaration on harmonization of procedures of multilateral development banks (February 2003) and the recent Paris Declaration on Aid Effectiveness (February–March 2005).

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<sup>7</sup> Sector approaches have been adopted in ADB's operations in Bangladesh and Cambodia.

<sup>8</sup> President Chino's memo on *ADB's Reform Agenda Achieving Results Together* of 25 August 2004.

## DEVELOPMENT PARTNERS COORDINATION MATRIX

Development Partner	Main Areas of Involvement in Policy Dialogue	PRSC 4 Cofinancing	
		Amount	Modality
Asian Development Bank (ADB)	Trade integration, financial sector reform, infrastructure, education, health, land, water, environment, gender, planning processes, financial accountability, public administration reform, legal development, anticorruption	US\$15 million	A single tranche program loan on the Fourth Poverty Reduction Support Credit (PRSC 4) policy framework
Agencia Española de Cooperación Internacional	Land, water, environment, social protection, planning processes	€2 million (about US\$2.4 million)	Planning to provide parallel financing to the state budget as a grant
Agence Française de Développement/ France	SOE reform, financial sector reform, infrastructure, water	€10 million (about US\$12.2 million)	Planning to provide parallel financing to the state budget as a grant
Canadian International Development Agency	Trade integration, financial sector, private sector development, education, health, environment, gender, public financial management, anticorruption, legal reform	CDN\$6 million (about US\$5 million)	Grant
Danish International Development Agency (Danida)	Trade integration, state-owned enterprise (SOE) reform, private sector development, land, water, environment, planning processes, public financial management, financial accountability, public administration reform/legal development, anticorruption, legal reform, social protection	DKr65 million (about US\$10.8 million)	Grant
Department for International Development (DFID, United Kingdom)	Trade integration, SOE reform, private sector development, infrastructure, education, environment, gender, planning processes, public financial management, financial accountability, anticorruption, social protection	£20 million (about US\$35.9 million)	Grant. Planned to cofinance the same amount for PRSC 5
European Commission (EC)	Trade integration, SOE reform, financial sector reform, private sector development, planning processes, public financial management, financial accountability	€8 million (about US\$9.8 million)	Grant. Plan to cofinance €8 million for PRSC 5
Ireland		€1.5 million (about US\$1.8 million)	Grant

Development Partner	Main Areas of Involvement in Policy Dialogue	PRSC 4 Cofinancing	
		Amount	Modality
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	¥2.5 billion (about US\$22.8 million)	Will provide concessional parallel lending with a separate loan agreement following PRSC 4 policy framework
Netherlands Ministry of Development Cooperation (NMDC)	Trade integration, financial sector reform, health, water, environment, gender, public financial management, financial accountability, public administration reform, legal development, anticorruption	€8 million (about US\$9.8 million)	Grant
World Bank	All	US\$100 million	A single-tranche program loan with standard International Development Association terms. World Bank Board approved on 30 June 2005 and the Development Credit Agreement was signed on 15 September 2005.
<b>Total</b>		<b>Approximately US\$225 million</b>	

Source: World Bank. 2005. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Fourth Poverty Reduction Support Operation* (23 May 2005). Washington DC: World Bank.

## POLICY MATRIX AND COMPLIANCE STATUS

Table A4.1: Policy Matrix

Sector	Pillar I: Transition to a market economy
	Actions achieved under PRSC 4
Trade integration	<ul style="list-style-type: none"> <li>• <b>Make strong progress in the multilateral and bilateral negotiations towards the World Trade Organization (WTO) accession by reaching the stage for a full draft Working Party Report and completing bilateral negotiations with six partners.</b></li> <li>• Issue regulations on import licensing in accordance with WTO requirements.</li> <li>• Eliminate 80% export requirements on foreign direct investments.</li> <li>• Establish a national Sanitary and Phyto-sanitary (SPS) notification body and Enquiry Point with clear terms of reference.</li> <li>• Issue Customs Law for electronic environment, self-assessment, risk management and post audits.</li> </ul>
SOE reform	<ul style="list-style-type: none"> <li>• <b>Issue a much narrower list of sectors where 100% state ownership is to be retained through Prime Minister's Decision 155/2004/QD-Ttg.</b></li> <li>• <b>Strengthen the mechanisms for the equitization of SOEs, including the auctioning of shares and requiring that valuations be carried out by outside agencies through Decree 187/2004/ND-CP.</b></li> <li>• Adjust SOE restructuring plans in line with the narrower list for 100% state ownership.</li> <li>• Equitize a number of large SOEs with substantive participation of outside investors.</li> <li>• Introduce holding company model allowing General Corporations (GCs) to exercise control over their affiliated SOEs.</li> </ul>
Financial sector reform	<ul style="list-style-type: none"> <li>• <b>Confirm the principle of separation of SBV's SOCBs management functions from its supervisory functions.</b></li> <li>• <b>Issue regulations applicable to all SOCBs requiring them to classify loans on the basis of international accounting standards.</b></li> <li>• Produce an estimate of the current stock of NPLs in SOCBs, based on IAS.</li> <li>• Adopt credit manuals, internal audit committees and loan computerization in all SOCBs.</li> <li>• Submit a decree establishing an anti-money laundering regime.</li> <li>• Enact a regulatory framework for the operation and supervision of microfinance institutions.</li> </ul>
Private Sector	<ul style="list-style-type: none"> <li>• Issue a new Competition Law limiting the dominant market position of SOEs.</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>• <b>Enact the Electricity Law which (a) allows the equitization of Electricity of Viet Nam subsidiaries, and (b) establishes an electricity regulatory agency.</b></li> <li>• Create a regulatory framework for network interconnection in telecommunications.</li> <li>• Reduce traffic accidents by 15% through an integrated set of preventive measures.</li> </ul>
Pillar II: Inclusive and sustainable development	
Education	<ul style="list-style-type: none"> <li>• <b>Complete the evaluation of 7% of all teachers based on the new Primary Teacher Profile for career development.</b></li> <li>• Audit all primary schools nationwide against Fundamental School Quality Levels (FSQLs).</li> <li>• Open the tertiary education level to private sector participation.</li> </ul>

Sector	Actions achieved under PRSC 4
Health	<ul style="list-style-type: none"> <li>• Issue an action plan for tuberculosis prevention, accounting for its interaction with HIV/AIDS.</li> <li>• Strengthen the regulation and pricing of pharmaceuticals.</li> </ul>
Land and forests	<ul style="list-style-type: none"> <li>• <b>Enact the Law on Forest Protection and Development.</b></li> <li>• Improve the implementation of the Land Law, focusing on land registration and land valuation.</li> <li>• Issue State Forestry Enterprises (SFE) decree, including the transfer of land to households, communities and the private sector.</li> </ul>
Environment	<ul style="list-style-type: none"> <li>• <b>Submit the draft Amended Law on Environmental Protection to the National Assembly for approval, and submit the draft implementing decree to the Government.</b></li> <li>• Issue directive to strengthen the management of solid waste in urban and industrial zones.</li> </ul>
<b>Pillar III: Modern governance</b>	
Planning processes	<ul style="list-style-type: none"> <li>• <b>Integrate the CPRGS approach in the preparation of the Socioeconomic Development Plan (SEDP) 2006-2010, namely the principles of strategic planning, consultation, outcome orientation and monitoring.</b></li> <li>• Scale up the CPRGS roll out process to a more determined effort to improve provincial planning.</li> <li>• Enhance the decentralization of public investment decisions to lower government levels.</li> </ul>
Public financial management	<ul style="list-style-type: none"> <li>• <b>Issue regulations to improve financial disclosure for all state budget entities, including SOEs, requiring among other information, disclosure of their annual budget allocations, budget plans and final accounts.</b></li> <li>• <b>Launch an assessment of the fiscal risks associated with SOEs, SOCBs and Development Assistance Fund.</b></li> <li>• Approve a public expenditure review leading to better integration of capital and recurrent budgets.</li> <li>• Facilitate community participation and supervision in local investment projects.</li> </ul>
Financial accountability	<ul style="list-style-type: none"> <li>• <b>Enact the Law on State Audit stipulating that the State Audit of Viet Nam (SAV) is an independent specialized agency established by the National Assembly.</b></li> </ul>
Legal development	<ul style="list-style-type: none"> <li>• Establish the prevalence of treaties, including WTO agreements, over national legislation.</li> </ul>
Public administration	<ul style="list-style-type: none"> <li>• Better align civil service pay to the market alternatives of government employees.</li> </ul>
Anticorruption	<ul style="list-style-type: none"> <li>• <b>Establish a framework to increase the effectiveness of anticorruption actions, by formulating a program of organizational and operational reforms, institutional capacity building and human resources development for the State Inspectorate, designed to increase its effectiveness and efficiency in preventing and combating corruption.</b></li> <li>• Make public the results of a pilot diagnosis of corruption and its modalities in seven cities.</li> <li>• Publish public tenders, list of bidders, and awards for large projects in the procurement bulletin.</li> </ul>
Information availability	<ul style="list-style-type: none"> <li>• <b>Strengthen the criteria for measuring poverty and targeting the poor by bringing them more into with international standards.</b></li> </ul>

Note: The actions highlighted in **bold** are tranche conditions as documented in the World Bank's Development Credit Agreement. The other actions were achieved but were nontranche conditions.

Source: World Bank. 2005. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Viet Nam for a Fourth Poverty Reduction Support Operation* (23 May 2005). Washington DC: World Bank.

**Table A4.2: Compliance Status of Policy Actions/Conditions**

Action/Condition	Progress
<p>1. The Borrower has made strong progress in multilateral and bilateral negotiations toward its World Trade Organization (WTO) accession by reaching the stage for a full draft working party report and completing bilateral negotiations with six partners.</p>	<p>Accession to WTO requires agreements from all WTO members. In 1995 28 WTO members had not decided to support Viet Nam's bid for WTO accession. The Working Party was established by the WTO in 1995 to support and monitor Viet Nam's membership negotiation. The meetings between the Working Party and Viet Nam's Negotiation Team (led by the interministerial National Committee on International Economic Cooperation) are held semiannually to address emerging issues and agree on specific points for Viet Nam's accession. The semiannual meeting held in June 2004 marked a milestone that allowed Viet Nam to proceed and accelerate bilateral negotiations with the 28 WTO members. Subsequent to the June 2004 meeting, the Working Party released the <i>Report of the Working Party on the Accession of Viet Nam</i> (WT/ACC/SPEC/VNN/5 22 November 2004), which captured the general agreement between the multilateral Working Party and Viet Nam's Negotiation Team. As of end 2004, Viet Nam completed negotiations with 6 WTO members, including Argentina, Brazil, Chile, Cuba, European Union, and Singapore. On 7 April 2005, the Working Party released a supplementary document, <i>Additional Questions and Replies</i> (WT/ACC/VNM/36). As of June 2005 when the World Bank approved Poverty Reduction Support Credit (PRSC) 4, Viet Nam had completed bilateral negotiations with 11 more partners and as of mid-September 2005, 3 more, for a total of 20 partners.</p>
<p>2. The Borrower, through Prime Minister's Decision 155/2004/QD-Ttg of 24 August 2004, has narrowed the list of sectors in which exclusive state ownership is to be maintained.</p>	<p>Decision 155/2004/QD-Ttg was issued to replace Decision 58/2002/QD-Ttg issued by the Prime Minister on 26 April 2002. Decision 58 (i) specified criteria for classifying state-owned enterprises (SOEs) and general corporations, and (ii) issued a list of sectors where the state must retain 100% ownership or more than 50% ownership. Decision 155 reduced the list of sectors to which full state control is justified. More and larger SOEs are now in the equitization category.</p>
<p>3. The Borrower, through Decree 187/2004/ND-CP of 16 November 2004, has strengthened mechanisms for equitization of SOEs, including by auctioning shares and requiring that valuations be carried out by outside agencies.</p>	<p>On 16 November 2004, the Government issued Decree 187/2004/ND-CP on the transformation of SOEs to joint stock companies, which eases the participation of outsiders, and improves the valuation of SOE assets. Subsequently on 24 December 2004, the Ministry of Finance (MOF) issued Circular 126/2004/TT-BTC giving the guidelines on the implementation of Decree 187.</p>
<p>4. SBV has confirmed the principle of separation of its SOCB management functions from its supervisory functions.</p>	<p>On 20 May 2005, the SBV governor sent the World Bank's country director a letter on the main orientation of banking reform in the next 5 years. The letter announced separation of SBV's management of SOCBs from its supervision functions. This letter envisages the transformation of SBV into a modern central bank, charged with the conduct of monetary policy in compliance with market principle and financial sector supervision. The commercial orientation and autonomy of SOCBs is another key objective of this reform.</p>

Action/Condition	Progress
5. SBV has issued regulations applicable to all SOCBs requiring them to classify loans on the basis of international accounting standards	On 22 April 2005, the SBV Governor issued Decision 493/2005/QD-NHNN on the regulations on loan classification, making of provisions, and utilization to address credit risks in banking activities of credit institutions. In fact, these regulations are applicable to all commercial banks including SOCBs.
6. The Electricity Law has been enacted (i) allowing equitization of Electricity of Viet Nam subsidiaries, and (ii) establishing an electricity regulatory agency.	The National Assembly passed the Electricity Law on 3 December 2004. The law became effective on 1 July 2005.
7. The Borrower, through the Ministry of Education and Training, has completed the evaluation of 7% of all teachers based on the new Primary Teacher Profile for career development.	Through the World Bank's Primary Teacher Development Project, Ministry of Education and Training officials and World Bank staff completed a preliminary assessment report, including an evaluation of all teachers based on the new Primary Teacher Profile (25,000 of 360,000 primary teachers) in May 2005.
8. The Law on Forest Protection and Development has been enacted.	The National Assembly passed the Law on Forest Protection and Development on 3 January 2005. The law became effective on 1 April 2005.
9. The draft Amended Law on Environmental Protection has been submitted to the National Assembly for approval, and the draft implementing decree has been submitted to the Government.	The draft Amended Law on Environment Protection was submitted to the National Assembly at the first session in May 2005. It will be resubmitted for approval at the second session in November 2005. The draft decree guiding implementation of the law and the draft decree on violation settlement were also submitted to the Government. Subsequent to the passage of the amended law envisaged in November 2005, the two decrees are expected to be issued in early 2006.
10. The Borrower is integrating the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) approach into the preparation of the Socioeconomic Development Plan (SEDP) 2006–2010, namely the principles of strategic planning, consultation, outcome orientation, and monitoring.	<p>The CPRGS approach: The SEDP has been prepared using the same approach used for the preparation of the CPRGS: (i) outcome-oriented and results-based by setting specific Viet Nam Development Goals to be achieved by the end of the 5-year cycle, (ii) based on good analysis and background to generate good analytical documents, (iii) includes monitoring and evaluation mechanisms, and (iv) involves wide consultation with all stakeholders.</p> <p>The progress: The results are evident in good quality of the draft SEDP, completed in August 2005. The draft SEDP has been reviewed and commended by all the stakeholders, including the development community, civil society, and grassroots communities. Consultation with the grassroots communities was conducted in nine provinces or more and in three regional workshops. Most importantly, a results-policy framework was developed for the SEDP.</p>

Action/Condition	Progress
<p>11. The Borrower, through the Ministry of Finance, has issued regulations to improve financial disclosure of all state budget entities, including SOEs, requiring among other information, disclosure of their annual budget allocations, budget plans, and final accounts.</p>	<p>1. On 16 November 2004, the Prime Minister issued Decision 192/2004/QĐ-TTg on regulations on financial disclosure of all levels of state budgets, state budgetary entities, state budget supported organizations, basic construction projects using state budget, state-owned enterprises and funds from state and people's contribution sources.</p> <p>2. On 6 January 2005, MOF issued Circular 03/2005/TT-BTC guiding the regulations on financial disclosure of all levels of state budgets.</p> <p>3. On 11 March 2005, MOF issued Circular 19/2005/TT-BTC issuing guidelines for financial disclosure of funds from state and people's contribution sources.</p> <p>4. On 22 March 2005, MOF issued Circular 21/2005/TT-BTC guiding the implementation of regulations on financial disclosure of state budgetary entities and state budget supported organizations.</p> <p>5. On 14 April 2005, MOF issued Circular 29/2005/TT-BTC guiding the regulations on financial disclosure of SOEs.</p>
<p>12. The Borrower has launched an assessment of the fiscal risks associated with SOEs, SOCBs, and the Development Assistance Fund.</p>	<p>The Government and the World Bank organized the Public Expenditure Review and Integrated Fiduciary Assessment (PER-IFA) workshop (13–14 April 2005) in Danang City, Viet Nam, to launch the assessment. On 4 May 2005, the joint Government-World Bank report on PER-IFA was published. The PER-IFA recommended an assessment of fiscal risks associated with SOEs, SOCBs, and the Development Assistance Fund.</p>
<p>13. The Law on State Audit has been enacted stipulating that the State Audit of Viet Nam is an independent specialized agency established by the National Assembly.</p>	<p>On 25 May 2005, the National Assembly passed the State Audit Law, which transformed the State Audit into an independent specialized agency established by the National Assembly.</p>
<p>14. The Borrower has established a framework to increase the effectiveness of anticorruption actions by formulating a program of organizational and operational reforms, institutional capacity building, and human resources development for the State Inspectorate, designed to increase its effectiveness and efficiency in preventing and combating corruption.</p>	<p>The Research Institute of the Government Inspectorate formulated and completed an overview of the program to strengthen comprehensive capacity of the Inspectorate system. In addition, the Government Inspectorate completed an indicative action plan for the first year of the program (Quarter 4, 2005 to Quarter 4, 2006). This overview program framework includes a framework for government-aid cooperation on key components of its emerging anticorruption approach. Results from the first comprehensive study on the modalities and mechanisms of corruption were presented to the development partners.</p>
<p>15. The Borrower has strengthened the criteria for measuring poverty and targeting the poor by bringing them more into line with international standards.</p>	<p>On 5 July 2005, the Ministry of Labor, Invalids and Social Affairs issued Document 2128/LĐTBXH on the new poverty line for 2006–2010. On 8 July 2005, the Prime Minister issued Decision 170/2005/QĐ-TTg, which approved the new poverty line to be applied for 2006–2010. The criteria for measuring poverty and targeting the poor were strengthened. The new poverty line is more in line with international standards of poverty measurement. As a result, more people will be classified as poor and more people will be eligible to benefit from the Government's poverty targeted programs.</p>



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Hanoi, September 26, 2005

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

Dear Mr. President,

Since the beginning of *Doi Moi* almost two decades ago, the Government of Viet Nam has unrelentingly endeavored to institutionalize an ambitious economic reform agenda. The Government has been continuously formulating and implementing this economic reform agenda as described in a series of Government strategies and plans. The most comprehensive summary of the reform agenda is presented in the Ten-Year Socio-Economic Development Strategy (2001-2010). Key planning documents for the period covered by the ongoing cycle of Poverty Reduction Support Credits (PRSCs) are the Five-Year Socio-Economic Development Plan (SEDP) 2001-2005 and the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The CPRGS was formulated and adopted in 2002 to concretize the reform agenda and reaffirm its commitment to poverty reduction; this was the same year that the Government signed a poverty reduction partnership agreement with ADB. In 2003, the CPRGS was also expanded to include a development policy for large-scale infrastructure.

The Government's reform program envisions a path of transition towards a market economy with socialist orientation, while achieving the twin goals of high economic growth and substantive poverty reduction. The CPRGS was prepared with the assistance of the donor community, including the ADB, and in consultation with stakeholders and civil society. The CPRGS has been used as an action plan for achieving the envisioned goals. The CPRGS spells out clear development targets, identifies appropriate policies to attain those targets, and seeks to align resources to those policies. The Viet Nam Development Goals, which are Vietnam's version of the Millennium Development Goals, are among the targets of the CPRGS. The policies considered encompass three main areas: high growth through completion of the transition to a market economy; an equitable, socially inclusive and environmentally sustainable pattern of growth; and the modernization of governance systems.

We view this ADB assistance (the program loan) as being supportive of the Government's entire poverty reduction and growth strategy and ensuing PRSC reform agenda, which is consistent with ADB's Poverty Reduction Strategy, and Poverty Reduction Partnership Agreement with Viet Nam. ADB's assistance will contribute towards financing the cost of adjustment resulting from PRSC 4 policy matrix. To date this program has been supported by Poverty Reduction Support Credits (PRSCs) from the International Development Association with co-financing from other bilateral and multilateral donors. The policy actions under the proposed program loan reflect the reform directions set out in our planning documents and in the CPRGS in particular.

The actions supported by the proposed program loan also reflect the emerging reform agenda for the next planning cycle, when the CPRGS approach will be fully integrated in the five-year SEDP 2006-2010. The integration will require a broad consultation with stakeholders within the Government agencies as well as civil and donor communities. Key agendas of the consultation will include both the attainment of development outcomes such as the Viet Nam Development Goals and the strengthening of monitoring and evaluation mechanisms. The integration of the CPRGS approach into the SEDP, together with its previous expansion to address infrastructure policies, eliminates the need for two separate planning documents.

As we are approaching the end of one planning period and defining the directions for the next one, we have formulated many policy actions based on both existing strategies and emerging directions. All of these emerging directions, jointly with the CPRGS and other planning documents of the Government, have shaped the policy actions supported by this proposed program loan. The opening speech of Deputy Prime Minister Nguyen Tan Dung to the seventh session of the National Assembly on 5 May 2005 articulated the same themes and reviewed some of the same actions covered by PRSC 4. 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 Viet Nam's reform agenda.

With respect to the first reform area of our development strategy, we have made a great effort to steer the transition to a market economy. In fact, the past two years have been characterized by intense efforts to accelerate Viet Nam's accession to the WTO and to integrate with the world economy, which in turn has influenced policy actions related to international trade and legal framework. Over the past twelve months we have made significant progress in multilateral and bilateral negotiations towards WTO accession. We have also reduced substantially the number of activities where full state-ownership is to be retained, especially through the auctioning of shares. Regarding banking reform, an ambitious strategy has been prepared for the coming five years with some important steps undertaken recently. Actions undertaken to improve transparency and accountability in the financial sector include the issuance of an anti-money laundering decree and a microfinance institution decree, both of which benefited from ADB advisory technical assistance projects. We have also continued creating an enabling environment for private sector development, especially through the issuance of a new Competition Law limiting the dominant market position of SOEs; and a strengthened legal framework that allows private participation in the electricity and telecommunication sectors. These actions can be traced to Part III sections I and II, and Part IV of the CPRGS.

With respect to the second reform area, we have taken a number of important steps to ensure social inclusion and environmental sustainability through education, health, land and forest and environment policies. In line with the National Education for All Action Plan 2003-2015 and our Education Development Strategy 2001-2010, we have taken steps to improve the quality of primary education and to open up tertiary education to private providers. Through health policy, we issued an action plan for tuberculosis prevention, accounting for its interaction with HIV/AIDS and strengthened the regulation and pricing of pharmaceuticals. To improve environmental management, we have passed a new Law on Forest Protection and Development, improvements in the implementation of the revised Land Law and the development of guidelines to govern the transfer of land from State Forestry Enterprises to households and communities. Actions in these areas are related to Part V section I, Part III sections I and III, and Part IV section IV of the CPRGS.

With respect to the third reform area, we have instituted a number of measures to build modern governance. In November 2004, the Government described the progress it had made in implementing the CPRGS in the second Annual Progress Report. This report explains the reforms we are introducing to the overall planning framework. The new direction is reflected in the decision to base the SEDP on robust data and evidence and to link the proposed policies to both a monitoring framework and resource needs. We have also taken a number of actions to strengthen public financial management and increase transparency. Increased financial disclosure for all state budget entities, and the transformation of the State Audit of Viet Nam into an independent specialized agency, are among those actions. As you are aware of our strong commitments and partnership with ADB in implementing the Public Administration Reform Master Program, we also continue to move forward on public administration reform under this proposed program loan by aligning civil servants' salaries with the market. These actions correspond to Part VII Section I, and Part III sections I and II in the CPRGS. Our intention to integrate the CPRGS approach into future five-year and one-year planning processes is described in the CPRGS Progress Report.

Tackling corruption is also part of the third reform area, which is also discussed in Part II of the CPRGS. The Government has maintained a strong commitment to fighting corruption. The Resolution of the 6<sup>th</sup> Central Committee plenum in December 2003 set the framework for developing a comprehensive anticorruption program. The building blocks of this program are reducing opportunities for corrupt behavior and increasing the probability that those abusing such opportunities get caught. The Prime Minister has instructed the Government Inspectorate to take the lead in designing anticorruption policies. This instruction came at a time when the first comprehensive diagnostic of corruption, relying on an internationally organized approach, is near completion. In addition the anticorruption law has been drafted and debated openly in the parliament. The debates were also disseminated to the public. The draft law was envisaged to be passed by the National Assembly in November 2005.

We have noted gratefully the increasing number of co-financiers, which has increased from four in the case of PRSC 1, to ten, including ADB, for the current PRSC 4. 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. Given the intensive and complex coordination that is required to manage this very comprehensive reform program, SBV created a Program Coordination Unit (PCU) with dedicated staff in January 2005. This PCU deals with the program agenda, including monitoring and reporting types of work to awareness raising, capacity building and reform outcome dissemination. The PCU has engaged in frequent interactions with the World Bank and the co-financiers of the PRSC, including ADB.

We are vigorously committed to pursuing the PRSC process to create momentum to promote and sustain national growth and development. We assure you that the measures and actions outlined in this Development Policy Letter and specified in the Policy Matrix of PRSC 4 document and subsequent ADB loan documents will be adopted in a timely and sustainable manner.

We are thankful for the active and valuable support, which the ADB has been providing for its CPRGS and SEDP implementation and especially for ADB's commitment to support the PRSC 4. We certainly look forward to continuing this strong partnership with the ADB.

Yours sincerely,

Le Duc Thuy  
Governor  
State Bank of Viet Nam

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY AND SUMMARY POVERTY IMPACT ASSESSMENT OF THE PROGRAM

**Table A6.1: Summary Poverty Reduction and Social Strategy**

### A. Linkages to the Country Poverty Analysis

<b>Is the sector identified as a national priority in country poverty analysis?</b> <div style="float: right;"> <input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No         </div>	<b>Is the sector identified as a national priority in country poverty partnership agreement?</b> <div style="float: right;"> <input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No         </div>
<p><b>Contribution of the sector or subsector to reduce poverty in Viet Nam:</b></p> <p>The program loan will contribute to poverty reduction by supporting implementation of the Government's Comprehensive Poverty Reduction and Growth Strategy (CPRGS). As a multisector instrument covering a range of issues related to poverty reduction, the Poverty Reduction Support Credits (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 manner. This will be achieved by implementing a broad-based reform agenda, which has its foundation on three key pillars: (i) transition to a market economy, (ii) social inclusion and environmental sustainability, and (iii) modern governance. The Government is developing its 5-year socioeconomic development plan (SEDP), which integrates the principles of the CPRGS: (i) growth, (ii) social development and poverty reduction, and (iii) environmental sustainability. The integrated agenda of the SEDP and CPRGS requires major policy reform involving trade integration, and reforms for state-owned enterprises (SOEs), financial sector, infrastructure, education, health, land, water, environment, planning process, public financial management, financial accountability, public administration, and anticorruption. These reforms are valuable essential contributors for achieving poverty reduction, growth, and social development in a sustainable, equitable, and cost-effective manner. The planning renovation process, initiated by the Decree 2215/TH-BKHDT and the Circular 33/ Ttg dated 24 Aug 2005, is helping improve the policymaking process. The program loan, which follows the PRSC 4 framework, calls for accelerating the 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 country strategy and program for Viet Nam (2006–2008); the Poverty Reduction Partnership Agreement (2002) with Viet Nam of the Asian Development Bank (ADB); and the attainment of the Viet Nam Development Goals, the country version of the Millennium Development Goals (MDGs).</p>	
<div style="display: flex; justify-content: space-between;"> <span><b>B. Poverty Analysis</b></span> <span><b>Targeting Classification: General intervention</b></span> </div>	
<p><b>What type of poverty analysis is needed?</b> A comprehensive poverty analysis was jointly carried out as background to the preparation of PRSC 4.<sup>1</sup> 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 and from 28.9% in 2002 to 24.1% in 2004.<sup>2</sup> 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 has been modest so far. Social indicators improved markedly, positioning Viet Nam well to attain key MDGs, which is shown remarkably 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 the population but 30% of the poor. The share of poverty in these regions increased during 2002–2004.<sup>3</sup></p>	

<sup>1</sup> ADB, Australian's 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: Printing and Cultural Product Company. The report was distributed at the Consultative Group meeting on 2–3 December 2003

<sup>2</sup> Government Statistics Office. 2004. *Vietnam Living Household Standard Survey*. Hanoi: GSO. The Government of Viet Nam made efforts to merge two poverty lines into one to be the international accepted poverty line.

<sup>3</sup> ADB and Development Strategy Institute. 2005. *How to Accelerate Socioeconomic Development in the Central Region?* Hanoi. (Joint research report, p.10).

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 substantially more on development and social services than poorer regions, which are dependent on central Government transfers. Conscious of this phenomenon, the Government has prepared the explicit session on ethnic support in the draft SEDP 2006–2010, which means poverty reduction interventions have been 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 like 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 recent overall evaluation of the two programs<sup>4</sup> proposed that the two programs be extended to the second phase up to 2010 and that they should be integrated into the government development programs and be further decentralized, focus on capacity building, and include the participation of people in planning, monitoring, and evaluation to increase the programs' effectiveness.

To further reduce poverty and sustain the high level of economic growth, Viet Nam needs to remove structural weaknesses, promote socially and environmentally inclusive development, and modernize governance and the public administration system. Viet Nam needs to develop policy solutions for sustainable poverty reduction such as creating an environment for sustainable growth, effective implementation of the social safety net, and 'socialization' (i.e., have the private sector and community make decisions on and financially contribute to social services) of the poverty reduction programs.

### C. Participation Process

Is there a stakeholder analysis? ☒ Yes ☐ No

The formulation of the CPRGS and the PRSCs (and thus the program loan) has 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 Government, during 2005, has made effort to integrate the CPRGS into its SEDP 2006–2010. They have adopted the approach of developing plans by organizing wide stakeholder consultation including grassroots communities. With the commitment and proactivity of the Government, ODA partners, and nongovernment organizations have provided support to MPI in technical and financial matters. The results out of this process will be very useful for ODA partners to align their strategy with the Government's SEDP. The comprehensive Vietnam Development Report 2005 involved seven major development agencies, including ADB and with the Vietnam Academy of Social Science (VASS) in studies and data analysis such as on poverty and social impact assessment of WTO accession. Besides, ADB, the World Bank, in collaboration with the Development Strategy Institute prepared the reports on regional perspectives on poverty and growth for the central region, Mekong Delta and northern mountainous regions. These reports provided an input for PRSC 4 and the program loan. The Government's report on the progress of MDGs, which has comments from stakeholders, has been prepared and the annual CPRGS progress reports continue to be a good monitoring and evaluation document for the Consultative Group meeting.

<sup>4</sup> Ministry of Labor, Invalids, and Social Affairs, and United Nations Development Programme. 2004. *Taking Stock, Planning Ahead: Evaluation of the National Targeted Programme on Hunger Eradication and Poverty Reduction and Programme 135*. Hanoi

**Is there a participation strategy?** ☒ Yes ☐ No

Participatory processes were followed during the formulation of the CPGRS. It continued with implementing the CPRGS in more than 20 provinces. Development agencies, including ADB, financed the initial implementation 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. During 2005, ODA partners and nongovernment organizations have 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. This represents good implementation of the CPRGS in the context of pillar III reforms, which aims to encourage greater participation of the poor, ethnic minorities, and other marginalized groups in commune decision making. These are envisaged in the new Budget Law and the Grassroots Democracy Decree. Training support, career development, and mechanisms to increase participation of these 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. To prepare for PRSC 4 and future PRSCs, ADB and the World Bank will jointly organize a consultation workshop among all development partners including the Government, funding agencies, and civil society.

#### **D. Gender Development**

##### **Strategy to maximize impacts on women:**

The CPRGS and PRSC 4 support actions to benefit women. The Government is committed to gender equality through policies and actions that will warrant a 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 has been established and comprises 18 members at the deputy-minister level from key ministries and central organizations; a National Strategy for the Advancement of Women in Viet Nam by 2010 is in place (This strategy 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 machinery for the advancement of women. The 2001–2005 National Plan of Action for Advancement of Women guides the first 5 years of implementation of the National Strategy; the National Assembly in 2003 adopted a resolution to draft and promulgate a law on gender equality, and an 11-member drafting committee has been appointed, headed by the president of the Viet Nam Women's Union. The Government asked ADB to provide advisory technical assistance to support the preparation of this law. ADB has also supported gender mainstreaming in the agriculture sector. Gender mainstreaming has been implemented into the national SEDP; ADB supported the Government in organizing the gender mainstreaming workshop during August 2005. Gender mainstreaming also has been conducted in several ministries like Ministry of Education and Training, Ministry of Agriculture and Rural Development, Ministry of Labor Invalids and Social Affairs, etc.

**Has an output been prepared?** ☒ Yes ☐ No

A social and poverty impact assessment of the program loan has been prepared and is presented as Supplementary Appendix A). 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
<b>Resettlement</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	The program loan does not include land acquisition or resettlement. Regarding land issues, ADB has two studies on the potential implications of the development of a land market; the World Bank has a resettlement study and a study on land and poverty, a study on land law practice for private sector development; these are the inputs for preparation of PRSC 4.	<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
<b>Affordability</b>	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	Special programs are already in place to assist the poor in need of social services. Overall evaluations of the Hunger Eradication and Poverty Reduction Program and Program 135 proposed that the two programs be extended to the second phase up to 2010 and but more studies will be undertaken to formulate the national poverty reduction strategy. Evaluations will be carried out under the PRSCs and CPRGS.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Labor</b>	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Labor redundancy in rural areas and lack of off-farm jobs are slowly being solved by economic restructuring. Negative labor impacts will be minimized by some Government measures such as the creation of an environment and market for labor export, the promotion of vocational training, and the development of a viable social insurance system. A specific social safety net program will be prepared for retrenched SOE workers. The program will be in compliance with the national labor legislation. Therefore, no further plan is required.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Indigenous Peoples</b>	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Overall, a positive impact is expected on ethnic minorities, given the Government's commitment to advance the well-being of this group, public awareness, and incorporation of needs and interests of ethnic minorities in plans and programs through their active involvement. The new land legislation and land transfer to ethnic people is likely to have a positive impact. Grassroots democracy is being more strongly implemented in terms of increased participation by ethnic people, and training and leadership for ethnic people. Other programs in the education and health sector address ethnic issues to ensure they have access to social services.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Other Risks and/or Vulnerabilities</b>	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	The Government is responding to the evolving HIV/AIDS epidemic. The National Strategy for HIV/AIDS and the set up of National Steering Committee on the prevention of AIDS show the Government's commitment to combating AIDS. The risks on environment sustainability like waste management in urban and industrial zones and natural resource management may be increasing in the future, as per the Government evaluation. However, the Government has established a long-term strategy and action plan under Agenda 21 to address environmental issues.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**Table A6.2: Summary Poverty Impact Assessment**

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
<b>Labor Markets and Wages</b>	<ul style="list-style-type: none"> <li>• <b>Direct Short Term.</b> 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. Trade liberalization may cause job destruction in protected sectors. Equitization/reform of state-owned enterprises (SOEs) will lead to labor retrenchment, unemployment.</li> <li>• <b>Indirect Short Term.</b> Employment will be created for Infrastructure development and maintenance, but initially reduction in policy lending may affect employment in affected enterprises.</li> <li>• Expansion of forest cover will provide employment in poor upland areas, but may reduce land available for annual production.</li> <li>• <b>Indirect Medium Term.</b> 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.</li> <li>• 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 the 5-year Socioeconomic Development Plan (SEDP) (2006–2010) among the population/community will facilitate the inclusion process.</li> </ul>	<p>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.</p> <ul style="list-style-type: none"> <li>• Better access to social services will, in the case of education, increase availability of educated and trained workers and create jobs for teachers.</li> <li>• Destruction of protected sectors will affect livelihood of suppliers to protected sectors.</li> <li>• Fostering private sector development and providing an equitable investment environment will accelerate economic growth and employment.</li> </ul> <p>A series of consultations on the 5-year 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.</p> <ul style="list-style-type: none"> <li>• Improved growth prospects will raise labor demand and wages. Improved service delivery will help to develop human resources.</li> </ul>	<p>Severance packages and other compensatory measures are in place to offset initially adverse impacts. Also the Hunger Eradication and Poverty Reduction Program and similar measures are already in place, which can mitigate adverse impacts.</p> <ul style="list-style-type: none"> <li>• Restructuring of SOEs will be carried out in consultation with employees to minimize adverse effects.</li> </ul>
<b>Access to Markets and Prices</b>	<ul style="list-style-type: none"> <li>• <b>Direct Short Term.</b> Exposure to world markets may lead to higher risk/variability in prices, but also increase efficiency of production. Participatory small</li> </ul>	<p>Liberalization is usually an advantage for agriculture and thus rural households, but less lenient terms for farmers from state-owned</p>	<p>An assessment of the poverty and social implications of WTO accession is prepared by the Viet Nam Academy of Social Sciences (VASS)</p> <ul style="list-style-type: none"> <li>• Analytical studies assess whether access of the poor to services is</li> </ul>

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
	<p>infrastructure planning in aid projects in central (CBRIP) and northern regions (NMPRP) will ensure the maximization of benefits (including local labor hiring)</p> <p>• <b>Indirect Short Term.</b> The reforms will attract direct foreign investment, which will increase demand for skilled and educated workers, transfer technology and know how, and make goods available to domestic markets.</p> <p>• <b>Indirect Medium Term.</b> Competition and privatization will lead to higher efficiency and therefore lower consumer prices.</p> <p>• Expansion of trade will increase employment opportunities.</p>	<p>trading organizations may affect rural populations.</p> <p>• Capital market development, transparency, and accountability will increase private investment and improve performance of enterprises.</p> <p>• Reinforcing open competitive bidding for public goods will give greater access to private business.</p> <p>• More efficient enterprises are more competitive, and therefore contribute to economic expansion and provide more rewarding employment opportunities.</p> <p>• Improved infrastructure will result in better access to markets and price setting.</p> <p>• Protection of intellectual property rights will lead to innovative development and attract foreign investment.</p>	<p>improved or preserved in particular in the areas of education and health.</p> <p>• Compensation to coffee farmers may be considered. For example, SOEs trading in coffee may transfer land and coffee bushes to farmers.</p>
<b>Access to Assets</b>	<p><b>Direct Short Term.</b> Recognizing community-based land-use right certificates, secure registration of certificates, and improved tenure rights to forestland will improve access to land and security.</p> <p>• <b>Indirect Short Term.</b> Could have adverse social impacts of distress sales of land.</p> <p><b>Indirect Medium Term.</b> • Growth and poverty reduction impact are the guiding principle for public investment projects.</p>	<p>Improvements of the institutional and regulation framework will lead to a more commercial-oriented financial system (in particular at state-owned commercial banks (SOCBs)), improve access to commercial credit and acquisition of assets, and increase the creation of private businesses and expansion of household businesses into larger businesses.</p> <p>• The new Land Law and a functioning land market and secure land tenure will stimulate investments, economic growth, and employment.</p> <p>• Increased participation of users in irrigation management will give greater efficiency in water use.</p>	<p>Two studies have been undertaken to offset potential implications for the land market.</p> <p>• A well-developed market for land may prevent distress sales of land.</p> <p>• Various institutional and regulatory barriers impeding domestic and foreign enterprises still exist, and are to be addressed under the program.</p>

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
<b>Services Access</b>	<ul style="list-style-type: none"> <li>• <b>Direct Short Term.</b> Employment will be created by expanded services and improved access to services.</li> <li>• Change 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.</li> <li>• <b>Indirect Short Term.</b> Reduction in government budget support to SOEs frees budget that may be used for other public service investments (e.g., health and education).</li> <li>• Reform of SOEs will create an efficiency gain in service delivery</li> <li>• <b>Indirect Medium Term.</b> 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.</li> <li>• Obstacles to entry in services dominated by the state will be removed, delivery of services expanded, and efficiency increased at reduced costs. Several of the reforms will free resources for a significant increase in other (pro-poor) expenditures with positive employment effects.</li> </ul>	<p>Increased transparency, improved access to information, simplified administrative procedures, and one-stop shop provides for better access. Curbing corruption will increase efficiency in allocation of resources and reduce transaction costs.</p> <ul style="list-style-type: none"> <li>• Piloting of the report card system for public services will have a positive impact on service delivery.</li> <li>• Reduction of petty corruption in education and health makes these services less expensive and more accessible.</li> <li>• In the medium term, the reform measures will generate beneficial price effects for all segments of society through better growth and production efficiency.</li> <li>• Opening of the Internet and mobile telephone services to competition will increase availability and reduce prices. Consultations on the 5 Year SEDP (2006-2010) with provincial governments, communities, private sector will ensure a better access to social services.</li> </ul>	<p>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). Hunger Eradication and Poverty Reduction Program, and Program 135 are also already in place.</p> <ul style="list-style-type: none"> <li>• A multisector action program to implement a human immunodeficiency virus/ acquired immunodeficiency syndrome (HIV/AIDS) strategy has been adopted, and a public health program to tackle HIV/AIDS epidemic is proposed.</li> </ul>
<b>Direct Transfers</b>	<ul style="list-style-type: none"> <li>• <b>Direct Short Term.</b> 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.</li> <li>• <b>Indirect Short Term.</b> Completion of the transfer of land-use rights to households, especially in upland and ethnic minority areas and for communal use will have a</li> </ul>	<p>Measures to improve water resource management will be beneficial for the (rural) population.</p> <ul style="list-style-type: none"> <li>• Reduction of corruption will reduce transaction costs of private business and lower the costs of public investment projects.</li> <li>• The allocation and titling of lands provides for secure assets and will induce investment,</li> </ul>	<p>The programs that directly transfer resources are already in place (for example, the Social Safety Net Fund, health care funds for the poor, Hunger Eradication and Poverty Reduction Program, Education for All).</p> <ul style="list-style-type: none"> <li>• Budget allocations that redress regional inequalities may become necessary. In the new Hunger Eradication and Poverty Reduction Program (2006–2010) a community development fund, among others, is planned to give the community more autonomy and resources to tackle</li> </ul>

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
	<p>highly positive effect.</p> <ul style="list-style-type: none"> <li>• <b>Indirect Medium Term.</b></li> </ul> <p>A number of provinces and sectors will have developed pro-poor socioeconomic development plans.</p>	<p>economic growth, and employment.</p> <ul style="list-style-type: none"> <li>• Accelerated SOE ownership transfers of 104 SOE restructuring plans will lay the groundwork for placing the creation of wealth in the hands of individuals.</li> </ul>	<p>immediate issues.</p>
<b>Net Impact: Positive</b>			
<p><b>Information Basis and Crucial Assumptions:</b></p> <p>The program loan will contribute to the continuation of Viet Nam's economic growth in a pro-poor fashion; its implementation will have a significant positive impact on poverty reduction and equitable social services delivery.</p> <p>The program loan will support the provision of reforms and policies that will stimulate and promote sustainable, equitable growth, as stipulated in PRSC 4 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 SOCBs, 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 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 resource 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 well-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 in state enterprises, and liberalization in 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 poor urban areas, and have priority. 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 status.</p> <p>Greater exposure to world markets 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. Analytical work is ongoing for the coffee sector. Further commercialization of the economy may increase inequality, unless rectifying measures are taken early. An assessment of the poverty and social impact of WTO accession is being undertaken, and 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 consumption at the household level). The regions of Hanoi, Ho Chi Minh City, Hai Phong, and Danang 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>			

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
<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 increase. 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 and include their participation in decision 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. These efforts include community consultations on the 5-year SEDP (2006–2010) and participatory small infrastructure planning in selected projects such as CBRIP, NMPRP (World Bank). The experiences on community participation for these projects will give substantial inputs for the design of the “new 135” program. Poor households are usually physically remote and socially marginalized. The Government has programs to accelerate access to social services and education for the poor and ethnic minorities in remote areas. The recent Viet Nam Inequality Report 2005 (Department for International Development) provides insights for better inclusion of the poor, thus ensuring the access of the poor to basic social services.</p> <p>The new 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 have been undertaken as part of preparation of PRSC 4. Studies on land markets were also completed as part of the ongoing Making Markets Work Better for the Poor Project being implemented by ADB.</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 and skills disproportionately. 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 A.</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 to Implementation of 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.

**Table A7: 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: See Schedule 3 Loan Agreement.

## DEVELOPMENT OUTCOMES

Pillar I: Transition to a Market Economy			
Sector	Originally expected as of 2006	In 2001	Latest Available
Trade Integration	Ratio of exports to GDP is 55%	47%	57%
	Share of manufactured products in total exports is 70%	37%	56%
	Share of private sector exports in non-oil exports is 85%	56%	71%
	All quota restrictions) have been removed	Quota restrictions on many products	Quota restrictions only on sugar and petroleum
	Modern customs procedures are in place	Customs procedures are burdensome	Modernization project in preparation. Revised Customs Law submitted.
	Viet Nam becomes a member of the WTO	Slow progress in WTO negotiations	Substantial progress toward accession
SOE Reform	About 2,100 SOEs	5,334 SOEs	4,200 SOEs. Transformation extended to large SOEs
	The share of bank credit going to SOEs is less than 25%	42%	35%
	High proportion of profitable SOEs	High proportion of unprofitable SOEs	Operational reviews reveal better than expected performance
	Most nonperforming interenterprise debts resolved	Large volume of nonperforming interenterprise debts	Limited progress
	Data on performance of SOEs available annually	Data about SOE sector is sketchy	Starting implementation of performance monitoring
Financial Sector Reform	Banks in full compliance with banking regulations	No commercial bank in full compliance	Consolidation of joint stock banks
	Low estimated nonperforming loan ratio in banking system	Nonperforming loans represent 15% of credit	Limited progress
	SBV focused on supervision and regulation	Conflicting SBV responsibilities as owner and regulator	Limited progress
	Sound regulation of policy lending	Policy lending still done through SOCBs	Policy lending shifted to Development Assistance Fund and the Viet Nam Bank for Social Policies (VBSP) under stricter regulation

<b>Pillar I: Transition to a Market Economy</b>			
<b>Sector</b>	<b>Originally expected as of 2006</b>	<b>In 2001</b>	<b>Latest Available</b>
Private Sector Development	<p>Private investment is equal to 20% of GDP</p> <p>Around 5 million people are employed in the formal private sector</p> <p>The same regulations apply for all firms</p>	<p>14%</p> <p>0.5 million</p> <p>Discrimination on access to land, taxes, and public contracts</p>	<p>16%</p> <p>2.5 million</p> <p>New land law improves access to land</p>
Infrastructure	<p>Free entry in telecommunications and information technology services</p> <p>Improved infrastructure provision and operation</p> <p>Rational pricing policies for infrastructure services</p>	<p>State monopoly in telecommunication and information technology services</p> <p>Provision of infrastructure services often inefficient</p> <p>Infrastructure services are expensive</p>	<p>Telecommunications sector open to competition</p> <p>Better infrastructure. New Electricity Law to improve regulatory framework</p> <p>Gradual convergence to regional prices</p>
<b>Pillar II: Social Inclusion and Environmental Sustainability</b>			
Education	<p>Net primary school enrollment rate attains 98%</p> <p>School quality has improved, especially in poor areas</p> <p>Net lower secondary school enrollment rate attains 80%</p>	<p>88% (in 1998)</p> <p>School quality is uneven and low in poor areas</p> <p>62% (in 1998)</p>	<p>90%</p> <p>Fundamental school quality level standards under implementation</p> <p>72%</p>
Health	<p>Infant mortality rate per is 30/1000</p> <p>Under 5 mortality rate is 36/1000</p> <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>37/1000 (in 1998)</p> <p>48/1000 (in 1998)</p> <p>Out-of-pocket payments deter use of health services</p> <p>No appropriate framework to prevent HIV/AIDS spreading</p>	<p>26/1000</p> <p>35/1000</p> <p>Creation of the HCFPs with full central Government share of funding</p> <p>HIV/AIDS strategy adopted and initial steps taken toward implementation</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 public sector</p> <p>4.5 million workers covered</p>	<p>Limited progress</p> <p>5.8 million workers covered</p>

Land and Forests	All land allocated with all upland allocated to locals and ethnic communities  A functioning land market is in place and land tenure has been secured  Forest cover expands to 38%	Not all land allocated especially in urban and upland areas  10% of rural households with leased land (in 1998)  35%	Land-use right certificates allocated: agriculture 90%, forest 25%, rural residential 75%, urban residential 40%  15%  New forest law passed, but limited progress.
<b>Pillar III: Modern Governance</b>			
<b>Sector</b>	<b>Originally expected as of 2006</b>	<b>In 2001</b>	<b>Latest Available</b>
Public Financial Management	A publicly disclosed medium-term fiscal framework is used  Operation and maintenance costs are fully taken into account  Annual publication of detailed and accurate budget data at all levels  Sustainable public debt ratios, with assessment of contingent liabilities	Budget preparation is based on a short-term perspective  Little integration of capital and recurrent expenditures  Partial budget data available, at central and commune levels only  Limited knowledge of contingent liabilities	Public financial management reform program under way; medium-term expenditure frameworks piloted in 4 sectors  Ban on public investment projects without proper funding  Full disclosure of the central budget aggregate categories  Assessment of contingent liabilities launched; debt ratios at sustainable levels
Financial Accountability	Accounting norms in accordance with international practice	Accounting practices differ from international standards	Convergence to international standards
Legal Development	A legal system based on the rule of law and promoting development	Limited legal transparency	Publication of legal documents in official gazette
Public Administration Reform	Progress toward the simplification of administrative procedures	Cumbersome procedures and murky payments	OSS model adopted in 63 provinces, but quality needs attention
Anticorruption	Reduced corruption as rated by independent monitors	Perception of widespread corruption	Comprehensive diagnostic study on corruption being completed
Information Availability	Reliable, publicly available economic and social data	Limited statistical development and data difficult to access	Law for data quality and access adopted; poverty measurement improved

GDP = Gross National Product, HIV/AIDS = human immunodeficiency virus/ acquired immunodeficiency syndrome, OSS = One-stop Shop, SOE = state-owned enterprises, VBSP = Viet Nam Bank for Social Policies, WTO = World Trade Organization.

Source: World Bank. 2005. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Fourth Poverty Reduction Support Operation* (23 May 2005). Washington DC: World Bank.