

## **Vietnam: Poverty Reduction Strategy Paper Progress Report**

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The steering committee of  
Comprehensive poverty reduction and growth strategy

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The Inter-ministerial Working Group

**VietNam:**  
**Growth and reduction of  
poverty**

Annual Progress Report of 2002 - 2003

Hanoi, November 2003



## **FOREWORDS**

Economic growth together with social equity is an ultimate goal of all nations in the world. Maintaining high and sustainable economic growth together with tackling social problems, including hunger elimination and poverty reduction will ensure that every citizen can enjoy the benefit of economic development. Vietnamese government has clearly demonstrated this point of view in strategies and policies aimed at socio-economic development.

The comprehensive strategy for Poverty Reduction and Growth (CPRGS) approved by the Prime Minister on May 21, 2002 has elaborated the general objectives, mechanism, policies and solutions of the 10-year (2001-2010) and 5-year socio-economic development strategies. Besides economic objectives, the strategy sets forth the social development and the comprehensive, nation-wide social development and poverty reduction objectives.

Within 2 years, 2002-2003, thanks to the great efforts of the Party, the people and the practical and effective assistance of the international community and donors, Vietnam continues making significant progress in terms of poverty reduction and growth. The rates of economic growth and reduction of poverty Vietnam has achieved is one of the highest in the region as well as in the world. The life of the people has improved substantially in both quality and quantity.

The annual report "Vietnam: Growth and Reduction of Poverty" is a document comprehensively and systematically assessing the socio-economic development and poverty reduction in Vietnam in the process of implementing CPRGS. We hope that this report will be a positive starting point and a belief for all of us to fulfil our task of enhancing economic growth and reduction of poverty in Vietnam.

**MINISTER  
MINISTRY OF PLANNING AND INVESTMENT**

*Vo Hong Phuc*

## TABLE OF CONTENTS

<b>INTRODUCTION .....</b>	<b>v</b>
<b>PART 1: EVALUATION OF ECONOMIC GROWTH AND POVERTY REDUCTION.....</b>	<b>4</b>
<b>I. OVERVIEW.....</b>	<b>4</b>
1. International and national context.....	4
2. The economic growth and poverty reduction rate has met the target for the year proposed in the Strategy. ....	4
3. Change of the economic structure to serve the economic growth and poverty reduction.....	6
4. Close Relationship between Growth and Poverty Reduction. ....	7
<b>II. ECONOMIC GROWTH IN INDIVIDUAL SECTORS: .....</b>	<b>10</b>
1. The industrial production has rapidly grown and gradually developed in a stable manner with the improved quality. ....	10
2. The agriculture, forestry, and aquaculture sector overcomes many difficulties in terms of weather and changes of the international market, to continuously grow in a stable manner.....	11
3. Service sector has continuously developed though the growth rate is not high; the local market better satisfies the needs of production and business and serve the people’s life.....	13
4. Improved exports/imports, exports continue to achieve high growth rate .....	14
<b>III. SOCIAL ACHIEVEMENTS IN POVERTY REDUCTION.....</b>	<b>17</b>
1. Encouraging Achievements in Poverty Reduction .....	17
2. Employment creation has become a key task of operation of all ministries and agencies . Consequently, new jobs have been created; unemployment in urban areas reduced and utilization of labour time in rural areas increased. ....	20
3. Improvement in education and training; positive progress in education universalization; consolidation of material facilities; removal of third- shift classrooms and replacement of temporary classrooms .....	21
4. Health care and improvement of people’s health.....	24
5. Science and Technology .....	26
6. Natural resources and environment.....	27
7. Attention has been paid to culture, sports, information propaganda activities, and social activities have had positive changes. ....	28
8. Development of infrastructure for poor communes and regions .....	29
<b>PART 2: POLICY IMPLEMENTATION IN THE PERIOD OF 2002-2003.....</b>	<b>30</b>

I. IMPROVEMENT OF BUSINESS ENVIRONMENT AND EQUALITY AMONG DIFFERENT POPULATION GROUPS .....	30
1. Improvement of investment environment, and development of private sector.....	30
2. Continue state-owned enterprise (SOE) reform .....	32
3. Facilitate the comprehensive and efficient development of small and medium sized enterprises (SMEs), cooperatives, farms and different businesses in private sectors .....	33
II. MAINTAIN MACRO - ECONOMIC STABILITY .....	34
1. Financial policy continued to be basically renovated, contributing to strengthen and step by step build healthy national financing, to maintain stability and to promote economic and social progress.....	34
2. Stimulating monetary policy to encourage investment, to control inflation rate, and to support growth and poverty reduction.....	37
3. On-going progress of open-door trade policy and activeness in international economic integration for development.....	40
4. Resources mobilization for economic growth and poverty reduction .....	41
III. SOCIAL POLICIES.....	46
1. More budget expenditure for social progress and poverty reduction programmes. ....	46
2. Development of social safety net to support the poor and the vulnerable .....	47
3. Redundant labour support programme.....	48
4. Facilitation of any condition and equity for everyone to fully participate in development process .....	48
5. Legal support to the poor .....	49
IV. ADMINISTRATION REFORM AND MODERN GOVERNANCE SYSTEM.....	50
1. Administration reform.....	50
2. Enhancement of grassroot democracy and dialogues between the local government and the poor community.....	52
3. Better statistics and data system.....	53
<b>PART 3: CHALLENGES AND MEASURES IN POVERTY REDUCTION AND GROWTH .....</b>	<b>55</b>
I. CHALLENGES IN POVERTY REDUCTION AND GROWTH .....	55
1. On economic growth:.....	55
2. On poverty reduction and social problems: .....	57
II. SOLUTIONS FOR ECONOMIC DEVELOPMENT AND POVERTY REDUCTION IN THE YEARS AHEAD.....	65

1. Improving business environment, creating favourable conditions for economic units to enhance business efficiency .....	65
2. Expanding investment and improving investment efficiency .....	66
3. To develop foreign economic relations, accelerating the international economic integration process. ....	67
4. Promoting poverty reduction, increasing employment, improving quality of education, health care, culture, sports and environmental protection.....	67
5. Promoting administrative reforms.....	68
<b>PART 4: STRATEGY IMPLEMENTATION, INITIAL RESULTS AND PROPOSALS .....</b>	<b>69</b>
I. ROLLING-OUT THE STRATEGY TO NATIONAL AND LOCAL LEVELS .....	69
1. Arrangement:.....	69
2. Activities: .....	70
II. EVOLUTION OF THE MONITORING AND EVALUATION SYSTEM.....	73
1. Content and Coverage of Monitoring and Evaluation System .....	73
2. Arrangements of Implementation:.....	73
3. Information collection:.....	74
4. Monitoring and evaluation (M&E) indicators: .....	75
III. THE EXPANSION OF CPRGS .....	76
IV. RECOMMENDATION .....	77
2. Capacity building: .....	77
3. Improving the exchange and dissemination of policy information:.....	78
4. Improved Statistics for Poverty reduction and Growth: .....	78
5. Stronger integration of CPRGS and the 5-year and annual development plan in term of targets and policies.....	79
6. More instructions given to local planning.....	79
7. Facilitating the participation of scientists and research institutes for in-depth analysis and multidimensional assessments .....	79
8. Align international assistance with realizing targets and measures in CPRGS .....	79
<b>ANNEX: .....</b>	<b>80</b>



## LIST OF FIGURES:

<b>Figure 1:</b> Growth rates of GDP and sectors in recent years (%) .....	6
<b>Figure 2:</b> Change of the gross domestic product structure (%) .....	7
<b>Figure 3:</b> Poverty rates by various poverty line (%) .....	8
<b>Figure 4:</b> The relationship between the GDP growth rate and employment .....	8
<b>Figure 5:</b> Relationship between GDP per capita and poverty rates during 1993 – 2002 ( current price) .....	9
<b>Figure 6:</b> Poverty and economic development across the countries .....	9
<b>Figure 7:</b> Rate of industrial production value growth (%) .....	10
<b>Figure 8:</b> Change in structure of agriculture, forestry, and aquaculture sector (%) .....	12
<b>Figure 9:</b> Growth rates of Exports, Imports and Share of Foreign Trade Deficit in GDP (%) .....	15
<b>Figure 10:</b> Numbers of students at different levels .....	22
<b>Figure 11:</b> Growth of budget revenue, expenditure and GDP .....	37
<b>Figure 12:</b> Relation between the ratio of investment/GDP (left axis, %) and GDP growth rate (right axis, %) .....	42
<b>Figure 13:</b> Recent evolution of ICOR factor (1 year lag) .....	42
<b>Figure 14:</b> Investment structure based on economic sector (%) .....	43
<b>Figure 15:</b> Public sector investment structure (%) .....	44
<b>Figure 16:</b> Capital expenditure and State Budget revenue .....	45
<b>Figure 17:</b> Poverty rates amongst ethnic minority groups .....	58

## LIST OF TABLES:

<b>Table 1:</b> Poverty Rate by National Poverty Line .....	17
<b>Table 2:</b> Regional poverty rate by international poverty line .....	19
<b>Table 3:</b> Infant Mortality Rate (‰) .....	24
<b>Table 4:</b> Under-five child malnutrition rate (%) .....	25
<b>Table 5:</b> Access to basic services in the rural areas .....	29
<b>Table 6:</b> Budget expenditure for social progress and poverty reduction programmes .....	47
<b>Table 7:</b> Rates of poverty reduction by regions by international poverty line .....	57
<b>Table 8:</b> Rate of upper-15 population with off-farm jobs in 2002 (%) .....	60
<b>Table 9:</b> Education and health expenditure in 2002 .....	62
<b>Table 10:</b> Document distribution summary .....	71



## **INTRODUCTION**

On May 21, 2002, the Prime Minister of the Socialist Republic of Vietnam issued document N<sup>o</sup> 2685/VPCP-QHQT approving the “Comprehensive Strategy for Poverty Reduction and Growth” (CPRGS). This is an important document that elaborates the general objectives, tasks, mechanism, policies and strategies set forth in the 10-year (2001-2010) Socio-Economic Development Strategy and 5-year (2001-2005) Socio-Economic Development Plan and other sectoral and area strategies. The CPRGS also reflects the UN millennium development goals that Vietnam has committed to fulfil. The strategy includes concrete policies and solutions Vietnam has to implement in order to ensure a sustainable growth in parallel with poverty reduction.

To effectively implement CPRGS, the Prime Minister has also made decision to establish a Steering Committee dealing with the implementation of the Strategy (decision N<sup>o</sup> 825/QD-Ttg on September 20, 2002). The Minister of Investment and Planning has set up the inter-ministerial working group to coordinate the implementation of the Decision N<sup>o</sup> 70/QD-BKH.

Under the leadership of the Steering Committee, the inter-ministerial working group has collaborated with concerning ministries, agencies and provinces to carry out a lot of activities concretizing and incorporating the Comprehensive Strategy for Poverty Reduction and Growth into the plans of the ministries, agencies and provinces. At the same time, the working group has carried out research and studies in order to add one section “Strategy for large-scale infrastructure development for Poverty Reduction and Growth” into the CPRGS.

The process of implementing the Comprehensive Strategy for Poverty Reduction and Growth in the past two years has been closely connected with the continued implementation of wide and deep economic reforms in all fields, which are aimed at perfecting the business environment, improving the efficiency of resource allocation, enhancing competitiveness and promoting the international economic integration. A series of new laws and under-law documents, provisions as well as policies have been passed such as the new budget law, statistics law, the modified law on corporate income tax, the new law on SOEs, the accounting law and land use law (modified) providing legal and policy framework stimulating economic development. Especially, the Ordinance on MFN and national treatment is a great effort in the international economic integration process of Vietnam.

In parallel with economic reforms, the government has also actively carried out a nation-wide plan of administrative reforms in order to improve the bureaucratic efficiency and reducing business cost. The master plan of administration reforms includes 4 contents: institutional reform, administrative organization reform, staff renewal and staff quality improvement, and public finance reform. During the past two years, the Prime Minister has approved 6 out of 7 actions plans to implement the 2001-2010 Master Plan of administration reforms.

Growth together with poverty reduction has become one of the pivots in the socio-economic development policy-making of Vietnam. In the first two years of implementing the CPRGS, Vietnamese government paid great attention on improving resource allocation for health care and education and accelerating social and poverty reduction projects. In

addition, the government continued to strengthen the social welfare system, creating favorable and equal conditions for public full participation in the development process.

Vietnam's reform efforts have brought about significant progress in economic growth and poverty reduction. The macroeconomic environment is stable; policy mechanism is more consistent, legal environment is more transparent. All of this has laid firm foundation for the strong development of all economic sectors. GDP growth for 2003 is estimated to reach 7.2 – 7.3%, economic structure continues to shift towards the better direction, with increasing share of manufacturing. Export turnover rises drastically; government budget revenue grows faster than the projected figure for the year, budget deficit is maintained at a low level. In 2002 the economy created 1.45 million new jobs and in 2003 this number is estimated at 1.5 million, fulfilling the annual job creation objective.

With the human centered development policy, Vietnam's economic growth in the past few years is significantly in favor of the poor. Poverty reduction rate remains high according to both regional and national standard. Using international poverty line, poverty incidence in Vietnam has been reduced from 37.4% in 1998 to 28.9% in 2002, or an 2 percentage point decline annually. Access to basic services like electricity, safe and clean water, health care and education has improved, especially in rural, remote and mountainous areas. Progress has also been made in the field of gender equality. Many development objectives have been completed ahead the plans.

Besides the achievements, the implementation of the Comprehensive Strategy for Poverty Reduction and Growth in Vietnam has encountered many difficulties and challenges. In economic terms, despite the high growth rate, the quality of growth is still low with a slow shift of economic structure. Investment and business environment still creates many obstacles and difficulties raising investment costs and product prices. The slow pace in implementing the action plan for international economic integration while confronting a lot of difficulties in export markets has posed great challenge of lagging behind.

In social terms, there are still serious problems such as the wide gap between regions, and population layers, reflected not only in the income, spending but also in the ability to accede to basic services like health care, education, electricity, clean water. It is worth noting that poor children suffer much worse health conditions than those from rich families. Employment, especially for rural labor remains an urgent matter. The quality of education is still low. There is much irrationality in the training structure, which is not adjusting fast enough. Environmental management is weak, lacking a coherent strategy among ministries and agencies. There is still no solution for systematic management of the reallocation of citizens to new towns, thus increasing poverty and social crimes in the urban area, placing pressure on local authorities.

The objective of this report is to assess the implementation of the CPRGS during the past two years (2002-2003), highlighting Vietnam's remarkable achievements in the fields of growth and reduction of poverty, as well as pointing out the shortcomings, difficulties and challenges to overcome in the implementation process of the Comprehensive Strategy for Poverty Reduction and Growth in the coming years<sup>(1)</sup>.

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<sup>(1)</sup> The Comprehensive Strategy for Poverty Reduction and Growth is hereinafter referred to as "the Strategy", except otherwise written.

The report consists of 4 main sections:

*Section I*, reviews several remarkable achievements in economic and social fields, including PRHE Vietnam has made in the past few years, especially during 2002-2003 in comparison with Vietnam's development objectives.

*Section II*, summarizes the policies and measures implemented within the framework of the Strategy in 2002-2003.

*The third section* highlights difficulties and challenges in promoting growth and poverty reduction in Vietnam at present. This section also proposes key measures to further enhance growth and reduce poverty in coming years.

*The final section* provides an overview of the Strategy implementation process: major activities carried out in the past one year and a half, measures aiming at building a high-quality monitoring and evaluation system. Based on the results of the activities, achievements as well as difficulties in the first two years of the Strategy implementation, the report draws lessons and puts forward policy recommendations to improve the effectiveness of growth and poverty reduction process in Vietnam.

## **PART 1**

### **EVALUATION OF THE ECONOMIC GROWTH AND POVERTY REDUCTION**

#### **I. OVERVIEW**

##### **1. International and national context**

During the first two years of implementation of the Comprehensive Poverty Reduction and Growth Strategy, in the international context and the national situation, many unexpected events have occurred together with advantages and disadvantages, which have influence on the socio-economic situation of the people

Regarding the international environment, the most disadvantageous factor is the global economic downturn during the 2002-2003 period with the growth rate reached only 2%. World trade has been hindered by the breakdown of the Doha Round and many trade negotiations within the framework of WTO failed to achieve positive results. The war broke out in Iraq; terrorism, political and military tense relations have continuously happened in many countries and regions; conflicts on nuclear weapon development issues between the United States and some other countries have occurred. The oil price has highly rose up and lasted in two years. SARS epidemic has appeared in many countries, especially in the South Asia, etc.

In Vietnam, during the 2002-2003 period, especially in 2002, natural calamities and droughts have happened in many areas causing damages to agricultural production, the rural economy and the livelihoods of the poor. Due to impacts from the global situation, especially the terrorism on 11 September 2001 in the United States and the war in Iraq at the beginning of 2003, the world market for agricultural products has fluctuated unfavorable for the production and consumption of Vietnam's agricultural goods. While the input price for agricultural production rises up, the price of export of agricultural products of Vietnam reduces or increases very slowly; furthermore, because of strict protection policies of countries and wars, the need of importing agricultural products from Vietnam by many countries has reduced.

Facing such difficulties and challenges of the international and national environment, thanks to great efforts of Ministries, branches, localities and enterprises and rapid and timely directions of the Government of Vietnam, such difficulties have been gradually overcome, limiting adverse impacts of the environment on the process of economic growth and poverty reduction.

##### **2. The economic growth and poverty reduction rate has met the target for the year proposed in the Strategy.**

After nearly two years of implementing the Comprehensive Poverty Reduction and Growth Strategy, with great efforts of the Party, the State and people of Vietnam and with the enthusiastic assistance of the international community, Vietnam has continuously obtained new and important achievements on the course of implementing the growth and hunger elimination and poverty reduction targets which have been proposed. The economy still maintains a stable and rapid growth rate; GDP rose by 7% in 2002 and estimated to

grow by 7.2 - 7.3% in 2003 <sup>(2)</sup>. Notably, during the last two years, the GDP growth rate of the next quarter is often higher than the previous quarter; in 2003, the GDP growth rate of the first quarter reached 6.88%, the second quarter reaches 6.92%, while it is estimated that the growth rate of the third quarter will reach 7.48%, and the fourth quarter reach 7.6%. At the same time, the export turnover rapidly increased; the State budget revenue has considerably grown and exceeded the annual target. Together with the growth process, significant achievements in poverty reduction have been obtained; the poverty rate has decreased by 2 percentage points per year on average.

The rate of economic growth and poverty reduction of Vietnam over the past two years reaches the highest in the world and Vietnam becomes one of the typical examples on the success of combination and cooperation between internal efforts and external assistance in the growth and poverty reduction process. Achievements in growth and poverty reduction over the last two years have marked the first favourable steps of the process of implementation of Millennium Development Goals (MDGs) and Vietnamese Development Goals (VDGs) that Vietnam committed to in 2002.

Investment of the non-State sectors, especially the domestic private investment, has speeded up economic growth during 2002 and 2003. The total investment share of the non-State sectors reached 8.7% GDP in 2002 and estimated to reach 9.4% in 2003. The private economic sector has strongly developed. More than 73,000 private enterprises have registered their operation since the Enterprise Law came into effective in 2000, of which 22,000 enterprises registered in 2002 and nearly 30,000 enterprises registered their operation in 2003. In 2003 each enterprise registered their capital of about VND2.1 billion, higher than that of 2002 (in 2002 each enterprise registered VND1.8 billion on average).

The cautious and consistent monetary and budget policies have been maintained with an estimated total budget deficit at 5% of GDP, according to Vietnam's calculation method (or equivalent to the rate of 2.5% of GDP according to international practices). The Vietnam's outstanding external debts (debts of both government and private sector) account for 37% of GDP or 84% of the total export value. The debt settlement capability is stable in medium and long-term, the annual debt service ratio is 8%, while the estimated level is higher.

Stable prices were maintained with average inflation rate at 4% in 2002 and 1.6% in the first 10 months of 2003. Changes in market prices during the last two years have been in line with the economic growth rate and consequently contributed to stimulating growth, and stabilizing the society and people's life. The increase of the consumption price in 2002 only concentrated on 3 groups of commodities such as food and foodstuff, houses and construction materials, beverage and cigarette.

The people's purchasing power has significantly improved, contributing to the increase in consumption and continues to be an important factor behind the rapid expansion of production. The total value of retailed goods and services increased by 11.2% in 2002 and estimated by 12.1% in 2003 (at constant price, the growth rate is 8%, showing the vital role the domestic market in stimulating economic growth).

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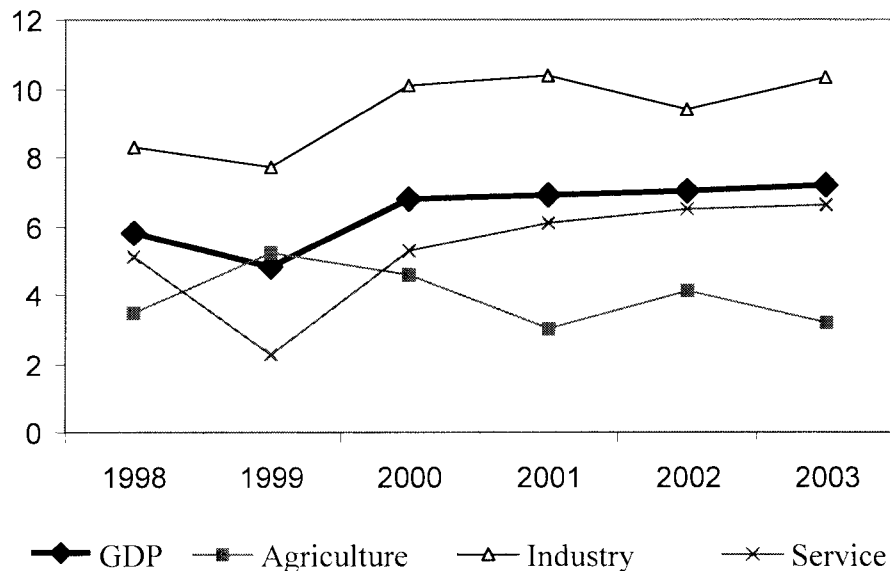
<sup>(2)</sup> The 2003 data in this Report are estimated data.

Present estimation shows that about 1.5 million jobs will be created in 2003, a slight increase compared with 2002 (1.45 million), satisfying the annual job creation target. The National Assembly sets up a target of creating 7.5 million new jobs during the 2001- 2005 period. Therefore, 4.3 million jobs will be created until the end of 2003, equivalent to 57% of the proposed target. Although the majority of jobs has been provided in the agriculture, aquaculture and forestry, the urban unemployment rate also reduced from 6.42% in 2000 to 6% in 2002 and about will estimatedly go down to 5.8% in 2003. The labour export market has strongly developed despite the adverse impact of the SARS epidemic. In 2002, about 460,000 workers and experts went to work abroad and according to the latest estimation, 550,000 people go abroad in 2003.

### 3. Change of the economic structure to serve the economic growth and poverty reduction.

The economic structure continues to change, as the growth rates of value added differ across sectors. The value added of the secondary sector increased by 9.4% in 2002, of which the mining industry rose by 1.1%, manufacturing grew by 11.6%, the electricity and gas sector increased by 10.8% and the construction sector rose by 10.6%. It is estimated that in 2003, the value added of the sector will grow by 10.3% compared to 2002, of which the mining industry by 6.8%, manufacturing by 11.3%, electricity and gas by 12% and the construction industry by 9.95%. The industrial production has rapidly grown and continues to make an important contribution to GDP growth (See Figure 1);

**Figure 1: Growth rates of GDP and sectors in recent years (%)**



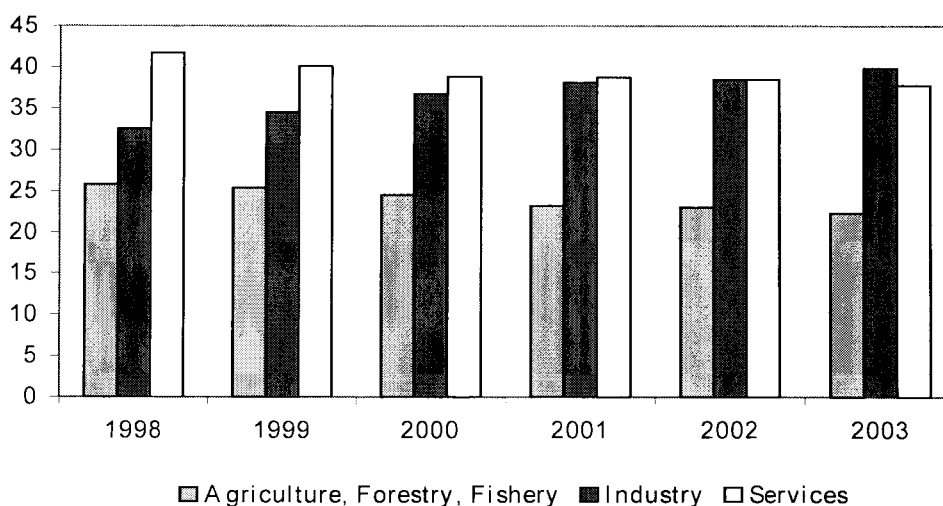
For the agriculture, forestry, fishery sector, the value added (at constant prices) grew by 4.1% in 2002 compared to 2001, of which agriculture increased by 4%, forestry rose by 0.5% and aquaculture grew by 5.7%. In 2003, it is estimated that the value added (at constant prices) of the whole sector will grow by 3.2%, of which agriculture by 2.8%, forestry by 0.7% and aquaculture by 7%.



The change in the structure of production is positive; the share of industries and products with high economic value such as animal husbandry, long-term industrial crops has increased. The link between market and production has improved with these changes in the structure. As a result, the quality and value of products increase gradually; for instance, the productivity and economic efficiency of 1 hectare of cultivation have continuously increased. The rapid increase of food production volume, which is mainly conducted by poor people, allows to raise incomes for poor farmers.

For the service sector, the value added grew by 6.5% in 2002, of which the trade sector by 7.3%, hotels and restaurants by 7.1%, transport, post and tourism increased by 7.1%, finance, banking and insurance sectors grew by 7% and real estate services increased by 3.7%. Recent estimation shows that in 2003, the value added of the service sector will grow by 6.6%, of which the trade sector by 6.9%, hotels and restaurants by 6.5%, transport, post and tourism sectors by 5.5%, finance, banking, insurance sectors by 8% and real estate services by 5.7%.

**Figure 2: Change of the gross domestic product structure (%)**

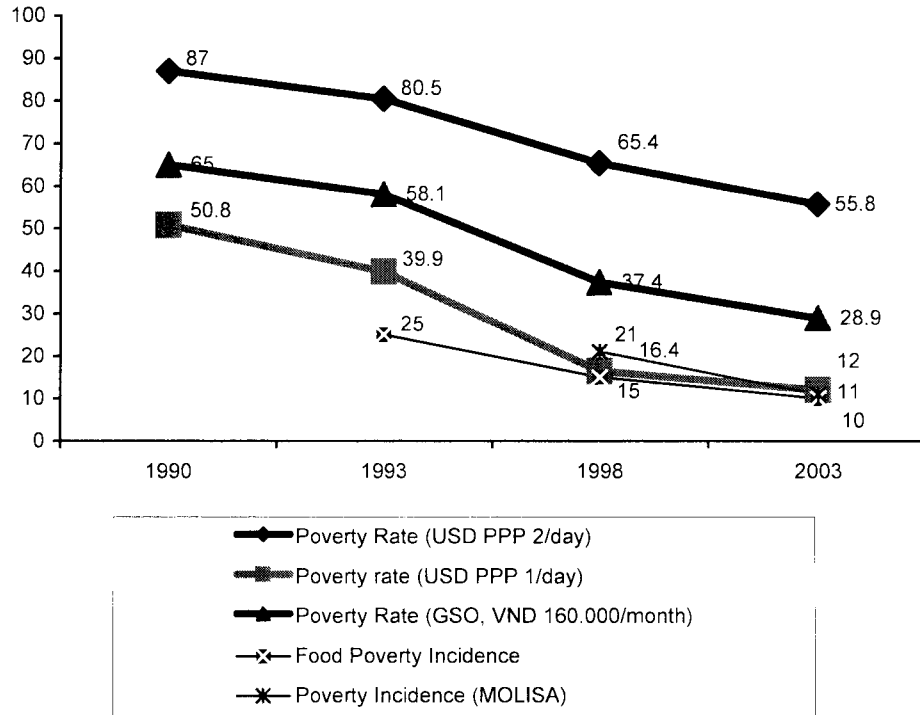


So the economic structure has continuously progressed towards industrialization and modernization and has improved the business and production efficiency of the whole economy. The value added share of the industrial sector in gross domestic product (GDP) continues increasing from 38.1% in 2001 to approximately 40% in 2003; while the value added share of the service sector slightly reduced from 38.6% to 37.8% and the share of the agriculture sector has slightly reduced from 23.2% to 22.3%. In industry, the share of the infrastructure sector and the processing sector has rapidly increased while the share of mining industries has reduced. The process of shifting of the economic structure toward the activities with higher efficiency has contributed to the increase of people's income.

#### **4. Close Relationship between Growth and Poverty Reduction.**

An outstanding achievement of the economy of Vietnam in the renovation process is that the economic growth is always combined with hunger elimination and poverty reduction and improvement of people's life. Economic growth helps to create jobs, raise income and assist many people to escape poverty.

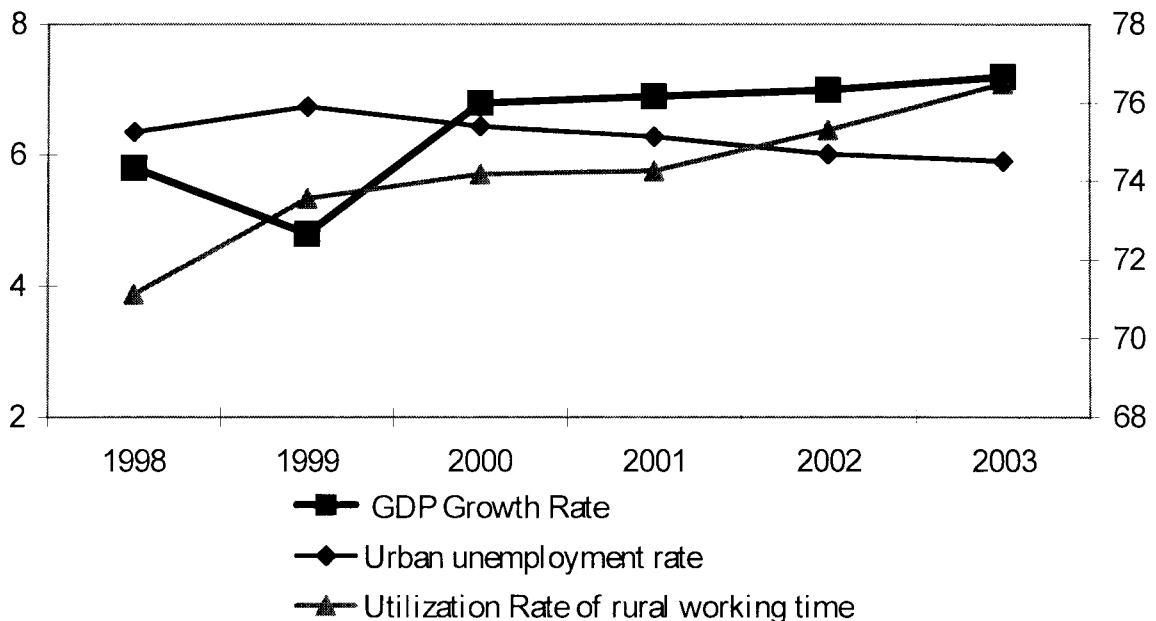
**Figure 3: Poverty rates by various poverty lines (%)**



Source: GSO, MOLISA and WB

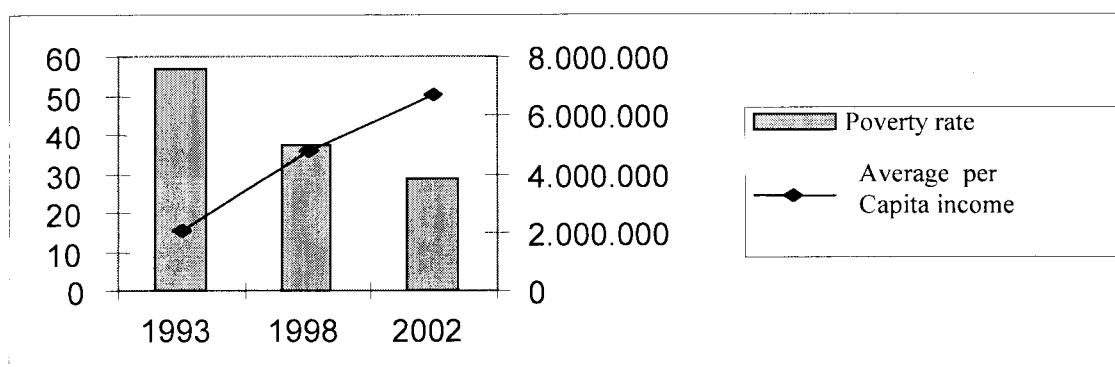
GDP growth rate of more than 7% during the last two years has made a vital contribution to the achievements in poverty reduction. Various methods of poverty rate calculation prove that Vietnam still maintains a high rate of poverty reduction. According to the national poverty line, only in 3 years, the poverty reduction rate has reduced, from 17.18% in 2001 to 11.86% in June 2003 and around 11% in the end of 2003.

**Figure 4: The relationship between the GDP growth rate and employment (% , left axis) and the rural labour utilization rate (% , right axis)**



Over the past years economic growth is always linked with job creation. When the economic growth rate increases, the urban unemployment rate significantly reduces and vice versa, when the economic growth rate decreases, the urban unemployment rate increases. Similarly, when the economic growth rate increases, the rural labour utilization rate also increases and vice versa, when the economic growth rate decreases, the rural labour utilization rate also decreases.

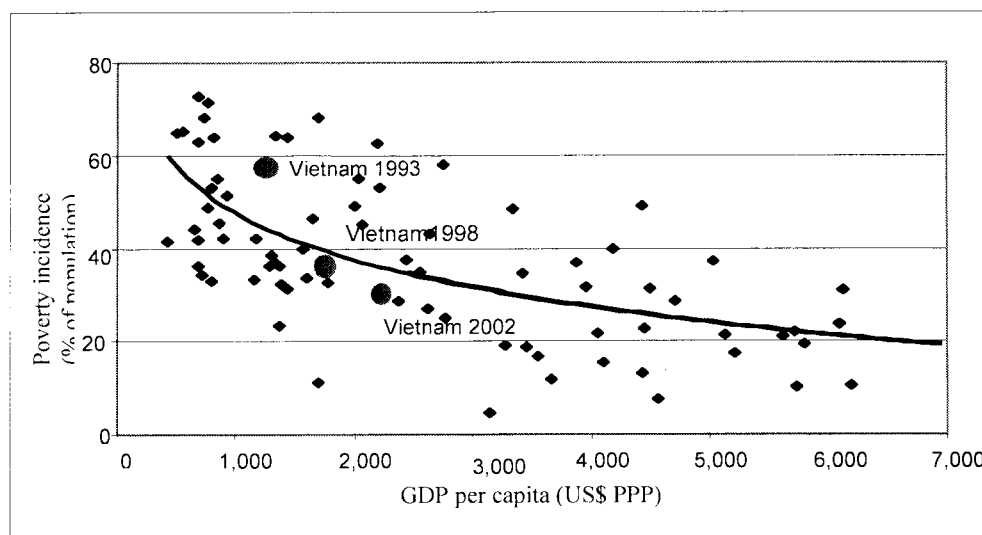
**Figure 5: Relationship between GDP per capita and poverty rates during 1993 – 2002 (current price)**



*Note:* Left axis: Rate of poverty (%)  
Right axis: GDP Per capita (VND)

Together with the economic growth process, people's income has increased and the proportion of poor households has reduced respectively. The increase in income of poor people shows that the poor also benefit from rapid economic growth. The poverty deepening in 1998 was 9.5%, but decreased to 6.9% in 2002. Therefore, the number of poor people having income close to poverty line is very large, and high economic growth will continuously contribute to significant reduction of poverty.

**Figure 6: Poverty and economic development across the countries**



*Source: From General Statistic Office and World Bank (2003).*

One of the achievements of Vietnam, which was highly appreciated by international community is that the economic development strategy tends to pay more attention to the poor than in some other countries. In 1993, the poverty incidence of Vietnam was higher than the average of countries with the same GDP per capita. In 1998, the poverty rate of Vietnam already became lower and this trend continued over the period 1998-2002.<sup>(3)</sup>

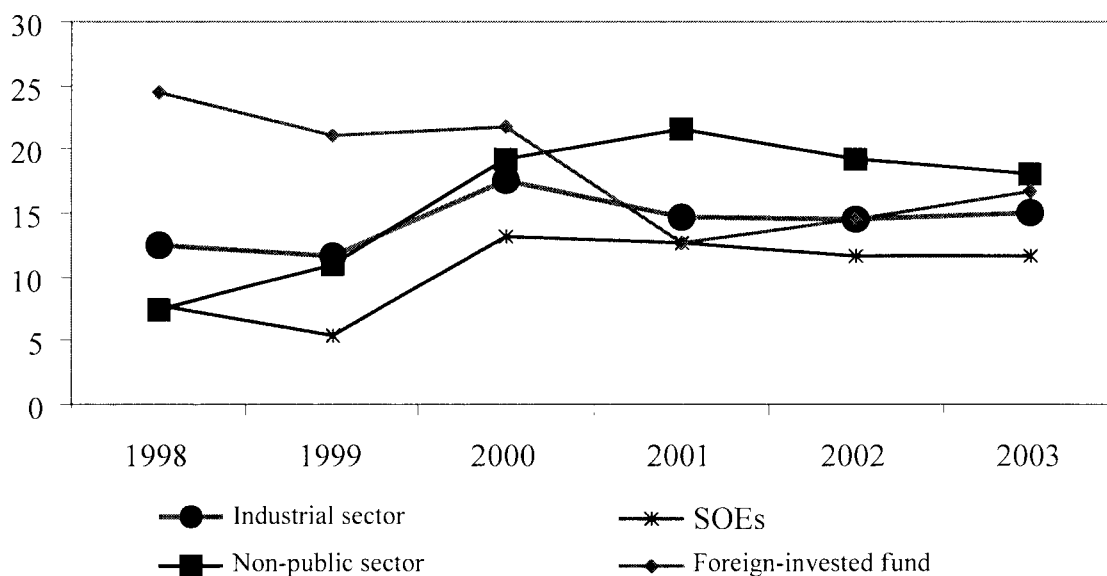
In short, no matter which poverty line is applied, the achievement of poverty reduction of Vietnam is remarkable.

## II. ECONOMIC GROWTH IN INDIVIDUAL SECTORS:

### 1. The industrial production has rapidly grown and gradually developed in a stable manner with the improved quality.

During the two years of implementation of the Strategy, the industry of Vietnam continuously has slightly increased. The increase of industrial production is mainly thanks to contributions of the non-State sectors and the foreign invested sector. The industrial production value increased by 14.5% in 2002, especially the non-State sector increased by 19.2% and the foreign invested sector grew by 14.5%. The production value of the whole industry sector is estimated to rise by 15% in 2003, of which the non-State sector by 18% and the foreign invested sectors by 16.7%. The foreign invested sector has shown signs of recovery after the declines that had taken place since 1997.

**Figure 7: Rate of industrial production value growth (%)**



Industrial production has steadily increased and has been associated with increased efficiency through reductions in unit costs and improvements in product quality. In particular,

<sup>(3)</sup> In Figure 6, the unbroken line depicts the relation between average poverty rate and GDP per head. In 1993, the rate of Vietnam was over this line, which is contrary with that in 1998. In 2002, the rate of Vietnam was more far from the line than 1998 so that level of poverty reduction of Vietnam increased more rapidly than other countries, which have the same growth rate of GDP per capita.

the changes in the structure of production, industries, and products have made important contribution to the overall impressive sectoral growth.

During the change of the industrial production structure, the industrial share of the non-state sectors and the foreign invested economic sectors has increased while the share of state-owned enterprises has reduced. The participation of all economic sectors in the industrial production has diversified the industrial production in production scale, technological levels, categories and product quality, satisfying the various needs of all classes of people having different income rates, especially needs of low income earners. Furthermore, the strong development of the non-state industrial sector, where there is a great number of workers having low income, is of significance for the increase of their income and implementation of the hunger elimination and poverty reduction.

The industrial structure continuously changes toward the increase of the share of manufacturing. In 2003 manufacturing is estimated to account for about 82.5%, a 2.8 percentage point increase compared to 2000; mining industry represents about 10.5%, a 3.1 percentage point decline compared to 2000; the electricity, water and gas sector represents 7%, a 0.3% percentage point decrease compared to 2000.

The internal structure of industries has a tendency to increase the share of hi-tech products, or products serving the development investment, exports and essential consumption goods such as electricity, coal, steel, concrete, civil plastic products, metal products, office stationary, computers, electric equipment, electronics and communications, knitted clothes, ready-made clothes, civil electric fans, processed aquatic products, sanitary china, sugar, television sets. The growth of such industrial products plays an important role in the development of socio-economic infrastructure; supporting the growth process in poor areas and at the same time creates a large amount of consumption goods to serve the people's life.

## **2. The agriculture, forestry, and aquaculture sector overcomes many difficulties in terms of weather and changes of the international market, to continuously grow in a stable manner**

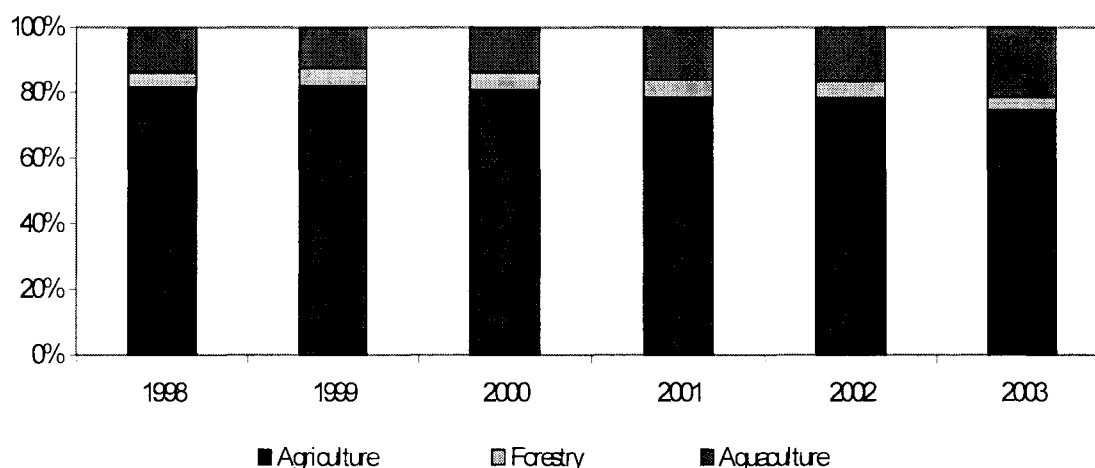
With about 90% of poor people living in the rural area, the agricultural and rural development always receives a special attention from the Government in designing policies for growth and hunger elimination and poverty reduction. Therefore, despite difficulties of the international and national context, *the agriculture sector still grows well*. The production value of the agriculture sector grew by 5.2% in 2002, of which the cultivation rose by 4.3%, animal husbandry increased by 9.9%, the service sector grew by 3.2%; it is estimated to increase by 4.7% in 2003, of which cultivation by 3.1%, animal husbandry by 8.2%, and the service sector by 4%.

During the past two years, although the areas for cultivation of food crops has only slightly increased, the food output still increases rapidly; the grain food output in 2002 was 36.9 million tons, and estimated to reach 37.5 million tons in 2003. The paddy productivity of the whole year increased from 4,290 kg/ha in 2001 up to 4,590 kg/ha in 2002 and 4,660 kg/ha in 2003. The food production per capita increased from 435 kg in 2001 to 456 kg in 2002 and will reach 470 kg in 2003 according to recent estimation.

The war in Iraq has had certain impacts on the rice export of Vietnam, as Iraq is one of the countries importing rice from Vietnam with great quantities. The Ministry of Agriculture and Rural Development has provided many solutions for seeking markets in the Asia and the Middle East in order to compensate for losses from the Iraqi market. Vietnam exported about 3.2 million tons of rice in 2002 and will estimatedly export 3.7 million tons in 2003.

The outstanding feature of the agriculture in the past two years is that the aquaculture sector has rapidly grown; production value increased by 8.2% in 2002 compared to 2001, and is estimated to grow by 8.6% in 2003. The aquatic production value in 2003 is estimated to account for 21.3% of the production value of the whole agriculture, forestry, and fisheries sector. Total output of grown aquaculture of 2002 was 781 thousand tons, production value increased by 15.8% compared to 2001; in 2003, it is estimated that the total output of grown aquaculture will be 800 thousand tons, and production value increase by 15.2% compared to 2002. Models of industrial shrimp production with high productivity have developed well. Models of crab breeding production have popularly developed. Localities of Cuu Long Delta have strongly developed the movement of fish production. The quarantine examination of breed and technical training for fishermen engaged in aquatic production is continuously strengthened.

**Figure 8:** *Change in structure of agriculture, forestry, and aquaculture sector (%)*



The exploitation of aquatic products has continuously expanded in difficult conditions due to climate and weather factors; the total output in 2002 was 1,797 thousand tons, production value has increased by 2.2% compared to 2001; the total output in 2003 is estimated to reach approximately 1,880 thousand tons, and production value grows by 2.7% compared to 2002.

The agricultural and rural economy has been diversified. The rural infrastructure has continuously improved. Thanks to the State support on construction of infrastructure of traditional trade villages, construction of rural markets, development of infrastructure of small and medium-sized industrial groups, many capital sources from people are attracted, making positive changes for the rural infrastructure. In 2003, 70 new communes have roads connecting

to commune centres; 300 new communes can have access to electricity and 54% of the households can have access to clean and safe water; basically 660 municipalities have been completed with more than 51.000 households have been re-located.

Due to the increase in the production and price of agricultural products in 2003 compared to 2002, the farmers' income and life in many regions have improved. According to the most recent survey data on the living standards of households, in recent years, the people's income in the rural areas has increased faster than that of people living in the urban areas; during the 2001-2002 period, the income of people living in the rural areas was 275 thousand dong/person/month on average, a 22.2% increase compared to 1999, while the average income in the urban areas reached 626 thousand dong/person/month, a 21.1% increase compared to 1999.

**3. Service sector has continuously developed though the growth rate is not high; the local market better satisfies the needs of production and business and serve the people's life.**

*The total retail trade of goods and social service income* in 2002 was approximately VND273 thousand billion, a 11.2% increase compared to 2001, and estimated to reach VND306 thousand billion in 2003, a 12.1% increase compared to 2002. The growth rate of the service sector has been gradually increased, of which the non-state sector, especially the dynamic private enterprises, has achieved rapid growth in comparison with the state sector and the foreign invested sector. This proves that the role of the private economic sector becomes more important. It is estimated that in 2003, the state economic sector will grow by 9.7% and account for 16.8% of the total retail trade; the collective sector grows by 23.8% and accounts for 0.9%; the households business sector grows by 9.8% and accounts for 64.6%; the private sector grows by 23% and accounts for 15.9%; the economic sector with foreign investment grows by 5.4% and accounts for 1.8%.

Generally, service activities become more active; the service sector has gradually restored its growth momentum. The growth rate of the value added of the whole sector increased by 6.5% in 2002, and estimated to reach 6.6% in 2003 (lower rates in previous years, for instance 2.25% in 1999, 5.3% in 2000, and 6.1% in 2001). Notably, such increase is concentrated on some newly developed sectors but it has great significance for the process of long-term development and integration into the global economy, including finance, banking, insurance, real estate service, healthcare, culture, association, individual service and community sectors. Some traditional business activities have had high share in the sector such as trade, hotels and restaurants, transport, post, tourism sectors, and the growth rates of such sectors continuously increased in 2002 compared to the previous years, but may be lower in 2003 due to impact of SARS and the war in Iraq.

In 2002-2003, tourism sector has made several efforts to attract domestic and foreign tourists. Activities aimed at promoting Vietnam tourism have been conducted in major markets, such as Japan, Korea, France, UK, US and Southeast Asia to attract foreign customers. Hence, the number of foreign tourists in 2002 amounted to 2.63 million with an increase of 12.7% compared with 2001. In the first months of 2003, the number of foreign guests dropped sharply due to SARS and the Iraq war. In the second half of 2003 it has signs of recovery and is estimated at 2.5 million for the whole year, which is 95% of 2002's figure. As the effectiveness of tourism business starts to recover; length of stay of

international guests and capacity usage of hotels in larger cities tend to increase.<sup>(4)</sup> The development of tourism helps to raise income of workers in this sector, especially low-income people.

*Freight and passenger transport* continues to grow but still at a low rate. In 2002, the transported freight increased by 6.8%, turnover by 9.4%; passenger transport increased by 3.6%, turnover by 3.9%. In the first months of 2003, good and passenger transport growth rate was low due to Iraq war and SARS. However, the growth rate recovers in recent months. Good transport is estimated to increase by 6.6% in tonnage, 4.1% by tonne/kilometre; similarly, passenger transport is projected to increase by 4.4% in passenger and 3.2% in passenger/kilometre.

*Domestic good flow continues to grow; domestic market improves.* Business network is expanding with flexible forms, such as agent, franchise, credit, deferred payment... Markets in provinces and cities have been upgraded, especially regional focal markets; in cities a new type of trade has been developing: supermarkets, self-service shops or trade centres, which play an important role in good circulation. Population purchasing power improves, contributing to improved consumption and serving as a stimulator for production development.

Telecommunication, transport, finance and banking, property services continue to grow. Production value of the service sector in 2002 increased by 6.8%, and in 2003 estimated by 7%.

#### **4. Improved exports/imports, exports continue to achieve high growth rate**

International trade has become an important component of Vietnam's economy.

*Exports value* in 2002 reached USD16.7 billion, which accounted for 47% GDP and increased by 11.2% in comparison with 2001; of which exports in heavy industrial goods and minerals made up 29%, light industrial good and handicrafts 41%, and agricultural products 30%. It is estimated that in 2003, exports will be 19.5 billion USD, accounting for 49% of GDP and increasing by 16.7% compared with 2002; of which heavy industrial goods and minerals export make up 28%, light industrial goods and handicrafts 42.6% and agricultural products 29.4%.

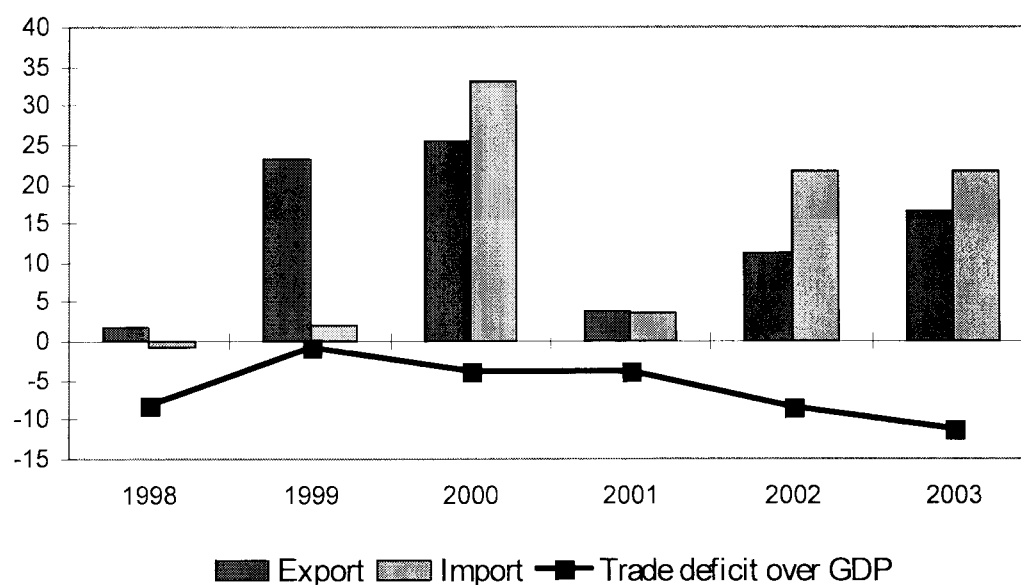
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<sup>(4)</sup> International hotels reported the reservation rate of 85-90% in the first quarter 2003, and 10-20% in May. In June, hotels reported a recovery in both incoming guests and reserved rooms for groups. This figure recovered to the pre-SARS rate in August.

Tourism accounts for approximately 3% of GDP. In 2002, around 2.6 million tourists and business people came to Vietnam. This figure shows a 15% growth rate and date of the first quarter of 2003 confirmed this trend. GSO reported a 55% reduction of guest number to Vietnam in April and May this year. This resulted in 11% reduction in number of foreign guests to Vietnam in the first 5 months of 2003 as compared to the same period 2002. Although this was a relative reduction, it was still lower than the forecast. If the number of incoming guest reduces at this rate only in this and the next quarter of 2003 and recovers to the previous growth trend, it will reach at least the same level of last year. According to this assumption, reduction in tourism would result in around 0.2 to 0.4% reduction in GDP growth rate in this year.



**Figure 9: Growth rates of Exports, Imports and Share of Foreign Trade Deficit in GDP (%)**



For two years of the Strategy's implementation, exports growth has been steady; export structure has continued to shift resulting in increase in the share of light industrial goods and handicrafts, reduce the share of agricultural products (with low added value) and heavy industrial goods and minerals (mainly natural resources).

Sectors, authorities at different levels and localities have effectively implemented stated export promotion solutions, focusing on the products with competitive advantage and market such as aquaproductions, rice, coffee, cashewnuts, garments, woodworks, footwear, crude oil, coal, electronic products and devices, mechanical products, plastic goods, handicraft and art products, bicycles and accessories. By contrast the share or volume of some valuable natural resources (especially petroleum) and agroproducts with low economic value have reduced.

High growth rate in exports are due to strong shift in the export market structure, especially a strong increase in export market share in the United States after the Bi-lateral Trade Agreement (BTA) came into effect. On the other hand, a significant rise in export prices of some products is also a favourable factor resulting in dramatic increase in exports (export prices of foods in 2002 increased by 6.1%, in 2003 by 4%).

*Imports value* in 2002 amounted to USD19.7 billion, equivalent to 55.5% of GDP and increased by 21.7% compared with 2001; of which import of machinery and equipment accounted for 32%, materials and fuels 62.9%, consumer goods 5.1%; imports in 2003 is estimated at USD 24 billion, which is 60.3% of GDP, representing a 21.6% increase as compared with 2002, of which imports of machinery and equipment makes up 29.8%, materials and fuels 63.5%, and consumer goods 6.7%.

Imports has tended to increase over the last two years, mainly due to dramatic increase in inputs used for production of export goods and meeting the increasing demands of investment in development. Production continues to grow positively results in increased

demand for imports, especially material and production inputs.. Also many large projects have been launched, leading to high demands for importing machinery and equipment, such as the project of enhancing capacity of garments production for export (costing USD300 million), import of machinery and equipment for construction and transport works (USD120 million), Phu My Power Generation Station Installation project (USD115 million), equipment purchase for Mekong Energy Corporation (USD115 million), purchase of telecommunication equipment (USD100 million).

Import of consumer goods in 2003 is estimated to increase by 14% compared with 2002 (in 2002 the figure reduced by 21.8%); this is due to the lifting of trade barriers to conform to international commitments. Additionally improved people's income leads to increased spending on consumption, which makes increase in imported good consumption unavoidable.

While prices of imported goods in 2002 did not change over 2001, prices of imported goods in 2003 has increased significantly as compared with 2002 (estimated at 3.2%); this is also one of the reasons for increase in imports in 2003 (import price increase of 8 major materials and fuels alone, namely steel, steel foils, petroleum, medicaments, plastics, cotton yard and cotton resulted in a rise of USD700 million in import value).

The increase in import is also a result of changes in import composition in the direction of rising share of import of advanced technology products to speed up the shift of the economy structure and to meet the demand for industrialization, modernization and export. Changes in exchange rates between hard currencies and complicated moves in international financial markets have produced strong impacts on imports, especially the appreciation of euros over US dollars over the last two years has led to sharp rise in import value.

In 2002, Vietnam's trade deficit was USD3 billion, accounting for 8.6% of GDP, while the 2003 figure is estimated to reach USD4.5 billion, or 11.3% of GDP, and this is relatively high for Vietnam's economy. This was due to the increase in import prices and increase in volume of imports of machinery, petroleum products, consumer goods and fertilizers. Large amounts spent on power generators and equipment for major energy projects amounted to USD1.2 billion of the total imports in early 2003. Continuous increase in trade deficit over GDP in recent years has resulted in concerns that trade deficit will have adverse impacts on current payment balance and the future stability of the economy.

The deficit is primarily being used for investment in development and is being used efficiently to boost the economic growth. Foreign debts and debt service ratio remain low. Vietnam has affluent sources of foreign currencies, including remittances, FDI, and ODA Remittance by overseas Vietnamese exceeded USD2 billion in 2002 and estimated to reach USD 2.5 billion in 2003.

The Government of Vietnam is trying to contain the trade deficit growth by using local input, at the same time enhancing the effectiveness of imported inputs; otherwise there will be a risk of not generating adequate foreign currencies to cover the deficit, strongly affecting the current balance of payment and total balance of the economy, resulting in adverse impacts on the objective of stabilizing currency and exchange rates. In particular, the government has adopted a number of solutions aimed at strengthening management of public investment projects using foreign currencies to reach the dual objective of economical use of foreign currencies and generating foreign currencies to cover future deficits.

Another obstacle for export growth is the fact that industrialized countries increase non-tariff trade barriers applied to Vietnamese exports. For instance, the United States has recently adopted anti-dumping tariff for catfish and impose quotas on textile and garments from Vietnam. These non-tariff protection measures were launched after Canada protested import of waterproof footwear and garlic from Vietnam and EU protected against the import of gas lighters.

### III. SOCIAL ACHIEVEMENTS IN POVERTY REDUCTION

#### 1. Encouraging Achievements in Poverty Reduction

(1) Thanks to rapid economic growth and stable prices, income of all people strata has continued to improve over the last three years. According to poverty line stated in Decision No. 1143/2000/QD-LDTBXH by the Ministry of Labour, Invalids and Social Affairs, by late 2003 the number of poor households in the whole country reduced by 934,000 (from 2,804,000 households in early 2001 to 1,867,000), the average reduction is 310,000 households per year (excluding those households that fell back to poverty and newly identified poor households), exceeding the stated target.

As compared with early 2001, poor households reduced by 6.2 percentage points (from 17.2% to 14% in 2002 and 11% in late 2003), the average reduction rate is 2.1 percentage points/year; the poverty rate is under 5% in 5 provinces/cities; 5-10% in 23 provinces/cities; 10-15% in 13 provinces/cities; 15-20% in 16 provinces/cities; and over 20% in 4 provinces. According to reports of 18 provinces/cities, by the end of 2003 one city is likely to fulfil the target two years before the deadline (2003); 12 district and 157 communes/wards will basically have no poor households (poverty rate of under 2.5% in districts and under 2% in communes/wards).

**Table 1: Poverty Rate by National Poverty Line**

	Poverty Rate		Poverty structure late 2003
	Early 2001	Late 2003	Unit %
<b>Whole country</b>	17.2	11.0	100
Of which:			
- Northeast Uplands	22.3	13.8	12.8
- Northwest Uplands	33.9	18.7	4.5
- Red River Delta	9.7	8.1	19.4
- North Central Coast	25.6	15.7	19.1
- Central Coast	22.3	12.2	10.3
- Central Highlands	24.9	17.4	8.2
- Southeast	8.9	6.3	8.0
- Mekong River Delta	14.2	9.3	17.7

Poverty remains concentrated in rural areas (around 90% of the country's poverty), with Northeast, Northwest, North Central and Highlands having the highest poverty rates.

(2) According to Vietnam Household Living Standard Survey 2002, in the whole country, per capita income in 2001-2003 was VND 357,000 per month in real terms, increasing over 21% compared with 1999; where the figure of urban areas was VND 626,000, increasing by 21%; and the figure of rural areas was VND 275,000, increasing by 22%.

Due to increased income, people's spending has also increased. Per capita expenditure in 2001-2002 was VND 268,000 per month in current prices, increasing by 21.2% compared with 1999; per capita expenditure in rural areas was VND 210,000, increasing by 18%.

People's life has improved not only quantitatively but also qualitatively. In addition to increasing spending to improve quality of meals, non-food spending has also increased, especially in better-off households, on such items as housing, electricity, water, sanitary, health care, education, travel, communication and telephone<sup>(5)</sup>. In particular, the improvement rate of some aspects in the country has been higher than in urban areas, especially among poor households. By 2002, 72.2% of the poorest quintile had access to electricity.

Findings of Living Standard Survey conducted by GSO show that Vietnam's overall poverty rate using international poverty line (including food and non-food items equivalent to 160,000 dong/month/person) reduced sharply in the last decade, from 57% in 1993 to 37.4% in 1998 and 28.9% in 2002, of which food poverty incidence reduced from 15% in 1998 to 10.9% in 2002.

Although poverty reduction rates vary among regions, food poverty decreased in all regions: from 8.5% in 1998 to 5.3% in 2002 in Red River Delta. Similarly, the food poverty rate in North Central Coast reduced from 19% to 17.5%; South Central Coast from 15.9% to 9.0%; Central Highlands from 31.5% to 17.59%; Southeast from 5.0% to 3.0% and Mekong River Delta from 11.3% to 6.5%.

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<sup>(5)</sup> According to the Vietnam Living Standard Survey 2002, 17% of households have permanent houses, 58.3% have semi-permanent houses. Percentage of households living in temporary houses fell from 26% in 1997-1998 down to 24% in 2001-2002. Percentage of households with motorcycles grew from 24% to 32.3%, with TVs from 58% to 67%, with connected power from 77% to 86%, with access to supplied water from 15% to 17.6%, and with septic-tanked and tow-compartment latrines from 16.7% to 25.5%.

**Table 2: Regional poverty rate by international poverty line**

	1998		2002	
	GSO poverty rate	Food poverty rate (2,100 calories)	GSO poverty rate	Food poverty rate (2,100 calories)
<b>Whole country</b>	<b>37.4</b>	<b>15.0</b>	<b>28.9</b>	<b>10.9</b>
- Urban areas	9.2	2.5	6.6	1.9
- Rural areas	45.5	18.6	35.6	13.6
North Uplands	64.2	32.4	43.9	21.1
Red River Delta	29.3	8.5	22.4	5.3
North Centre	48.1	19.0	44.4	17.5
Central Coast	34.5	15.9	25.2	9.0
Central Highlands	52.4	31.5	51.8	29.5
Southeast	12.2	5.0	10.6	3.0
Mekong River Delta	36.9	11.3	23.4	6.5

(Source: VLSS 1993, 1998, and 2002)

In general, the poverty reduction rates in recent years remain relatively high despite slower economic growth in comparison with that of 1993 - 1997 period, and continued poverty reduction requires higher costs. Between 1993-1998, poverty rate reduced by 19.6 percentage points, at the average annual rate of 2.8 percentage points; between 1999-2002 reduced by 8.5 percentage points, averaging 2.1 percentage points per annum. Vietnam is highly appreciated in the world thanks to its high and steady rates of poverty reduction.<sup>(6)</sup>

Special emphasis has been given to poverty reduction during the first two years of implementation of Comprehensive Poverty Reduction and Growth Strategy. In the most disadvantaged areas, the living standard of households in remote and isolated areas has improved although difficulties and hunger in between-crop period still remain. Before the year 2000, famine support had to be provided to nearly 2 million people every year. Since the year 2001, the number has been reduced to approximately 1.5-1.7 million.

Whenever climate-induced difficulties occur, ministries, sectors and local authorities send working missions to localities to launch relief plans for people suffering from calamities. In 2002, sectors and governments at all levels provided 11,250 tonnes of food and VND 126 billion for households suffering from food shortage. In the first 10 months of 2003, local

<sup>(6)</sup> For comparisons purposes, a study conducted by WB using a-dollar-day poverty line (by PPP method) shows poverty has decreased by two third in 1993-2002 period (i.e. from 39.3% down to 16.4% in 1998 and to 13.6% in 2002), if the line rises to 2 dollars a day (PPP) the rate has fallen from 80.5% in 1993 down to 65.4% in 1998 and to 58.2% in 2002.

governments have provided for about 168,500 households with 891,600 people suffering from food shortage with VND 21 billion and 7850 tonnes of rice for the above-mentioned provinces.

Local governments have been developing poverty reduction models that suit their specific situation. Target programs on poverty reduction have been implemented in the majority of provinces. In the last two years, new effective models and approaches have emerged such as “a roof, a watertank and a cow” model of Ha Giang and adopted in Lao Cai and Son La; partnership between business, cooperative and farmers in developing material areas and organizing product sale in Cao Bang, Tuyen Quang, Thanh Hoa and Dac Lac; model of socialization of housing support for the poor in Bac Lieu, Ben Tre, Ha Tinh and Ha Tay. These models have brought about new breakthroughs in some areas of poverty reduction.

In the process of implementation of CPRGS, the dynamics and innovation of local governments and the people’s determination in overcoming poverty have been brought into full play. Some provinces, districts and communes, despite being among the poor localities<sup>(7)</sup> and being partially funded by the central government, have gained significant achievements in poverty reduction; for instance Ha Tinh has removed all bamboed and thatched houses, Hai Duong and Ho Chi Minh City have basically eliminated poor households.

The Fatherland Front of Vietnam has cooperated with local governments in supporting the poor with housing, step by step eliminating temporary, bamboed and thatched houses for the poor. The Social Policy Bank is finalizing organizational arrangements for poverty reduction and employment support scheme. The quality of several construction projects related to poverty reduction and the effectiveness of capital usage in poverty reduction schemes have improved. As a result, poverty reduction has gained encouraging achievements.<sup>(8)</sup>

The “gratitude” movement continues to be implemented nation-wide. Some new 20,000 war invalids, martyrs and revolutionary-credited people have been certified, the rate of credited people’s with living standards higher than the local average has increased, more attention has been paid to other social targets.

**2. Employment creation has become a key task of operation of all ministries and agencies . Consequently, new jobs have been created; unemployment in urban areas reduced and utilization of labour time in rural areas increased.**

In the implementation of CPRGS, employment creation has been paid due attention and become a key measure in reducing poverty. Local governments have adopted many measures to create new jobs with the participation of mass organizations and business associations in order to mobilize all economic sectors in job creation. Employment creation in various forms such as providing credit, consultancy and job training, agricultural

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<sup>(7)</sup> Poor communes are defined (by MOLISA) having poverty rate at least 25% and lacking of at least 3 out of 6 essential infrastructure (including roads, schools, health clinics, water supply, power supply and market places), i.e. less than 30% of households having access safe water, under 50% have access to electricity; no car-accessible roads to communal centres; school capacity, as classified by MOET, is only adequate to 70% of total local students or schools are temporary; no permanent health clinics; no permanent market places.

<sup>(8)</sup> According to the Human Development Report 2003 by UNDP, Vietnam is ranked at 39 out of 94 developing countries in term of HPI, at 109 out of 175 countries in term of HDI and at 89 out of 144 in term of GDI.

extension has been integrated into poverty reduction programs. In particular, the role of private sector, especially small and medium enterprises in job creation has significantly improved. It is estimated that the private sector need VND 70-100 million to create a new job, while SOE requires VND 180-200 million, and foreign-invested enterprises need about VND 500 million.

In addition to further establishment of job consultancy and training centres, the “Employment Fair” has become a very popular way of matching labour demand and supply in the last two years, giving opportunities for people in need of job to communicate with employers directly. In the first nine months of 2003, Employment Fairs were organized in 12 localities, each attracted 71 participating business and over 38,000 visitors in average. About 15000 people looking for jobs have resisted, 3000 people enrolled in vocational training and 2000 people were recruited.

Promotion activities for labour export have been strengthened, contributing to stabilizing and expanding existing markets and developing new markets, especially Asian and Gulf labour markets.

It is estimated that in 2003, employment for about 1.5 million workers (of which 1.1 million are new jobs) will be created, an increase by 5.6% in comparison with 2002. 55,000 workers and experts are exported.

The majority of new jobs in the last two years have been generated in the farming and gardening business sector (around 100,000 per year), traditional handicraft villages and export production (270,000), reclamation and resettlement (150,000), industrial and export processing zones (45,000). The private sector, in particular, employed about 400,000 new workers in the last two years.

Due to creation of new jobs, the urban unemployment rate reduced from 6.3% in 2001 to 6% in 2002 and will be around 5.8% in 2003; the working time utilization rate in rural areas increased from 74.3% in 2001 to 75.4% in 2002 and estimated to be around 76.8% in 2003.

### **3. Improvement in education and training; positive progress in education universalization; consolidation of material facilities; removal of third-shift classrooms and replacement of temporary classrooms**

One of Vietnam’s Development Goals is to increase the coverage of education so that the poor can have access to education. Alleviation of illiteracy, increasing enrolment rates and reducing gender gap at primary and lower-secondary levels are the targets that have been elaborated until 2010.

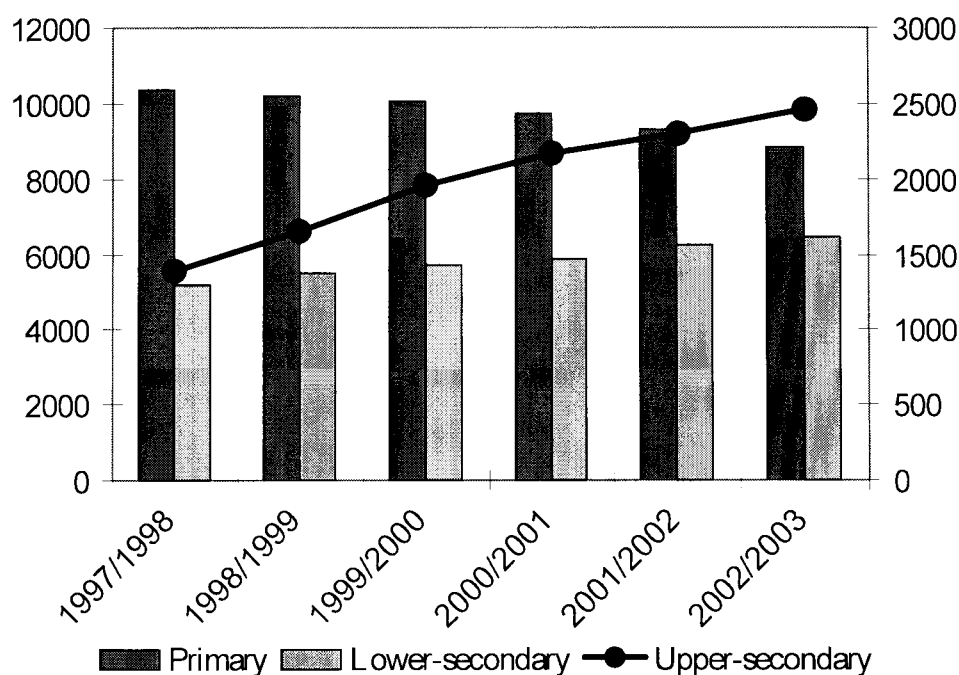
The scope of education and training grows in accordance with features of each education level and specialty. Increasing and diverse demands in education of all population strata are being addressed.

The movement of *kindergarten* continues to develop; local governments have been actively persuading families to send their children to school. 9.8% of under-five children attend kindergarten; the proportion of 3-5 year-old children attending kindergarten continues to rise, estimated to reach 46.4% in 2003. In 2002-2003 and 2003-2004 school years, about 2.1 million children attend kindergarten. The number of kindergarten teachers continuously increases from year to year, hence the average student/teacher ratio reduced

from 21.4 in 2000/2001 to 20.4 in 2003/2004. Non-public nurseries and kindergartens have grown impressively; the share of non-public kindergarten increased from 50.7% in 2000/2001 to 62.2% in 2002/2003.

Despite continuous decrease of primary pupils in the last two years due to reduced number of children entering schooling age, the rate of net enrolments at right age increased from 96% in 2000/2001 to 96.8% in 2002/2003; the rate of graduates reached 99.4%, the rate of pupils moving up to the next education level reached 97.3%. In 2002/2003 around 87% of teachers met national standards.

**Figure 10: Numbers of students at different levels**  
(Left column: Primary and lower-secondary; right column: upper-secondary)



In addition to the development of primary education, the education sector has actively cooperated with local governments in maintaining and enhancing illiteracy alleviation and universalization of primary education. Up to now, 14 provinces/cities have been recognized as having reached the national norm of universal primary education at right age, namely Ha Noi, Hai Phong, Vinh Phuc, Ha Tay, Bac Ninh, Hai Duong, Hung Yen, Ha Nam, Nam Dinh, Da Nang, Phu Tho, Ha Tinh, Thai Nguyen and Thai Binh. However, the illiteracy rate of people in working age still remains high in some areas.

The number of lower-secondary pupils has continued to rise in recent years. In 2002/2003, there are over 6.4 million lower-secondary pupils in the whole country, increasing by 9.8% compared with 2000/2001; of which the rate of right-age enrolment reached 78.1%, increasing by 6.9 percentage points; the rate of graduates reached 96.5%, and the proportion of pupils moving up to the next education level reached 76.4%. In 2002/2003, about 91.2% lower-secondary teachers reached the national standards. Up to



now, 15 provinces/cities have been recognized as having reached the national norm of universal lower-secondary education, namely Ha Noi, Hai Phong, Vinh Phuc, Ha Tay, Bac Ninh, Hai Duong, Hung Yen, Ha Nam, Nam Dinh, Ha Tinh, Ninh Binh, Tuyen Quang, Thai Binh, Da Nang and Ho Chi Minh City.

The number of *upper-secondary* students has increased sharply in recent years (at around 6.5% per year); the number of pupils in 2002/2003 was 2.45 million, increasing by 13% compared with 2000/2001; of which the enrolment rate of right-age pupils was 37.9%, increasing by 4.3%; the rate of graduates was 91.8%; the share of nationally standardized upper-secondary teachers was 37.9%.

*Tertiary education and the system of Intermediate Training Schools* have been expanded. In 2002/2003, there are 909,000 students in 179 universities, colleges and intermediate training schools in the whole country, of which full-time training makes up 54.3% (494,000 students); part-time training 33.9% (308000 students), and others 11.8% (107,000 students). The special feature of recent years is that the number of students enrolling in part-time mode and intermediate training schools has increased rapidly.

Universal education and illiteracy alleviation are one of the highlights of Vietnam. The illiteracy rate of people aged between 15-24 continues to rise, from 93.8% in 1998 to 95.4% in 2002. In particular, there is almost no gender difference over the whole period from 1993 to 2003, showing that there is no gender inequality in illiteracy alleviation; the rate of rural literate women is almost as high as the national average. The rural-urban gap is insignificant and being reduced. Estimates from living standard survey of 2002 show that Vietnam has already reached target 4 in the second development goal for the period up to 2005 (increase the rate of under-40 women literacy to 90% by 2005 and 100% by 2010).

These achievements are the results of prioritizing investment in social sector in Vietnam. The budget capital assigned to investment in education and training increases every year; in 2002 15% of the total investment from government budget was targeted to education development. The figure increased by 15.6% in 2001, 15.8% in 2002 and over 16% in 2003. At present, the level of funding for provinces to spend for education development is based on population criteria. The system is characterized by input-based norms, sometimes resulting in contradiction with reality.

In addition to funding from the government budget, the Government of Vietnam have issued education bonds to mobilize resources for concretizing schools and eliminating temporary and third-shift classrooms (Decision No.159/2002/QD-TTg in 2002 by the Prime Minister). The issuance of education bonds has been favourable, exceeding 20% of the plan thanks to the support of population strata to education. Thanks to this capital, by the end of 2003 third-shift classes will be basically eliminated, one third of temporary classrooms will be replaced, and 22,000 new classrooms will be constructed.

In addition to budget expenditure, local governments have their own measures of mobilizing other capital sources for development of educational facilities. The system of non-public schools has been developing rapidly at all levels of education. Training institutions in disadvantaged areas are increasing in number, facilitating on-site training of human resources.

Thanks to increased investment in education and training, material facilities have improved. The number of primary schools increased by 2.3% from 2002/2003 to

2000/2001, the number of classes has been relatively stable; lower-secondary schools increased by 8.5%, classes increased by 11.7%; upper-secondary schools increased by 21.8%, classes by 15.5%; the number of universities and colleges increased by 20.9%. The number of provinces with no vocational schools reduced from 14 to 4.

The quality of classrooms has also improved; the ratio of Grade 4 and higher classrooms at the primary level increased from 79.7% in 2000/2001 to 81.9% in 2002/2003, at the lower-secondary level from 89.8% to 91.2% and upper-secondary from 94.2% to 95.8%, respectively. Other education facilities such as learning and teaching devices, libraries, canteens, student dormitories and so on have been improved. Since 2002/2003 school year, all research institutes, universities, colleges and professional secondary schools have been connected to Internet, pursuant to Decision 33/2002/QĐ-TTg by the Prime Minister. In 2003, every intermediate training school is equipped with two computers and one modem for Internet connection.

#### 4. Health care and improvement of people's health

In the health care sector, Vietnam continues to make good progress thanks to the support of the Government. Infant mortality and mother mortality rates have reduced to the prevalent rates in countries with per capita income being 2-3 times higher than that of Vietnam. According to Demographic Changes Survey 2002, the infant mortality rate was only 26‰, a sharp decrease from 36.7‰ in 1999 and 31.2‰ in 2000.

**Table 3: Infant Mortality Rate (‰)**

	General Census 1999	Demographic Changes Survey 2000	Demographic Changes Survey 2002
<b>Whole country</b>	<b>36.7</b>	<b>31.2</b>	<b>26</b>
- Urban	18.3	20.1	17
- Rural	41	34.6	28.8

Programs of under-five child malnutrition prevention have been conducted in all localities with the participation of all levels, departments, sectors, mass organizations and the whole society. Though the weight malnutrition rate of under-five children was still high according to international standards, but it has considerably reduced in 2002. This rate is 29% in 2003, declined from 31.9% in 2001 to 30.1% in 2002. However, the speed of annual malnutrition rate reduction is still slow and uneven; in rural, deep and remote areas, the malnutrition rate is quite high, of which Midland (Tay Nguyen) is a place having the highest rate of malnutrition (40.2%), following are Tay Bac (North West) and Bac Trung Bo (Central North) (36%). The under-five child mortality rate has decreased from 4.2% in 2002 to 4% in 2003.

Another outstanding achievement in the medical work is that Vietnam has been successful in controlling and limiting the severe acute respiratory syndrome (SARS) and has been considered the first nation, which successfully controls SARS by the World Health Organization.

Programs of HIV/AIDS prevention and fight have been conducted by the medical sector in a large scale and have been strictly monitored. During the 2002-2003 period, the medical sector and the labour, war invalids and social sector have discovered 28.8 thousand cases suffered from HIV, increasing the accumulated figure of the whole country to 71.5 thousand cases to the end of October 2003. The number of AIDS victims of the whole nation to the end of October 2003 is about 10.9 thousand persons. 6.1 thousand persons died because of AIDS. However, these figures are still low in comparison with the actual figures as many persons have not yet been examined and tested.

The number of persons suffering from HIV/AIDS is still concentrated on high risk infected groups such as drug injection (accounting for 65% of the number of infectious persons), sex workers, persons suffered from tuberculosis and sexual transmitted diseases. Notably the HIV infection rate of the low risk infected groups such as pregnant women, under-10 children, men at the age of joining the army... has a tendency to increase. The highest rate of HIV/AIDS infection falls in the group at the age of 20-29 and the group at the age of over 30. Localities having the high rate of HIV/AIDS infected people are Quang Ninh, Hai Phong, Ho Chi Minh City, Lang Son and An Giang.

**Table 4:** *Under-five child malnutrition rate (%)*

	2001	2002
<b>Whole country</b>	<b>31.9</b>	<b>30.1</b>
Red River Delta	30.3	26.6
North East	35.8	33.4
North West	37.7	36
Central North	38.6	36
Central Coast	33	32.6
Central highlands	38.4	40.2
South East	28.4	24.4
Mekong River Delta	29.3	28

With a view to implementing Decision No. 139, medical health care cards have been continuously provided free of charge to poor people in all provinces and cities. According to the living standard survey 2002, about 23.2% of poor people have been provided with health care card at present. The distribution of health care cards is good as there is no considerable gender discrimination. This achievement together with other gender achievements as in the education sector prove that Vietnam has made great progresses in inequality reduction between men and women.

## **5. Science and Technology**

During the two years of 2002-2003, scientific and technological activities continues to develop strongly to satisfy the needs of industrialization, modernization and economic integration. Social sciences and humanities have provided scientific arguments for the making of strategies and policies of the Party and the State, decisions on planning and socio-economic development investment plans of some sectors, regions, territories and localities. Research and development activities in sciences and technology have made important contribution to changing technology, increasing competitiveness of domestically produced goods, and changing structure of the economy. The acceptance, selection and application of technological and scientific research results to some economic sectors have been more interested, especially, research results of projects of agricultural breeds, application of advanced technologies to agricultural production and rural development.

The Program of applying technological and scientific progresses to serve the rural and mountainous development has been implemented with promising achievements. The successful results include 223 models of applying technical progresses to production of food crops, foodstuff, fruit trees, forestry plants and forestry and agricultural crops; 12 models of save water supply, rural sanitation, small irrigation works, construction of rural roads by using available materials at localities; 7 models of shrimp breeding production farms and 6 models of applying technology of shrimp production along the coastal areas, 22 models to conserve, process agricultural products, and export. The application of these models have involved the direct participation of thousands scientists of more than 50 research institutes in developing the models and transferring them to local people. About 794 short training courses on agricultural production techniques, cultivation, husbandry, aquaculture for 47682 participants, special training courses for 120 commune's technicians who are in commune's management in 242 different localities. Many models have been implemented in 2002. The Department of agricultural and forestry have continued providing funds for construction of 10 demonstration models of agricultural extension, technical and technological transfer in 2002. These models have been implemented in 16 provinces and cities in all three regions, North, Central and South, with the participation of nearly 1200 households. Up to now, these 16 models have been reviewed and accepted; most of the implemented models have satisfied proposed targets.

Production technologies in some sectors such as oil and gas, electricity, telecommunications, ship building, garment, production of beverage, assembly of automobiles and motorcycles, manufacturing of patterns, electric equipment, civil electronic commodities, food and foodstuff processing and especially in production sectors of joint ventures and enterprises with 100% foreign invested capital, have achieved advanced level, of which many aspects and production lines have applied automatic technology.

Attention has also been paid to the development of the technological and scientific research capacity.. The share of technology and science in the total state budget continues to increase.. Up to 2003, more than 100 scientific research institutes have been invested to improve technical and material capacity, of which 40 institutes have completed the investment stage, 16 main laboratories have been constructed. Many software development centres have been set up; especially 3 big centres (Quang Trung- Ho Chi Minh Centre for

software development, Da Nang Centre for software development, Hai Phong Centre for software development) have come into operation.

The construction of high-tech zones has had positive progresses; the Prime Minister promulgated decisions on establishment and approved the master plan of development of the Ho Chi Minh High-Tech Zone. The site clearance and calling for investment in Hoa Lac High-Tech Zone and Ho Chi Minh High-Tech Zone have been urgently conducted. The government has issued the Decree on the managerial regulations of High-Tech Zones and is considering the issuance of preferential investment policies applicable to High-Tech Zones.

Ministries, agencies, and localities have focused on the implementation of Directive 58/CTTW of the Politic Bureau on application and development of information technology. Program 47 on application of information technology in activities of Party agencies, Program 112 on improving State administrative management information has been implemented in almost all ministries, agencies, and localities. Some important projects of Program 95 about application and development of information technology have been carried out in some ministries and agencies. Up to now, broadband information networks and centres for integrated data have been established in many Ministries, agencies and localities.

Ministries and agencies have also been implementing the Government's Action Plan which realising the scientific and technology measures outlined by the Party's Central Committee's Conference IX. Two large scientific programs were finalised, namely the Program "Development Strategy for Science and Technology in Vietnam to 2010", and Program "The Management and Organisation of Activities in Social Sciences". Many other programs on the managerial mechanism of sciences and technology are being completed. The government has issued the Decrees on the establishment of the National Fund for the Development of Sciences and Technology, and the Managerial Mechanism for Hi-tech zones. At present, the implementation of almost all scientific projects is in line with the proposed timetables.

## **6. Natural resources and environment**

The allocation of agricultural land to households has created a source for rapid growth and poverty reduction. At the moment, the land administration agencies at all levels have made efforts to finalise the classification of land, granting land use right certificates, in order to create legal basis for land management in an socialist-oriented market economy. The ultimate goal is to create favourable conditions and environment for the most effective use of land by all agents and people, and to contribute to poverty reduction. Many localities have completed land zoning and adjusted the delivery of public services.

The issuance of land use right certificates has an important role in stimulating investment, distributing resources more effective, as well as creating favourable conditions for loan borrowing for business and production. However, the progress of issuance of land use right certificates is slow in urban areas, midland and forest areas over the past decade. Recent efforts have brought about some more positive results. Up to now, about 35% of urban households and 60% of the total forestry land users have land use right certificates.

Vietnam has made important legal changes relating to natural resources and environment. In the coming time, the National Assembly plans to pass the amended Land Law which provide greater land-tenure security and access to land by all sectors. The Law

addresses the customary land-use practices, leading to secure community land tenure. The revision should serve as the foundation for more sustainable approaches to land and forest use management, such as approval of the application of community forest management. Similarly, the effective classification and planning of land use are very essential to address the severe housing shortage at present in all cities of Vietnam, and improve the sustainability in the land management practices.

An important progress toward the sustainable growth is the developing of the National Sustainable Development Strategy (Program Agenda 21 on Sustainable Development and the National Environment Strategy). This is a result of a long process of consulting with line ministries, agencies, and all 61 provinces and cities. The strategy will create an important framework for the planning and implementation of the objectives of sustainable socio-economic development and environmental protection. Especially, the strategy requires considerations of environment in the plans of the agencies and clearly specifying tasks and responsibilities of supervisory ministries and government agencies. The strategy for sustainable development will create favourable conditions for all people and communities to participate in socio-economic development and environmental protection.

Recent decision to abandon the use of leaded petrol has resulted insubstantial reduction of lead blood levels in urban areas. Improved investment in solid waste collection and sanitation services creates considerable potentials to reduce disease transmission in both rural and urban areas. Air pollution reduction in houses by using cleaner fuel, improved technologies and houses design also offer potentials for the reduction of acute and chronic respiratory diseases which is a common issue in many regions of Vietnam.

#### **7. Attention has been paid to culture, sports, information propaganda activities, and social activities have had positive changes.**

The information and cultural activities have concentrated on propaganda of State policies and directions, compliance of laws, making contributions to the struggle against evils, corruption and bureaucracy in the society. The establishment of a new cultural life with cultured villages, hamlets and wards has been conducted in all localities. More attention has been paid to the preservation and restoration of historical and cultural heritages. A strong emphasis has been placed on the development and preservation of ethnic minorities' cultures.

The radio and television broadcasting has been interested and the radio and television broadcasting area has been enlarged. At present, Vietnam has basically completed the broadcasting objectives of 2005.<sup>(9)</sup> To the end of 2002, approximately 84.7% of households may watch Vietnam Television Programs and 92.8% of households may hear the Voice of Vietnam. Notably, there is almost no difference on the access to information between groups having different income levels. Resources have been mobilised to complete the construction of material establishments to serve Sea Games 22 and Para Games 2; many important works and work items have been completed. The preparation for successful organization of Sea Games 22 has been well and timely conducted.

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<sup>(9)</sup> It is ensured that more than 90% of family households may see Vietnam Television programs and 95% of family households may hear the Voice of Vietnam in 2005.

The population and family planning has been strengthened. The reduction of birth rate in 2003 is estimated to reach 0.04%, equivalent to the target rate; the population in 2003 is about 80.75 million persons; the natural rate of population growth is about 1.3%.

The movement of "Repayment in kind" has continuously developed throughout the nation and policy-qualified people have been cared for.

### **8. Development of infrastructure for poor communes and regions**

In the previous year, priority in investment has been given to basic services such as building health clinics; support having access to clean water, and supplying electricity to remote areas. The objective is to address the poverty in a multidimensional approach. Government also focus to invest on rural physical infrastructure such as rural roads and irrigation to create opportunities for the poor to escape poverty.

As a result, the share of rural population rate having access to clean and safe water and electricity from the notational grid (mainly for light) has rapidly increased. At the moment, each commune basically has its own medical centre. More than 97% of communes have car accessible roads to communal centres.

**Table 5:** *Access to basic services in the rural areas*

Criteria	1993	1998	2002
Rate of rural population having commune medical centres	93	97	
Rate of rural population having access to clean and save water	17	29	39.6
Rate of urban population having access to clean an save water	60	75	76.3
Rate of rural population using electricity for light	48	77	
Rate of communes having car-accessible roads connecting to communes			97.2
Rate of households may see Vietnam Television programs			84.7
Rate of households may hear the Voice of Vietnam			92.8

The government pays special attention to assisting most disadvantaged communes to enable them catching up the pace of development of the country. During the 4 years of implementation, Program 135 has brought about important results, making contributions to the socio-economic development for 2362 communes and 316 districts having extremely difficult conditions in 49 provinces in the whole country. Nearly 13 thousand projects have been implemented with the total investment capital from the Central budget of VND2,958 billion, about VND166.5 billion from the local budget. Especially, more than 1200 mountainous communes in the North have been invested with approximately VND1700 billion, accounting for more than 50% of the total communes and investment capital of the Program.

## **PART 2**

### **POLICY IMPLEMENTATION IN THE PERIOD OF 2002-2003**

#### **I. IMPROVEMENT OF BUSINESS ENVIRONMENT AND EQUALITY AMONG DIFFERENT POPULATION GROUPS**

In the two years of 2002-2003, the Government of Vietnam together with different sectoral ministries, agencies and authorities at different levels have made significant efforts to improve the legal and institutional framework. This includes, allowing different types of enterprises to function in accordance with a uniform policy mechanism, based on the viewpoint that the State respects and ensures the undertaking of legitimate business activity. This helps to mobilize the maximum resources in the society for production and business and results in new growth. Following are some examples of the progress in the business environment gained in the last 2 years:

##### **1. Improvement of investment environment, and development of private sector**

One of the important drivers for the strong development of Vietnam's economy is private enterprise development. This sector has continuously experienced high growth rate thereby create many additional jobs, which makes an important contribution to the growth and poverty reduction process.

The investment environment in Vietnam has been considerably improved since the Enterprise Law took effect in early 2000. The 5th Session, Term IX of the Central Committee of the Communist Party of Vietnam in March 2002 saw the private sector as an important element for economic growth, employment creation, income increase for the population, revenue increase for the state budget, hunger eradication and poverty reduction. In this session, endorsement was made for a series of important policies, which encourages the development of private sector.

During 2002 and 2003, in addition to the comprehensive implementation of the basic content of the Enterprise Law, the Government has also removed some more unnecessary types of business permits including further elimination of 5 types of business licences and the, transfer of business licence into business conditions for 10 types of businesses. As a result, a total of 180 types of permits have been eliminated since the enactment of the Enterprise Law. Furthermore the duration for business registration has been shortened from 15-20 days to 10 days by the end of 2001 and 2003, respectively.

In the process of the Enterprise Law implementation, review has been made to provide basis for revision of some administrative procedures in other areas such as customs, financing, banking, and trading. One-stop, one-stamp service, public administration service and information technology in public administration management has been widely applied in many public administration agencies, considerably facilitating the performance of enterprises. In March 2002, Activity Guarantee Transaction Registration Centre was established in Hanoi and Ho Chi Minh City to provide facilities for implementation of collateral and mortgage transactions as given by Transaction Guarantee regulations.

The legal environment is opening up and is more transparent as the content of legal documents, regimes and policies for encouragement of production and investment and



others is all widely disseminated in daily gazettes, specialized journals and mass media. Government agencies, newspapers offices and radio and television stations have all set up their hot lines to quickly grasp situations to have measures for intervention and support to enterprises. In addition to conducting periodical dialogues between the Prime Minister and leaders of ministries and branches at central and city/provincial levels and enterprises, leaders often directly consult with business/production units and take part in debates in newspapers and television programs, etc.

In implementation of the Foreign Investment Law revised in 2000, for the last 2 years, many environment improvement measures have been implemented to attract foreign investment. Up to now, foreign investors have been given more scope for undertaking business ventures. This applies to freedom in their choice of projects, partners, forms and types in their investment for those projects that are not categorized as conditional and limited ones. Some strategic sectors have been opened to foreign investment such as telecommunication (joint-venture between Sai Gon Postel and SK, LG South Korea), electricity (Phu My 2.2 BOT electricity project), banking and insurance. For the first time, indirect investment has been allowed in 35 areas. The Prime Minister has given the permit to simplify the procedures and shorten the registration duration to 15 days for licence registration projects and 45 days for licence appraisal projects. The two-price system that results in treatment discrimination between domestic and foreign enterprises is gradually being wiped out.

The government also ensures the currency exchange for important infrastructure projects and allows enterprises to buy foreign currencies without requirement of permits by the State Bank. Export rights have enjoyed one more extension as enterprises are allowed to export products which are not produced by themselves and that they do not have to get their export plan approved in advance. Import performance has been more strongly liberalized in accordance with the commitment made with regards to the AFTA pathway and other commitments in the international integration process. Many quantitative export limits have been lifted and tariffs applicable to most of them have not been increased. The quantitative limit scope has reduced from 20% for imports and 22% for domestically produced items in 2000 to 13% and 4%, respectively, in 2002. On 1 July 2003, the last tariff lines in the Temporary Exclusion List have been transferred to the Inclusion List. Tariff rates have continuously experienced reduction for the last 2 years.

People's committees of provinces and cities under the Central Government have made public land use plans, urban development plans, population infrastructure development plans (housing, water supply, stations, roads, etc.) in their localities for enterprises of any economic sector to make their choices in investment and development. Land use information systems have been set up in many wards and communes.

Infrastructure (roads, bridges, ports, airports, railroads, communication cable system, electricity power station, etc.) continues to be improved to facilitate the attraction of foreign direct investment. Continuity is made in implementation of the pathway to have the same treatment between foreign-invested enterprises and domestic ones in terms of tax regimes, land rent, service charge, electricity rates, domestic flight fares, international seaport fees; in expansion of foreign investment attraction areas; in encouragement of foreign direct investment into export industries, basic industries, high-tech, new material

and electronic sectors and those which can make full use of comparative advantages and employment creation.

Over the last 2 years, the Law on Competition has been further improved while the State-Owned Enterprise Law and Enterprise Bankruptcy Law have been revised. Ordinances in Pricing, Most Favoured-Nation Status and National Treatment, in Commercial Arbitration, and related to Revised Enterprise Tax Law have been promulgated. Land Law (revised) has been being discussed widely in public and is about to be submitted to the National Assembly for endorsement. The relevant Decree has been enacted to speed up the issue of land use certificates so as to provide the legal basis for the healthy operation of the property market and, at the same time, to facilitate transfer, rent, and mortgages for bank loans and joint-venture capital contributions.

## **2. Continue state-owned enterprise (SOE) reform**

During 2002-2003, the SOE sector reform focuses on rearrangement, renovation and efficiency improvement of SOEs, which helps improve their competitiveness via trade liberalization, creates business environment more equitable with private sector and limits subsidies from the state budget and credit for SOE sector.

Decision No.58 by the Prime Minister has clarified and, step by step, specifies the orientation of rearrangement and development of business-oriented and public SOEs, giving clear indicators to categorize enterprises to be owned 100% by the state, enterprises with controlling shares to be owned by the state, enterprises with special shares to be owned by the state, enterprises with minor shares to be owned by the state, enterprises with no shares required to be owned by the state, when they are equitized. On this basis, identification is made in terms of categorizing SOEs to be merged, to be dismantled, to declare bankruptcy, to be transferred, to be sold, to be assigned business contracts, to be leased. The legal framework for the SOE transfer such as the social safety network to provide support to redundant labour at SOEs and equitization process, etc. have been further rationalized.

By the end of 2003, the new State-Owned Enterprise Law will have been promulgated with many revisions and modifications oriented by more autonomy and self-decision making in line with supply-demand relationship, efficiency improvements and self-accountability by SOEs. Some regulations to encourage enterprises to compete and equitably cooperate with each other for development have been promulgated in parallel with enhancement of the monopoly control mechanism. In accordance with the new State-Owned Enterprise Law, the type of SOEs involved in public activities will no longer exist.

Initial actions have been made in renovation of accounting and auditing systems, reporting lines, information dissemination, and in making public SOE business and financing performance via Decision 167 and Circular 89. Auditing analysis has been made for approximately 30 SOEs. Now effort is being made to complete the pilot restructuring of 3 corporations (The Coffee Corporation, The Textile and Garment Corporation, and Fishery Import-Export Corporation).

Decree 07 has been enacted to revise and modify the Construction and Investment Management Regulations for more power and responsibilities to be undertaken by enterprises in investment decision, Decree in labour management, salary and income in

SOEs to replace Decree No.28/CP and Decree No.03/2001/ND-CP, Decree 49/ND-CP dated 24 April 2002 to revise and modify some provisions of Decree No.103/1999/ND-CP to speed up transfer, selling, business assigning and leasing of SOEs.

In 2002 and 2003, the Government of Vietnam has applied some relatively strong and specific measures to speed up the SOE sector reform progress; especially approving scenarios to rearrange SOEs under ministries, in sectors and localities. For this reason SOE ownership transfer speed has increased. In 2002, the ownership structures of more 180 SOEs were changed, consisting of 148 equitized and 32 sold or business assigned. In the first 7 months of 2003, 213 SOEs was changed in terms of their ownership with 178 equitized and 35 sold or business assigned. Up to now, SOE reform scenarios for the year of 2004 has been basically approved.

Mechanisms to treat bad debts unpaid by SOEs have been developed and enacted; An SOE Debt and Assets Purchasing and Selling Company has been established and put into operation to treat debts and unused assets, facilitating healthy corporate financing.

The promulgation of laws to revise and modify certain provision of Enterprise Bankruptcy Law has been slow. The line ministry mechanism, which is still cumbersome and slow is to be replaced by state administration one, by policies, by laws and by standards which enhance efficiency and autonomy and which empowers enterprises in the establishment of corporations and associations.

### **3. Facilitate the comprehensive and efficient development of small and medium sized enterprises (SMEs), cooperatives, farms and different businesses in private sectors**

For the last 2 years, Decree No 90/2001/ND-CP by the Government related to SMEs has been strongly implemented. Consequently the business environment for SME's has enjoyed obvious improvement and efficiency and development rate of SME sector tops the overall economy.

By the end of 2002, the Small and Medium Enterprise Department was established and has been located in Ministry of Planning and Investment. For the last 2 years, more organizations for SME promotion and support have been established at central and local levels. In their first state of operations, they have taken their active roles in supporting enterprises.

Many new mechanism have been promulgated to allow enterprises to have better access to incentive policies and support programs of the Government, particularly in mobilizing investment funds and credit, in renting production/business sites, in accessing market information, using technical consultancy, training and developing human resources as well as accessing business development services.

The State has established more funds to provide investment support, to make medium and long-term loans available to SMEs; has set up credit guarantee fund, has extended financial leasing credit, reputation guarantee; has given favourable treatment to and reduced and exempted some taxes and has sponsored scientific research technology renovation programs for enterprises which recruit poor labourers.

In implementation of the strategy, many conferences, workshop and training programs have been conducted, hence competence at both central and local level in terms of management of and support for SME partially improved. Coordination skills have been

further improved in implementing the SME development program e.g coordination among state administration agencies, associations, sectoral societies, state-owned and private consultant and training centres.

Development of cooperatives is continued, in accordance with Cooperative Law, with increasing diversification of business and partnership types, both in scale and forms, based on respect of labourer's voluntaries and decision, on democracy and publicness. Up to the end of 2003, treatment of bad debts by the old-type cooperatives, who either have or have not been transformed, has been fully completed. Some dormant co-operatives that existed in name alone have been dismantled.

Farm economy continues to have strong development and diversification with farms involved in crops taking the biggest portion. Thanks to specifying basic content of Decree No.03/2000/ND-CP by the Government related to farm economy development, there are obvious advantages for the development of this sector. Facilities of farms have rapidly increased, the number of workers involved is increasing (farms currently employ 400000 direct labour). Average farm income is 2.2 times that of a household. There is an increasing trend in the development of comprehensive consultant services to commodity production households or household groups, and in transformation of off farm-business households into enterprises.

## **II. MAINTAIN MACRO - ECONOMIC STABILITY**

### **1. Financial policy continued to be basically renovated, contributing to strengthen and step by step build healthy national financing, to maintain stability and to promote economic and social progress**

For the last 2 years, financial policy has been more appropriate and consistent to further stimulate the economic growth. This is in the context of a stagnant world economy. Domestic production conditions, though improved, are still difficult and foreign direct investment decreasing. Budget deficit over GDP has been stabilized at the same level with previous years (around 5% in accordance with statistic figures by Ministry of Finance and around 2.5% by international measurement). The budget deficit has continued to be covered by healthy sources such as mobilization of domestic funds via issuance of treasury bonds and bills, etc. and via favourable loans from external sources. Revenue and expenditure has been more rationally structured.

National debts including that by the government and by economic sectors have all been more closely managed to ensure solvency. The International integration process in term of financing has been implemented actively, owing to which international financial cooperation and partnership has been extended.

For these 2 years, tax policy has continued to be renovated for more equity, openness, transparency and efficiency in revenue sources of government at different levels and in the contributions made by individuals. In the implementation process of tax reform since 2002, revision and modification has been made to some taxes to make them appropriate to market economy development and economic integration process of the country, particularly in Third Session of National Assembly Term XI the Revised

Corporate Income Tax Law and the Amendment Law to the Value Added Tax and Special Consumption Tax Law have been ratified.

Renovations in tax policy have also allowed the same tax treatment across all economic sectors. This created good condition for the development of enterprises due to the equality in terms of tax. The direct tax portion in the total State Budget revenue has increased. Proposal has been made to the Standing Committee of National Assembly to amend the Tax Ordinance applicable to high-income earners to ensure social equality, to create development motivation, and to ensure its consistency with other revised tax-related laws. Tax projects related to land transfer and assets of high value have been actively developed to submit to the National Assembly for approval.

The Indirect tax system is being improved, oriented by reduction of import tax in line with international commitments and by requirements for reasonable protection, time and conditions for domestic production and business; value added tax has been applicable to more targets in terms of import; more items have been subject to special consumption tax; considerations are being made to apply new tax rates which are related to domestic production protection in the process of international economic integration such as anti-dumping tax.

Tax reduction and exemption have been step by step reduced, particularly in the case of application of social policy for favourable treatment via tax, based on considerations to apply tax preferences with priority given to new investments, production development and extension investments, technology renovations, production of new products, development of high tech sectors and industries, production for export, projects that attract a lot of labour to help job creation, hunger eradication and poverty reduction.

Tax collection has enjoyed initial modernization. One further step has been the introduction of self-assessment in the calculation taxation liabilities and to pay tax directly to the State Treasury. Inspection of tax declaration, collection, settlement, and reimbursement has been enhanced; efficiency is enhanced in examination to fight tax loss, smuggling and trade fraud. Regulations on openness and democracy in terms of tax in particular and of state budget in general have been promulgated and taken effect.

The newly enacted Budget Law has created a healthier and more efficient financial and budget administration mechanism, ensuring the democracy, transparency and accountability in budget management, and ensuring balance between development investment expenditures and recurrent ones and paying attention to maintenance of existing works. The renovation of public expenditure policy has initially been made in combination with implementation of advocacy of socialization of many socio-economic activities at localities who are in condition to do so, hence allowing reducing expenditure for national budget. Therefore, the Government has more funds for those in difficult conditions. The new Budget Law also further perfects the financial and budgetary management decentralization mechanism.

Public financial management has been increasingly transparent. Up to now, detailed budget and expenditure plan for each sector has been publicly disseminated and documented in Annual Statistical Publication by the General Statistic Office and posted in the home page of Ministry of Finance website. The State Treasury is assigned the task to keep the common budget accounts. Now urgent action is being taken to install the overall budget management

information system at the Treasury. The amount of funds beyond the Budget has been documented, including details related to performance of development support funds.

Foreign loan borrowing, payment mechanisms and policy continue to be improved based on enhancement of quality of planning, financial appraisal and efficiency evaluation of investment funds with foreign loans. One further step has been made in mechanism to monitor foreign loan borrowing performance by enterprises, especially SOEs. An information system to help with analysis, forecasting and evaluating risks in ODA borrowing and assisting the Government to manage debt has been actively deployed in ministries.

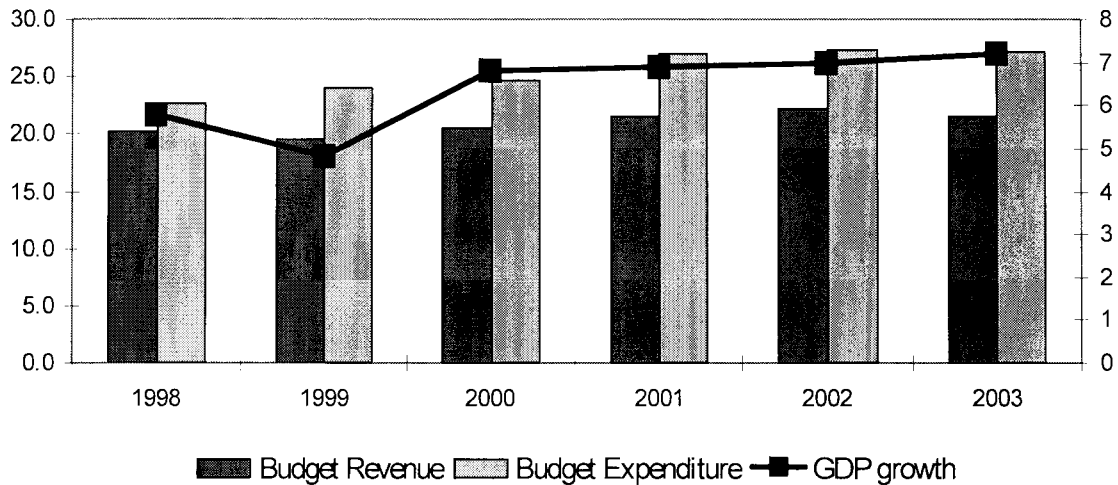
To implement the principle of equality in financing distribution policy, Vietnam has completed the list of criteria for development of the investment budget allocation; at the same time initial evaluation has been made of influence of budget performance, especially of public investment program, on economic growth and hunger eradication and poverty reduction.

Over the last 2 years, the Government prioritized investment funds from the State Budget to develop the socio-economic infrastructure system, with particular attention to poor areas, development of agriculture, rural areas, education and training, science and technology, culture and health. Budget-based direct and indirect support mechanism is applicable to enterprises of any economic sectors to train and develop human resources, provide information, promote trade, seek markets, to provide consultancy on deployment and application of modern enterprise management mechanisms, hence operations by non-state enterprises and those in poor areas have been better facilitated. One further step has been made to improve the mechanism to combine investment fund from the State Budget with external financial sources and contribution by people to implement efficiently national target program in areas of education, health, hunger eradication and poverty reduction, eco-environment protection, job creation, with particular focus on areas with high rate of poor households, with many ethnic minorities and others in difficult conditions.

In addition to the new Budget Law, many decrees and circulars have been enacted to make budget allocation regimes, quotas and standards more appropriate to socio-economic development needs. Decree 07 enacted in 2002 related to construction investment management has helped save investment fund from State Budget with its provisions covering from advocacies to formulating, approving projects to implementing projects. The Government also has organized many inspections to examine the utilization of funds from State budget in line with the advocacy of fighting persistently any loss or waste in public expenditure.

With the above-mentioned policies, for recent years, actual budget revenue have been more than planned, hence ensuring increasing expenditure by the Government. The total budget revenue of 2002 was 11.6% higher than that of 2001 and equal to 22.2% of GDP, of 2003 was estimated 11.3% higher than that of 2002 and equal to 21.7% of GDP. The budget revenue of the last 2 years has increased well owing to continuing industrial, agricultural and service development as well as good implementation of budget collection solutions included in the 5-year plan focusing on contribution by households with high revenue sources and on absolutely fighting against revenue loss, tax evasion especially tax on housing and land and property transactions, etc.

**Figure 11: Growth of budget revenue, expenditure and GDP**



The total State Budget expenditure in 2002 (by international standards) was equal to 24.9% GDP, that is 11.7% higher than that of 2001. In 2003, the budget expenditure was estimated 12.3% higher than that of 2002 and equal to 24.6% of GDP. Among that, expenditure for development investment accounted for 31.4% of the total state budget expenditure.

The State Budget expenditure over the last 2 years has met objectives set at the beginning of the year such as salary reform, foreign and domestic debt payment and fund requirements for important investment works.

So, public financing performance continues to have stable development; the ratios of revenue, expenditure and budget deficit over GDP have all been stable over the last years, creating favourable conditions for macro-economic, monetary stabilization and business environment stabilization for enterprise development.

**2. Stimulating monetary policy to encourage investment, to control inflation rate, and to support growth and poverty reduction**

In 2002 and 2003, the Government of Vietnam has been implementing flexible monetary policy both to sustain macro-economic stabilization, to fight against high inflation rates and to create funds for economic development process in the country for economic growth and hunger and poverty reduction. The fact shows that the flexible monetary policy has taken its active role.

Monetary performance over the last 2 years has basically met the requirements of the economy. In 2002, the total money supply increased by 17.6% as compared with that of 2001 and mobilized fund 19.41%. In 2003 the total money supply was estimated 20.34% higher than that of 2002 and mobilized fund 21%. Economy's credit outstanding is estimated to rise 25%.

In 2003, bank credit balance in foreign currencies experienced rapid growth due to revisions by the State Bank of Vietnam in decisions related to targets eligible to have access to loans in foreign currencies and in loosening loan conditions for before-due date

foreign debt payment. On the other hand, interest rates offered for loans in foreign currencies given in 2003 were much lower than that in Vietnamese dong, which means an element for this high balance. Due to high interest rates applied for loans in Vietnamese dong, the balance of credit in this currency in 2003 possibly had low growth rate. In 2002 and 2003, bad debts treatment was favourably performed. Bad debt rates out of the total debt balance have approximately reduced to 6.1% by the end of 2003 from 7.1% by the end of 2002.

The inflation rate was kept below 4% per annum; credit extended to enterprise sector increased, contributing to the achievement of the annual economic growth rate of 7.1%; hunger and poverty rate continued having quick reduction.

In 2002, banking performance made a significant step forward. A consistent banking policy mechanism and network has been established and improved flexible monetary policy has been implemented in a manner appropriate with the domestic and international economic conditions, which both supports the demand stimulating process, economic growth, and controls inflation. Transaction network to mobilize fund and to extend credit has been enlarged to potential localities. Advanced technology has been further applied to simplify tradition fund mobilization services; one-stop deposit and multi-point withdrawal process started to be put into operation to facilitate transactions by clients. The percentage of long and medium-term fund mobilized and lent increased. Equity in getting access to bank loans among economic sectors has been upgraded significantly. Conditions for collaterals, reputation mortgage, and procedure for ending has been simplified, particularly for loans for agricultural and rural, SME, and traditional craft village development. Funds are also prioritized for areas focused in the economic structure shifting process such as shrimp and fish culture for export, fruit tree growing, industrial tree plantation, forestation, and agro-forestry and fishery product processing.

In 2003, the current credit mechanism was further revised and modified for more autonomy for credit organizations; credit mechanism was further specified for areas such as credits for enterprises in processing zones, credits for house purchase, credits for projects invested overseas, credits for foreign organizations and individuals awarded projects in Vietnam; some regulations related to loan guarantee have been revised and modified to make them appropriate to newly enacted legal documents and to recent changes in the credit market; loan mechanism applicable to the poor and targets of social policies have been revised and modified.

Fund re-allocation mechanisms have been further improved, transferring from loans based on nominated targets to loans based on discount, rediscount of commercial notes and short-term valuable papers; durations of deposits have been diversified and fund re-allocation interest rates flexibly adjusted; compulsory reserve rate, basic interest rate and discount interest rate have been adjusted for reduction to match with changes in capital market and demand-stimulating objective of the Government. Loan swap function has been performed more frequently.

The exchange rate management mechanism continues to be improved. This covers rate liberalization with macro-management by the State, rate management by the State Bank based on market signals, with intervention in necessary cases to prevent speculation,



and to maintain a reasonable value of VND against USD. The fluctuation range of the exchange rate has expanded from 0.1% to 0.25%.

The state-owned commercial bank system has been restructured with progress as planned; Government established the Steering Committee for Commercial Bank Financial Structure and put it into operation as a permanent unit in the State Bank of Vietnam. In 2002, some commercial banks have established their debt selling and buying companies to solve enterprises' debts and debt and mortgage management companies and put them into operation; measures have been developed to handle bad debts with mortgages in accordance with market mechanism.

New regulations related to principles for loan classification and contingency have been enacted. Loan classification now conforms more closely to the international practice; banks are now required to transfer any loan into bad debt if any part of it is not paid at due date. Big state-owned commercial banks have approved plans for sufficient contingency for non performing loans based on requirements at different stages and on estimated data available in auditing reports to international standards. These plans foresee that banks will provide sufficient contingencies from their own sources in the period 2003-2006, subject to each bank. Up to now, preparation to conduct inspection and monitoring in line with CAMEL system is to be completed. The fact that 12 institutions that violate regulations in banking sector are merged and closed provides evidence that the Government of Vietnam has achieved significant progress in ensuring the conformity with regulation in banking performance.

Auditing has been made of financial operations of the four biggest state-owned commercial banks (Bank for Agriculture and Rural Development, Bank for Industry and Commerce, Bank for Investment and Development and Bank for Foreign Trade) based on International Accounting Standards (IAS)

An initial step has been made in separating credit for eligible based on favourable treatment policies from operations of state-owned commercial banks. The decree to establish the social policy bank has been enacted and its associated regime will provide loans with subsidized interest rates for groups who are vulnerable and have poor access to four state-owned commercial banks. The Social Policy Bank is partly funded by compulsory deposit by state-owned commercial banks. Another financial institutions for awarding policy-based loans are through the Development Support Fund. This fund makes loans available to projects, enterprises and financial guarantees and has experienced rapid development.

For the two year, Stake holding credit organizations and people's credit fund system have been continuously restructured and made healthy; the project related to asset management company and to increase of registered capital for credit organizations have been developed to improve operation competence; banking operations have been modernized, particularly in term of wide application of modern information technology and e-commerce; modern banking services and utilities have developed; individual account opening and non-cash payment modes have been developed.

Capital and monetary market has developed more rapidly by increasingly diversifying and utilising appropriate forms, according to which surplus investment sources in the society have been attracted into economic development; long and medium-term sources have been enlarged; portion of loans to non-state sector has increased.

The stock exchange has been established and sustained with development in Ho Chi Minh City. Encouragement and facilitation is made for eligible stakeholding companies, including directly foreign-invested and equitized ones, to list their shares in the stock exchange.

Loan mechanism based on mortgage has been gradually shifted to that based on business project, economic contract and on supply-demand relations in monetary market. Autonomy and self-accountancy by commercial banks is enhanced in money business, competition is accepted and there is activeness in seeking for clients and investments to extend loans.

### **3. On-going progress of open-door trade policy and activeness in international economic integration for development**

The Government has promulgated many policies and mechanism to encourage, directly and indirectly support exports. Incentives have been issued to encourage every trademan to get involved in export, to promote export of processed products and high-tech content, to enhance competitiveness of products, services, enterprises and of the economy. Some breakthrough measures have been deployed to reduce unreasonable costs, export hindrance, and to improve product competitiveness. A project is about to be completed for review and reduction of export inputs to improve competitiveness and to facilitate enterprises. Procedures related to export production, export delivery at ports have seen obvious simplifications. Participation by the private sector in export has been increasing.

Further study is being undertaken in order to adjust the current import-export mechanism to provide better facilitations for export performance, for good management of import in integration context and to provide item orientation for each export market.

In terms of export market, in addition to American market, the market search is being made continuously to push up export in line with the motto of diversification of market, product and selling mode, etc. to minimize impact by market changes when exports of Vietnam-made products suffer through the implementation of unwarranted and unfair trade barriers.

Preparation for and negotiation to acceded World Trade Organization has been quickly done; pathway commitments are implemented in terms of bilateral and multilateral cooperation mechanism that Vietnam has participated in with special attention paid to those within the framework of ASEAN (e.g. AFTA, AFAS, AICO, AIA, etc.), APEC, ASEM, Vietnam-USA bilateral trade agreement and international monetary and financial organizations.

The mechanism for product import-export management 2001-2005 is being implemented, being enacted in association with Decision 46/2001/QĐ-TTg by the Prime Minister dated 4 of April 2001. Rapid implementation is done for focal commerce promotion program in accordance with the decision by the Prime Minister (QĐ 57/2003/QĐ-TTg dated 17 April 2003). Textile and garment export quota to Europe and USA has been partially implemented in bidding manner and partly in permit awarding based on automatic mechanism. This permit awarding mechanism has facilitated private enterprises to participate in garment export.

In terms of trade liberalization, Vietnam has now lifted most of its quantitative restrictions (QR) for imports; in 2002 and 2003 alone, import licenses have been removed for motorbikes, cars, vegetable oil, cement and other steels. Now only two items still subject to quota control are petroleum and sugar. Import tax for those items of which quantitative restrictions have been lifted does not see any increase, except for vegetable oil. As the result, the scope of restriction has decreased from 20% of import value and 22% of import items in 2001 to around 13% and 4%, respectively, this year.

The reduction of tariff within the framework of AFTA agreement has been implemented as planned with the average rate applicable to imports from ASEAN countries reduced to 11%. All import items in Temporary Exclusion List in AFTA commitment have been transferred to Inclusion List in 2003 and quantitative restrictions are lifted for items in Temporary Exclusion List when import tax rate applicable to imports from ASEAN reduces to or less than 20%. Import of many items has been liberalized. Administration procedures, particularly custom ones, have been simplified, export transaction cost reduced. Initial steps have been taken in the implementation of appropriate import tax rate reduction pathways that are applicable to items such as key inputs in agricultural production to reduce production input cost for the poor.

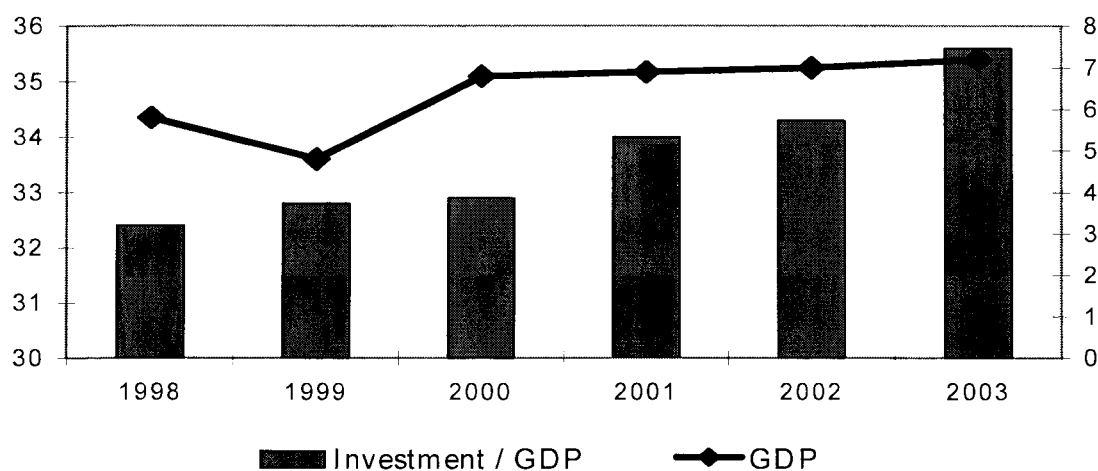
The Government has actively supported enterprises in terms of information, importers and exporters in terms of exhibition and fair participation, particularly for key export items (garments, footwear, rice, rubber, coffee, cashew nuts, pepper, fishery, etc.) Price reduction is made for some export support services where this is still managed by the State. Export insurance mechanism, especially for agricultural product, and export rewarding mechanism, based on export added value, is progressing.

#### **4. Resources mobilization for economic growth and poverty reduction**

Significant resources have been mobilized for development investment, particularly the non-state and foreign-invested one, the utilization structure of investment fund has been oriented towards speeding up economic re-structuring thanks to which economic and social infrastructure has obviously been improved.

1) *The implementation of society-wide investment fund year* resulted in VND 183,800 billion or 34.3% of GDP in 2002 and VND 217,000 billion of estimation or 35.6% GDP in 2003. In fixed terms, investment fund in 2002 increased by 10.1% as compared with that of 2001, in 2003 by estimated 16.4% as compared with that of 2002. These growth rates top the period since 1998.

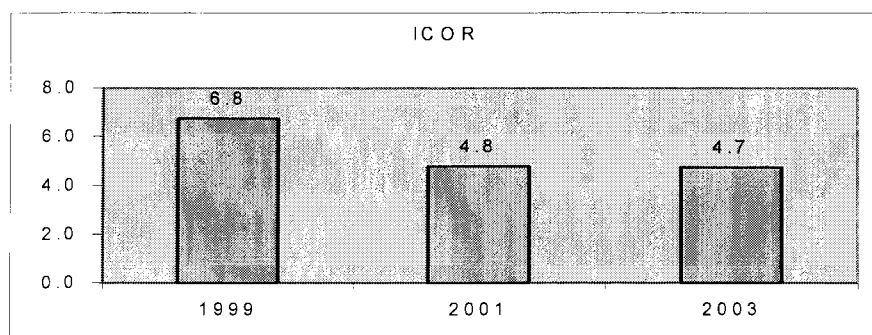
**Figure 12:** Relation between the ratio of investment/GDP (left axis, %) and GDP growth rate (right axis, %)



Another noteworthy point is that over the last 2 years, the growth rate of the state-invested fund has slowed down compared with the previous years (only 6.5% in 2002 and estimated 17.1% 2003) whereas that of other economic sectors have got rather strong growth; that of non-state sector increased by 18.3% in 2002 and estimated by 22.9% in 2003, that of foreign-invested sector 11% and 5.4%, respectively. Therefore, there has been positive change in the investment fund mobilization structure (figure 14).

A striking point of 2003 is the increased efficiency of investment fund utilization. This has started to pick up following the slow down that occurred from 2000 onwards. Current data shows that the ICOR factor against one-year lag investment fund has been down to the lowest point since 1999. Such success is partly due to further improved domestic production and investment environment in the context of ongoing stable security and political system and low inflation rate; and partly due to investment and demand stimulating policy by the State, which takes into full play and attracts participation and investment by other economic sectors.

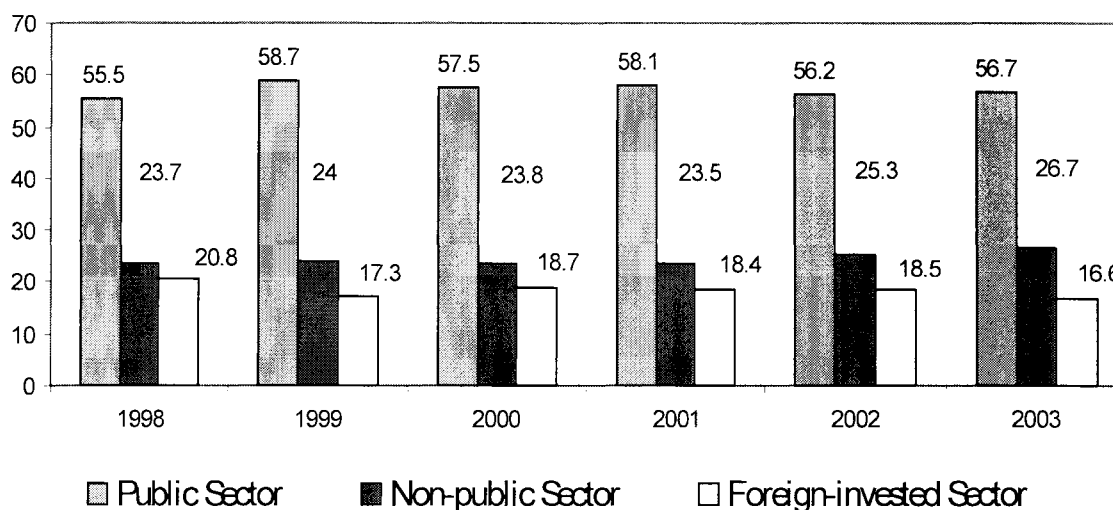
**Figure 13:** Recent evolution of ICOR factor (1 year lag)



It is the fact that right after the occurrence of the Asian financial and monetary crisis when domestic and international demand of our products suffered reduction, the Government of Vietnam implemented fierce measures to stimulate demand, particularly

via "enticement" investment by the State. Right in 2002 and 2003, the Government mobilized more resources for development investment in new forms such as "Public Bond for Education", "Government Bond", etc. to get billions of VND to speed up construction progress of socio-economic infrastructure of the country, especially big works such as Ho Chi Minh National Highway, National Route No.6, Route No.32, big lakes in the Central Region, Central Highland, development of population clusters and groups in Mekong River Delta, etc. The development of the infrastructure has facilitated other economic sectors to push up their investment in production and business.

**Figure 14: Investment structure based on economic sector (%)**



- State budget fund in the current price was VND 40,400 billion that means no increase as compared with that of 2001. In 2003 it is estimated at VND 47,000 billion, or 16.3% higher than that of 2002. In 2003, 17 projects of Group A and 230 of Group B were completed. Some important works were completed as planned progress such as sport complexes for Sea Games 22, some important sections of roads and bridges along National Route No. 1, National Route No. 6, National Route No. 10, National Route No. 18, road system in mountainous area, in Northern Border, in Central Highland and along Ho Chi Minh Road. Sufficient investment funds have been provided to meet national targets: Program 135, 5 million ha of new forest project, development of population clusters and groups, etc. have been carried out in accordance with plans. In addition, the state budget fund is also focused in supporting provinces with many difficulties, particularly those with high rate of poor households such as those in the Northern mountains, Central Highland and Mekong River Delta, etc.

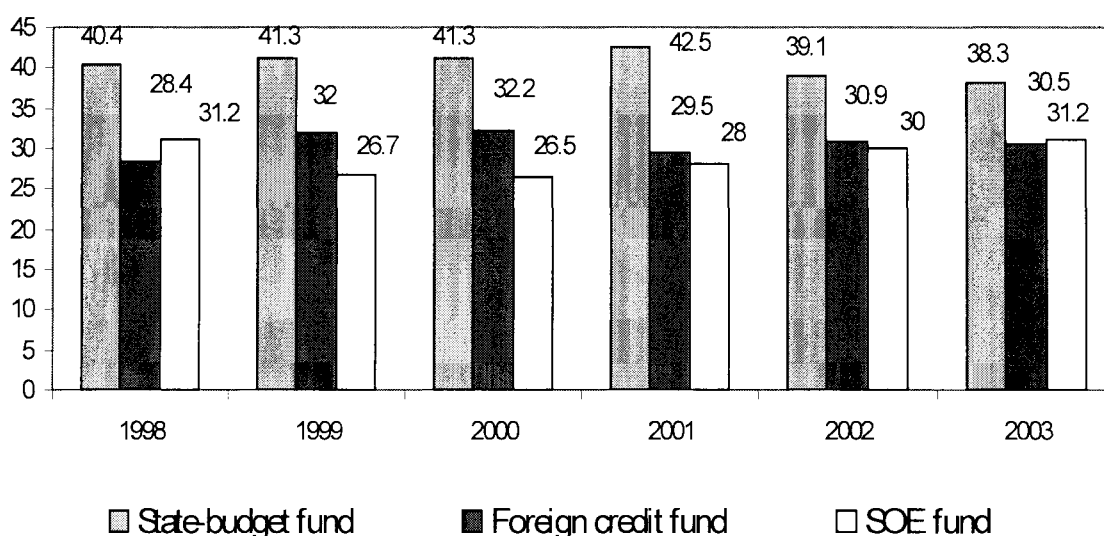
- Investment credit was at VND 31,900 billion in 2002 which is 13.9% higher than that of 2001; in 2003 was estimated VND 28,500 billion, 10.7% lower than that of 2002. In 2003, the state credit alone was estimated at 23,000 billion dong, policy-based loan sources (for hunger eradication and poverty reduction, job creation, etc.) was at 5,000 billion.

Investment credit sources was focused on important projects in industrial sector such as Tuyen Quan hydro-power station, Cao Ngan thermal power station (Thai Nguyen), Ha

Long Cement Factory (Quang Ninh), DAP Fertilizer Production Factory (Hai Phong), Fabric-Textile-Dye Industrial Complex (Da Nang), Paper and Pulp Production Factory (Thanh Hoa), Saigon River Water Supply System, etc.

- *SOE investment fund* in 2002 was almost VND 31,000 billion which was an increase by 16.4% as compared with that of 2001; in 2003 VND 38,500 billion of estimation or 24.2% higher than 2002. So, the investment by SOE sector continues its strong growth in the last 2 years, reflecting progresses in its business performance. Especially, enterprises tend to focus their fund on in-depth investment; technology renovation and competitiveness improvement to be increasingly better adaptable to international integration process.

**Figure 15: Public sector investment structure (%)**



Thus, there have been positive shifts in the structure of investment funds in the internal public sector after 2-year implementation of the strategy. The portion of investment source, directly funded from the State-budget, which used to have tendency to increase up to 2001 was not only blocked from rising in 2002 but also experienced rather rapid reduction from 42.5% in 2001 to estimated 38.3% in 2003, i.e. reduction of up to 4.2% within 2 years. This is also evidence to show that profits have risen (or losses increased because of increased efficiencies in the SOE sector. the growth rate rises without any more looseness in demand stimulating policy funded from the state budget. Similarly, the portion of state credit (preferential credit), despite its rise of 1% as compared with that of 2001, was significantly reduced as compared with 1999-2000. Contrastingly, the portion of investment by SOEs themselves has continuously increased since 2001, which proves that business efficiency of SOE sector has risen, resulting in very high need for investment from their own fund.

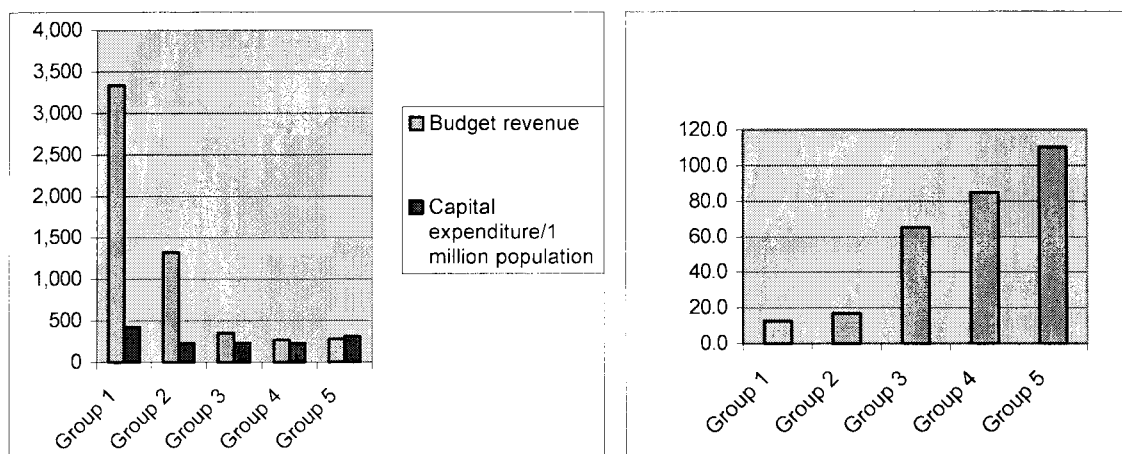
- Investment fund by population and private sector in 2002 was at VND 46,500 billion which is 20.8% higher than that of 2001; in 2003 VND 58,000 billion of estimation, 24.7% as compared with that of 2002. Out of this, domestic commercial loans in 2003 were around VND 16,000 billion. Such big increase in investment by population is owing to the continuously improving investment environment. It is estimated that, throughout the year,

approximately more 30000 enterprises applied for their business registration. On average, each enterprise had a registered capital of VND 2.1 billion, which is higher than that (VND 1.5 billion) of 2002.

- Investment fund by direct foreign invested sector in 2002 was at VND 34,000, which means an increase of 13.3% as compared with 2001; in 2003 VND 36,000 billion or 5.9% increase as compared with 2002. This fund was mainly invested in industrial sector (accounting 84.6% in 2003).

- Investment fund utilization structure continues to shift to sectors and products of high economic efficiency such as fishery (accounting 1.3% of the total social investment fund), processing industry (22.9%), electricity, gas and water production and distribution (14.3%), transportation and communication (18.4%), in long-term development facilities or in those related to hunger eradication and poverty reduction such as science and technology (1.2%), education and training (3.2%), health and social relief (1.3%) and individual and community service (16.5%)

**Figure 16: Capital expenditure and State Budget revenue**



**a. Capital expenditure and budget revenue (VND billion/1 million population)**

**b. Rate of capital expenditure on budget revenue (%)**

State Budget allocation directs the priorities to poor provinces and regions. Vietnam develops a pro-poor state budget investment through the re-allocation process amongst provinces. Provinces that have less local budget revenue will receive subsidy from central budget, which retrieves from richer provinces.

The figure 16 shows clearly the re-allocation mechanism of state budget, of which 61 provinces and cities are divided into 5 groups on the basis of their poverty rates. In 2003, the group of 20% “richest provinces”, which means their poverty rates are the lowest (group 1) has estimated budget revenue of VND 3,335 billion per 1 million population, 12 times higher than that of the group of 20% poorest provinces (group 5). Capital expenditure of these richest province accounts for only 13% of their budget revenue. Note that this rate of group of 20% poorest provinces is as high as the second place amongst these 5 groups. This rate is 110% over the budget revenue of the poorest quintile and the

poorer they are the higher this rate is. It means that the poorest provinces receive much more subsidy from central budget.

2) *Thanks to good growth and rational use of investment, the value of new assets of the whole economy continues rising, in 2002 was at 118100 billion dong, i.e. 9.9% higher than that of 2001. The competence of many sectors has significantly increased such as electricity sector (640MW capacity), electricity transmission line (1,500km), cement (0.6 million tonnes capacity), laminated steel (550,000 tonnes capacity), irrigation coverage (35,000 ha), drainage coverage (18,000 ha), salinity prevention (8,000 ha), new forests (190,000 ha), hotels (6,095 rooms), throughput capacity of river ports (300,000 tonnes), throughput capacity of seaports (3,500,000 tonnes), throughput capacity of airports (720,000 passengers); upgrading done for 40 km of railroad, 1,080 km of national routes; construction done for 10,000 km of local roads either new, upgraded or rehabilitated.*

The 2-year investment has 3 key points: (i) ongoing rapid increase in the ratio of investment to GDP and in the growth rate of investment which continues to be drivers for growth; (ii) signals for increase seen in investment efficiency as ICOR factor slightly reduces; (iii) slow increase in growth rate of investment from the state budget and in investment credit while that from SOE and private sectors rapidly rises; this means a lot of investment environment improvements made, which helps increase profits for enterprises and encourages investment by people; on the other hand, it also proves that the state investment so far has taken its active role in attracting other economic sectors to participate in investment. In overall, investment quality has increased. These are important achievements of demand stimulating policies by the State to encourage economic growth.

### **III. SOCIAL POLICIES**

#### **1. More budget expenditure for social progress and poverty reduction programmes.**

Having approved the Comprehensive Poverty Reduction and Growth Strategy, Vietnam Government pays more attention to resource allocation for poverty reduction programmes with proper balance between recurrent and capital expenditure to ensure not only foreseen urgent needs but also long term growth.

In 2003, education expenditure continues its growth; estimation of growth in total recurrent and capital expenditure increases more than 20% compared to 2002. Therefore, education expenditure will go up from 14.5% of total budget expenditure in 2002 to about 16.5% in 2003. Health care expenditure also experiences a high growth, about 5% of total budget expenditure and rises 11.8% over 2002. However, the increase only lies in recurrent category, which accounts for 84% of total increased amount and its growth rate is slightly higher than the budget expenditure growth rate. Hence health care expenditure is estimated not very higher than that of 2002.



**Table 6: Budget expenditure for social progress and poverty reduction programmes**

Unit: VND Billion

	2002		2003	
	Total	%	Total	%
<b>Total expenditure</b>	<b>142,598</b>		<b>158,020</b>	
Of which:				
- Training and education	20,630	14.47	25,865	16.37
- Health care	7,012	4.92	7,836	4.96
<b>Expenditure for targeted programmes</b>	<b>4,028</b>	<b>2.8</b>	<b>4,816</b>	<b>3.05</b>
Of which:				
- Poverty Reduction and job creation	651		660	
- Population and family planning	422		445	
- Prevention of social diseases, dangerous epidemics and HIV/AIDS	380		535	
- Training and education	710		970	
- Programme 135	1,200		1,461	
- Project of new 5 million hectares of afforestation	350		375	
- Clean water supply and rural environment protection	215		236	

Beside the increase in education and health care, expenditure for national targeted programmes also tends to increase at higher level than the total growth rate. In 2003, estimation of expenditure for these programmes is about 3.05% total budget expenditure, higher than 2.8% in 2002. The highest growth rates belong to education (36.6%) and health care (Prevention of social diseases, dangerous epidemics and HIV/AIDS programme - 40.8%).

## **2. Development of social safety net to support the poor and the vulnerable**

Vietnam's social safety net has wide coverage and includes four main components (i) Social insurance system; (ii) Social guarantee fund; (iii) Emergency support fund; and (iv) some national programs oriented at the poor and communes in remote areas.

These components have different objectives though their beneficiaries are basically the poor or those who have a high propensity to fall into poverty. The key responsibilities of social the insurance system are to cover pensions and social insurance payment related to employees both in public and non-public sectors. In the meanwhile, the social guarantee fund focuses on providing support to vulnerable people such as the lonely old people without any support or orphans. The basic function of the emergency support fund is to help the poor in the natural calamity-suffering areas or between-crop periods.

Findings of recent studies show that Vietnam's social safety net is progressive, i.e. benefits gained by the poor is relatively high as compared with that for the rich. The fund given to and the number of beneficiaries has increased over the years. In accordance with statistics by Ministry of Labour, Invalids and Social Affairs, the number of frequent support-receiver has increased from 157,000 in 1999 to more than 200,000 in 2002, of which the number of support-benefit disadvantage children increases from 54,000 to 59,000 (and 11,000 children that lives in charity centres are not included). However, due to limited budget and modest coverage by funds in the social safety net.

### **3. Redundant labour support programme**

The Government of Vietnam also pays great attention to people disadvantaged by the reform. Especially, the comprehensive SOE reform program is related to the fact that many people lose their employment. An early estimation reflects that around 250,000 employments can be lost due to restructuring SOE sector in 2002-2005. Redundancy rate of enterprises varies from 13-67%. To assist redundant labourers, the Government enacted Decree No.41/2002/ND-CP in April 2002, allowing the establishment of redundant labour support fund with sources from the State Budget and outside sources.

The Fund will include support in the form of packaged compensation and re-training support. Apart from obligations performed by the relevant enterprise in accordance with the already set stipulations, the workers will be given a compensatory sum, which consists of an amount equal to approximately one month of salary for one year of their employment and of 5 million of package compensation. In addition to that, they are also supported with an amount equal to salary of 6 months for their search for a new job. The package compensation is prioritized towards female workers. Levels of support are rather even, not subject to the type of reform applicable to that relevant enterprise.

### **4. Facilitation of any condition and equity for everyone to fully participate in development process**

The Government has coordinated social and political mass organizations, particularly with the Central Committee of the Women's Union and that of the Hochiminh Youth Union to conduct many training courses and workshops to enhance capacity for women and to create opportunities for women to take part together with men in the development process of the country. Due to their enhanced competence, women's roles in the process of striving for rich people, strong country, equal, democratic and civilized society, for preserving and developing the national culture and for reducing social evils, have risen considerably. The rate of female leaders in government agencies, mass organizations and that of female workers in research and scientific institutions have all increased. The authorities at different levels have paid due attention and care to gender equity, progress for women, with special attention to children's development, facilitating the implementation of children's rights in family life and in society.

Decree 01 of the National Assembly Term **X** has initiated the rearrangement of the state administration agency system from central to grass root levels. After 2 years of implementation of the decree, the legal framework for the performance of social organizations, community organizations at local levels has been strengthened. Especially,

those related to hunger eradication and poverty reduction activities have been enhanced in terms of their legal status, which allows them to participate more in activities for the poor.

Poor localities, areas and individuals are all encouraged and motivated to become rich legally despite geographical separation and sex. The Government has also made efforts to provide more favourable conditions in infrastructure, production competence and knowledge, working skills for areas with more difficulties so that all areas, communities and individuals can develop on their own and, gradually, the gaps in economic, cultural and social development can be narrowed. Particularly, there have been special support mechanisms for areas with ethnic minorities so that they have conditions to develop and to actually benefit from the economic growth.

Social equality started to be implemented in primary and junior secondary education through universal education at these two levels. Implement automatic enrolment mechanism at university level towards ethnic minority candidates, targeting to thousand students. Build more universities in Northwest and Mekong River Delta for local increasing young people. Healthcare and primary healthcare for the poor, women and children has been paid attention with its quality and efficiency improved; everyone has their right to have access to public services and many poor people have been given health insurance free of charge.

### **5. Legal support to the poor**

In addition to further perfection of the legal framework, the enhancement of legal assistance to and legal accessibility for the poor has been paid more attention, particularly legal assistance network for the poor has been initially extended to the rural and remote areas.

*Legal assistance institution continues to be improved, legal documents related to legal assistance are enacted with high effect* to serve as legal basis for the perfection of organization and activities of legal assistance; some projects in legal assistance have been implemented to approach the development of legal assistance organization systems of the State and of political and social organizations to help the poor. Initial results are notable with 6,939 lawyer-attended cases, 315,802 cases, in which there were legal advocacy to protect legal interest for 335,763 poor and targeted people; ethics for legal assistance providers continue to be enhanced.

Attention has been paid to the development and step-by-step perfection of legal workers (lawyers, legal assistance experts, and collaborators). Diversified legal assistance needs have been initially met. Many periodical and in-depth training courses have been conducted for legal workers, especially in residential areas in remote areas or in areas with high need for legal assistance. Facilities and working conditions for local legal assistance organizations have been supplemented; up to now there have been legal assistance centres in all provinces and cities, legal bookcases and legal assistance worker support in most of the communes and wards.

*Legal assistance activities continue to be extended* at grass roots level, being diversified in terms of conducting modes and methods; currently 631 legal-support organizations at district level are in operation, accounting for 90.1% of total districts and towns. Many legal-content leaflet distributions, dialogues have been organized to give responses to frequently met legal situations in terms of administration, land, housing,

labour, etc. and to update newly enacted legal documents for millions of people in areas. The dissemination and education of legal knowledge and policies of the State and responses to legal questions to people has gradually been put into good order.

The performance by administration court system has become more and more in-depth and made public, facilitating everybody to have easy access to administration court when they are in need. Recently, most of legal-support organizations are integrating their free-of-charge legal advocacy service with “one-stop-shop” administrative mechanism. Legal supporting has been playing State’s social functions, making contributions to higher social knowledge and order and security, making people more confident in State and Laws and economy’s development.

#### **IV. ADMINISTRATION REFORM AND MODERN GOVERNANCE SYSTEM**

##### **1. Administration reform**

(1) *The Comprehensive Administration Reform Programme 2001-2010* have been deployed strongly in all ministries and provinces. This programme aims to build a transparent, stable, skilled, modern, effective and efficient democracy on the Party’s leadership and the Socialist law-based State; develop a qualified and competent staff contingent to meet the country’s development requirements. By 2010, the administration system will be basically reformed in line with the management of the socialist-oriented market economy.

The overall programme for public administration reform is built on 4 following poles: institutional reform; administration reform; personnel reform and public financial reform. These four reforms are integrated into 7 action programmes to implement the public administration reform programme of 2001-2010 as follows: Programme of reformed legal document promulgation procedure (approved at Decision No 90/QD-TTg dated August 14, 2003); Programme of identified roles, functions and organization of State administrative institutions, phrase 1, 2003-2005 (approved at Decision No 12/2003/QD-TTg dated June 11, 2003); Programme of reduced and improved public servant force, which has been implemented since 2000 under the Government’s Decree No. 16/2000/ND-CP dated October 18, 2000 and will be until 2005; Programme of improved public servant contingent period 2003-2005 (approved at Decision No 69/2003/QD-TTg dated April 24, 2003); Programme of salary reform; Programme of reformed financial management mechanism for public administrative and non-profit institutions (being in proposal process for Prime Minister approval); Administration Modernization Programme (known as the Electronic Administration Programme at the Decision of the Prime Minister No.112/QD-TTg) and the Programme of improved execution procedure and modernized working offices of the State administration system in 2003-2005 (approved at the Decision No. 169/2003/QD-TTg dated August 12, 2003).

The Prime Minister of Government issued his Decision No. 178/2003/QD-TTg dated September 3, 2003 to assign the implementation of a assistant programme for the *The Comprehensive Administration Reform Programme 2001-2010*. This programme will concretize all measures to support the *Comprehensive Administration Reform Programme*

into detail actions at ministerial and local levels. The Comprehensive Administration Reform Programme at the same time will be public on mass media, including document circulation as well as bringing administration reform into training curriculum.

*(2) Achievements of the Comprehensive Administration Reform Programme 2001-2010*

*Institutional reforms:*

Institutional reforms have become the focal point and it is one of successful reforms in Vietnam. Improved important legal documents relating to socio-economic development, as well as organisations and operation of administration system has been issued. Most important documents are: Foreign Investment Law, Domestic Investment Law, Land Law, Corporate Law, Labour Code, Civil Law, State budget Law, Government Organisation Law, Government's Working Regulation... The overall ideology of this process is that legal regulation will create an equal and fair playing field for all enterprises, narrow the gaps between state and non-state sectors, create legal basis to form an appropriate administrative system that suits existing developing economy. This reform is firming domestic and foreign investor's confidence as to ensure the development of all sectors, especially private sector. The Corporate Law and the renovation in business registration, in which nearly 170 unnecessary business licenses were revoked, resulted to more than 20,000 new established private enterprises making considerable contributions to economy's development. These improved legal regulations have made changes in administration agencies; interference and deep intervention to enterprises was replaced by serving people and organization.

In this reform, procedure simplification has been made with "one-stop-shop" model, creating favourable condition for individuals, enterprises and investor to have access to transparent public services. 35 out of 61 provinces and cities have already installed "one-stop-shop" model at 196 out of 1,281 local units (accounting for 15.3%), at 160 out of 631 district (25%) and 905 out of 10,594 communal units (8.5%). In general this reform initially gains important results. Pursuant to local needs Ministry of Interior Affairs has extended financial supports (within the Project VIE/01/024/B) to 16 provinces to implement "one-stop-shop" mechanism. 4 districts of each province will receive this support to arrange one-stop-shop operation at their People Committee's Office. The Prime Minister issued decision No.181/2003/QĐ-TTĐ dated September 4, 2003 to promulgate the "one-stop-shop" mechanism in all local governments; its application takes effects from January 1, 2004 at provincial and district levels and from January 1, 2005 at communal levels.

*Administration reform:*

There have been important changes in functions and tasks of central and local governments as well as of ministries according to the economy's development. Administrative agencies only undertake their macro management functions, including policy-making, law promulgation, planning, and inspection and monitoring. Central and local governments have been reorganized with lighter apparatus. Compared to 10 years ago, central ministries and government's agencies fell from 50 down to 39; line sectoral departments in a province also fell from 30 down to 20 or 22; and at district level this number fell from 16 or 17 down to 10 or 11. In addition, operation and organization of these administrative agencies has changed after series of reforms, as follows:

- Decentralization to lower levels, creating activeness, autonomy and accountability in local authority.

- Building and executing personnel, financial and organization mechanism in all administrative agencies and non-profit organizations aiming to distinguish administration from business and non-business and to clarify functions of civil servants and non-business workers.

*Personnel reform:*

This reform focuses on improved skills and competence of civil servants and workers and personnel management. Important outputs are as follows:

- System of civil titles and standards is built and applicable in administrative and non-profit organizations.

- Staff admission was replaced by entrant examination so that talent people are recruited.

- Training, retraining and strengthening courses have been organized at different levels for experts, senior experts and superior expert and so on.

- Responsibility and accountability of civil servants is heightened.

- Several improvements in salary regime have been made while the overall salary reform programme is in process of earning National Assembly's approval.

*Public financial reform:*

The National Assembly ratified The State Budget Law regulating budget decision at 4 levels, which are central, provincial, district and communal levels.

To follow up, the Government has promulgated a number of financial schemes, such as financial mechanism in productive administrative units, lump sum labour cost and pay-per-output administrative expenditure scheme in state administrative agencies, bidding regulation, and contract regulation for some kinds of work that are undertaken by private stakeholders and that are not compulsory to state stakeholders. After 1 year implementing the Decree of Government No 10/2002/ND-CP dated January, 2002 and the Decision of Prime Minister No. 192/2001/QĐ-TTg dated December, 2001 on pilot lump sum labour cost and pay-per-output administrative expenditure scheme in state administrative agencies, there have been 29 out of 45 ministries and central agencies and 35 out of 61 provinces and cities that already realized the autonomy financial mechanism in productive administrative units (Including 424 units in ministries and agencies and 3,937 local units). 3 ministries and 36 provinces have applied intensive this lump sum labour cost and pay-per-output administrative expenditure scheme (including 5 central units and 197 local units). This primary outcome is humble however it initially created positive changes and momentum for a tidy but efficiency administration and for better and improved public services so as to serve better economy's development. Saving is promoted to raise income and enhance responsibility and accountability of public servants.

## **2. Enhancement of grassroots democracy and dialogues between the local government and the poor community**

With the implementation of grassroots democracy regulations at communes, wards, district towns, people, including the poor, now really take part in policy making and implementation; many laws, before endorsed by the National Assembly, are tabled for

discussions by people nationwide (currently, revised Law on Land is being excitingly discussed throughout the country); mass media has disseminated information and details related to many pressing issues which are being handled by governments at different levels to consult people's opinion. Up to now, democracy regulations have been implemented and turned into frequent working practice at grassroot levels.

People have been provided with more information on economic activities, objectives, plans, and financial resources for development projects and programs in their local areas. They have their rights to participate in and to express their opinion on local planning process. They can also take part in project operation and maintenance, make their contribution in cash or in labour days and realize their responsibility and ownerships in all stages of project implementation.

The two-way information system between the State and people continues to be enhanced, which allows the State to collect people's opinions on economic, political and social issues of the country. The State has promulgated the mechanism to encourage propaganda workers to take part in dissemination of information, education, technology training, market, policies, laws, regulations and administrative procedures. Grassroot democracy regulations have been applied to development program such as Program 135 and others.

Especially, local governments have consulted people's opinions in terms of programs and projects, humanity relief actions, charity for the poor, contributions to build charity houses, etc. At localities, decentralization has been made for mass organizations, people and communities to directly manage and take part in management of development, implementation and use of local programs and projects for economic development and hunger eradication and poverty reduction.

Up to now, most of hunger eradication and poverty reduction programs and projects are placed under supervision and examination by people represented by the People's Inspection Board, the Fatherland Front, the commune's veteran associations, women's union at local levels. The leaders of programs and projects have initially listened to people's opinions, being able to handle many complaints and recommendations by people.

Decree 29/1998/ND-CP dated May 11, 2001 was replaced by Government Decree No. 79/2003/ND-CP dated July 7, 2003, which specifies the Communal level Democracy Regulation. This regulation enhances the progress of democracy and transparency while local authority's accountability and people participation is promoted; law enforcement is ensured and democracy is promoted associating with strict improved disciplines.

Thus, after 2 years of implementation of the Strategy, grassroot democracy has been furthered; community activities have significantly increased; the society becomes more democratic and open. There are more meetings at village level to settle issues directly related to daily life of individual people, making them take more part in common activities in their own community ranging from planning local socio-economic development to settling specific incidents of every village.

### **3. Better statistics and data system**

Efficiency of development strategy formulation and implementation are significantly dependent on the quality of data. More reliable statistics will allow better policy analysis,

good choice of the best measure for growth and poverty reduction and, at the same time, support the efficiency of monitoring and evaluation.

In May 2003, the National Assembly approved the National Statistics Law, which adjusts the function of the General Statistics Office. The new law places its strong focus on the quality of data, transparency and public access to information. A strategy to collect high quality data of household living standards has been approved and the General Statistics Office is in the process to draft similar strategies for enterprise surveys and other data collections.

In May 2003, the National Assembly ratified Accounting Law at the same time with Vietnam's participation in the General Data System (GDS) initiated by the International Monetary Fund (IMF). This is a considerable improvement step towards making information public.

The identification of specific indicators for monitoring and evaluation of the CPRGS is an important step towards decision-making based on factual evidence. At the moment, a framework is still needed to clearly state the linkages between policy measures and outcomes. A working mission on monitoring and evaluation will be established to develop the relevant action plan. The information system to be set up must include indicators at central, local and sectoral levels. Information must meet quality standards both quantitatively and qualitatively, which means a move beyond the scope of administrative documents and absolute use of data available from overall survey and household survey.



## **PART 3**

### **CHALLENGES AND MEASURES IN POVERTY REDUCTION AND GROWTH**

During 2002-2003, Vietnam has succeeded in maintaining political and social stability and made many important achievements in economic growth, hunger eradication and poverty alleviation. Nevertheless there still exist in each specific sector, area and activity many interlacing weaknesses and drawbacks, the most prominent of which include:

#### **I. CHALLENGES IN POVERTY REDUCTION AND GROWTH**

##### **1. On economic growth:**

###### *(1) Low quality of growth and slow shift in restructuring*

Economic growth rates (GDP) during 2002-2003 has been as planned but still fall short of the 7.5%-per-year target set as an average growth rate for the 2001-2005 five-year plan. On the other hand, the level of Vietnam's economic development is still low, the quality of development is not as high as desired, the rates of its economic growth are fairly good but not steady, not commensurate with the growth of investment and or with the country's potential and requirement, and the risks of retardation are very considerable.

Up to now, Vietnam's economic growth is based mainly on breadth wise, and not depth wise growth factors, and depends large on the State's investment and protection. Unemployment is still high and infrastructure is far below the requirement of development. Growth still concentrates on a number of traditional sectors and products, where technologies are not yet high, such as textiles, garments, aquatic products and unprocessed farm produce. Contributions to growth from sectors using high technologies such as electronics or precision engineering are still very low. The implementation of measures aimed at reducing production costs in each sector and each product - industrial, agricultural and service - is still slow, causing GDP growth rates to be incommensurate with the growth rate of production values.

The scale of Vietnam's economy is small. The ratio of savings to GDP is approximately 29.5%, lower than a number of neighbouring countries. Although exports grow fairly well, per-capita export value is lower than other countries in the region; the trade deficit is high and tends to increase, threatening to upset macro-balances in the coming years.

While industrial production has a high rate of development, the quality and efficiency of the whole sector has not yet to be sufficiently improved. The costs of production of many industrial products are still at high levels. The selling prices of such products as cement, steels, paper, fabrics, fertilizers, basic chemicals, sugar, etc., are higher than those of similar products of other countries in the region from 20-30%. In agriculture, the introduction of advanced farming methods in the countryside on a large scale is slow; the implementation of the agricultural and rural restructuring programme in the direction of industrialization and modernization is slow and inconsistent. Biotechnology, post-harvest technologies and new plant and animal varieties have not yet been introduced in

production on a broad scale. In the service industry, growth rates are low in a number of areas, especially tourism and transport; the quality of servicing activities is not high and the costs of services show many unreasonable aspects (and generally higher than those in other regional countries). Urban infrastructure is weak and poor. Highly valued services such as financial, monetary and property transactions have been developing quite slowly.

*(2) The investment, production and business environments are still facing many difficulties and bottlenecks which lead to high investment and product costs; there is a lack of good coordination among agencies; there exists many instances of overlapping functions, contradictions and lack of transparency; policies are changing from time to time and hardly predictable.<sup>(10)</sup>*

While the process by which state monopoly is changed into business monopoly is not yet settled in a number of sectors and areas, many state-owned corporations acquire too large market shares through administrative measures, reducing the competing capacity and growth of small businesses, adversely impacting the country's international economic integration process, and limiting healthy competition and the capacity to attract investment and development resources to those areas. Government subsidies in production and business activities through financial and credit policies and in other forms still exist.

The attraction of foreign direct investment still meets with many difficulties and limitations; there already emerge unreasonable competitions in attracting domestic and foreign capital investments among different areas and localities, some of them even applying policies offering favours which are beyond regulations or improper.

The capital market still remains in a state of poor development, with borrowing and lending mechanisms lacking synchronization and credit lending to the economy lacking allocation efficiency. The regulation of interest rates is unsatisfactory, with many favourable rates of investment interest for various economic sectors still in place, thus reducing the possibility to monitor and evaluate investment efficiency. Control in the property market is loose, leaving many loopholes for a number of individuals to make unrighteous wealth. The securities market has not yet become the main "channel" to mobilize capital for development investment; the unfavourable balance of trade has not yet been improved and the trade deficit runs high and tends to increase. All these are worrisome signs and will affect development if timely preventive measures are not taken...

*(3) The implementation of the Action Programme for international economic integration is slow while export market problems continue to increase.*

Technical barriers to Vietnam's exports to major markets, particularly the U.S. and EU, become more and more stringent. Trade protection level in some developed countries tends to increase, i.e. anti-dumping lawsuits, which Vietnam has not yet taken effective

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<sup>(10)</sup> A research done by Vietnam Chamber of Commerce and Industry (VCCI) shows that nearly one third of enterprises do not satisfy with the public reform progress and most of them agree that business license procedure is still complicate, costly and time consuming. Currently, the Government is steering reviewing regulation process in all business sector and gradually eliminates all inappropriate regulations that contains discriminations between state and private sectors, and between domestic and foreign enterprises. The Government continues to revoke all irrational licenses in business and investment registration while necessary regulations (especially guiding circulars) will be added. All corrupt officials must be strictly condemned.

measures to deal with. The quality of Vietnam's export goods needs to improve to a considerable extent. Vietnamese businesses' knowledge about and experience in accessing the world market, especially with regard to the complicated requirements and regulations of the U.S. market, are still at a low level.

## 2. On poverty reduction and social problems:

Results of a survey of poverty reduction over the past two years indicate that many aspects of this work should be further strengthened so that the relevant policies and mechanisms provided for in the Strategy will be better implemented in the time to come. Following are a number of major social problems, which strongly affect the work of poverty reduction:

(1) *The development gap among different regions and population strata is still growing wider but at a slower speed than it was.*

Although poverty in all regions across the country has been reduced in 1998-2002 period the levels of reduction vary relatively enormously from region to region. Such levels in the richest regions and the poorest ones like the Central Highlands and the Northern Central Vietnam are very small. In the Northern Mountain Region alone, the level of poverty has been reduced by one third after four years, much higher than the average level across the country (23%).

**Table 7:** Rates of poverty reduction by regions by international poverty line<sup>(1)</sup>

	1993	1998	2002
<b>Whole country</b>	<b>58.17</b>	<b>37.4</b>	<b>28.9</b>
Of which			
- Urban areas	25.1	9.2	6.6
- Rural areas	66.4	45.5	35.6
Northern Uplands	81.5	64.2	43.9
Red River Delta	62.7	29.3	22.4
Northern Centre	74.5	48.1	43.9
Central Coast	47.2	34.5	25.2
Central Highlands	70.0	52.4	51.8
Southeast	37	12.2	10.6 <sup>(12)</sup>
Mekong River Delta	47.1	36.9	23.4

**Source:** Surveys of Vietnamese population's living standards in 1993, 1998 and 2002.

<sup>(1)</sup> Vietnam Living Standard Survey (VLSS) 1993, 1998, 2002. According to the 2002 survey, the Northern Mountainous Area is divided into 2 parts: North West and North East. The poverty rate of the whole area is based on the weighted average level of these two parts.

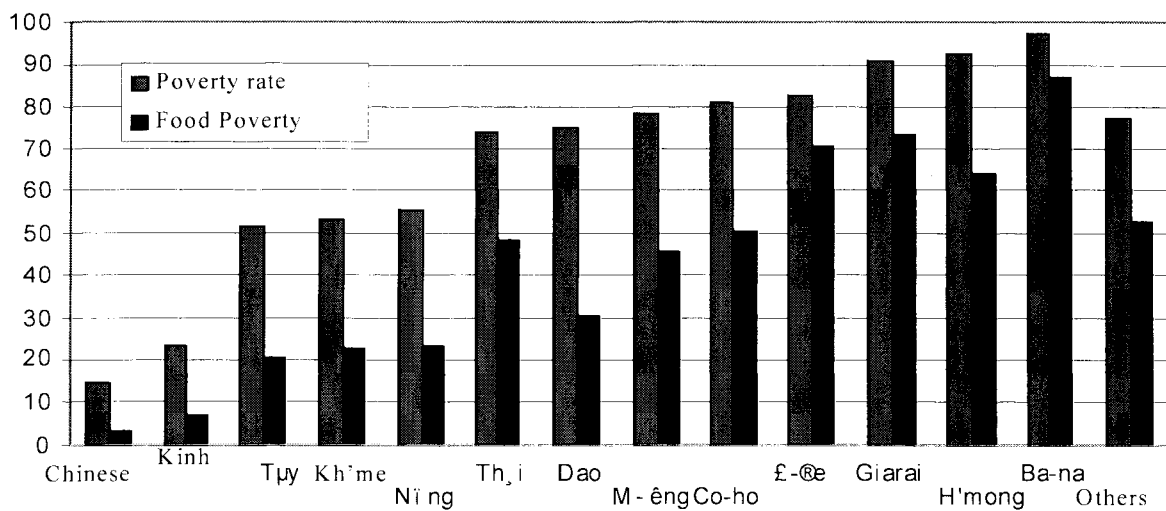
<sup>(12)</sup> In the 2002 Living Standard Survey, Ninh Thuan and Binh Thuan province moved from Central Coast region to Southeast region

The differentiation of living standards in the past few years took place in all regions and in all strata of the population. Average per-capita income during January 2001-2002 in the urban area was 2.3 times higher than in the rural area. The difference in average per-capita income per month in a group of 20% of the households having the lowest income during 2001-2002 is 8.1 times, in the mean time, it is 8,09 times in the urban area and 5.6 times in the rural area. Such difference in income tends to increase as compared with 1999, particularly in urban areas. In 1999, the average level of income difference was 7.6 times in the whole country, 7.4 times in the urban area and 6.3 times in the rural area. If comparing 10% of the households having the highest income with 10% of the households having the lowest income, the differences during 2001-2002 were 13.86 times in the whole country, 14.22 times in the urban area and 9.4 times in the rural area.

The separation between the rich and the poor could be seen clearly in children group. More than 50% of children live in poor and very poor families, of which 77% are ethnic minority children. Only 15% of children and 4% of ethnic minority children live in the richest quintile. This situation goes together with a popular poverty nature, which is poor families often have more children. (The average number of members in a poor family is 4.9 and 3.9 in a rich family).

One common nature is that most of the poor live in under developed or remote and isolated areas. These areas have poor services, locate far from developed centres and lack of production materials so that the poverty rates are higher than those of the others. Ethnic minority people that live in these areas face many difficulties and hold much higher poverty rates compared to the country's average level. The number of ethnic minority households in total poor households tends to increase, from 20% in 1993 to 30% in 2002.

**Figure 17: Poverty rates amongst ethnic minority groups**



Source: GSO and WB

*(2) High risks of falling to poverty to the groups that live just above the line.*

The survey results show that the proportion of these households is relatively high. According to international criteria Vietnam has 6.7% of population that are not poor in 2002, but their spending levels are not exceeding 10% point than the poverty spending line. In addition, most of households living below or close to the poverty line and doing farming jobs in remote and isolated areas depend much on natural condition do not own any valuable assets. Ethnic minority people particularly have low-productive cultivation, lack of knowledge and never make savings. Hence, vulnerability and risk of falling back poverty is still high.

Reducing the vulnerability of the poor to shocks is therefore one of the focuses of Vietnam's development policy. The Government's target in this area towards 2005 is to raise the average income of the 20% group having the lowest level of spending to 140% of its average income in 2000<sup>(13)</sup>. This is a fairly high target to achieve and it requires tremendous efforts not only in general economic growth, but also in solving the problem of difference between the rich and the poor. This is because according to the 2002 living standard survey, the per-capita income of the lowest group is VND 107,700/month, an increase of only 11% against VND 97,000/month in 1999, or after three years. Such a rate of increase is slow. In order to achieve the afore-said target, the rate of income increase of the poorest group needs to be about 9%/year, when the growth of income of the poorest groups will be faster than the whole country's average level. With an average GDP growth rate of more than 7% at present, Vietnam has ranked among the countries with highest growth rates, but it will need to put in place a distribution mechanism more in favour of the poor if it is to achieve the target mentioned above.

*(3) Employment, especially for the rural work force, still remains a burning issue at present.*

Employment is vital to poverty reduction, since the poor do not own any valuable assets. Income from working is the most important living source. With regards of 90% of the poor living in rural areas, Vietnam should give special attention to off-farm job creation in its poverty reduction programmes.

In spite of rapid growth of industry sector recent year it does not make any significant changes in labour structure. So far, the larger piece of the cake is still belong to agriculture, forestry and fishery, which accounted for 66% in 2002, only 2.8% point of reduction as compared to 1999. Labour in industry and construction accounted for only 12.9%, a slight increase compared to 2000, which was 12%. For sustainable poverty reduction it is necessarily to create opportunities, particularly stable jobs, for the poor. Growth of industry should go together with off-farm job creation, it moreover make the poor benefit more from growth.

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<sup>(13)</sup> VDG, goal 8 (vulnerability reduction), target 1

**Table 8:** Rate of upper-15 population with off-farm jobs in 2002 (%)

	Off-farm employment	Farm Employment	Off-farm self- employment	Farm Self- employment
<b>Whole country</b>	<b>22.28</b>	<b>6.05</b>	<b>18.61</b>	<b>53.05</b>
<i>Living areas:</i>				
- Urban	47.5	2.92	34.6	14.98
- Rural	15.16	6.94	14.1	63.8
<i>Income quintiles:</i>				
- First quintile	4.97	6.89	5.64	82.5
- Second quintile	12.15	8.36	12.14	55.44
- Third quintile	19.38	7.66	17.53	55.44
- Forth quintile	28.37	5.35	24.77	41.51
- Fifth quintile	43.79	2.29	31.01	22.91

According to the Living Standard Survey in 2002, the rate of rural employed people at working age with off-farm jobs is rather low, only 15.16% off-farm employed and 14.1% off-farm self-employed. On the basis of income, this rate in the fifth quintile (the richest) is nearly 9 times higher than that of the first quintile (the poorest). This affirms the importance of off-farm job creation in poverty reduction.

One very hot problem at the moment is that the number of working children does not decrease. According this survey, in 2002 2.3% of children with age ranging from 10 to 16 were employed with salary, and 13.5% were working on farm with families. By income quintiles, up to 25% of children in the first quintile have to work on farm as compared to 2% in the fifth quintile.

Development of register private business has been creating numerous off-farm jobs for the poor. By the end of 2002, this sector created 2.5 million jobs, more than the total number that was created by the state sector. Therefore, it is necessarily to continue the improved business and investment environment, equal treatment between economic sectors, and stimulation of private development.

*(4) Extension work in agriculture, forestry and fisheries has registered developmental gains but still needs further consolidation and strengthening.*

In particular, it is necessary to concentrate on improving the quality of the contingent of agriculture, forestry and fishery extension workers at the grassroots level, and continue to support the prices of plants and domestic animals for production, support loan capital and provide farmers with necessary production and market information on time. With particular regard to forestry, farmers are not conscious enough of investing in forests, resulting to the majority of newly planted forests being mixed and secondary ones with low economic values.

Decision No.80/QD-TTg of the Prime Minister of the Government on forestry development has not yet been implemented, and relevant scientists still remain outsiders.

*(5) The quality of education is still at a low level.*

Education development is considered an important measure to build up national capacity, ensuring long-term sustainable growth and high-tech oriented restructuring. At the same time it contributes to sustainable poverty reduction. Education quality is still a hot problem, which is still irrational and reform is slow. Inconsistency is remaining in education structure, level and subjects. Education scope does not correspond with qualified training condition. Note that the non-formal university-level and short-term vocational training develops rapidly and has not been sufficiently well managed while less attention is paid to vocational. Therefore, skillful worker are lacked. This is a weak point in term of attracting foreign investment and it causes a negative impact to foreign investment's quality.

The management of education and training falls short of the requirements of the '*doi moi*' (renovation) process. The bad habit of running after commendations is still common among all general educational levels. Training curriculum exposes many irrational points, making hard burden for students while their capability is still weak. While the proportion of children going to school in Vietnam is relatively high, the enrolment of children from the poorest group is still very much lower than that of children from the richest group. This gap is wider at higher training levels. In 2002, the net enrolment rate at upper secondary level of the richest quintile is four times the rate of the poorest quintile. This gap remarkably fell down, about 16 times as compared to 1998, however it is still an urgent issue and needs an appropriate solution in coming years.

One of the reasons making many poor children not go to school is the high direct spending for their education as compared to family's income. According to the Living Standard Survey in 2002, average spending for one lower secondary school child is VND 270,000 per year, equal to 1.9% of total family's spending, for a upper secondary school child is VND 455,000 per year, equal to 2.9% of total family's spending. Expenditure for additional non-formal courses reaches the highest level in total family's spending, which is one forth. It is absolutely not a small amount for a poor family, especially for a many child family. It is also particular that the spending level for one child is relatively even amongst all income quintiles.

Another issue is that the educational level of the people living in isolated and remote areas is still below the national level, although it has improved considerably. According the 2002 living standard survey, only 84.1% of ethnic nationals in the 15-24 age group are literate, in which the literacy rate of females (in the same age group) is 80%, lower than that of the male members (88.1%). By comparison, the rate of literacy in the same age group across the country is 95.4%, distributed almost equally between males (95.7%) and females (95.1%). One of the reasons is that education quality in remote and isolated areas is much lower than the country's average. In addition, the rate of enrolment of children at the age of 3 to 5 in such areas is low. This makes the situation more difficult when they go to higher schools where Vietnamese official language is used.

A special concern in education socialization process is that mobilization from individuals must be done carefully with transparent and efficient management mechanism. Currently, education expenditure is covered by many sources, ODA, public investment and individual contribution. However, spending for education makes larger proportion in total

household's spending. It is especially larger in poor families. It is also a major reason that poor children have to drop schools, particularly at higher training levels. Implementation therefore should give priority or contribution exemption to poor families. At the same time, cost/benefit analysis become very necessary to education investment to ensure the quality is worthy with the spending.

*(6) Medical support for the poor is still short of planned requirements.*

In terms of healthcare, Decision 139 on issuing free health insurance books to 100% of the poor is greatly welcomed, its implementation, however, is taking place very slowly. The 2002 living standard survey results show only 23.2% of the poor having received health insurance cards, while the remaining still received free-of-charge health care services under the actual expenditure regime. Implementation is slower in rural areas than in urban centres. About 32.5% of the poor in the urban area are issued the books as compared with 22.6% of the recipients in the countryside.

Available figures also indicate the rather fast-widening gap between the rich and the poor in terms of healthcare expenditures. The poor often go to local health clinics or district hospital while the poor more often go to provincial hospitals or central medical centres. Despite the poor are exempted medical fees many of them still reluctant to go to provincial or central hospital simply they do not have extra money for transportation, which is huge to their small pockets.

**Table 9: Education and health expenditure in 2002**  
(Percentage in total family's expenditure)

	Lower secondary	Upper secondary	Health services
<b>Whole country</b>	<b>1.9</b>	<b>2.9</b>	<b>5.29</b>
- First quintile (the poorest)	1.9	2.9	4.31
- Second quintile	1.9	2.9	5.02
- Third quintile	1.8	2.7	5.28
- Forth quintile	1.8	2.7	5.78
- Fifth quintile (the richest)	2.4	3.1	5.77

*Source: GSO and WB*

Increasing living standard gap is also clearly seen in health care expenditure. The survey in 2002 shows that at national average level one person has to pay VND 800,000 per year for this service, equal to 5.3% of total health expenditure of one family. It is the same as education, health expenditure of a family does not vary amongst income quintiles. Although this spending in a poor family account for major part of their income it still far short form actual needs.

Other problems also need to be solved in near future, which is health care for children and mothers, especially the poor. The under-5 malnutrition rate (30.1% in 2002) is still much higher than that of other regional countries. In 2002, only 59% of pregnant women in the poorest quintile could have at least one obstetric examination a year while it was 98% in the richest quintile.



*(7) The networks of social security support have yet to cover the majority of the disadvantaged.*

Due to financial constraints, the coverage of the social security funds is still modest. In 2002, only about 36% of the total regular beneficiaries received the benefits of medical support, over 3,000 recipients less than the previous year (2002 MOLISA Statistic Year Book). Preliminary results of a study on poverty by region conducted during July-September 2003 under the sponsorship of the Ministry of Planning and Investment also indicate that large numbers of households eligible for social support in the provinces under survey have not yet received support as stipulated<sup>(14)</sup>.

Vietnam's social security system still contains a number of inadequacies, which need to be addressed to improve its efficiency. At present, a common criterion for the whole country to identify priority inhabitant group is still lacking. The existing high level of budget allocations for the social security networks can be problematic for dealing effectively with major natural calamities in a small geographical area or for settling inequalities between regions or between the urban and rural areas. In particular, inadequacies and weaknesses in the process of monitoring and evaluation as well as the limited availability of funds have reduced the efficiency of this support system.

*(8) There are many burning social issues, particularly drug addiction, gambling and prostitution; there is low consciousness among the general population to comply with the traffic rules and law; traffic accidents continue up turn.*

*(9) Environmental management is poor. There is a lack of a synchronous strategy among sectors and levels.*

In spite of the National Environmental Strategy already promulgated by the State, specific implementing documents to guide its implementation by the relevant ministries and sectors is still pending. In addition, concrete indicators are not available even by now for monitoring and assessing the state of the environment.

Participatory assessments involving local people (PPA) conducted recently show heavy destructions done to the environment, leaving serious consequences. It is worth recording the close linkages between environmental degradation and poverty. In Dak Lak province, poverty is closely connected with migration and logging. Farming practices uncontrolled by the local authorities have depleted and polluted underground water sources.

The restructuring of agricultural production without a centralised environmental management can lead to environmental ruin, unsustainable growth and loss of certain income opportunities otherwise available to the poor.<sup>(15)</sup>

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<sup>(14)</sup> According to PPA in Ninh Thuan province in 2003, only 15% of vulnerable people received support in certain periods.

<sup>(15)</sup> Shrimp cultivation in Ninh Thuan is a very typical example according to the PPA in this province in July-August of 2003. This business activity mainly is spontaneous and run by outside people so that cultivation area spread quickly. However, since there was no appropriate environmental protection measure, water here has also quickly become salted and exhausted. At the same time, wastewater and pollution also spoiled near-shore sea species, which is the only livelihood manner of local people.

*(10) Migration to urban areas without proper management has also contributed to increased urban poverty and brought more pressure to bear on the local authorities in tackling unemployment and social evils.<sup>(16)</sup>*

Poverty rate of immigrant group in big cities is rather high while short-time registered people and/or people with no permanent jobs are not included to poverty reduction programmes. It lacks of supports from social safety nets hence their lives are more and more difficult and less chances of escaping poverty. Recently, there are no detail studies on immigration and GSO's surveys do not cover this issue yet. Many children that were born in immigrant families are not given birth certificates or registration; hence their schooling is facing difficulties. Many of them have to wander for living in big cities like Hanoi or Hochiminh City.

*(11) Managerial capacity is still weak and inefficient, and the grassroots-based democracy and participatory approaches are not really brought into play.*

It should be emphasized that a better information and database system should be established in support of the planning work for poverty reduction programmes. Exchange of information with the people on the policies and programmes in favour of the poor should be further strengthened. To help the poor have more access to information will be a major challenge to the administration to take part in community activities.

There is a close relationship between the need to further bring into play grassroots democracy and the process of decentralizing and further strengthening the responsibilities of government agencies and public servants and the supervision of the people; this is also an issue that requires the poverty reduction programmes to do much better. Strengthening the role of the commune in its capacity as the government level closest to the people is a very important for the implementation of the poverty reduction programmes. At present, the local governments are still playing a relatively passive role, and the programmes are mostly sectoral and designed and managed from the centre. The process of implementing new guidelines and policies down to the people is still slow.

The capacity of local officials has yet to take on the management of resources that is a requirement of the decentralization process. The funds invested by the State in developing infrastructure in poor areas and communes are quite substantial, but the general situation is like this: the managerial capacity of the district-level project management units is limited, and project implementation is often contracted out to contractors, the communes hence can only accept the handover of such projects and take very little part in discussion and supervision in the process of implementation.

The quality of cadres still fails to meet the demands and requirement of the current situation. Instances of harassing the people, units and businesses take place in many areas. Training and improving cadres' capacity have not yet been given due attention, particularly in poor localities and communes, isolated and remote areas.

*(12) Corruption and misspending are not properly solved*

Corruption still occurs in several central and local organizations. It lowers the effectiveness of the whole administration apparatus and causes misspending and losses.

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<sup>(16)</sup> According to PPA in Hochiminh City, the rate of un-registered people is one third in those two sample surveying districts, their poverty rates are also very high

Corruption often happens in land administration, investment and construction, resource allocation and procurement. Loose management in some poverty reduction projects lets corruption, misspending and losses happen so as to negatively impact their outcomes.

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The above-mentioned weakness and drawbacks stem from many reasons, some of those reasons have existed for many years and not yet been overcome, and others just emerged during 2002-2003. The most prominent reasons include:

The implementation of policies and solutions in a number of ministries and sectors is too slow; the mechanism to check and control compliance is not stringent, and such mechanism is not operated thoroughly, resulting in limitations to the efficiency of the impact of such policies and solutions. There is a lack of close coordination between the ministries and sectors, who are still biased to their local interests in the process of policy formulation. The quality of cadres has yet to meet the requirements of the present situation, thus undesirably affecting the effectiveness of the State managerial machinery and the executing efficiency of the Government.

Management of national capital and assets is loose, resulting in losses and misspent resources particularly in land management. Business fiscal policies are incomplete while lacking effective measures to control and examine enterprise's business costs likely results to increase in production prices but decrease in economy's competitiveness.

Investment and construction management, especially monitoring and evaluation, does not match with the economy's development requirements. Organization and personnel apparatus expose many weaknesses; many owners or project management units (PMU) do not have enough competence of investment and construction management, and investment consultancy is still incapable with shortcomings.

Slow execution of social policies, especially the socialization policy in education, health-care and culture needs to be fully addressed in order for improvements to be made.

In addition, unpredictable natural calamities, epidemic diseases (SARS for example) and uncertain global situation, also created considerable negative impacts socio-economic performance in 2003.

## **II. SOLUTIONS FOR ECONOMIC DEVELOPMENT AND POVERTY REDUCTION IN THE YEARS AHEAD.**

### **1. Improving business environment, creating favourable conditions for economic units to enhance business efficiency**

To urgently modify, complete and issue new law instructing documents (Modified Law on land use, on SOEs, Law on Co-operatives, Law on Corporate Bankruptcy...), ensuring the macroeconomic management of the Government over fair competition in investment and production for all actors from all sectors of the economy, including foreign investors.

To continue to implement solutions to make the monetary & financial system healthier; tighten principles in budget collecting and spending; carrying out new mechanism on budget allocation; improving information and transparency in budget

collecting and spending. To strengthen the capacity of commercial banks, ensuring conditions for banks to shift to profit business, to increase their own capital, to keep finance healthy; to reduce bad loans, to limit risks in credit activities.

To continue tax system reforms with an end of meeting international commitments, including AFTA commitments and requirements for WTO accession.

To implement policies and measures stimulating competition, controlling monopoly, avoiding turning state monopoly into corporate monopoly (telecommunication line, national system of electricity distribution...) To work out roadmaps for gradual elimination of different forms of subsidies such as: frozen debts, rescheduling debt, debt erasing, loss compensation... in every step of planning, subsidizing through credit, through capital, and through monopolistic construction...

To implement mechanism stimulating and supporting enterprises in renewing technology and applying high technology.

## **2. Expanding investment and improving investment efficiency**

To enhance the mobilization of domestic resources and promoting the investment of all economic sectors in various fields, with different forms such as BOT, BT... To develop policies boosting investment demand commensurate with each region in order to maximize the local resources and capacity. To continue issuing the educational bonds, government bonds, project bonds, urban bonds... to mobilize capital for pivotal and big projects...

To enhance SOEs equalization, especially large-scale enterprises that are making profit and the government does not have to hold 100% of capital, paving the way for the expansion of the stock market, adding capital for the society and enterprises. To seriously carry out the Master Plan of reorganizing and reforming SOEs worked out by different ministries, provinces, 91 corporations and approved by the Prime Minister.

To continue the implementation of the Corporate Law, encouraging and creating favourable conditions for private enterprises to develop without any constraints on scale or area of operation in the fields which are not prohibited by law in order to mobilize the idle capital in public hands for development investment, job creation and life improvement.

To eliminate the biased treatment among SOEs and enterprises from other sectors in acceding credits from state-owned commercial banks.

To work out solutions to attract and effectively utilize capital in the years to come. To accelerate the reallocation of residents and space clearance for investment projects. To ensure the balance of corresponding capital for ODA projects, especially the feasible ones.

To promote foreign direct investment attraction. In the short run, concentrate on tackling obstacles in administrative procedures, double pricing mechanism, high service price in comparison with the region... To develop concrete schedules in accordance with Vietnam's commitments in international economic integration for foreign investors operating in the currently restricted areas.

To make public and transparent the allocations of investment capital from state budget.

To strengthen the rules in investment appraisal and supervision and to enhance quality of projects. To establish regulation guaranteeing the role of People's Committees in making decision on projects using local budget.

To strengthen the supervising role of socio-political organizations, mass media and the public. To stipulate the rights and responsibilities of the local authorities in terms of contributing ideas and supervising activities of investment projects located in the provinces but belong to decision making authority of ministries.

**3. To develop foreign economic relations, accelerating the international economic integration process.**

In parallel with fulfilling AFTA commitments and developing bilateral economic relations, it is necessary to push negotiations on WTO accession in order to become a WTO member in the near future.

To implement solutions aimed at reducing production cost, thus lowering product price, especially for high-value products, processed goods, improving the competitiveness of the economy in the process of international and regional integration.

To actively expand export markets besides traditional ones, to seek for new market with the spirit of diversifying markets and products in order to raise export turnover.

To promote exports, especially processed exports. To expand trade promotion activities in order to widen the markets and find new ones.

**4. Promoting poverty reduction, increasing employment, improving quality of education, health care, culture, sports and environmental protection.**

To continue activities to reduce poverty, especially in poor regions and villages, together with preventing falling back to poverty; to build up poverty reduction models in commensurate with regional conditions. To promote broad-based poverty reduction, investing in infrastructure for poor villages using capital from different sources. To enhance poverty monitoring and evaluation; to promote extension in agriculture, forestry and fishery for poor households.

To concentrate resources on narrowing the income gap and access to basic services gap between different classes and regions. To pay more attention on gender issues and mothers' and children's health care. To increase support for people in remote regions and ethnic minorities.

To encourage all organizations and individuals to create jobs for themselves and for others. To promote job finding service; to establish centers providing employment information at the same time, build up supervising mechanism to prevent cheating behaviors. To promote vocational training, on-the-spot job creation as well as labor exporting. Priority should be given to poor and remote regions.

To shift labour structure in rural areas, to pay attention on job creation especially non-agricultural jobs and jobs for women. To successfully tackle the redundant labour issue in the process of equalization and reorganizing the SOEs.

To improve the effectiveness of the National Fund for Employment.

To increase the budget allocation on health care at the same time implementing measures to socialize health care, creating favourable conditions for all citizens and organization to participate in health care activities. To promote disease prevention measures; to deal with food safety and hygiene; to carry out programs in health care and HIV/AIDS prevention. To establish regional health care centres.

To rectify the management of medical examination, treatment, and medicine price. To enhance the internal capacity in medicine production, to limit and control monopoly in medicine imports, to organize suitable sale and distribution networks to guarantee that medicine supply meets public demand.

To adjust training structure, firstly in terms of training levels, then training fields and areas, closely link training with socio-economic development needs; Strengthen college and vocational training system, sensibly develop university training. To carry out school construction program, improve infrastructure of school in rural and remote areas.

To strengthen the unity and solidarity of the people to build a civilized life, civilized families, cultural villages; to invest into culture and media infrastructure for remote areas, especially Central Highland, Southwest and Northern mountainous areas; maintain and preserve cultural identity and traditional sports.

To protect forest resources, promote land and forest allocations to households; implement suitable forms of land-lease in line with the Land Law and the Law on Forest Protection and Development; increase measures to prevent forest fires; protect marine and aquatic resources; to reduce urban environmental pollution; continue relocating polluting factories out of urban areas; to tackle waste processing and poisonous disposals.

### **5. Promoting administrative reforms**

To continue reforms, improving institutional capacity, ensuring the harmony, cohesiveness and feasibility in the process of making laws, decrees and regulations; to implement the principle of transparency, democracy, respect for public opinion and enterprises' views in the process of institutional building.

To continue reviewing and eliminating unnecessary administrative procedures, ensuring the transparency of regulations, creating favourable conditions for the successful implementation of the new "one door" regulation applied for government administrative offices dealing with the public.

To continue reforms of government organization in order to streamline the machine and avoid overlapping functions; to emphasize on collectivism and individual responsibility of administrative leaders; to successfully implement the Law on People's Council and People's Committee organization after being amended by the National Assembly in connection with power decentralization among different authority levels; to perfect local government authorities; to work out uniform policies for village, wards and township officials.

To improve the capability of Government civil servants in both qualification and morality.

To do away with corruption practices, not respecting disciplines and irresponsibility while working; strictly implement regulations on working mechanism and staff disciplines, raising staff responsibility in law application and servicing the public; to add regulation specifying responsibilities of the office leader before higher authorities and before the law when his/her staff commit illegal activities, or activities against administrative disciplines, criminal activities... To promote education and strictly treat degradation staff. To purify law protection units in order to fortify foundation for anti-corruption and anti-crime struggles.

## **PART 4**

### **STRATEGY IMPLEMENTATION, INITIAL RESULTS AND PROPOSALS**

The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) Process, as a whole, is an initiative and creative exercise undertaken by the Government. The Drafting Unit, which is lead by Ministry of Planning and Investment (MPI), consists of representatives from 16 ministries and agencies. The Unit had been working in a very tight time schedule for more than one year until the Full Strategy was approved. In the process, the Government particularly used in a very effective manner all international donor's assistance as well as NGO's expertise and active contributions. Hence, the Strategy expresses high consensus, feasibility and compatibility, complying with the development progress in Vietnam.

Using new approaches during the Process had made remarkable progress. Participation of many organizations, communities and poor people was facilitated in drafting and planning activities. This helped to direct the Strategy to solve urgent matter that the poor are concerning and to improve policy impacts. In addition, poverty was addressed not only in multi-dimensional methods but also in different viewpoints. It lies in the perfect linkage between the Strategy and sectoral and local development strategies. Particularly, CPRGS contains decentralization, by which it was well designed with widely known contents and objectives, and accountabilities of Government's agencies and transparency are highlighted during the Strategy implementation process.

#### **I. ROLLING-OUT THE STRATEGY TO NATIONAL AND LOCAL LEVELS**

##### **1. Arrangement:**

After the Prime Minister had had his decisions on the establishment of the CPRGS Steering Committee and MPI had undertaken the task of establishing and leading the CPRGS Inter-ministerial Working Group, Minister of MPI issued his decision No. 70/QD-BKH on January 29, 2003 to establish this Working Group, consisting of 35 members, who are department-level directors, vice directors and officers from such relevant agencies as: Government Office, Ministry of Planning and Investment, State Bank, Ministry of Labour, Invalids and Social Affairs, Ministry of Agriculture and Rural Development, Ministry of Training and Education.

The CPRGS Inter-ministerial Working Group also formed a permanent Secretariat with 10 persons. The Secretariat has allocated detail assignment to all members and right away designed several activities, like: introducing its working and administrative system, receiving technical assistance and grants for its operation. The Secretariat will be the core of the Working Group in providing guidance to ministries, agencies, and provinces with CPRGS integration into their 2004 development plans.

The Working Group recruited some skilful and qualified national experts to assist the Working Group and the Secretariat. They are undertaking different jobs, which are information dissemination, assistance to monitoring and evaluation process, preparing methodology of a Pro-poor Public Investment programme, technical assistance to CPRGS pilot programme in Tra Vinh province.

Activities undertaken by the Working Group and the Secretariat focused on (i) on-going capacity building in ministries, agencies and localities in order to carry-out trial integration of CPRGS into socio-economic development plans in some provinces; (ii) building system of indicators for Strategy monitoring and evaluation; and (iii) preparing progress reports of different sectors and ministries.

So far, goals and targets of CPRGS are being located in sectoral 2004 plans of some ministries, members of the Working Group are trying to arrange the integration of CPRGS contents in their agency's development plans.

## **2. Activities:**

In the last year, with the assistance of the donors (World Bank, UNDP, ADB, JICA, DFID, GTZ, SIDA...) many activities such as information dissemination on the Strategy, preparing a pro-poor public investment programme, national capacity building for monitoring and reporting of MDGs/VDGs and elaborating resource allocation for CPRGS, and expansion of CPRGS have been organized.

### *(1) Information dissemination*

Dissemination activities were organized to raise CPRGS awareness of all population strata, information on CPRGS was provided to every ministry and agency, to local public servants and particularly, to all districts and communes throughout the country. Documentary in the forms of leaflets and summary books was published and disseminated. Those forms are specially designed to provide easier and concise CPRGS information, including overall and detail objectives and contents, to readers.

11 leaflets and 1 summary book on CPRGS and MDGs had been published; their copies have widely been distributed to Government's officers, civil society staffs and local people so far. Leaflets were translated into some major ethnic minority languages and copies were handed over to ethnic groups. Summary books were sent to all Provincial and District People Committees (10 copies for each, and 61 PPC and 635 DPC were given).<sup>(17)</sup>

Besides, CPRGS information was also promoted on mass media, especially on Voice of Vietnam Radio (VOV) and Vietnam Television (VTV). One 30-second advertisement video clip about 6 topics of CPRGS, which would be presented on TV, was produced.

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<sup>(17)</sup> These activities are funded by UNDP



**Table 10: Document distribution summary**

No.	Mail package content	Number of communes	Number of districts
1	4 copies of 11 leaflets in Vietnamese	6.770	385
2	11 leaflets, of which 3 copies in Vietnamese and 2 in H'mong language for each leaflet	1.160	62
3	11 leaflets, of which 3 copies in Vietnamese and 2 in Tày language for each leaflet	1.972	117
4	11 leaflets, of which 3 copies in Vietnamese and 2 in Kh'mer language for each leaflet	1.302	96
5	11 leaflets, of which 3 copies in Vietnamese and 4 in Chām language for each leaflet	407	30
6	11 leaflets, of which 3 copies in Vietnamese and 4 in Ê-dê language for each leaflet	214	16

5 workshops on preparation of 2004 socio-economic development plan with integrated CPRGS contents were organized so far. The objectives of these workshops are to enhance local staff's capacity on planning methodology, which is used to build their own 5-year and 2004 socio-economic development plans with integrated CPRGS afterwards. Two of these workshops were held in Tra Vinh and Can Tho, the other three in Hanoi and Hai Phong.

*(2) Guidance provision on CPRGS integration in local socio-economic development plans*

Training workshops are considered important activities for an effective implementation of CPRGS at local levels. By this way, local leaders and policy-makers from sectoral departments were provided methods and techniques to integrate CPRGS into their local socio-economic development plans. These training workshops were held in June and July of 2003 in 5 regions of the country: (i) Northern Mountainous Area and Northern Mid-land; (ii) Red River Delta and Northern Centre; (iii) Central Highland and Central Coastal Areas; (iv) Mekong River Delta; and (v) South-Eastern Area. Approximately 600 participants from 10 sectoral local departments (Departments of Planning and Investment, Finance, Agriculture, Industry, Labour, Invalids and Social Affairs, Health, Training and Education, Personnel Authority and Women Union...) attended. The workshops have provided detailed explanations and contributed to raising awareness of CPRGS. At the same time, participants also received concrete guidance how to develop and implement socio-economic plans, which contain poverty reduction aspects.

In addition, regional poverty participatory assessments, which were assisted and funded by donors, were also conducted in July and August of 2003 in 12 provinces and cities. These assessments provide amendment to CPRGS integration in local plan progress as well as to an efficient monitoring and evaluation system. The aims of these activities are to obtain a better understanding of regional poverty and demands of the poor, and to

evaluate policy impacts.. Drawn lessons will be used to improve future policies and measure for poverty reduction and growth.

*(3) A pro-poor public investment programme:*

Many activities have been undertaken to direct the Public Investment Programme (PIP) to pro-poor targets. Activities are as follows:

a) Review and evaluation of the existing PIP:

Evaluation of schemes and methodology, which relate to equality, currently being used to formulate the PIP.

Quick assessment (using available data) on pro-poor level of existing PIP

Review good experience in term of pro-poor budget allocation in Vietnam

Evaluation of fiscal decentralization level in Vietnam

b) About 3 or 4 good experiences, that are relevant to Vietnam's context, of other countries on pro-poor budget allocation will be identified and selected

c) Two workshops were held at central and local levels:

In Tra Vinh province: a workshop for local policy-makers and experts and donors to discuss the procedure and methodology of pro-poor PIP and pro-poor budget allocation was held in this October.

In Hanoi: a national workshop for key policy makers and experts to share viewpoints and experience on pro-poor PIP and budget allocation of other alike countries.

*(4) National capacity building for monitoring and reporting Millennium Development Goals and Vietnam Development Goals (MDGs/VDGs)<sup>(18)</sup>*

Major activities are training workshops, in which members of the Working Group, officers of central ministries, agencies and civil organizations, especially officers of MPI and selected provincial DPI, participate. The aims of these workshops are to enhance their capacity in information collection, data analysis and using analytical studies on CPRGS/MDGs/VDGs for their planing and policy making activities.

Workshops focus on:

- Information provision on the indicator system and methodology to monitor and evaluate the progress of MDGs in Vietnam.

- Better awareness of MDGs/VDGs, the importance of MDGs/VDGs data and analysis in policy-making and planning process.

- Roles, responsibility and participation of Working Group members in CPRGS/MDGs monitoring and reporting process; introducing Vietnam's report on MDGs and VDGs.

*(5) Elaborating resource allocation for CPRGS related activities:*

On the basis of the approved CPRGS and PIP, a remarkable share of central Budget is allocated for poverty reduction. Priorities of this allocation are given to selected sectors that directly relate to poverty reduction, such as: agriculture and rural development, health, education and rural roads in poor districts and communes.

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<sup>(18)</sup> These activities are funded by UNDP

Investment channels:

- Infrastructure construction works in poor areas, poor communes with direct funded projects (state budget capital will be used for rural roads, irrigation works, concrete irrigation canals, schools, health clinics and cultural houses...)

- Research and development, by which new quality productive plant varieties and animals will be provided.

- National targeted programmes, which will be integrated for better outcomes in poor areas, are Programme 135, Poverty reduction and Employment Programme, Training and Education Programme, Population and Family Planning Programme...).

- Investment in focal economic zones, which aims to boost up these zones and facilitate their pervasive development motive force on surround poorer areas.

One of the most important activities over the past year is preparing detail plan for the Medium Term Expenditure framework and pilot implementation in 4 ministries. The aim of this activity is to identify priorities as well as necessary financial resources to achieve poverty reduction targets in medium period.

## **II. EVOLUTION OF THE MONITORING AND EVALUATION SYSTEM**

### **1. Content and Coverage of Monitoring and Evaluation System**

The monitoring and evaluation activities cover three key areas: to monitor and evaluate the outcomes of economic growth and poverty reduction, to monitor and evaluate the status of resources allocation and mobilization, and to monitor and evaluate the impacts of poverty reduction policies and programs, especially socio-economic impacts on the poor.

The monitoring and evaluation of how targets specified in socio-economic development plans are achieved will be implemented at all levels and agencies such as central and local levels, in ministries, agencies, for rural and urban areas, for genders, and all people strata.

### **2. Arrangements of Implementation:**

The CPRGS monitoring and evaluation process is in implementation process, which is divided into 2 main components. In one hand it is done through the traditional administrative report regime, in the other hand independent assessments will be made on the basis of regular report information and qualitative and quantitative data obtained from surveys.

The General Statistic Office (GSO) is currently working with relevant ministries and agencies to review and assess existing monitoring system as well as data sources. At the same time, GSO will take lead responsibility towards preparing methodology of the new monitoring and evaluation system, developing indicators and formulating report schedules for all ministries, agencies, and localities. GSO is also in charge of providing guidance to agencies that are responsible to making and submitting reports.

At provincial level, DPs will be selected to take the lead of integrating CPRGS's targets, measures and policies into local socio-economic development plans as cooperated by relating sectoral departments.

Their main tasks will be operation organization to monitor and evaluate Strategy's goals and targets that are integrated in their plans and preparing consolidation reports, in which analysis and assessment of performance are addressed. On that basis, appropriate policies and measure will be introduced and timely adjustments will be made so that possibility of target achievement is higher.

In order to have good monitoring and evaluation system, it is very useful to establish local monitoring and evaluation commissions, which are coordinated by local statistical agencies. These commissions provide guidance on collecting, processing, consolidating and storing information, which is used to monitor and evaluate the implementation of plans with integrated CPRGS contents. In addition, there should be representatives from relating local departments and organizations in the commissions like: Department of Planning and Investment, Statistic Branch Office, Department of Finance, Department of Justice, Provincial Women Union and Farmer Union.

All the results of the monitoring and evaluation process will be made public in various forms, such as: printed materials, electronic storage (floppy or compact discs) and internet so that users can have easy access to this information.

### **3. Information collection:**

Available information on CPRGS and MDGs has been collected and processed. Preliminary database is complete, it consists of 2 documents: *Vietnam Development Goals* and *Statistical Data of Vietnam Development Indicators* and it will be published in the form of books and CD ROMs so that it is easier for users. An overall working plan for the Secretariat to monitor and evaluate progress of CPRGS and MDGs is also formulated.

Currently, GSO is continuing to complete the information collection methods and mechanism, and the monitoring and evaluation indicator system. Workshops have been organized to collect comments on two documents, which are *Vietnam Development Goals* and *Statistical Data of Vietnam Development Indicators*. Consultants are now revising these two documents so that the launching date is scheduled on November 14, 2003.

Fundamentals of the monitoring and evaluation system would be household and enterprise sampling surveys, of which GSO is responsible to the household living standard survey. Household data, which is disaggregated by sex, ethnic groups and provinces, will be collected every two years (starting from 2002). This survey aims to evaluate household expenditure, to analyse changes of living standard in material aspect and to consolidate poverty data in different angles. Outputs of sampling surveys will be supplemented with qualitative assessments, for example Participatory Poverty Assessment (PPA), to obtain multi dimensional feedbacks.

Following up 6 PPAs in 2002, series of PPA were conducted in 12 provinces and cities in July and August of 2003, providing better understanding about natures of regional poverty. They were in: Lao Cai, and Ha Giang that represents the Northern Mountainous Areas; Ha Tay and Hai Duong in Red River Delta; Nghe An in North Central Coast; Quang Tri, Quang Ngai in South Central Coast; Ben Tre and Dong Thap in Mekong River Delta, and Ho Chi Minh City and Ninh Thuan in South East.

PPAs provide valuable information and regional assessments of poverty trends, opportunities and poverty assistance, possible expansion of access to basic social services, vulnerability reduction, and management setting to implement the poverty reduction strategy.

PPA's outputs are also provided to discussions on the improved formats of 2002 household surveys. For example, regarding to unregistered immigration in Ho Chi Minh City PPA helped GSO to conduct a high-quality household survey in 2002 which covered unregistered immigrant families were included in its sample. Another important reason to continue these assessments in the future is that all unattended aspects of poverty will be taken into accounts in household surveys.

Many other studies also make important contribution to better understanding of national and local poverty. First study that should be indicated here is the Annual Report on Poverty carried out by the World Bank (WB), however the Government of Vietnam will soon take over the role of drafting this report. Other studies have evaluated the impacts of development programmes that directly relate to CPRGS.

#### **4. Monitoring and evaluation (M&E) indicators:**

At present, the M&E consultative teams have developed a system of indicators for monitoring and evaluation of the progress in implementing socio-economic plans. The system consists 136 indicators, divided into 15 groups. There are 3 groups of indicators for economic growth and 12 groups of indicators for poverty reduction and social issues.

During last year, GSO has conducted pilot CPRGS data collection at provincial level and organized statistical workshops at both central and local level. Initial findings reveals difference in information collection methods from provinces to provinces and is now studying measures to overcome it.

The analysis of data available from GSO, ministries, agencies, and localities shows that the existing system of data can basically meet the requirements of monitoring and evaluation of MDGs (except for indicators for sustainable environment such as temporary houses, slums in urban areas, safe collection of solid waste, air and water pollution).

A large proportion of these indicators (80 out of 136) have already been collected with consistent statistical methods, collecting time, and report frequency. There are 12 indicators for which information has been collected but the quality is insufficient. No information for about 43 indicators is available and one indicator (quality of water and air) is not quantified yet for monitoring and evaluation purpose. It is of extremely importance to develop a system of core indicators to be closely watched. There is also a urgent need to identify clear report frequencies of each indicator, as well as different report forms for different levels and agencies should be applied. At the same time, participation of local staffs and people in M&E is also facilitated.

In coming time, the focal points of the development of M&E system will be building an appropriate indicator system that suits existing local condition, periodic assessments on CPRGS progress, regular PPAs, completing guidance on information collection and analysis, and improved coordination between ministries and localities in M&E.

The present situation reveals a relatively big gap between what already in place and what needs to be done to fully develop the necessary indicators for M&E of CPRGS. Following activities should be undertaken in coming time:

First, finalizing the concepts, methods of calculation and guidelines for using the system of M&E indicators for CPRGS. Moreover, data should be made available to users.

Second, for the indicators with inconsistency in definitions, or in the ways of calculating or collecting, necessary studies should be carried out to achieve uniqueness of indicators. Examples of this type of indicators are poverty lines, employment and population statistics that are currently applied differently between GSO and MOLISA. Solving this problem will facilitate the management and implementation of CPRGS and also improve the quality of research, analysis, and international comparison.

Third, developing the system needed for collecting the information for indicators that are currently not available. There is a need to determine the agency being responsible for the collection and report of necessary information for these indicators. At the same time, a well functioning system of reporting for all levels of management should be arranged to synthesise all indicators reported from the lowest level of management (such as the number of communes making budget revenues and expenditure public, or number of communes with staff working in poverty reduction).

Fourth, implementing regular reporting mechanism that analyse the progress of CPRGS implementation at central and provincial levels, associated with existing report forms. There is a need to develop various report forms with different indicators coverage and frequencies for different levels of administrative management. The reports should be synthesised and widely disseminated with various media such as printed materials and Internet. The reports should cover the progress in implementing targets in socio-economic plans with attention paid to poverty reduction.

Fifth, developing an inter-ministerial mechanism for evaluation the progress of CPRGS implementation, ensuring the evaluation has been consulted with leaders of ministries, agencies, and localities.

### **III. THE EXPANSION OF CPRGS**

To follow up the conclusion made at the last CG meeting, December 2002 about an additional part to CPRGS, which is “Development of Pro-poor large scale infrastructure”, Prime Minister assigned MPI to arrange research and preparation and to finalize the chapter at the end of 2003. Minister of Planning and Investment passed this duty to the Head of the Inter-ministerial Working Group. A team of 19 members, who are senior managers and experts from relating ministries and agencies, was formed.

Team members have met several times to discuss the detailed outline of the chapter. Outline draft has also been commented by relating agencies and donors, and was circulated at local levels for further feedbacks. Two workshops were already held to get comments.

The chapter of “Large scale infrastructure and poverty reduction” will focus on evaluation of the role of large-scale infrastructure in economic growth and reduction of poverty, and analysis and evaluation of current situation of infrastructure with proposed policies to develop such kind of large-scale infrastructure in Vietnam for achieving rapid poverty reduction and growth.

The role of large-scale infrastructure is a pre-requisite condition and motivation to promote economic growth and the changes of economic structure, which aim to serve

industrialization and modernization. At the same time, large-scale infrastructure investment indirectly contribute to poverty reduction, budget revenue rises, income rises through income re-allocation process, and development gaps between regions reduce.

Although Vietnam's infrastructure has seen many remarkable changes and initially met the development demand and contributed to socio-economic development, current setting of large-scale infrastructure in Vietnam still in weak condition that is low quality and inefficient, inadequate development, uneven between regions, especially unable to generate motive power of dynamic regions. In general, the existing infrastructure has not met the development demand and the changes of economic structure. Infrastructure development level is lower than other regional countries.

Therefore, the objective for the next period is to step-by-step synchronize and modernize the infrastructure system, to build key constructions in order to gradually satisfy the demand of economic development and poverty reduction. To achieve this, it needs to carry out measure and policies to develop pro-poor large-scale infrastructure, especially in sectors of energy, transportation, irrigation, information and communication, housing, health, water supply and drainage...

#### **IV. RECOMMENDATION**

Over more than 1 year implementing CPRGS, it shows that many challenges must be prevailed over in order to improve quality of and to speed up the CPRGS implementation. The proposed measures for the CPRGS Steering Committee are as follows:

##### **1. Arrangement:**

Improving the coordination among ministries, agencies, and all levels of administration during the implementation of CPRGS. The Secretariat will regularly monitor the progress and report to the inter-ministerial working group. Some staff of the secretariat will be in charge of M&E of implementing CPRGS.

Formulating incentive system to encourage local M&E staffs, since it is a stylised fact that many districts do not fulfil their M&E job due to lack of appropriate incentives.

##### **2. Capacity building:**

CPRGS requires sufficient resources at all levels, national or grass-rooted, in which human resource plays an extremely important role. Current qualification of staffs involving in CPRGS does not satisfy the requirement. Rapid development and intensive poverty reduction requires higher staff qualification. The analysis skills, especially in-depth understanding of factors affecting economic growth, and impacts of economic reforms on social aspects as well as on poverty reduction will be in urgent need in coming period.

It is also necessary to improve quality of People Council's operation at all levels, in particular the capability of people in key position and local staffs will be focal targets. In addition, emphasis must be placed on the improvement of the relationship between people, the poor in particular, and local public servants.

Attention should also be paid to strengthening the public finance management to direct the use of this source to poor people and effective outcomes. It is necessarily to arrange new granted projects to strengthen capacity of staffs who involve in CPRGS process.

### **3. Improving the exchange and dissemination of policy information:**

CPRGS information exchange and dissemination should be enhanced at all levels so that all organizations and individuals could participate in CPRGS process and develop their own knowledge of policies implemented from central level to grass-rooted levels. In fact, people do want to obtain all information of Government's policies and plans, particularly those policies that have quick and direct impacts on them. Once they have access to that information, they will be well aware of policies and actively participate in the process and express their supports to Government's policies and poverty reduction programme.

Note that feedbacks of private sector should be facilitated in information exchange, because private economic activities have close relations with socio-economic situation. Using participation and contribution of private sector could help with appropriate adjustment and updates in CPRGS.

A big challenge recently is how to improve the participation, especially of poor people in remote, isolated, and extremely disadvantaged areas, in social activities. To achieve this, a rapid development of a good network for information dissemination is needed, so that the poorest are able to have access to this information.

### **4. Improved Statistics for Poverty reduction and Growth:**

Further improvement and finalising the system of indicators, reporting time, frequency and also content have significant impacts on the effectiveness of M&E and of implementation of CPRGS. There is a need to further develop relevant indicators for various localities and integrate them into local socio-economic development plans. The mechanism of collecting information should improve to achieve uniqueness in the calculating and collecting methods. Especially, better dissemination of information should be targeted so as to facilitate access of all people to information.

Many localities do not follow the right statistical methods in computing important CPRGS indicators causing more difficulties in M&E. For example, some provinces do not take into account immigrants or lazy individuals; consequently exclude some real poor people from their official poverty lists when reporting poverty reduction figures every year. Moreover, the collection of some gender indicators are still inadequate, causing difficulties in assessing achievements and challenges in this area.

In addition, the current Vietnam's national poverty line (MOLISA) is lower than that in some countries in the region and the world. Many people who have escaped from poverty according to this poverty line but their lives are still difficult and facing high risk of falling back poverty, particularly ethnic minority people or people who live in areas that often have natural calamities. Due to too low poverty line, some provinces that luckily have rather low poverty rate are not well aware of the importance of reducing poverty, and poverty reduction has not been given adequate priority in local authority's actions. Research must be carried out soon to unify various targeting methods currently used by GSO and MOLISA. The new unified targeting method should be able to effectively identify poor people not only at commune and district levels but also at provincial level and for the whole country.



In order to raise the effectiveness of CPRGS implementation, there should be further improvement in statistical performance, therefore statistical data will be more accurate, reliable, timely and useful for action planning within CPRGS framework.

**5. Stronger integration of CPRGS and the 5-year and annual development plan in term of targets and policies.**

This integration of CPRGS process and the 5-year and annual planning process allows not only to speed up Strategy's target achievements but also to lower cost. Especially, the more budget operation goes well with CPRGS the more realistic and feasible the programmes and targets of CPRGS are. These close linkages will also boost international donors confidence.

**6. More instructions given to local planning**

More instructions should be given to local planning in term of content preparation, methods and procedure of planning with CPRGS integration. Besides, the participatory planning process should also be promoted.

**7. Facilitating the participation of scientists and research institutes for in-depth analysis and multidimensional assessments**

Conditions should be created to facilitate the access of scientists to statistics, including raw data. Special attention should be paid to expanding the participation of scientists and research institutes in developing policies and assessing impacts of policies on poverty reduction and growth.

**8. Align international assistance with realizing targets and measures in CPRGS**

International supports are very important to the Strategy implementation, but they should be aligned better with country's development in general and with growth and poverty reduction in each part of the country in particular. Therefore, donor's assistance pledges and actions should comply with priorities and actions in CPRGS.

In addition, it is necessarily to push up the harmonization and simplification of procedures relating to ODA and other forms of donors' assistance.

Donors' assistance is encouraged to provide direct supports to provinces, where they are used to build more capacity of preparing socio-economic development plans with integrated poverty and growth factors. The objective is to finish the integration of CPRGS in all provinces by 2008. In addition, when mobilising donor's assistance, emphasis should be placed on following prioritized areas such as technical assistance in further implementation of CPRGS, integrating it into the Five-year and annual plans, management of CPRGS implementation, finalising the system of M&E to achieve consistency and uniqueness.

**ANNEX:**  
**SELECTED MAJOR ECONOMIC DEVELOPMENT AND POVERTY  
REDUCTION INDICATORS IN 2002-2003**

Indicators	Unit	2002	2003 (estimated)
<b>A Economic Indicators</b>			
<b>1 GDP growth rate</b>	%	<b>7.0</b>	<b>7.2 - 7.3</b>
Of which:			
- Agriculture, Forestry, Fishery	%	4.1	3.2
- Industry	%	9.4	10.3
- Services	%	6.5	6.6
<b>2 Production Output growth rate</b>			
- Agriculture, Forestry and Fishery	%	5.4	4.7
- Industry	%	14.5	15.0
- Services	%	7.0	7.0
<b>3 Economic Structure</b>	%	<b>100.0</b>	<b>100.0</b>
- Agriculture, Forestry and Fishery	%	23.0	22.3
- Industry and Construction	%	38.5	39.9
- Services	%	38.5	37.8
<b>4 Employment Structure</b>	%	<b>100.0</b>	<b>100.0</b>
- Agriculture, Forestry and Fishery	%	60.0	59.0
- Industry and Construction	%	17.0	18.0
- Services	%	23.0	23.0
<b>5 Trade</b>			
- Total export	USD Mil.	16,706	19,500
- Export growth rate	%	11.2	16.7
- Total import	USD Mil.	19,733	24,000
- Import growth rate	%	22.1	21.6
<b>B Social and Poverty Reduction Indicators</b>			
<b>1 Goal 1: Reduction of Percentage of Poor and Hungry Households</b>			

	Indicators	Unit	2002	2003 (estimated)
	- By 2010, reduce by 40% the proportion of people living below the international poverty line	%	28.9	27
	- By 2010, reduce by 75% the proportion of people living below the international food poverty line			
	- By 2005, reduce by 40%, and by 2010 reduce by 60% the proportion of households living below national poverty line (base year 2000)	%	13.1	11
	- Number of Households escaping poverty	Thou.	330	300
<b>2</b>	<b><i>Goal 2: Universalize education and improve education quality</i></b>			
	- Increase the net enrolment rate in primary school to 97% in 2005, and 99% in 2010	%	92	
	- Increase the net enrolment rate in lower secondary school to 80% in 2005, and 90% in 2010	%	67	
	- Increase the literacy rate to 95% of under-40-year-old women by 2005 and 100% by 2010	%	94	
	- Provinces achieving universal lower secondary education	provinces	12	19
	- Kindergarten children	Thou.	2,144	2,331
	- Primary school children	Thou.	8,841	8,951
	- Lower secondary school children	Thou.	6,498	6,627
	- Upper secondary school children	Thou.	2,549	2,596
	- New university and college enrolment	Thou.	282	294
	- New intermediate education enrolment	Thou.	197	210
	- New vocational training enrolment	Thou.	982	1,024
	- Post graduate training enrolment	Thou.	10	11
	- Retrained and fostered officials	Thou.	35	40
	<b><i>Goal 3: Ensure gender equality and women empowerment</i></b>	%	27	
<b>3</b>	- Increase the number of women in elective bodies at all levels	%	2.5	

	Indicators	Unit	2002	2003 (estimated)
	- Ensure the names of both husband and wife appear on the land use right certificate			
	<b>Goal 4: Reduction of birth rate, infant mortality rate and malnutrition rate</b>			
	- Reduce the infant mortality rate to 30 per 1000 live births by 2005 and 25 by 2010	‰	33	32
4	- Reduce the under-5 mortality rate to 36 per 1000 live births by 2005 and to 32 by 2010	‰	42	40
	- Reduce the under-5 malnutrition to 25% by 2005 and 20% by 2010	%	29.5	28
	- Reduced birth rate	%	0.4	0.4
	- Population	Mil.	79.7	80.8
	- Population growth rate	%	1.3	1.3
	- Under 5 malnutrition rate	%	29.5	28.0
	- Under 1 mortality rate	‰	42	40
	- Communes with health clinics	%	97.3	98
	- Communes with doctors	%	60	63
	- Total treatment beds	Thou.	190	195
	- Treatment beds per thousand people	Bed	23.9	24.1
		1/100,000	165	
	<b>Goal 5: Improve maternal health</b>			
5	- Reduce the maternal mortality rate to 80 per 10,000 live births by 2005 and to 70 by 2010 with special attention to disadvantaged areas			
	<b>Goal 6: Reduce HIV/AIDS infection and eradicate other major diseases</b>			
6	- Slow the increase in the spread of HIV/AIDS by 2005 and halve the rate of increase by 2010	persons		70,000
	<b>7. Ensure environmental sustainability</b>			

	<b>Indicators</b>	<b>Unit</b>	<b>2002</b>	<b>2003 (estimated)</b>
	- Extend forest coverage to 43% by 2010 from 33% in 1999	%	36.6	37.5
7	- Ensure 60% of the rural population (80% of urban population) has access to clean and safe water by 2005 and 85% by 2010	%	52	54
	- Ensure no slums and temporary houses in all towns and cities by 2010	%	24	
	- Ensure that all solid waste is collected and disposed safely in all towns and cities by 2010	%	15	
	- Air and water pollution must attain national standards by 2005	%	64	
<b>8. Goal 8: Essential infrastructure for poor people, poor communes and poor areas</b>				
	- Poor communes with car-accessible roads to communal centre (CPC)	%	-	57.27
	- Poor communes with health clinics	%	-	51.76
	- Poor communes with enough classrooms for primary schools, kindergartens and nursery schools	%	-	26.88
	- Poor communes with communal or inter-communal markets	%	-	10.03
	- Poor communes with electricity	%	-	57.67
	- Poor communes and districts with safe water supply system	%	-	23.27
<b>Goal 9: Job creation</b>				
9	- Urban unemployment rate	%	6.0	5.8
	- Labour with job provided (converted)	Mil.	1.4	1.5
	- Rural working time utilization rate	%	75.4	76.5
<b>Goal 10: Culture and information</b>				
10	- Ensure by 2005, the Coverage of VoV	%	93	93

	<b>Indicators</b>	<b>Unit</b>	<b>2002</b>	<b>2003 (estimated)</b>
	Radio reaches 95% households			
	- Ensure by 2005, 95% of households can watch Vietnam Television	%	84.7	86
	- Preserve and develop literacy in ethnic languages	%	84	
	- Number of fixed telephones per 100 people	Line	6.9	8.5
	- Communes with telephone lines	%	92.5	95.0
	- Number of preserved heritages		300	300
	<b><i>Goal 11: Reduce vulnerability and develop social safety nets</i></b>			
<b><i>11</i></b>	- Increase by 40% average income of the poorest quintile by 2005, and by 90% by 2010 (base year 2000)	%	8	