



# Report and Recommendation of the President to the Board of Directors

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Project Number: 42191-01  
November 2008

Proposed Program Cluster and Loan for  
Subprogram 1  
Socialist Republic of Viet Nam: Support for the  
Implementation of the Poverty Reduction Program V

## CURRENCY EQUIVALENTS

(as of 5 November 2008)

Currency Unit	–	dong (D)
D1.00	=	\$0.000060558
\$1.00	=	D16,513.00

## ABBREVIATIONS

ADB	–	Asian Development Bank
CIT	–	corporate income tax
CPRGS	–	Comprehensive Poverty Reduction and Growth Strategy
GDP	–	gross domestic product
GSO	–	General Statistics Office of Viet Nam
HIV	–	human immunodeficiency virus
IDA	–	International Development Association
MARD	–	Ministry of Agriculture and Rural Development
MDG	–	Millennium Development Goal
MOF	–	Ministry of Finance
MOLISA	–	Ministry of Labor, Invalids and Social Affairs
MONRE	–	Ministry of Natural Resources and Environment
NTPPR	–	National Targeted Program for Poverty Reduction
OSS	–	one-stop shop
PCR	–	program completion report
PGBS	–	partnership general budget support
PPP	–	purchasing power parity
PRSC	–	poverty reduction support credit
SAV	–	State Audit of Viet Nam
SBV	–	State Bank of Viet Nam
SEDP	–	socioeconomic development plan
SIPRP	–	Support for the Implementation of the Poverty Reduction Program
SOCB	–	state-owned commercial bank
SOE	–	state-owned enterprise
SPI	–	social protection index
TA	–	technical assistance
VDG	–	Viet Nam Development Goal
WTO	–	World Trade Organization

## NOTE

In this report, “\$” refers to US dollars unless otherwise stated.

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## **PROGRAM CLUSTER AND LOAN SUMMARY**

<b>Borrower</b>	Socialist Republic of Viet Nam
<b>Classification</b>	<p>Targeted classification: General intervention</p> <p>Sector: Law, economic management and public policy</p> <p>Subsector: Economic management</p> <p>Themes: Sustainable economic growth, inclusive social development, governance</p> <p>Subthemes: Promoting economic efficiency and enabling markets, human development, public governance</p>
<b>Environmental Assessment</b>	<p>Subprogram 1 of the program cluster entitled Support for the Implementation of the Poverty Reduction Program (SIPRP) V has been assigned to environmental category C. A review of its environmental implications indicates that several actions included in the policy framework of this subprogram are likely to have positive environmental impact. Enhancement measures have been developed to optimize this positive impact. No action has been identified as likely to have a negative environmental impact.</p>
<b>Program Description</b>	<p>The proposed program cluster will help the Government of Viet Nam carry out policy reforms that are needed for the successful implementation of the poverty reduction program embedded in the Socioeconomic Development Plan (SEDP) 2006–2010. To this end, SIPRP V will provide parallel financing with the World Bank's poverty reduction support credits (PRSCs) 7–9 within the framework of the PRSC process.</p> <p>Subprogram 1 will provide parallel financing with PRSC 7 and support actions included in its policy matrix. The Government, the Asian Development Bank (ADB), the World Bank, and other development agencies participating in the PRSC process agreed on the policy matrix for PRSC 7 after a series of consultations in 2007 and in the first half of 2008. The policy matrix is based on the Government's reform agenda and includes a wide spectrum of policy actions in business development, social inclusion, natural resource management, and governance. Subprogram 1 will focus on those actions in the policy matrix for PRSC 7 that complement policy actions supported by ADB's other program loans to Viet Nam or are otherwise important to ADB's operations in this country.</p>
<b>Rationale</b>	<p>Viet Nam has made remarkable progress in poverty reduction over the last 15 years by carrying out a broad range of policy reforms to foster sustainable and inclusive economic growth and strengthen social protection. Since 2002, an increasing number of multilateral and bilateral development agencies have supported these reforms through the World Bank-led PRSC process.</p> <p>The PRSC process comprises several closely related activities jointly undertaken each year by participating development agencies to help</p>

the Government carry out policy reforms needed for the successful implementation of its poverty reduction strategy. The process involves the preparation of Viet Nam development reports by participating agencies, consultations on the policy matrices for PRSCs among participating agencies and between these agencies and the Government, and general budget support (in the form of grants and concessional loans) to Viet Nam by participating agencies to cover some of the costs of the policy reforms to the budget. The World Bank coordinates PRSC activities for the participating development agencies.

ADB joined the PRSC process in 2003 and has taken part in all PRSC activities since then. In 2004–2007, ADB approved four single-tranche standard program loans (one loan every year) to Viet Nam to support, through the PRSC process, the implementation of the Government's poverty reduction programs. SIPRPs I–III provided parallel financing with the World Bank's PRSCs 3–5, respectively, in support of the implementation of the Government's Comprehensive Poverty Reduction and Growth Strategy 2002–2010. SIPRP IV provided parallel financing with PRSC 6 in support of the implementation of SEDP 2006–2010.

With SIPRP V, ADB will stay involved in the PRSC process through 2010, that is, until the implementation of SEDP 2006–2010 is completed. This will enable ADB to promote, with relatively modest financing, a wide spectrum of policy reforms that are essential for the successful implementation of SEDP 2006–2010. Consequently, the proposed program cluster will help ADB achieve the strategic objective of its country strategy and program 2007–2010 for Viet Nam, which is to help the Government reduce the poverty rate to 10%–11% by 2010 through the successful implementation of SEDP 2006–2010.

Furthermore, continued participation in the PRSC process will provide ADB with another means of coordinating its activities in Viet Nam with those of other development agencies. SIPRP V will help ADB fulfill its obligations under the Rome Declaration on Harmonization (2003), the Paris Declaration on Aid Effectiveness (2005), and the Hanoi Core Statement on Aid Effectiveness (2005).

### **Impact and Outcome**

The intended impact of SIPRP V is a continued reduction in poverty in Viet Nam in 2008–2010 and beyond. Its expected outcome is the successful implementation of the Government's SEDP 2006–2010, which will not only reduce poverty in 2006–2010 but also improve Viet Nam's economic competitiveness and strengthen the foundations for sustainable and inclusive growth and a continued reduction in poverty beyond 2010.

### **Cost Estimates**

Some of the actions that are included in the policy framework of subprogram 1 of SIPRP V entail substantial costs to Viet Nam's state budget. The actions included in the policy matrix for PRSC 7 are

estimated to cost the state budget \$450 million in 2008 and 2009.

**Financing Plan**

The World Bank has already approved PRSC 7 amounting to \$150 million from the International Development Association. A dozen other development agencies participating in the PRSC process (including ADB) are expected to provide grants or concessional loans totaling about \$200 million in cofinancing or parallel financing with PRSC 7. The remaining costs to the budget of the actions included in the policy matrix for PRSC 7 will be covered by the Government.

**Loan Amount and Terms**

It is proposed that a loan in various currencies equivalent to Special Drawing Rights 16,439,000 be provided for subprogram 1 from ADB's Special Funds resources. The loan will have a term of 24 years, 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 other terms and conditions set forth in the Loan Agreement. The loan proceeds may be used to finance eligible imports incurred within 180 days before the date of loan effectiveness.

**Period of Utilization**

The loan will be fully utilized by 31 December 2009.

**Disbursement**

All actions included in the policy framework of subprogram 1 have been completed. Therefore, the proposed loan will be disbursed in a single tranche once the loan is declared effective.

**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 from other bilateral and multilateral sources. As provided in ADB's *Simplification of Disbursement Procedures and Related Requirements for Program Loans* (1998), the proceeds of the program loan will be disbursed to the Socialist Republic of Viet Nam as the Borrower. No supporting import documentation will be required provided that the value of Viet Nam's total imports minus imports from nonmember countries, ineligible imports, and imports financed under other official development assistance is at least equal to the amount of the loan to be disbursed. The Government will certify its compliance with this formula with its withdrawal request. Otherwise, import documentation under existing procedures will be required. ADB will have the right to audit the use of loan proceeds and to verify the accuracy of the Borrower's certification. As such, the procedures for procurement and disbursement of funds, and the use of counterpart funds, are felt to be satisfactory.

**Executing Agency**

The State Bank of Viet Nam (SBV) will be the Executing Agency for the proposed program cluster. SBV hosts the PRSC coordination unit, which facilitates interactions between the Government and development agencies within the framework of the PRSC process. SBV was also the Executing Agency for SIPRPs I–IV.

## **Loans for Subprograms 2 and 3**

A loan for subprogram 2 will be proposed to the Board of Directors in 2009 and a loan for subprogram 3 will be proposed in 2010 after the policy actions to be covered by the subprogram concerned are completed. Tentatively, the amounts (in US dollars) and the terms of these loans will be the same as those of the proposed loan for subprogram 1. Hence, the tentative total amount of the proposed program cluster will be \$75.0 million.

## **Program Benefits and Beneficiaries**

The policy reforms that the proposed program cluster will advance will yield considerable economic benefits to Viet Nam. They will raise the living standards of the Vietnamese people and reduce poverty by fostering environmentally sustainable and socially inclusive economic growth. The policy reforms in the area of social inclusion will be particularly beneficial to the poor and the near-poor.

The policy reforms supported by SIPRP V will also increase budget revenue by expanding the tax base, and will reduce budget expenditure by improving public finance management. Over the medium term, the financial benefits of these reforms to the Government are likely to exceed their costs (including interest to be paid on loans received from various development agencies within the framework of the PRSC process).

## **Assumptions and Risks**

The proposed program cluster will support policy actions that constitute critical steps in policy reforms needed for the successful implementation of SEDP 2006–2010 and are particularly relevant to ADB's operations in Viet Nam. The reforms, however, must be fully carried out if SEDP 2006–2010 is to be successfully implemented. Therefore, it is assumed that, after completing the policy actions covered by SIPRP V and the other actions included in the policy matrices for PRSCs 7–9, the Government will follow through with the policy reforms needed for the successful implementation of SEDP 2006–2010 on its own or with the support of development agencies under other projects. It is further assumed that the investment projects that are included in SEDP 2006–2010 and necessary for attaining its targets and goals will be implemented on schedule.

These assumptions are based on the Government's commitment to carry out the policy reforms and implement the investment projects that are needed to achieve the targets and goals of SEDP 2006–2010. Furthermore, the policy reforms that are needed for the successful implementation of SEDP 2006–2010 are now or will be supported by ADB through other policy-based loans to Viet Nam and by other development agencies both within and outside the framework of the PRSC process.

There is a risk that inflation, which accelerated markedly in late 2007 and early 2008, will stay high long enough to preclude the successful implementation of SEDP 2006–2010 and, in particular, the achievement of its poverty reduction target. There is also a risk that the ongoing global financial crisis and economic slowdown combined



with the macroeconomic stabilization measures taken recently by the Government will slacken growth in Viet Nam to a degree that will render some targets and goals of SEDP 2006–2010 (including the poverty reduction target) impossible to attain.

However, the macroeconomic situation in Viet Nam has started to improve. Monthly inflation decelerated significantly in June–September 2008, and there was deflation in October 2008. As a result, year-on-year inflation fell in September–October 2008. At the same time, economic growth slowed down only moderately and stayed quite high by international standards. Moreover, Viet Nam’s economic prospects in the medium to long term remain good. Hence, the risks that SEDP 2006–2010 will not be successfully implemented and the expected outcome of the proposed program cluster will not be attained are rather small.



## **I. THE PROPOSAL**

1. I submit for your approval the following report and recommendation on (i) a proposed program cluster to the Socialist Republic of Viet Nam for the Support for the Implementation of the Poverty Reduction Program (SIPRP) V, comprising three subprograms, and (ii) a proposed loan for subprogram 1 of the SIPRP V. The design and monitoring framework for the proposed program cluster is in Appendix 1.

## **II. THE MACROECONOMIC CONTEXT**

2. Viet Nam's economy has been one of the fastest growing in Asia in the last two decades. Growth was particularly strong in the last several years, with real gross domestic product (GDP) increasing by 8.1% yearly on average in 2003–2007. In 2007, real GDP grew by 8.5%, the highest rate since 1996. GDP per capita at current prices rose from \$441 in 2002 to \$818 in 2007, and GDP per capita in dollars at purchasing power parity (PPP) from \$1,649 to \$2,587.

3. In recent years, however, growth of aggregate demand has outpaced growth of aggregate supply. While expansionary monetary and fiscal policies and extensive borrowing and spending by state-owned enterprises (SOEs) have fueled the growth of aggregate demand, the growth of aggregate supply has been constrained by infrastructure bottlenecks, relatively low efficiency of public investment, and increasingly acute shortages of skilled labor. As a result, internal and external macroeconomic imbalances have emerged.

4. On the domestic side, average annual inflation jumped from 1.8% in 1999–2003 to 7.9% in 2004–2007. Inflation was quite high in late 2007 and the first half of 2008, with food prices rising particularly fast. In June 2008, the consumer price index was 26.8% higher than in June 2007, and the index of food items (with a combined weight of almost 43% in the consumer price index) was 45.6% higher. Period-average inflation reached 20.3% in January–June 2008. The high inflation was not only due to the excessively rapid growth in aggregate demand in 2007, but also due to increases in world commodity prices (especially energy and food prices) in 2007 and the first half of 2008 and the supply-side shocks of late 2007 and early 2008 (including the outbreak of pig and poultry epidemics, unusually harsh winter in the northern provinces, and floods in the central provinces).

5. In the external sector, the current account balance turned from a surplus in 1999–2001 to a deficit in 2002–2007 and the first half of 2008. Moreover, the current account deficit widened from 0.4% of GDP in 2006 to 9.6% of GDP in 2007 and about 23% of GDP in January–June 2008. Exports grew fast, but imports grew even faster, resulting in sharp increases in the trade deficit. At the same time, inflows of foreign capital, especially foreign direct investment, remained strong. Viet Nam's accession to the World Trade Organization (WTO) in early 2007 made its policy framework more predictable and the country more attractive to foreign investors. Net foreign direct investment inflows, which ranged between \$1.4 billion and \$2.3 billion in 2003–2006, surged to \$6.6 billion in 2007 and \$4.2 billion in the first 6 months of 2008. Consequently, the overall balance of payments recorded a surplus in both 2007 and the first half of 2008. Gross official international reserves almost doubled from \$11.5 billion at the end of 2006 to an estimated \$21.4 billion at the end of June 2008.

6. In response to accelerating inflation and the ballooning current account deficit, in April 2008 the Government changed its top policy priority from maintaining high growth rates to

curbing inflation and the trade deficit. In January–June 2007, it took a range of measures to achieve these objectives. In particular, it tightened monetary and fiscal policies and its control over investments by SOEs. The State Bank of Viet Nam (SBV) raised the reserve requirements for banks and the policy interest rates. While budgetary expenditure on targeted social assistance programs increased, administrative and capital expenditures were cut substantially. Investments by SOEs (especially in noncore businesses) were curtailed.

7. There are signs that these measures are restraining the growth of aggregate demand and reducing the macroeconomic imbalances. Money supply, which expanded by 46.1% in 2007, grew at an annualized rate of 8.5% in the first half of 2008. The balance of the consolidated budget turned from a deficit of 5.5% of GDP in 2007 to a surplus of 0.3% of GDP in January–September 2008. Year-on-year GDP growth moderated to 6.5% in the first 9 months of 2008. Monthly inflation fell from 3.9% in May 2008 to 0.2% in September 2008, and there was 0.2% deflation in October 2008. Food prices stabilized by September 2008 and fell by 0.4% in October 2008. Year-on-year inflation dropped from 28.3% in August 2008 to 26.7% in October 2008. The monthly trade deficit narrowed from \$3.2 billion in March 2008 to less than \$1.0 billion in June–October 2008. In a sign of continued optimism among foreign investors about Viet Nam’s medium-term economic prospects, new foreign direct investment commitments surged to \$59.3 billion in January–October 2008 from \$21.3 billion in all of 2007.

### III. THE SECTOR

#### A. Sector Description and Performance

##### 1. Recent Progress in Poverty Reduction

8. Viet Nam has reduced poverty dramatically over the last 15–20 years (Appendix 2). According to the most recent available household survey data, the poverty rate (based on the cost of a consumption basket allowing for a daily intake of 2,100 calories per person and some nonfood expenditure) dropped from 58.1% in 1993 to 16.0% in 2006.<sup>1</sup> The food poverty rate fell from 24.9% to 6.7% over the same period, while the poverty gap narrowed from 18.5% to 3.8%.<sup>2</sup>

9. Measures of poverty not based on household survey data point to declines of similar magnitudes in poverty, even though they give different levels of poverty. In particular, the proportion of people living on less than \$1.0 (at PPP) per day dropped from 50.8% of the total population in 1990 to 4.0% in 2007, and the proportion living on less than \$2.0 (at PPP) per day fell from 87.0% to 32.9%.<sup>3</sup> The poverty rate based on the methodology of the Ministry of Labor, Invalids and Social Affairs (MOLISA) fell from 22.0% in 2005 to an estimated 14.7% in 2007.<sup>4</sup>

<sup>1</sup> World Bank. 2007. *Vietnam Development Report 2008: Social Protection*. Joint donor report to the Vietnam Consultative Group Meeting, Hanoi, 6–7 December 2007.

<sup>2</sup> The food poverty rate is the proportion of people whose total expenditure would not be enough for a daily intake of 2,100 calories even if it were entirely allocated to food. The poverty gap is the difference between the poverty line and the average expenditure of the poor expressed as a percentage of the former.

<sup>3</sup> World Bank. 2008. *East Asia: Testing Times Ahead*. Washington, DC.

<sup>4</sup> The poverty rate based on the methodology of the Ministry of Labor, Invalids and Social Affairs (MOLISA) measures the proportion of people living below the official poverty line, which is D260,000 per person in urban areas and D200,000 per person in rural areas. Households below the poverty line are identified by local officials of MOLISA through a combination of their personal knowledge, survey techniques, and village discussions.

10. Accordingly, Viet Nam has made good progress toward the Millennium Development Goals (MDGs). It has already achieved four MDG targets and is likely to attain another four ahead of time. Besides the targets related to extreme poverty and hunger, Viet Nam has achieved the targets concerning the gender gap in primary and secondary education and the incidence of malaria and other diseases. It has not yet attained but is likely to achieve the targets relating to the completion of primary schooling by boys and girls, under-five mortality, maternal mortality, and the spread of HIV/AIDS.

11. A combination of robust economic growth and more efficient social protection has enabled Viet Nam to make such great strides in poverty reduction. Economic growth has created new jobs, raised incomes, and lifted millions of people out of poverty. But economic growth alone would not have enabled Viet Nam to reduce poverty as much as it has done. Many of those who have not benefited directly from economic growth (often for reasons beyond their control) have been lifted out of poverty or prevented from falling into poverty because more resources have become available for social protection (thanks to the robust economic growth) and social protection has become significantly more efficient.

## **2. Poverty Reduction Support Credit Process**

12. The main reason why Viet Nam has been able to sustain strong economic growth for a long time and to improve the efficiency of social protection significantly is that, since launching the *Doi Moi* program in 1986, the country has carried out a broad range of policy reforms fostering sustainable and inclusive economic growth and making social protection more targeted. In particular, Viet Nam has been undertaking gradual transition from a command to a market economy, and from a social protection system that relies heavily on price subsidies to a system based on targeted programs. It has also continuously strengthened natural resource management and improved governance. Since 2002, more and more multilateral and bilateral development agencies have supported these reforms through the World Bank-led poverty reduction support credit (PRSC) process.

13. The PRSC process comprises several closely related activities jointly undertaken each year by participating development agencies to help the Government carry out the policy reforms needed for the successful implementation of its poverty reduction strategy. The process involves the preparation of Viet Nam development reports by participating agencies, consultations on the policy matrices for the World Bank's PRSCs among participating agencies and between these agencies and the Government, and general budget support (in the form of grants and concessional loans) to Viet Nam by participating agencies to cover some of the adjustment costs of the policy reforms to the budget. The World Bank coordinates PRSC activities for the participating development agencies.

14. While the Government's poverty reduction strategy largely determines its reform agenda, the Viet Nam development reports translate this agenda into specific policy actions. Because a sustained reduction in poverty requires continued and balanced progress in a wide range of policy reforms, the Government has an extensive reform agenda and the Viet Nam development reports specify numerous policy actions in many different areas.

15. Some of these actions are included in the policy matrices for PRSCs. During the year before that of the expected approval of a particular PRSC by the World Bank, the participating development agencies agree among themselves and the Government on an initial list of actions to be included in the policy matrix for the PRSC. At the start of the year when the PRSC is to be

approved by the World Bank, the agencies hold joint consultations with the Government on the status of the policy actions on the initial list. When the World Bank undertakes the appraisal and the negotiations for the PRSC (usually in May of the year when the PRSC is expected to be approved), the agencies and the Government agree on the final list of policy actions for that PRSC. Some actions that were included in the initial list are modified or dropped at this stage, in view of their status and likelihood of being completed before the World Bank's Executive Board deliberates on the PRSC.

16. Actions in all key reform areas are usually included in the policy matrices for PRSCs to help the Government make balanced progress in reforms across various areas and fully carry out its reform agenda. Therefore, the policy matrices for PRSCs tend to be fairly broad in scope and to closely match the Government's reform agenda. This makes the PRSC process attractive to a large number of development agencies (focusing on different areas of policy reforms) and contributes to the strong government ownership of the actions included in the policy matrices for PRSCs.

17. At the same time, the good-practice principle of criticality in development policy lending by the World Bank guides the selection of policy actions within a particular reform area. According to this principle, only those actions that are critical to the achievement of results should be made conditions for disbursement.<sup>5</sup> Therefore, the policy matrices for PRSCs include only those actions that the participating development agencies and the Government consider to be critical steps in the reform process in the area concerned and for which the Government needs the combined support of many development agencies. The Government follows through with the reform process on its own or with the support of development agencies under other projects. This approach helps keep the policy matrices for PRSCs manageable despite their broad scope. But it also limits the continuity of actions included in the policy matrices for various PRSCs.

18. The Asian Development Bank (ADB) joined the PRSC process in 2003 and has taken part in all PRSC activities since then. In 2004, ADB approved SIPRP I, a single-tranche standard program loan of \$6.4 million. SIPRP I provided parallel financing with the World Bank's PRSC 3 in support of the implementation of the Government's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) 2002–2006. SIPRP II and SIPRP III (\$15 million each) were approved in 2005 and 2006 and provided parallel financing with PRSC 4 and PRSC 5, respectively. Like SIPRP I, SIPRP II and SIPRP III were single-tranche standard program loans, which supported the implementation of CPRGS 2002–2006. With support from ADB, the World Bank, and other development agencies through the PRSC process, the policy reforms needed for the successful implementation of CPRGS 2002–2006 were carried out and most of the CPRGS goals were achieved.<sup>6</sup>

### **3. Socioeconomic Development Plan 2006–2010**

19. SEDP 2006–2010 was adopted by the Government in 2006. Unlike previous SEDPs, it was prepared in an open and participatory manner involving extensive consultations with civil society, businesses, and development agencies, and is oriented more toward attaining

<sup>5</sup> World Bank. 2005. *Review of World Bank Conditionality*. <http://go.worldbank.org/RY71JPEPZ0>

<sup>6</sup> For an assessment of how the PRSC process contributed to the implementation of CPRGS 2002–2006, see World Bank. 2007. *Implementation Completion and Results Report on a Series of Five Credits in the Total Amount of SDR 473.4 Million (US\$650 Million Equivalent) to the Socialist Republic of Vietnam for a Series of Five Poverty Reduction Support Operations*. Washington, DC (Report No. ICR0000483).

development outcomes (including poverty reduction) and less toward achieving production targets. Its targets include a reduction in the poverty rate (based on MOLISA's methodology) from 22% in 2005 to 10%–11% in 2010. SEDP 2006–2010 also aspires to strengthen the foundations for environmentally sustainable and socially inclusive economic growth and a continued reduction in poverty beyond 2010. It provides for a broad range of policy reforms and a large number of investment projects aimed at achieving its targets and goals. The joint International Development Association (IDA)–International Monetary Fund staff advisory note of 5 December 2006 on Viet Nam's poverty reduction strategy concluded that SEDP 2006–2010 has the key features of a poverty reduction strategy and is likely to lead to economic growth and poverty reduction.<sup>7</sup>

20. Since late 2006, the PRSC process has supported the policy reforms needed for the successful implementation of SEDP 2006–2010. In 2007, about a dozen multilateral and bilateral development agencies, including ADB, provided general budget support to Viet Nam within the framework of the PRSC process to help the Government keep these reforms on track in 2007. In particular, the World Bank approved PRSC 6 amounting to \$175 million from IDA in June 2007, and ADB approved the \$15.0-million SIPRP IV (another single-tranche standard program loan) for this purpose in October 2007.

21. Significant progress was made in 2007 toward achieving the outcome of SIPRP IV and the targets of SEDP 2006–2010. The poverty rate based on the MOLISA's methodology fell from 22.0% in 2005 to 14.7% in 2007. The ratio of merchandise exports to GDP increased from 63% in 2005 to about 70% in 2007, exceeding the SIPRP IV outcome performance target of 65% in 2010. The share of the domestic private sector in total investment reached 41%, well above the 34% in 2006 and the SIPRP IV target of 35% in 2010. The proportion of underweight children in 2007 was estimated at 22.3%, compared with 25.0% in 2005 and the SIPRP IV target of less than 22.0% in 2010. About 71% of the rural population had access to clean water in 2007, compared with 62% in 2005 and the SIPRP IV target of 75% in 2010.

## **B. Issues and Opportunities**

### **1. Challenges in Poverty Reduction**

22. Despite the tremendous strides Viet Nam has made in eradicating poverty over the last 15 years, much remains to be done. First, the absolute number of poor people is still quite large, although their share of the total population has been drastically reduced. In 2006, 5.7 million people suffered from hunger. In 2007, 3.4 million people survived on less than \$1.0 (at PPP) per day and 28.1 million people lived on less than \$2.0 (at PPP) per day (footnote 3).

23. Second, the incidence of poverty is still fairly high in the rural areas and among ethnic minorities, even though it has been decreasing faster than in urban areas and among the ethnic majority. In 2006, the poverty rate was 20.4% in rural areas (compared with 3.9% in urban areas) and 52.2% among ethnic minorities (compared with 10.2% among the Kinh and Chinese majority) (footnote 1). The rural areas accounted for 73.3% of the total population but 93.6% of the poor. Ethnic minorities made up only 13.5% of the total population but 44.4% of the poor.<sup>8</sup>

<sup>7</sup> IMF and IDA. 2006. *Vietnam: Poverty Reduction Strategy Paper—Annual Progress Report—Joint Staff Advisory Note*. Washington, DC. <http://www.imf.org/external/pubs/ft/scr/2006/cr0671.pdf>

<sup>8</sup> World Bank. 2008. *Taking Stock: An Update on Vietnam's Recent Economic Developments*. Paper prepared for the Mid-Year Consultative Group Meeting for Vietnam, Sapa, 5–6 June 2008.

24. Third, the rural poor and poor ethnic minority people not only account for relatively large proportions of their respective population groups, but also have significantly lower average incomes than the urban poor and poor ethnic majority people, respectively. In 2006, the poverty gap was 4.9% in the rural areas and 15.4% among ethnic minorities, compared with 3.2% in the urban areas and 2.0% among the Kinh and Chinese majority (footnote 1).

25. Fourth, the incidence of poverty varies significantly across regions. It is fairly low in the Southeast, Red River Delta, Mekong Delta, and South Central Coast, but quite high in the Northern Mountains (especially the Northwest Mountains), North Central Coast, and Central Highlands. In 2006, the poverty rate was 30.2% in the Northern Mountains (49.0% in the Northwest Mountains), 29.1% in the North Central Coast, and 28.6% in the Central Highlands, compared with 5.8% in the Southeast and 8.8% in the Red River Delta.

26. Fifth, the vulnerability of the population to poverty is rather high, especially in the urban areas. The large difference between the proportion of the population living on less than \$2.0 (at PPP) a day (32.9% in 2007) and the share of the population living on less than \$1.0 (at PPP) a day (4.0% in 2007) suggests that the near-poor account for a substantial proportion of the population. A relatively small external or internal shock and a moderate deterioration in the economic situation can push many of these people into poverty.

27. Finally, some negative trends in poverty have emerged recently. According to the household survey data, urban poverty increased somewhat between 2004 and 2006, with the poverty rate rising from 3.6% in 2004 to 3.9% in 2006 and the food poverty rate increasing from 0.8% to 1.2%. Anecdotal evidence suggests that poverty increased further in the urban areas in 2007 and the first half of 2008 because of high inflation and in particular soaring food prices.<sup>9</sup>

## **2. Opportunities Afforded by the Poverty Reduction Support Credit Process**

28. To meet the remaining challenges of poverty reduction, Viet Nam needs, among other things, to press ahead with the policy reforms that address the structural causes of high inflation (such as the relatively low efficiency of public investment and supply-side rigidities), further increase the efficiency of social protection, and foster environmentally sustainable and socially inclusive economic growth over the medium term. Some of these reforms are, however, quite complex. Besides, their costs to the economy as a whole and to the state budget in particular are likely to exceed their benefits in the short term. They are therefore likely to put a considerable burden on the state budget in the short term. Moreover, they are likely to result in net losses to some economic actors even over the long term. Consequently, some of these reforms are likely to meet with resistance from potential losers.

29. Strong support from development partners, through the PRSC process, can help the Government carry out these reforms. In 2006, under the auspices of the Network on Development Evaluation of the Development Assistance Committee of the Organization for Economic Co-operation and Development, several development agencies and governments commissioned an evaluation study of partnership general budget support (PGBS) operations in seven developing countries, including Viet Nam. The study looked into the relevance, efficiency, and effectiveness of PGBS (involving several development agencies and the government), such

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<sup>9</sup> According to one estimate, a 10% rise in food prices in Viet Nam reduces the poverty rate in rural areas by 0.98 percentage points, but increases the poverty rate in urban areas by 0.53 percentage points (Vu, Linh, and Paul Glewwe. 2008. *Impacts of Rising Food Prices on Poverty and Welfare in Vietnam*. Paper commissioned by the World Bank).



as the PRSC process in Viet Nam, and found it to be an efficient, effective, and sustainable way of supporting national poverty reduction strategies. PGBS can significantly affect policies and policy processes through financial empowerment, stronger incentives within government, and better coherence and coordination among international partners. In the countries covered by the study, PGBS has reinforced collaboration between governments and development agencies and improved harmonization of official development assistance. It has helped make public finance management more comprehensive and transparent, increased pro-poor public expenditures, and resulted in large savings to the government in transaction costs. The PRSC process in Viet Nam has had a strong positive impact on policy reforms. It is a successful example of government–donor collaboration, of learning from experience, and of objectives met.<sup>10</sup>

30. Indeed, the PRSC process has been a driving force of policy reforms in Viet Nam in recent years. The Government has ably used the involvement of a large number of development agencies (including ADB) in the process to overcome domestic resistance to policy reforms. To deal with such resistance, government agencies advocating certain reform measures have often proposed the inclusion of these measures in the policy matrices for the PRSCs.

31. According to the World Bank's report on the implementation and results of PRSCs 1–5, the first phase of the PRSC process in Viet Nam (which involved PRSCs 1–5 and supported the implementation of CPRGS 2002–2006) contributed to the significant progress achieved by the country in transition to a market economy, social inclusion, and the building of modern governance. The PRSC process had a direct influence on the adoption of policy actions that were conducive to higher economic growth and poverty reduction, and helped spread market mechanisms, create wage employment, and improve the delivery of public services. The annual PRSC cycle with tight deadlines increased incentives to complete key policy actions on time. In addition, the PRSC process helped the Government strengthen its capacity to conduct cross-sector policy dialogue and deliver results on time. Consultations with a large number of development agencies within the framework of the PRSC process demonstrated the Government the benefits of an open dialogue on key issues and made it more receptive to sharing its draft documents at an early stage and eliciting feedback from the relevant stakeholders.<sup>11</sup>

32. According to stakeholder consultations that were held in 2006 as part of an independent evaluation of the first phase of the PRSC process, the process was beneficial to policy reforms in Viet Nam. The policy dialogue within the framework of the PRSC process was emphasized by both the Government and the participating development agencies as a major benefit of the process. The Government valued the ideas offered by the development agencies on the design and implementation of policy reforms, while the development agencies gained a broader understanding of the direction of the reform process and government thinking. Other PRSC benefits stemmed not only from improving the quality of policies but also from locking in the Government's commitment to specific reforms and speeding up their implementation. The general budget support provided by participating agencies to Viet Nam within the framework of

<sup>10</sup> International Development Department and Associates. 2006. *Evaluation of General Budget Support: Synthesis Report*. <http://www.oecd.org/dataoecd/25/43/37426676.pdf>

<sup>11</sup> World Bank. 2007. *Implementation Completion and Results Report on a Series of Five Credits in the Total Amount of SDR473.4 Million (US\$650 Million Equivalent) to the Socialist Republic of Vietnam for a Series of Five Poverty Reduction Support Operations*. Washington, DC (Report No. ICR0000483).

the PRSC process was welcomed by the Government, but it was less important than the policy reforms advanced by the process.<sup>12</sup>

### **3. Rationale for Support for the Implementation of the Poverty Reduction Program V**

33. ADB has made a commitment to remain involved in the PRSC process in Viet Nam at least through 2010. Three more SIPRP loans are included in ADB's country strategy and program 2007–2010 and country operations business plan 2008–2010 for Viet Nam.<sup>13</sup> All of them are envisaged as single-tranche standard program loans similar to SIPRPs I–IV. SIPRP V (envisaged as a single-tranche standard program loan and included in the 2008 indicative pipeline) is to provide parallel financing with PRSC 7; SIPRP VI (in the 2009 indicative pipeline), with PRSC 8; and SIPRP VII (2010 indicative pipeline), with PRSC 9.

34. Combining these three single-tranche operations into a program cluster entitled SIPRP V and comprising three chronologically ordered subprograms is proposed for a number of reasons. First, SIPRPs V–VII are to provide parallel financing with the World Bank's PRSCs in support of the implementation of SEDP 2006–2010. More specifically, they are to help the Government carry out policy reforms that are needed for the successful implementation of SEDP 2006–2010 but will take several years to complete. A program cluster with chronologically ordered subprograms is more suited to such reforms than a series of standard program loans each supporting a 1-year program. At the same time, a program cluster permits more flexibility than a multitranche standard program loan in adjusting the policy framework, if needed, to ensure its full consistency with the policy matrices for future PRSCs.

35. Second, combining SIPRPs V–VI into one program cluster will reaffirm ADB's commitment to stay involved in the PRSC process through 2010 and strengthen ADB's partnership with the Government and other development agencies participating in the PRSC process. SIPRP V will build on SIPRP IV and help the Government carry out policy reforms needed for the successful implementation of SEDP 2006–2010. Subprogram 1 will provide parallel financing with PRSC 7, subprogram 2 with PRSC 8, and subprogram 3 with PRSC 9.

36. Third, combining SIPRPs V–VII into one program cluster will make more predictable the amounts of general budget support to be provided by ADB to Viet Nam within the framework of the PRSC process. Medium-term budget planning and external debt management will therefore be easier for the Government.

37. Finally, combining SIPRPs V–VII into a program cluster will save staff resources for ADB. SIPRP V will require less staff time to process than three separate SIPRP loans, primarily because only one concept paper on the entire program cluster will need to be prepared instead of three. Similarly, only one program completion report (PCR) on the entire SIPRP V will need to be prepared after the completion of subprogram 3. The Government's final report to the National Assembly on the implementation of SEDP 2006–2010 can be used in evaluating SIPRP V since the performance targets and indicators of SIPRP V are aligned with those of SEDP 2006–2010, and SEDP 2006–2010 will have been implemented by the time the PCR on SIPRP V is to be prepared.

<sup>12</sup> Bartholomew, Ann, and Catherine Dom. 2006. *Using Aid Well: Experience and Opportunities with Vietnam's PRSC*. Oxford, United Kingdom: Mokoro Ltd.

<sup>13</sup> ADB. 2006. *Country Strategy and Program (2007–2010): Viet Nam*. Manila; ADB. 2007. *Country Operations and Business Plan (2008–2010): Viet Nam*. Manila.

38. Hence, combining SIPRPs V–VII into a program cluster is consistent with the recommendations of the PCR on SIPRP III and the aforementioned evaluation study on general budget support. The PCR on SIPRP III, noting the substantial staff time required to process SIPRP loans, recommended the streamlining and simplification of the process.<sup>14</sup> The evaluation study on general budget support concluded that development agencies embarking on PGBS should be prepared for a lengthy engagement. It recommended development agencies providing such support to Viet Nam within the framework of the PRSC process to make long-term (3–5 years) funding commitments and provide schedules of disbursements.

39. Unlike SIPRPs I–IV, whose policy matrices were identical to those of the corresponding PRSCs, the proposed program cluster will be centered on those actions in the policy matrices for PRSCs 7–9 that complement policy actions supported by ADB's other program loans to Viet Nam or are otherwise important to ADB's operations in the country. SIPRP V will thus be more congruent with ADB's other operations in Viet Nam.

40. With SIPRP V, ADB will stay involved in the PRSC process through 2010, that is, until SEDP 2006–2010 is fully implemented (Figure 1). ADB can therefore promote, with relatively modest financing, a wide range of policy reforms that are needed for the successful implementation of SEDP 2006–2010.<sup>15</sup> Consequently, the proposed program cluster will help ADB achieve the objective of its country strategy and program 2007–2010 for Viet Nam, which is to help the Government reduce the poverty rate to 10%–11% by 2010.

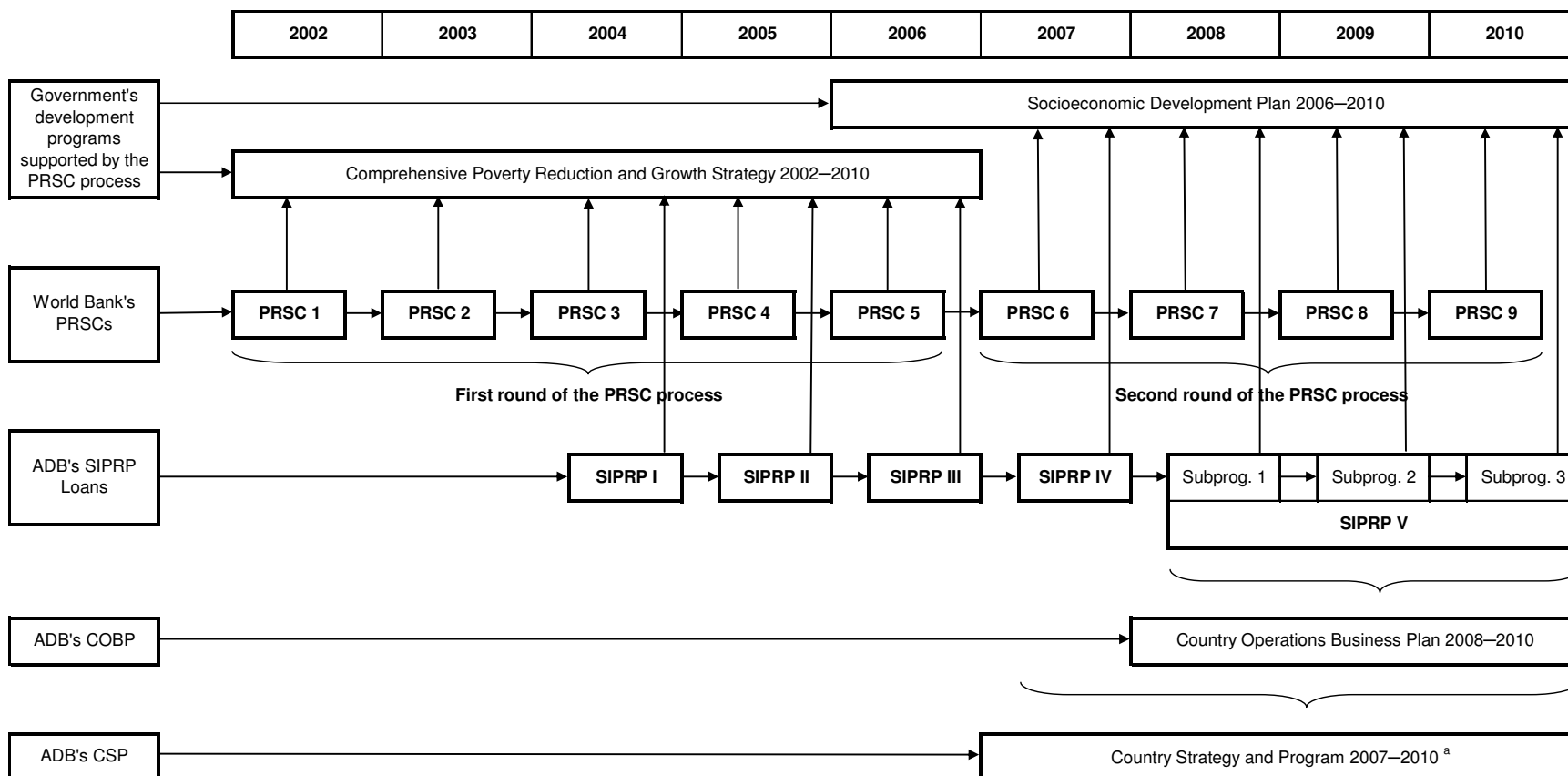
41. Furthermore, continued participation in the PRCS process will provide ADB with another means of coordinating its activities in Viet Nam with those of other development agencies. SIPRP V will help ADB fulfill its obligations under the Rome Declaration on Harmonization (2003), the Paris Declaration on Aid Effectiveness (2005), and the Hanoi Core Statement on Aid Effectiveness (2005).

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<sup>14</sup> ADB. 2007. *Completion Report for the Support the Implementation of Poverty Reduction Program III in Viet Nam*. Manila.

<sup>15</sup> ADB's 2007 special evaluation study on policy-based lending concluded that participation in policy-based lending that involves several development agencies and seeks to advance policy reforms in support of country-driven poverty reduction programs can be both cost-efficient and results-effective (ADB. 2007. *Special Evaluation Study on Policy-Based Lending: Emerging Practices in Supporting Reforms in Developing Member Countries*. Manila).

**Figure 1: Links of Support for the Implementation of the Poverty Reduction Program V to Government's Development Programs, World Bank's Poverty Reduction Support Credits and Asian Development Bank's Country Strategy and Program, Country Operations Business Plan and Previous Support for the Implementation of the Poverty Reduction Program Loans**



ADB = Asian Development Bank, COBP = country operations business plan, CSP = country strategy and program, PRSC = Poverty Reduction Support Credit, SIPRP = Support for the Implementation of the Poverty Reduction Program.

<sup>a</sup> The objective of ADB's country strategy and program 2007–2010 for Viet Nam is to help the Government reduce the poverty rate to 10%–11% by 2010 through the successful implementation of the Socioeconomic Development Plan 2006–2010.

Source: World Bank. 2008. *International Development Association Program Document for a Proposed Credit in the Amount of SDR92.1 Million (US\$150.0 Million Equivalent) to the Socialist Republic of Vietnam for a Seventh Poverty Reduction Support Operation*. Washington, DC (Report No. 42896-VN); and Asian Development Bank.

## IV. THE PROPOSED PROGRAM

### A. Impact and Outcome

42. The intended impact of SIPRP V is a continued reduction in poverty in Viet Nam in 2008–2010 and beyond. Its expected outcome is the successful implementation of the Government's SEDP 2006–2010. To this end, the proposed program cluster will help the Government carry out the policy reforms that are needed for the successful implementation of SEDP 2006–2010 by supporting the policy actions that are critical steps in carrying out the reforms and are particularly relevant to ADB's operations in Viet Nam. The successful implementation of SEDP 2006–2010 will not only reduce poverty during 2006–2010 but will also increase Viet Nam's economic competitiveness and strengthen the foundations for sustainable and inclusive growth and a continued reduction in poverty beyond 2010. The Government's Development Policy Letter is in Appendix 3.

### B. Policy Framework and Actions

43. The Vietnam Development Report 2007 provides the analytical basis for the second phase of the PRSC process (which involves the World Bank's PRSCs 6–9 and supports the implementation of SEDP 2006–2010) and the proposed program cluster. The report was jointly prepared by 16 development agencies, including ADB, in 2006. It analyzes the medium-term development challenges facing Viet Nam and reviews the Government's strategy for overcoming these challenges, as set out in SEDP 2006–2010.<sup>16</sup> It also identifies the policy reforms that are needed for the successful implementation of SEDP 2006–2010 and proposes specific policy actions to advance these reforms.

44. The policy actions proposed by the Vietnam Development Report 2007 fall into the following four broad reform areas:

- (i) **Business development.** Equitizing or restructuring SOEs, developing the financial and private sectors, improving the quality of infrastructure services, and deepening Viet Nam's integration into the global economy.
- (ii) **Social inclusion.** Improving the quality of health care and education and access to these services, strengthening social protection, and promoting gender equality.
- (iii) **National resource management.** Strengthening the management of natural resources (including water, land, and forests) and the protection of the environment.
- (iv) **Governance.** Improving planning processes, strengthening public financial management and public administration, reducing corruption, and improving legal transparency and accessibility.

45. Some of the actions proposed in the Vietnam Development Report 2007 were included in the policy matrices for PRSC 6 and SIPRP IV. The remaining actions served as a starting point in the selection of actions to be included in the policy matrix for PRSC 7.

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<sup>16</sup> World Bank. 2006. *Vietnam Development Report 2007: Aiming High*. Joint donor report to the Vietnam Consultative Group Meeting, Hanoi, 14–15 December 2006.

46. The initial list of policy actions for PRSC 7 was discussed and agreed on in 2007 by the development agencies participating in the PRSC process and the Government.<sup>17</sup> In January–March 2008, the development agencies held two rounds of consultations with the Government on the status of that initial list. On the basis of those discussions, the list was slightly modified. When the World Bank conducted the appraisal and the negotiations for PRSC 7 in May 2008, the development agencies and the Government agreed on the final list of 38 policy actions, down from the original 61.<sup>18</sup> ADB took part in all of these consultations and provided substantive inputs to the policy matrix for PRSC 7.

47. The actions covered by subprogram 1 of the proposed program cluster were selected, through consultation among various units of ADB and with the Government, from the final list of actions included in the policy matrix for PRSC 7. The tentative policy actions for subprograms 2 and 3 were drawn from the tentative list of policy actions for PRSCs 8–9. Only those actions that complemented policy actions supported by ADB's other program loans to Viet Nam and did not duplicate those actions, or were otherwise important to ADB's operations in Viet Nam, were selected. All actions selected for subprogram 1 were completed by October 2008. The following is a brief description of these actions and their relationships with the tentative actions under subprograms 2 and 3 and ADB's other operations in Viet Nam.<sup>19</sup>

## 1. Business Development

48. **Action 1: Assess the scope and nature of lending and other transactions among affiliated parties within economic groups and general corporations.** There is concern that the involvement of large SOEs in the financial sector, through their control of commercial banks and other financial institutions, could undermine the efficient allocation of capital and be a source of instability in the medium term. Investments by large SOEs in real estate and the stock market probably fueled the recent stock market and real estate bubbles. As a first step toward regulating these activities, the Ministry of Finance (MOF) has assessed the scope of related lending and related party transactions and their implications for economic stability and overall efficiency. MOF reviewed outside investments by economic groups and general corporations, assessed the conditions under which they borrow from the banks they have invested in, and evaluated the extent and pricing of sales among affiliates.<sup>20</sup> This assessment will be useful in designing the SOE Reform and Corporate Governance Facility, a program loan in ADB's 2009 indicative lending pipeline for Viet Nam that is intended to facilitate the reform of SOEs and improve corporate governance at these enterprises.

<sup>17</sup> The experience with previous PRSCs showed that policy reforms tend to make slower progress in areas where political will is limited, institutional responsibilities overlap, or analysis is insufficient. This finding was taken into account when the initial list of policy actions for PRSC 7 was drawn up. An action, though deemed relatively ambitious, was included in the list if the political will to carry it out was believed to be strong and the action was supported by sound analysis and fell within the area of responsibility of a single government agency. If political will for the action was deemed to be limited or the analytical basis was weak or the action was a responsibility held in common by several government agencies, a less ambitious alternative was chosen.

<sup>18</sup> The final list of actions included in the policy matrix for PRSC 7 is in Appendix 4.

<sup>19</sup> The policy matrix and the objective tree for SIPRP V, which are given in Appendix 5, show graphically how the policy actions covered by subprogram 1 and the tentative policy actions under subprograms 2 and 3 are interrelated and how they will contribute to the outputs, outcome and impact of SIPRP V. The status of the actions covered by subprogram 1 is described in Appendix 6.

<sup>20</sup> World Bank. 2008. *International Development Association Program Document for a Proposed Credit in the Amount of SDR92.1 Million (US\$150.0 Million Equivalent) to the Socialist Republic of Vietnam for a Seventh Poverty Reduction Support Operation*. Washington, DC (Report No. 42896-VN).

49. The assessment will also be useful in carrying out action 1 (strengthen the financial management of SOEs and their investment in other entities, defining the level of such investments) under subprograms 2 and 3. Action 1 under subprogram 1 and actions 1 and 2 (transfer state ownership rights in equitized SOEs to the State Capital Investment Corporation) under subprograms 2 and 3 will help equitize or restructure SOEs, thereby contributing to business development and the successful implementation of SEDP 2006–2010.

50. **Action 2: Approve equitization plans, allowing the participation of strategic investors, for two state-owned commercial banks (SOCBs) and complete the equitization of one of them.** The equitization of SOCBs is an important part of market-oriented reforms in Viet Nam. By Prime Minister's Decisions 1289/QD-TTg of 26 September 2007 and 313/QD-TTg of 24 March 2008, the Government approved the equitization plans for Vietcombank and Mekong Housing Bank, respectively. Both plans provide for an initial public offering and the first general meeting of shareholders.

51. The equitization of Vietcombank has essentially been completed. The bank held an initial public offering in December 2007 and its first general meeting of shareholders in April 2008. However, the sale of the bank's shares to strategic investors and its listing on a stock exchange have been postponed in view of unfavorable market conditions.

52. **Action 3: Issue a road map to enhance bank supervision, including off-site supervision and risk management tools.** Viet Nam's banking system has expanded rapidly since the 1990s, both in number of banks and in size of credit portfolio. Numerous joint-stock banks with relatively small capital have been established and have quickly built up their credit portfolios, often with inadequate regard for quality. SOCB lending to SOEs has been extensive but not always commercially viable. Many banks have excessive exposure to the stock and real estate markets. Now that stock prices have fallen from their record highs in 2007, the real estate market has cooled, interest rates have risen, and economic growth is slowing down, serious vulnerabilities have emerged in the banking system. Although reliable data on nonperforming loans are not available, one can assume with a reasonable degree of confidence that the share of these loans in banks' portfolios has increased significantly in the last several months and is likely to increase further in the months ahead. It is therefore particularly encouraging that, on 24 August 2007, the SBV governor issued Decision 1976/QD-NHNN approving a proposal for the organizational and operational reform of banking supervision, including off-site supervision and risk management tools. The proposal is in effect a road map for strengthening risk management at commercial banks and their prudential supervision by SBV. On 31 January 2008, SBV adopted Plan 1094/KH-NHNN implementing this proposal.

53. Action 3 (complete the equitization of four SOCBs, with the participation of strategic investors) under subprograms 2 and 3 will be a continuation of action 1 under subprogram 1. These two actions—together with action 4 (certify the internal credit rating system of all banks and approve inspection manuals) and action 5 (prepare a revised law on the central bank focusing its mandate on, and enhancing its autonomy in regard to, monetary policy and financial sector stability) under subprograms 2 and 3—will complement policy actions and reforms under subprogram 1 of the Third Financial Sector Program Loan (approved in November 2007)<sup>21</sup> and the technical assistance (TA) for Support for Developing Capital Markets and Building Capacity

<sup>21</sup> ADB. 2008. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Cluster and Loan to the Socialist Republic of Viet Nam for the Third Financial Sector Program Loan (Subprogram 1)*. Manila.

in the Financial Sector (approved in June 2008).<sup>22</sup> The actions will contribute to business development and poverty reduction through a sound banking system and a better-developed financial sector.

**54. Action 4: Rationalize incentives related to the enterprise income tax and simplify tax procedures for household businesses.** Household businesses in Viet Nam now pay the corporate income tax (CIT). In November 2007, the National Assembly passed the Law on Personal Income Tax, under which income from household businesses can be declared and taxed as individual income. The law also unified the tax rates for Vietnamese and foreigners and reduced the maximum rate from 40% to 35%. As regards the CIT, in November 2007, MOF issued Circular 134/2007/TT-BTC with a positive list (deductible items) and a negative list (nondeductible items). The revised Law on Corporate Income Tax, lowering the base rate of the CIT from 28% to 25% and imposing time restrictions on many exemptions and preferential rates, was passed by the National Assembly in June 2008 and is to take effect on 1 January 2009.

**55. Action 5: Raise the cap on shareholdings by a single foreign investor in unlisted companies.** Restrictions on foreign ownership of local companies present a serious barrier to inflows of foreign direct and portfolio investment into Viet Nam. There is a 49% ceiling on foreign ownership of listed nonfinancial companies. There is also a 15% cap on the share of a single strategic foreign investor in the capital of a local joint-stock bank; this cap can be raised to 20% by Prime Minister's decision, depending on the case. But while a single strategic foreign investor may hold up to 20% of the shares of a local joint-stock bank, the combined share of all foreign investors cannot exceed 30%. Until recently, the share of foreign investors in the capital of many other types of companies, including equitized but still unlisted SOEs, could not exceed 30%. The Government's Decree 139/2007/ND-CP of September 2007 on the implementation of the Enterprise Law effectively abolished the 30% cap on foreign ownership of unlisted companies (other than those that are subject to sector-specific restrictions on private or foreign ownership).

**56.** Actions 4 and 5 under subprogram 1—together with action 6 (establish a national business registry with a unique number for business, tax, statistics, and seal agencies), action 7 (adopt guidelines to govern the operations of the Viet Nam Competition Council), and action 8 (revise the legal framework for the promotion of small and medium-sized enterprises and enable better links with large-scale industries) under subprograms 2 and 3—will complement actions and initiatives supported by subprogram 2 of the Small and Medium Enterprise (SME) Development Program Loan (approved in December 2006)<sup>23</sup> and phase 2 of the TA for Making Markets Work Better for the Poor (approved in February 2008).<sup>24</sup> The actions will contribute to business development and the successful implementation of SEDP 2006–2010 by promoting private sector development.

**57. Action 6: Separate power transmission and generation assets and regroup transmission assets under a single National Power Transmission Corporation.** The rapidly growing demand for electricity is among the most pressing infrastructure challenges facing Viet Nam. To ensure that electricity prices stay affordable while attracting private investment

<sup>22</sup> ADB. 2008. *Technical Assistance to the Socialist Republic of Viet Nam for the Support for Developing Capital Markets and Building Capacity in the Financial Sector*. Manila.

<sup>23</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Loan to the Socialist Republic of Viet Nam for Subprogram II of the Small and Medium Enterprise Development Program Cluster and Progress of Subprogram I*. Manila.

<sup>24</sup> ADB 2008. *Technical Assistance to the Socialist Republic of Viet Nam for Making Markets Work Better for the Poor Phase 2*. Manila.



into the sector, a wholesale market for electricity needs to be created. In a crucial step toward the creation of such a market, power transmission and generation assets were recently separated and transmission assets grouped under the National Power Transmission Corporation, which started operating on 1 July 2008. The company is responsible for the construction, operation, and maintenance of Viet Nam's power transmission network comprising 220 kilovolt (kV) and 500 kV lines and substations. The separation of power transmission and generation assets and the establishment of the National Power Transmission Corporation have paved the way for the consolidation and equitization of generation assets and the creation of a wholesale market for electricity.

58. Action 6 under subprogram 1—together with action 9 (adopt a pricing system for electricity from renewable energy and provide incentives for the procurement of energy-efficient equipment by the Government) and action 10 (adopt user charges designed to better manage demand for infrastructure services) under subprograms 2 and 3—will help improve the quality of infrastructure services. The actions will complement ADB's numerous ongoing and planned energy and other infrastructure projects in Viet Nam and contribute to business development, economic growth, and poverty reduction.

59. Action 11 (complete the legal framework enabling the improved provision of logistics services, including multimodal transport) and action 12 (issue a time-bound action plan for the implementation of commitments to the WTO) under subprograms 2 and 3 will help Viet Nam integrate itself more deeply with the global economy, expand trade, reap the benefits of WTO membership, and mitigate its adverse effects. The actions will thereby contribute to business development and the successful implementation of SEDP 2006–2010.

## 2. Social Inclusion

60. **Action 7: Increase the health insurance premium paid on behalf of the poor and partially subsidize the near-poor.** In October 2002, Prime Minister's Decision 139/2002/QĐ-TTg introduced a government contribution of D50,000 per person per year toward health insurance of the poor. The amount of the contribution was raised to D60,000 in 2006, D80,000 in 2007, and D130,000 in 2008. The Government is now considering setting its contribution at 3.0% of the minimum wage; this will increase the amount of the contribution further (given the current minimum wage of D540,000 per month). Prime Minister's Decision 289/2008/QĐ-TTg of March 2008 allowed the near-poor to join the voluntary health insurance program, with the Government contributing 50% of their insurance premium. In September 2008, the Ministry of Health and MOF issued interministerial circular 10/2008/TTLT-BYT-BTC, which specified the mechanism for the Government's 50% contribution towards health insurance of the near-poor.

61. Action 7 under subprogram 1—together with action 13 (adopt standards for the certification of health care practitioners and the classification of private health facilities) and action 14 (establish regulatory and institutional frameworks for the monitoring of the performance of health care providers) under subprograms 2 and 3—will improve the quality of health care services and access to such services. The actions will complement the ADB projects Health Care in the Central Highlands (approved in January 2004 and intended to improve the availability of good-quality health care services in five provinces in the Central Highlands)<sup>25</sup> and Health Care in the South Central Coast Region (approved on 7 November

<sup>25</sup> ADB. 2004. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for Health Care in the Central Highlands*. Manila.

2008 and aimed at making the provincial health care system in the South Central Coast Region more comprehensive, well managed, and better used).<sup>26</sup>

62. Similarly, action 15 (formulate an educational development strategy for the period up to 2020 with emphasis on equity of learning outcomes and relevance of contents) and action 16 (finalize and begin the implementation of the road map for the educational management information system) will help improve the quality of, and access to, education. The actions will also improve starting conditions for the Secondary Education Sector Development Program (which is in the indicative pipeline for 2009 and is intended to improve secondary education learning outcomes). Action 7 under subprogram 1 as well as actions 13–16 under subprograms 2 and 3 will contribute to the successful implementation of SEDP 2006–2010 by making economic growth more socially inclusive.

### 3. Natural Resource Management

63. **Action 8: Allocate institutional responsibilities for integrated river basin management.** Until recently, river basin management was carried out by both the Ministry of Natural Resources and Environment (MONRE) and the Ministry of Agriculture and Rural Development (MARD). This arrangement significantly complicated integrated river basin management and compromised its efficiency and effectiveness. In January 2008, the Government issued Decree 01/2008/ND-CP spelling out the functions and tasks of MARD. River basin management was not among the functions. On the other hand, Decree 25/2008/ND-CP, issued by the Government in March 2008, listed integrated river basin management among the key functions of MONRE and authorized the latter to represent Viet Nam in the Mekong River Council.

64. Action 8 implemented a key recommendation of the draft final report of the Water Sector Review Project,<sup>27</sup> an ongoing TA project. By doing so, it settled a policy issue that adversely affected many water management projects of ADB, including Central Region Water Resources (approved in December 2005 and aimed at strengthening irrigation management in six provinces in the central region of Viet Nam)<sup>28</sup> and Central Region Small and Medium Town Development (approved in November 2006 and intended to improve water supply services in eight small and medium-sized towns in the central region).<sup>29</sup>

65. Action 8 under subprogram 1—together with action 17 (restructure irrigation management companies to improve their service orientation and financial viability) and action 18 (develop a unified national sanitation strategy and encourage greater participation by communes and the private sector in sanitation) under subprograms 2 and 3—will improve the management of water resources. Action 19 (approve a national target program for adapting to the climate change and allocate institutional responsibilities for its implementation) and action 20 (establish national and regional pollution monitoring systems to enable results-based environmental planning) will enhance environmental protection. All these actions will contribute to the successful implementation of SEDP 2006–2010 by strengthening management of natural resources.

<sup>26</sup> ADB. 2008. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for Health Care in the South Central Coast Region*. Manila.

<sup>27</sup> ADB. 2006. *Technical Assistance to the Socialist Republic of Viet Nam for Water Sector Review*. Manila.

<sup>28</sup> ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for Central Region Water Resources Project*. Manila.

<sup>29</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for Central Region Small and Medium Towns Development Project*. Manila.

#### 4. Governance

66. **Action 9: Establish a list of indicators, data sources, and a reporting mechanism for the monitoring of SEDP 2006–2010.** As part of the modernization of planning processes in Viet Nam, further progress has recently been made in developing a monitoring framework for SEDPs. In May 2007, the Ministry of Planning and Investment approved, through Decision 555/2007/QD-BKH, a results-based monitoring and evaluation framework for SEDP 2006–2010. The framework specifies the monitoring indicators and the agencies responsible for reporting on individual indicators. ADB assisted the ministry in developing the framework through the TA project Results-Based Monitoring of Poverty Reduction and Growth (approved in July 2005).<sup>30</sup>

67. Action 9 under subprogram 1—together with action 21 (establish a legal framework for strengthening urban planning and urban infrastructure management) and action 22 (integrate sector policies and national target programs at the commune level, emphasizing participation at all stages) under subprograms 2 and 3—will help improve planning processes. The actions will contribute to the successful implementation of SEDP 2006–2010 by improving governance.

68. **Action 10: Issue regulations on the contents and timing of disclosure of State Audit of Viet Nam (SAV) reports, including reports on audits of individual entities.** SAV was established in 2004 as an independent institution reporting to the National Assembly, which was empowered to appoint and dismiss the Auditor General. In July 2007, SAV issued Decision 03/2007/QD-KTNN mandating the disclosure of its audit findings and recommendations. Three types of SAV documents must be disclosed: (i) annual audit reports, (ii) reports on the implementation of audit conclusions and recommendations, (iii) and the audit reports and the audit minutes pertaining to audits of individual entities. This regulation adequately defines the responsibilities for disclosure, the reports to be disclosed, and the timing and means of disclosure. Since the issuance of the decision, SAV's audit reports have been distributed to members of the National Assembly, press conferences have been held on the conclusions and recommendations of several of the reports, and various individual audits have been posted on SAV's website.

69. Action 10 under subprogram 10—together with action 23 (formulate a public debt management law consolidating the management of domestic and external debt) and action 24 (adopt public sector financial reporting standards in line with international standards) under subprograms 2 and 3—will help improve governance and contribute to the successful implementation of SEDP 2006–2010 by strengthening public financial management. The actions will complement the activities under the aforementioned TA projects Support for Developing Capital Markets and Building Capacity in the Financial Sector (footnote 22) and Results-Based Monitoring of Poverty Reduction and Growth (footnote 30), as well as the TA project Supporting Financial Management Decentralization (approved in December 2007).<sup>31</sup>

70. **Action 11: Extend the “one-stop shop” (OSS) mechanism to all ministries and agencies and introduce an interlinked OSS mechanism to further simplify administrative procedures.** As part of the Government's efforts to simplify administrative procedures and improve the business environment, the Prime Minister in June 2007 issued Decision 93/2007/QD-TTg requiring all local public service agencies to introduce an OSS mechanism or an interagency OSS mechanism. Several provinces and cities have already done so. The

<sup>30</sup> ADB. 2008. *Technical Assistance to the Socialist Republic of Viet Nam for Results-Based Monitoring of Poverty Reduction and Growth*. Manila.

<sup>31</sup> ADB. 2008. *Technical Assistance to the Socialist Republic of Viet Nam for Supporting Financial Management Decentralization*. Manila.

Ministry of Home Affairs has issued a document with guidelines for allowances for civil servants working at the OSS offices, to encourage them to fulfill their tasks. Moreover, Resolution 53/2007/NQ-CP of November 2007 called for the pilot-testing of the OSS mechanism in seven national ministries.

71. Action 11 under subprogram 1—together with action 25 (conduct user-feedback surveys to assess the quality of public services) and action 26 (develop a road map for improving the quality of public services, taking into account the findings of the surveys) under subprograms 2 and 3—will help improve governance by strengthening public administration. These actions will complement the activities under the TA project Supporting Civil Service Reform (approved in August 2008 and expected to develop an integrated civil service reform policy framework).<sup>32</sup> Action 11 under subprogram 11 will also help improve the business environment in Viet Nam and thus complement policy actions and initiatives supported by subprogram 2 of the SME Development Program Loan (footnote 23) and phase 2 of the TA for Making Markets Work Better for the Poor (footnote 24).

72. **Action 12: Implement the asset declaration requirement in regard to senior officials and their immediate families, with penalties for noncompliance.** The asset declaration requirement was introduced by the Anti-Corruption Law of 2006 and regulated through Decree 37/2007/ND-CP of 9 March 2007, which laid down disciplinary measures for noncompliance. To implement the law and the decree, the Government Inspectorate issued Circular 2442/TT-TTCT of 13 November 2007 providing detailed practical guidelines for the declaration process, and Official Letter 533/CCTN-TTCT of 2 April 2008 setting out a standard template for reporting by ministries, agencies, and provinces. Extensive training was conducted at the end of 2007 and government employees were asked to submit their asset declarations by February 2008. Compliance has been high. Verification is based on denunciations. Action 12 under subprogram 1—together with action 27 (prepare a revised press law to encourage accurate, objective, and responsible reporting on corruption) and action 28 (adopt a comprehensive anticorruption strategy) under subprograms 2 and 3—will help reduce corruption and improve governance.

### C. Important Features

73. As indicated above, the proposed program cluster will, in some respects, be a continuation of SIPRPs I–IV. Like the latter, it will support the implementation of the Government's poverty reduction program by providing parallel financing with the World Bank's PRSCs. It will build on SIPRP IV to help the Government carry out policy reforms needed for the successful implementation of SEDP 2006–2010.

74. Unlike SIPRPs I–IV, however, SIPRP V will take the program cluster approach. Its implementation period (3 years) will be shorter than the usual implementation period of program clusters (4–7 years). The program cluster approach is nonetheless warranted because all three subprograms of SIPRP V will support—within the framework of the PRSC process—the implementation of SEDP 2006–2010.

75. Subprogram 1 will provide parallel financing with PRSC 7, which was approved by the World Bank on 25 June 2008. The Government, the World Bank, ADB, and other development agencies participating in the PRSC process agreed on the policy matrix for PRSC 7 through a series of consultations held in 2007 and the first half of 2008. The matrix encompasses a wide

<sup>32</sup> ADB. 2008. *Technical Assistance to the Socialist Republic of Viet Nam for Supporting Civil Service Reform*. Manila.

range of policy actions in business development, social inclusion, natural resource management, and governance.

76. Subprogram 1 will include only those actions in the policy matrix for PRSC 7 that are particularly relevant to ADB's operations in Viet Nam. These actions were chosen through consultations among various units of ADB and with the Government. All of them were completed by October 2008. Therefore, loan effectiveness will be the only condition for the release of the loan tranche for subprogram 1.

77. Likewise, loans for subprograms 2 and 3 will be proposed to ADB's Board of Directors after the actions included in the policy matrices for PRSCs 8 and 9 and covered by subprograms 2 and 3, respectively, of SIPRP V are completed. This means that when the Board of Directors deliberates on subprograms 2 and 3 of SIPRP V, there will be no pending policy actions under the subprogram concerned. Loan effectiveness will be the only condition for the tranche release.

78. The design of the proposed program cluster takes into account the findings of the 2001 and 2007 studies on program lending of the Operations Evaluation Department. The 2001 study expressed concerns about the complicated policy matrices and the excessive use of conditions that adversely affect program performance.<sup>33</sup> The 2007 study identified factors affecting the relevance, effectiveness, and efficiency of the impact, outcomes, and outputs of program loans. The factors that promote the achievement of the desired results and are within ADB's control are (i) consistency of reform outcomes with the government reform agenda and priorities, (ii) sufficient analysis and dialogue, and (iii) focused and manageable conditions that were acted upon before program start-up. The factors that impede the achievement of the desired results but are within ADB's control are (i) overly complex designs with too many tranche release conditions specified in the policy matrix, and (ii) deferment of conditions to later tranches (footnote 15).

79. Although SIPRP V will cover only those actions in the policy matrices for PRSCs 7–9 that are particularly relevant to ADB's operations in Viet Nam, it will still have a fairly broad scope. The reason is that, as mentioned above, a sustained reduction in poverty requires continued and balanced progress in policy reforms in many areas. Consequently, the policy matrix for PRSC 7 includes, and the policy matrices for PRSCs 8 and 9 are likely to include, actions in many different areas. Besides, ADB is active in many sectors in Viet Nam, and policy reforms in these sectors are of particular relevance to its operations.

80. At the same time, there will be only limited continuity in the policy actions supported by the various subprograms of SIPRP V. This is because the policy matrix for PRSC 7 includes only those actions that development agencies participating in the PRSC process and the Government considered to be critical steps in the reform process in particular areas in 2007 and the first half of 2008 and for which the Government needed the combined support of many development agencies. Actions for PRSCs 8 and 9 will be selected on the basis of the same criteria and will not necessarily continue actions included in the policy matrix for the previous PRSC.

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<sup>33</sup> ADB. 2001. *Special Evaluation Study on Program Lending*. Manila. <http://www.adb.org/Documents/PERs/sst-stu-2001-16/ses-program-lending.asp>

## **D. Financing Plan**

81. Some of the actions included in the subprogram 1 of SIPRP V entail substantial costs to Viet Nam's state budget. So do some of the actions that are part of the policy matrix for PRSC 7 but are not covered by subprogram 1 of the proposed program cluster. For example, the increase in the health insurance premium paid on behalf of the poor and the partial subsidies to the near-poor will cost the budget an estimated \$47 million in 2008 and about \$130 million in 2009. The total cost to the state budget in 2008 and 2009 of the actions included in the policy matrix for PRSC 7 is estimated at \$450 million.

82. It is proposed that a loan in various currencies equivalent to Special Drawing Rights 16,439,000 be provided for subprogram 1 of SIPRP V from ADB's Special Funds resources. The loan will have a term of 24 years, 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 other terms and conditions set forth in the Loan Agreement. The World Bank has already approved PRSC 7 in the amount of \$150 million from IDA and more than 10 other development agencies are expected to provide grants or concessional loans totaling about \$175 million as cofinancing or parallel financing with PRSC 7 (Appendix 7). The remaining cost to the budget of the actions included in the policy matrix for PRSC 7 will be covered by the Government of Viet Nam.

## **E. Implementation Arrangements**

### **1. Executing Agency**

83. SBV will be the Executing Agency for the proposed program cluster and have the overall responsibility for the implementation of all its subprograms. SBV hosts the PRSC coordination unit, which facilitates interactions between the Government and development agencies within the framework of the PRSC process. SBV was also the Executing Agency for SIPRPs I–IV.

84. The government agencies represented at the National Steering Committee on the PRSC process will be implementing agencies for the proposed program cluster.<sup>34</sup> They will be responsible for carrying out the actions included in the policy matrix of the program cluster and will provide updates on the status of these actions to the PRSC coordination unit of SBV.

### **2. Implementation Period**

85. The proposed program cluster will be implemented from 1 January 2009 to 31 December 2011. Subprogram 1 will be implemented from 1 January to 31 December 2009, subprogram 2 from 1 January to 31 December 2010, and subprogram 3 from 1 January to 31 December 2011.

### **3. Disbursement and Procurement**

86. Since all actions included in subprogram 1 have been completed the proposed loan will be disbursed in a single tranche when the loan is declared effective. The loan proceeds will be used to finance the full foreign exchange costs (excluding local duties and taxes) of items

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<sup>34</sup> The National Steering Committee on the PRSC process was set up in May 2002. It consists of representative of government agencies responsible for policies and sectors covered by the PRSC process. The deputy prime minister in charge of economic reforms chairs the Committee, and a deputy governor of SBV is its standing vice chairperson.

produced and procured in ADB member countries, excluding the ineligible items listed in Appendix 8 and imports financed from other bilateral and multilateral sources.

87. As provided in ADB's simplified disbursement procedures and requirements for program loans,<sup>35</sup> the proceeds of the loan will be disbursed to the Socialist Republic of Viet Nam as the Borrower. No supporting import documentation will be required, provided that the value of Viet Nam's total imports minus imports from nonmember countries, ineligible imports, and imports financed under other official development assistance is at least equal to the amount of the loan to be disbursed. The Government will certify its compliance with this formula with its withdrawal request. Otherwise, import documentation under existing procedures will be required. ADB will have the right to audit the use of the loan proceeds and to verify the accuracy of the Borrower's certification. As such, the procedures for procurement and disbursement of funds, and the use of counterpart funds, are felt to be satisfactory.

#### **4. Anticorruption**

88. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the Government. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to SIPRP V. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the relevant loan regulations.

89. The Government has taken an active approach to fighting corruption, and recently adopted several legal documents against corruption, including the Anti-Corruption Law. A national steering committee against corruption, headed by the Prime Minister, has been set up. The committee, which has the power to suspend officials suspected of wrongdoing, is already engaged in several high-profile investigations. Substantial funds have been allocated from the state budget to anticorruption activities, and results of investigations into corruption overseen by the Government Inspectorate have been disclosed.

#### **5. Loans for Subprograms 2 and 3**

90. After the development agencies participating in the PRSC process and the Government agree on the final list of policy actions for PRSC 8, the actions to be covered by subprogram 2 of SIPRP V will be separated from those to be covered by subprogram 3. If necessary, the actions under subprogram 2 will be adjusted and made fully consistent with the policy matrix for PRSC 8. A loan for subprogram 2 will be proposed to ADB's Board of Directors in 2009 after the policy actions to be covered by this subprogram are completed. After the development agencies participating in the PRSC process and the Government agree on the final list of policy actions for PRSC 9, the policy actions under subprogram 3 will be adjusted, if needed, to ensure their full consistency with the policy matrix for PRSC 9. A loan for subprogram 3 will be proposed to the Board of Directors in 2010 after the policy actions to be covered by this subprogram are completed.

91. The tentative amounts and terms of the loans for subprograms 2 and 3 will be the same as those of the loan for subprogram 1. Hence, the tentative total amount of the proposed program cluster will be \$75.0 million. The loans for subprograms 2 and 3 (including their amounts and terms) are, however, subject to separate approval by the Board of Directors.

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<sup>35</sup> ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

## 6. Monitoring and Evaluation

92. Progress in the implementation of SIPRP V will be assessed in 2009 and 2010 in conjunction with the processing of loans for its subprograms 2 and 3, respectively. The assessments will be included in the loan documents for subprograms 2 and 3. A PCR for the entire program cluster will be prepared after the completion of subprogram 3.

93. Data needed for the monitoring and evaluation of SIPRP V will be obtained from (i) the Government's annual reports to the National Assembly on the implementation of SEDP 2006–2010, (ii) electronic and paper publications of the relevant government agencies, (iii) the relevant government agencies through the PRSC coordination unit of SBV, and (iv) other sources indicated in the design and monitoring framework.

## V. PROGRAM BENEFITS, IMPACT, AND RISKS

### A. Economic and Financial Benefits

94. The policy reforms that the proposed program cluster will support will yield considerable economic benefits to Viet Nam and substantial financial benefits to the Government. They will raise the living standards of the Vietnamese people by fostering environmentally sustainable and socially inclusive economic growth. The reforms will also increase budget revenue by expanding the tax base, and reduce budget expenditure by improving public financial management. Over the medium term, the financial benefits of these reforms to the Government are likely to exceed their costs (including interest to be paid on loans received from various development agencies within the framework of the PRSC process).

### B. Social Impact

95. A detailed poverty and social impact assessment of subprogram 1 of SIPRP V has been prepared in accordance with (i) ADB's *Operations Manual* section on the incorporation of social dimensions into ADB operations,<sup>36</sup> and (ii) the handbook on social analysis issued in November 2007 by ADB's Regional and Sustainable Development Department and Strategy and Policy Department. In particular, the social implications of the actions covered by the subprogram (including their indigenous people, involuntary resettlement, and gender implications) have been reviewed. A summary poverty reduction and social strategy is given in Appendix 9.

96. The conclusion is that the policy actions included in the policy framework for subprogram 1 of SIPRP V will have significant social effects. In particular, they will help reduce poverty in Viet Nam not only by fostering environmentally sustainable and socially inclusive economic growth, but also by increasing social assistance to the poor and the near-poor. The poor will directly benefit from the increases in the health insurance premium paid on their behalf by the Government. The near-poor will directly benefit from government subsidies for their health insurance premiums. Ethnic minorities will benefit more than the ethnic majority from the actions included in the policy framework of subprogram 1 because poverty incidence is significantly higher among ethnic minorities than among the ethnic majority. Yet, none of the actions included in the policy framework of subprogram 1 is centered on ethnic minorities or has an adverse impact on ethnic minorities. The subprogram has therefore been assigned to indigenous people category C.

<sup>36</sup> ADB. 2007. *Operations Manual*. Section C3: Incorporation of Social Dimensions into ADB Operations. Manila (25 April).



97. The proposed program cluster will not have an investment component and the actions included in the policy framework of its subprogram 1 will not cause any involuntary resettlement. Therefore, the subprogram has been assigned to involuntary resettlement category C. It has no significant gender implication.

### **C. Environmental Impact**

98. Subprogram 1 of SIPRP V has been assigned to environmental category C. Its environmental implications have been reviewed and a matrix of potential environmental impact has been prepared in accordance with ADB's environmental policy. The matrix is in Appendix 9.

99. The review of the environmental implications of subprogram 1 concluded that several of the actions included in the policy framework for this subprogram are likely to have at least minor positive environmental impact. The policy action related to the clarification of institutional responsibilities for integrated river basin management, for one, is likely to have a major positive impact, while the policy actions concerning the management of power transmission infrastructure and the improvement of SEDP monitoring systems are likely to have minor positive impact. Enhancement measures have been developed to optimize the expected positive impact. No action has been identified as likely to have a negative environmental impact. Accordingly, no further environmental assessment of subprogram 1 is warranted and no environmental impact assessment is required.

100. A preliminary analysis of the potential cumulative environmental impact of the policy actions to be supported by subprogram 1 and the tentative policy actions to be supported by subprograms 2 and 3 concluded that the impact is likely to be positive. The environmental implications of subprograms 2 and 3 will be assessed in detail in 2009 and 2010, respectively, after the policy matrices for PRSC 8 and 9 are finalized and the policy actions to be supported by subprograms 2 and 3 of SIPRP V are confirmed.

### **D. Assumptions and Risks**

101. The proposed program cluster will support policy actions that constitute critical steps in the policy reforms needed for the successful implementation of SEDP 2006–2010 and are particularly relevant to ADB's operations in Viet Nam. The reforms, however, need to be fully carried out if SEDP 2006–2010 is to be successfully implemented. Therefore, it is assumed that, after completing the policy actions covered by SIPRP V and the other actions included in the policy matrices for the World Bank's PRSCs 7–9, the Government will follow through with the policy reforms needed for the successful implementation of SEDP 2006–2010 on its own or with the support of development agencies under other projects. It is further assumed that the investment projects that are included in SEDP 2006–2010 and necessary for attaining its targets and goals will be implemented on schedule.

102. These assumptions are based on the Government's commitment to carry out the policy reforms and implement the investment projects that are needed to achieve the targets and goals of SEDP 2006–2010. Furthermore, policy reforms that are needed for the successful implementation of SEDP 2006–2010 are now or will be supported by ADB through other policy-based loans to Viet Nam (such as the financial sector program loans and the small and medium-sized enterprise development loans) and by other development agencies both within and outside the framework of the PRSC process.

103. There is a risk that high inflation will persist long enough to preclude the successful implementation of SEDP 2006–2010 and, in particular, the achievement of its poverty reduction target. There is also a risk that the ongoing global financial crisis and economic slowdown combined with the macroeconomic stabilization measures recently taken by the Government will slacken growth in Viet Nam to a degree that will render some of the targets and goals of SEDP 2006–2010 (including the target related to the poverty rate) impossible to attain.

104. However, as mentioned above, the macroeconomic situation in Viet Nam has started to improve. Monthly inflation decelerated significantly in June–September 2008, and there was deflation in October 2008. As a result, year-on-year inflation fell in September–October 2008. At the same time, economic growth slowed down only moderately and remained quite high by international standards. In the baseline scenario of the *Asian Development Outlook 2008 Update*, real GDP is projected to grow by 6.5% in 2007 and 6.0% in 2008. Period-average inflation is forecast to decline from 25.0% in 2008 to 17.5% in 2009.<sup>37</sup> Moreover, Viet Nam's medium- to long-term economic prospects remain good. Hence, the risks that SEDP 2006–2010 will not be successfully implemented and the expected outcome of the proposed program cluster will not be attained are rather small.

## **VI. ASSURANCES**

105. In addition to the standard assurances, the Government has given the following assurances, which are incorporated in the legal documents:

- (i) The actions included in the policy framework of subprogram 1 of SIPRP V and specified in the Development Policy Letter will continue to be in effect during the implementation of SEDP 2006–2010; and
- (ii) Adequate and timely counterpart funds for carrying out these actions will be made available.

## **VII. RECOMMENDATION**

106. I am satisfied that the proposed program cluster and loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the program cluster to the Socialist Republic of Viet Nam for the Support for the Implementation of the Poverty Reduction Program V; and
- (ii) the loan in various currencies equivalent to Special Drawing Rights 16,439,000 to the Socialist Republic of Viet Nam for subprogram 1 of the Support for the Implementation of the Poverty Reduction Program V 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 November 2008

<sup>37</sup> ADB. 2008. *Asian Development Outlook 2008 Update*. Manila. <http://www.adb.org/documents/books/ADO/2008/Update/ado2008-update.pdf>

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b></p> <p>Continued reduction in poverty in 2008–2010 and beyond</p>	<p>Poverty rate based on the methodology of MOLISA declines from 14.7% in 2007 to 7.0% by 2015</p>	<p>Information to be obtained from MOLISA</p>	<p><b>Assumption</b></p> <p>Viet Nam will build on the achievements of SEDP 2006–2010 to foster environmentally sustainable and socially inclusive growth, further strengthen social protection, and continue reducing poverty beyond 2010</p> <p><b>Risk</b></p> <p>Reductions in public investments aimed at curbing inflation will have a significant adverse impact on the country's medium-term growth prospects</p>
<p><b>Outcome</b></p> <p>Successful implementation of the Government's SEDP 2006–2010</p>	<p>Poverty rate (based on MOLISA's methodology) falls from 14.7% in 2007 to 10%–11% by 2010</p> <p>Viet Nam's Global Competitiveness Index score rises from 4.04 in 2007–2008 to 4.60 by 2010–2011</p>	<p>Government's report to the National Assembly on the implementation of SEDP 2006–2010</p> <p>Website of the World Economic Forum</p>	<p><b>Assumption</b></p> <p>Investment projects included in SEDP 2006–2010 and necessary for attaining its targets and goals will be implemented on schedule</p> <p><b>Risks</b></p> <p>High inflation will persist long enough to preclude the successful implementation of SEDP 2006–2010 and, in particular, the achievement of its target related to the poverty rate</p> <p>Global financial crisis and economic slowdown combined with the macroeconomic stabilization measures taken by the Government will slacken growth in Viet Nam to a degree that will render some of the</p>

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
			targets and goals of SEDP 2006–2010 (including the target related to the poverty rate) impossible to attain
<b>Outputs</b>			<b>Assumption</b>
1. Businesses developed	<p>At least 0.5 million private enterprises registered by the end of 2010</p> <p>Number of fully state-owned enterprises is reduced to 800 and the number of fully state-owned commercial banks is reduced to one by the end of 2010</p> <p>Share of nonperforming loans in the loan portfolio of commercial banks is reduced to 5% by the end of 2010</p> <p>Foreign direct investment accounts for at least 20%, and the domestic private sector accounts for at least 50%, of total investment by 2010</p>	<p>Government's report to the National Assembly on the implementation of SEDP 2006–2010</p> <p>Information to be obtained from the Office of the Government</p> <p>Information to be obtained from the State Bank of Viet Nam</p> <p>Website of the General Statistics Office</p>	After completing the policy actions covered by SIPRP V and the other actions included in the policy matrices for the World Bank's PRSCs 7–9, the Government will follow through with the policy reforms needed for the successful implementation of SEDP 2006–2010 on its own or with the support of development agencies under other projects
2. Economic growth becomes more socially inclusive	<p>All poor communes are equipped with essential infrastructure by the end of 2010</p> <p>No significant difference between poor and nonpoor households in the proportions of household members with primary, secondary, and tertiary education by 2010</p> <p>At least 90% of poor people have health insurance by the end of 2010, with the premium mostly paid by the Government</p>	<p>Government's report to the National Assembly on the implementation of SEDP 2006–2010</p> <p>Household Living Standards Survey 2010 conducted by the General Statistics Office</p> <p>Data to be obtained from the Ministry of Health</p>	

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
3. Management of natural resources strengthened	<p>At least 40% of near-poor people have health insurance by the end of 2010, with 50% of the premium paid by the Government</p> <p>All new production facilities use clean technology or have pollution-preventing equipment by the end of 2010</p> <p>40% of urban areas and 70% of industrial and export processing zones have centralized waste water treatment by the end of 2010</p> <p>90% of solid wastes, 80% of hazardous wastes, and all hospital wastes are collected and treated by the end of 2010</p> <p>95% of the urban population, and 75% of rural population, has access to clean water by the end of 2010</p>	<p>Data to be obtained from the Ministry of Health</p> <p>Government's report to the National Assembly on the implementation of SEDP 2006–2010</p>	
4. Governance improved	Non-weighted average of the 2010 governance indicators for government effectiveness, regulatory quality, rule of law, and control of corruption is not lower than –0.5	Data on governance indicators to be obtained from the World Bank's website	
<b>Activities</b>			<b>Inputs</b>
<b>Policy Actions under Subprogram 1</b>  <b>Business Development</b> <ol style="list-style-type: none"> <li>1. Assess the scope and nature of lending and other transactions among affiliated parties within economic groups and general corporations.</li> <li>2. Approve equitization plans, allowing the participation of strategic investors, for two SOCBs and complete the equitization of one of them.</li> <li>3. Issue a road map to enhance bank supervision, including off-site supervision and risk management tools.</li> <li>4. Rationalize incentives related to the enterprise income tax and simplify tax procedures for household businesses.</li> </ol>			<b>Inputs to subprogram 1 (PRSC 7)</b>  Government: about \$100 million  Asian Development Bank: SDR16.4 million  Agence Française de Développement:

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>5. Raise the cap on shareholdings by a single foreign investor in unlisted companies.</p> <p>6. Separate power transmission and generation assets and regroup transmission assets under a single National Power Transmission Corporation.</p> <p><b>Social Inclusion</b></p> <p>7. Increase the health insurance premium paid on behalf of the poor and partially subsidize the near-poor.</p> <p><b>Natural Resource Management</b></p> <p>8. Allocate institutional responsibilities for integrated river basin management.</p> <p><b>Governance</b></p> <p>9. Establish a list of indicators, data sources, and a reporting mechanism for the monitoring of SEDP 2006–2010.</p> <p>10. Issue regulations on the contents and timing of disclosure of SAV reports, including audits reports of individual entities.</p> <p>11. Extend the OSS mechanism to all ministries and agencies and introduce interlinked an OSS mechanism to further simplify administrative procedures.</p> <p>12. Implement the asset declaration requirement in regard to senior officials and their immediate families, with penalties for noncompliance.</p>			<p>€10.0 million</p> <p>Agencia Española de Cooperación</p> <p>Internacional: €5.0 million</p> <p>Australian Agency for International Development: A\$14.1 million</p> <p>Canadian International Development Agency: Can\$10.0 million</p> <p>Danish International Development Agency: Dkr61.0 million</p> <p>European Commission: €15.0 million</p> <p>Germany: €6.0 million</p> <p>Irish Aid: €7.5 million</p> <p>Japan Bank for International Cooperation: ¥3.5 billion</p> <p>Netherlands Directorate General for International Cooperation: €6.0 million</p> <p>United Kingdom's Department for International Development: £20.0 million</p> <p>World Bank: \$150 million</p>
<p><b>Tentative Policy Actions under Subprograms 2 and 3</b></p> <p><b>Business Development</b></p> <p>1. Strengthen the financial management of SOEs and their investments in other entities, defining the level of such investments.</p> <p>2. Transfer state ownership rights in equitized SOEs to the State Capital Investment Corporation.</p> <p>3. Complete the equitization of four SOCBs, with the participation of strategic investors.</p> <p>4. Certify the internal credit rating system of all banks and approve inspection manuals.</p> <p>5. Prepare a revised law on the central bank focusing its mandate on, and enhancing its autonomy in regard to, monetary policy and financial sector stability.</p> <p>6. Establish a national business registry with a unique number for business, tax, statistics, and seal agencies.</p>			<p><b>Inputs to subprograms 2 and 3 (PRSCs 8 and 9)</b></p> <p>Government: To be determined</p> <p>Asian Development Bank: \$25 million for subprogram 2 and \$25 million for subprogram 3 (tentative)</p> <p>Other development agencies: To be determined</p>

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>7. Adopt guidelines to govern the operations of the Viet Nam Competition Council.</p> <p>8. Revise the legal framework for the promotion of small and medium-sized enterprises and enable better linkages with large-scale industries.</p> <p>9. Adopt a pricing system for electricity from renewable energy and provide incentives for government procurement of energy-efficient equipment.</p> <p>10. Adopt user charges designed to better manage demand for infrastructure services.</p> <p>11. Complete the legal framework enabling the improved provision of logistics services, including multimodal transport.</p> <p>12. Issue a time-bound action plan for the implementation of commitments to the World Trade Organization.</p> <p><b>Social Inclusion</b></p> <p>13. Adopt standards for the certification of health care practitioners and the classification of private health facilities.</p> <p>14. Establish regulatory and institutional frameworks for monitoring the performance of health care providers.</p> <p>15. Formulate an education development strategy for the period up to 2020 focusing on equity of learning outcomes and relevance of contents.</p> <p>16. Finalize and start implementing the road map for the education management information system.</p> <p><b>Natural Resource Management</b></p> <p>17. Restructure irrigation management companies with improved service orientation and financial viability.</p> <p>18. Develop a unified national sanitation strategy and encourage greater participation by communes and the private sector in sanitation.</p> <p>19. Approve a national target program for adapting to the climate change and allocate institutional responsibilities for its implementation.</p> <p>20. Establish national and regional pollution monitoring systems to enable results-based environmental planning.</p> <p><b>Governance</b></p> <p>21. Establish a legal framework for strengthening urban planning and urban infrastructure management.</p> <p>22. Integrate sector policies and national target programs at the commune level, emphasizing participation at all stages.</p> <p>23. Formulate a public debt management law consolidating the management of domestic and external debt.</p> <p>24. Adopt public sector financial reporting standards in line with international standards.</p> <p>25. Conduct user-feedback surveys to assess the quality of public services.</p> <p>26. Develop a road map for improving the quality of public services, taking into account the findings of the surveys.</p> <p>27. Prepare a revised press law to encourage accurate, objective, and responsible reporting on corruption.</p> <p>28. Adopt a comprehensive anticorruption strategy.</p>			

MOLISA = Ministry of Labor, Invalids and Social Affairs, OSS = one-stop shop, PRSC = poverty reduction support credit, SDR = Special Drawing Right, SEDP = socioeconomic development plan, SOCB = state-owned commercial bank, SOE = state-owned enterprise.

## SECTOR ANALYSIS

### A. Poverty Reduction in Viet Nam

1. Viet Nam's performance in poverty reduction over the past two decades has been remarkable. The country's overall poverty rate—the proportion of the population living below the official poverty line—has been on a sustained downward trend, from 58% in 1993 to 16% in 2006, as measured by the Viet Nam Household Living Standards Survey (Table A2.1).<sup>1</sup> Much of this success is attributed to the Government's ability to take advantage of sustained high economic growth rates.

2. Growth has been particularly strong in the last several years, with real gross domestic product (GDP) increasing by an average annual rate of 8% in 2003–2007. In 2007, GDP grew by 8.5%, the highest rate since 1996. GDP per capita at current prices increased from \$441 in 2002 to \$818 in 2007, while GDP per capita in purchasing power parity (PPP) dollars rose from \$1,649 to \$2,587. Inequality, as measured by the Gini index, has increased modestly, from 0.33 in 1993 to 0.42 in 2004 and 2006. At the same time, there have been significant improvements in social indicators, from increasing net enrollment rates to expanded health insurance coverage and improved access to electricity, clean water, and sanitation. These indicators, coupled with the possession of durable goods, reflect significant improvements in people's standards of living. The overall result is that about 35 million people have been able to escape from poverty over 1993–1996. In 2006, about 13.4 million people out of the total population of about 84.2 million remained poor. Rapid inflation since 2007 is a cause for concern, and may reverse some of the gains made in poverty reduction particularly in urban areas.

**Table A2.1: Poverty Reduction in Viet Nam, 1993–2006**

Population group	1993	1998	2002	2004	2006
<b>Poverty rate (%)</b>	58.1	37.4	28.9	19.5	16.0
Urban	25.1	9.2	6.6	3.6	3.9
Rural	66.4	45.5	35.6	25.0	20.4
Kinh and Chinese	53.9	31.1	23.1	13.5	10.3
Ethnic minorities	86.4	75.2	69.3	60.7	52.3
<b>Food poverty rate (%)</b>	<b>24.9</b>	<b>15.0</b>	<b>10.9</b>	<b>7.4</b>	<b>6.7</b>
Urban	7.9	2.5	1.9	0.8	1.2
Rural	29.1	18.6	13.6	9.7	8.7
Kinh and Chinese	20.8	10.6	6.5	3.5	3.2
Ethnic minorities	52.0	41.8	41.5	34.2	29.2
<b>Poverty gap (%)</b>	<b>18.5</b>	<b>9.5</b>	<b>6.9</b>	<b>4.7</b>	<b>3.8</b>
Urban	6.4	1.7	1.3	0.7	3.2
Rural	21.5	11.8	8.7	6.1	4.9
Kinh and Chinese	16.0	7.1	4.7	2.6	2.0
Ethnic minorities	34.7	24.2	22.8	19.2	15.4

Source: World Bank. 2007. *Vietnam Development Report 2008: Social Protection*. Joint donor report to the Vietnam Consultative Group Meeting, Hanoi, 6–7 December 2007.

<sup>1</sup> The General Statistics Office of Viet Nam has conducted five rounds of the Viet Nam Household Living Standards Survey: in 1993, 1998, 2002, 2004, and 2006. All the 2006 poverty figures cited in this appendix are based on preliminary analyses. The official final results of the 2006 survey are expected by the end of 2008.



3. **Food Poverty and the Poverty Gap.** The food poverty rate (the proportion of people whose total expenditure would not suffice for a daily intake of 2,100 calories even if it were entirely allocated to food) fell from 25% in 1993 to 7% in 2006. While falling rapidly, food poverty still affects nearly 9% of rural households, and a full 29% of ethnic minority households. But it should be noted that the poverty gap is closing; poor people across all population groups are moving closer to the poverty line. The poverty gap—the average distance from the poverty line, sometimes also called the depth of poverty—fell from 6.9% in 2002 to 3.8% in 2006.<sup>2</sup> For ethnic minorities, the poverty gap in 2006 was similar to that of the Kinh and Chinese majority 13 years earlier, in 1993.

4. **Regional Disparities.** Though the nationwide progress is undeniable, a look beyond national averages is required to gain a more complete understanding of the poverty picture in Viet Nam. There are significant disparities across regions (Table A2.2). The three regions with the highest poverty rate in 2006, well above the national average of 16%, were the Northern Mountains (30.2%), the North Central Coast (29.1%), and the Central Highlands (28%). The three least-poor regions in 2006, where the poverty rate was significantly below the national average, were the Southeast (5.8%), the Red River Delta (8.8%), and the Mekong Delta (10.3%). But even in these relatively better-off areas there are persistent pockets of poverty.

**Table A2.2: Poverty in Viet Nam by Region, 1993–2006**  
(%)

Region	1993	1998	2002	2004	2006
Northern Mountains	81.5	64.2	43.9	35.4	30.2
Northeast			38.4	29.4	25.0
Northwest			68.0	58.6	49.0
Red River Delta	62.7	29.3	22.4	12.1	8.8
North Central Coast	74.5	48.1	43.9	31.9	29.1
South Central Coast	47.2	34.5	25.2	19.0	12.6
Central Highlands	70.0	52.4	51.8	33.1	28.6
Southeast	37.0	12.2	10.6	5.4	5.8
Mekong Delta	47.1	36.9	23.4	15.9	10.3
Viet Nam	58.1	37.4	28.9	19.5	16.0

Source: World Bank. 2007. *Vietnam Development Report 2008: Social Protection*. Joint donor report to the Vietnam Consultative Group Meeting, Hanoi, 6–7 December 2007.

5. There are also major differences between urban and rural poverty. Viet Nam is urbanizing, but in 2006 the population was still about three-quarters rural. The rural poverty rate, at 20.4%, is substantially higher than the urban poverty rate of 3.9%, and the rural poor made up more than 93% of the country's poor people (Table A2.3). Farmers are the vast majority of the rural population, and the poverty rate is much higher among rice farmers (23.4%) than among non-rice farmers (7.5%). While the urban poverty rate is very low, the 2006 data indicate that it is increasing. As it is the first time in many years that poverty has been shown to be increasing, it is important to assess the causes. The analysis in the Vietnam Development Report 2008 points to increasingly higher prices in the cities as a plausible explanation, citing a boom in real estate prices, which has increased the cost of retail trade and other services in the

<sup>2</sup> World Bank. 2007. *Vietnam Development Report 2008: Social Protection*. Joint donor report to the Vietnam Consultative Group Meeting, Hanoi, 6–7 December 2007.

cities (footnote 2). Therefore, even basic staples can cost significantly more than in rural areas. Higher prices in urban areas can result in lower living standards for those whose earnings do not grow accordingly and could push the near-poor into poverty. It must be noted that the rising urban poverty measured in 2006 was likely to have been worsened by the high inflation in 2007 and 2008.

**Table A2.3: Distribution of Poverty in Viet Nam, 2006**  
(%)

Population group	Share of Population	Poverty Rate	Poverty Gap	Contribution to Total Poverty
Total population	100.0	16.0	3.8	100.0
Rural	73.3	20.4	4.9	93.6
Urban	26.7	3.9	0.8	6.4
Kinh and Hoa	86.5	10.2	2.0	55.6
Ethnic minorities	13.5	52.2	15.4	44.4
Nonfarmers	29.0	5.0	1.1	9.1
Farmers	71.0	20.4	4.9	90.9

Source: World Bank. 2008. *Taking Stock: An Update on Viet Nam's Recent Economic Developments*. Paper prepared for the Mid-Year Consultative Group Meeting for Vietnam, Sapa, 5–6 June 2008. Hanoi.

6. **Poverty and Ethnic Minorities.** Viet Nam's impressive growth story has unfortunately not benefited all population groups equally. Ethnic minorities—53 officially recognized groups—compose about 13.5% of the Vietnamese population. Minorities, with an average poverty rate of 52.2% in 2006, are significantly worse off than the majority Kinh. By comparison, the poverty rate among the Kinh and Chinese was just 10.3%. With the exception of the Chinese and the Khmer and Cham, the remaining 50 ethnic groups mostly reside in remote, mountainous rural areas and are economically and socially disadvantaged across a range of dimensions. The members of ethnic minority groups are more than four times as likely to be poor than the Kinh and Hoa, and are also more likely to be malnourished, illiterate, and suffering from poor health. According to the 2004 Viet Nam Household Living Standards Survey, less than one-third (29%) of all ethnic minority adults aged 18 and older had completed lower secondary education. Physical access to social services in challenging mountainous terrain is a major constraint. Ethnic minority children who are able to attend secondary school are faced with a major barrier to academic achievement in limited proficiency in the Vietnamese language. Poorly equipped schools, limited teacher supply, and teaching methods that fail to respond to the needs of nonnative speakers can perpetuate social exclusion and isolation. Despite composing a relatively small share of the national population, minorities accounted for about 44% of the poor in 2006. Some government agencies forecast an increase in the number of the ethnic minority poor, to more than half of Viet Nam's poor population by 2010.<sup>3</sup>

7. Most analyses of ethnic minority poverty in Viet Nam have compared two populations—the majority (Kinh and Chinese) and ethnic minorities (an aggregation of all other ethnic groups). However, ethnic minorities are in fact a heterogeneous group. Statistically representative data

<sup>3</sup> Baulch, Bob. 2008. *The Economic Development of Ethnic Minorities in Vietnam*. Institute of Development Studies Policy Brief.

are not available for all, given the very small numbers belonging to some groups, but recent research to distinguish between seven subgroups provides a sharper picture and allows a more detailed assessment of their differences (footnote 3). The Vietnam Development Report 2008 finds that ethnic minority groups based in the lowlands (Khmer and Cham) have seen dramatic rates of poverty reduction. Valley-dwelling rice farmers in the Northern Mountains (Tay, Thai, Muong and Nung) have also fared relatively better in terms of poverty reduction. But other minorities in the Northern Mountains, the Central Highlands, and the South and North Central Coasts remain extremely poor. The lack of progress for these groups tends to be hidden by the more rapid improvements among the larger ethnic minority groups. For example, the overall poverty rate in the Central Highlands fell by a full 23 percentage points between 2002 and 2006. However, the disaggregated data suggest that there has been almost no movement in living standards for minority groups in that region (including the Jarai, E-de, Ba Na, and Xo Dang).

8. **Poverty Measurement.** Two different poverty measurement methodologies are applied in Viet Nam—one by the General Statistics Office of Viet Nam (GSO) and a second by the Ministry of Labor, Invalids and Social Affairs (MOLISA). The GSO implements the Viet Nam Household Living Standards Survey, an international standard living standards survey. The poverty rate is the percentage of the population that cannot afford a consumption basket that comprises food and nonfood items, with food expenditure being high enough to secure 2,100 calories per day for each household member. The food poverty rate is the proportion of the population that is too poor to afford the food part of the consumption basket, even if they did not purchase any nonfood items. The cost of the consumption basket (food plus nonfood) is referred to as the poverty line. The survey measures household expenditure.

9. The MOLISA methodology is based on household income. In the 1990s MOLISA defined the national poverty line as the income equivalent needed to buy 15, 20, and 25 kilograms of rice per person per month for mountainous, rural, and urban areas, respectively. In a 2005 methodology revision, MOLISA increased the poverty line from D150,000 to D260,000 per person per month for urban areas and from D100,000 to D200,000 for rural areas (including mountainous and remote areas).<sup>4</sup> Under certain conditions, province and city administrations are authorized to raise the poverty line to allow more households to qualify for poverty programs. After revising the definition of the poverty line in 2005, MOLISA estimated that 26% of the population was classified as poor at the end of 2005, nearly twice the percentage under the earlier definition. This estimate fell to 18.7% of households in 2006, and 14.8% in 2007. The MOLISA approach to poverty assessment is more “bottom-up,” as its local offices identify poor households consultation with villagers. The Vietnam Development Report 2008 assesses the GSO and MOLISA methods as essentially complementary, as the GSO metric is more reliable at aggregate levels while the MOLISA metric is better at the commune level.

10. **International Poverty Lines.** It is not surprising that poverty measured against the international poverty lines of \$1-a-day and \$2-a-day in 1993 PPP dollars has also fallen dramatically in Viet Nam (Table A2.4). From more than half of the population in 1990, the \$1-a-day poverty rate fell to just 4% of the population in 2007. It is generally accepted that poverty measured in this way is more of a tool for international comparisons over time rather than current national policy-making or targeting, as the present value of \$1 in 1993 PPP terms is extremely low. However, a look at the \$2-a-day poverty head count sheds light on vulnerability to poverty. In 2006, more than one-third of Viet Nam’s population (36.3%) fell below the \$2-a-day poverty line. Recalling the official national poverty rate of 16%, the significant

<sup>4</sup> Under certain circumstances, provinces and cities are authorized to raise the poverty line to allow more households to qualify for poverty programs.

difference between the two indicates that a large share of the population subsists on the lower side of the income distribution, and is thus particularly vulnerable to falling into poverty.

**Table A2.4: \$1-a-Day and \$2-a-Day Poverty in Viet Nam, 1990–2007**

Year	\$1-a-Day		\$2-a-Day		Total Population (million)
	Poverty Rate (%)	Poverty Magnitude (million)	Poverty Rate (%)	Poverty Magnitude (million)	
1990	50.8	33.6	87.0	57.6	66.2
1996	23.6	17.3	69.4	50.8	73.2
1999	16.9	13.0	65.9	50.5	76.6
2002	13.6	10.9	58.2	46.4	79.7
2004	7.8	6.4	43.9	36.0	82.0
2007	4.0	3.4	32.9	28.1	85.3

Note: The World Bank sets the international poverty lines at \$1.08 and \$2.15 per person per day (1993 purchasing power parity dollars) for all countries. For most countries, the 1993 World Bank PPP estimates are used. PPPs for Viet Nam, the Lao People's Democratic Republic, and Cambodia are further adjusted with a calorie-price ratio between Indonesia and Viet Nam. For years for which household surveys are available, poverty estimates are directly based on the survey data. For non-survey years, either historical macroeconomic data from national statistical agencies or projections based on World Bank macroeconomic forecasts are used.

Source: World Bank. 2008. *East Asia: Testing Times Ahead*. Washington, DC (April).

11. **Millennium Development Goals.** According to the most recent progress report for Asia and the Pacific, Viet Nam is an early achiever for most of the Millennium Development Goals (MDGs).<sup>5</sup> Early MDG achievement is reported for the targets of reducing poverty and the incidence of underweight children, achieving gender equality at the secondary level, reducing the under-five mortality and infant mortality rates, reducing the tuberculosis prevalence rate and death rate, maintaining forest cover and protected areas, and increasing access to clean water in urban and rural areas and sanitation in urban areas (Table A2.5). The rate of progress toward the rural sanitation target is considered on track, as is the primary cohort survival rate (e.g., the proportion of children starting grade 1 that reach grade 5). The less-encouraging news is that Viet Nam is making only slow progress on gender equality at the primary level. Offtrack MDGs—where there is either no progress or regression—include the targets related to primary enrollment and primary completion rates, gender equality at the tertiary level, HIV prevalence, and carbon dioxide emissions. Viet Nam is commendable for its development of additional goals, beyond the MDGs, as part of the process of developing their national development targets. The Viet Nam Development Goals (VDGs) are the local version of the MDGs and are, in a sense, more ambitious.

<sup>5</sup> UN ESCAP, ADB, UNDP. 2007. *The Millennium Development Goals: Progress in Asia and the Pacific 2007*. Bangkok: United Nations Economic and Social Commission for Asia and the Pacific.

**Table A2.5: Progress toward the Millennium Development Goals**

<b>Goal 1</b>	<b>Eradicate extreme poverty and hunger</b>	<b>Progress</b>	<b>Status</b>
Target 1.A	Halve, between 1990 and 2015, the proportion of people living in poverty	Poverty reduced by more two-thirds between 1993 and 2006.	Already achieved
Target 1.C	Halve, between 1990 and 2015, the proportion who suffer from hunger	Proportion reduced by more than two-thirds between 1993 and 2006	Already achieved
<b>Goal 2</b>	<b>Achieve universal primary education</b>	<b>Progress</b>	<b>Status</b>
Target 2.A	By 2015 boys and girls to complete a full course of primary schooling	Grade 5 completion rate (gross) is 104% for boys and 98% for girls.	Likely to be achieved
<b>Goal 3</b>	<b>Promote gender equality</b>	<b>Progress</b>	<b>Status</b>
Target 3.A	Eliminate gender gaps in primary and secondary education no later than 2015	Gender equality at all school levels, except for ethnic minorities	Already achieved
<b>Goal 4</b>	<b>Reduce child mortality</b>	<b>Progress</b>	<b>Status</b>
Target 4.A	Reduce by two-thirds between 1990 and 2015, the under-five mortality rate	Reduced by 65% between 1990 and 2005 (down from 53 to 19 per 1,000)	Likely to be achieved
<b>Goal 5</b>	<b>Improve maternal health</b>	<b>Progress</b>	<b>Status</b>
Target 5.A	Reduce maternal mortality by three quarters, between 1990 and 2015	Fell by two-thirds, from 250 per 100,000 births in 1990 to 85 in 2007	Likely to be achieved
<b>Goal 6</b>	<b>Combat HIV/AIDS and other diseases</b>	<b>Progress</b>	<b>Status</b>
Target 6.A	By 2015 have halted and begun to reverse the spread of HIV/AIDS	Infection rate went up from 0.34% in 2001 to 0.44 in 2005	Likely to be achieved
Target 6.C	By 2015 halted and reverse the incidence of malaria and other diseases	Malaria cases severely reduced; with only 35 malaria-related deaths in 2007	Already achieved
<b>Goal 7</b>	<b>Ensure environmental sustainability</b>	<b>Progress</b>	<b>Status</b>
Target 7.A	Embrace sustainability and reverse the loss of environmental resources	Forest cover up but loss in closed canopy forest and biodiversity	Uncertain to be achieved
Target 7.C	Halve, by 2015 the share of people without drinking water and sanitation	Rapid progress on drinking water; much slower on hygienic sanitation.	Uncertain to be achieved

HIV/AIDS = human immunodeficiency virus/acquired immune deficiency syndrome.

Source: United Nations Development Programme, General Statistics Office of Viet Nam, and World Bank.

## **B. Policy Framework for Poverty Reduction**

12. Robust economic growth has been the key driver of poverty reduction in Viet Nam, but government policies and targeted programs have played a major role in making that growth pro-poor. The Government's poverty reduction strategy is embedded in the Socioeconomic Development Plan (SEDP) 2006–2010.

13. **Socioeconomic Development Plan 2006–2010.** The National Assembly approved SEDP 2006–2010 in 2006. Unlike previous plans, SEDP 2006–2010 was prepared in an open and participatory manner involving extensive consultations with civil society, businesses, and development agencies. It is oriented more toward attaining development outcomes (including poverty reduction) and less toward achieving production targets. The SEDP has a strong results orientation, with performance indicators that include the VDGs and the MDGs. Its goals include

average annual real GDP growth of at least 7.5% and a reduction in the poverty rate to 10%–11% in 2010 (from 22% in 2005). SEDP 2006–2010 sets out desired development outcomes and the policy reforms needed to attain them. It relies on analysis rather than administrative reporting to substantiate its recommendations and includes a framework for monitoring progress. The SEDP identifies appropriate policies and aligns resources with those policies, which fall into three main pillars: (i) business development, (ii) inclusive growth, and (iii) natural resource management. Governance and institutional development is a crosscutting theme to deliver in the three pillars. The joint International Development Association–International Monetary Fund staff advisory note on Viet Nam’s poverty reduction strategy dated 5 December 2006 concludes that SEDP 2006–2010 has the key features of a poverty reduction strategy and is likely to lead to economic growth and poverty reduction.<sup>6</sup>

14. The SEDP’s overarching goal statement is supported by eight core task areas, of which the sixth pertains particularly to poverty reduction and social development: “realize social progress, equity, and gender equality; create jobs, encourage wealth creation through legitimate channels, reduce poverty and alleviate hunger, develop the social security system and prevent social problems.”<sup>7</sup> Unlike the previous plan (SEDP 2001–2005), this one clearly defines development targets, identifies appropriate policies, and aligns resources with those policies. The stated goals in the area of “social affairs” are to continue on a path toward achieving the MDGs, as follows:

- (i) Universal lower secondary education is achieved. By 2010 tertiary education is provided to 200 per 10,000 people. Trained labor rate reaches 40% of total social labor.
- (ii) All households in need have access to housing at 14–15 square meters per capita, telephone density reaches 35 sets per 100 people, Internet subscriptions are 12.6 per 100 people, Internet users are 48% of the population, with expanded use of information technology.
- (iii) The population growth rate is low at 1.14%, population does not exceed 88.4 million, and the urban population is about 26.4 million.
- (iv) Jobs are created for more than 8 million laborers, meaning an average of 1.6 million jobs per year. Vocational training is offered to 7.5 million people, of whom 25%–30% receive long-term training. The urban unemployment rate stays below 5%.
- (v) The agricultural labor force is reduced to 50% of the population.
- (vi) Average life expectancy is 72 years.
- (vii) Maternal mortality is reduced to less than 70 per 100,000 live births, the number of doctors reaches 7 per 100,000 people, and pharmacists with university degrees reach 1–1.2 per 10,000, with hospital beds at 26.3 per 10,000 people.
- (viii) Food poverty is eliminated, and the poverty rate is reduced to 10%–11% by 2010.

15. This SEDP makes stronger references to participatory and inclusive approaches than previous plans, following on the CPGRS which stated that poverty reduction enables poor communities to take initiative, and encouraged self-help efforts. The CPRGS set out the Government’s intent to involve civil society and community organizations at the local level to improve the participation of the poor in the development process. SEDP 2006–2010 includes

<sup>6</sup> IMF and IDA. 2006. *Vietnam: Poverty Reduction Strategy Paper—Annual Progress Report—Joint Staff Advisory Note*. Washington, D.C. <http://www.imf.org/external/pubs/ft/scr/2006/cr0671.pdf>

<sup>7</sup> Ministry of Planning and Investment. 2006. *The Five-Year Socio-Economic Development Plan 2006–2010*. Hanoi. [http://www.ngocentre.org.vn/files/docs/SEDP\\_edited\\_eng\\_16\\_3.pdf](http://www.ngocentre.org.vn/files/docs/SEDP_edited_eng_16_3.pdf)

the language of participation particularly referring to goals to improve participation in decision-making processes, to expand participation and heighten the role of nongovernment organizations, and to intensify the participation of people, communities, and civil society in planning, implementation, and monitoring, from central to local levels.<sup>8</sup>

### C. Social Protection and Targeted Programs for Poverty Reduction

16. The SEDP recognizes that social protection and targeted programs for poverty reduction are required for inclusive growth. Social protection expands opportunities, enhances equity, and protects against risks and shocks. Targeted programs focus on particularly disadvantaged groups and geographic areas.

17. Viet Nam fares reasonably well in comparison with the 30 other countries in Asia and the Pacific according to ADB's social protection index (SPI).<sup>9</sup> The SPI values range from a low of 0.01 (Papua New Guinea) to a high of 0.96 (Japan). Viet Nam's SPI of 0.38 ranks the country at 13 out of 31, just below Nauru but above Malaysia. The SPI is a composite index based on four social protection summary indicators. Expenditure measures total expenditure on all social protection programs as a share of GDP (0.041 in Viet Nam). Coverage measures the beneficiaries of targeted social protection as a share of the reference population group, i.e., the elderly, the disabled, the unemployed, etc. (0.40). Distribution calculates the number of beneficiaries who are poor as a share of the poor population, or efficiency of poverty targeting (0.71). Impact is the average social protection expenditure for each poor person as a share of the national poverty line (0.17). Viet Nam falls into the group of countries with an average SPI ranking (the all-Asia average is 0.36). The policy priority for countries with average SPIs is likely to be improving the efficiency, functioning, and targeting of current programs. The social protection summary indicator for impact, at 17%, is lower than the average of 23% for Asia.

18. **Social Safety Nets.** Social safety net programs (e.g., social assistance and child protection) account for 29% of Viet Nam's total social protection expenditure (27.4% and 1.6% respectively). The target group coverage ratios are 64.6% of the poor, 100% of the disabled, and 62.4% of targeted children. Viet Nam's overall social protection summary indicator for coverage, at 0.40, is high; only eight other countries have values higher than this. In a decentralized country like Viet Nam, the amount of budgetary resources at the local level has a major influence on the ability to implement social policy, deliver social services, and provide safety nets. According to the Vietnam Development Report 2008, powerful allocation norms have been set up to transfer resources from richer to poorer provinces (on a scale much larger than similar efforts in richer countries) but there has been less progress in the allocation of provincial resources to districts, communes, and below. In general, programs targeted to specific households are of mixed quality. Some have considerable impact but others are less effective.

19. **Labor Market Programs.** The SPI assessment of social protection expenditure by category of program shows that only 7.7% of the total goes toward labor market programs

<sup>8</sup> The Grassroots Democracy Decree 79 (2003) institutionalizes the participation of local communities and community-based organizations in development activities. A UNDP assessment finds that Viet Nam's legal framework for facilitating participation and consultation is well-developed, but that local people's knowledge of and access to the "the legal framework" is limited and consequently tends to be interpreted by officials at their own discretion. [http://www.un.org.vn/undp/projects/vie02007/News2005/project\\_supports\\_undp\\_assessment.htm](http://www.un.org.vn/undp/projects/vie02007/News2005/project_supports_undp_assessment.htm)

<sup>9</sup> ADB. 2008. *Social Protection Index for Committed Poverty Reduction—Volume 2: Asia*. Manila.

(direct employment generation, labor exchanges and other employment services, skills development and training, and the development of labor legislation) in Viet Nam.

20. Each of the country's 64 provinces has a vocational training center under the local department of labor, invalids, and social affairs. The Government implements a National Targeted Program on Job Generation and provides credit through the National Fund for Job Creation and the Social Policy Bank. The vocational training system is being strengthened and diversified to meet the demands of the labor market. The Government does not provide unemployment insurance, but it does give (i) allowances for early retirement; (ii) access to credit for opening new business after retirement; and (iii) free vocational training for the poor in government-run vocational training centers. In the ADB SPI analysis of target group coverage ratios, only 9.4% of the unemployed and underemployed are covered by social protection programs.

21. Viet Nam introduced a minimum wage for foreign-invested companies in 1990 and for domestic enterprises in 1993. The former varies by region; the latter is uniform throughout the country. The ratio between minimum and average wages in domestic enterprises has increased moderately, from 25% in 1998 to 32% in 2006, but minimum wages applying to foreign companies remain substantially higher. The margin varies from more than 50% to more than 90% depending on the region. This is incompatible with the national treatment principle of the World Trade Organization. Viet Nam thus needs to unify the minimum wage, and this will mean increasing the domestic enterprise minimum wage. This may affect employment creation and formalization.

22. **Old-Age Pensions.** Before *doi moi* Viet Nam only had an old-age pension program for civil servants and workers in state-owned enterprises. Coverage was extended in 1993 to domestic and foreign private enterprises on a contributory basis. These programs are administered by Viet Nam Social Security (VSS). There is also a noncontributory scheme for people over 85 who lack resources (administered by MOLISA). The system is now undergoing major and rapid reform. The first Social Insurance Law was passed in 2006, with various elements being implemented over 2007–2009. The aim is to expand coverage and ensure financial sustainability. Along with a voluntary pension program for informal sector workers, the compulsory program applies to all Vietnamese working in any enterprise provided they have at least a 3-month contract. To receive a pension, participants must contribute for 20 years. The minimum pension is set equal to the minimum wage; the maximum is 75% of the average salary. Retirement age is relatively low at 55 for women and 60 for men. The main difference between the voluntary and the compulsory programs is that under the voluntary scheme there is no ceiling on contributions and no minimum pension.

23. Participation in the compulsory scheme is growing steadily from its low base, with about 8 million active contributors in 2007 (18% of the labor force and 54% of employment in state-owned enterprises, foreign companies, and private domestic firms). In 2007 there were about 1.9 million pensioners, about 25% of the population aged 60 and above. But almost half of pension spending went to the richest two quintiles, with only 2% to the poorest—the pension system is thus not pro-poor. Whether the national voluntary pension program for the informal sector will attract many members is not yet clear. The largest voluntary pension scheme in Viet Nam operates in the province of Nghe An, with about 85,000 participants in 2007.



24. **Targeted Programs for Poverty Reduction.**<sup>10</sup> Viet Nam implements a host of targeted programs to reach the most disadvantaged. Some provide cash support to particular vulnerable groups; others deliver other forms of targeted assistance to disadvantaged groups or regions. The pricing of utilities such as water can also be based on different groups' ability to pay. Cash transfers are paid out by social guarantee funds, which provide regular relief to defined vulnerable groups and to war veterans and war invalids. Subsidies are provided through the National Targeted Program for Poverty Reduction (NTPPR), formerly the Hunger Eradication and Poverty Reduction Program. Development assistance to poor communes is managed through program 135 (program for socioeconomic development in communes facing extreme hardship in ethnic minority and mountainous areas), whereas program 132 and program 134 seek to support ethnic minorities with agricultural and residential land, housing, and water supply. These initiatives differ not only in the nature of the benefits they provide, but also in the targeting techniques they apply to identify beneficiaries.

25. Activities under the NTPPR 2006–2010 fall into three areas: (i) development of productive activities of the poor, (ii) provision of access to basic services, and (iii) capacity development and monitoring. The first area includes the largest single component of the NTPPR, the provision of preferential credit. The second area focuses on health care, education, housing, water supply, and legal aid. A total of D43.5 trillion has been allocated to this program over a 5-year period, with 60% going to the provision of preferential credit. The central budget covers 29% of the envelope, with local governments and local communities expected to contribute a further 5% and 6%, respectively.

26. The NTPPR, like its predecessor (the Hunger Eradication and Poverty Reduction Program 2001–2005), targets households that have been identified as poor using the MOLISA methodology. In practice, whether household income is above or below the threshold is decided through a combination of surveys and community discussions. Program 135 is geographically targeted. The first phase of the program allocated D700 million per year to identified communes. Poverty maps show that the communes targeted by program 135 were generally those with higher poverty rates. Targeting issues arise at lower levels, as resource allocation may favor wealthier villages within a commune and not everyone in a village is necessarily poor. The second phase of program 135 (2006–2010) is tackling these issues by requiring the inclusion of both poorer villages within the poorest “zone III” communes and the poorest villages in the less-poor “zone II” communes.

27. The overall number of beneficiaries from targeted programs is not easy to estimate. In the case of the Social Guarantee Fund for Regular Relief, it has increased more than threefold over the first part of the decade. The number of beneficiaries has risen in all categories. Yet, regular relief in the form of monthly cash transfers to vulnerable groups still covers only a small fraction (about 0.5%) of the Vietnamese population. Although funding has increased, reaching D750 billion in 2007, it remains an important constraint. The resources supporting these cash transfers come from a combination of national and local sources, with their amount varying widely across the country.

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<sup>10</sup> This discussion is summarized from World Bank. 2007. *Vietnam Development Report 2008: Social Protection*. Joint donor report to the Vietnam Consultative Group Meeting, Hanoi, 6–7 December 2007 (Chapter 7: Targeted Programs).

## D. Challenges in Poverty Reduction

28. **Persistent Pockets of Poverty.** Though the overall poverty reduction picture is impressive, there are still about 13.4 million people living in poverty in Viet Nam, with 5–6 million experiencing food poverty. It is important to focus on those places and populations where poverty persists, and to understand the reasons why they are not benefiting from economic growth like the majority of the population. Ethnic minorities are at a major disadvantage, and, while some of the targeted programs work well, much more remains to be done.

29. **Rising Urban Poverty.** Certainly poverty remains an overwhelmingly rural phenomenon. But the figures for 2006 suggest that economic growth alone may not be sufficient to deal with poverty in urban areas. The major cities of Viet Nam have been booming for many years, but urban poverty appears to have stabilized, if not increased, from 2004 to 2006. Statistical issues notwithstanding,<sup>11</sup> any increase raises questions in a country where poverty has fallen consistently and rapidly over the past 13 years. Understanding why this is so particularly important for adjusting social protection policies in a period of rapid urbanization (footnote 2).

30. **High Vulnerability to Poverty.** From the large difference between the \$1-a-day and the \$2-a-day poverty rate (4% and 33% in 2007, respectively) it is clear that many Vietnamese can be considered near-poor, and thus particularly vulnerable to falling into poverty in the face of shocks. Global macroeconomic conditions have deteriorated since the second half of 2007. In addition to a slowdown in industrial countries, there is considerable uncertainty in financial markets and a surge in the world prices of commodities. Increases in the international prices of rice and oil are of particular concern. Latent inflationary pressures can remain, adding to the negative social impact of recent higher prices. Preserving people's access to basic services like education and health care must be a priority.

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<sup>11</sup> With a very small sample size, changes in urban poverty of less than 1% are not statistically significant. The changes may also have come about because the sample includes more recent urban migrants, who are less established and likely to be poorer, or because of land conversion where formerly rural wards (i.e., poorer) are now classified as urban.



## STATE BANK OF VIETNAM

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### DEVELOPMENT POLICY LETTER

*Hanoi, 25 October 2008*

Mr. Haruhiko Kuroda  
President  
Asian Development Bank  
Manila, Philippines

Dear Mr. President,

Viet Nam has made considerable progress in socio-economic development in recent years. Real GDP growth averaged 8.1% in 2002-2007, with exports growing by an average annual rate of 23.8%. Nominal GDP per capita increased from US\$441 in 2002 to US\$818 in 2007, and the poverty rate fell from 22.0% in 2005 to an estimated 14.7% in 2007. Viet Nam is on track to attaining most of the Millennium Development Goals.

We have been able to achieve these results by carrying out a broad range of policy reforms that foster economic growth and enhance social welfare. In particular, we have liberalized the trade regime significantly, equitized many state-owned enterprises, and promoted the development of private businesses, in particular in the financial sector. In addition, we have strengthened social protection, natural resource management, and public administration. Last year, Viet Nam's integration into the global economy was crowned with its accession to the World Trade Organization.

We appreciate the assistance in carrying out these reforms that the Asian Development Bank (ADB) and other development agencies have been providing through the Poverty Reduction Support Credit (PRSC) process. Analytical work on Viet Nam jointly done by development agencies participating in the PRSC process as well as policy advice and general budget support they have provided within the framework of the PRSC process has been very useful in implementing our reform agenda.

Our current reform agenda is aimed at successful execution of Viet Nam's Socio-Economic Development Plan (SEDP) 2006-2010, which was approved by the National Assembly on 29 June 2006. A key goal of the SEDP 2006-2010 is to move Viet Nam out of the low income status by 2010. The targets of the SEDP

2006-2010 include average annual real GDP growth of at least 7.5% in 2006-2010 and a reduction in the poverty rate to 10-11% by 2010. The SEDP 2006-2010 also aims to reduce the gaps in livings standards among various regions and ethnic groups, protect the environment, enhance competitiveness of the economy, and strengthen the foundations for sustainable and inclusive growths beyond 2010.

Chapter IV of the SEDP 2006-2010 highlights the goals, tasks, and solutions for achieving agricultural development, industrial modernization, and expansion of services. Chapter VII identifies the roles of various sectors in business development, including the role of the private sector as a driving force. We aim to create favorable conditions for the development of the private sector without limiting its scales, fields or regions. Chapter IV.B details the goals, tasks, and solutions for the social sectors, while Chapter IV.C identifies goals and policies for the sustainable development of natural resources and protection of the environment.

In order to achieve the objectives of economic growth, business development, environment sustainability and social equity, we need to improve the institutional framework of the socialist oriented market economy in a comprehensive manner. The measures to this effect are especially highlighted in Chapter IX. The chapter emphasizes legal reforms for supporting a market economy, the importance of improving the quality of public administration, and strengthening the fight against corruption.

Accordingly, the policy reforms needed for successful execution of the SEDP 2006-2010 fall into the four broad reform areas: (a) business development, (b) social inclusion, (c) natural resource management, and (d) governance. The reforms in the area of business development are aimed at further improving the efficiency of the state sector, developing the financial sector, private sector and infrastructure, and deepening Viet Nam's integration into the global economy. The reforms in the area of social inclusion are intended to advance human development by upgrading the quality of education, promoting inclusive education for disadvantaged children, improving access of the poor to health services, helping secure social protection for the population and promoting gender equality. The reforms in the area of natural resource management aim to further strengthen management of natural resources (including land, forests and water) and protection of environment. The reforms in the area of governance are intended to increase transparency, efficiency and effectiveness of administration, especially responsiveness and accountability of the planning, decision making process, public finance management and enhance the quality of public administration services, improve legal transparency and accessibility as part of a broader effort to build modern governance and fight corruption.

Some of these policy reforms entail substantial costs for the budget, which exceed their benefits for the budget in the short run. The Government of Viet Nam, therefore, requests the assistance of ADB—through Support for the Implementation of the Poverty Reduction Program V (Program Cluster), in particular through a loan for Subprogram 1 of this program cluster—in carrying out the policy reforms needed for successful execution of the SEDP 2006-2010.

The policy actions to be covered by Subprogram 1 and the tentative policy actions to be covered by Subprograms 2 and 3 of Support for the Implementation of the Poverty Reduction Program V constitute critical steps in the policy reforms needed for successful execution of the SEDP 2006-2010. After these steps are taken with the assistance of ADB, we will follow through with the reforms on our own or with the assistance of development agencies under other projects.

We recognize that many challenges lie ahead, but we are confident that we will be able to overcome them. We also recognize that the international environment is more uncertain at present and priority needs to be given to economic stability. We hope that with the support of ADB, we can address these challenges and difficulties and make progress in the implementation of our reform program, with the ambition of becoming a middle-income country by the end of the decade.

We look forward to your continued support for the implementation of our reform agenda and the SEDP 2006-2010.

Yours sincerely, ✓



Nguyen Van Giau  
Governor

## **ACTIONS INCLUDED IN THE POLICY MATRIX FOR POVERTY REDUCTION SUPPORT CREDIT 7**

### **A. Business Development**

- (i) Assess the scope and nature of lending and other transactions among affiliated parties within economic groups and general corporations.<sup>1</sup>
- (ii) Approve equitization plans, allowing the participation of strategic investors, for two state-owned commercial banks (SOCBs) and complete the equitization of one of them (footnote 1).
- (iii) Issue a road map to enhance bank supervision, including off-site supervision and risk management tools (footnote 1).
- (iv) Enhance the role of the banks' boards of directors and introduce fit-and-proper tests in line with international best practices.
- (v) Rationalize incentives related to the enterprise income tax and simplify tax procedures for household businesses (footnote 1).
- (vi) Raise the cap on shareholdings by a single foreign investor in unlisted companies (footnote 1).
- (vii) Simplify enterprise registration in particular by unifying tax and business identification numbers and streamlining seal-carving procedures.
- (viii) Separate power transmission and generation assets and regroup transmission assets under a single National Power Transmission Corporation (footnote 1).
- (ix) Introduce modern principles of transparency and corporate governance in provincial infrastructure funds.
- (x) Adopt market-based pricing systems to estimate the costs of state-funded civil engineering investments.
- (xi) Reduce traffic fatalities through strengthened enforcement and improved education programs.
- (xii) Facilitate access to driver training and testing and provide financial support for the purchase of special vehicles for people living with disabilities.
- (xiii) Establish consultation and information-gathering mechanisms to identify the social and environmental impacts of accession to the World Trade Organization.
- (xiv) Harmonize agricultural health and food safety regulatory tools with international standards in line with the Sanitary and Phytosanitary Agreement.
- (xv) Tackle the infringement of copyrights and trademarks on a commercial scale in line with the Agreement on Trade-Related Aspects of Intellectual Property Rights.

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<sup>1</sup> The action is covered by subprogram 1 of Support for the Implementation of the Poverty Reduction Program V.

**B. Social Inclusion**

- (xvi) Increase the health insurance premium paid on behalf of the poor and partially subsidize the near-poor (footnote 1).
- (xvii) Submit a health insurance law that better pools risks and allows improved incentives in payment to service providers.
- (xviii) Regulate the safe treatment of solid waste discharge by hospitals in line with international practices.
- (xix) Revise tuition fees at secondary and tertiary levels to better reflect market conditions, and enhance policies to protect the poor.
- (xx) Issue a road map for an education information system to strengthen education management.
- (xxi) Introduce a voluntary pension program for farmers and the informal sector, allowing for support for the poor to participate in the program.
- (xxii) Adjust the safety net for redundant state-owned enterprise workers to cover state-owned plantations and farms.
- (xxiii) Determine the institutional responsibilities for the implementation of the Gender Equality Law and the monitoring of gender quality.
- (xxiv) Create the legal framework for domestic violence prevention and control.

**C. Natural Resource Management**

- (xxv) Allocate institutional responsibilities for integrated river basin management (footnote 1).
- (xxvi) Adopt a natural disaster mitigation strategy with attention to nonstructural measures and guidelines for provincial and ministerial action plans.
- (xxvii) Strengthen incentives for solid waste management using economic instruments.
- (xxviii) Issue guidelines for forest development based on participatory land-use planning and independent monitoring.

**D. Governance**

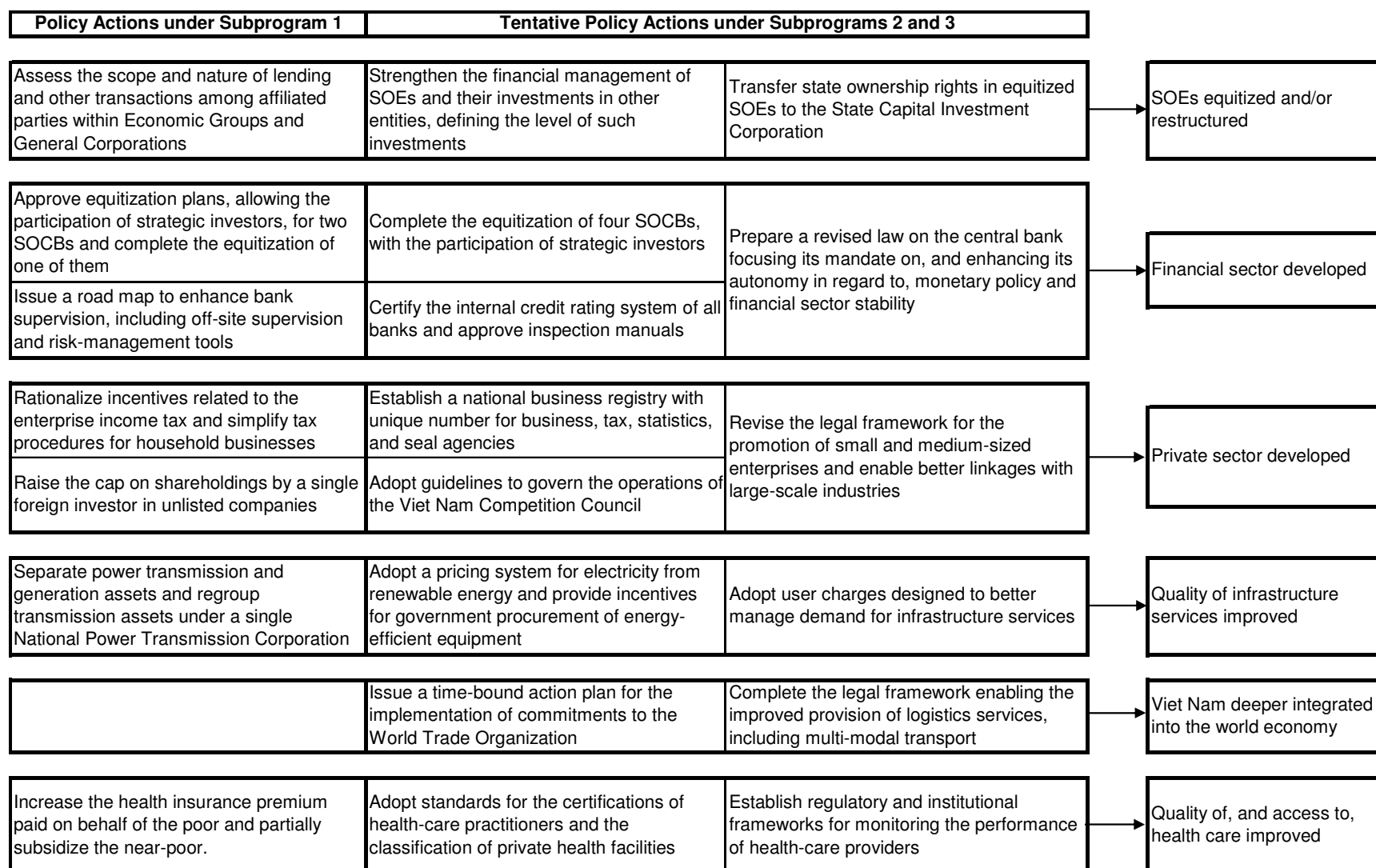
- (xxix) Establish a list of indicators, data sources, and a reporting mechanism for the monitoring of the Socioeconomic Development Plan 2006–2010 (footnote 1).
- (xxx) Establish criteria for selecting public investment projects and mechanisms for monitoring their financing and implementation.
- (xxxi) Issue regulations on the contents and timing of disclosure of State Audit of Viet Nam reports, including reports on audits of individual entities (footnote 1).
- (xxxii) Create a facilitating legal framework for the establishment and operation of economic collaborative groups and social and charity funds.
- (xxxiii) Enhance the responsibility of enterprises vis-à-vis consumers and strengthen the handling of consumer complaints.

- (xxxiv) Extend the “one-stop shop” mechanism to all ministries and agencies and introduce an interlinked “one-stop shop” mechanism to further simplify administrative procedures (footnote 1).
- (xxxv) Dissociate the civil service pay structure from minimum wage setting, widening the range of minimum wages.
- (xxxvi) Set common standards for information technology applications and e-government interfaces at central and provincial levels.
- (xxxvii) Implement the asset declaration requirement in regard to senior officials and their immediate families, with penalties for noncompliance (footnote 1).
- (xxxviii) Introduce mandatory rotation for sensitive government positions and payment of government salaries through bank accounts.



# **POLICY MATRIX AND OBJECTIVE TREE FOR SUPPORT FOR THE IMPLEMENTATION OF THE POVERTY REDUCTION PROGRAM V**

**Figure A5.1: Policy Matrix**



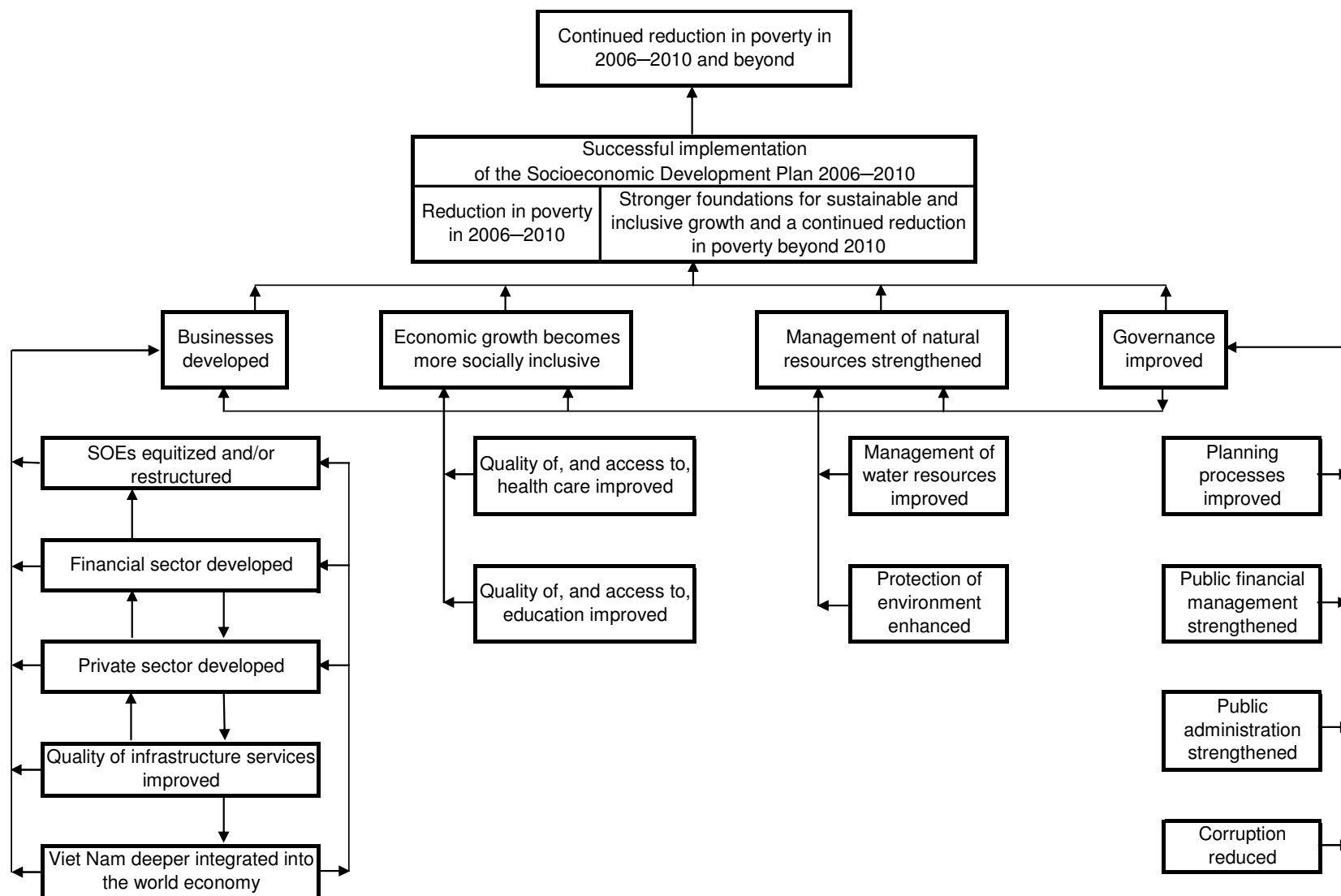
**Figure A5.1: Policy Matrix (continued)**

Policy Actions under Subprogram 1		Tentative Policy Actions under Subprograms 2 and 3	
	Formulate an education development strategy for the period up to 2020 focusing on equity of learning outcomes and relevance of contents	Finalize and start implementing the road map for the education management information system	Quality of, and access to, education improved
Allocate institutional responsibilities for integrated river basin management.	Restructure irrigation management companies with improved service orientation and financial viability	Develop a unified national sanitation strategy and encourage greater participation by communes and the private sector in sanitation	Management of water resources improved
	Approve a national target program for adapting to the climate change and allocate institutional responsibilities for its implementation	Establish national and regional pollution monitoring systems to enable results-based environmental planning	Protection of environment enhanced
Establish a list of indicators, data sources and a reporting mechanism for the monitoring of SEDP 2006–2010	Establish a legal framework for strengthening urban planning and urban infrastructure management	Integrate sector policies and national target programs at the commune level, emphasizing participation at all stages	Planning processes improved
Issue regulations on the contents and timing of disclosure of the reports of the State Audit of Viet Nam, including reports on audits of individual entities	Formulate a public debt management law consolidating the management of domestic and external debt	Adopt public sector financial reporting standards in line with international standards	Public financial management strengthened
Extend the “one-stop-shop” mechanism to all ministries and agencies and introduce an interlinked “one-stop-shop” mechanism to further simplify administrative procedures	Conduct user-feedback surveys to assess the quality of public services	Develop a road map for improving the quality of public services, taking into account the findings of the surveys	Public administration strengthened
Implement asset declaration requirement in regard to senior officials and their immediate families, with penalties for non-compliance	Prepare a revised press law to encourage accurate, objective and responsible reporting on corruption	Adopt a comprehensive anti-corruption strategy	Corruption reduced

SEDP = socioeconomic development plan, SOCB = state-owned commercial bank, SOE = state-owned enterprise.

Source: Asian Development Bank.

**Figure A5.2: Objective Tree**



SOE = state-owned enterprise.  
Source: Asian Development Bank.

**STATUS OF POLICY ACTIONS COVERED BY SUBPROGRAM 1**  
(as of 23 October 2008)

Reform Area	Action	Status
<b>Business Development</b>	1. Assess the scope and the nature of lending and other transactions among affiliated parties within economic groups and general corporations	<b>Completed.</b> The Ministry of Finance (MOF) has prepared an assessment report on the internal trading of general corporations and economic groups. It also held a conference on state-owned enterprise reform on 23 April 2008. At the conference, MOF presented a report on investments in noncore businesses (such as banking) by some general corporations and economic groups, together with some warnings and recommendations on adjusting the cap on investments in noncore businesses by general corporations and economic groups. These recommendations have been incorporated into the government decree that is now being drafted to replace Decree 199/2004.
	2. Approve equitization plans allowing the participation of strategic investors for two state-owned commercial banks (SOCBs) and complete the equitization of one of them	<b>Completed.</b> Equitization plans for Vietcombank and Mekong Housing Bank were approved by Prime Minister's Decision 1289/QD-TTg of 26 September 2007 and Decision 313/QD-TTg of 24 March 2008, respectively. Both plans provide for an initial public offering and the first general meeting of shareholders.  The equitization of Vietcombank has essentially been completed. The bank held an initial public offering in December 2007 and the first general meeting of shareholders in April 2008.
	3. Issue a road map to enhance bank supervision, including offsite supervision and risk management tools	<b>Completed.</b> By his Decision 1976/QD-NHNN of 24 August 2007, the Governor of the State Bank of Viet Nam (SBV) approved a proposal for the organizational and operational reform of banking supervision, including off-site supervision and risk management tools. On 31 January 2008, SBV adopted Plan 1094/KH-NHNN implementing this proposal.
	4. Rationalize incentives related to the enterprise income tax and simplify tax procedures for household businesses	<b>Completed.</b> Circular 134/2007/TT-BTC issued on 23 November 2007 specified the deductible and nondeductible items for the corporate income tax (CIT) through a positive list (deductible items) and a negative list (nondeductible items). The revised Law on Corporate Income Tax adopted by the National Assembly on 3 June 2008 further rationalized incentives related to the CIT.  At present, household businesses pay the CIT. However, after the Law on Personal Income Tax takes effect on 1 January 2009, revenues of household businesses can be declared (and taxed) as individual income. Household businesses will be able to pay the personal income tax instead of the CIT.
	5. Raise the cap on shareholdings by a single foreign investor in unlisted companies	<b>Completed.</b> According to Government Decree 139/2007/ND-CP of 5 September 2007 guiding the implementation of the Enterprise Law, foreign investors may hold up to 100% of shares in unlisted companies (other than those that are subject to sector-specific restrictions on private or foreign ownership).

Reform Area	Action	Status
	6. Separate power transmission and generation assets and regroup transmission assets under a single National Power Transmission Corporation	<b>Completed.</b> On 3 March 2008, the Government approved a plan to separate power transmission and generation assets and regroup transmission assets under a single National Power Transmission Corporation. The corporation became operational on 1 July 2008. It is responsible for the construction, operation, and maintenance of Viet Nam's power transmission network, including 220 kilovolt (kV) and 500 kV lines and substations.
<b>Social Inclusion</b>	7. Increase the health insurance premium paid on behalf of the poor and partially subsidize the near-poor	<b>Completed.</b> In accordance with Prime Minister Decision 139/2002/QĐ-TTg of 15 October 2002, the Government's contribution to health insurance for the poor was set at D50,000 per person per year, and raised to D60,000 per person per year in 2006, D80,000 in 2007, and D130,000 in 2008. The Government is now considering setting its contribution at 3.0% of the minimum wage. This will further increase the contribution (since the minimum wage is now D540,000 per month). Furthermore, the Prime Minister issued Decision 289/2008/QĐ-TTg on 18 March 2008, which allowed the near-poor to join the voluntary health insurance program, with 50% of their insurance premium contributed by the Government. On 24 September 2008, the Ministry of Health and the MOF issued an interministerial circular 10/2008/TLLT-BYT-BTC on the implementation of this Decision.
<b>Natural Resource Management</b>	8. Allocate institutional responsibilities for integrated river basin management	<b>Completed.</b> Until recently, river basin management was effectively carried out by both the Ministry of Natural Resources and Environment (MONRE) and the Ministry of Agriculture and Rural Development (MARD). Government Decree 01/2008/ND-CP of 3 January 2008 on the functions and tasks of MARD did not include river basin management in the list of functions of MARD. At the same time, Government Decree 25/2008/ND-CP of 4 March 2008 listed integrated river basin management as a key function of MONRE and authorized the latter to represent Viet Nam in the Mekong River Council.
<b>Governance</b>	9. Establish a list of indicators, data sources, and a reporting mechanism for the monitoring of the SEDP	<b>Completed.</b> By its Decision 555/2007/QĐ-BKH of 30 May 2007, the Ministry of Planning and Investment (MPI) approved a results-based monitoring and evaluation framework for the Socioeconomic Development Plan (SEDP) 2006–2010. The framework specifies monitoring indicators and agencies responsible for reporting on individual indicators. In accordance with Government Resolution 02/2008/NQ-CP of 9 January 2008, MPI is now preparing a decree on annual reporting on the implementation of SEDP. This decree will further clarify the reporting mechanism for the monitoring and evaluation of SEDP.
	10. Issue regulations on the contents and timing of disclosure of State Audit of Viet Nam (SAV) reports, including audits reports of individual entities	<b>Completed.</b> On 26 July 2007, SAV issued Decision 03/2007/QĐ-KTNN on the disclosure of audit results and reports on the implementation of its audit conclusions and recommendations. The decision defined (i) responsibilities for the disclosure, (ii) reports to be disclosed, and (iii) timing and means of disclosure. It also defines three types of reports that are subject to disclosure. These are (i) annual audit reports, (ii) reports on the implementation of audit conclusions and recommendations, and (iii) the audit reports and the audit minutes pertaining to audits of individual entities.

Reform Area	Action	Status
	11. Extend the “one-stop shop” (OSS) mechanism to all ministries and agencies and introduce an interlinked OSS mechanism to further simplify administrative procedures	<p><b>Completed.</b> On 22 June 2007, the Prime Minister issued Decision 93/2007/QĐ-TTg on “one-stop shop” and interagency “one-stop shop” mechanisms in local state administrative agencies. The decision required all local public service agencies to introduce an OSS mechanism or an interagency OSS mechanism. Several provinces and cities have already done so. The Ministry of Home Affairs has organized training courses for officials specialized in administrative reforms in all provinces. It has also issued a guiding document on the allowance for civil servants working at the OSS offices to encourage the fulfillment of their tasks.</p> <p>On 7 November 2007, the Government issued Resolution 53/2007/NQ-CP, which called for the pilot-testing of the OSS mechanism in seven ministries at the national level—the Ministry of Culture, Sports and Tourism; the Ministry of Finance; the Ministry of Home Affairs; the Ministry of Industry and Trade; the Ministry of Labor, Invalids and Social Affairs; the Ministry of Natural Resources and Environment; and the Ministry of Planning and Investment.</p>
	12. Implement the asset declaration requirement in regard to senior officials and their immediate families, with penalties for noncompliance	<p><b>Completed.</b> Asset declaration was introduced by the Anti-Corruption Law of 2006 and its implementation Decree 37/2007/ND-CP of 9 March 2007, which stipulated disciplinary measures for noncompliance. To implement the law and decree, the Government Inspectorate issued Circular 2442/TT-TTCT of 13 November 2007, which provided detailed practical guidelines for the declaration process, and Official Letter 533/CCTN-TTCT of 2 April 2008, which introduced a standard template for reporting by ministries, agencies, and provinces. Extensive training of government officials was conducted at the end of 2007.</p>

CIT = corporate income tax, MARD = Ministry of Agriculture and Rural Development, MOF = Ministry of Finance, MONRE = Ministry of Natural Resources and Environment, MPI = Ministry of Planning and Investment, OSS = one-stop shop, SAV = State Audit of Viet Nam, SBV = State Bank of Viet Nam, SEDP = socioeconomic development plan, SOCB = state-owned commercial bank.

Source: State Bank of Viet Nam and Asian Development Bank.

**DEVELOPMENT PARTNERS COORDINATION MATRIX  
FOR THE POVERTY REDUCTION SUPPORT CREDIT PROCESS**

<b>Development Agency</b>	<b>Focus Areas</b>	<b>General Budget Support in Conjunction with PRSC 7</b>
Asian Development Bank	Global integration, state sector reform, financial sector reform, infrastructure, education, health, social protection, water, environment, planning processes, public financial management, public administration reform, and fighting corruption.	ADF loan of SDR16.4 million
Agencia Española de Cooperación Internacional	Education, social protection, gender, land and forest, and planning processes.	Loan of €5.0 million
Agence Française de Développement	State sector reform, financial sector reform, private sector development, infrastructure, water, environment, and public financial management.	Grant of €10.0 million
Australian Agency for International Development	Global integration, health, gender, water and fighting corruption.	Grant of A\$15 million
Belgium	Education, health, water and public financial management.	None
Canadian International Development Agency	Financial sector reform, private sector development, education, gender, environment, legal development and fighting corruption.	Grant of Can\$10.0 million
Danish International Development Agency	Global integration, state sector reform, financial sector reform, gender, land and forests, water, environment, public financial management, legal development, public administration reform and fighting corruption.	Grant of Dkr61.0 million
European Commission	Global integration, education, health, legal development, public administration reform and fighting corruption.	Grant of €15.0 million
Finland	Global integration, land and forests and water.	None
Germany	Infrastructure, land and forests, water and the environment.	Loan of €6.0 million
Ireland (Irish Aid)	Education, health, gender, financial sector reform, private sector development, public financial management and fighting corruption.	Grant of €7.5 million

<b>Development Agency</b>	<b>Focus Areas</b>	<b>General Budget Support in Conjunction with PRSC 7</b>
Japan Bank for International Cooperation	Global integration, state sector reform, financial sector reform, private sector development, infrastructure, education, health, social protection, gender, land and forests, water, the environment, planning processes, public financial management, legal development, public administration reform and fighting corruption.	Loan of ¥3.5 billion
Netherlands Directorate General for International Cooperation	Health, gender, land and forests, water, environment, public financial management, public administration reform and fighting corruption.	Grant of €6.0 million
Swedish International Development Cooperation Agency	State sector reform, private sector development, legal development, public administration reform and fighting corruption.	None
United Kingdom's Department for International Development	Global integration, private sector development, education, health, gender, social protection, water, environment, public financial management, legal development and fighting corruption.	Grant of £20.0 million
United Nations Development Programme	Gender, legal development, public administration reform and fighting corruption.	None
United States Agency for International Development	State sector reform, financial sector reform, education, health, social protection and the environment.	None
World Bank	All	IDA loan of \$150 million
<b>Total</b>		<b>About \$350 million</b>

ADF = Asian Development Fund, IDA = International Development Association, SDR = special drawing right, PRSC = Poverty Reduction Support Credit.

Source: State Bank of Viet Nam, World Bank, and Asian Development Bank.



### LIST OF INELIGIBLE ITEMS

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the implementation of subprogram 1 of the Support for the Implementation of the Poverty Reduction Program V.
2. No withdrawals will be made for the following:
  - (i) expenditures for goods included in the following groups or subgroups of the United Nations Standards International Trade Classification, Revision 3 (SITC, Rev. 3), or any successor groups or subgroups under future revisions to the SITC, as designated by the Asian Development Bank by notice to the Government.

**Table A8.1: Ineligible Items**

Group	Subgroup	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
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
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver, or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Government or of goods supplied from the territory of the Viet Nam;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed or to be financed under any loan or grant from the Asian Development Bank;
- (iv) expenditures for goods intended for military and paramilitary purposes or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of Viet Nam or international agreements to which Viet Nam is a party; and
- (vii) expenditures on account of any payment prohibited by Viet Nam in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

<b>Country/Project Title:</b> Viet Nam/Support for the Implementation of the Poverty Reduction Program V
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**Lending/Financing  
Modality:**

Program Cluster and Loan for Subprogram 1
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**Department/  
Division:**

Southeast Asia Department/ Viet Nam Resident Mission
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### I. POVERTY ANALYSIS AND STRATEGY

#### A. Linkages to the National Poverty Reduction Strategy and Country Partnership Strategy

Viet Nam's poverty reduction strategy is embedded in the Socioeconomic Development Plan (SEDP) 2006–2010. Its development goals (the country's version of the Millennium Development Goals), the key targets pursued by the SEDP, include eliminating food poverty and reducing the poverty rate to 10%–11% by 2010. The SEDP also identifies appropriate policies and aligns resources with those policies, which are concerned with (i) promoting growth and transition to a market economy, (ii) reducing poverty and ensuring social inclusion, (iii) managing the environment and natural resources, and (iv) building institutions to support the strategy. The joint International Development Association–International Monetary Fund staff advisory note of December 2006 concluded that SEDP 2006–2010 has the key features of a poverty reduction strategy and is likely to lead to economic growth and poverty reduction. ADB's country strategy and program 2007–2010 for Viet Nam supports the implementation of SEDP 2006–2010.

The SEDP policies, however, are considered remarkably broad and must be prioritized and sequenced. Measures must be selected within each of the pillars and attention must be paid to the content of the most important ones. The World Bank's poverty reduction support credits (PRSCs) are multisector instruments well suited to satisfying these requirements. The first PRSC cycle provided effective support for policy reforms, according to several independent evaluations. The second PRSC cycle, starting with PRSC 6 in 2007, will support the implementation of SEDP 2006–2010. Support for the Implementation of the Poverty Reduction Program (SIPRP) V will be ADB's fifth policy-based lending operation in Viet Nam and will provide parallel financing with the World Bank's PRSC 7. PRSC 7 identifies policy areas in SEDP 2006–2010 and other key documents and strategies and classifies them into four pillars: (i) business development, (ii) social inclusion, (iii) natural resources management, and (iv) governance. Unlike SIPRPs I–IV, which were all single-tranche standard program loans, SIPRP V will take the program cluster approach. It will consist of three chronologically ordered subprograms, which will help the Government carry out the policy reforms needed for the successful implementation of SEDP 2006–2010 in 2008–2010.

SIPRP V will directly contribute to poverty reduction by supporting the implementation of policy actions that will increase social assistance to the poor and the near-poor. The poor will directly benefit from the increase in the Government's contribution to their health insurance premiums and from participation in the voluntary pension program. The near-poor will directly benefit from government subsidies for their health insurance premiums. As robust economic growth has been the key driver of poverty reduction in Viet Nam, SIPRP V would indirectly reduce poverty by supporting other policy actions that ensure high and sustainable economic growth. These policy reforms will raise the living standards of the Vietnamese people by fostering environmentally sustainable and socially inclusive economic growth, increase budget revenue by expanding the tax base, and reduce budget expenditure by improving public financial management. Ethnic minorities will benefit more than the ethnic majority from these actions because the poverty rate is significantly higher among ethnic minorities than among the ethnic majority.

#### B. Poverty Analysis

**Targeting Classification:** General Intervention

##### Key Issues

SIPRP V supports the implementation of policy reforms in (i) business development, (ii) social inclusion, (iii) natural resources management, and (iv) governance. The policy reforms will affect the economy as a whole. The SIPRP V activities do not focus on specific households, on sectors or subsectors that directly support the achievement of the Millennium Development Goals (MDGs), or on key constraints on poverty reduction in specific geographic areas. Instead, they will generally improve the enabling policy and institutional environment for pro-poor growth, social development, and good governance, thereby indirectly reducing poverty. Therefore, SIPRP V is classified as a general intervention.

The policy reforms supported by SIPRP V belong to the sector of law, economic management, and public policy, in the three key thematic areas of (i) sustainable economic growth, (ii) inclusive social development, and

(iii) governance. SIPRP V supports the implementation of 12 specific policy actions in all four pillars of PRSC 7. Generally, the sector support provided by SIPRP V will lead to poverty reduction by promoting (i) business development and wider availability of economic opportunities for the poor and near-poor; (ii) a reduction in the health, economic, and environmental vulnerabilities of the poor and other excluded groups; and (iii) an increase in government accountability in the use of public resources and the management of SEDP targets.

Viet Nam's overall poverty rate has been on a sustained downward trend in the last two decades. The overall poverty rate dropped from 58.1% in 1993 to 28.9% in 2002, and to 16% in 2006. Still, about 13.4 million people live in poverty in Viet Nam, and 5–6 million experience food poverty. As the large difference between \$1-a-day and \$2-a-day poverty (4% and 33% in 2007, respectively) makes clear, many Vietnamese can be considered near-poor, and thus particularly vulnerable to falling into poverty in the face of shocks. The disparities in poverty across regions, areas, and ethnics remain significant. In 2006, the three poorest regions had poverty rates of 28%–31%, much higher than the 5%–11% in the three least-poor regions. The rural poverty rate, at 20.4%, is substantially higher than the urban poverty rate of 3.9%. Ethnic minorities, with an average poverty rate of 52.2%, are significantly worse off than the majority Kinh, with a poverty rate of 10.3%.

Viet Nam's impressive economic growth has unfortunately not benefited all population groups equally. The minorities accounted for about 44% of the poor in 2006 and will constitute more than half of Viet Nam's poor population by 2010. Ethnic minorities are at a major disadvantage, and their poverty persists. Almost all the ethnic minorities reside in remote, mountainous rural areas and are economically and socially disadvantaged across a range of dimensions. The members of ethnic minority groups are more likely to be malnourished, illiterate, and suffering from poor health. Physical access to social services in challenging mountainous terrain is a major constraint. Poorly equipped schools, limited supply of teachers, and teaching methods that do not respond to the needs of nonnative speakers can perpetuate social exclusion and isolation. Furthermore, the urban poverty rate, after increasing in 2006, is believed to have been worsened in 2007 and 2008 by increasingly higher prices in the cities, resulting in lower living standards for those whose earnings do not grow accordingly and pushing the near-poor into poverty.

Social protection and targeted programs for poverty reduction are required for inclusive growth. Social protection expands opportunities, enhances equity, and protects against risks and shocks. Social protection in Viet Nam takes the form of social safety nets, labor market programs, and old-age pensions. Social safety net programs account for 29% of Viet Nam's total social protection expenditure and cover 64.6% of the poor. In general, programs for specific households are of mixed quality, with some having considerable impact but others less effective. Under the National Targeted Program on Job Generation, the Government provides credits for job creation and free vocational training for the poor in government-run vocational training centers. The old-age pension includes a voluntary pension program, whose coverage has been expanded to include informal sector workers, and a compulsory program applied to all Vietnamese doing contractual work in any enterprise. The minimum pension is equal to the minimum wage; the maximum is 75% of the average salary. However, the attractiveness of the national voluntary pension program for the informal sector is unclear, while only 2% of the compulsory scheme benefits the poorest.

Viet Nam implements a host of targeted programs to reach the most disadvantaged groups and geographic areas. The National Targeted Program for Poverty Reduction (NTPPR) provides assistance to poor households in three areas: (i) development of productive activities for the poor, mainly through preferential credit, (ii) access to basic services (health care, education, housing, water supply and legal aid); and (iii) capacity development and monitoring. The second phase of a program for socioeconomic development in communes face with extreme hardship in ethnic minority and mountainous areas (program 135) provides development assistance to poor villages in the poorest communes, and to the poorest villages in less-poor communes. Programs 132 and 134 support ethnic minorities with agricultural and residential land, housing, and water supply. Although there is no estimate of the total number of beneficiaries of targeted programs, the figure has reportedly risen.

The Government is aware of the challenges that face it, and has prepared an explicit section on ethnic support in SEDP 2006–2010. The Government also has preferential and special programs for the poor and special programs for ethnic people in these regions, e.g., the comprehensive Hunger Eradication and Poverty Reduction Program 2006–2010 and other targeted programs, such as program 135. These programs have generally benefited the poor. The programs could be made more effective through further decentralization, a focus on capacity building, and participation by the affected people in planning, monitoring, and evaluation.

The specific policy actions supported by SIPRP V will contribute directly as well as indirectly to poverty reduction in Viet Nam. SIPRP V supports the implementation of policies that will reduce the health and economic risks of the poor and the near-poor—the policy of increasing the health insurance premiums for the poor and providing partial subsidies for the near-poor, and the policy of introducing voluntary pension programs for farmers and informal sector, allowing the poor to participate. On the other hand, the policy support in business development and

governance will have indirect impact on poverty reduction. Particularly, SIPRP V supports a series of policies that will (i) enhance the efficient use of public resources by state economic groups and general corporations, including state-owned commercial banks and state electricity providers; (ii) introduce more competition into the economy by raising the cap on shareholdings by single foreign investors; and (iii) stimulate the development of household businesses through tax reforms. The policies of monitoring SEDP implementation, regulating the disclosure of state audit reports, and extending “one-stop shop” (OSS) services to all ministries and agencies are expected to strengthen government accountability and capacity to manage pro-poor growth.

### **C. Poverty Impact Analysis for Policy-Based Lending**

The policy actions supported by SIPRP V will have both direct and indirect impact on some targeted groups and the economy as a whole over the medium term. First, the operating efficiency of large state-owned enterprises will improve. Assessing transactions among affiliated parties within economic groups and general corporations, approving and completing the equitization plans of two state-owned commercial banks, and separating power transmission and generation assets will directly affect these state-owned enterprises and banks. These policies are expected to increase the efficient use of public resources and improve the quality of services provided by these enterprises. Second, more economic opportunities will be created for the private sector. The policy of raising the cap on the shareholdings of single foreign investors will directly benefit foreign investors, while the policy of rationalizing incentives related to the enterprise income tax and simplifying tax procedures for household businesses will directly lead to an expansion in the economic activities of domestic private enterprises and production units. Third, more supporting administrative procedures will be instituted for enterprises as well as people. The policy of extending OSS services and introducing interlinked OSS services will further simplify administrative procedures. These policies will benefit a wide range of groups. Fourth, the regulation specifying the content and timing of disclosure of State Audit of Viet Nam reports will increase government accountability for the use of public resources. Fifth, government capacity to monitor the SEDP 2006–2010 targets, including the poverty targets, will be strengthened. Finally, the provision of subsidized health insurance and the introduction of voluntary pension programs will reduce the health and economic risks of the poor and the near-poor.

All the policy actions under SIPRP V will have no adverse impact on vulnerable groups, particularly the poor and the near-poor. On the other hand, these policy actions will have a positive impact on the poor and the near-poor by (i) promoting the development of the private sector, especially household businesses, and thus increasing demand for unskilled labor; (ii) making net public transfers to the poor and near-poor through subsidies for health insurance premiums; and (iii) facilitating access to public goods and services through more efficient state economic groups and general operations, which provide public utilities, especially electricity.

The policy actions under SIPRP V will have an indirect rather than a direct impact on the MDGs. These policy actions are not directly linked to the MDG targets. However, their implementation will lay the foundation for achieving these targets. The policy actions under SIPRP V will address the major structural weaknesses of Viet Nam's economy, and therefore make economic growth more sustainable and improve living standards in general.

## **II. SOCIAL ANALYSIS AND STRATEGY**

### **A. Findings of Social Analysis**

There may still be around 13.5 million people living in poverty in Viet Nam, with between five and six million being food-poor. People in the rural or mountainous areas are more likely to be poor than those living in urban or lowland areas. Overall, the ethnic minorities are still much poorer than the Kinh and Chinese majority. The main constraints on the ability of the ethnic minorities to lift themselves out of the poverty are poor infrastructure, lack of access to social services, low educational attainment, and limited land for agriculture production. Furthermore, domestic migrants outside the agriculture sector are very vulnerable to economic shocks.

## B. Consultation and Participation

### 1. Summary of the consultation and participation (C&P) process during the program preparation

SEDP 2006–2010 makes stronger references to participatory and inclusive approaches than previous plans. It expands the participation and heightens the role of nongovernment organizations and intensifies the participation of people, communities, and civil society in planning, implementation, and monitoring, from central to local levels. Viet Nam's development partners have aligned their efforts behind SEDP 2006–2010, expressing satisfaction with its preparation process and acknowledging it as a credible strategy for fostering economic growth and poverty reduction. The SEDP is a comprehensive document dealing with almost every aspect of economic reform. As it strongly focuses on social inclusion and poverty reduction, the SEDP is considered a tool of upstream harmonization, giving government and the international community a shared view of what needs to be done.

The PRSCs identify policy actions within the SEDP framework. They constitute a platform for continued policy dialogue on a broad range of issues with government counterparts and were jointly drawn up by many development partners through regular meetings held to reach consensus on how to proceed, discuss ideas and plans with the Government, and assess progress on economic reform. The new PRSC cycle was prepared on the basis of the Viet Nam Development Report 2007, *Aiming High*, which translated the SEDP into a workable set of policy actions, with proper prioritization and sequencing. The new cycle also takes into account the concerns brought up during the midyear consultative group meeting and the Viet Nam Business Forum. In 2007, a series of consultations on PRSC operations took place with government officials, elected representatives, civil society, and the private sector. PRSC 7 grew out of the existing donor commitments to support Viet Nam's reform agenda. Fourteen policy areas were chosen and these were discussed over several rounds of technical meetings with 20 line ministries and government agencies.

### 2. What level of C&P is envisaged during the program implementation and monitoring?

☒ Information sharing   ☒ Consultation   ☐ Collaborative decision making   ☐ Empowerment

### 3. Was a C&P plan prepared? ☐ Yes ☒ No

The policy actions of SIPRP V are based on PRSC 7, which is being jointly undertaken by the participating development agencies. As ADB has joined the PRSC process, no further C&P plan is needed.

## C. Gender Development

### 1. Key Issues

Over the last 20 years, Viet Nam has made remarkable progress in reducing gender disparities. Ranked 80th among 136 countries on the gender development index, it is one of the Southeast Asian countries that have made the most rapid progress in closing the gender gaps. There are few differences between boys and girls in nutrition and school enrollment. The country has virtually achieved universal primary education, is on the way to attaining universal lower secondary education, has achieved high adult literacy rates for men and women, and has exceeded the target of 30% of postgraduate qualifications going to women. With 83% of women between the ages of 15 and 60 participating in the labor force, its participation rates for women in economic activities are the highest in the world. The number of women engaged in wage employment has increased, and now accounts for 26% of the female labor force. Similarly, the gender gap in wages and incomes has declined significantly. Viet Nam also has the highest percentage of women in national parliament in Asia and the Pacific, at around 27% since 2002.

Despite the country's impressive achievements in narrowing gender gaps, however, women remain at a disadvantage compared with men. First, ethnic minority women and girls lag behind ethnic minority men and Kinh and Chinese women in access to health, health insurance, education services, and economic opportunities; around one-fifth of ethnic minority young women have never attended school, ethnic minority girls of school age are more likely than their male counterparts to be working, and 87% of ethnic minority women in rural areas are self-employed in agriculture and least likely to be in wage employment. Second, women are overrepresented in agriculture self-employment because of poor access to skills training, which limits their ability to apply for some jobs. Third, men benefit more from jobs with decision-making power and that offer higher pay and professional prospects. Fourth, while the wage gap has narrowed, men still earn more than women. Fifth, men and women contribute equal time to income generation but not to housework. As a result, women work an average of 13 hours a day, compared with only 9 hours for men. Sixth, men's opportunities to capitalize assets are greater than women's. Women are less

likely to have security of land tenure, which would not only give them better access to capital, but would also increase their security in case of divorce or inheritance. Lastly, very few women are represented in leadership positions at the central level. Women are almost invisible in leadership positions across most departments and all sectors at the local level.

## 2. Key Actions

Viet Nam has developed a strong legal, policy, and institutional environment to empower women and reduce gender gaps. Its Constitution provides for gender equality and SEDP 2006–2010 integrates gender equality considerations in agriculture, employment, environmental management, health, and education. Viet Nam was one of the first countries to sign and ratify the Convention on the Elimination of All Forms of Discrimination against Women. The new Law on Gender Equality decrees equal rights for women in many areas such as the political arena, economic opportunity, labor, employment, education and training, science and technology, health care, culture information and sports, and family. This law represents a unified legal framework for addressing gender disparities and increasing women's participation in decision making. The Land Law requires the inclusion of the names of both husband and wife in all new land use right certificates. The National Strategy for the Advancement of Women to 2010 identifies priorities related to gender equality. The National Committee for the Advancement of Women is a high-level multisectoral committee responsible for promoting gender equality. The Viet Nam Women's Union is a mass organization for women that facilitates the implementation of projects and programs at the local level, in addition to representing its members in national policy dialogue.

PRSC 7 directly supports women by defining institutional responsibilities for the implementation of the Gender Equality Law and the monitoring of gender equality. Although SIPRP V does not include policy actions in the gender area, its two policy actions related to health insurance premiums and participation in the voluntary pension program directly address the health care and economic disadvantages of women, especially among the ethnic minorities.

☐ Gender plan      ☐ Other actions/measures      ☒ No action/measure

### III. SOCIAL SAFEGUARDS AND OTHER SOCIAL RISKS

Issue	Significant/ Limited/ No Impact	Strategy for Addressing Issue	Plan or Other Measures Included in Design
<b>Involuntary Resettlement</b>	No Impact	<p>SIPRP V will have no investment component, and no involuntary resettlement impact is expected. Neither PRSC 7 nor SIPRP V covers policy areas that directly relate to resettlement.</p> <p>However, under previous PRSCs, a regulation was issued by the Government to address resettlement. Decision 33 provides policy support for the resettlement of ethnic minorities in 2007–2010. These policies include community support (infrastructure investment, cash subsidies for land compensation, staff) as well as support for individual households (land assignment, cash subsidies).</p> <p>In 2006, ADB and the Committee for Ethnic Minorities completed a joint situational analysis of resettlement policies in the northern mountainous areas. This study was used in the preparation of PRSCs 6–7.</p>	<input type="checkbox"/> Full <input type="checkbox"/> Short <input type="checkbox"/> Resettlement framework <input checked="" type="checkbox"/> None
<b>Indigenous Peoples</b>	No Impact	The redesigned program for socioeconomic development in communes faced with extreme hardship in ethnic minority and mountainous areas (2006–2010), known as program 135–phase 2, supports	<input type="checkbox"/> Plan <input type="checkbox"/> Other action <input type="checkbox"/> Indigenous peoples framework <input checked="" type="checkbox"/> No action

		<p>socioeconomic development in about 1,644 of the country's poorest communes and 2,500 of its poorest villages, through a combination of rural infrastructure, production and livelihood enhancement, and institutional capacity-building services.</p> <p>PRSC 7 covers two policy areas with direct impact on ethnic minority poverty. First, tuition fees at the secondary and tertiary levels will be reviewed and made to better reflect market conditions, and policies will be strengthened to protect the poor. The measures to be carried out in this regard include the application of (i) the lowest fee level in remote areas, where most of the ethnic minorities live; (ii) scholarship grants of up to 80% of the minimum wage, for students from poor and ethnic households; and (iii) concessional credit for students. The ethnic minorities will directly benefit from increased financial assistance for secondary and tertiary education. Second, the health insurance premium paid on behalf of the poor will be increased and a partial subsidy will be extended to the near-poor. Ethnic minorities will benefit somewhat more than the rest of the population because the proportion of the poor and near-poor is generally higher among ethnic minorities than among the ethnic majority. Health insurance premiums for the poor increased in 2008. Near-poor households receive 50% health insurance subsidy from the Government.</p> <p>SIPRP V covers assistance for health insurance but not education fees. Therefore, it has a direct impact on the ethnic minorities only through subsidized health insurance. SIPRP V has an indirect effect on the reduction of poverty among ethnic minorities by supporting other policy reforms.</p>	
<b>Labor</b> <input checked="" type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	No Impact	PRSC 7 and SIPRP V support policy areas that will promote business development and generate new job opportunities.	<input type="checkbox"/> Plan <input type="checkbox"/> Other action <input checked="" type="checkbox"/> No action
<b>Affordability</b>	No Impact	<p>Decision 134 issued by the Government defined a set of policies for assisting ethnic minority poor households in the form of production land, housing, and water. So far, more than D2.0 trillion has been spent on these three forms of assistance.</p> <p>Furthermore, the Government approved a second phase of the Hunger Eradication and Poverty Reduction Program and program 135 through 2010. These targeted programs</p>	<input type="checkbox"/> Action <input checked="" type="checkbox"/> No action

		will benefit directly poor mountain communes and villages, and eventually poor households.	
<b>Other Risks and/or Vulnerabilities</b> <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input checked="" type="checkbox"/> others (conflict, political instability, etc.), please specify	No Impact	<p>Macroeconomic instability and high inflation have been main concerns since the start of 2008. Given the unchanged incomes and the rapid increase in the prices of foods and foodstuffs, the real purchasing power of many households, especially the poor households, has been significantly reduced.</p> <p>The Government has implemented a policy package, including tighter monetary and fiscal policies, to stabilize the economy. The situation improved in June and July but is still fragile. In addition to short-term factors, structural factors also contribute to the deterioration of macroeconomic environment.</p> <p>PRSC 7 and SIPRP V, supporting the medium- and long-term policies of the SEDP, will have a positive impact on the stabilization of the economy and social protection.</p>	<input type="checkbox"/> Plan <input type="checkbox"/> Other action <input checked="" type="checkbox"/> No action
<b>IV. MONITORING AND EVALUATION</b>			
Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during program implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			

ADB = Asian Development Bank, OSS = one-stop shop, PRSC = poverty reduction support credit, SEDP = socioeconomic development plan, SIPRP = Support for the Implementation of the Poverty Reduction Program.



## POTENTIAL ENVIRONMENTAL IMPACT MATRIX FOR SUBPROGRAM 1

Reform Areas and Policy Actions	Potential Environmental Impact	Mitigation/Enhancement Measures
<b>Business Development</b>		
1. Assess the scope and nature of lending and other transactions among affiliated parties within economic groups and general corporations	<b>No impact:</b> This policy action is not expected to have any environmental impact.	<b>Mitigation measures:</b> None required.  <b>Enhancement measures:</b> None required.
2. Approve equitization plans, allowing the participation of strategic investors, for two SOCBs and complete the equitization of one of them	<b>No impact:</b> This policy action is not expected to have any environmental impact.	<b>Mitigation measures:</b> None required.  <b>Enhancement measures:</b> None required.
3. Issue a road map to enhance bank supervision, including off site supervision and risk management tools	<b>No impact:</b> This policy action is not expected to have any environmental impact.	<b>Mitigation measures:</b> None required.  <b>Enhancement measures:</b> None required.
4. Rationalize incentives related to enterprise income tax and simplify tax procedures for household businesses	<b>No impact:</b> This policy action is not expected to have any environmental impact.	<b>Mitigation measures:</b> None required.  <b>Enhancement measures:</b> None required.
5. Raise the cap on shareholdings by a single foreign investor in unlisted companies	<b>No impact:</b> This policy action is not expected to have any environmental impact.	<b>Mitigation measures:</b> None required.  <b>Enhancement measures:</b> None required.
6. Separate power transmission and generation assets and regroup transmission assets under a single National Power Transmission Corporation	<b>Minor positive impact:</b> The separation of power transmission and generation assets generates opportunities to improve the environmental management of these assets.	<b>Mitigation measures:</b> None required.  <b>Enhancement measures:</b> The mandate and operating systems of the National Power Transmission

Reform Areas and Policy Actions	Potential Environmental Impact	Mitigation/Enhancement Measures
	<p>At the central level Electricity of Viet Nam (EVN) has relatively good environmental management capacity. However, such capacity is less among power transmission companies and management boards. Few members of the staff in these entities have had formal training in environmental management, and environmental considerations are often overlooked in the development and operation of assets in favor of technical and financial considerations.</p> <p>Prime Minister's Decision 163/2007/QĐ-TTg of 22 October 2007 requires the newly formed National Power Transmission Corporation to abide by government regulations relating to environmental protection and natural resource management. However, it contains no mention of the specific environmental management responsibilities of the corporation.</p> <p>The strengthening of environmental management responsibilities in the mandate and operating systems of the National Power Transmission Corporation and the implementation of environmental management institutional strengthening activities, to build on those activities already carried out within EVN would help ensure improved environmental management outcomes for the implementation and operation of power transmission infrastructure.</p>	<p>Corporation should include environmental management responsibilities. To this end, an environmental management system, in line with national environmental quality standards 14001:2001 or similar standards, could be adopted.</p> <p>Environmental capacity-building activities should be implemented within the National Power Transmission Corporation.</p> <p>Adequate financial, technical, and human resources should be provided to the National Power Transmission Corporation to allow it to effectively carry out its environmental management functions.</p>
<b>Social Inclusion</b>		
7. Increase the health insurance premium paid on behalf of the poor and partially subsidize the near-poor	<b>No impact:</b> This policy action is not expected to have any environmental impact.	<p><b>Mitigation measures:</b> None required.</p> <p><b>Enhancement measures:</b> None required.</p>

Reform Areas and Policy Actions	Potential Environmental Impact	Mitigation/Enhancement Measures
<b>Natural Resource Management</b>		
8. Allocate institutional responsibilities for integrated river basin management	<p><b>Major positive impact:</b> Successful integrated river basin management could result in significant environmental, economic, and social benefits throughout the country through the improved management of natural resources alongside social planning and economic development considerations.</p> <p>Several river basin management initiatives are currently being undertaken with funding from ADB and other development agencies.</p> <p>Until recently, however, the division of responsibilities for integrated river basin management was unclear, with both MARD and MONRE undertaking components of this work. This lack of clarity compromised the efficiency and effectiveness of river basin management activities.</p> <p>Decrees 01/2008/ND-CP of 3 January 2008 and 25/2008/ND-CP of 4 March 2008 transferred the responsibilities for river basin management from MARD to MONRE.</p> <p>The allocation of clear institutional responsibilities within MONRE will be a critical component of the effective development and implementation of future activities. Adequate resources and capacity are required within MONRE to ensure that the outcomes of such activities are optimized.</p>	<p><b>Mitigation measures:</b> None required.</p> <p><b>Enhancement measures:</b> Ensure that adequate capacity exists within MONRE to implement its integrated river basin management responsibilities. Ensure that MONRE is provided with adequate financial, technical, and human resources to carry out its decreed responsibilities.</p>
<b>Governance</b>		
9. Establish a list of indicators, data sources, and a reporting mechanism for the monitoring of SEDP 2006–2010	<p><b>Minor positive impact:</b> Previous SEDPs and associated monitoring systems had only limited reference to environmental issues.</p>	<p><b>Mitigation measures:</b> None required.</p>

Reform Areas and Policy Actions	Potential Environmental Impact	Mitigation/Enhancement Measures
	<p>Decision 555/2007/QN-BKH of the Government of 30 May 2007 adopts a results-based monitoring and evaluation framework for the implementation of SEDP 2006–2010. This framework includes objectives, targets, and indicators for the monitoring of environmental issues structured around the following broad themes: sustainable use of land, forests, and water; reduction of pollution and environmental degradation; and sustainable development.</p> <p>The monitoring system for environmental issues is detailed and comprehensive for some themes (such as forestry) but overly general and lacking in ease of measurability for others (such as reduction of environmental pollution).</p> <p>Overall, however, the inclusion of such issues in the SEDP monitoring framework represents an important step in the recognition of the relationship between the environmental, social, and economic aspects of national development.</p> <p>The improvement of the monitoring and reporting system for SEDP implementation could result in minor positive environmental benefits. The ongoing development of the system, including the refinement of indicators and mechanisms for measurement, will result in an improved knowledge base for environmental issues.</p>	<p><b>Enhancement measures:</b> Undertake ongoing refinement and review of the environmental components of the monitoring and evaluation framework for SEDP 2006–2010.</p>
10. Issue regulations on the content and timing of disclosure of State Audit of Viet Nam reports, including audit reports of individual entities	<p><b>No impact:</b> This policy action is not expected to have any environmental impact.</p>	<p><b>Mitigation measures:</b> None required.</p> <p><b>Enhancement measures:</b> None required.</p>

<b>Reform Areas and Policy Actions</b>	<b>Potential Environmental Impact</b>	<b>Mitigation/Enhancement Measures</b>
11. Extend the “one-stop shop” (OSS) mechanism to all ministries and agencies and introduce an interlinked OSS mechanism to further simplify administrative procedures	<b>No impact:</b> This policy action is not expected to have any environmental impact.	<b>Mitigation measures:</b> None required.  <b>Enhancement measures:</b> None required.
12. Implement the asset declaration requirement in regard to senior officials and their immediate families, with penalties for noncompliance	<b>No impact:</b> This policy action is not expected to have any environmental impact.	<b>Mitigation measures:</b> None required.  <b>Enhancement measures:</b> None required.

ADB = Asian Development Bank, EVN = Electricity of Viet Nam, MARD = Ministry of Agriculture and Rural Development, MONRE = Ministry of Natural Resources and Environment, OSS = one-stop shop, SEDP = socioeconomic development plan.

Source: Asian Development Bank.