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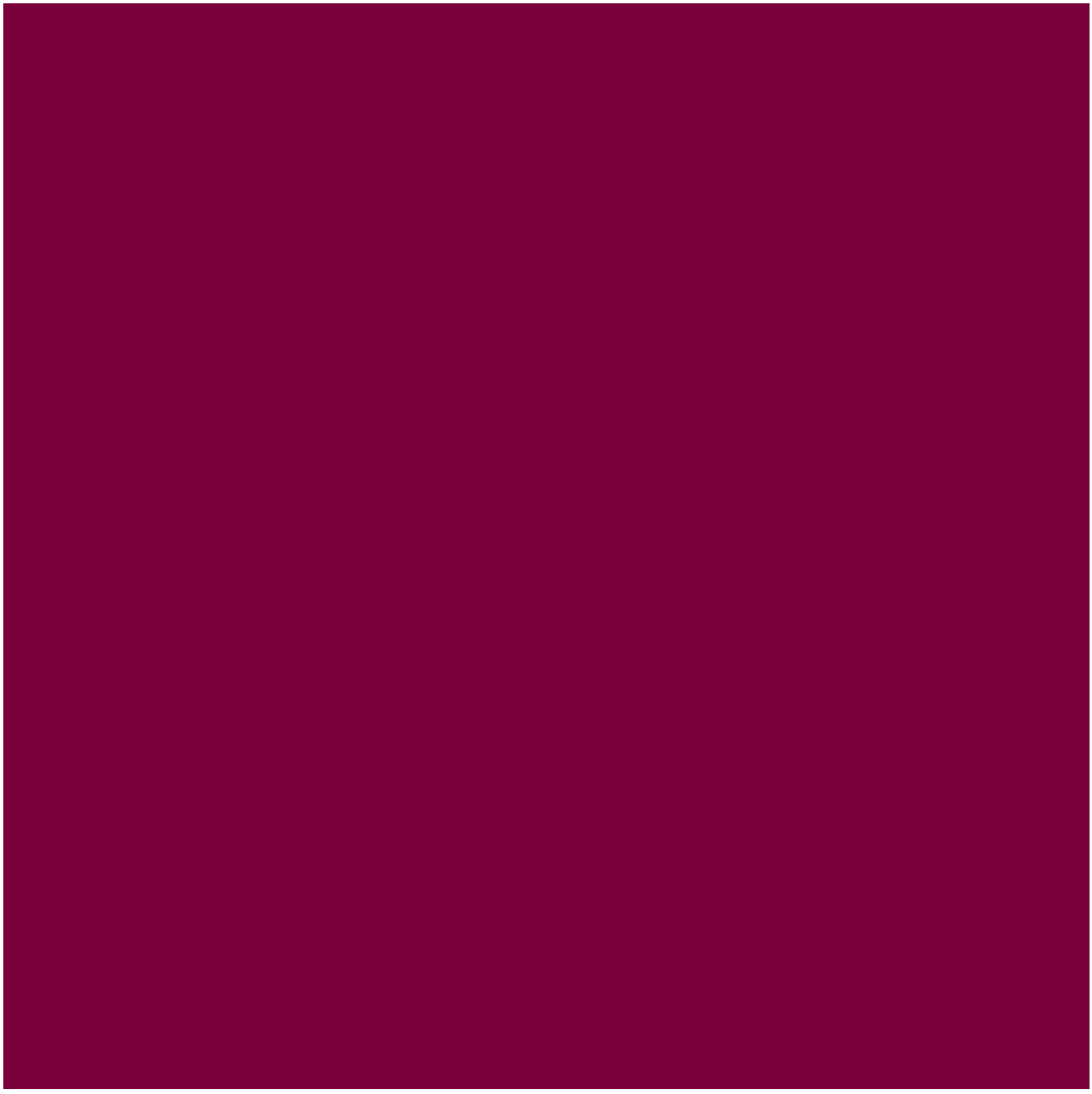
Country Analysis

Vietnam



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KEY INDICATORS – VIETNAM 2001

Population	79.5 million
Land area (sq m)	325 490
Population growth (annual %)	1.27
Population density (people per sq m)	244
Infant mortality rate (per 1000 live births)	27.5
Life expectancy at birth. female (years)	71.5
Life expectancy at birth, male (years)	66.7
Life expectancy at birth, total (years)	69.1
Literacy rate, adult female (%)	91.7
Literacy rate, adult male (%)	95.6
Population below poverty line (%)	29
GDP (million USD)	32 900
GDP per capita (constant 1995 USD)	372
GDP per capita (PPP)	2130
GDP growth (annual %)	6.8
Inflation (annual %)	2.9
Gross Domestic Savings (% of GDP)	25.1
Gross Domestic Investment (% of GDP)	30
Aid per capita (current USD)	21
Debt service ratio (debt service/exports %)	11
Public health expenditure (% of GDP)	0.8
Public education expenditure (% of GDP)	3.9
Access to safe water (% of population)	56
Carbon Dioxide Emissions (tons/capita)	0.57
GDP/energy use (PPP/kg oil equivalent)	4.1
Female MPs (%)	27.3
Female ministers (%)	10
HDI	0.688 (rank 109)
HPI value	27.1 (rank 43)
Gross Domestic Investment	0.687
Freedom House Index	7.6 NF
Corruption Perception Index	2.4 (rank 85)
I-PRSP	2001
PRSP	May 2002

GDP = Gross Domestic Product
PPP = Purchasing power parity
HDI = Human Development Index
HPI = Human Poverty Index
MP = Member of parliament
I-PRSP = Interim Poverty Reduction Strategy Paper

1. Overview of trends

1.1 Political Situation

The most striking feature that emerges from a comparison of Vietnam today with the Vietnam of 1998 – when Sida published its previous Country Analysis, which served as a basis for the Country Strategy 1999–2003 – is the present stability of the system. Although many important decisions have been taken, the major development problems and challenges remain the same.

The one-party system and the resulting monopoly power of the Communist Party of Vietnam (CPV) is laid down in the Constitution and not openly questioned. Most of the general populace appear to be little interested in politics: whether they are governed by one or several political parties seems to make little difference, except to some politically active individuals and groups outside Vietnam. The gradual shift to a market economy has so far satisfied the average citizen's quest for a higher income and an improved living standard[1]. Reform policies, though, are always constrained by the aim to preserve and strengthen the position of the CPV.

The Vietnamese society is, however, more complex than the one-party system would suggest. Although state leaders often still use the old Marxist-Leninist terminology about party building and revolutionary goals, the country has become much more open to new ideas and international influence. Vietnam has also become more active on the international scene, which is illustrated by a lively exchange of visits on all levels. The many different internal forces of impact and power operate in a less transparent way than in a Western democracy.

The conflicts during the war still play an important role. For the younger generation, the stand taken by their parents during the war sometimes has a greater impact on the career opportunities available to them than their actual qualifications. The gaps between North and South still remain – in political, cultural, and economic terms – even though they have narrowed. The overseas Vietnamese who fled the war – the so-called *Viet Kieu* – are officially welcomed back, and there are clear signs that they not only are returning in increasing numbers but are making substantial investments in the country as well.

[1] In an international survey conducted by the Pew Research Centre concerning people's future expectations in 44 countries, the Vietnamese were found to be the most optimistic (*International Herald Tribune*, December 5, 2002).

The Ninth Party Congress in April 2001 approved a 10-year Socio-Economic Development Strategy with ambitious targets in all areas. A new general secretary, Mr. Nong Duc Manh, former Speaker of the Parliament, was elected and widely expected to breathe some new life and dynamism into party politics. Other top-level changes were made: the Politburo and Central committee were trimmed and the role of the military was reduced.

The Vietnamese system officially perceives itself to be democratic. The party has also designed rules to enable feedback into policy-making through, for instance the mass organisations. Important decisions are taken through consensus building, after lengthy consultation with various stakeholders. In addition, the provinces have operated independently in terms of power, contrary to the centrally controlled ideal.

The Party and the Government are seriously committed to listening to questions and complaints from the people and are willing to respond to many demands. As a reaction to peasant dissatisfaction in Thai Binh in 1997–1998, the Grassroots Democracy Decree was passed in 1998. Moreover, "fence-breaking" activities or daily resistance has generally taken place throughout the period, which often has led to reform measures.

But it should at the same time be noted that the basic aim is to *explain* the policy and to avoid complaints from citizens. Individuals and groups with their own political objectives are not tolerated. National unity is the overall goal, and the political decision-making system is basically a top-down process. Vietnam is still not an open society. People are cautious when they express their opinions, and many issues are considered too sensitive to discuss.

The present policy is in favour of transparency, and much progress has been made in the area of publicising laws, decisions, statistics, and so on. Public officials and institutions are held accountable to a greater degree than before. But there is no room for open debate, since no questioning of what is considered the foundations of society is accepted. As examples, no debates on social and political alternatives are allowed at the universities, in cultural circles, or in the media.

The Vietnamese system produces many laws, decisions, and decrees. Implementation is very slow, however, due to consensus building, the high level of local autonomy, and the lack of information and capacity. Policies and strategies are often formulated in terms of detailed quantitative targets, and leaders are continuously urging people and local authorities to increase their efforts to achieve these. There is an obsession with figures, which are normally questionable due to the weak statistical base.

The most fundamental policy changes during the last 5 years are the decisive commitment to international economic integration and the full acknowledgement of the role of the domestic private sector. Even though opposition to these issues still exists within the CPV, the changes thus far made are probably irreversible. Implementation has, however, just started and will involve adjustments that sometimes have negative social effects, which may increase internal conflicts over policy directions.

The slow and complex process of building consensus to make a decision, which is a major factor behind Vietnam's stability and manifested unity, may be a major obstacle in achieving the optimistic

social and economic targets that have been set. The process is not transparent and sometimes seemingly contradictory. For example, although the highest level of government has expressed full commitment to international integration and trade liberalisation, new forms of subsidies and protection for domestic industries are being introduced. This lack of predictability is probably one major reason why foreign investors' confidence has not been fully restored after the Asian economic crisis in 1997–1998. In the coming 5-year period, these problems will become more apparent as tariffs are liberalised within the ASEAN [Association of Southeast Asian Nations] Free Trade Area (AFTA) and Vietnam seeks admittance to the World Trade Organisation (WTO).

Vietnam continues to expand its international network with an emphasis on economic and trade relations. Many high level visits have taken place lately with powers such as the United States, China, Russia, Japan, India, and the countries in the European Union (EU). Relations with the United States were largely restored during former president Clinton's visit in November 2000. However, Vietnam's economic and trade relations with other ASEAN members and Australia are given greater priority than those with the United States, and Vietnam is seeking a larger role in multilateral fora. Vietnam hopes to be granted WTO membership in 2005 and is campaigning for a seat on the United Nations (UN) Security Council in 2008–2009. The country has also been voted into the governing bodies of many other UN agencies and plays active roles within the ASEAN and the Asia Europe Meeting (ASEM).

Vietnam and China have a few unsettled border issues in the South China Sea, but there seems to be no urgency in resolving them in the near future. The land border between the two countries is now being demarcated, and the process may be lengthy. It is generally assumed that the growing economic and military might of China is a contributing factor behind Vietnam's endeavours to be on a friendly footing with all nations, including antagonists like North and South Korea and Israel and Palestine. There are also unsettled border issues with other nations in the region, but they have been left pending. Vietnam plays a major role in Laos and Cambodia and has offered to assist Myanmar in its efforts to gain international acceptance.

Vietnam presently enjoys considerable goodwill and positive interest from the international community. The country is considered to have put development resources to good use (despite rather wide-spread corruption) and to be a promising market for exports and investments. Serious concerns about the human rights situation are often raised by the EU and by many countries in their bilateral dialogues with Vietnam, but deficiencies in this area have so far not deterred donors and business partners.

1.2 Poverty

Vietnam has been successful in reducing poverty in terms of material and social conditions in recent years. The incidence of poverty – using the *international poverty line* (see Box 1 for an explanation of the poverty lines in Vietnam) – was reduced from 58% in 1990 to 37% in 1998, and estimates suggest a reduction to 29% in 2002[2]. In terms of improvements

for the poorest segments of the population, Vietnam has witnessed a reduction in food poverty since the early 1990s.

The main reason for such remarkable progress has been the broad-based policy and institutional reform process known as *doi moi*, which has been initiated, led, and managed by the Vietnamese since 1986. In addition, Vietnam's long-standing socialist orientation has probably contributed to translating economic growth into improved human well being.

However, Vietnam still has around 25 million poor people and a gross domestic product (GDP) per capita of USD 440 in 2002[3]. The country ranks 141 among the countries in the world, up from 197 in 1990. According to Purchasing Power Parity (PPP), Vietnam moves up to 129 and in terms of the Human Development Index (HDI), Vietnam ranks 109. It should be noted that the income of a large proportion of the population lies just above the poverty line. Approximately 90% of Vietnam's poor live in rural areas and are largely dependent on income from agriculture. Typically, these people have small landholdings or are landless. They are particularly vulnerable to economic crises, caused for example by natural disasters and ill health; by the vagaries of the seasons; and by the effects of environmental degradation. Ethnic minorities represent 14% of the national population and 29% of the poor. The poorest regions are the Northern Uplands, the North Central Region, and the Central Highlands. Severe poverty is also found in the Mekong Delta.

Poverty lines in Vietnam

The *international poverty line* is based on the Vietnam Living Standards Survey (VLSS) undertaken in both 1992/1993 and 1997/1998 by the General Statistical Office (GSO) with support from UNDP and Sida. This poverty line includes the minimum consumption level of both food (70%) and non-food items (30%). Taken together, the poverty line amounts to the equivalent of USD 109 and USD 128 per capita per year in 1993 and 1998 respectively (using the nominal exchange rates). This poverty line is not directly comparable to the poverty line of USD 1 per person per day (in terms of Purchasing Power Parity). A new household survey is underway, and results are expected at the end of 2003.

The *national poverty line* is determined by the Ministry of Labour, Invalids, and Social Affairs (MOLISA). Throughout the 1990s it was set at the income equivalent to buying 15 kg, 20 kg, and 25 kg rice per month in remote, rural, and urban areas, respectively. To broaden the definition of poverty and to allow more households access to government anti-poverty programmes, MOLISA recently decided to raise the poverty line in these three areas. Under certain conditions, provinces and cities are authorised to raise the poverty line. Due to the raising of the poverty line, the poverty estimate was adjusted from 11% in 2000 to 17% in 2001. The government target for the reduction of poverty by 2010 (10%) is based on the new poverty line.

[2] *Taking Stock*, Report to the Mid-year Consultative Group Meeting 2003

[3] This figure is probably an underestimate due to insufficient coverage of informal activities

Vietnam has experienced growing inequalities during the last decade, especially between rural and urban populations, between ethnic minorities and the majority kinh people, between women and men, between poor and wealthy regions and provinces, and within the growing cities. This has been confirmed by various sources. For example, the ratio of incomes between the 5% of households with the highest incomes and the 5% with the lowest was 20:1 in 2002 compared with 15:1 in 1996[4]. The Gini Coefficient also appears to have risen significantly[5]. It should be noted, however, that increased differences in income are not automatic effects of economic growth since there is no clear link between the rate of economic growth and the change in the Gini coefficient for various provinces.

While income poverty has been reduced, progress to reduce poverty in terms of lack of power, opportunities, and security is more mixed. Steps have been taken to increase participation at the local level, but there are as yet shortcomings in protecting rights which are crucial for people's ability to avoid or move away from poverty. Vietnam performs well according to many indicators of gender equality in areas such as education and health, but inequalities still exist concerning power and opportunities. Domestic violence is prevalent, and women find it more difficult than men to gain rights to land and to access health services. Women also have much less influence in public decision-making than men.

The easy gains made in poverty reduction in Vietnam up to now will probably not be repeated since most of the positive effects of the initial economic reforms have been exhausted. It will require great effort for Vietnam to fulfil its objective of substantially reducing poverty in the future, even if economic growth remains high. The remaining poor in the country tend to be more isolated than the main body of the population – not only geographically, ethnically, linguistically, and socially but also in terms of access to information. The initial results from the Vietnam Living Standards Survey 2002 also indicate that the pace in raising living standards in recent years has slowed down.[6]

Vietnam's achievements in human development in social areas stand out from those made by other low-income countries. Common aspects of human development such as literacy rate, education enrolment rate, and life expectancy are much higher than in countries with an income level similar to that of Vietnam's. With this in mind, some indicators still point to severe problems, for example:

- Income disparities are large and increasing. GDP per capita in the richest provinces is more than 10 times the GDP per capita in the poorest provinces.
- Ethnic minorities face the greatest difficulties in overcoming poverty, and about 75% of this group live under the international poverty line.

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[4] *Vietnam's Economy in 2002,* CIEM 2003.

[5] This is concluded in the National Human Development Report 2001. However, this is disputed by the World Bank which, in the *Vietnam Development Report 2003*, states that inequality measures such as the Gini Index have remained constant throughout the 1990s.

[6] *Vietnam's Economy in 2002,* CIEM 2003.

- Despite high primary school enrolment rates, drop-out rates are still high. Around one-third of all children who enter grade 1 do not advance to grade 5. Almost 70% of the drop-outs are girls.
- Child malnutrition remains a serious problem. One-third of all children under the age of five are underweight.
- Only 28% of people in the 12 poorest provinces have access to safe water.

1.3 Democratic Governance

The trend in the field of *Human Rights* has been mixed. Vietnam's record of safeguarding economic, social, and cultural rights is in some areas impressive, in others less so. Although a signatory party to the UN conventions on civil and political rights, Vietnam does not safeguard fundamental human rights such as the freedoms of opinion, assembly, and association. The long-term trend, however, is positive and heading towards a higher degree of openness in the society. Human rights are receiving greater acceptance, both in court procedures and in the making and implementation of laws.

As regards *Democratisation and People's Participation*, the record of accomplishment is also mixed. The political system of a one-party state remains incompatible with the universal definition of democracy. Most civil society associations are controlled by the mass organisations under the umbrella of the Fatherland Front, which is closely associated with the Communist Party of Vietnam (CPV). The Party has responded to the increasingly critical citizens with more transparency and reform, of which Decree 29 on improved grass-roots democracy is one interesting initiative. However, repression still occurs, as exemplified in the tight control of minority groups and villages who protested against the officials in the Central Highlands in 2001.

An interesting development – which at least contains the seeds of a challenge to the party's monopoly on power – is the strengthening of the National Assembly (NA). The NA, in its role of a representative authority, has become more and more powerful. Vietnamese people have shown interest in the NA meetings, which are often broadcast live on television or over the radio. Questions posed by Parliament members to leaders of the government and other state authorities are given special attention. Meetings on new events and other vital issues have regularly been organised between local people and NA members and have been characterised by frank dialogues. Specialised committees of the NA have been effective in advising the NA on issuance of legal documents and decisions on basic issues in the country.

Major obstacles to an independently functioning media are the monopoly of the media by the state, the self-censorship caused by strict political control, and the poor quality of the journalism.

Good Governance is perhaps the most difficult area to assess. Although legislation in many cases is quite progressive, conflicting regulations and a lack of transparency complicate the implementation of new legislation and result in overall unpredictability. The relative independence of the provinces and the ensuing lack of stringency and uniform application of laws contribute to these difficulties. The government has begun to address these shortcomings in the legal system, public administration, and public

finances through comprehensive reform programmes. Corresponding initiatives for reform in the political sphere, however, are sparse.

The political monopoly of the CPV remains intact, and the unclear division between government and party is one of the main reasons for the shortcomings in the realm of good governance. Since the *doi moi* reform was launched in 1986, the government has loosened its grip on society, foremost in the economic sphere. The process of economic liberalisation is difficult to reverse. It is an oft-heard statement that it is only a matter of time before the demands of economic freedom spill over into demands for greater political liberty. Be that as it may, the pivotal question is how the Communist Party will manage to absorb and respond to these demands. Clearly, the Party's legitimacy is intimately linked with a prospering economy that has the ability to create ever better living conditions for the people.

2. National Poverty Reduction Policies and Programmes

2.1 National strategies and programmes

A number of national strategies were approved by the Ninth Congress of the CPV in April 2001. The most important are the Strategy for Socio-Economic Development 2001–2010 (SEDS) and the 5-year Socio-Economic Development Plan 2001–2005. The Government has also formulated a 10-year Hunger Eradication and Poverty Reduction Strategy 2001–2010. In addition, a number of sector-specific strategies have been presented.

Overall development strategy is defined in the 10-year SEDS, 2001–2010. The basic objectives of this strategy are

"To bring our country out of underdevelopment; improve noticeably the peoples' material, cultural and spiritual life; and lay the foundations for making ours basically a modern-oriented industrialised country by 2020. To ensure that the human resources, scientific and technological capacities, infrastructures, and economic, defence and security potentials be enhanced; the institutions of a socialist-oriented market economy be basically established; and the status of our country on the international arena be heightened."[7]

The development approaches outlined in the SEDS are:

- To ensure rapid, efficient, and sustainable development, and to ensure that economic growth and improvements in social progress and equity and environmental protection occur together.
- To consider economic development the central task, and the synchronised laying of foundations for an industrialised country an urgent requirement.
- To step up the renovation process by generating a driving force for releasing and promoting all resources.
- To closely link the building of an independent and autonomous economy with proactive international economic integration.
- To closely combine socio-economic development with defence and security.

[7] *Strategy for Socio-Economic Development 2001–2010*, The Communist Party of Vietnam, Central Committee, April 2001.

Under these approaches, a number of specific targets – for the economy as a whole and for different sectors – are set.

A number of documents cover environmental priorities, of which three are particularly relevant: the National Environmental Protection Strategy, 2001–2010; the National Environmental Action Plan, 2001–2005, and Agenda 21 "Strategic Orientation for Advancing Vietnam towards Sustainable Development". The first two documents have, however, not yet been approved by the Government, after more than 2 years of waiting.

The government has launched eight National Programmes for implementation of these strategies:

1. National targeted programme for Hunger eradication, poverty reduction, and job creation (HEPR)
2. National targeted programme for rural clean water and sanitation
3. National targeted programme for population and family planning
4. National targeted programme for prevention of social and dangerous diseases and Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/Aids)
5. National targeted programme for cultural development
6. National targeted programme for education and training
7. Targeted programme for socio-economic development of extremely disadvantaged communes (Programme 135)
8. Project for planting 5 million hectares of forest

The total budget for these programmes 2001–2005 is estimated at around USD 1 billion per year, of which 30 % will be financed from the state budget. The remaining funds are expected to come from local budgets, donor programmes, credits, and community contributions.

HEPR is the largest programme. Its resources have mainly been used for resettlement and subsidised credits for poor people. Programme 135 focuses on the poorest communes (2,325 communes are eligible for the programme). Its resources have mainly been used for investments in transportation, irrigation, electricity, and schools and for construction of commune-cluster centres. Programme 135 is the most important programme that targets poverty alleviation, but severe poverty also exists in many communes not covered by this programme.

Government expenditure for education and training was 15.5% of total state budget expenditure in 2000 compared with 12.5% in 1996. The figures for health expenditure were 5.8% in 1996 and 6.3% in 2000. The general policy is to further increase these shares, but no specific targets have been set. The Public Expenditure Review 2000 basically confirmed Vietnam's commitment to poverty reduction. The share of social expenditure (health, education, and social subsidies) of the total is around 36%. Both health and education spending has a pro-poor bias, and cash transfers to the poorer provinces also perform a re-distributive role. But concerns must be raised about the increased reliance on user fees and personal contributions, which can have a regressive effect.

Government expenditure on environment management is not categorised separately. However, a review by the World Bank estimated environmental expenditure at just less than 1% of the total[8].

[8] World Bank, *Vietnam Environment Monitor 2002*.

Vietnam's performance in poverty reduction over the past decade means that many of the Millennium Development Goals (MDGs) have already been met and that most are achievable by 2015[9]. Nevertheless, poverty and near-poverty remain widespread. the Government has therefore set its own "Vietnam Development Goals" (VDGs), which are based on the MDGs but adjusted to the local situation. The VDGs also cover additional areas such as governance and ethnic minorities (see Annex 1).

The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) is considered an action plan that translates the SEDS, the 5-year Socio-economic Development Plan, and other sectoral development plans into concrete measures. The CPRGS is the most comprehensive strategy for poverty reduction in Vietnam, and all donors have agreed to use it as the basic framework for their development co-operation. It will therefore be given special attention in this country analysis.

It must be noted, however, that the CPRGS is still nearly unknown at the local level, even by the Provincial People's Committees. It is also not really correct to call it an action plan since it is very general and the actions proposed are already covered by other programmes. It has been written mainly for the donors. Still it can be used as a framework for dialogue and programmes since it focuses on new areas and introduces new concepts, including a bottom-up process of decision-making.

2.2 The Comprehensive Poverty Reduction and Growth Strategy[10]

The preparation of Vietnam's Poverty Reduction Strategy (PRS) was government led and renamed the Comprehensive Poverty Reduction and Growth Strategy to reflect Vietnam's ownership and determination to tailor the strategy to its specific needs, approach, and priorities – including a strong emphasis on economic growth as a primary vehicle for poverty reduction. The Prime Minister approved the CPRGS in May 2002.

The CPRGS process in Vietnam is widely perceived to have been country driven and strongly government owned. At all stages, the document was drafted first in Vietnamese and then translated into English. The lead responsibility for drafting the CPRGS has rested with the Ministry for Planning and Investment, but there has been wider participation with a broad range of stakeholders within and outside government. Yet, it must be concluded that participation at the local level – both official and among people – has been close to non-existent.

There is a broader concern as to how far the CPRGS, which has a 5-year time horizon (2001–2005), will be integrated into established planning and resource allocation mechanisms. It is as yet unclear how exactly the CPRGS relates to the existing 10-year SEDS for 2001–2010 and the various sectoral strategies that have developed out of the SEDS.

Unlike the SEDS, which was approved by the NA – the highest statutory authority in Vietnam – the CPRGS has been subject only to

[9] See
Bringing MDGs Closer to the People, UNDP 2002.

[10] This chapter is based on the analysis of the CPRGS, made by the Like-Minded Group of Donors (see Annex 2), and on the Human Rights Analysis by Kristina Hedlund Thulin (Annex 3).

approval by the Prime Ministerial. Some commentators consider this to be an indication of the inferior status of the CPRGS, although the annual socio-development plans, which will help bring CPRGS policies into implementation, will be debated and approved by the NA.

The CPRGS provides an overview of Vietnam's economic development and poverty reduction achievements over the course of the 1990s and proposes a comprehensive list of measures to continue this process. It recognises the multi-dimensional nature of poverty and the need for a multi-sectoral approach to both growth and poverty reduction. However, the CPRGS does not analyse the impact on poverty of some of the government's own policies, for example:

- The land use and allocation policy and the way it is implemented in practice (and the implications for access to credit).
- The policy of subsidising credit in poverty reduction programmes.
- The urban in-migration policy which restricts migrants' access to official registration (and documentation) and, as a result, to stable employment and basic services.
- The regressive effects of the so called socialisation policy (which means that individuals and communities shall contribute more to social services) and the inadequacy of exemption schemes for the poor.
- The continuing diversion of public funds to largely inefficient state-owned enterprises (SOEs).
- The fundamental lack of political competition.

A commonly voiced criticism of the CPRGS is that it is little more than a wish-list of ambitions which lacks prioritisation and sequencing and which gives no clear indication of how the Strategy's ambitions are to be translated into concrete plans for delivery. The investment priorities outlined in the Public Investment Programme (PIP) for 2001–2005 also appear inconsistent with the CPRGS. For example, the CPRGS's commitment to under-developed regions is not borne out in the PIP, which proposes the lowest levels of public investment in the poorest regions. As yet, there is little evidence that other resource allocations will be influenced by the CPRGS.

The Strategy takes a broad perspective on poverty reduction, and consequently also uses the broad definition of poverty. There is, however, a focus on material needs and thus income poverty. Issues of lack of opportunity and security are mentioned – for example in relation to education, participation at the local level, health, and safety nets – but in this regard the picture does not seem to be painted in full. The lack of security and influence of the individual, as manifested in violence, abuse, and other forms of discrimination and maltreatment by police and other authorities, is not addressed in the Strategy. From a rights-based perspective the CPRGS indirectly covers many areas, but there are gaps, especially in relation to the voice and influence of the poor and the lack of ways to ensure how the government and its staff are to be held accountable if obligations are not respected and of remedies if the strategy is not implemented.

Human rights as such are not mentioned in the Strategy. The focus is on needs – not rights – of the poor, and there is nothing in the document to imply that the Government of Vietnam (GOVN) considers itself under any obligation under international human rights law to carry out the measures described in the Strategy. Consequently, there are few references to follow-up measures and how the GOVN and its staff are to be held accountable if obligations are not respected. However, the Strategy shows that although the GOVN does not consider itself to be under any international obligation, it still considers that is has *responsibilities* in relation to the people in Vietnam to conduct public affairs in such a way as to reduce poverty.

With regard to the gender dimension, the CPRGS covers the gender issues fairly well. However, a more careful analysis shows that the integration of gender aspects varies depending on the area. Gender issues are raised in areas such as agriculture and rural development, education, and health care but are raised less or not at all in the sections on reform of SOEs, financial policies, legal support, culture and information, environment protection, and resource allocation for economic growth and poverty reduction. That gender is only associated with women issues and social sectors such as education and health, while being almost neglected in relation to economic development is a problem.

Finally, it is important to bear in mind that definitions of central concepts might vary greatly between countries and actors. Thus, the GOVN might have different interpretations than Sweden of such central concepts as participation, democratic governance, and access to rights. Therefore, again, the actual implication of the Strategy cannot be fully analysed until it has been further implemented.

2.3 Implementation and risks

Vietnam's CPRGS is to be welcomed. It demonstrates the GOVN's continuing commitment to reducing poverty and to leading its own development agenda, though in an inclusive and consultative way. However, the publication of the CPRGS is only the start of an on-going process to achieve and sustain poverty reduction. The challenge lies in translating policy into reality and in achieving tangible, positive outcomes for the poor – not only in meeting the circumstances of today but in responding effectively to the demands of the future.

Implementation of the CPRGS will require on-going work to translate it into local government plans and priorities adapted to Vietnam's different regional realities and to ensure sufficient capacity and resources are available at the local level for implementation. This will require communication vertically between the centre and provinces, and horizontally between ministries. Divergence in local capacity means that implementation of the CPRGS is likely to be uneven with poorer provinces less able to deliver and manage reforms despite their greater urgency in these regions.

Despite references to local democracy and capacity building – and the local consultations which formed a basis for much of the CPRGS – much greater recognition is required of the role which poor people can play as key stakeholders and active agents in the poverty reduction process. The CPRGS does outline a mechanism to encourage the participation of

people and civil social organisations in its implementation, monitoring, and evaluation. However, experiences from other countries show that poverty will not be sustainably reduced if the women and men who are poor are unable to participate fully in the process.

The Strategy seems to lack the understanding that poverty reduction will alter political and economic power structures, and thus is likely to be heavily resisted by the people who benefit from the present system. There is therefore a need for checks and balances and for the rule of law so that the poor have somewhere to turn when the plans are not being implemented as perceived in the comprehensive strategy. This in turn requires an easy flow of free information among people and the right to form groups so that the poor may support each other and get support from other groups in society. The latter freedoms of information, assembly, and association are not permitted in practice in Vietnam today. It remains to be seen to what extent the policy of the GOVN will be changed to make the implementation of the Strategy possible.

One potential risk that would have a high impact on reform is any slackening in the government's commitment to economic, legal, and administrative reform or to improving the enabling environment for private sector development. This risk, however, is low since the overall commitment to reform remains strong – even though commitment to some governance and SOE reforms is less clear – and international integration is driving some reforms.

On the other hand, the risk of failure to align government (and donor) efforts with CPRGS is high. Resources and policies may not be adjusted to reflect pro-poor priorities, and unco-ordinated efforts may reduce the growth and poverty reduction results of spending. Vietnam has a successful record of growth and poverty reduction, but the status of CPRGS as a planning document needs to be strengthened. The first post-CPRGS PIP only partly reflects a change in priorities, and CPRGS is broad, allowing donors to continue as before.

Another risk is insufficient capacity in government to implement an increasingly complex reform agenda. Spending patterns with less impact on poverty may remain, leading to continued divergence in growth and poverty reduction between regions. Government ownership of its development agenda is strong, but capacity is weak in some central ministries and most lower levels of government. There is also a risk of failure to integrate the disadvantaged into mainstream development efforts, which will continue to increase income and social inequality. The Government has expressed its intention to increase participation to include all citizens, but inequalities in programming remain. There is further a risk of failure to integrate environmental concerns into CPRGS implementation, which would lead to deteriorating urban and rural environments and accelerate the loss of biodiversity. Environment has not been well integrated into the CPRGS, but Vietnam is at present revising its strategy in this area.

While shocks such as natural disasters impact directly on vulnerable groups, economic shocks increase fiscal vulnerability. Such shocks directly affect poor people as well as fiscal stability, reducing resources for pro-poor expenditure and causing inflation, most disastrous for low-income peoples. Since the trend in natural disasters is clearly increasing, they

need to be explicitly considered in government plans – both in poverty alleviation and in investments in infrastructure. As to fiscal shocks, Vietnam proved to be fairly resilient in the previous Asian crises, but the country will need to broaden its fiscal base significantly in response to trade liberalisation.

Exogenous shocks – for example, changes in terms of trade, China's accession to the WTO, changes in the global environment for FDI, and external debt risks – may affect the attainment of ambitious targets. These could have a negative impact on economic growth in Vietnam. Exporters are vulnerable to changes in commodity and export prices and the poor are vulnerable to inflationary effects. The trend towards globalisation and openness means that vulnerability to changes in the global economy is increasing, but future growth – based more on Vietnam's comparative advantage – should reduce risks. The adjustment to a more global economy, however, will affect some groups of poor people negatively (see further 5.8).

3. Poverty Analysis

3.1 Introduction

This chapter does not attempt to make a full poverty analysis[11]. It relies mainly on the analysis in the CPRGS where the government identified some main causes of poverty and inequality in Vietnam[12]:

1. Limited and poor resources. Poor people lack many resources and tend to fall into a vicious cycle of poverty and lack of resources.
2. Low levels of education and insufficient and unstable employment.
3. A lack of conditions to access the law and no protection for their legitimate rights and interests.
4. Demography-driven causes such as household size. Such causes affect the average income level of households. The size of a household often depends on knowledge of and limited access to birth control and reproductive health protection measures.
5. High vulnerability to adverse impacts of natural disasters and other types of risks.
6. Gender inequality, which negatively impacts the lives of women and children.
7. Disease/morbidity and poor health.
8. Economic policies with negative impacts: inappropriate investment structures that do not target labour-intensive industries sufficiently, subsidy policies that are mistargeted, SOE reforms that lead to redundancies, transport infrastructure to remote areas that is insufficient and weak.

Below is an attempt to analyse further some of the major factors behind poverty, with special emphasis on areas where Sweden is actively involved.

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[11] The most comprehensive poverty analysis so far is the report *Attacking Poverty,* which was prepared by a joint Government-Donor group and presented to the CG meeting in 1999. It is based on the Vietnam Living Standards Surveys for 1993 and 1998 as well as on several Participatory Poverty Assessments. A similar report is being prepared for the CG meeting in 2003, but it was not available in time for the Country Analysis.

[12] *The Comprehensive Poverty Reduction and Growth Strategy,* 2002, page xx.

3.2 Population

The total population of Vietnam is 80 million. Vietnam has one of the highest population densities of any agriculturally based country in the world.[13] Population densities vary considerably throughout the country. They are highest in the Mekong and Red River delta areas and substantially lower in, for example, the northern mountains. The country's population growth rate has been declining for more than 20 years, and the 2001 rate of 1.35% is projected to decline to 1.07% by 2004, where it is expected to stabilise. The country has a young population with an estimated 41% of the population under the age of 20.

It was estimated that around 19 million people or 24% of the population lived in urban areas in 2001. The urban population is projected to increase to 33% of the population in 2010. Approximately 8% (about 1.5 million) of urban inhabitants in 2000 were classified as poor.[14] Many of the urban poor are migrants from rural areas and have difficulties obtaining resident permits in cites. Their children must stay in the province where they are registered to attend school or drop out of school if they accompany their parents.

The *doi moi* reforms facilitated – and in many ways depended on – a variety of migration flows. Differences in growth, and hence employment opportunities, and a less restrictive migration policy increased labour flows, both between rural and urban areas and within these areas. Not all migration is voluntary, however. In fact, movement and resettlements have very complex patterns in Vietnam, not least in the Central Highlands. Each year some 200,000–300,000 households are resettled. Resettlement and sedentarisation feature strongly in government policies relating to upland and ethnic areas. Since the late 1960s it has been a policy to move Central Highland communities from remote forest areas to lower land areas and shift their farming methods from swidden agricultural practices to fixed cultivation. Communities can also be displaced to make way for hydropower stations, dam development, and so on. Migration into the New Economic Zones has also been strongly encouraged. A reverse trend, where lowland Kinh are encouraged to move into the uplands, has over time aggravated land degradation and land conflicts there.

Resettlement schemes have sometimes had a destabilising impact on poor host communes, increasing land pressure and threatening traditional livelihoods. Major dam schemes potentially have negative impacts on poor, mountainous people and their environments; such groups of displaced communities have not always received their allocation of cultivable land as promised[15].

Poverty in Vietnam is to a large extent a question of the situation of the ethnic minorities, since they constitute one-third of the poor. This is sometimes given too much emphasis by the authorities, who might also have political motives. Awareness of the problems and the culture of

[13] Vietnam is fifth after India, Bangladesh, Rwanda, and Burundi. (*2001 World Development Indicators* for population per hectare and countries that derive more than 30% of GDP from agriculture.)

[14] Urban population figures are dubious. Unofficial urban migrants are frequently not counted by census takers because of their lack of registered residences. This would also indicate that the share of urban poor is underestimated, since a large part of these migrants are likely to be poor.

[15] *Promoting Ethnic Minority Development*, Poverty Task Force 2002.

ethnic minorities is, however, low. They are widely seen by the Kinh majority as being "backward" in their ways of living and cultivation. These views are a poor ground for promoting sustainable improvement in the conditions of the poor and ethnic minorities in particular.

3.3. Natural resources[16]

Land is a scarce resource in Vietnam, and lack of land is strongly related to poverty.

Only 28% of the land is arable, yet agriculture supports 78% of the population. Access to agricultural land is one of the primary determinants of rural poverty in Vietnam. Many of the poorest regions in Vietnam are those with the least amount of arable land (e.g. the northern mountains and central highlands).

One of the most important aspects of *doi moi* in rural areas was the disbanding of the earlier agricultural co-operatives and the initiation (in the late 1980s) of a process of allocating agricultural land back to individual households, including the issuance of land-use certificates. This, combined with the promotion of higher yielding varieties (mainly rice) and fertilisers, dramatically increased agricultural production during the 1990s, thereby increasing food security and reducing poverty in the rural areas. This change and the associated benefits are most clearly visible in the large delta areas and in the river valleys of midland areas, whilst production increases in remote upland areas – where paddy land is scarce – are much lower.

Important challenges remain, for example accelerating the slow pace of allocation of land-use right certificates, correcting distortions in urban land markets that lead to exorbitant land prices, and installing development methods and a legal base for flexible and diverse tenure systems in forest areas such as community-based forestry management and tenure regimes. From a gender perspective, one positive change is the legal obligation requiring the names of both spouses in a household to be recorded on land-use certificates, but not all rural populations and authorities are aware of this change and implementation has therefore been poor.

Efforts to allocate agricultural land equitably among households have resulted in the assignment of many small parcels of varying land quality to each household. This comparatively equitable distribution of some 95% of all cultivable land, together with market liberalisation, has played a critical role in the promotion of growth and higher living standards for the rural poor. However, as the population grows, land becomes more fragmented and subdivided, and for the young generation in particular, the increasingly smaller plot sizes now appear to be an inhibiting factor in further increases in living standards and reductions in poverty. Improvements relative to the inefficiency inherited from the former planned economy have largely been exhausted, and productivity gains in agriculture have slowed in recent years.

New dynamics and pressures for changes in the structure of land use are already emerging and visible. Agro-processing industries and other

[16] This is based partly on *Strategic Environmental and Sustainability Analysis of Vietnam* , Sida 2003.

commodity-producing industries – not the farming sector – will be the providers of job opportunities for the growing labour force in rural areas; competition for land from these developing sectors is increasing. Concerning land use, there is thus a need to balance the two equally important objectives of more dynamic development and improvement of the harsh conditions in which the poor earn their livelihood. It is therefore essential to establish secure and transparent land tenure systems with de facto protection of legal rights to land as soon as possible. Within such a system, the poor are more likely to avoid being over-exploited or taken advantage of.

Creation of a land market is important to increase security and efficient utilisation, but it may also contribute to the vulnerability of the poor who decide to sell their land-use certificates in distressed situations. The general perception is that the number of rural households with no or little land has increased, particularly in the Mekong delta. According to the General Statistics Office, 37% of the rural households in this area had less than 0.2 hectares of cultivable land, compared to 28% in 1994. Another study found that one-third of the landless cases were caused by land sales or mortgage losses. Other reasons for landlessness were the divisions of households and inherited landlessness[17].

Current measures to reduce landlessness include making loans available for buying back land. In cases of involuntary distress sales, and when the reasons for a distress sale may easily be mitigated, providing opportunities for redeeming land may be an appropriate measure. In other cases, however, landless households might benefit more if financial resources were used to create on-farm or off-farm employment opportunities or to invest in the human capacity of the household through training. To be landless need not by definition be negative. It becomes a strictly negative factor only if alternative income-earning opportunities are unavailable.

The issue of land – and land use – is highly relevant when addressing the particular problems facing the ethnic minorities. Large-scale, market-oriented production of one (or a few) commercial crops to maximise economic gains contradicts the traditional cultivation practices of the ethnic minorities. Such modern methods substantially increase the vulnerability of poorer households when their undiversified production system is confronted with sharp fluctuations in price.

The successes of the agricultural land allocation have led the Government to promote the allocation of "forest" land[18] areas to individual households. Experience so far, however, has indicated that this is a far more complicated task than was the allocation of agricultural land, with a higher risk of aggravating existing inequalities. One reason is that "forest land" tends to be allocated based on a household's "capacity" (interests, skills, commitment, number of labourers, and so on), which clearly risks favouring households that have more resources and are better off. In contrast, paddy land is generally very strictly allocated based on

[17] PRSC2 Document, World Bank 2003.

[18] The term "forest land" as used in the context of land allocation does not necessarily imply that the areas are covered with forests, but is more of a normative concept since it usually refers to sloping areas which may have been forested 20–50 years back but now are under various forms of shifting cultivation and /or used as grazing areas.

number of total persons in the households (that is number of "mouths" that need to be fed).

Further, in the highlands, competing demands of existing land users, including ethnic minorities, new coffee-growing migrants, and state forest enterprises cause problems when the traditional methods of land tenure by the ethnic groups are not understood and respected. Though the CPRGS mentions the possibility of collective land-use titles, the reference in the strategy to the implementation of fixed-cultivation and fixed-residence, restricting free migration and the establishment of concentrated population clusters[19], gives rise to concern.

While forest cover in Vietnam has increased in the last few years according to the official statistics, the quality of the forest continues to decline. Rich natural forest has dropped from almost 100% of forested areas a century ago to about 13% today.[20] At the same time, there is a high correlation between forest cover and poverty in Vietnam. This is largely a factor of forested areas being in remote, mountainous, and isolated areas where agricultural (that is paddy) land is scarce, access to markets limited, and livelihood options fewer. Agriculture in these areas is largely based on shifting cultivation on slopes, with a productivity that is far lower than in delta areas, and many households therefore depend on forest products.

Overall, it is forest-dependent livelihoods that thus form the key link between poverty and the environment in many rural areas of Vietnam. And it is forest quality and type (rather than extent of forest cover) that is important, because it gives an indication of the amount of resources that is potentially available to the poor in times of need. Degraded or destroyed forests or limiting access to forests (through, for example, the allocation of forests that were previously jointly accessed by individual households or through forest concessions or conversions to commercial crops such as coffee) can increase poverty in these communities.

The majority of Vietnam's land is classified as having degraded *soils*. Given the high dependence of Vietnam on agriculture, soil erosion and fertility are key issues. Persistent soil erosion decreases soil fertility with substantial negative economic implications for both subsistence farming and commercial farms. In addition, erosion has negative off-site impacts on hydropower and irrigation facilities. The rate of fertiliser production is increasing faster than grain production, suggesting that soils are further degrading. Causes of soil degradation are:

- reduced fallow time on sloping land under shifting cultivation (due to increased population pressure from population growth and resettlements).
- insufficient time for soils to regenerate.
- lack of appropriate cultivation and land use practices on sloping land.
- overuse of land mainly caused by monocultures such as continuous rice cultivation under high levels of fertilisers, ornamental flowers, and extensive, poorly managed tea plantations.

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[19] CPRGS, p 90§.

[20] *Vietnam Environment Monitor 2002*, World Bank, Vietnam, September 2002. Page 9.

The country's upland areas that have the highest percentage of poor people are likely to suffer most from soil degradation.

Both the cultivated and wild *biodiversity* play a critical role for particularly rural livelihoods. Preservation and sustainable use of the wealth of, for example, traditional rice varieties (which presently are disappearing at an alarming rate due to the official emphasis on promotion of high production from new varieties of seeds with little regard to quality) is fundamental for long-term food security and for securing a base for continued crop breeding. The biodiversity of the high-quality forests in Vietnam offers a wide variety of items that are beneficial to poor people, such as medicinal plants (often the only form of medicine in remote areas), fuel wood, building materials, edible plants, honey, rattan, and wildlife, which are crucial for both income and food.

Both wild forest and wild aquatic (freshwater and marine) resources are particularly important as a safety net for poor households, and ecosystems provide invaluable services, such as water harvesting and protection, water purification, soil formation, and pollination. Negative impacts from the deterioration of ecosystems on, for example, agricultural production, fish production, health, and water quality can already be seen in the rise of natural disasters and the decline in fish productivity in marine areas.

Current near-shore *fishing* practices are unsustainable. Intensive aquaculture (shrimp farming) in coastal areas, along with pollution from the spillage or discharge of oil, have resulted in negative impacts on critical coastal and marine ecosystems. This results in declining yields of fish and wild-caught shrimp and in degraded environmental services of coastal wetlands and mangrove forests such as water purification and siltation, which in turn leads to a further decline in breeding grounds as well as harms coral reefs.

Incomes among coastal fishermen are declining, and many are heavily in debt from boat and equipment purchases. This encourages the use of destructive fishing techniques such as explosives and small-mesh nets. The government's focus on high-value, intensive, coastal aquaculture exports puts many communities at risk both ecologically and economically. The degraded ecosystems increase vulnerability and reduce options for sustainable, long-term production. A global drop in export prices for shrimp due to oversupply would have a devastating impact on the livelihoods of coastal communities that were encouraged to invest in aquaculture.

Declining water quality has a disproportionate impact on the poor. They are the ones who can least afford the negative effects. While little more than half of Vietnam has access to safe water, the country is on the lower end regionally and globally where this is concerned. Improving access to safe water is one of the more cost-effective interventions for reducing poverty. At present, government policies provide insufficient environmental safeguards. The government's emphasis on "industrialisation and modernisation" has allowed many SOEs that use production processes with high levels of pollution to expand or continue to operate. The promotion of agricultural exports and government subsidies for fertiliser and pesticide use are underlying causes of the decline in surface and groundwater quality.

Mention the conflicts around water use, irrigation, hydropower development etc.

3.4 Natural disasters

Vietnam is one of the most disaster-prone countries in the world, and most of its natural disasters are directly or indirectly related to water. Floods, typhoons, droughts, mud-slides, and saltwater intrusions all happen regularly. The impact of natural disasters in Vietnam is increasing. The average economic loss due to natural disasters in the 1980s was US$29 million per year. In the 1990s, this increased to US$200 million per year[21]. At least in part, this is a result of the degradation of the natural resource base. The decline of the forest ecosystems that act as watershed protection areas increases the effects of flooding, while degradation of coastal ecosystems, for example, makes the country more vulnerable to typhoons and salt-water intrusion.

The CPRGS notes that one of the primary causes of poverty in Vietnam is the vulnerability of high numbers of poor people to natural disasters. An average of more than 1 million people in Vietnam need emergency relief each year due to natural disasters. Many of these people subsist just above the poverty line, and the impact of a flood or typhoon often pushes them back into poverty. The Vietnam Living Standards Surveys in 1993 and 1998 found that households that suffer from frequent natural disasters are likely to fall into deep poverty.

3.5 Education and training

The overall high enrolment rate in primary education is accompanied by equal access to education between boys and girls. But drop-out rates are high, especially for girls. There is a significant gender gap in secondary school, especially among children from ethnic minorities and within the poorest segment of society. Making financial contributions towards the children's education is difficult for many even though primary education is in principal free. Parental and community contributions are increasingly important to address high funding gaps and ensure a minimum standard of education. The policy of cost recovery – referred to as "socialisation" – aims to mobilise local resources to help finance the rising costs of basic service provision. "Socialisation", although intended for the urban and more affluent areas, also extends to poor areas where it adds to the burden of the poor and penalises their access to education and health[22]. As expected, enrolment rates are lower, drop-out rates are higher, and the percentage of students who continue on to the secondary educational level after finishing the primary level are lower in poor areas and among ethnic minorities than among the more affluent groups.

The Vietnamese school year of 33 weeks is very short by international standards, and only 10% of the children in Vietnam are in attendance during the whole of this time. Therefore, most primary students receive little more than half of the international norm for annual teaching time[23]. Families that can afford to do so provide their children with extra

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[21] *Strategic Environmental and Sustainability Analysis of Vietnam* (2003)

[22] See *Can I Afford to go to School Today?,* Oxfam GB (2002).

[23] *Human Capital of the Poor in Vietnam,* ADB (2001).

tutoring to prepare them for exams. The quality of education is also rather low on average, and ethnic minorities often get no education in their own languages. Vietnam lacks vocational training facilities adapted to the needs for growing off-farm employment in rural areas.

Women constitute over two-thirds of the entire illiterate population. Gender gaps are most accentuated amongst the poor ethnic minorities. Fewer women than men undergo vocational and technical training, and women therefore risk lagging behind in areas where skills in information technology and biotechnology are in demand. Women dominate employment in agriculture, yet men receive the majority of training in both livestock and cultivation.

3.6 Health

Vietnam has made impressive gains in its health indicators in recent decades. The general health status in Vietnam is much better than one could expect considering the level of economic development. This achievement is closely linked to the reduction in child and maternal mortality. The success is partly related to the wide network of health services contributing to the dissemination of health information, the prevention of diseases, and the effective implementation of health programmes. The health care system has for many years been a model for many other countries, in particular for primary health care services at the commune level.

Yet, some remaining health problems have not yet been effectively addressed. One-third of the children are still malnourished, and the children of the poorest fifth of the population saw no improvement in their survival prospects in the 1990s. Part of the reason for this can be found outside the health sector. A majority of the rural population does not have access to safe water supplies, and women and children in particular are exposed to high levels of indoor air pollution. The urban poor suffer disproportionately from air and water pollution because they often live in degraded areas with inadequate sanitation and waste collection, are least able to pay for medical treatment or buy clean water, and tend to work in jobs with higher health risks.

Many of the *doi moi* reforms have also affected the health sector. The communal health centres lost their financial base from the agricultural co-operatives and had a dramatic drop in patient visits. Meanwhile, reforms were implemented such as the introduction of user fees, the legalisation of private medical practice, and the deregulation of the retail trade in drugs and medicines. This resulted in rapid growth in the number of drug outlets and private providers. The combination of an unregulated private sector and a seriously underfunded public sector, however, led to unhealthy outcomes[24]: growing inequality between the poor and the better off, and worrisome differentials between groups that are defined by income and closely related to geographical disparities.

There is also a significant gender dimension to health. Men have benefited more from the improvements made in nutritional status during the 1990s than women. The same applies for recent improvements in child nutrition that have benefited boys more than girls. Women report illness more than men do, but they return sooner to work after having been ill. Health stations are more frequented by women than men.

Another important aspect is that a Vietnamese woman has an average of 2.5 abortions during her lifetime, one of the highest rates in the world.

Ill health is slowly being recognised as one of the main causes of poverty, especially in rural areas. Present estimates indicate that each year, more than 2 million are driven into poverty due to ill health. Costs for health services – both user fees and "under-the-table payments" as well as loss of income – are some of the main reasons. Poverty in itself increases the risk of getting sick. Poor people have less access to health care services for financial, geographical, and cultural reasons. Many Vietnamese, and especially the poor, have switched from professional health care to self-treatment, drug vendors, and traditional healers. As much as 80% of total health expenditure is estimated to be paid by the patients "out of the pocket". Solving the problem of health care financing is the highest priority among Vietnamese policy makers.

International comparisons suggest that allocations in the state budget for health expenditure as a share of GDP in Vietnam are low compared to in neighbouring countries[25], and the government has committed itself to increasing allocations to this sector in the coming years. The current financing structure of the health sector also needs to be carefully reviewed, particularly the policy of user fees.

The government has taken many steps to strengthen and develop the public health services. An extensive village health worker network has been set up. A health insurance programme was developed 10 years ago, but most people – particularly the poor – were not covered and had to pay full hospital fees. Only 16% of the population, mostly civil servants, schoolchildren, and war veterans, were covered. The recently established Health Care Fund for the Poor (HCFP) is designed to cover another 20% of the poor. However, the funding and targeting of this fund are still to be worked out. The Government aims to have a comprehensive health insurance system in place in 2010.

Improving the quality of care is another urgent issue. For example, at present many laws and regulations have been passed for the safe and rational use of drugs as well as other diagnostic and treatment procedures, but these procedures have not been sufficiently implemented. One main reason is the inadequate salaries of health workers. Another urgent mission is the development of an efficient health inspectorate system.

Vietnam today suffers from "the double burden of diseases". Much poverty-related infectious disease – such as diarrhoeal diseases, tuberculoses, and leprosy – still exists, but new, non-infectious conditions – such as coronary heart diseases, accidents and injuries, and lifestyle-related health problems – are on the increase. As an example, injuries have become one of the primary causes of mortality at hospitals. Every day approximately 30 people die and 70 more are injured due to traffic, drowning, working, or other accidental causes. The smoking prevalence survey in 1998 found that fully half of the Vietnamese men smoke. New

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[24] *Growing healthy: A review of Vietnam's health sector,* 2001.

[25] According to UNDP, *Human Development Report 2002*, public health expenditure in Vietnam was 0.8% of GDP in 1998 compared with 2.1% in China, 1.9% in Thailand, 1.7% in Bangladesh and Sri Lanka, 1.6% in Philippines and 1.2% in Laos. Since then the share in Vietnam has increased somewhat and was around 1.3% of GDP in 2001.

public health issues have recently been firmly addressed by the central level authorities through new national policies to control tobacco use as well as to prevent injuries. More policies are being formulated in the areas of alcohol prevention and adolescent health.

3.7 HIV/AIDS

The problem of HIV/AIDS continues to grow, and over the last 10 years, the number of new HIV infections in Vietnam has increased by 7% per annum. It is estimated that 154,000 people live with HIV/AIDS[26]. The infection rate is on the rise in all groups of the population, and all 61 provinces have reported cases of HIV/AIDS.

Although the HIV infection rate has increased, the epidemic remains at a concentrated level. According to the official figures, the majority of HIV cases – or more than 60% – is related to injecting drug use (IDU). At the same time, data indicates that the percentage of sexually transmitted infections is increasing. It should also be noted that these figures probably do not reflect the full situation since they are based mainly on tests of drug users and prostitutes. The infection rate among pregnant women increased 10 times from 1994 to 2000, and infections were occurring at younger ages.

It is estimated that 60% of the new infections occur in the age range 20–29 years, and there is a potential risk that this sexually active group of people below 30 will transmit HIV to the larger population. In addition HIV/AIDS is spreading to rural and remote areas as a consequence of the extensive mobility within the country and across borders, along transport routes, and in connection with the trafficking and transporting of drugs. HIV/AIDS is not only found among IDUs and commercial sex workers but also in the general population. The percentage of youths recruited to the army who carry the HIV virus has increased, as has the risk of transmission through the health services. Moreover, the number of infected people entering detention camps, jails, educational centres, and so on has increased, leading to the additional risk of transmission.

A major future challenge is to break the link between the commonly used concept of "social evils" and HIV infection. It is still not widely recognised that the general population is at risk, and people are not fully aware that their own sexual behaviour can make them vulnerable to HIV/AIDS.

3.8 Social development

Vietnam currently has three different types of social welfare models: (a) traditional welfare provided by family, relatives, and the community; (b) social welfare based on a centrally planned economy; and (c) social welfare based on the country's recent "socialist-oriented market economy". These models have not replaced each other but coexist in a complicated mixture. The attitudes of authorities, the tone of the media, even the descriptions of the professionals who work within the social field are marked by charity and philanthropy. The official policy places emphasis on the role of families and communities.

In the early 1990s, Vietnam began to address the needs of *children* in a more comprehensive way. Vietnam was the second country in the world – and the first in Asia – to sign the Convention on the Rights of the Child.

Progress has been accomplished in many respects, but the situation in certain fields such as drug abuse and prostitution is deteriorating.

The awareness of children's rights has heightened. A greater understanding of the causes of criminal behaviour is starting to evolve, and a greater emphasis is being placed on childhood conditions.

But the voices of the children are expressing many difficulties caused by poverty, bad environment, health, abuse by adults, and discrimination due to social class, sex, race, and religion[27]. The main form of care provided for children in need of special protection is institutional care. This "care" is another name for "detention", with limited respect for the individual rights of children.

A symptom of the deteriorating situation for the poorest is the growing number of street children. According to the official figures, there are around 19,000 street children in Vietnam and some observers suggest it might be twice that figure. This number appears to have stabilised in recent years due to the repatriation of children back to the provinces[28]. Most street children are concentrated in urban areas like Hanoi, HCMC, Da Nang, and Hai Phong. The majority are boys, but the proportion of girls has increased lately. Many of the children, furthermore, have a background in families that have been torn apart by death, divorce, or abuse. Almost 80% of the street children drop out of school. They are vulnerable to exploitation by both the drug trade and the sex industry.

The Vietnamese legislation in the area of child labour is satisfactory concerning the coverage of the state-owned sector and joint ventures. However, in the private sector, legislation is limited and it is in this sector children will be most at risk of being involved in harmful work. Poor children are often forced to work to contribute to the livelihood of their families. Most are employed as unskilled labour in the informal sector, in agriculture, or in households. Recognition of the problem is growing, but controlling mechanisms are very difficult to enforce.

Domestic violence is a widespread problem affecting not only women but also children. Documentation of such incidents is rare, and few violations are reported, even though women are protected by law from most crimes of violence. Some causes of domestic violence are the prevalent norms reinforcing the man's dominant position, economic strains, and drug and alcohol abuse. The rate of divorce is increasing.

Of the approximately 200,000 sex workers in the country, the proportion of children is estimated at 13%. Many Vietnamese women and children are trafficked to neighbouring countries where they work as prostitutes. The educational attainment of these children is below average; many have not even finished primary school. Also, several adoption scandals involving forged documents, child abductions, offers to buy new-borns, and production of fake orphans have occurred in recent years.

A fundamental dilemma in solving social concerns is the use of the concept "social evils" (meaning drug use, prostitution, HIV/AIDS, and gambling). The means to combat these are mainly propagation and

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[26] This figure is based on the WHO estimate. The official figure is only 1/3 of this.

[27] Report on contribution to UNGASS May 2002.

[28] *Assessment of Social Development in Vietnam*, Nader Amadhi 2003.

institutionalisation. This approach has made it difficult to reach the target groups – that is prostitutes and drug users – since they in many cases have gone underground to avoid being put in re-education or treatment centres.

The number of the *elderly* is rapidly growing in Vietnam due to the general improvement of living standards in the country. It is estimated that the number of persons who are above 60 will almost double to 22% of the population during the first two decades of the 21st century. The average life expectancy today is around 70 for women and 65 for men. Very few elderly benefit from social support (pensions or other forms of allowances). There is no defined social policy for the care of the elderly in general, except for the so-called "lonely elderly". Due to the low level of pensions even those who benefit from the governmental pension system usually move to rural areas where living costs are lower and where they can produce some part of their own food.

Official statistics on the prevalence of *disabilities* are lacking in Vietnam. MOLISA reports that 5 million or around 7% of the population are disabled. Of these 3.5 would be able to contribute to their living if given the opportunity. Around 1.5 million are severely disabled. As the disabled and in particular those with a mental disability are not particularly visible in society – since they are often kept at home because of mobility problems and social stigma – the problem is easy to ignore. The rights of the disabled have been highlighted in recent years. A national co-ordinating council on disability was established in 2001, and the UN rapporteur on disability was invited to Vietnam in 2002. More complete data on disabilities as a part of a National Health Survey are expected in 2003. Preliminary results have found a clear correlation between disability and poverty. Some proportion of all societies is disabled, but Vietnam has a higher proportion than most countries for several reasons. Many of the disabled are war invalids and victims of post-war effects such as toxin poisoning and land mine explosions. Additional causes of disability are the high accident rates on the roads, unsafe environments, malnutrition, lack of medicines, and inadequate treatment of ear and eye infections which are responsible for a high number of deaths and blindness.

3.9 Employment

The official unemployment rate in urban areas was 6% in 2002, with a higher rate (6.85%) for female workers. The rate of underemployment in rural areas was estimated at 25% (but with large regional variations). Employment creation is one of the main challenges for Vietnam in the years to come. The labour force increases by 3% per year (1.4 million people). These are young, often unskilled, workers with minimal experience who live in rural areas where land is scarce and opportunities for non-farming jobs limited. Underemployment is already a serious problem, especially in agriculture.

It is obvious that most people entering the labour force must be absorbed by the industrial and services sectors. However, the rapid growth of the industrial sector has not been accompanied by a corresponding growth in employment, since it has been dominated by

capital-intensive and import-substituting industries. This is in sharp contrast to the development in other Asian countries.[29]

The SOEs are under reform or being equitised, and this will be accompanied by a large number of lay-offs, which will further aggravate the problem. The foreign-invested enterprises cannot be expected to absorb more than a small fraction of these laid-off workers, and the civil service is planning to reduce the number of employees. Employment growth must therefore take place in the non-state sector, especially in household and small- and medium-sized enterprises.

There have been positive signals regarding the expansion of these sectors recently. The Enterprise Law – which became effective in January 2000 – has led to the registration of more than 60,000 enterprises. Information on how this has affected employment, however, is limited. Most enterprises are registered in the Hanoi and HCMC areas. Many enterprises are registered in other provinces, but very few are registered in the poorest areas.

The main source of employment growth has been the informal, household sector. According to recent surveys, there are around 2.6 million private production and trading establishments outside agriculture, an increase of 40% since 1995[30]. Growth of non-farm self-employment has been higher in rural than in urban areas. The expansion of productive employment in this sector is, however, constrained by the fact that a large portion of the population does not have ready access to financial services despite the various government and non-governmental schemes in microfinance. The vast majority rely on relatives and informal moneylenders[31].

Labour export is officially considered an important way to deal with unemployment. In 2002 Vietnam exported about 46,000 workers, the largest figure so far, raising the total number of Vietnamese workers abroad to 310,000. These workers remitted USD 1.5 billion to Vietnam last year. The Government is encouraging communes to organise and support poor people in labour export.

The expansion of employment opportunities in the private sector (both formal and informal) as well as increased labour export has different consequences for women and men. It is mostly men who move out of agriculture to off-farm employment away from home, and this has the effect that women work more in agriculture and household activities. The result is often a higher workload for women. Women are also very active as entrepreneurs in the informal sector. Even if the figures are uncertain, it seems that a majority of the household enterprises are run by women. However, these are generally smaller than those run by men.

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[29] *Employment Poverty Linkages and Policies for Pro-poor growth in Vietnam*, ILO 2003.

[30] *The Saigon Times Weekly*, March 1, 2003.

[31] *Banking Sector Review*, World Bank 2002.

4. Democratic Governance

4.1 Human rights

The human rights situation in Vietnam is complex and often contradictory. Long-term improvements have been made, including increasing political awareness and willingness to work closely with the international community in accordance with international conventions on human rights. Vietnam has ratified many of the UN conventions and covenants, excluding The Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (CAT), and the optional protocol on the abolition of the death penalty. Reporting has long been neglected, but recent improvements have been made. As of 2001, the country is a member of the Human Rights Commission.

However, more recent developments reveal a rather negative record of human rights. Although a signatory party to the conventions on civil and political rights, Vietnam does not respect fundamental human rights such as freedom of expression, assembly, and association. Capital punishment is used and not only for crimes of violence, but also for economic crimes. In the past 2 years, reports on grave repression of minority peoples – especially in the Central Highlands – have surfaced. Incidences of dissidents of the Communist party being harassed, put under detention, or sentenced to prison for advocating democracy and human rights have also been reported. Many of the violations of human rights are related to the fact that the security and stability of the country have a higher priority than do the rights of the individual.

Freedom of assembly is restricted in law and praxis, and an official permit is needed for organised gatherings. This restriction affects other freedoms as well. The constitution stipulates freedom of religion – a guaranteed right to personal belief – but no freedom of assemblage for religious purposes. Only officially recognised communions are permitted to assemble. Harassment of members of unauthorised churches, especially in rural and remote areas, has been reported.

Predictions on developments in human rights issues are difficult, because the signals are mixed. On the one hand, recognition of the rights of the individual is growing and improvement in people's access to justice is an official aim. The belief is that if people are aware of their rights and obligations and if civil servants know their obligations, conflicts will be more easily resolved and opposition to the rulers will disappear.

International integration has pressured Vietnam for increased transparency and a more independent judiciary that works to protect human rights. On the other hand it is difficult to establish any critical dialogue regarding the fundamental freedoms, and official Vietnamese spokespersons react defensively to any criticism of their sovereignty in domestic affairs.

4.2 Information, communication, and media

Viewed over a long period, freedom of expression for the average citizen has increased foremost due to rapid changes in Vietnamese society. The CPV, however, directly or indirectly controls or owns all media. There is a prevailing self-censorship among journalists. The government and the party view the media as a tool for educating people and conveying state policy. However, as most printed media in Vietnam must now generate income from selling their papers and advertisements, a new, more user-oriented concept is emerging.

The government continues to issue decrees that limit the right to information and freedom of the press, although these regulations are unevenly enforced. Foreign journalists continue to work under difficult conditions and are sometimes harassed and restricted by the government. The Press Law contains regulations that penalise individual journalists for their articles, and press cards are arbitrarily revoked by the authorities. The Press Law states that the duty of media to disseminate the ideas of the leadership is fundamental. On the other hand, the government has, through the Press Law, initiated business opportunities for the media, with major positive changes for some of the newspapers. The government desires the benefits of a market economy, but fears losing control.

Open discussion and interaction between media and audiences has increased remarkably. Local reporters say they have more freedom and that reporting is now easy compared to 5 and even 10 years ago[32]. Modernisation of TV news and entertainment has led to more interaction between the media and audiences and to more open and less controlled media. Internet has expanded unexpectedly and is now an increasingly important medium of communication, especially for young people. Although the Internet is difficult to control, the government has interfered and abused human rights many times, with several arrests and detention as a consequence.

Lack of information is a basic problem in many areas. Poor people lack information about their rights and obligations, local leaders lack information about policies and regulations, business people lack information about markets and opportunities, and so on. The lack of information is an effect both of the political system and of the insufficient infrastructure.

Radio and TV are very widespread, even in rural areas, but their potential for dissemination of information is not being fully utilised. The development of Information and Communication Technology (ICT) is given high priority, but it is mainly treated as a sector in itself (with

[32] *Performance Analysis of Swedish Support to Media in Vietnam*, 2003.

quantitative targets) and not as an enabler for all other sectors. There has been no systematic and regular approach to promote ICT for development. Vietnam scores very low internationally on networked readiness[33].

4.3 Culture

Cultural development has the overall aim of uniting the Vietnamese people. Culture is regarded as an ideological factor, and the purpose of cultural activities is to strengthen the morals of the people against internal and external enemies. In doing this, the aim of the CPV is both to build on traditional cultural heritage and diversity while modernising and adapting to international development. While it is the policy to ensure freedom and democracy for cultural creations, writers and artists are at the same time told to "uphold their sense of responsibility toward the population, the Homeland and socialism"[34]. Literature and the arts shall, according to the official policy, condemn evil and fight against tendencies within the arts that are contrary to the party.

The *doi moi* reforms have had consequences for the cultural sector, calling into question the government subsidies for the sector. The new financial reality has led to a pressure to find alternative sources of income. This, in combination with international integration, has weakened the state monopoly and opened up for more private initiatives, thus contributing to a more diverse and dynamic cultural life. There are, however, few signs that the state and the party will release control.

4.4 Legal Reform

A prerequisite for the realisation of human rights is a functioning legal system, including laws, courts, a police force, and prisons. Vietnamese law and justice are greatly influenced by traditional legal thinking that focuses on morals rather than law as a source of justice. One of the basic principles within the legal system is the principle of Rule of Law. It stipulates that all citizens must be subjected to the same rules. This should include legal predictability, equality before the law, protection against violence and abuse, and equal access to the legal system. The concept is rather new in Vietnam where the legal system focuses on stability and order rather than the safeguarding of citizens' rights.

An important step was taken when an amendment to the constitution was passed in year 2001 stating that Vietnam should be a "law-governed socialist state". However, there is still confusion concerning the meaning of the concept. It is often referred to as efficient implementation of the existing laws, that is, rule by law.

An area of great concern for the individual citizen in Vietnam is the unequal access to justice. This situation is a consequence of a legal system characterised by an inconsistent legal framework, a slow and arbitrary implementation, a generally low trust in legal and judicial organs, and the general population's limited knowledge about their legal rights and how to assert them. Corruption and political influence over judicial decision-

[33] In the *Global Information Technology Report 2001-2002*, Harvard University 2002, Vietnam is ranked as no. 74 out of 75 countries in the "Networked Readiness Index".

[34] Political Report of the Central Committee, 8th Tenure at the 9th National Congress.

making are additional factors that constitute obstacles on the path towards a proper rule of law. With establishment beginning in 1997, legal aid centres are now open for poor people in all 61 provinces in Vietnam. Even though this new service is not yet very developed, it is considered an important and positive step towards improving access to justice by poor and other vulnerable groups.

Another major step towards a more developed legal system was taken during 2001/2002 when the MoJ and other agencies with support from all main donors in the sector undertook a Legal Needs Assessment (LNA) and devised a Strategy for Legal Reform. Four broad areas were set up to be scrutinised: (1) the framework of substantive laws, (2) the legal and judicial institutions, (3) education and training, and (4) legal information and dissemination. The key principles of the Strategy are that citizens can do anything that is not explicitly prohibited while state institutions and officials can do only what is specifically permitted by the law.

Yet, in many cases the main limitation in the legal system is in its enforcement and implementation. For example, in the environmental area, Vietnam has a number of good environmental laws on the books. However, the institutional capacity to enforce these laws is extremely weak with only 300 staff working on environmental issues.

Integration into the international economy places strong demands on legal reform towards a consistent legal framework, legal accessibility and predictability, and independent courts. This strongly pushed reform agenda will have positive effects on people's access to justice in future. Accessibility to justice by poor people, however, needs to be given special attention to ensure equality.

4.5 Public Administration Reform

The task of public administration should be to provide services to the citizens through a predictable and transparent set of rules that are universally applicable and non-discriminatory. In Vietnam, the role of state officials has been to control rather than serve the citizens. As a response to the demands of a market economy and to create an efficient, just, and transparent state apparatus, a public administration reform (PAR) was developed beginning in 1992. Pressures from fast economic growth, rising expectations of informed citizens, and disclosure of widespread mismanagement and corruption have forced the reform process to continue.

The first steps included a reduction in the number of ministries, increased salaries for civil servants, and reformed provision of services. The process encountered obstacles, primarily resistance within the party to a clearer separation between political power and the power of implementation. Another reason for the slow pace is the lack of a central competence that can help co-ordinate the effort. However, in 1998 the Prime Minister appointed a steering committee to carry out a review of reform activities.

The government and the CPV have sent strong signals in recent years to reform the public administration system. The PAR Master Programme – approved in September 2001 – envisages a reform of the entire public administration system by 2010. The agenda for reform and renovation is far reaching. Implementation will take time, however, since this is a

sensitive area which requires substantive legislative changes, and technical and financial resources are limited. The process may also be hampered by different perceptions and lack of co-ordination among the core implementing agencies.

Personnel reform is one of the PAR components. A downsizing programme was set up – initially aimed at reducing staff numbers by 15% – was set up, but no prior review of functions, roles, or work processes throughout the administration have been undertaken. There is also a determination to review civil service pay, but one relevant concern in this respect is the huge volume of resources that will be needed to increase salaries across the board. Salaries are generally low, and most civil servants cannot survive on their salaries alone. However, it is estimated that civil servants receive double their salary or more from other benefits, including allowances for travel and seminars. The system is not transparent and does not provide incentives for efficiency.

One-stop shops represent one of the most visible achievements of PAR on the local level. Although different in scope and outreach, the shops each serve a geographical area and tend to operate at the district level.

4.6 Corruption

Corruption is widespread in Vietnam. The Vietnamese government recognises that corruption is a major threat to national security and the development of the country. In the CPRGS, however, corruption and abuse of power by state officials at all levels has not been identified as one of the causes of poverty. Corruption in Vietnam is mainly a result of lack of transparency within the complicated political and administrative system as well as the conflicting and opaque legal framework, in combination with the low salary level. In addition, the extensive need for permits encourages corruption. During the last years, the issue of corruption has been frequently exposed in the media with disclosures of bribery and smuggling scandals including high level officials.

In January 1996, the former Prime Minister Vo Van Kiet appointed an anti-corruption Commission. The topic was also a focus of attention at the sixth and seventh Party Plenums in October 1998 and August 1999. A host of ordinances and decrees have been issued addressing anti-corruption, the practice of thrift, elimination of wasteful practices, and enhanced accountability. Further, the way corruption is perceived and understood is slowly changing. It is no longer seen only as connected to an individual but rather as a structural problem. This allows for a more correct analysis and more constructive solutions. The reforms within public administration and the legal system are intended to come to grips with corruption.

After years of discussions, Vietnam and Sweden reached an agreement on co-operation in the field of anti-corruption in 2002.

4.7 Participation and decentralisation

In May 2002, general elections were held to fill 500 seats in parliament. The turnout was reported to be 99.7%; the highest ever and therefore termed a great success. Newly elected members of parliament as well as recently appointed government officials tend to be younger and better educated than their predecessors.

After the election, women constitute 27.3% of the members in the new parliament. This figure represents the highest in the Asian region. However, few women possess real power to make decisions and influence real actions (usually women are put in charge of social affairs). The number of women leaders in the administration of the government, the various branches and levels of the Party, and within legal, research, and scientific bodies remains low. There are no women in the most powerful political institution, the Politburo, and only 9% in the central committee of the VCP. Moreover, "women issues" – which are often gender issues – are being delegated to the Women's Union and are not being integrated into the broader political work.

Perhaps the biggest challenge in implementing economic reforms, improving the provision of public services, and improving public administration is decentralisation. With a population of 80 million people, Vietnam has a three-tiered structure of local governance. In addition to the national level government, it has local governments for 61 provinces (tier 1), 598 districts (tier 2), and 10,500 communes and wards (tier 3). These various levels of local governments have a high degree of autonomy and authority in decision-making but little accountability.

Important initiatives to make decentralisation work include block grants and grassroots democracy. The block-grant system, whereby public sector agencies are provided a lump sum to cover salary and administrative expenditures, provides more independence to choose the right mix of inputs to provide better provision of services.

The Grassroots Democracy Decree contains provisions for greater participation of the people in the decision-making process. There are four categories of public participation prescribed by the decree. Firstly, local administrators are obliged to keep the people informed. Secondly, the people must be consulted on many of the local government initiatives before implementation. Thirdly, local administration must get majority approval by the population in a number of areas defined by the decree. Fourthly, areas such as the municipal budget and land management are placed under public scrutiny to improve the accountability of the local government.

The decree shows that the government is trying to deal with the bureaucratic process of decision-making. However, some aspects that are relevant to consider remain. Experience in implementing the decree has so far been quite limited. The emphasis is on participation and democratisation, and thus influence, on the local level only. The terminology of the decree is ambiguous, possibly excluding women from the decision-making process by focusing on the heads of the household instead of on individuals.

Grassroots democracy could minimise the risk of local governance failure by empowering citizens and making their voices heard in decision-making. A decree defining groundbreaking framework for consultation, participation, and transparency on a wide range of issues concerning people's lives at the commune level exists. Success in implementing it has been modest, however. Province and district levels have not delegated management responsibility to the commune level. Planning is still undertaken in a top-down manner, leaving the commune with only limited influence on policies. Civil servants at the provincial level have not

been trained in changing the "top-down" mindset. Civil servants at the commune level have received little practical guidance on how to implement the decree, and they also have limited incentives to do so[35].

4.8 Civil society

Civil society is undeveloped in Vietnam, and no really independent local organisations exist because of the strict controls on associations. People's participation is officially encouraged, but only by approved means. Mass organisations under the auspices of the Fatherland Front are considered an important part of the socio-political system and a means of gathering people's opinions. The Fatherland Front is a constitutional body that claims to unite all interests and associations in the country, among others women, farmers, youth movements, and the official Buddhist and Catholic movements. The CPV has vast influence Over the Front, which is designed to function as a link between the party and the people. The Front also functions as an election committee for public elections, and it is among its members that political candidates most often are selected.

As a result of the *doi moi* reforms, local organisations were given more space for operation. There are today three broad categories of local organisations in Vietnam. Firstly, important policy implementers for the government like the Women's Union and the Youth Union; secondly, the cultural and religious organisations like the Buddhist church and the writers' and artists' associations; and thirdly, scientific and technical institutes, professional interest groups for architects and doctors, and so forth.

Of the above three categories, the first two have been kept under close control by the government for financial and political reasons. The last category has largely been left to finance its own activities. Around 40 organisations are designated research centres, with operations more or less independent of the government. These organisations can be said to constitute the bulk of Vietnamese non-government organisations (NGOs). It is estimated that there are a total of 250 national and 4,000 local organisations in Vietnam today. Most of these local NGOs are of quite recent date and have emerged not only from a voluntary management of natural resources such as water use but also as a result of complaints against polluting enterprises. Under the label of "clubs", people are allowed to organise themselves locally around issues concerning culture or the environment, for instance, but the extent of organisation depends on the openness of the provincial authorities who decide on local organisations.

Among the mass organisations, Vietnam Women's Union is one of the few organisations in the country with a well-developed network, stretching from the grassroots to the central level. The organisation is usually seen – although it is not a governmental body in theory – as the central organisation for promoting women's issues in Vietnam. Its representatives participate in the formulation of laws and policies as well as in the implementation and monitoring of these.

Today many International NGOs (INGOs) operate in Vietnam and in particular in the fields related to social development. Almost 400 active INGOs are registered with the Vietnamese co-ordinating authority PACCOM. However, one major problem recognised in the assessment of

the work of the INGOs is their lack of ability to transfer competence and capacity to Vietnamese organisations.

Preparation of a new law on associations has been in progress since 1993. The long preparation time indicates the sensitiveness of the issue. Some commentators doubt that the law will make much difference since the party will not allow any association to develop a political agenda. There are even indications that a law may be a hindrance to the development of the local informal NGOs described above. The law is not on the short-term legislative agenda. In conclusion, it will continue to be difficult to support any independent civil society organisations in the short term.

[35] *Vietnam Development Report 2003*, World Bank 2002.

5. Economic Situation

5.1 An economy in transition

Vietnam's economy is still under transition from a planned to a market economy. This process is centrally controlled, and reforms are implemented step by step after long internal discussions. The objective of the CPV is to implement economic reforms while keeping the political, one-party system intact. This process started in the late 1980s is known as *doi moi* and included a number of reforms towards liberalisation and deregulation. The overall goal is to build a "socialist-oriented market-based economy" and to achieve "socialist-oriented industrialisation and modernisation".

In the resolution of the 9th Party Congress, the task of implementing the policy of developing a multi-sectoral economy was clearly stated. Within this: "The State economy takes the leading role which, together with the collective economy, will increasingly become the firm foundation of the national economy; the individual small-owner economy will be given the conditions and assistance by the State for development; and the private capitalist economy will be encouraged to develop widely in the production-business lines which are not banned by the law".

Table 1: Structure of gross domestic product (GDP) by ownership in 1995 and 2000.

	1995(%)	2000(%)
State	40.2	38.5
Collective	10.1	8.9
Private	3.1	3.4
Household	36.0	32.3
Mixed	4.3	3.9
Foreign invested	6.3	13.3

Source: GSO: Statistical Yearbook 2001

It is unclear what is meant by "the leading role of the state". Nevertheless, the state accounts for the predominant share of the GDP, as

[36] It has been argued that the foreign-invested sector should be seen as part of the state sector since most FDI has been in the form of joint ventures with SOEs.

seen in Table 1. Its share shrank somewhat between 1995 and 2000, but this can be accounted for by annual fluctuations. The most obvious structural change is the growing role of the foreign invested sector, which more than doubled its share during the 5-year period[36]. It is worth noting that the formal domestic private sector still accounts for a tiny share (3%) of GDP. The dominant role of the state sector is even greater in the industrial sector. The share of SOEs in total domestic industrial output is around 65% while the formal private sector accounts for 3% and the household sector, which includes the family-owned micro-enterprises, for around 20%.

It has, however, been disputed whether the SOE sector really represents the State. Many SOEs are controlled by provincial and municipal interests. Around one-third of state industrial output derives from local enterprises. It has also been argued that many SOEs represent "private" interests instead, and the fact is that they have had a rather autonomous position since *doi moi* was first introduced.

It must also be noted that the SOE reform is not so much about ownership. Instead of privatisation, the term *equitisation* is used. This means transfer to a share-holding company. Various regulations are set up about ownership. In most cases employees, the management, and the state are guaranteed a majority of the shares, and in many cases the state alone retains 51%.

Lately, discussions on whether the economy of Vietnam is a market economy have been intensive. The US Department of Commerce has decided to impose quotas on imports of catfish from Vietnam, arguing that Vietnam is not a market economy. This is clearly a complicated issue. Suffice it to say that there has certainly been a movement to introduce market mechanisms in many areas since *doi moi* was initiated, and this movement will most probably continue throughout the coming 5-year period.

5.2 Economic structure

The basic structure of the Vietnamese economy is illustrated in Table 2. Industry and construction have increased their share of both GDP and employment while the agricultural sector has declined. The goal of the SEDS is for these trends to continue. By 2010, agriculture should account for 16%–17% of GDP and industry for 40%–41% with agricultural labour dropping to around 50% of the work-force.

The underlying assumption is that productivity in agriculture will increase substantially while most of the capital and labour resources are funnelled into the industrial sector. In the 5-year investment programme, 2001–2005, 44% of the total capital is allocated to industry, 13% to agriculture, and 15% to transport and communication. This distribution is almost identical with that of the 1996–2000 programme. An important change is the higher allocation to the social sectors (8% compared with 3.5%).

Thus the emphasis on investments in the industrial sector has been great, and this has been led by public investment. In 1996–2000, 31% of public investment went into industry, 27% to transport and communication, and 18% to agriculture. In addition, a higher share of FDI was invested in the industrial sector. Industrial growth has also been

impressive: approximately 15% per year during the last 10-year period. The main industries are food and beverages (22%), oil and gas extraction (14%), cement (7%), electricity, gas and water (6%), chemical products (5%), textiles (5%), and leather (5%).

Table 2: Gross domestic product (GDP) and employment according to sectoral distribution in 1996 and 2001.

	GDP (%)		Employment (%)	
	1996	2001	1996	2001
Agriculture, forestry, fisheries	28	23	69	61
Industry, construction	30	38	11	14
Services	42	39	20	25

Source: GSO: Statistical Yearbook 2001

Vietnamese industry as a whole is not efficient and competitive[37]. The situation seems to have worsened since 1997. The high growth rate is mainly explained by growth of import-substituting industries, like cement, steel, sugar, paper, and so on. These are capital-intensive industries that are still protected. Many enterprises are state owned, but the efficiency of the foreign-invested sector is also low. The official master plans for key industries are still largely defined in terms of quantitative targets that ignore cost, efficiency, and global competition. The industrial structure must be adjusted to increased global competition, which will be the result of trade liberalisation. So far, however, there is limited co-ordination between industrial policy and trade policy.

Industrial and export processing zones are heavily emphasised to attract foreign – and domestic – investments. At present, around 70 such zones, in many parts of the country, have been established. They are expected to play a key role in industrialisation and the creation of employment. However, only 30% of these facilities have been leased to investors[38]. No evaluation of the costs and benefits – or the environmental impacts – of this policy seems to have been carried out.

The system of preferential treatment and exemptions has wide coverage, and it is often used in an unpredictable way. This leads to an unhealthy relationship between enterprises (private as well as state owned) and government officials, and allows vested interests to seize government transfers to offset their inefficiencies.

The agricultural sector in Vietnam has received substantially lower public support than in countries like China or Thailand, although support has been increasing since 1998. The allocation of public funding in this sector has been concentrated on irrigation and forestation programmes with insufficient resources for research and extension. Rich provinces receive more resources than do poor. In addition, substantial resources are used to subsidise inefficient SOEs (e.g. sugar and fertiliser companies), mainly through interest subsidies[39].

[37] In the World Economic Forum, *Global Competitiveness Report 2002–2003*, Vietnam scored no. 65 among 80 countries.

[38] *Vietnam's Economy in 2002*, CIEM 2003.

[39] *Managing Public Resources Better*, Public Expenditure Review 2000.

The impressive growth in the agricultural sector has often been the result of expansions in cultivated area rather than of improvements in productivity (tons/ha). The productivity increases that have been achieved have been lower than in other Asian countries, notably China[40]. Productivity per worker has increased even more slowly, and the share of the work-force in agriculture has been declining at a slow pace. Structural change within the agricultural sector has been limited, and what has been achieved has mainly been the result of central decisions (e.g. the increase in coffee production) and not of market response. It is also uncertain how far the government is prepared to go in the market reform process in agriculture. The SEDS mainly emphasises modernisation and industrialisation and the setting up of specialised zones for various crops.

Most of the workers leaving the agricultural sector have been absorbed by the service sector, but the contribution of this sector to the GDP has declined. It is difficult to draw any conclusions from this since the statistics are unreliable. Areas like trade, tourism, transport and communication, and financial services have been growing rapidly.

The infrastructure of Vietnam is still comparatively undeveloped. Substantial investments in this sector are being made – to a large extent financed by official development assistance (ODA) – but the overwhelming share of resources is allocated to large projects, like highways and hydropower stations. An improved basic infrastructure – such as electricity, roads, and telecommunications – is among those development factors addressed in the CPRGS as being important in the fight against poverty. Even if Vietnam has, for example, a high electrification rate of about 80% compared with other developing countries in the region, around 15 million people in the rural areas still have no access to electricity.

5.3 Structural and institutional reforms

The basic reform areas are legal reform, public administration reform, trade reform, banking reform, and reform of the SOEs. Legal reform and public administration reform are the key areas, and progress in these areas is prerequisite for substantial progress in the others.

Significant progress has been made in trade reform. The bilateral trade agreement with the United States was ratified in December 2001, and active preparations toward meeting the goal of WTO accession have started. Of more immediate impact is the commitment to tariff reductions within AFTA, which will be finalised in 2006. These issues will be further discussed in 5.8.

The government has initiated an SOE reform framework that provides for the equitisation, liquidation, and merger of around 1,800 small- and medium-sized SOEs, but progress in implementing plans and achieving targets has been slow. The SOEs that have been equitised so far represent only 2.5% of the total SOE capital. Factors accounting for the slow pace include problems in resolving inter-enterprise debt; valuation of land, buildings, and equipment; decisions on the management structure of equitised enterprises; and difficulties in handling redundancies. The risk is that the larger and more capital-

[40] *Agriculture and Rural Development,* MPI/DSI, UNDP, 2001.

intensive SOEs, which account for 90% of all SOE debt, will remain largely untouched by the reforms.

The objective of SOE reform is not to reduce the role of SOEs but – on the contrary – to consolidate their leading role. In the draft of the PIP for 2001–2005, the government has planned to increase the share of both public investment and total investment in SOEs. SOEs hold at present 60% of accumulated capital and contribute 40% to the GDP but employ only 5% of the work-force. Half of the SOEs operate at a loss and most others simply break even. Total SOE debt is estimated to be 33% of the GDP.

It is difficult to get a total picture of the impact of the SOE sector on the economy. Many of the SOEs are still highly protected and subsidised and face few hard budget constraints. This will become an open problem with the full implementation of the AFTA agreement. The most difficult tariff reductions in AFTA will be made in 2003, when products like cement, steel, and paper are covered.

SOE reform is closely linked to the reform of the banking sector, since its burden of non-performing loans to the SOEs is the major problem. The government has been gradually moving toward market-determined interest rates. An overall reform framework for the State-Owned Commercial Banks (SOCBs) has been adopted, with restructuring plans for individual SOCBs. The main challenges in this area are implementation of financial restructuring plans through resolution of non-performing loans and recapitalisation and operational restructuring to strengthen corporate governance and risk management.

The SOCBs still dominate the banking system, and they are heavily exposed to the SOE sector. According to the State Bank of Vietnam, their bad loans account for 11% of the total, but the International Monetary Fund (IMF) estimates their share to be at least 30%. Other sources mention even higher figures. The SOCBs still have political functions, in particular at the provincial level. The expenses of SOCBs in Vietnam are higher than in other countries and Vietnamese SOCBs continue creating losses. There are also concerns that the banking sector will have to grapple with a strong rise in bad debts when Vietnam joins AFTA in 2005. Many SOEs will be unable to compete with rivals from other regional countries, leading to closures or bankruptcies.

The main system for preferential credit is the Development Assistance Fund (DAF). This fund is financed from the budget, postal savings, social security funds, and domestic bond issuance. It is also the main channel for onlending of ODA loans. Total lending by the DAF is over 4% of GDP or almost one-third of total credit to the economy[41]. There is little information about the utilisation of the DAF, but SOEs are the main recipients of loans. One fear is that the DAF is being used as a channel for subsidising SOEs while domestic credit targets are maintained. The government also decided to establish a Social Policy Bank in 2003. The Bank will assume the functions of the Bank of the Poor, which has given subsidised credits to poor farmers. But the new bank will cover broader areas and have a substantially larger capital base. Losses will be covered by the state budget.

[41] *Vietnam Development Report 2003,* World Bank 2002.

Over the medium term, public sector debt is projected to stay at a manageable level with the overall deficit declining to 2% of GDP in 2007, according to IMF forecasts. The costs of the SOE reform are expected to have a significant but moderate impact on total public sector debt since they mainly entail the government absorbing non-performing loans to SOEs. There are several risks in this, however. One risk is failure to increase domestic revenue. Another is falling export revenue and increased commercial external borrowing, which could lead to deteriorating debt sustainability.

The situation regarding economic reforms today is very different from what it was in 1998 when the current Country Strategy was prepared. At that time, the pace of reform had stagnated, and the Country Analysis expressed concern about future policy direction. In 2003 there is no reason for such concerns. The reform process has been stable during the last 3 years and at present there are even signs of progress in SOE reform, which has so far been lagging behind other reform areas. The government and the World Bank have been able to agree on a second Poverty Reduction Support Credit (PRSC2) based on a number of prior actions regarding economic policies, poverty reduction, and governance. This agreement also includes agreement on a roadmap for a 4-year reform programme, based on the CPRGS and supported by annual PRSCs.

5.4 Private sector development

The role of the private sector was first recognised in the Constitution, in the amendments adopted by the NA in December 2001. The fifth plenum of the CPV in February 2002 was mainly devoted to discussing the private sector. The outcome of this has been interpreted as a major step towards full recognition of the private sector, although the issue of what is "exploitation" is still being debated within the Party.

Several actions have been taken to improve the climate for private enterprise and investment. Access to land and credit has been facilitated. Registration procedures have been simplified through the Enterprise Law. The robust growth in the number of new enterprise registrations over the past 2 years continues and is likely to speed up growth in private sector activities in the next few years. Increased private sector activity in labour-intensive and export-oriented industries is a good sign of that Vietnam's economy and its labour force will most likely continue to benefit from trade liberalisation and further integration into the global economy.

The private sector still faces many problems, however. Private companies have difficulties in accessing credit, since the banks prefer to lend to SOEs. They face numerous bureaucratic procedures and abuse of power at the local level. They lack information and infrastructure and have limited possibilities to form their own independent associations. Also the co-operatives – whose former role as political organisations has become a more independent one of providing economic benefits to their members – face similar problems.

But the GOVN is well aware of the need for a growing private sector, especially when it comes to employment creation. The Government's 1998 National Target Programme on Employment recognises that 80% of new employment opportunities must come from the non-state sector

(with special emphasis on the development of small enterprises and self-employment). The small and informal sector currently accounts for about 90% of all employment outside agriculture.

5.5 Macro-economic development

Table 3 shows that Vietnam was relatively shielded from the Asian crisis as well as from the global slowdown in recent years. On average, its growth has been among the highest in the world. Up to 2001, growth was driven by growth in exports, which was partly due to favourable price movements. During the last 2 years, domestic demand – and private sector investment in particular – has been the main driving force behind GDP growth. The industrial and construction sectors have been the main contributors, and the domestic non-state sector grew the fastest.

Table 3: Growth in gross domestic product (GDP) between 1997 and 2002.

Year	GDP growth (%)
1997	8.2
1998	5.8
1999	4.8
2000	6.7
2001	6.8
2002	7.0

Source: GSO[42]

Investments have been increasing, and in 2002 the investment ratio was estimated at 34% of GDP. This is the highest ratio ever reached in Vietnam, but efficiency of investment is low, illustrated for example by a high and increasing incremental capital-output ratio (ICOR). Still, most observers assess Vietnam's economic outlook positively, and this has resulted in raised ratings of Vietnam by international credit rating agencies. The reasons for this are mainly:

- Continued macro-economic stability.
- Improvements in legal and institutional frameworks.
- Implementation of structural reforms.
- Acknowledgement of the role of the private sector at the highest political level.

Government revenue has fluctuated around 20% of GDP during the period 1997–2001 without any clear trend. Domestic budget revenue accounts for around 50% of total revenue while the other half comes mainly from crude oil exports and customs and excise duty on imported commodities. The government has been unable to change this structure, which might cause problems in view of the commitments to tariff reductions within AFTA.

State expenditure was 26% of GDP in 1996 but declined to 23%–24% in subsequent years. In 2001 it grew to 27% as a result of the demand stimulation policy by the government (including higher salaries for civil servants). Capital expenditure has increased and is now around 25% of total expenditure. The overall budget deficit has been in the

range 3%–4% but increased to 5.4% in 2001 and 2002.[43] Both revenue and expenditure decreased in 2002 (to 21% and 26% of the GDP, respectively).

The financial market is continuously being liberalised, and the State Bank has begun to use Open Market Operations as an instrument. Credit growth has been restrained, and inflation has been low. In 2000–2001 Vietnam even experienced a period of deflation. During 2002 the inflation rate increased to 4%, mainly due to higher food prices. The State Bank is moving towards a more market-oriented exchange rate system and has widened the trade band of the exchange rate and abolished the foreign exchange surrender requirement. The Vietnamese Dong has depreciated against the US Dollar by around 6% during the last 2 years.

Vietnam's foreign trade sector is today larger than in most similar countries. The sum of exports and imports is about 90% of GDP (compared to 52% in 1992). Export growth in 2001 was extremely high 1992–2000, 25% per year on average. In 2000 it declined to 6.5% and in 2002 to 8.6%. The fall was mainly due to declining world prices of oil and agricultural commodities. In the first 6 months of 2003, exports increased by 33% compared with the same period last year.

Imports have been increasing even faster (27% per year 1992–2000) leading to widening trade deficits. These have been partly offset by increased foreign exchange remittances in 2001 and 2002, reflecting the impact of the liberalisation of regulations on foreign currency accounts and the permission granted to overseas Vietnamese to buy land. Current official transfers have remained broadly constant over the last few years. Official reserves represented 9 weeks of imports at the end of 2002.

Inflow of FDI was extremely high in the early 1990s but has fallen since then as a result of the Asian crisis and greater reluctance from investors. In 2000 gross inflow of FDI was around 3% of GDP. ODA inflow to Vietnam has been on the rise in the 1990s. Total disbursements in 2001 were USD 1.44 billion or around 5% of GDP. The share of credits in ODA disbursements has been increasing, from 10% in 1993 to 71% in 2001. In 1999 the IMF carried out a debt sustainability analysis and concluded that the debt situation is sustainable. Debt figures are much lower than for most HIPC countries. The most recent estimate of the debt service ratio is 8%.

In the short term, economic policy is stable and sustainable. Assumptions for the longer term are optimistic (annual GDP growth of over 7% up to 2010). Since rapid export growth is a fundamental assumption behind these targets, it follows that the official scenario is vulnerable to external developments. Structural problems, leading to inefficiency and low competitiveness, could also undermine government strategies if not adequately addressed.

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[42] The World Bank has made estimates which are around 2 percentage units below these figures; however, this discrepency seems to have disappeared in the last year.

[43] These figures are taken from *Vietnam's Economy 2002,* CIEM (2003). The World Bank makes lower estimates of budget deficits. The budget deficit figure is sensitive since the National Assembly determines a ceiling each year (normally 5%).

5.6 Public Finance Management

To promote poverty reduction and attain development targets, Vietnam has realised that its public spending must be managed more efficiently. Major key shortcomings can be linked to Vietnam's public financial management information systems, including lack of a consolidated budget; lack of common accounting standards; and lack of integrated, electronic data recording and reporting results. As a result, public financial management reform – now part of the PAR – was launched in 2001 and comprised five components: budget management, revenue management, debt management, asset management, and SOEs' financial management.

The fiscal situation is basically sound. The system for control and management of public resources is moving towards a more performance-oriented planning and budget model, but this process has only just begun. One distinctive feature therefore is that the link between planning and annual budgeting remains weak, and the annual budget is largely incremental.

The government is planning to hold to its cautiously accommodative fiscal policy, while providing for structural reform costs. The key policies on the revenue side are strengthening VAT and customs collection and setting domestic prices for petroleum products to safeguard revenue, in view of decreasing revenue due to trade liberalisation. The Department of Taxes will also begin implementing a self-assessment system for large taxpayers.

Decentralisation has increased in recent years, much due to the creation of a more decentralised budgetary framework. The revised Budget Law will become effective from January 2004 and includes some major modifications and supplements with an emphasis on the role of provincial governments in the management and monitoring of local budgets. In addition, the law enhances the power of the NA and people's committees concerning decisions and allocation of state funds.

Within the limits decreed by the political system, substantial moves towards increased transparency have been made in recent years. As an example, a few years ago the state budget was entirely secret; now, budget figures are available on the website of the Ministry of Finance. Recently, the government has, for the first time, openly presented the draft of the PIP for 2001–2005 for discussion and comment. An important step towards increased transparency was the amendment of regulations on financial and budget transparency in November 2001. Under the new Regulation, ministries, central agencies, and provinces are required to make their budgets public and to prepare progress reports on budget transparency for the Ministry of Finance.

Recently, additional measures, for example, the revised Budget Law, the Law on Promulgation of Legal Documents, the Statistical Law, amendments to procurement regulations, and a legal mandate for the State Audit to report to the NA have been taken to increase transparency.

5.7. Trade and International Integration

Vietnam is strongly committed to continued international integration. In fact, it is one of the key priorities in the GOVN's economic strategy. The

bilateral trade agreement (BTA) with the United States will be completely implemented, and according to plans, Vietnam will enter AFTA in 2006. Substantial efforts are being made in WTO negotiations with the aim of becoming a member in 2005. Several bilateral agreements aimed to increase trade and investments are also under negotiation.

Within the AFTA Common Effective Preferential Tariff (CEPT) scheme, Vietnam is expected to reduce tariffs on 760 more products. Highly protected products with import tax rates of up to 40%–50% will be reduced to 20% or less from 2003 and ultimately to 0%–5% by 2006. This will lead to increased competition from other ASEAN countries in many key areas, for example rice from Thailand, chemicals, rubber tyres, and vehicles.

Bilateral negotiations with the EU on WTO accession began last year, but progress has been limited so far. Vietnam will be given no special preferences, and Vietnamese expectations of accession in 2005 are probably too optimistic. The Vietnamese offer regarding market access for industrial and agricultural products is not deemed sufficient by the EU, and for services it is much less generous than has been agreed on with the United States in the BTA. Other factors that may delay the process are that Vietnam does not have enough competent negotiators and lacks internal co-ordination.

Under the World Bank PRSC, Vietnam is committed to reduce quantitative restrictions on trade. This process will continue under subsequent PRSCs and is expected to be completed prior to WTO accession. Vietnam is also at present negotiating agreements on trade quotas for textiles and garments with the USA, and similar negotiations are underway with the EU. Vietnam maintains active discussions with all its trade and investment partners, and an agreement on protection of investments is currently being negotiated with Japan.

Vietnam is highly dependent on foreign trade, which increased rapidly in the 1990s. Nevertheless, the IMF ranked Vietnam as one of the nations with the most restrictive trade regimes amongst all their members in the late 1990s.[44] With an Effective Rate of Protection of around 50% on average and non-tariff barriers protecting a number of key industries, it is clear that the Vietnamese economy is far from open.

Vietnam's export structure is heavily biased towards unprocessed products, although light industrial exports have increased their share since 1998. Textiles, garments, and footwear now account for 27% of total exports. Exports have become more diversified, but Vietnam is still vulnerable to price fluctuations, especially on coffee and rice, while oil prices have fewer effects since they affect both exports and imports. The most striking change in the export structure in recent years is the increased share of seafood, which now accounts for 12% of exports.

While exports have been driving growth in recent years, imports have increased at the same or higher rate. This partly reflects the high import content in Vietnamese production, as illustrated by high dependence on imported petroleum products and material for the textile, garment, and footwear industries. But export growth has also contributed to increased imports of investment and consumer goods.

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[44] *Vietnam, Selected Issues*, IMF Staff Country Report 1999/55.

Vietnam's main trading partners are Asian countries, especially regarding imports. The eight most important import countries are all Asian and account for 75% of all imports. Exports are spread among more countries, although Japan is the largest market, followed by China. The United States was the third largest market in 2001, and exports to the United States doubled in 2002 as a consequence of the implementation of the BTA.

Given Vietnam's relatively recent penetration of the main world markets, there appears to be room for expanding exports, but an obstacle to continued strong expansion in exports comes from the increasing use of non-tariff barriers that the importing countries are imposing as Vietnam becomes a more important player. The most recent example is the US anti-dumping duty levied on catfish from Vietnam. The use of trade quotas for textiles and garments by the United States and the EU will also put a limit on Vietnam's continued export expansion.

The longer Vietnam remains outside the WTO, the greater the pressures and disadvantages it will face as WTO members enjoy commensurate benefits. If Vietnam has not become a member of WTO by 2005, the country's ability to compete with its rivals in exports to similar markets with similar products, especially China, will be seriously reduced. Of particular note is the impending termination of quantitative restrictions on textile products for all WTO members in 2005. Another reason why WTO accession is important is that it will give Vietnamese negotiators access to the legal infrastructure of international trade, which will be of great benefit in trade disputes.

Domestic production of many products is expected to encounter increased competition in the years to come. While many other ASEAN countries are well prepared for the coming competition, Vietnam is not. Small- and medium-sized enterprises lack strategies for marketing and improving their competitiveness. The government is committed to the promotion of exports, but lack of skilled labour, management capacity, quality awareness, and market information remain important obstacles.

The Vietnamese policy environment is unpredictable. Although the country is committed to international integration, other concerns often influence policy decisions. One example was the decision last year to stop imports of inputs to the Japanese motorbike assembly plants. The decision was defended with reference to the many traffic accidents. Japan reacted firmly and considered this a purely protectionist measure. Other examples are unexpected increases in import tariffs for vehicles to support local production.

Vietnam's possibilities to keep up with the competition are closely related to the country's ability to attract foreign direct investment and technology. Increased trade liberalisation and market orientation are improving the business climate, but much remains to be done. Some key issues are[45]:

- The need to reduce the cost of doing business in Vietnam and the importance of introducing greater competition into certain sectors (such as telecommunications, power, and shipping).

[45] These were points raised at the 2002 Business Forum.

- The importance of broadening the currently narrowing tax base that places a disproportionate burden on honest taxpayers.
- The importance of creating a predictable business environment where contracts are enforced and laws are self-enforcing with sanctions for non-compliers.
- The need to create a level playing field between the state and the non-state sector and between foreign and domestic investors (e.g. regarding access to land).
- The need to correct misconceptions on the role of the private sector.
- An overall need for business policies and regulations to be transparent in their formulation and enforcement to improve predictability, vital for maintaining the interest of investors.

5.8 Pro-poor economic growth?

Vietnam has been able, for more than a decade, to combine high economic growth with a substantial reduction in poverty. The growth process has been pro-poor. But does this mean that it will remain pro-poor in the future?

The emphasis is clearly on modernisation and industrialisation, large-scale production, exports and heavy industry, and infrastructure. Although the investment ratio is already quite high (around 35%), government plans are to increase it further. A number of huge projects are on-going or under preparation, mostly financed by domestic sources (e.g. the Ho Chi Minh highway, the Son La hydropower plant, and the Dung Quat oil refinery). Vietnam's development strategy (which is further supported by the donors) builds mainly on the assumption that high growth in the modern sectors and in the growth zones will "trickle down" to poor areas and people.

During the 1990s, Vietnam liberalised its trade policies, integrated into the global economy, and at the same time substantially reduced poverty. There are certainly many links between these processes, but correlations are complicated, and although many studies have been made, it is difficult to draw clear-cut conclusions for the future.

Agricultural growth was initially the major effect of *doi moi* reforms, driven by the liberalisation of the national economy and the recognition of farmers as autonomous economic agents. Land reform was arguably the single most important step in Vietnam's path to rapid growth and poverty reduction in the 1990s. Two of the important factors enabling Vietnam to shift from chronic food shortages during the 1980s to being the second biggest rice exporting country in the world were reform of state control over land through the introduction of land-use certificates and allowing farmers more freedom to plan the use of their land.

It is evident that the existence of global markets and the integration of Vietnam into these markets has been a prerequisite for the rapid expansion of the agricultural sector. The remarkable pace of agricultural expansion has principally been the result of small-scale farmers reacting spontaneously to market incentives. The Government has, however, continued to publish development plans containing growth targets for individual commodities and to encourage large-scale agricultural production in the direction of concentrated, specialised, and intensive

farming[46]. At the same time, the GOVN has been unable to provide the extension support needed by small-scale farmers. The effect is that farm households tend to lack the capability to cope with exposure to unstable and unpredictable world market prices. The instability of the incomes of farm enterprises and households is the single most important problem faced by Vietnam's rural households as a result of the integration of the agricultural sector into the world economy.

Another effect is that both yield potential and output quality are sub-standard and highly intensive, unsustainable production methods are employed, and processing and marketing systems are unsuitable. As a consequence of these deficiencies, Vietnam's major agricultural exports tend to realise unit values that are below those achieved by other countries. This is the case for the country's two main agricultural exports – rice and coffee – and for other export crops such as tea.[47]

The strong promotion of exports from aquaculture is an example where the present economic policies might be neither pro-poor nor sustainable. Local artisan and subsistence fisheries are out-competed by capital-intensive aquaculture with questionable sustainability. A long-term and poverty focussed analysis is clearly warranted.

The challenge is to transform the agricultural production system from one that is target and quantity based to one that is value and quality based. This includes developing high-quality and high-value products, which are produced in an environmentally sustainable manner. This also includes improving the quality of the main export crops as well as developing niche products for specific markets.

The effects of trade liberalisation on poor farmers depend on whether they are net producers or net consumers of internationally traded goods and on the development of farm-gate prices. Price increases will benefit net producers, and this is the reason why households that exported commodities such as coffee and rice have had better chances of lifting themselves out of poverty.[48] However, declining prices will have the opposite effect and this has recently been felt – by coffee producers in particular.

It could be argued that the majority of the poor are net buyers of rice who will benefit from low prices. In the long run, what matters more is greater opportunities for non-farm employment. So far, however, trade liberalisation seems to have failed to create substantial employment effects[49]. This is due mainly to increased efficiency. In industries such as textiles, production increased substantially but employment fell. A further problem has been FDI, which has proved to be capital intensive in relation to domestic production in virtually all industries.

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[46] This is very clearly stated in Resolution No. 02/2003 of January 17, 2003, "on a number of major undertakings and solutions for the performance of the 2003 socio-economic development tasks, which require concentrated attention".

[47] International Economic Integration, Competitiveness and Rural Livelihoods in Vietnam, UNDP/FAO (2002).

[48] *Globalisation and Poverty in Vietnam,* Thoburn and Jones (2003), *The Impact of the Global Coffee Trade on Dak Lac Province,* Oxfam and ICARD (2002).

[49] Thoburn and Jones (2003).

International integration has clearly benefited some people and put others at a disadvantage. In the manufacturing sector, female workers have been the predominant winners as female employment has risen considerably in relation to that of men. Clear losers are those workers who have been retrenched as a consequence of improved productivity. However, employment lost in a dynamic process that will create new job opportunities is better than employment lost as a consequence of an inefficient structure being unable to absorb the expanding labour force (as is mainly the situation today).

6. The Role of Development Assistance

6.1 Overview of donor flows[50]

The inflow of ODA has increased every year from 1993 up to 2000 when it reached USD 1.68 billion. In 2001 it declined to USD 1.44 billion[51]. Preliminary figures indicate increased disbursements during 2002 compared with 2001. In relation to GNI, ODA represented 5.4% in 2000, which is higher than in, for example, Bangladesh (2.5) and Sri Lanka (1.7). The relative share of aid has more than doubled since 1993. The role of ODA has increased even more in relation to other international flows since the decline in FDIs in 1997. On the other hand, remittances from overseas Vietnamese have increased substantially and become a major source of foreign exchange in recent years.

ODA disbursements represent over 20% of total budget expenditures and around 75% of budget investment expenditure. Thirty-four percent of public expenditure in the PIP for 1996–2000 was financed by ODA and a proposed 40% in the PIP for 2000–2005 will be financed by ODA. All this indicates substantial and increasing dependence on aid, although these numbers are still lower than in many other countries.

A total of 25 bilateral donor countries, some 20 multilateral donor agencies, and nearly 400 international NGOs operate in Vietnam. Many donors have Vietnam as a major recipient country; for example, it is now the largest recipient of World Bank IDA funds. Overall, Vietnam is the second largest recipient of ODA (after China)[52]. As can be seen from Table 4, the main donors are Japan, the World Bank, and the Asian Development Bank (ADB), which account for 60% of all ODA disbursements.

During the 1990s, the share of ODA provided as grants declined and was 29% in 2001. The major part of ODA disbursements is for capital investment projects (around 70% in recent years). In 2001, for the first time since 1998, the World Bank provided programme funding under the PRSC, and overall programme support accounted for 20% of total disbursements. Technical Assistance was estimated to be around 25% of total ODA.

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[50] This presentation covers only ODA from OECD countries. In addition, Vietnam receives substantial flows of aid from other countries (mainly China).

[51] These figures represent the "Net ODA Receipts" in OECD/DAC, *2002 Development Co-operation Report*. Similar figures are reported by UNDP (2002) and by MPI.

Table 4: Major donors to Vietnam and disbursements in 2001 (USD million)

Donor	Disbursement
Japan	321
World Bank	313
Asian Development Bank	183
International Monetary Fund	105
France	67
Denmark	48
United Nations	42
Republic of Korea	37
Sweden	31
United Kingdom	28

Source: UNDP (2002)

Since 1998, infrastructure has been by far the largest recipient sector for ODA, representing over 50% of the total (excluding what is classified as rural development), although this share declined somewhat in 2001. This is mainly related to the increased availability of ODA loans from Japan and the development banks. Within infrastructure, funding for transportation has increased rapidly since 1999 and represented 22% of total ODA in 2001, while the shares for energy and water and sanitation have declined.

Around 12% of total ODA is used for human resources development, including education and health. This share has declined somewhat since the mid-1990s and disbursements in 2001 were the lowest since 1996 in absolute terms. In education, the largest funds are directed towards tertiary education, which received almost three times more ODA funding than primary education and over three times more than secondary education. In health, most ODA funding is provided for family planning while support for immunisation and disease control has declined.

ODA funds for rural development, agriculture, forestry, fisheries, and the environment have been rather constant, at around 12% of the total, since 1997. Remaining sectors are policy and institutional support, urban and industrial development, and emergency relief.

Direct involvement of sub-national agencies in ODA programming remains limited, and the only major exception is in the large urban centres – Hanoi, Da Nang, and HCMC. UNDP estimates that the share of ODA allocated for specific regions and urban administrations roughly doubled between 1995 and 2000 but was substantially reduced, to around 52% in 2001 .[53] However, many donors seek to increase the share of disbursement made at the provincial level – especially in the poorest provinces – and some provincial authorities have recently become involved in selected partnership groups.

[52] CDF evaluation (2002).

[53] Overview of Official Development Assistance: Vietnam, UNDP 2002.

The Mekong Delta is receiving the lowest ODA per capita in the country. In addition, HCMC, the North Central Coast, and the South Central Coast receive less than the national average of USD†9.28. In contrast, Ha Noi records the highest ODA per capita. Notwithstanding these differences, disparities across regions have diminished somewhat over the last year. A comparison between ODA that is disbursed directly into the regions and the poverty incidence by region illustrates the inequality of disbursement. The Northern Uplands, the North Central Coast, and the Mekong Delta are the most disadvantaged regions in the country, home to nearly 70% of all poor people in Vietnam. However, they account for only 44% of all ODA distributed to the provinces. This has largely been the case over the last few years.

6.2 Official development assistance: management and implementation

Vietnam has a comprehensive set of regulations for management of ODA resources. The key role is played by the Ministry of Planning and Investment (MPI) which has a legal mandate to act as the focal point agency of the Government of Vietnam on ODA management and utilisation and be a partner of bilateral and multilateral donors on ODA co-ordination.

ODA resources are, according to the Budget Law, part of the state budget. However, aid funds recorded in the 2000 budget (grants and onlending) accounted for around 12 % of total expenditure while total ODA disbursements, according to MPIs own figures, represented more than 20% of expenditures. This is partly explained by the large amounts of ODA loans channelled through the Development Assistance Fund (DAF) (förklara i not vad DAF är och hur mekanismen fungerar) which is outside the budget. According to newspapers, around USD 2 billion of ODA loans have been used for onlending via DAF since it was established in 1999.

Decree 17, issued in 2001, provides the umbrella legal framework for ODA management. It gives directives for preparation, appraisal, approval, negotiations, implementation and monitoring, and evaluation of ODA projects. Although some steps towards decentralisation have been taken, most projects (including all loan-financed projects) must still be approved by the Prime Minister. The procedures are also based on a project approach – that is, assuming there is a Project Management Unit (PMU) for each project – and are not adjusted to a programme approach. The experience so far is that the decree not only has clarified the mechanisms but also – at least in an introductory phase – has led to further delays in many cases.

Low disbursements in relation to commitments have long been a problem in Vietnam. The situation has improved somewhat in recent years but during the period 1993-2001 some USD 6,1 billion or around one third of total commitments remained undisbursed. One major reason for the slow implementation is that large projects and programmes plan a spread of disbursements over time to allow for gradual implementation. Moreover, since 1993, Vietnam has witnessed a rapidly growing number of donor agencies becoming active and expanding their programmes in the country. This has heavily taxed the capacity of the

government – especially as it has had to become acquainted with a variety of donor procedures and conditions – while donor co-ordination was still in its infancy.

Most ODA funding at the provincial level is provided under the umbrella of national projects that are financing sub-projects in a number of provinces. These must be approved at the national level after varying degrees of consultation with local officials. While planning capacity is strong in some of the more developed local agencies, it remains very weak in many of the rural provinces that have the highest proportions of people living in poverty. Decentralisation is constrained by local capacity to manage the larger and more complex projects typically financed under ODA programmes. There have been problems in ensuring that ODA-financed project designs reflect local planning capacity, counterpart funding, and management.[54]

6.3 Partnerships, co-ordination, and harmonisation

Since 1998 the concept of "partnership" has been a focus in government-donor relations. Compared with other countries, Vietnam has made significant progress on partnerships. More than twenty partnership groups have been established in different areas. The government has participated actively in some of these, but neither the Vietnamese partners nor the bilateral donors have had the capacity to cover all issues. Many of the groups have therefore been dominated by the multilaterals. The programmes of the groups have also differed substantially, with some being limited to information sharing.

The most important group has been the Poverty Working Group/ Poverty Task Force (PWG) which was established in 1999. The PWG produced the report "*Vietnam: Attacking Poverty*" that was jointly presented to the 1999 CG meeting. This report was well received, and as a result the government requested development partners to assist them in formulating a "comprehensive" poverty reduction strategy. At the same time, the government was negotiating a joint credit with the World Bank and IMF (SACII/ PRGF) and was required to produce an Interim Poverty Reduction Strategy Paper (I-PRSP). The government initially regarded the I-PRSP as a parallel exercise distinct from its own national poverty strategy. The need to take a *holistic* approach to poverty reduction strategy is now well understood by many government officials, and this is regarded as one of the major achievements of the PWG.

The current "partnership" approach has opened new avenues for INGO involvement in policy formulation, such as participation in the grassroots consultations for the CPRGS and representation in the CG meetings, where they now have a permanent seat. Donors have also requested the government to broaden partnerships to include civil society and to meet with representatives of mass organisations and local NGOs in conjunction with the CG meetings, but the Government has so far been very reluctant to do so.

In terms of private sector involvement, there is a general perception of ODA as public sector business, and at best, the private sector becomes

[54] *Evaluation of the Comprehensive Development Framework. Vietnam Case Study,* World Bank 2002.

involved as a supplier. The WB/IFC sponsored Vietnam Business Forum (formerly the Private Sector Forum), however, holds sessions in connection with every CG Meeting and has become an important part of the government's effort to engage the business community in a policy dialogue.

In general, the international community now broadly endorses the government's reform agenda. There is an enhanced understanding that the pace of reform needs to be dictated by national political considerations. Meanwhile the capacity of the central government to engage in the dialogue with donor agencies has improved significantly. Another initiative along the same lines is the analytical work of "localising" the MDGs. Vietnam has committed itself to the MDGs, but in consultation with donors, through the PWG, it was agreed to establish a new set of indicators that are in line with government's own strategic goals and timeframe (the VDGs). Several donor agencies and INGOs have contributed to this analytical work, which has been used in the development of the CPRGS. But despite participation of the government (mainly MPI), it has primarily been a donor-driven process.

The intensified work on partnerships, however, has resulted in a very limited co-ordination of aid. The partnership groups have – to some extent – been important in the exchange of information and the co-ordination of policy. But until very recently, there were no examples of movements towards a programme approach or towards the establishment of a division of labour between donors. The almost total absence of programme support[55] is explained by both a lack of interest from the government and a reluctance from the donors, based on the assessment of high fiduciary risks. The last year, however, has witnessed a significant change due to the creation of many Multi-Donor Trust Funds[56].

The government has made progress in harmonising its procedures, with the promulgation of Decree 17. On the donor side there have also been a lot of efforts in harmonisation of procedures within the Like-Minded Donor Group (LMDG)[57], among the international development banks, and within the EU and the UN systems. Although the donors agree on the importance of reducing transaction costs and ensuring government ownership, views on the coverage and depth of this harmonisation process diverge. As an example, the development banks (ADB, AFD, JBIC, KFW, and WB) have emphasised the need for "diversity in harmonisation" [58]

6.4 The future of aid

It is, of course, impossible to say what role development assistance has played in achieving growth and poverty reduction in Vietnam. In the

[55] There are no SWAPs in Vietnam but the World Bank PRSC, including co-financing from bilaterals (Denmark, Netherlands, Sweden, and the United Kingdom) is an example of programme support, as is also the Japanese Myizawa Fund.

[56] At present there are at least seven MDTFs established or under preparation, regarding public finance management, capacity building for aid harmonisation, forestry, public administration reform, legal reform, and the International Support Group for agriculture.

[57] The LMDG is an ad-hoc grouping of Hanoi-based bilateral donors (Sweden, Denmark, the Netherlands, Canada, Finland, Norway, Switzerland, and the United Kingdom) who are drawn together by a common commitment to (1) use the CPRGS as a framework for our ODA planning and delivery and (2) improve the quality of aid in Vietnam. The LMDG is not an exclusive group and aims to promote change through the demonstration effects of practical actions that have concrete, measurable results.

[58] *Vietnam: Improving ODA Effectiveness,* Mid-year CG Meeting 2003.

1980s Vietnam had the manifestations of a typical "aid dependent" economy with aid (mainly from the Soviet Union) paying for over half of imports and over two-thirds of government expenditure.[59] Soviet aid collapsed in 1990, and in 1993 aid flows were just one quarter of what they were a few years earlier. With the lifting of the US embargo in 1994, aid has surged. The increase in aid inflow has been more or less parallel with the high rate of economic growth and poverty reduction. Today, aid per capita is around USD 18, which is a high figure for the large size of the country (small countries normally receive more aid per capita).

The role of aid has mainly been to complement domestic resources and to support domestic reforms. The *doi moi* was catalysed entirely by domestic factors. Donor policy dialogue and formal conditionality have played a lesser role than in most other developing countries. The main influence has instead been through dissemination of information and ideas[60]. But this situation has changed somewhat in recent years.

The first successful example of policy-based assistance is probably the Japanese New Miyazawa Initiative. Under this, an agreement was signed in 1999 on programmes for private sector development, audits of SOEs, and tariffication of non-tariff barriers, supported by a programme loan of USD 185 million. This paved the way for an agreement with the WB on PRSC 1 in 2001, which in turn introduced the PRSP process to Vietnam. The WB has taken a firm lead in donor discussions with the government in recent years.

Around 1998, the first generation of reforms had been implemented and the situation had come to a stalemate[61]. The pressure from donors probably played a role for the introduction of the "second generation" of reforms, including trade, banking, and SOE reform. Donors (including Sweden) also contributed to the preparations of the SEDS, providing substantial background material and discussions with international experts. The SEDS certainly introduces a lot of new ideas to Vietnam, while retaining some of the old thinking patterns inherited from the days of a planned economy. However, the SEDS made it possible for the government to integrate the PRSP-CPRGS into its own processes. The focus in many areas covered by the CPRGS is new. And the new vocabulary, including a bottom-up process, may create space for real changes in the long term.

It seems therefore that development assistance has had a positive effect, mainly through its influence on thinking concerning economic reforms and poverty reduction. On the other hand, there are many signs of an old-fashioned view of the role of ODA, represented for example by the "lists of projects for funding" which are regularly presented to donors. The strong project orientation of development co-operation in Vietnam leads to unhealthy aid dependence at the micro level, even if dependence is low at the macro level. It also distorts government structures and impedes public administration reform.

By 2008, Vietnam will, in an optimistic but not unrealistic scenario, have implemented the "second generation" of reforms. It will be a

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[59] Fostering High Growth in a Low Income Country, Sida 1999.

[60] This was pointed out as a main effect of Swedish co-operation by David Dollar in Assessing Aid, World Bank 1999?

[61] This was noted in the Swedish Country Analysis, Landanalys Vietnam, 1998.

member of the WTO; it will have a streamlined and efficient state-owned sector and a dynamic private sector. Basic administrative and legal reforms will have been implemented. There will still be poor areas and poor people, but all of the population will be covered by social insurance and safety nets.

In this situation, the need for aid will be lower, at least in the forms in which it is provided today. There will still be a need for technical assistance in specific areas, but any needs for financial support should be provided as budget support. It should be added that – even with high growth rates – Vietnam will still be a low-income country and eligible for concessionary resources in the foreseeable future.

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Appendices

Appendix 1

Vietnam Development Goals

Vietnam Development Goals (VDGs) and Targets based directly on the MDGs*

Goal 1: Reduce the percentage of poor and hungry households

Target 1: Reduce by 40% the proportion of people living below the international poverty line between 2001 and 2010.

Target 2: Reduce by 75% the number of people living under the international food poverty line by 2010.

Goal 2: Universalise education and improve educational quality

Target 1: Increase net enrolment in primary school to 97% by 2005 and to 99% by 2010.

Target 2: Increase net enrolment rate in junior secondary school to 80% by 2005 and 90% by 2010.

Target 3: Eliminate the gender gap in primary and secondary education by 2005 and the gap with ethnic minorities by 2010.

Target 4: Increase literacy to 95% of women under 40 by 2005 and 100% by 2010.

Target 5: Improve the quality of education and increase full-day schooling at the primary level (exact target depends on funding) by 2010.

Goal 3: Ensure gender equality and women's empowerment

Target 1: Increase the number of women in elective bodies at all levels.

Target 2: Increase the participation of women in agencies and sectors (includes ministries, central agencies and enterprises) at all levels by 3%–5% in the next 10 years.

Target 3: Ensure that the names of both husband and wife appear on the land-use right certificates by 2005.

Target 4: Reduce the vulnerability of women to domestic violence.

Goal 4: Reduce child mortality, child malnutrition, and the birth rate

Target 1: Reduce the infant mortality rate to 30 per 1000 live births by 2005 and 25 by 2010 and at a more rapid rate in disadvantaged regions (see below).

Target 2: Reduce the under-5 mortality rate to 36 per 1000 live births by 2005 and 32 by 2010.

Target 3: Reduce under-5 malnutrition to 25% by 2005 and 20% by 2010.

Goal 5: Improve maternal health

Target 1: Reduce the maternal mortality rate to 80 per 100,000 live births by 2005 and 70 by 2010 with particular attention to disadvantaged areas.

Goal 6: Reduce HIV/AIDS infection and eradicate other major diseases

Target 1: Slow the increase in the spread of HIV/AIDS by 2005 and halve the rate of increase by 2010.

Goal 7: Ensure environmental sustainability

Target 1: Extend forest cover to 43% by 2010 (from 33% in 1999).

Target 2: Ensure that 60% of the rural population has access to clean and safe water by 2005 and 85% by 2010. Ensure that 80% of the urban population has such access by 2005.

Target 3: Ensure that there are no slums and temporary houses in all towns and cities by 2010.

Target 4: Ensure that all waste water in towns and cities is treated by 2010.

Target 5: Ensure that all solid waste is collected and disposed of safely in all towns and cities by 2010.

Target 6: Air and water pollution must attain national standards by 2005.

Vietnam Development Goals* and Targets *not* based directly on the MDGs

Goal 8: Reducing vulnerability

Target 1: Increase the average income of the lowest expenditure quintile to 140% of that in 2000 by 2005 and to 190% of that in 2000 by 2010.

Target 2: Reduce by half the rate of poor people falling back into poverty due to natural disasters and other risks by 2010.

Goal 9: Improving governance for poverty reduction

Target 1: Effectively implement grassroots democracy.

Target 2: Ensure budget transparency.

Target 3: Implement legal reform agenda.

Goal 10: Reducing ethnic inequality

Target 1: Preserve and develop reading and writing abilities of speakers of ethnic languages.

Target 2: Ensure entitlement to individual and collective land-use rights in ethnic minority and mountainous areas.

Target 3: Increase the proportion of ethnic minorities in government bodies at various levels.

Goal 11: Ensuring pro-poor infrastructure development

Target 1: Provide a basic infrastructure for 80% of poor communes by 2005 and 100% by 2010.

Target 2: Expand the national transmission grid to 900 poor commune centres by 2005.

*Note: This is a summary of a fuller set of VDGs outlined in the CPRGS. The VDG papers have more targets and indicators.

Source: Government of Vietnam (2002).*Comprehensive Poverty Reduction & Growth Strategy.*

Appendix 2

ANALYSIS OF THE VIETNAM COMPREHENSIVE POVERTY REDUCTION AND GROWTH STRATEGY

Submitted to MPI by the Embassies of Canada, Denmark, Finland, Germany, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom

The Challenge

Preamble

1. Vietnam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was approved by the Prime Minister and published in May 2002 – the first in Asia. It was preceded by an Interim Poverty Reduction Strategy Paper (I-PRSP) in 2001 and a series of consultation workshops across the country in early 2002. The CPRGS greatly improves upon the I-PRSP and is widely held to be a model for similar strategies elsewhere in the world.

2. Since the publication of the CPRGS there have continued to be workshops in an attempt to identify the crucial steps towards its implementation – including prioritisation and sequencing. The challenge now lies in ensuring that the CPRGS will be fleshed out and implemented in a way that genuinely benefits the poor and reduces inequality.

3. The CPRGS sets out the Government of Vietnam's (GOVN) strategy for economic growth and for poverty reduction, placing emphasis on the links between the two. The CPRGS recognises that poverty is not simply about a lack of income and outlines a broad agenda for tackling poverty – especially in rural areas where poverty is concentrated. It places the poverty-reduction agenda in the context of Vietnam's transition to a socialist-oriented market economy.

4. GOVN has taken strong ownership of the development agenda, and while the level of commitment at the provincial and lower tiers of government has yet to be tested, there has been impressive momentum from the centre. The extent of Vietnam's ownership of the poverty reduction process has been seen in the preparation of its PRSP which was government-led and renamed CPRGS to reflect this ownership and Vietnam's determination to tailor the strategy to its specific needs, approach, and priorities – including the strong emphasis on economic growth as a primary vehicle for poverty reduction. One of Vietnam's Deputy Prime Ministers will oversee the on-going CPRGS process and an inter-ministerial steering committee has been established for that purpose.

5. The expectation is that many, if not most donors, will align themselves behind the GOVN's own strategy for Vietnam and adopt the CPRGS as the basis for their overseas development assistance (ODA) support. To that end, the GOVN has actively included donors in the process of developing the CPRGS and in follow-up work. For their part, donors have made an equally active contribution –

individually and through collective endeavours. The World Bank's Country Assistance Plan (CAP) is aligned with the CPRGS and the intention is that the "Like-Minded" donors will follow suit.

Summary of the Analysis within Vietnam's Country Poverty Strategy

6. The CPRGS provides an overview of Vietnam's economic development and poverty reduction achievements over the course of the 1990s and proposes a comprehensive list of measures to continue this process.

7. As the CPRGS rightly claims, Vietnam's record in poverty reduction over the past decade has been second to none. The incidence of poverty (using the international poverty line) was reduced from 58% in 1993 to 37% in 1998, and estimates for 2000 put the figure at 32%. However, Vietnam remains a poor country with a *per capita* GDP of only USD 400 in 2000, and many people live only marginally above the poverty line and are constantly at risk of falling back into poverty.

8. Economic growth is rightly emphasised in the CPRGS as a necessary condition for poverty reduction. However, it is important that such growth is broad based and inclusive. The CPRGS expresses concerns about inequality – especially those between rural and urban populations; between ethnic minorities and the majority *kinh* people, women and men; and between poor and wealthy regions and provinces. Ninety % of Vietnam's poor live in rural areas and are largely dependent on income from agriculture. They are particularly vulnerable to economic crises, caused for example by natural disasters and ill health; to the vagaries of the seasons; and to the effects of environmental degradation. Like the urban poor, they lack collateral and have limited access to credit.

9. Remote and mountainous rural areas typically are home to Vietnam's ethnic minorities who represent 14% of the national population but 29% of the poor. Ethnic minorities are subject to a greater number of the above factors than any other large group in Vietnam. The CPRGS attaches considerable importance to addressing the needs of ethnic minorities (including the preservation of their cultures) and of other vulnerable groups.

10. The CPRGS is comprehensive in that it identifies a range of causes of poverty and inequality including natural disasters, environmental degradation, inefficiencies in industrial and agricultural production, lack of basic infrastructure, limited education, and lack of health care and family planning. In so doing, it recognises the multi-dimensional nature of poverty (although it does not include the perspective of individual and human rights) and the need for a multi-sectoral approach to both growth and poverty reduction.

11. Planned economic and trade reforms (including World Trade Organisation accession) are, according to the CPRGS, expected to lead to gains for all income groups over the medium term, but it identifies a need for policies to support displaced workers in the short

term. There are positive messages in the Strategy about creating a level playing field for the private sector and about introducing an appropriate legal framework. Small- and medium-sized enterprises (SMEs) are presented as key contributors to economic growth.

12. The CPRGS highlights the need for legal and public administration reform to improve professionalism, capacity, and accountability so that effective and equitable policies can be developed and successfully implemented. It advocates the rule of law and calls for corruption and waste to be tackled. It also exhorts more vigorous implementation of decentralised administration and carries forward themes from the grassroots democracy decree in relation to the provision of accessible information about policies, plans and services, consultation and participation, and budget transparency.

13. The development of the Vietnam Development Goals informed the content of the CPRGS and there is an attempt, through the inclusion of targets and indicators, to ensure that the CPRGS is result oriented.

14. Having set out an enormous agenda for change, the CPRGS, which has a 5-year time horizon (2001–2005), then identifies a "priority direction" for this period – across six sectors:

- Agriculture and rural development – expanding the production and development of infrastructure, processing and post-harvest activities, forestry, aquaculture, and the application of new crop varieties.
- Health – developing the basic health care network (staffing, equipment, and medical supplies), especially in remote and difficult areas. Upgrading hospitals.
- Training and education – upgrading and building new schools – from kindergarten to upper secondary, improving teacher quality, equipment, and curricula.
- Transport – improving the quality of transport and road management, especially in rural areas.
- Science and technology – developing infrastructure and information technology.
- Environmental protection – ensuring sustainable development and tackling pollution.

15. The priority direction also includes programmes which target the poorest regions, provinces, and cities and states the intention to prioritise the State Budget accordingly and to reduce geographical inequality.

Process

16. The CPRGS process in Vietnam is widely perceived to have been country driven and strongly owned by central government. At all stages, the document was drafted first in Vietnamese and then translated into English.

17. The lead responsibility for drafting the CPRGS has rested with the Ministry for Planning and Investment (MPI) but there has been wider participation with a broad range of stakeholders within and outside government. The drafting committee involved more than 50 individuals and 15 ministries and line ministries, provinces, and non-governmental organisations (NGOs), and in addition, donors had the opportunity to submit comments on numerous emerging drafts. A Poverty Task Force was established, involving Government, NGOs, and donors as a partnership to direct the poverty analysis, which would inform the Government's strategy. There is also an intention to involve stakeholders at all levels in implementation and monitoring.

18. CPRGS Consultation exercises were carried out with local communities in six provinces (Lao Cai, Quang Tri, Ha Tinh, Tra Vinh, Vinh Long, and Ho Chi Minh City [HCMC]). Four of these were the locations of the original poverty assessment carried out to gather information for the Interim-PRSP and the GOVN's poverty strategy more generally. These were conducted by international NGOs and involved more than 1800 people. The local consultation reports were submitted to the MPI and subsequently presented at four MPI-led regional workshops in Tuyen Quang in the North, Quang Binh in the Central Region, Can Tho in the South, and HCMC (a workshop focusing on the major urban centres). Primarily, the regional consultation workshops were targeted at provincial and city officials but representatives from central ministries were also present and donors and NGOs were invited to attend. It is less clear how far the private sector has been involved in the CPRGS consultation process.

19. In addition to these events, two workshops were held for donors – one early in 2002 when the first full draft of the CPRGS was under preparation and one after all the regional workshops had taken place and a fourth draft of the CPRGS was available for comment. Workshop discussions were open and frank, and the draft CPRGS changed shape during the process.

Commentary on the CPRGS

20. Vietnam has set itself very ambitious growth and poverty reduction targets as it seeks to make up lost ground and keep pace with its fast-growing neighbours, especially China. Ideologically, the GOVN has a strong affiliation with the poor and a commitment to equality. Both Party and government place a premium on stability throughout the domestic economy and society. The centrality of these priorities to policy-making have already and should continue to ensure that poverty reduction initiatives and the implementation of the CPRGS remain high on the GOVN's agenda. However, Vietnam remains a very poor country (despite a decade of high growth), and this along with the need for continuing political will – and adequate political and administrative capacity – will be a key determinant of successful CPRGS implementation.

21. Though recognising the multi-dimensional aspects of poverty, the CPRGS does not analyse the poverty impact of some of the Government's own policies, for example:

- Land use and allocation policy and the way it is implemented in practice (and the implications for access to credit).
- The policy of subsidising credit in poverty reduction programmes.
- Urban in-migration policy which restricts migrants' access to official registration (and documentation), and as a result, to stable employment and basic services.
- The regressive effects of socialisation policy in some sectors and the inadequacy of exemption schemes for the poor.
- The continuing diversion of public funds to largely inefficient state-owned enterprises (SOEs).
- The fundamental lack of political competition.

Without these issues being addressed, there is a risk that key causes of poverty or poor provision of services to the poor will not be tackled.

22. The CPRGS highlights good governance as a prerequisite for growth and poverty reduction. It focuses on public administration reform, legal reform, and the grassroots democracy decree. But there is a danger that the governance agenda will be seen in terms of these major "set piece" reform programmes rather than something that permeates all aspects of government, society, and development. And, while it recognises that Vietnam is in transition to a "socialist-oriented market economy", the CPRGS does not convey any expectation that fundamental social or political change will accompany this economic transition, for example, to increase political accountability.

23. Overall, the CPRGS document itself pays little attention to how organisational and institutional weaknesses in existing poverty reduction programmes (also mentioned in the CPRGS) will be rectified; how the further measures proposed will translate into reduced poverty; and how public administration and legal reform will lead to better quality, corruption-free public services.

24. A commonly voiced criticism of the CPRGS is that it is little more than a wish-list of ambitions that lacks prioritisation and sequencing and which gives no clear indication of how the Strategy's ambitions are to be translated into concrete plans for delivery. A workshop in Hai Phong sought to address these limitations and further detailed work is underway.

25. The investment priorities outlined in the Public Investment Plan (PIP) appear inconsistent with the CPRGS. For example, the CPRGS's commitment to underdeveloped regions is not borne out in the PIP, which proposes the lowest levels of public investment in the poorest regions. As yet, there is little evidence that other resource allocations will be influenced by the CPRGS. And certainly, the aims of the CPRGS targets will not be achieved if the investment burden falls on poor communities and households.

26. There is a broader concern as to how far the CPRGS will be integrated into established planning and resource allocation mechanisms. It is as yet unclear how exactly the CPRGS relates to the existing 10-year Socio-Economic Development Strategy (SEDS) for 2001–2010 and the various sectoral strategies that have developed out of the SEDS.

27. GOVN has stated that CPRGS activities will be incorporated into annual plans, but there remains some concern that the CPRGS is essentially a vehicle for marshalling ODA and private sector resources and as such will not be fully integrated into mainstream sectoral and provincial planning.

28. Unlike the SEDS, which was approved by the National Assembly (NA) – the highest statutory authority in Vietnam – the CPRGS has been subject to approval from the Prime Minister. Some commentators consider this to be an indication of the CPRGS's inferior status although the annual socio-development plans, which will help bring CPRGS policies into implementation, will be debated and approved by the NA.

29. Implementation of the CPRGS will require on-going work to translate it into local government plans and priorities adapted to Vietnam's different regional realities and to ensure sufficient capacity and resources are available at local level for implementation. This will require communication vertically between the centre and provinces and horizontally between ministries. There is evidence of strong interest within provincial governments in developing their local strategies. Divergence in local capacity means that implementation of the CPRGS is likely to be uneven with poorer provinces less able to deliver and manage reforms despite their greater urgency in these regions.

30. And, despite references to local democracy and capacity building, and despite local consultations which informed the CPRGS content, much greater recognition is required of the role which poor people can play as key stakeholders and active agents in the poverty reduction process.

31. The following risk analysis incorporates those risks identified in the Joint Staff Assessment of the CPRGS carried out by the International Monetary Fund (IMF) and World Bank but places greater emphasis on risks arising from lack of capacity, failure to mainstream interests of the disadvantaged, and failure to address key environment issues.

RGS Risk Analysis and Mitigation Measures

Risk	Impact	Probability	Mitigation
Slackening in commitment to economic, legal, and administrative reform or in commitment to improving enabling environment for private sector development.	*High* Reduced growth and poverty reduction in the longer term.	*Low* Overall commitment to reform remains strong – but less clear for some governance and SOE reforms. International integration is driving some reforms. Pace of reform will vary. A significant increase in inequality may reduce commitment.	Improve understanding of the impacts of reform on inequality, with targeted programmes to help disadvantaged groups. PRSC aims to provide incentives for reform.
Failure to align government (and donor) efforts with CPRGS. *Medium*	Resources and policies not adjusted to reflect pro-poor priorities. Dispersed efforts reduce growth and poverty reduction results of spending.	*High* Vietnam has a successful record of growth and poverty reduction, but the status of CPRGS as a planning document needs to be strengthened. First post-CPRGS PIP only partly reflects a change in priorities. CPRGS is broad, allowing donors to continue as before.	Establishment of DPM-chaired implementation committee for CPRGS. Further inter-ministerial and GOVN-donor dialogues on implementation. CPRGS progress reporting to CG. Expenditure planning to align with CPRGS, for example, through MTEF.

Risk	Impact	Probability	Mitigation
Insufficient capacity in government to implement an increasingly complex reform agenda.	*Medium* Historical spending patterns with less impact on poverty remain. Continued divergence in growth and poverty reduction between "have" and "have not" regions.	*Medium* Government ownership of its development agenda is strong but capacity is weak in some central ministries and most lower levels of government. Workshops are being held to focus implementation at the sectoral level.	Prioritise CPRGS programmes to guide and simplify allocation decisions by government. Strengthen capacity in key areas of the bureaucracy.
Failure to integrate the disadvantaged into mainstream development efforts.	*Medium* Continued increase in income and social inequality.	*Medium* Government expresses an intention to increase participation for all but inequalities in programming remain.	Develop targets and criteria for investment prioritisation. Increase participation within lower levels of government. Implement Grassroots Democracy Decree.
Failure to integrate environmental concerns into CPRGS implementation.	*Low* Deteriorating urban and rural environments and accelerated loss of biodiversity.	*Medium* Environment is not well integrated into CPRGS but Vietnam is revising its environmental strategy based on the CPRGS and 2002 WSSD.	Strengthen MONRE, NEA, ISGE. Improve co-ordination with CPRGS Implementation Secretariat.
Domestic shocks such as natural disasters impact directly on vulnerable groups while economic shocks may increase fiscal vulnerability.	*Medium* Shocks can have direct impact on poor people. Shocks can impact on fiscal stability, reducing resources for pro-poor expenditure.Inflation affects the poor.	*Low* Natural disasters can be expected but would be unlikely to have a systemic impact on the economy. Vietnam has a good record of macro-economic management.	Improvements in fiscal management, transparency, and revenue collection. Contingency planning in the budget process. Continued prudent economic management. Disaster preparedness.
Exogenous shocks may affect attainment of ambitious targets. For example, changes to terms of trade, access of China to the WTO, changes in the global environment for the FDI, and external debt risks.	*Medium* Potential negative impact on economic growth in Vietnam. Exporters vulnerable to changes in commodity and export prices. Poor vulnerable to inflationary effects.	*Low* Trend towards globalisation and openness means that the vulnerability to changes in the global economy is increasing over time. Future growth based more on Vietnam's comparative advantage reduces risk.	Strengthen competitiveness of the economy. Continued diversification of the economy, with reduced dependency on agricultural commodities. Improved market access for exporters. Caution over capital account liberalisation.

CONCLUSION

32. Vietnam's CPRGS is to be welcomed. It demonstrates the GOVN's continuing commitment to reducing poverty and to leading its own development agenda, though in an inclusive and consultative way.

33. However, the publication of the CPRGS is only the start of an on-going process to achieve and sustain poverty reduction. The challenge lies in translating policy into reality and in achieving tangible, positive outcomes for the poor – not only in meeting the circumstances of today but in responding effectively to the demands of the future.

List of abbreviations

Country Analysis Vietnam

ADB	Asian Development Bank
AFD	Agence Francaise de Developpement
ASEAN	Association of Southeast Asian Nations
AFTA	ASEAN Free Trade Area
ASEM	Asia Europe Meeting
BTA	Bilateral Trade Agreement
CAP	Country Assistance Plan
CAT	Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment
CDF	Comprehensive Development Framework (WB)
CEPT	Common Effective Preferential Tariff
CG	Consultative Group
CIEM	Central Institute for Economic Management (Ministry of Planning and Investment)
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CPV	Communist Party of Vietnam
DAF	Development Assistance Fund
DSI	The Development Strategy Institute
EU	European Union
FAO	Food and Agriculture Organisation (of the United Nations)
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
GOVN	Government of Vietnam
GSO	General Statistical Office
HCFP	Health Care Fund for the Poor
HCMC	Ho Chi Minh City
HDI	Human Development Index
HEPR	Hunger Eradication, Poverty Reduction and job creation
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
HPI	Home Price Index
ICOR	Incremental Capital-Output Ratio
ICT	Information and Communication Technology
IDA	International Development Association
IDU	Injecting Drug User
IFC	International Finance Corporation
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation

JICA	Japan International Cooperation Agency
KFW	Kreditanstalt für Wiederaufbau
LMDG	Like-Minded Donor Group
LNA	Legal Needs Assessment
MDTF	Multi-Donor Trust Fund (WB)
MOLISA	Ministry of Labour, Invalids and Social Affairs
MP	Member of Parliament
MPI	Ministry of Planning and Investment
NA	National Assembly
NGO	Non Governmental Organisation
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
PAR	Public Administration Reform
PIP	Public Investment Programme
PMU	Project Management Unit
PPP	Purchasing Power Parity
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
I-PRSP	Interim Poverty Reduction Strategy Paper
PWG	Poverty Working Group (/Poverty Task Force)
SACII	Second Structural Adjustment Credit
SEDS	Socio-Economic Development Strategy
SME	Small and Medium Enterprises
SOCB	State-Owned Commercial Banks
SOE	State-Owned Enterprises
SRV	Socialist Republic of Vietnam
SWAP	Sector Wide Approach
VDG	Vietnam Development Goals
VLSS	Vietnam Living Standards Survey
UN	United Nations
UNDP	United Nations Development Programmes
UNGASS	United Nations General Assembly Special Session on HIV/AIDS
VAT	Value Added Tax
WB	The World Bank
WHO	World Health Organisation
WTO	World Trade Organisation

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.

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