

**MINISTRY OF PLANNING AND INVESTMENT**  
**PROJECT 00040722**  
**"SUPPORT TO SOCIO-ECONOMIC DEVELOPMENT MONITORING"**

**RESULTS-BASED MID-TERM REVIEW REPORT**  
**FOR IMPLEMENTATION OF THE FIVE-YEAR**  
**SOCIO-ECONOMIC DEVELOPMENT PLAN**  
**2006-2010**

**Hanoi, May 2009**



# INTRODUCTION

**V**ietnam's Ten-Year Socio-Economic Development Strategy 2001-2010 set the stage for accelerated industrialisation and modernisation following the socialist orientation, laying the foundation for Vietnam to become an industrialised nation by 2020. Based on this Strategy, the five-year plan socio-economic development plan 2006-2010 was prepared with basic changes in plan development methodology and procedures, which sought greater community participation in plan development; extensive consultation with research institutions and scientists home and abroad, social organisations, and different social groups, in order to create a wide social consensus in identifying long-term and short-term visions and objectives as well as approaches to implementation which would ensure the realisation of the plan.

Up to now, Vietnam has experienced nearly three years of implementation of the five-year plan 2006-2010. Vietnam has tried to take advantage of its available resources, focusing on implementing broad macroeconomic policies, laying a stable socio-economic environment for transforming the economic structure, production and labour force in each sector, region, and field; to link production with consumption markets; and to improve the quality, efficiency and competitiveness of products, enterprises and the economy as a whole.

Vietnam has actively stepped up international economic integration, rapidly developing economic relations with foreign partners, and expanding foreign economic ties to further the development of the national economy in a new international division of labour. In the context of international economic integration over the last three years, the volatility of the global economy has impacted increasingly on Vietnam.

Regular monitoring and evaluation (M&E) of the process of implementation of the socio-economic plan with resultant appropriate adjustments are very necessary part of the planning process. This need has drawn substantial attention from stakeholders engaged in plan development and implementation from the Government and the National Assembly to social organisations, enterprises, international organisations and donors.

The Minister of Planning and Investment (MPI) issued Decision No 555/2007/QĐ-BKH on the Result-Based Monitoring and Evaluation Framework (RBMEF) for the five-year SEDP 2006-2010.

The mid-term review of the implementation of the socio-economic development plan presented in this report has been applied the result-based evaluation framework, the core part of which comes from the RBMEF announced by Decision No 555/2007/QĐ-BKH. This is the first time this approach has been applied for evaluation of the 2006-2010 SEDP performance in Vietnam. The approach is not only to monitor implementation of specific plan objectives but is also intended to include the thorough consideration and analysis of causes

*of results and spill-over effects of implementation of each objective and indicator on general performance and related objectives in other fields. The evaluation focuses on a series of identifiable separate indicators and chains of factors and events relating to these indicators, from inputs, implementation process, then results and impacts. Details on the result-based monitoring and evaluation methodology are presented in Appendix 1.*

*This report covers assessment of the five-year 2006-2010 SEDP implementation progress for the years 2006-2007 and estimates for 2008. Due to data constraints, the report has not been able to analyse all of objectives and indicators set out in the five-year plan and specified in RBMEF issued by Decision No 555/2007/QĐ-BKH, but covers the most important indicators where data are available. Given constraints of data, time, and experience with the new approach, the report has not been able to avoid some limitations. MPI welcomes opinions and comments so as to be better prepare evaluation of the plan performance at the completion phase.*

*This report has received comments from a number of ministries and branches, provincial authorities and cities nationwide, and international donors in Vietnam. During the preparation of the report, MPI received support and assistance of United Nation Development Program (UNDP), the World Bank (WB), national and international consultants.*

PROJECT 00040722

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## ABBREVIATIONS

ASEAN	Association of South East Asian Nations
BOP	Balance of payment
CIEM	Central Institute for Economic Management
CPI	Consumer price index
DONRE	Department of Natural Resources and Environment
DPI	Department of Planning and Investment
ER	Exchange rate
EU	The European Union
FDI	Foreign direct investment
GDI	Gender Development Index
GDP	Gross domestic product
GEM	Gender Empowerment Measure
GSO	General Statistics Office
IFC	The International Financial Corporation
JBIC	The Japan Bank for International Cooperation
LA21	The Local Agenda 21 Programme
M&E	Monitoring and evaluation
M2	Total liquidity
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOH	Ministry of Health
MOLISA	Ministry of Labour-Invalids and Social Affairs
MONRE	Ministry of Natural Resources and Environment
MPI	Ministry of Planning and Investment
NCSD	The National Council for Sustainable Development
NTP	National targeted program
R&D	Research and development
RBMEF	Result-Based Monitoring and Evaluation Framework
SBV	The State Bank of Vietnam
SD	Sustainable development
SDO	Sustainable Development Office
SEDP	Socio-economic development plan
SME	Small- and medium-scale enterprise
SOE	State-owned enterprise
SRV	Socialist Republic of Vietnam
T&G	Textiles and garments
U.S.	The United States
UNDP	United Nation Development Program
USD	United State Dollar
VA21	National Agenda 21
VND	Domestic currency Vietnamese Dong
WB	The World Bank
WEF	World Economic Forum
WTO	The World Trade Organization





## OVERALL CONTEXT OF IMPLEMENTING THE FIVE-YEAR SOCIO-ECONOMIC DEVELOPMENT PLAN 2006-2010

### Economic Performance of Vietnam and the World

Over five years 2001-2005, in the context of a large number of difficulties and challenges, Vietnam's economy continued to achieve high growth rates and comprehensive socio-economic progress, laying foundation for further reforms and more efficient implementation of the cause of national development for the next five years 2006-2010. The five-year socio-economic development plan 2006-2010 has been implemented in the context of many emerging advantages and opportunities mixed with substantial difficulties and challenges.

Internal advantages have included a continuing stable politic and social situation which has been a fundamental factor in rapid and sustainable development (SD). Many policies have been well implemented in practice resulting in better mobilisation and more efficient use of resources in the pursuit of long-term development goals, accelerating economic change towards industrialisation and modernisation. Productive capacity and socio-economic infrastructure have been improved and utilised with increasing efficiency.

Internationally, great advances in science and technology, and international economic integration have had positive impacts on Vietnam. However, changes in the world situation and in the region

since late 2007 have resulted in unpredictable volatility resulting in a negative impact on the pursuit of economic growth and development objectives set forth by the Party Congress X.

To summarise international development, if the year 2006 was impressive in terms of economic performance (far better than that of 2005), the year 2007 experienced somewhat lower growth, partly due to the initial adverse impact of sub-prime mortgage crisis in the United States (U.S.). The situation deteriorated further in 2008, when the whole world was swept along with the U.S. financial storm.

Following a long period of efficient performance, the international financial and banking architecture began to exhibit serious weaknesses such as destabilising flows of speculative capital, loose credit management, and risky behaviour of leading financial institutions, which went beyond control. Starting from the sub-prime mortgage crisis in the U.S., the financial crisis has expanded rapidly to all countries, resulting in fundamental changes in the global financial system, and setting off an economic crisis which is highly complex and unpredictable.

Countries around the globe, particularly such world growth engines as the U.S., the European Union (EU) and Japan have moved into recession; newly emerging economies such as China have been cooled off. Export-import markets, capital markets, and labour markets all have experienced slower growth and in some cases sharp declines. Global trade followed the same trend. Nevertheless, the foreign direct investment (FDI) drift has been different, which surged strongly in 2007, but it slowed down significantly toward the third quarter of 2008.

Prices of crude oil and many commodities such as metal, minerals and food have been extremely volatile, skyrocketing in 2007-2008, resulting in strong inflationary pressure; to be followed by prices dropping recently, signalling the start of global recession.

Many economies have experienced three sharp shocks which have resulted in fundamental economic challenges. They are a financial and banking crisis, a real estate crisis and a commodity crisis, especially energy. Low growth, overall inflation, depreciation of United State Dollar (USD), the approaching US recession and weakening financial institutions were key features of the first part of 2008. By the fourth quarter recession had developed and price rises showed signs of reversing. These features are leading to substantial economic and social turmoil, the effects of which are spilling over into less developed

and developing countries, which have weak competitiveness and are heavily dependent on imported materials. Global economic growth halted after 15 years of continuing expansion. It is projected that in 2009, these aforementioned factors will continue to be major obstacles to the world economic growth.

### Impacts on Vietnam Economy

Unanticipated difficulties and challenges at the global scale emerging in the first three years of the five-year plan 2006-2010 have had a great influence on the development of the country. Following a period of increasing integration in the world, international economic development now has a direct and rapid impact on the economy. During 2006 and 2007, Vietnam was successful in making use of advantages of the favourable world economic context, thus achieving a high growth rate of gross domestic product (GDP) and trade in 2006, overcoming difficulties and challenges to maintain a high growth rate and rising FDI in 2007. However, during 2008, unfavourable conditions of the world economy, together with existing internal weaknesses, have strongly affected the development capability of Vietnam, production growth and living standards of the people.

In addition, intensive participation in the globalisation process also means that Vietnam not only has to fully implement international commitments to which it is signatory but also has to join a tricky international game that is quite new and unfamiliar to participants in the Vietnam's economy about which we still have only limited knowledge. Globalisation has resulted in increasing competitive pressure over the past three years and will continue to do so in the coming period, thus putting increasing pressure on domestic enterprises, particularly those with such weak competitiveness that they may even lose their domestic markets. International trade regulations are not only sophisticated but also particularly disadvantageous to agricultural products and some processed products using low-cost labour.

At the same time, unforeseeable movement in the financial and monetary markets will continue to have negative spill-over impacts on a small-scale economy such as Vietnam. Volatility of petroleum and oil prices, gold prices, input prices, and food prices will continue to cause turmoil, causing difficulties for implementation of socio-economic development objectives of the country.

Moreover, global issues such as diseases, environmental pollution, material and fuel scarcity, persisting income gaps and others could become more severe, resulting in strong and multi-faceted challenges to the socio-economic development of Vietnam.



# PART ONE

## ENSURING HIGH AND SUSTAINED ECONOMIC GROWTH THROUGH IMPROVED EFFICIENCY SO THAT THE COUNTRY GRADUATES FROM LOW-INCOME STATUS

### 1.1. ENSURING HIGH AND SUSTAINED ECONOMIC GROWTH RATE TO EMERGE FROM THE UNDEVELOPED STATUS

#### 1.1.1. Overall Economic Growth

During the two years 2006-2007 Vietnam maintained high economic growth. The targets of GDP growth (both overall and sectoral) set by the National Assembly have been outperformed (see Table 1). In particular, economic growth in 2007 was 0.25 percentage point higher than the figure in 2006 and hit an 8.5 percent, a peak compared to the past 11 years. GDP per capita reached 833 USD (in current price), an increase of 195 USD compared to the figure in 2005.

However, the growth rate decelerated in early 2008. A preliminary estimate of the overall growth rate for 2008 is just 6.2 percent, of which agriculture-forestry-fisheries grew by 4.1 percent, industry-construction - by 6.1 percent, and services - by 7.2 percent. And yet despite the under-achievement of the 2008 plan, the overall average annual growth rate for the first three years of the plan is 7.6 percent, which is within the planned target range.

Factors, both internal inherited factors and external ones contributing to GDP growth rate will be thoroughly analysed in the following parts of this report. The high growth rate in 2006 and 2007 is attributed significantly to the successful accession of Vietnam to the World Trade Organization (WTO), thereby raising confidence of foreign investors in a more transparent and favourable investment climate in Vietnam, as well as the energetic and

Table 1: GDP for the Period 2005-2008

Indicators	Actual implementation				Targets 2006-2010
	2005	2006	2007	Prel. 2008	2006-2008
<i>Average annual growth rate (%)</i>					
Agriculture-forestry-fisheries	4.02	3.69	3.76	4.07	3.84
Industry-construction	10.69	10.38	10.22	6.11	8.88
Services	8.48	8.29	8.85	7.18	8.10
GDP	8.44	8.23	8.46	6.18	7.62
<i>Contribution to GDP growth (%)</i>					
Agriculture-forestry-fisheries	9.71	8.76	8.32	11.81	9.50
Industry-construction	49.83	50.68	49.50	41.16	47.44
Services	40.46	40.55	42.17	47.03	43.06
GDP	100.00	100.00	100.00	100.00	100.00
<b>GDP</b>					
GDP (current price, trillion VND)	839	974	1,144	1,478	na
GDP by average ER (billion USD)	53	61	71	89	na
GDP per capita (USD)	638	725	833	1,034	na
					1,690-1,760*
					94-98*
					1,050-1,100*

Note: \* Targets by 2010.

Source: Authors' calculation using data of General Statistics Office (GSO 2008c), Socialist Republic of Vietnam (SRV 2006, 2008).



optimistic psychology and high expectation of domestic investors of a new development era with expanding business opportunities at home and worldwide. International economic integration generated many development opportunities, as well as pushed domestic reforms to make fuller use of the country potential.

International economic integration, nonetheless, has not only generated great opportunities but also poses challenges. Opening the domestic economy to the outside world means Vietnam will become more dependent on the world economy and vulnerable to external shocks more rapidly and directly. Unfavourable developments in the global economy, which had not been foreseen in the five-year plan, have been among major reasons lowering the growth rate of Vietnam in 2008. In addition, after one year as a full member of WTO, weaknesses and limitations of the economy have started to emerge, with negative impacts on economic performance, affecting the society and people's living standard in many aspects.

To cope with this difficult circumstance, the government of Vietnam has implemented a wide range of measures to curb inflation<sup>1</sup>, to maintain macroeconomic stabilities and lay the foundation for sustainable growth. In addition, the Government has formulated a number of policies to ease difficulties for the public, especially poor and low-income people suffering from inflation, rising cost and natural disasters.<sup>2</sup>

Thanks to these vigorous measures, together with the determination to overcome difficulties by ministries and branches, provinces and cities and the people, difficulties have gradually been overcome and the economy was stabilised.

### 1.1.2. Sectoral Growth and Structural Shift

Table 1 shows that the growth rate of industry-construction sector in 2006 and 2007 surpassed the planned target, but dropped significantly to below the planned target in 2008. As the sector is a driving force for the whole economy, contributing close to half of the overall GDP growth, the sharp drop in its growth (4.1 percentage point drop) resulted in a significant slowdown in economic growth.

Within three years 2006-2008, the growth of agriculture-forestry-fisheries has always been higher than the planned targets, especially in 2008 when agriculture-forestry-fisheries achieved a higher growth rate than in the previous two years in the face of numerous difficulties in the domestic and the world

<sup>1</sup> The issue of inflation will be discussed in Sub-section 1.5.1.

<sup>2</sup> In accordance with Decision No 390/QĐ-TTg dated 17th April 2008 working out plans on capital construction investment and 2008 state budget expenditure for curbing inflation. The next is the "eight policy packages" issued by the Government in May 2008 aiming to control inflation, economic stability, social security assurance and laying foundation for sustainable growth.

economy. Nevertheless, this has not affected much the growth rate of the whole economy because the sector contributes 11.9 percent to GDP growth. Despite a decelerated growth in 2008 the service sector has experienced a more stable growth rate than industry-construction sector.

Sectoral structural shift has been affected directly and strongly by sectoral growth rates. Table 2 reveals that the shift in sectoral GDP was negligible in 2006 and 2007, and even reversed from industry-construction to agriculture-forestry-fisheries in 2008. As a result, between 2005 and 2008 the share of agriculture-forestry-fisheries has not declined, but rose (by 1.1 percentage point compared to 2005); accordingly, the share of industry-construction has not increased, but fell (by 1.3 percentage point compared to that in 2005). That implies that the mid-term planned target by the end of 2008 (see Column 5 and 6 of Table 2) will not be realised.

**Table 2: GDP Structure by Sector for the Period 2005-2008 (%)**

Indicators	2005	2006	2007	2008	Targets by 2008*	Targets by 2010
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Agriculture-forestry-fisheries	21.0	20.4	20.3	22.1	17.4-18.3	15 – 16
Industry-construction	41.0	41.5	41.5	39.7	42.5-42.8	43 – 44
Services	38.0	38.1	38.2	38.2	39.2-39.8	40 – 41
Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: \* Estimated by author.

Source: GSO (2008c), SRV (2006, 2008), MPI.

### 1.1.2.1 Growth of Industry-Construction

Output contraction in the mining sector (minus 3.8 percent) and the construction sector (minus 0.4 percent) in 2008 is the main cause of the growth slowdown of the industry-construction sector. The mining sector experienced negligible growth in 2006, and output declined in 2007 and 2008 partly due to a policy on conserving natural resources. The growth rate of construction sector plummeted from 12.0 percent in 2007 to a negative figure in 2008 primarily due to difficulties of the non-public (private) sector in securing investment capital, reduction in state investment to curb inflation as well as the deflation of the real estate bubble. This is also an evidence of the recent heavy reliance on investment-led growth.

Despite the fact that manufacturing has been utilising local materials to raise value of the exported products and experienced a high growth rate, low production efficiency and competitiveness are still inherent in a number of industries. Several machine, equipment and consumer goods industries that



had the highest growth rate in 2007 and 2008 (in 2007 air conditioner production with a growth rate of 51.9 percent, transport vehicles - 52.8 percent, tractors and trucks - 43.9 percent, motorbikes - 23.9 percent, electric motors - 24.3 percent; in 2008 truck production grew at 40.6 percent, buses - 38.3 percent, washing machines - 28.0 percent, refrigerators - 22.2 percent, electric transformers - 22.6 percent) were producing import-substituting goods behind a protection wall that has not yet been dismantled. In contrast, industries, whose products underwent tariff phase-out in 2007 and hence were exposed to stronger competition with imported goods, experienced a lower growth rate.<sup>3</sup>

Furthermore, industries which are often regarded as competitive such as textiles, garments, furniture and footwear have a very low profit rate<sup>4</sup>. For instance, the rate for these industries in 2006 is as low as 0.11 percent, 0.61 percent, 1.99 percent and even -0.05 percent (a minor loss), respectively. Most industries in Vietnam just involve a third party working on sub-contracts utilising cheap labour to produce low value-added products for large foreign-owned firms and are dependent on imported intermediate inputs. By and large, manufactured products are not diversified, and product quality is poor. Application of new technology does not keep pace with an increasing competition pressure. This suggests that the high growth of industry-construction may not be sustainable.

### 1.1.2.2. Growth of Services

Within the service sector, business-supporting services such as transport, storage, communication, finance and banking (except for 2008) have been growing rapidly during the three years in consideration. Nonetheless, the vibrancy of the activities in finance and banking has had only a modest impact on the real economy. In the first half of 2008, the growth rate of real estate sector was much lower due to the market freezing.

The high share of the service sector in GDP has a different implication than the high share in industrial countries, where services are dominated by business supporting services such as information technology, communication, finance and banking, insurance, consultancy, research and development (R&D), which enhance enterprise competitiveness. In Vietnam services are dominated by petty trade and low-skilled low-value-added activities to meet consumer needs. These services generate employment for unskilled labourers who are not qualified for jobs in factories or high value added services.

High value-added business-supporting services which are critical for businesses in enhancing competitiveness of the whole economy remain underdeveloped and are not capable of meeting the needs of the economy. For

<sup>3</sup> Source: Central Institute for Economic Management (CIEM 2008b).

<sup>4</sup> The profit rate is another indicator measuring production efficiency, which is calculated as the ratio between pre-tax profits to gross revenue.

instance, R&D was responsible for 0.6 percent, and finance and banking just 1.8 percent of GDP during the years 2006-2008. Consequently, costs of intermediate inputs such as transportation and business services remain high.

### **1.1.2.3. Growth of Agriculture-Forestry-Fisheries**

Agriculture-forestry-fisheries have been growing at relatively high rates by international standard, albeit from a low base. During the three years the sector has always been surpassed the planned growth target of 3-3.2 percent. The sector makes an important contribution to socio-economic stabilisation, ensuring food security, providing raw materials for export-oriented manufacturing and creating jobs. But the growth of the sector halted recently, mostly due to a decline in agricultural growth to 2.7 percent in 2007 and 2.4 percent in the first half of 2008. In the second half of 2008, thanks to the rapidly rising food price, the growth rate of agriculture rose again to 3.9 percent for the whole year of 2008. High growth in fisheries (10.6 percent in 2007) offset the decline in agricultural growth somewhat, but the sub-sector is still small.

Agriculture benefited from rising world prices of agricultural products over 2007 and the first half of 2008 (about 40 percent compared to 2006). However, global economic recession is now giving rise to reduced demand for agricultural products, resulting in price declines, notably in the second half of 2008. This will result in difficult conditions for agricultural exports and growth in the coming period.

Furthermore, due to stagnation of unskilled labour in the sector and small land holdings, the productivity of the sector remains low. Many farmers still rely heavily on extensive cultivation of low value-added staple crops that generate little more than subsistent income. Diversification away from the staple crops to high value-added crops, livestock or aquaculture to meet new domestic and export demands has been slow. Large fluctuations in world prices of agricultural commodities and more frequent disease outbreaks have also contributed to the halted growth. Continuing growth in agricultural output will require a substantial commitment to R&D or changes in farming scale.

The diversification of activities in rural areas to break pure-agriculture practice is necessary during the process of rural development and structural shift toward industrialisation and modernisation. To encourage rural economic structural change, promotion of investment, finance, human resource training, new technology, infrastructural development and establishment of vertical linkages is required.

During the course of industrialisation, especially when large inflows of FDI go to the country as it integrates into the world, large fertile arable areas in the best locations have been converted into industrial zones, real estate or golf courts sometimes without careful appraisal of costs and benefits, leaving landless unskilled farmers with no training or re-training to switch to off-farm

jobs. At the same time remote and disadvantaged areas with unfavourable farming conditions and inadequate infrastructure remained under-developed, but receive little investment, especially FDI.

This has given to three important concerns:

- A recent shortage of human resources with relevant skills hampers high economic growth and the shift from low-skilled agriculture to higher-skilled manufacturing and services. In 2008 untrained workers still made up three quarters of the labour force, and the rate of working time by workers in rural areas was just 82.7 percent. This is the first time since 1999 that the rate dropped. Before the late-2008 stagflation, entrepreneurs found a lot of new business opportunities in manufacturing and services emerged from WTO membership, but are constrained by serious shortages of workers with certain type of skills. Labourers, on the other hand, are not able to leave agriculture due to the lack of basic vocational training. This new emerging trend forces employers to seek for and shift to relatively less labour-intensive technology, which may solve the labour skill shortage, but also results in economic stagnation for the section of the population endowed with no skills, little or no land and capital. Consequently social disparities could rise.
- Policies to channel and allocate investment (state budget) as well as other inputs have not had significant impacts to influence sectoral growth rates and economic restructuring in line with planned objectives, notably policies relating to land, market, finance (taxation), credit, science and technology and investment. For example, in recent years, total investment for agriculture and rural areas has been around 14 percent, although investment for agriculture and rural areas accounted for 25-30 percent of total state budget, as much as 70 percent of that allocated fund was used for cultivation and irrigation and drainage, while investment for job creation in rural areas was very little. In this circumstance, the economic structure of rural areas, home to income generation for as high as 70 percent of population, has failed to be transformed toward industrialisation and modernisation.
- The way of thinking for sectoral development are still isolated within separate sectors and locality/province, failing to fully utilise the potential advantages of the region and the whole country and generate efficient restructuring of the economy. Competition among local sectors and provinces within the country in a small scale has limited the successful development of a nationally integrated economy.

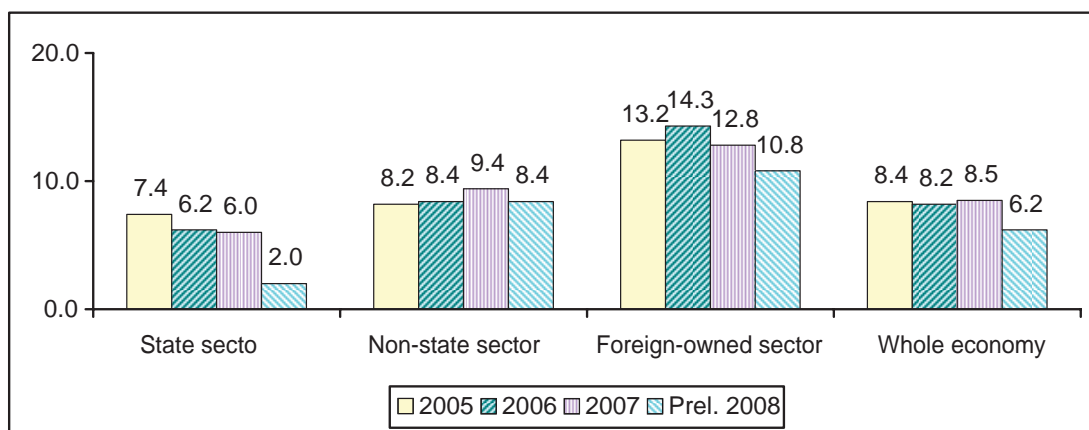
### 1.1.3. Growth and Structural Shift by Ownership

The Vietnam economy is in transition to a structure with more diversified patterns of ownership. The realisation of the potential of all ownership sectors

serves as both strategic objective and solution to the need of mobilising all resources in the society to accomplish the goal of becoming basically a modern industrialised nation by 2020.

The FDI sector grew fastest at a rate of about one and half fold the overall investment growth rate. The state sector experienced the lowest and decelerated growth rate while the rate of the non-state sector has accelerated (except for 2008) (Figure 1).

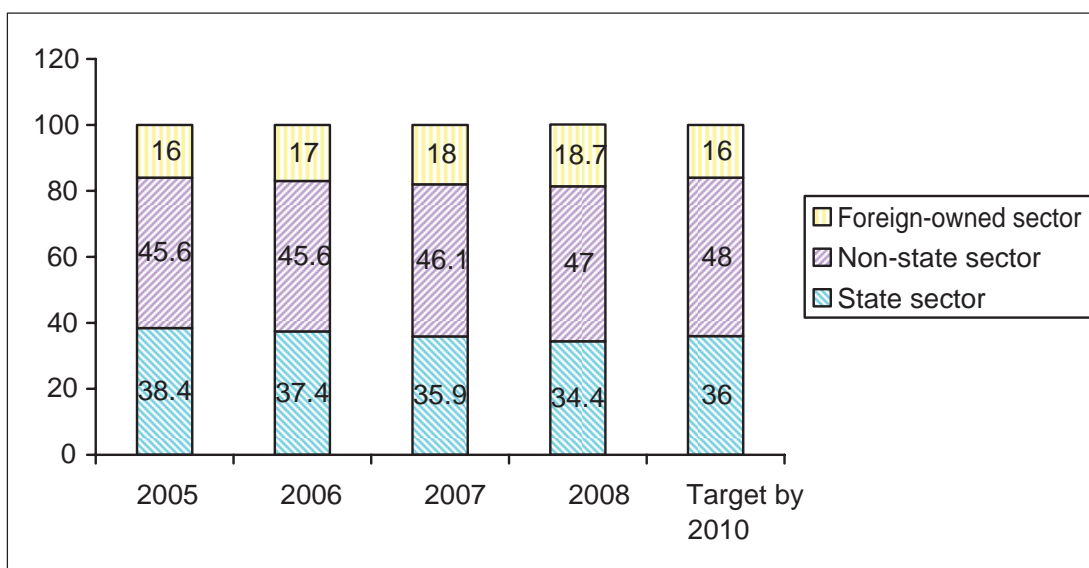
**Figure 1: Annual Average Growth by Ownership for the Period 2005-2008 (%)**



Source: GSO (2008c), GSO data.

Corresponding to the growth rates of the ownership sectors in the economy, the structure of the economy has moved toward gradual reduction of the share of the State from 38.4 percent in 2005 to 34.4 percent in 2008, and gradual increase of the non-state sector and foreign-invested sector (Figure 2). This is a proper trend, reflecting determination of continued reforms and

**Figure 2: GDP Structure by Ownership for the Period 2005-2008 (%)**



Source: authors' calculation using data of GSO (2008c), SRV (2006).

restructure of the state sector in accordance with the Resolution of the Central Plenum 3. Overall, the shift by ownership has moved in the right direction. In 2008, the share of the foreign-invested sector outperformed its objective set forth for the year 2010 owing to Vietnam's wider and deeper integration in the regional and global economy.

Some data on state-owned enterprises (SOEs) in Table 3 provide an explanation of the declining output growth rate of the state sector compared to the other two sectors. First and foremost, SOEs are relatively capital-intensive compared to the other two sectors. The average value of fixed assets to create one job in 2006 was 418 million VND, 4.7 and 1.8 times higher than the figure of a private enterprise and a foreign invested enterprise, respectively. This means that the non-state sector with just about 40 percent of capital is able to nearly double the number of jobs compared to the state sector. The state sector is capital-intensive and its job creation capacity is very limited.

**Table 3: Selected Indicators of Enterprise in 2006**

Indicators	Fixed assets (%)	Employment (%)	Fixed assets per worker (million VND)	Net revenue per fixed assets (VND/VND)
State-owned enterprises	55.5	28.3	418	1.2
Non-state enterprises	20.9	50.2	89	3.8
Foreign-owned enterprises	23.6	21.5	233	1.8
Whole economy	<b>100.0</b>	<b>100.0</b>	<b>213</b>	<b>1.9</b>

*Source: authors' calculation using data in GSO (2008c).*

Net production revenue generated by 1 VND fixed asset at SOEs has shown a declining trend, and is lower than for foreign invested enterprise and non-state enterprise. 1 VND of fixed asset at SOEs in 2006 just created 1.2 VND net revenue, equivalent to one third of the value generated by private enterprises and 70 percent of the figure by foreign invested enterprises. Thus suggests that the efficiency of SOEs is lagging behind the other two types of enterprises.

Over three years 2006-2008, the non-state sector including collectives, private, households and individuals has continued to develop rapidly with highly diversified forms. The share of this sector has increased gradually from 45.6 percent of GDP in 2005 to 47.0 percent of GDP in 2008. The Resolution of the Central Plenum 5 on development of the private sector and the effective implementation of the Law on Enterprises has created great momentum for development of the private sector. The transformation from old-style cooperatives to cooperatives according to the Law on Cooperatives has improved efficiency of production and business of the collective sector. Efficient models of cooperatives engaging either multi-activities or specialised business

emerge, which involve the expansion of production and application of technological advances, contributing to the assurance of stable jobs and income for their members.

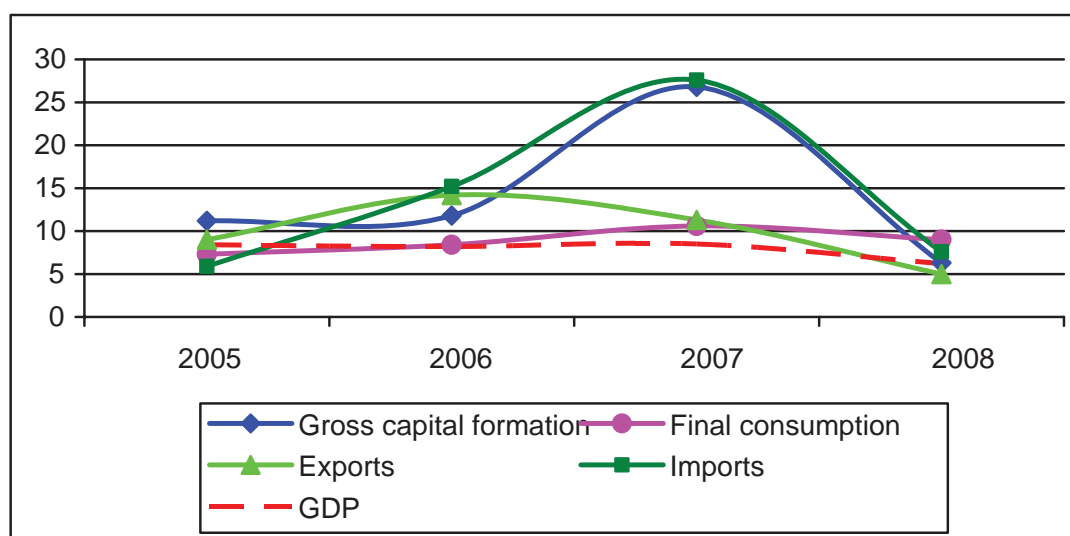
The foreign-invested sector has continued to grow dramatically, producing new goods, generating new markets and becoming an important part of the national economy. With the maintenance of a high growth rate, the share of the foreign invested sector in GDP has increased from 16 percent in 2005 to 18.7 percent in 2008, contributing to acceleration of the economic structural shift, job creation and international economic integration.

#### 1.1.4. Growth of Aggregate Demand

Figure 3 shows that the growth rate of final consumption rose steadily from 7.3 percent in 2005 to 10.6 percent in 2007, while gross capital formation grew at an even faster rate, especially in 2007. Both growth rates declined in 2008 due to implementation of macro-economic stabilisation measures. The trend resulted in a high and increasing contribution of capital formation to GDP, rising from 35.6 percent in 2005 to a peak of 43.1 percent in 2007 and declined to 41.1 percent in 2008. Final consumption also accounted for a large and increasing share of GDP (69.7 percent in 2005 to 73.4 percent in 2008), while domestic saving declined from 30.3 percent of GDP in 2005 to 26.2 percent in 2008 (Table 4). The shares of capital formation for the past three years were much higher than for the period 2001-2005.

It should be noticed that the gap between domestic saving and investment is rather high and had been increasing, although fell in 2008 (Table 4). With FDI rising rapidly from late 2006 Vietnam has consumed more, saved less and

**Figure 3: Annual Growth on the Demand Side of GDP (%)**



Source: Derived from data of MPI.



relied to a greater extent on foreign saving for domestic investment. This trend may lead to: (i) risks of macro-economic instability;<sup>5</sup> (ii) threats to the sustainability of economic growth;<sup>6</sup> and (iii) contribution of FDI to the national social-economic development.<sup>7</sup>

**Table 4: Selected Indicators of the System of National Account (% GDP)**

Indicators	2005	2006	2007	Prel. 2008
Gross capital formation	35.6	36.8	43.1	41.1
Final consumption	69.7	69.4	70.8	73.4
Exports	69.0	73.6	76.9	78.2
Imports	73.2	78.2	92.7	94.7
Domestic saving	30.3	30.6	29.2	26.2
Gap between domestic saving and investment	-10.6	-10.9	-17.4	-12.5

Source: authors' calculations using data of GSO (2008c: 71), SRV (2008), MPI.

### 1.1.5. Regional Economic Structural Shift <sup>8</sup>

Economic structure in all regions has been shifted toward utilising strengths and potentials of each region. Focal economic regions have played a leading role in the national economy; contributing above 60 percent of the national GDP, 70 percent of industrial value added, 70 percent of export value and 73 percent of state budget.

**The Northern Uplands** have started to exploit the potential of their land and forest, developing of industrial and fruit trees, livestock and farm economy. Industry of the region has been developed taking into account of regional conditions, including forestry products processing, building materials, development of hydro-power plan, coal thermo-electricity, metallurgy, mechanics, and fertilisers. However, comparing to other regions, this region has a lowest economic growth rate (Table 5) and this is one of the poorest regions in Vietnam with a high risk of lagging behind growth and development.

**Red River Delta** has established a fairly comprehensive infrastructure, starting to develop some industries with a high level of technology, high-productivity and high-quality agriculture; tourism and diversified services have witnessed quality improvement; the regional economic growth rate is relatively high and this region ranks second, after South-East region in term of its share in GDP.

<sup>5</sup> This issue will be discussed in more detail in Sub-section 1.5.3.

<sup>6</sup> This issue will be discussed in more detail in Sub-section 1.6.1.

<sup>7</sup> This issue will be discussed in more detail in Section 1.2.5 and 1.6.1.3.

<sup>8</sup> Except otherwise stated, data in this sub-section come from the Development Strategy Institute and Department of Local and Regional Economy of MPI.

**Table 5: GDP Growth by Region and Contributions to National GDP (%)**

Region	Regional GDP	Agriculture -forestry- fisheries	Industry- construction	Service	Contribution to national GDP
Northern Uplands	9.5	5.4	11.0	9.5	6.0
Red River Delta	12.0	4.3	15.0	13.0	21.5
North Central Region	10.0	6.7	16.0	13.0	10.5
Central Coast Region	12.0	5.5	16.0	13.0	11.5
Central Highlands	10.0	6.6	15.0	14.0	2.8
South-East Region	13.0	5.3	14.0	15.0	32.4
Mekong River Delta	12.8	6.2	18.0	14.5	15.3

*Note: Data in this table is just for supporting the purpose of comparing between regions, as growth rates of all regions and sectors are higher than the average national growth rate.*

*Sources: Authors' compilation from reports provided by the Development Strategy Institute and Department of Local and Regional Economy, MPI.*

**The North Central Region** has stepped up economic structural shift toward making full use of advantages of a coastal region. Many economic zones, industrial parks and clusters have started to be built and step by step gained increasing efficiency; tourism has been developed; agriculture has been transformed gearing towards relevant crops and livestock and the reduction of natural disasters.

**The Central Coastal Region** has been developing rapidly taking advantage of a beautiful and rich marine economy and a plentiful forestry economy. Many coastal industrial and processing zones in Da Nang, Quang Nam, Quang Ngai, Binh Dinh, Phu Yen, Khanh Hoa, Ninh Thuan and Binh Thuan provinces/cities have been developed efficiently. Tourism has experienced strong development. Agriculture has been diversified through agriculture-forestry combination, and development of forestry and marine industries. The growth rate of this region has been equal to that of the Red River Delta.

**The Central Highlands** region has focused on comprehensive and efficient agricultural and forestry development, and has achieved a breakthrough in regional development. The forestry economy has played an important role in people's life in the region. In addition, The Central Highlands have paid substantial attention to hydropower development, processing clusters, particularly those relating to the processing of agricultural and forestry raw products, farm economy development, crop restructuring, and livestock development. However, the region remains one of the poorest regions of Vietnam, which still has a low growth rate.



**The South-East region** has made use of advantages of a focal economic region thanks to well developed infrastructure for coordinated regional economic development. The region has witnessed a relatively strong development of industrial and high-tech zones and urban areas, establishing a diversified trade and service network. Agriculture in the region has been moved positively toward development of livestock and industrial crops. This region is an engine driving national economic growth, contributing nearly one third of national GDP.

**Mekong River Delta** has restructured its production, gearing toward strong shift of crops, livestock and cropping patterns in order to obtain rapid increase in income per unit of land. The development of the fishery sector, particularly aquaculture and aquatic processing for export, has played an essential role in stepping up growth and structural change, improving investment efficiency and the income of the people. The economic growth rate of the region is just behind the South-East region.

**Nevertheless, the regions** so far have not made full use of potential regional strengths. Linkages needed for sustainable development have remained loose, incoherent and rather arbitrary with a largely local and self-contained perspective within a province and city, neglecting regional development potential. Provinces and cities in each region apply the self-contained principle and seem themselves in competition against each other, instead of supplementing each others efforts to exploit fully potential of the whole region. This situation adversely affects sustainable development and builds up a big constraint that needs to be addressed as soon as possible, particularly in the context of increasing integration both home and abroad.

Causes of this situation are several. Vietnam has just developed the regional socio-economic development master plans; but these plans are built following the top-down approach or by compilation of development plans of provinces and cities within regions with a lack of mechanisms for developing linkages and low effectiveness and enforcement. This resulted in a huge gap between the master plans and its implementation.

## 1.2. INVESTMENT

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Development investment is not a result of implementation of planned objectives but plays an important role in implementation of overall economic, social and environmental objectives through accelerating economic growth, restructuring the economy, improving equality, social security and protecting the environment. Thus, in addition to reviewing progress of implementation of the investment plan, investment will be considered from the perspective of levels of its contribution or its impacts on implementation of the aforementioned general targets.

The contribution or impact of investment may be measured by many indicators. Due to data constraints, this report just mentions some of the most important aspects where data/information availability allows for evaluation. An important issue is investment quality, whether it maximises the impact of investment on the achievement of economic, social and environmental objectives.

The impact of investment is normally lagged because even when capital disbursement has been substantial the facility/project may not yet be ready to produce products or provide services. Therefore, in order to fully assess impact of investments, it would be necessary to evaluate the investment situation over a period as long as five years. This has not been attempted in this report.

The planned targets of investment <sup>9</sup> for the first three years 2006-2008 should be over-fulfilled both in value <sup>10</sup> and in terms of GDP (Table 6). The target of 35 percent FDI in the total investment for the five years could be attained if realised FDI during 2009-2010 follows the same trend as in 2007-2008. As a share of GDP, aggregate investment is now extremely high; in 2007, rose to 46.5 percent of GDP. Growth, thus, has been relying more heavily on investment than on labour or total factor productivity (labour and investment efficiency) for growth. A closer look at the investment data reveals that recently investment growth primarily came from FDI (Figure 4). On the other hand,

**Table 6: Investment by Ownership during the Period 2005-2008**

<i>Ownership sector</i>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Prel. 2008</b>
<i>(current price, thousand billion VND)</i>				
State investment	161.6	185.1	198.0	174.4
Non-state investment	130.4	154.0	204.7	244.1
FDI	51.1	65.6	129.4	192.4
<b>Total</b>	<b>343.1</b>	<b>404.7</b>	<b>532.1</b>	<b>610.9</b>
<b>% GDP</b>	<b>40.9</b>	<b>41.5</b>	<b>46.5</b>	<b>41.3</b>
<i>Share (%)</i>				
State investment	47.1	45.7	37.2	28.5
Non-state investment	38.0	38.1	38.5	40.0
FDI	14.9	16.2	24.3	31.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: GSO (2008c), GSO data.

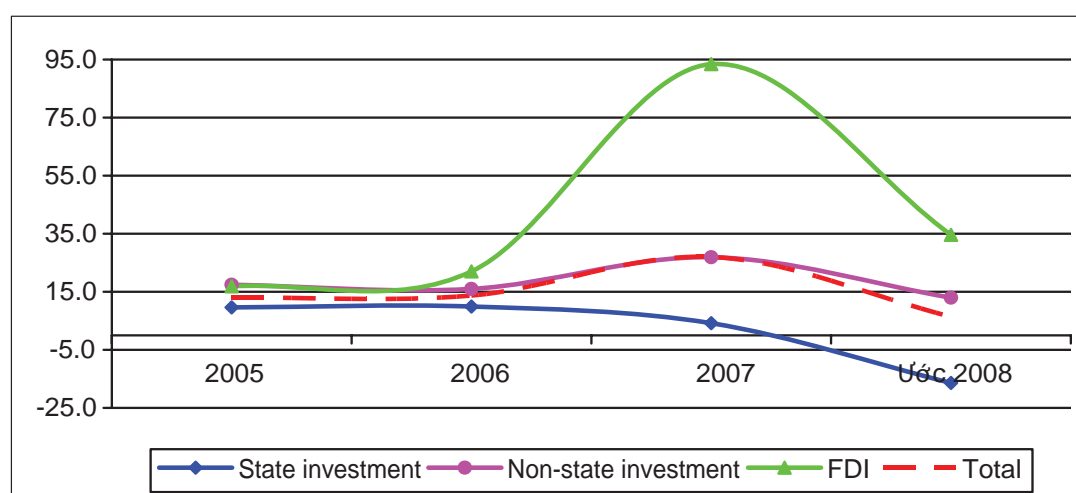
<sup>9</sup> The five-year plan targets for investment are 2,200 trillion VND in 2005 price, equal to 40 percent of GDP, of which 65 percent comes from domestic sources, and 35 percent is external sources.

<sup>10</sup> The accumulated investment during the years 2006-2008 is 1,368 trillion VND in 2005 price, which is equal to 62 percent of the five-year plan target.

quality of investment (the factor that maximises impacts of investment on implementation of economic, social and environmental objectives) and sustainability of economic growth has not been paid due attention.<sup>11</sup> During the years 2006 and 2007 aggregate investment increased rapidly due to a significantly improved investment environment prior to Vietnam's accession to WTO, and expectations of further improvements. In 2008, investment growth was much lower due to external and internal unfavourable circumstances and high inflation.

It is notable that the growth rates by ownership are very different. Throughout the past three years, FDI has always led and outperformed in terms of growth, especially in 2007 (grew at 93.4 percent). Investment by the non-state sector stood on the second place, while the growth rate of the state investment is the smallest, and even turned negative (-16.4 percent) in 2008. The investment structure by ownership, hence experienced drastic changes, where since 2007 the non-state investment became the largest source in the economy, and at the same time the state investment turned from the largest source for many years to the smallest in 2008.

**Figure 4: Annual Growth of Investment during the Period 2005-2008 (%)**



Source: Derived from GSO (2008c) and GSO data.

### 1.2.1. State Investment

From 2002 onward, the share of the state investment in the total investment has been falling gradually and became the smallest source in the economy. Table 7 shows that its highest priorities during the past three years are physical and social infrastructure (transportation, storage and communication - 21-23 percent; power, gas and water supply - about 16 percent; education and training above 5 percent<sup>12</sup>). These are areas in which state investment plays a facilitating role for other types of investment; therefore the high investment share remains vital.

<sup>11</sup> See Sub-section 1.2.5 for more detail.

<sup>12</sup> More detail on influence of the state investment on education and training is provided in Sub-section 2.1.

With regard to power supply, given recent severe electricity shortages and Vietnam Electricity General Corporation inability to implement new power generation projects, a new policy that provides better incentives and is more open should be in place to draw local and foreign investors into the sector.

Investment by SOEs accounted for an increasing share from 23.3 percent of the state investment in 2005 to 29.3 percent in 2007. It noticeable that state general corporations and other SOEs recently started to expand and invest in multi-sector activities outside their main mandates. At the same time their supervision, especially financial, and capability of risk management have not corresponded to the expanded scope.

**Table 7: the State Investment by Economic Sector during the Period 2005-2007**

Sectors	2005	2006	Sơ bộ 2007
1. Agriculture and forestry	6.9	6.4	6.3
2. Fishing	0.4	0.4	0.4
3. Mining and quarrying	8.7	8.1	7.6
4. Manufacturing	9.8	10.3	9.6
5. Electricity, gas and water supply	17.8	16.1	15.7
6. Construction	4.6	4.8	4.6
7. Wholesale and retail trade; repair of motor vehicles, motor cycles and personal and household goods	1.7	1.7	1.6
8. Hotels and restaurants	0.4	0.4	0.4
9. Transport, storage and communications	23.7	22.9	20.8
10. Financial intermediation	0.5	0.5	0.5
11. Scientific activities and technology	0.0	1.4	1.5
12. Real estate, renting and business activities	1.3	1.5	1.8
13. Public administration and defence, compulsory social security	6.1	6.4	6.4
14. Education and training	5.4	5.4	5.2
15. Health and social work	3.4	3.2	3.0
16. Recreational, cultural and sporting activities	2.5	2.5	2.4
17. Activities of party and associations	0.4	0.4	0.4
18. Community, social and personal service activities	6.4	7.8	12.0
Total	100.0	100.0	100.0

Source: Derived from GSO (2008c).

The state investment in industry-construction sector has been considerable, making 37.5 percent of total investment in 2007. In recent years when FDI poured into the economy, a high level of state investment in this sector may not be justified, as its efficiency may not be high, while it may crowd out non-state investment and FDI. Efficiency of the state investment will be discussed in more detail in Sub-section 1.2.5.

### 1.2.2. Foreign Direct Investment

The FDI boom over the past three years reflects confidence of foreign investors in a more transparent and supportive policy environment after the accession to WTO, and the perceived high development potential of Vietnam. Since 2006, FDI inflows have surged to extraordinarily high levels, each year making a new record. In 2007 registered FDI reached 21.3 billion USD; and in 2008, this figure went up to 60.3 billion USD. If taking into account 3.7 billion USD of additional registered capital of 311 existing projects, the total registered capital is about 3 folds of the 2007's figure.

Similarly, implemented FDI in 2007 was 129.4 trillion VND. The implemented FDI in 2008 is estimated at 192.4 trillion VND, making 31.5 percent of the total investment, substantially higher than the figure in the previous years. Despite unfavourable internal and external developments, Vietnam has continued to be an attractive destination for FDI. This suggests that Vietnam has great long-term development potential. A report by Japan Bank for International Cooperation (JBIC 2007) ranks Vietnam third after China and India in term of investment attractiveness. More importantly, Vietnam is an emerging market that attracts an increasing attention from Japanese companies thanks to labour cost advantage and development potential, and a promising market with rapidly growing population and rising income, all of which makes it a good destination for diversifying risk.

Nevertheless, FDI performance during this plan period revealed some worrying traits. Firstly, the sudden surge in FDI uncovered low investment absorption capacity of the economy, primarily due to weaknesses in institutions (despite some improvement), inadequate infrastructure and scarcity of skilled labour acting as "bottlenecks" to the implementation of FDI projects. JBIC (2007) shares this view, pointing out that challenges faced by Vietnam are underdeveloped infrastructure, shortage of management workers, weak supporting industries, uncertainty and ineffectiveness in implementation of the laws and regulations.

FDI structure by sector has been shifting noticeably. During the period 2001-2005 FDI had been concentrated in export-oriented manufacturing and telecommunication, but from 2006 onward the FDI share in these sectors has been declining; at the same time investment in real estate and hotels has been

rising strongly (Table 8). The shift is consistent with Vietnam's commitments of multilateral, regional and bilateral trade and investment agreements, especially those on services. In addition, FDI tends to move from Western countries to Asia as investors want to find new locations away from the former most of which are being affected badly by the US sub-prime mortgage crisis. However, these outcomes should be analysed thoroughly in terms of economic efficiency, technology level accompanying FDI, balance of payment (BOP) sustainability and future export capacity.

Another feature has been low binding of registered capital. The size of projects (in terms of registered capital) has been increasing swiftly (from 7.1 million USD per project in 2005 to 12.2 million USD in 2006 and 51.5 million USD in 2008), but the ratio of charter capital to registered capital dropped. During the period 1988-2005 that ratio was 45.7 percent, but recently it fell to

**Table 8: FDI Licensed Projects by Economic Sector during the Period 2005-2008**

Sectors	2005	2006	2007	Prel. 2008
1. Agriculture and forestry	0.6	1.2	0.2	0.4
2. Fishing	0.2	0.2	0.0	0.0
3. Mining and quarrying	0.8	1.2	1.2	17.5
4. Manufacturing	70.4	68.9	51.0	36.0
5. Electricity, gas and water supply	0.3		0.0	
6. Construction	2.5	5.3	4.7	0.6
7. Wholesale and retail trade; repair of motor vehicles, motor cycles and personal and household goods	1.5	1.2	0.6	2.1
8. Hotels and restaurants	0.9	4.2	9.2	15.1
9. Transport, storage and communications	10.0	0.4	1.7	3.1
10. Financial intermediation	2.1	0.3	0.2	0.0
11. Real estate, renting and business activities	6.7	15.2	28.6	24.3
12. Education and training	0.4	0.2	0.1	
13. Health and social work	3.0	0.1	0.5	0.8
14. Recreational, cultural and sporting activities	0.3	1.6	1.9	
15. Community, social and personal service activities	0.3	0.1	0.0	
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Authors' calculation using GSO (2006, 2007b, 2008c), GSO data.



around one third of the registered capital. If the commitment on registered capital is not binding, but made just for the purpose of quick and easy approval and granting of licenses, then actual foreign capital disbursed in Vietnam will be substantially smaller than the figure on new registration, and Vietnam should not be complacent about its attractiveness to foreign investors. In opposite, if investors keep their promises, disbursing all registered amount, Vietnam would encounter huge difficulties in absorption due to the existing bottlenecks.

In summary, although the volume of the registered capital reached record levels with a number of projects of several billion USD, there remain problems such as the FDI structure by sector, the level of commitment, capability of the investors compared with the project requirements and the actual disbursed amount that comes to the economy to implement the projects. Therefore, judgement about the strength of the economy based upon the newly registered amount of capital without taking into account these factors may lead to the wrong conclusions about the current situation as well as future development potentials. Policies backed up by this judgement may neither be relevant nor useful.

### 1.2.3. Non-State Investment

The share of the non-state investment increased steadily from 38.0 percent of the total investment in 2005 to 40 percent in 2008 (Table 6). This is a positive trend, to a certain extent is an outcome of an improved business environment for all ownership sectors and for the non-state sector.

Nevertheless, macro-economic instability since late 2007 with consequent of high input prices, difficult access to credit and foreign exchange, other difficulties have obstructed business activities, especially for small- and medium-scale enterprises (SMEs). On the other hand, given limited investment absorption capacity, a question to be considered is whether the recent huge FDI inflow may crowd-out non-state investment.

### 1.2.4. Investment Structure by Economic Sector

Table 9 shows that the investment share of transportation, storage and communication has been rising steadily from 14.1 percent in 2005 to 15.2 percent in 2007. It already exceeds the target of 11.9 percent for the period 2006-2010. Investment in other physical infrastructure (power, gas and water supply) also increased steadily from 12.0 percent in 2005 to 36.1 percent in 2007.

These vigorous trends should facilitate high and sustainable growth and therefore should be encouraged. The high level of investment to a certain extent has contributed to considerable expansion and improvement of postal and communication services. Nevertheless, coverage and quality of transport

Table 9: Investment by Economic Sector (%)

Sectors	Actual share				Targets 2006-2010	Growth		
	2005	2006	Prel. 2007	2006-2007		2005	2006	Prel.2007
1. Agriculture and forestry	5.9	5.5	4.8	7.0	13.5	7.3	10.2	9.7
2. Fishing	1.7	1.9	1.7			13.6	36.2	15.9
3. Mining and quarrying	7.8	7.7	9.0			12.8	13.8	45.4
4. Manufacturing	19.9	19.9	18.8	43.0	44.5	12.9	17.4	20.8
5. Electricity, gas and water supply	11.0	10.8	11.8			12.0	13.0	36.1
6. Construction	3.8	4.0	3.9			12.7	17.9	22.5
7. Wholesale and retail trade; repair of vehicles, personal and household goods	5.4	5.0	4.3	4.7		12.7	9.7	11.4
8. Hotels and restaurants	1.9	2.1	1.9	2.0		16.0	29.2	14.5
9. Transport, storage and communications	14.1	14.4	15.2	14.8	11.9	16.5	10.9	28.9
10. Financial intermediation	0.6	0.8	0.8	0.8		15.9	47.8	30.7
11. Scientific activities and technology	0.0	0.6	0.6	0.6		4.3	71.3	19.6
12. Real estate, renting and business activities	1.7	1.7	2.3	2.0		8.1	13.5	71.4
13. Public administration and defence, compulsory social security	2.8	2.9	2.5	2.7		11.7	22.0	10.2
14. Education and training	2.9	3.3	2.8	3.1	4.6	8.8	27.4	8.1
15. Health and social work	1.7	1.5	1.3	1.4	2.7	-3.2	6.4	6.3
16. Recreational, cultural and sporting activities	1.4	1.4	1.2	1.3	2.3	1.5	14.9	10.0
17. Activities of party and associations	0.4	0.4	0.3	0.4		11.5	19.6	10.0
18. Community, social and personal service activities	16.6	16.2	16.7	16.5		18.7	3.1	329
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>13.0</b>	<b>13.7</b>	<b>25.8</b>

Source: Authors' calculation using GSO (2008c), SRV (2008).



service has not been improved sufficiently, and transport infrastructure remains one of the three major bottlenecks to high and sustainable economic growth.<sup>13</sup>

The investment share in mining increased from 7.7 percent in 2006 to 9.0 percent in 2007, but its output dropped in 2007. Further information is needed to make the right judgement about its efficiency.

Investment for important services such as finance and credit, scientific activities and technology is low, responsible for just 0.8 percent and 0.6 percent total investment, respectively; this level does not match with their critical role in the economy. Basic services that improve the quality of human resources such as education and health experienced a declining share of investment and were lower than the planned targets. Although investment in education and training in terms of GDP is high compared with the share in many other countries, it still does not meet the development need which requires a sector capable of contributing to enhanced productivity, efficiency and competitiveness of the economy. Improving investment efficiency could generate better results in light of the high level of state budget spending on education and training.

Investment for agriculture-forestry-fisheries in two years 2006 and 2007 just accounted for 7.0 percent of total investment, a little bit more than half of planned objectives. State investment accounted for 48 percent of total investments in this field; the remaining capital largely came from domestic investment of households and the private sector; foreign investment capital was negligible. In order to have a more accurate assessment on efficiency of investment in agriculture-forestry-fisheries, it is necessary to conduct more in-depth studies.

However, available data on investment in and growth of this sector suggests that (i) growth of the agriculture-forestry-fisheries sector is not heavily dependent on investment but based on production stimulus resulting from policy changes (such as those in international economic integration) and investment in other sectors, such as the construction of rural infrastructure; (ii) investment in this sector is currently not attractive enough to foreign investors because of the ratio of profits of this sector is low compared to other sectors of the economy.<sup>14</sup> Investment in agriculture and rural development are not purely for economic purpose but more importantly to address social issues. There should be improved incentives and the greater state provision of public services to attract investment in this sector.

### 1.2.5. Efficiency of Investment

One of the major issues, which has been raised from year to year, but

<sup>13</sup> Source: Central Institute for Economic Management (CIEM 2008c).

<sup>14</sup> Though the average profit of the whole sector is not high but profits in some sub-sectors may be fairly attractive, such as rubber production. Currently, state farms and state forestry enterprises hold large rubber plantations.

has not been solved thoroughly, is low efficiency of investment, especially by the state. A number of factors lead to poor investment outcomes, including resource leakages, squandering of state resources, delays in construction progress or delays in project implementation, and SOE investment in non-core business activities have all resulted in low efficiency; with the situation improving only slightly. This implies that the State has to spend and import excessively to generate a given level of production capacity. It is claimed that low public investment efficiency is one of the main causes of the high inflation during the past two years.

With regard to non-state investment and FDI, investment efficiency in this report is viewed from the national interest. Inefficient investment projects would be those which are not able to take full advantage of the economy (economies of scale, development of activities that Vietnam has actual or potential competitive advantage), those not serving the national interest (failing to upgrade qualifications and technology which would enable Vietnam to move up the value added hierarchy, failing to conserve scarce resources, failing to be environmentally sustainable, and not responding to fundamental needs for capacity development, e.g. in infrastructure or business-supporting industries). Implementation of such projects, even if the investment volume is large, does not contribute effectively to national development.

Major causes for weaknesses and inefficiency in investment arise in three main areas: (i) master planning work; (ii) investment decentralisation; (iii) management, inspection, supervision and monitoring.

#### **1.2.5.1 Master Planning Work**

Quality of master planning work in Vietnam remains low, with lack of a long-term vision, and insufficient economic, social and environmental underlie. Planning work normally suffers from a lack of linkages between branches and regions, often being excessive duplication and lacks comprehensiveness. Most sectoral and provincial master planning work seems to be passive and formalistic in nature instead of pro-active and creative, lacking updated information and failing to implement timely revision, thus failing to provide efficient support to investment plans.

Master plan formulation and its implementation in Vietnam are two separate arrays of work with very limited connection between them. Contents of master plans have not been adequately reflected in the five-year and annual plans of ministries and branches and localities, and lack necessary legal basis for implementation. The State lacks effective tools and policies to manage and supervise master planning work. Weaknesses in master planning work have resulted in and will continue to result in great waste and losses with serious consequences for the future.

### 1.2.5.2 Investment Decentralisation

Decentralisation of investment and construction decisions to ministries, branches and sub-national government has been pursued since 1999, and the decentralisation trend has been increasing and covering more areas<sup>15</sup>. Since October 2006, local authorities have been assigned almost all rights to license FDI projects. This bold measure was considered necessary as investment decisions may have a better chance to meet requirement of users with a closer proximity of decision makers to localities.

However, three prerequisites for decentralisation of investment and construction management that have received inadequate attention include: (i) capacity of decentralised bodies should be adequate to implement tasks assigned; (ii) rights of decentralised bodies must be attached with responsibility and accountability for decisions taken; and (iii) sanctions through regular examination and supervision must be in place.

In order to have a right selection of FDI projects to meet long-term national interest, there needs to be a competent apparatus in charge of project evaluation and appraisal. However, not all localities have sufficient capacity to evaluate projects, resulting in many FDI projects being awarded licenses without careful and comprehensive assessments. Responsibilities for approving bad projects also have rarely been investigated and failures have not been subject to adequate sanctions. The supervision of state management bodies, including MPI, has not been well organised, thus failing to detect and address violations in investment and construction management in a timely and efficient manner.

Recently, investment decentralisation gives rise to seeking to attract more FDI, which is considered as achievements of local authorities. In addition provinces have a high expectation that FDI will contribute to provincial budget. However, up to 2007, there were up to 70 percent of investors in Ho Chi Minh City reporting losses.<sup>16</sup>

Immature decentralisation is one among causes leading to seven potential risks to be observed in a large number of newly-licensed projects over the last three years, including: (i) risk of “exaggeration” of capital and profit; (ii) risk of excessive use of scarce resources such as land, energy, natural resources; (iii) risk of destroying and polluting the environment; (iv) risk of incompatibility with

<sup>15</sup> Decentralisation Decrees include Decree No 52/1999/ND-CP dated 8th July 1999 promulgating the Regulation on Investment and Construction Management; Decree No 12/2000/ND-CP dated 5th May 2000 Amending and augmenting Regulation on Investment and Construction Management; Decree No 07/2003/ND-CP dated 30th January 2003 Amending and augmenting Regulation on Investment and Construction Management; Decree No 16/2005/ND-CP dated 7th February 2005 on Management of construction investment projects; Degree No 112/2006/NDD-CP dated 29th September 2006 Amending and augmenting a number of articles of Decree No 16/2005/ND-CP on Management of construction investment projects.

<sup>16</sup> Source: Sài Gòn tiếp thị (2008).

the long-term development planning or causing structural unbalances in the long-term development process of the country; (v) risk of using outdated and backward technologies; (vi) risk of “robbery of capital” of the domestic private sector; and (vii) risk of lack of foreign exchange and deteriorating exchange rates (ERs).

### **1.2.5.3 Management, Inspection, Monitoring and Supervision of Investment and Construction Projects**

Management, inspection, monitoring and supervision of investment and construction projects at ministries and branches have exhibited many weaknesses and deficiencies. The responsibilities of ministries and branches in implementation of directives, resolutions, and policies relating to investment and construction management have not been taken sufficiently seriously and there is a lack of clear specification of responsibilities. This situation occurs in all stages of work from identification of investment policies, project development, project appraisal, issuance of investment decisions, and preparation of total estimated costs to stages of implementation, construction supervision, and monitoring of payment procedures.

Some ministries, branches and localities have not yet followed strictly regulations on investment and construction management, allocating capital to some works and projects that have not been sufficiently appraised and allocating capital in excess of available resources. In some cases the organisation of tenders and/or termination of contracts violate current regulations. Construction management is weak, violating regulations on standards of quality, resulting in such problems as waste and material stealing, giving rise to the need of additional investments for multiple repair; as a result the durability of the work is reduced while huge losses occur.

Mechanisms and policies relating to investment and construction are not sufficient and comprehensive and suffer from frequent changes, causing passiveness and confusions during the process of development and management of investment construction plans. The capability of project development and technical design consulting companies is low; while the managerial capability of investors and project management units is limited. Inspection, examination and supervision of investment and construction have not been implemented comprehensively across all levels and branches. The conduct of many managers in charge of investment and construction management is poor; they take advantage of loopholes in regulations and policies, and use their positions to seek rent illegally.

M&E of public investment were mentioned in Decree No 61/2003/ND-CP<sup>17</sup>; however, these functions up to now have not been received adequate

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<sup>17</sup> Decree No 61/2003/ND-CP dated 6/6/2003 stipulating Functions, tasks, rights and structure of MPI.

attention. Over the last three years, MPI has not had any comprehensive evaluation of the efficiency, outputs and outcomes of public investment. Data on projects implementation in the list of public investment have not been sufficient. Public investment project/program managers have failed to send regular reports evaluating the results of project implementation in detail as required by the existing regulation.

However, since 2006, the transparency in state management has been improved significantly. In accordance with the Law on Auditing, all auditing reports shall be publicised.<sup>18</sup> As a result, people have easier access to information on operations of many enterprises and state bodies; meanwhile, state bodies become more cautious in the use of state budget. According to an auditing report in 2006, 9,436.2 billion VND of the state budget and SOEs were spent for wrong purposes. In 2008, the figure dropped significantly to 212 billion VND.<sup>19</sup>

However, currently State Audit has insufficient resources and capabilities to conduct annual audits of all ministries/agencies and provinces. Though the number of audited units increased over time but it was just 13 ministries/central agencies in 2006, 19 in 2007 and 20 in 2008.

A phenomenon emerging recently that attracts a high level of public attention is that some SOEs invest in non-core business activities that expose them to high potential risks, thus resulting in low investment efficiency and an adverse effect on macroeconomic stabilities. However, due to inadequate management, inspection, monitoring and supervision, there has been not sufficient information to be able to identify exactly the extent of influence and to propose prevention measures.

## 1.3. TRADE

### 1.3.1. Exports

For the three-year period of 2006-2008, total export value increased by an average of 24.6 percent a year, exceeding the plan (16 percent a year) and constituting an important driving force for growth. Particularly, the export growth rate in 2008 seems to be much higher than that of the first two years of the plan (29.1 percent vs. 22.7 percent and 21.9 percent) despite the stagflation of the world economy (especially with regard to major export partners of Vietnam) and growth slowdown of the domestic economy. High export growth rates were mainly supported by rapid increases of export of non-oil commodities over two years of 2006 and 2007 and of crude oil in 2008 (Table 10). To some extent, these impressive achievements indicate that Vietnam indeed has long-term development potentials.

<sup>18</sup> Website of the State Audit: <http://www.kiemtoannn.gov.vn/ThongTinM.htm>.

<sup>19</sup> Source: State Audit (2008a).



The U.S., EU, Japan, members of the Association of South East Asian Nations (ASEAN), newly industrialised countries (Korea, Taiwan and Hong Kong), and China remain major export markets of Vietnam. The U.S. continues to be Vietnam's largest export destination, accounting for one-fifth of Vietnam's export value. During the first two years of the plan, export earning accruing from the U.S. and EU markets increased considerably, but the export share to these markets fell slightly in 2008 due to growth slowdown. Among EU members, Germany, the United Kingdom, Netherlands, and France are leading export partners, accounting for more than half of Vietnam's export value to EU. The share of export earning from regional countries has slightly decreased.

**Table 10: Merchandise Exports**

	2005	2006	2007	Prel. 2008
<b>Value (million USD)</b>				
Domestic sector	13893.4	16764.9	20785.7	28200.0
Foreign invested sector	18553.7	23061.3	27775.7	34500.0
Of which crude oil	7387.0	8311.0	8487.0	10330.0
<b>Total export value</b>	<b>32447.1</b>	<b>39826.2</b>	<b>48561.4</b>	<b>62700.0</b>
<b>Growth rate (%)</b>				
Domestic sector	15.8	20.7	24.0	35.7
Foreign invested sector	28.1	24.3	20.4	24.2
Of which crude oil	30.4	12.5	2.1	21.7
<b>Total</b>	<b>22.5</b>	<b>22.7</b>	<b>21.9</b>	<b>29.1</b>
<b>Share in total export value (%)</b>				
Domestic economic sector	42.8	42.1	42.8	45.0
Foreign invested sector	57.2	57.9	57.2	55.0
Of which crude oil	22.8	20.9	17.5	16.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Derived from GSO (2008c), SRV (2008).

A rapid increase in exports is due to the following:

- Market access for Vietnamese exporters is easier owing to lower protection barriers in importing countries (particularly with regard to textiles and garments (T&G) and agricultural products) following Vietnam's accession to the WTO. Vietnam has made better use of its static comparative advantages (relatively cheap labour costs and plentiful natural resources). Export markets have become more diversified and Vietnam has expanded its penetration of big markets such as the U.S., EU and Japan. As a result, export growth rates in these markets are higher than the average figure of the total export value.

- Prices of some major export commodities such as crude oil, agricultural products and some minerals escalated sharply in 2007 and the first part of

2008. If the factor of price increases was deducted then the export growth rate was just about 10 percent a year.

- Export structure has shifted positively from raw materials and products (oil, coal and rice) to processed products with higher levels of technology and labour skills (T&G and wood products). Although still accounting for an important share in total export value, the role of the primary sector has diminished. This suggests that Vietnam has started bringing into play dynamic comparative advantage in addition to its continued exploitation of its static advantages.

- Operations of exporters have increasingly been expanded and become more efficient, particularly with regard to the private sector and foreign invested enterprises. A large number of enterprises have pursued core market development strategies together with their efforts to seek and penetrate new export markets.

- Vietnam has implemented effectively many policies and mechanisms that help address difficulties and obstacles as well as facilitate export activities.

Nevertheless, Vietnam's exports still face a number of constraints, lagging behind some requirements set forth in the plan. Such limitations include the following:

- Export scale remains small; export value per capita is low compared to other countries in the region and the world. In 2006, export value per capita in Singapore was 61,868 USD), Malaysia - 6,233 USD, Thailand - 2,024 USD, Philippines - 557 USD and Vietnam - 473 USD.

- In spite of its high growth rate, Vietnam's exports were vulnerable to external shocks such as world price volatility or the emergence of new trade barriers such as anti-dumping lawsuits against leather-capped shoes and shrimp, quota imposition, or surveillance programs against goods imported from Vietnam. A major cause of high vulnerability is a lower level of diversification and excessive focus on a few commodities. The share of export value of the top ten export commodities in total export value was only reduced from 75.7 percent in 2005 to 70.8 percent in 2007 and to 67.2 percent in 2008.

- Export value of high value added commodities are still low. Exports continue to rely heavily on primary commodities such as minerals (crude oil, coal), agricultural products, while manufacturing products (T&G, footwear, electronics and computer components and spare parts) are by and large made through assembly and processing using imported materials, equipment and spare parts and thus generating low value added. Taking the role as a third party in assembly and processing contracts, Vietnam positions itself in a segment with the lowest value added in the production value chain. Vietnam faces obstacles in its efforts to increase exports of higher value added commodities because of inherent internal limitations of enterprises relating to such factors as professional qualifications of labour, technology, and capacity

of design, organisation and distribution. The level of industrialisation of Vietnam currently is just equivalent to the average level of developing countries by the end of 1990s and is much less than many other ASEAN countries. Compared to East Asian countries, Vietnam is pursuing a similar roadmap of regional economic integration, though at initial stage and at a low level in terms of: (i) the movement of exports from labour-intensive commodities to technology and/or capital-intensive commodities; (ii) intra-trade and trade of production inputs with countries in the region; (iii) development of major export markets; and (iv) the role of trade with China. This partly explains the weak position of Vietnam in the regional and global value chains.

- Export quantity and value of some key export commodities of Vietnam such as fishery products, wood products, electric wire and cable show no significant changes, even stagnating compared to the previous period. Factors restricting exports may no longer lie in protection barriers in trading partner countries, but are more due to structural constraints of the economy itself such as limited land area and productivity and low competitiveness in association with export procedures that are still cumbersome, costs relating to logistic services (transportation, post and telecommunication, warehouse, port) and financial and banking services which are still inadequate and too expensive. Limitations within each industry relating to product quality (including food hygiene safety), design, and marketing are also factors restricting export growth.

- Capability to actively grasp opportunities to penetrate and exploit export markets is still very limited. Enterprises have not yet secured the full benefits of Vietnam's WTO membership as well as of bilateral and regional trade agreements signed between Vietnam and its partners to make full use of huge markets such as the U.S., EU, and China. Moreover, trade promotion activities remain incoherent, and of low effectiveness.

- Information provision, forecasting and analysis of price and market fluctuations and developments are not really effective and useful to enterprises. Human resources for trade activities remain limited while human resource training is still lagging behind needs.

### 1.3.2. Imports

The import growth rate was much higher than planned, especially in 2007 and the first half of 2008. While the planned objective was 14.7 percent a year, the actual growth rate amounted to 30.0 percent on average, in which that of 2007 was 39.8 percent and of the first half of 2008 was 60.3 percent compared to the same period of 2007. Imports in the third quarter of 2008 decreased significantly following the government strict measures to limit imports. Imports in 2008 are estimated to increase by about 28.6 percent.



**Table 11: Merchandise Imports during the Period 2005-2008**

Sectors	2005	2006	2007	Prel. 2008
<b>Import value (million USD)</b>				
Domestic sector	23121.0	28401.7	41246.9	52815.2
Foreign invested sector	13640.1	16489.4	21516.6	27898.6
<b>Total import value</b>	<b>36761.1</b>	<b>44891.1</b>	<b>62763.5</b>	<b>80713.8</b>
<b>Import growth rate (%)</b>				
Domestic sector	10.7	22.8	46.5	26.9
Foreign invested sector	23.0	20.9	31.7	28.5
<b>Total</b>	<b>15.0</b>	<b>22.1</b>	<b>39.8</b>	<b>28.6</b>
<b>Share in total import value (%)</b>				
Domestic sector	62.9	63.3	65.7	65.4
Foreign invested sector	37.1	36.7	34.3	34.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Derived from GSO (2008c), SRV (2008).

Imports mainly concentrate on materials, fuels and machinery to serve domestic production and exports. However, the share of imported consumer goods in total import value tended to increase, from 7.5 percent in the period 1996-2006 to 11.4 percent in 2007<sup>20</sup>. It should be noted that the import of consumer goods in the reality may be much larger than this figure due to impossibility of recording smuggling of goods as well as possible misclassification of imports between production and consumer goods. Examples of the rapid increase in imports include the rise in the import value of completely built up automobiles in 2007 amounted to 579 million USD (over 30 thousand units), an increase of 171.8 percent compared to 2006. Import value of automobiles in the first half 2008 alone rose to 272 million USD, nearly 4.6 times compared to the first half of 2007. Another notable example is that the import value of precious gem stones and metals in the first half of 2008 was worth of 2,730 USD million, roughly double that of the whole year 2007 and increasing by 313.6 percent compared to the same period of 2007 (CIEM 2008a). Furthermore, while imports of production inputs tended to decrease sharply, import value of consumer goods appeared to rise.

By ownership sector, the domestic sector experienced a higher import growth rate than the foreign invested economic sector in 2006-2007, but lower in 2008. The share of the domestic sector in the total import value increased from 62.9 percent in 2005 to 65.4 percent in 2008.

By import sources, the majority of materials and machinery are imported from China, Korea, Taiwan, Singapore and Thailand due to advantages of transportation, prices and compatibility. Especially, ASEAN and China remain

<sup>20</sup> Research report HOR-9 of MUTRAP Project (2008).

leading exporters to Vietnam, with a combined share in total import value increasing from 41.4 percent in 2005 to roughly 43.5 percent in 2008. The share of China alone increased from 5.4 percent a year for the period 1996-2000 to 13.4 percent a year for the period 2001-2005 and further to 19.2 percent in 2008. Imports from the U.S., Japan and EU are mainly source technology, machinery and equipment and some auxiliary materials; however, with a modest volume and decreasing share. Obviously that access to advanced source technology is not popular in Vietnam and this fact is likely to have a negative impact on long-term competitiveness of the economy.

The rapid increase of imports in 2007 and the first half of 2008 is attributed to the following factors:

- High growth is associated with huge investment demand, not only for infrastructure and key national projects but also for a large number of FDI projects;

- The current economic structure is weak with underdeveloped supporting industries, failing to provide various kinds of input materials for production, thereby triggering the need to import of the majority of materials;

- World prices of some materials and fuels increased sharply;

- Currencies of major importers partners to Vietnam (China for instance) show a strong appreciation against USD, while Vietnam maintains the fixed ER of VND to USD; therefore import values expressed in VND increased;

- Booming imports of consumer goods (from an initial small share in total imports) as a result of increased overall level of income, including a group of residents with a rapid increase of income accruing from assets (real estate, securities, etc.), and also reinforced by reduced tariff with regard to some consumer goods;

- Over-optimistic expectations of further strong development of the economy together with sharp speculative behaviour (which led to “fevers” of imports of some goods items such as cars, steel and precious metal (e.g., gold)) are also considered as noteworthy causes resulting in a record high level of trade deficits in the first half of 2008.

Nevertheless, it is necessary to analyse the causes of suddenly increased imports in a more thorough manner, both in terms of importers, users, goods composition and also in connection with developments of macroeconomic indicators such as ER, inflation, tariff and capital mobility.

### 1.3.3. Emerging Issues of Trade Balance

An impact that has been recognised, but not properly analysed, since the starting of the plan period is the increase of imports and the level of trade deficit. The target of trade balance surplus of some 0.8 billion USD during the five years will not be achieved.

In 2007, the merchandise trade deficit increased suddenly to 14.2 billion USD (equivalent to 16 percent of GDP), much higher than the expectation. In the first half of 2008 trade deficit increased extraordinarily to over 14.5 billion USD, nearly equal to the level of the whole year 2007. However, the trade deficit since the second quarter of 2008 decreased significantly. Trade deficit for the whole year 2008 is estimated at 15.7 billion USD (16.5 percent of GDP).

Generally, for a developing country with a high growth rate, a trade deficit is not difficult to explain. However, in order to address the issue of trade deficit thoroughly, it is necessary to answer the three questions: (i) what are causes of trade deficit? (ii) Whether the trade deficit helps to create production capacity with corresponding efficiency or not? (iii) Whether capability of financing trade deficit is sustainable or not? The analysis below focuses on the first two issues, while the third one will be discussed in Sub-section 1.5.3.

The trade deficit increased sharply because the growth rate of imports was much higher than that of exports. Major causes of a rapid import increase in 2007 were mentioned in Sub-section 1.3.2. In the context of substantial increases of total investment in general and of FDI in particular since the end of 2006, numerous new works and projects were under construction along with procurement of equipment while the projects not yet ready to produce goods for exports and/or for domestic consumption for import substitution. This will continue for some years, thereby keeping the trade deficit at a substantial level.

However, the current trade deficit may not translate into the expected increase in production capacity because of qualification relating to investment efficiency, investment structure, and absorptive capability of investment capital of the economy as well as relevance in final consumption of imported goods.

Another issue relating to the trade balance is that while the overall trade balance was in deficit, Vietnam achieved substantial bilateral trade surpluses with the U.S. and the EU. There were trade deficits with China, ASEAN, India and Japan. The trade deficit with China increased sharply, from a trade surplus of 135 million USD in 2000 turning to a deficit of nearly 200 million USD in 2001 and growing to more than 11.1 billion USD in 2008 (i.e., increasing by nearly 59 times). Further analysis of trade activities with China shows that Vietnam is in a noticeable lower value added position: it exports to China primary commodities such as minerals (crude oil, coal) and unprocessed agricultural products (rubber, rice, fishery products) while it imports processed goods (petroleum, steel, fabric and garment ancillaries, fertilizer, etc.). The implications of this should be considered seriously as China, especially southern China, has a lot of similarities with Vietnam in terms of natural conditions and resources.

The cause of persistent trade surplus with industrial economies is that Vietnam imports cheap and obsolete technology from economies in the region, while lacking access to high and advanced technologies from developed nations.

While such measures as accelerating exports, reducing public

investments, improving investment efficiency, practicing thrift, and addressing speculation and smuggling, are fundamental to addressing the root causes of the large deficit; import control and raising import tariff should only be used as temporary measures and should not be applied in the long term. Such measures, if not consistent with WTO, could expose Vietnam to retaliatory measures by other WTO members. In order to address the issue of trade deficit in the longer term, Vietnam must have drastic changes in its economic structure, production capacity, technological level and human resources so as to improve its competitiveness and be capable of producing goods with higher processed and value-added levels.

## 1.4. FISCAL AND MONETARY POLICIES

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### 1.4.1. State Budget

Fiscal policy and its implementation play a crucial role in maintaining macro-economic stability, in the pursuit of broad economic objectives; and in ensuring strong national fiscal position.

During the period 2006-2008 the state budget situation has been improved as a result of a rapidly increasing economic base. The budget has been significantly renovated toward developing and fostering revenue sources, eliminating several types of subsidies, revising laws on some types of tax, mobilising resources from the public and enterprises through the socialization of selected economic-social activities.

#### 1.4.1.1 Revenue

Budget revenue collection reached 28.6 percent GDP in 2006, 27.6 percent in 2007 and is estimated to be 28.0 percent in 2008, considerably higher than the planned target of 21-22 percent GDP. This revenue level contributes to a stable fiscal position, and is a positive outcome of tax policies implemented.

Improvements have been made with regard to budget revenue in terms of both level and composition. The revenue side of the budget shifted from heavy reliance on external to internal sources recently thanks to high performance of the economy. Revenues from domestic sources (excluding those from crude oil) rose from 52.0 percent of the total revenue in 2006 to 55.5 percent in 2008.

For the period of 2006-2008, collection from key revenue sources all exceeded the plan. Only revenue from crude oil decreased in 2007 but then increased again in 2008, mainly due to soaring world oil prices. Due to a lower growth rate as compared to the non-oil revenue, the share of the crude oil in total revenue declined further in 2008. Contrary to a concern of the Ministry of

Finance (MOF), revenue from trade-related activities grew considerably and remains a large source of revenue. Non-refundable aid and financial reserve fund maintain a stable share of above 1 percent.

**Table 12: Composition of Budget Revenue during the Period 2005-2008**

Revenue items	2005	2006	2007	Prel. 2008
<b>Total revenue (trillion VND, current price)</b>	<b>210.40</b>	<b>279.5</b>	<b>316.0</b>	<b>413.8</b>
<b>Revenue as % of GDP (%)</b>	<b>25.1</b>	<b>28.7</b>	<b>27.6</b>	<b>28.0</b>
<b>Share of total revenue (%)</b>				
Domestic revenue (excl. oil revenue)	54.7	52.0	55.2	55.5
<i>Of which: Revenue from SOEs</i>	18.6	16.6	17.1	
<i>Revenue from foreign invested enterprises</i>	9.1	9.2	9.6	
<i>Revenue from non-state sector</i>	8.1	7.9	9.7	
<i>Revenue from land and houses</i>	8.4	7.3	6.9	
Oil revenue	26.4	29.8	24.3	21.5
Trade-related revenue	17.9	15.3	19.1	21.3
Grants	1.0	2.8	1.3	1.2

Source: GSO (2008c), SRV (2008).

The sustainability of the budget revenue structure deserves attention. Currently, nearly half of the budget revenue continues to rely heavily on unstable sources such as revenues from crude oil and from export-import activities. In the medium and long terms, revenues from these two sources may decline. The policy of saving natural resources (crude oil) will lead to reduced revenues from crude oil. In addition, upon full operation of all oil refineries, crude oil exports will be insignificant. At that time, Vietnam will have to import other kinds of crude oil than the local type (light crude oil) so as to be able to develop other petrochemical products. As compensation, Vietnam can save foreign currencies that will otherwise be used to import petroleum and its products. The level of foreign currency saving and the net impact on the state budget will depend crucially on prices of domestically-produced petroleum products. If technologies employed in oil refinery factories are advanced and efficient, and transportation costs are low, the impact on the state budget should be positive.

With regard to revenue from trade-related activities, accelerated tariff reduction between now and 2010 in parallel with the objective of import restriction will have a negative impact on revenue from import duties.

Recently, land-related revenues have been considerable as a result of extensive implementation of the Land Law as well as more efficient implementation of land auction activities. After 2010, when the issuance of land



use right certificates and state-owned housing sales are completed, land-related revenues will diminish substantially. During the coming period to two, tax revenues from enterprises will also find difficult to increase due to slower economic growth and policy fighting against inflation and preventing stagflation. In these circumstances, the reduction in budget revenue, particularly after 2010, could be significant. Despite recent revisions and policy improvements, taxation policies continue to maintain subsidies in the forms of concessions, exemption, support and privilege, especially for the state sector. There is a need to seek other and more sustainable revenue sources to offset possible reductions.

Budget revenue collection can serve three different purposes: (i) generating a larger income source for expanding spending; (ii) using revenue as a macroeconomic instrument to regulate the economy; and (iii) addressing the issue of social equality. These three objectives typically lead to different tax policies.

#### 1.4.1.2 Expenditure

Actual state budget expenditures generally exceed the plan and increase over time. Expenditure during the period 2001-2005 was 28.7 percent of GDP, rising for the period 2006-2008 to about 32.2 percent. The state budget deficit remained at 5 percent for all three years in consideration despite a rapid increase in budget revenues (see Table 13).

Development investment made up 26.8 percent of the total budget expenditure in 2006, and went up to 27.6 percent in 2007 dropped to 24.9 percent in 2008 due to rearrangement of capital construction projects and rescheduling of a number of projects. The share of recurrent expenditure declined compared with that in 2005.<sup>21</sup> It is noticeable that since 2006 debt repayment has been rising, accounting for 13.3 percent of the total expenditure in 2007. This trend will continue in the future; therefore the State should have a plan to mobilise funding for the debt service.

Changes have been introduced to allocation of budget expenditures. Development capital has been of high priority in the plan; expenditure on education and training has been increasing steadily and will reach 20 percent of the total budget expenditure by 2010; spending on environmental protection has been above 1 percent of the total budget expenditure. Among recurrent expenditures, such major items as those on education and training, health care, social security, all increased rapidly. Other expenditures such as unexpected spending to support calamity-affected areas, epidemic and pest prevention and control have always been met by a timely budgetary response.

Changes in spending policy have sought the gradual elimination of implicit and explicit subsidies, shifting demands on the state budget by shifting

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<sup>21</sup> Due to high inflation of 19.9 percent in 2008, the share of recurrent expenditure increases again.

**Table 13: Composition of Budget Expenditure (%)**

<b>Expenditure items</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Prel. 2008</b>
1. Investment expenditures	34.6	26.8	27.6	24.9
Of which: capital expenditure	31.8	25.4	26.4	
2. Repayment for debts and provision of grants	0.0	12.7	13.3	
Debt repayment	2.9	12.5	13.1	
Provision of grants		0.2	0.2	
3. Recurrent expenditures	65.4	50.6	55.9	56.7
Of which:	0.0	0.0	0.0	
Education and training	9.6	13.1	14.6	
Health care	3.3	3.9	4.5	
Science, technology	1.1	1.0	1.0	
Social security	7.7	8.9	9.9	
Economic services	5.2	3.5	4.0	
Public administration, Party and Unions	8.2	5.9	7.6	
<b>Total expenditure (trillion VND)</b>	<b>229.1</b>	<b>321.4</b>	<b>339.3</b>	<b>489.1</b>
<b>Budget deficits (trillion VND)</b>	<b>40.7</b>	<b>48.5</b>	<b>23.3</b>	<b>75.3</b>
<b>Budget deficits (% GDP)</b>	<b>4.9</b>	<b>5.0</b>	<b>4.95</b>	<b>4.95</b>

Source: Derived from data in MOF website <http://www.mof.gov.vn/DefaultE.aspx?tabid=197> and MOF data.

responsibility for funding to enterprises and the public and encouraging the local funding of public activities.

Disclosure of both budget revenue and expenditure at the ministerial and local level (in compliance with the State Budget Law and Grassroots Democracy Degree) creates consensus and encourages a positive response among the public in mobilising additional sources for realisation of local objectives. Budget saving through application of spending norms has an impact by reducing unnecessary administrative expenses.

Fiscal decentralisation to the sub-national government according to the State Budget Law encourages local authorities in fostering local revenue sources and increases initiatives to raise revenue. However, under decentralisation poor provinces will face great difficulties in raising revenue.

#### **1.4.1.3 Emerging Issues Relating to Fiscal Performance**

Currently Vietnam always suffers a budget deficit of 5 percent of GDP. If off-budget expenditure is taken into account, budget deficit may escalate to 10 percent of GDP, which is extremely high, resulting in considerable risks on future debt payment capability. Recently, budget deficit has been compensated



by domestic and foreign borrowing, mainly through issuing bonds; accordingly, mobilised fund is used to finance the construction of works relating to transport, irrigation and drainage, education activities and other infrastructure. At present, it is not clear about sources which will be used to pay the bonds upon their maturity.

As discussed in Sub-section 1.2.5, the efficiency of public investment in Vietnam is not high, state capital is sparsely distributed, waste and losses are significant. Recently, in order to address the situation of macroeconomic instability, since the second quarter of 2008, the government implemented the tightened fiscal policy in combination with the tightened monetary policy, and these measures are considered to be effective for curbing inflation and reducing the budget deficit.

In the end of 2008, to prevent stagflation associated with financial crisis and global economic recession, the government made the second turning point in the policy within the same year, adopting four urgent policy packages in 2009,<sup>22</sup> where the fiscal package combining between investment stimulus and reduction, delayed tax payment plays an important role. These measures make sense in the current situation, but if they are not implemented cautiously and efficiently, outcomes may be a higher level of fiscal deficit and trade deficit and at the same time these create upward pressure on inflation and depreciation of the domestic currency.

Recently, although mobilisation to the budget revenue is considerable compared to the previous five-year plan, the state budget can cover just about 60 percent of the most needed expenses. This poses a need of attracting additional non-state sources through socialisation, joint contribution between the state and beneficiaries in health care, education and training, cultural, social and sport activities to address the fiscal limitation.<sup>23</sup>

### 1.4.2. Monetary Policy and Performance<sup>24</sup>

In two years of 2006 and 2007, the State Bank of Vietnam (SBV) implemented monetary policy with a heavy focus on the economic growth objective, which was reflected through maintenance of stable official interest rates and nominal ER VND/USD. Only since the second quarter of 2008, inflation control emerged as a top priority.

<sup>22</sup> The packages have been announced in Resolution 30/2008/NQ-CP of the Government dated 11/12/2008 on Urgent measures to prevent stagflation, maintaining economic growth and ensuring social securities.

<sup>23</sup> Income of the households and enterprises shares some 70 percent GDP, of which asset accumulation (including investment and saving) represents 40 percent of the total (or 22 percent GDP); the rest (about 40 percent GDP) is used for final consumption. Thus, non-state sources to be mobilised for socio-economic development are considerable.

<sup>24</sup> This Sub-section is drawn on Report Vietnam's Economy in 2006 and Vietnam's Economy in 2007 of the CIEM (2007, 2008c).

This policy resulted in a continuous and rapid increase of total liquidity (M2) and the financial “depth” of the Vietnam economy in two years of 2006 and 2007. M2 was just equal to 85 percent of GDP in 2005, but increased to 95 percent and further escalated to 118.8 percent in 2006 and 2007 respectively. In term of growth rate, since 2005 to 2007, M2 increased by more than 30 percent a year (30.6 percent in 2006 and 43.7 percent in 2007). In 2008, in a sharp contrast with the past two years, M2 growth was slowdown, just 20.3 percent. Thus, the M2 growth rates during 2007-2007 are much higher than the planned figures of 18-20 percent.

In 2006, M2 increase was mainly caused by a substantial increase of net foreign assets, in which the most rapid increase came from net money transfer of the private sector and the flow of foreign investment inflows. In 2007, the shares of cash in circulation and foreign currency deposits in M1 decreased.

A relative large difference between M2 expansion and GDP growth, to some extent, may be necessary to meet the increasing need of monetization of the economy. However, an excessive gap between these two indicators is likely to give rise to escalate public’s expectation of high inflation, which triggers behavioural adjustments that have negative impacts on macroeconomic stability, such as a conversion from VND to strong foreign currencies and gold or making investment in real estate and securities. This contributed to the boom in these markets. Also, increased inflation in Vietnam, particularly since 2007, was partly caused by an excessive increase of M2.

In 2008, the M2 growth rate has been lower considerably due to the two main reasons: (i) foreign capital, especially portfolio investment dropped substantially compared with the level of 2007; (ii) the Government implemented tightened macroeconomic policies. However, since November 2008, adoption of loosening fiscal and monetary policies, in December M2 went up sharply compared with the November’s figure.

A notable development during 2006-2007 was the fast growth in Vietnam’s banking activities and stock market (coupled with a surge in capital inflows and asset price inflation). Although the banking system of Vietnam has progressed, the associated financial risks have also increased particularly as commercial banks expanded their lending for real estate and stock market purchases. Bank liquidity faced difficulties by the first quarter of 2008 with banks competing to increase interest rates to mobilise short-term capital to address liquidity shortage. The increase of mobilised deposits fell short of the increase of investment of credit institutions; the ratio of total investment over total mobilised funds of credit institutions increased from 97.9 percent by the end of 2007 to 110 percent by the end of June 2008 .<sup>25</sup>

<sup>25</sup> Investments for the economy of credit institutions include outstanding loans, discounted commercial papers and other valuable notes, financial lease, making due-date payments for guaranteed customers who are unable to fulfil their duties, contribution of capital to and purchase of equities, investments in securities and other valuable notes of economic institutions.

The problem of “double mismatches” (maturity and currency mismatches) has become more severe. Total medium and long-term investment by the end of June 2008 accounted for 42.9 percent of total investment of credit institutions; meanwhile mobilised deposits have become more and more of short-term nature. The share of bad debts increased from 1.5 percent by the end of 2007 to 2.2 percent by June 2008, and may experience a rapid increase to 5-10 percent by the second half of 2008 (majority of these debts are related to real estate loan of about 135,000 billion VND. The lower market equity value means also higher financial risks due to higher financial leverage ratio. At the same time, management capability at the micro level is weak and financial monitoring and supervision system remains inadequate.

With tightening liquidity and credit markets, production and business activities of many enterprises, especially SMEs, currently face problems as a result of difficult access to credit and high interest lending rates (up to 21 percent per year or even higher). Since October 2008, business activities had hurt by financial crisis and global recession. Output markets were contracted. The government refocused its policies to preventing stagflation and ensuring social securities. Inflation may be of a less problem, but that does not mean that it will not come back. The upward pressure on inflation may come from inefficient implementation of loosening monetary package and fiscal stimulus package, possibility of further rise in salary for the public sector and price increase for several commodities under price control by the Government.

## 1.5. MACRO-ECONOMIC STABILITY <sup>26</sup>

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### 1.5.1. Consumer Price Index

Inflation measured by consumer price index (CPI) in 2006 was lower than the planned target set by the National Assembly; inflation, however, has accelerated since October 2007 and escalated dramatically in the first half of 2008. Inflation in 2007 increased to a level of 12.6 percent (the highest level compared to the previous twelve years), far exceeding the objective set forth by the National Assembly. Although month-on-month inflation tended to decline gradually (Figure 5), except May 2008 due to unusual food price fluctuations, the month-on-month inflation continued to increase up to August (21.7 percent compared to December 2007, and 28.3 percent compared to August 2007) because month-on-month inflation rates in 2008 were much higher than that of 2007 (Figure 6). In the fourth quarter of 2008, CPI dropped steadily toward the end of the year together with the falling price in the world market. CPI in 2008 is 19.9 percent.

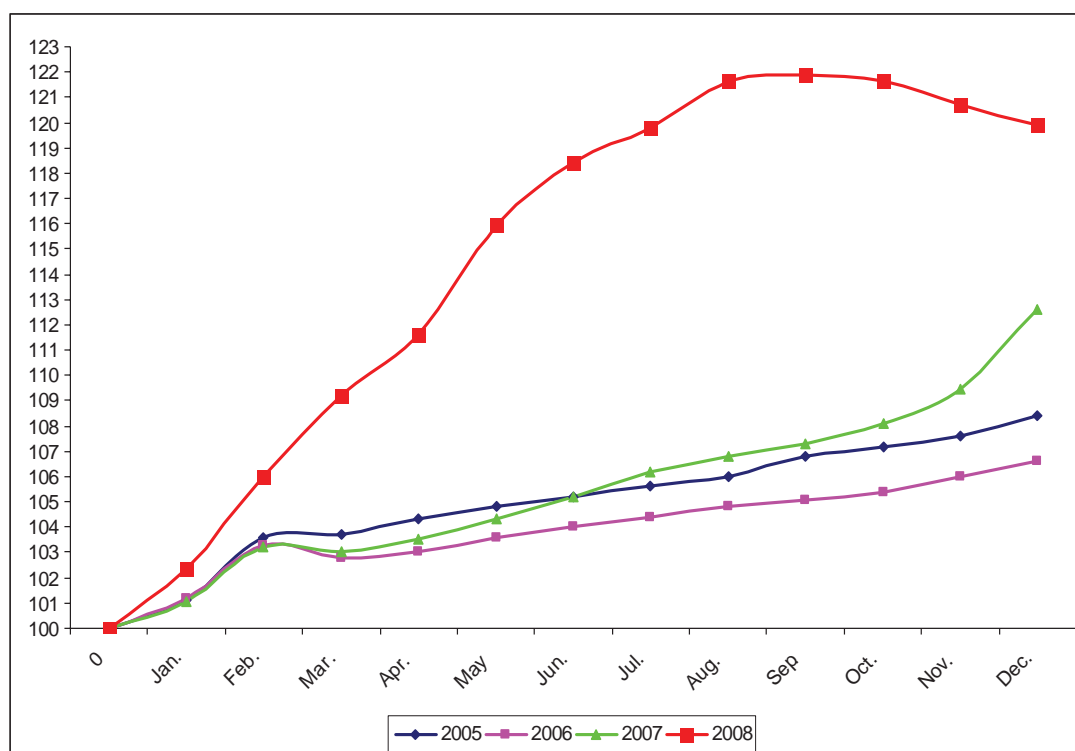
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<sup>26</sup> Unless other specified, data in this section were from CIEM (2008a).

The high inflation was not only because of a dramatic increase in prices of food and foodstuff, which are highly weighted in the basket of goods and services for calculating the CPI. The year-on-year non-food inflation also increased substantially to 16.8 percent in August 2008. Moreover, it was associated with some "price fevers" (such as "food price fever" in May 2008).

High inflation has had a negative impact on the poor and low-income groups. Rising inflation has been not only been detrimental to the efficient allocation of resources but also causes difficulty in ensuring macroeconomic policy consistency (particularly interest rate policy and ER policy)<sup>27</sup>.

**Figure 5: Month-on-Month CPI (previous year's December = 100)**



Source: GSO and CIEM's calculation.

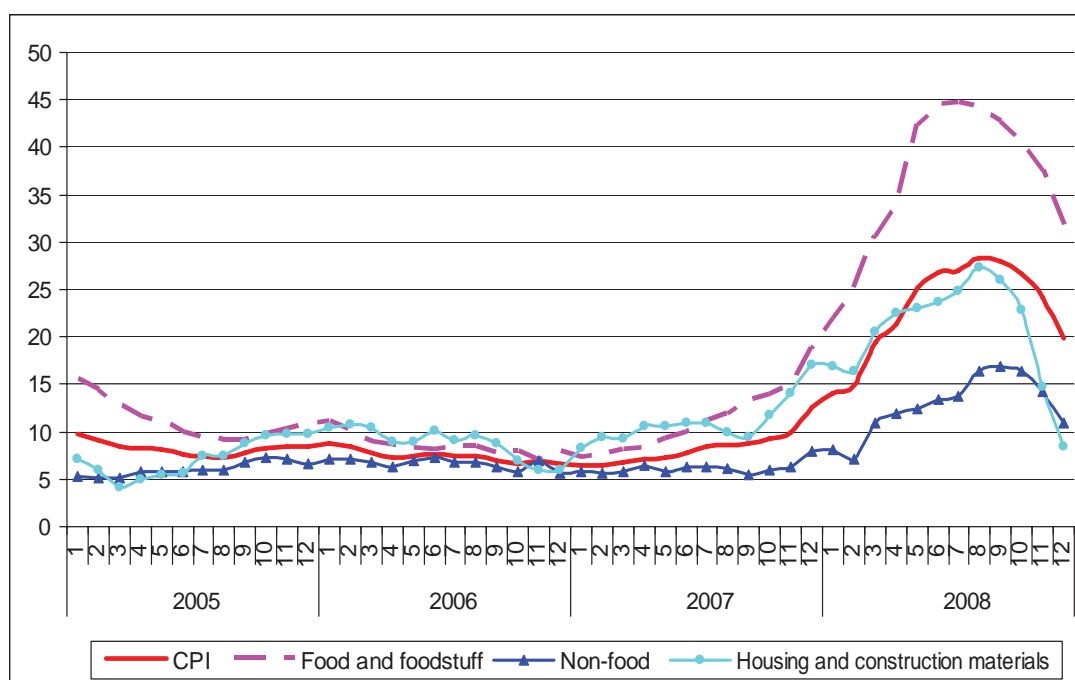
In 2007-2008 inflation affected many other economies, including those in the region. However, inflation in Vietnam was much higher than the international average and particularly increased from the end of 2007. Causes of inflation include soaring world prices of crude oil and some key materials, and the

<sup>27</sup> The consistency between the monetary policy and ER policy is perceived through relations between ER and interest rate at a point in time and the sustainability of maintaining these policies over time. The consistency at a point in time is reflected through the covered interest rate parity condition and the uncovered interest rate parity condition. The covered interest rate parity condition:  $i_{t,k} = i^*_{t,k} + fd$ , where  $i_{t,k}$  and  $i^*_{t,k}$  denote the rates of return on domestic and foreign currency denominated assets of the same maturity,  $fd$  is the forward discount on the domestic currency for that maturity. The uncovered interest rate parity condition:  $i_{t,k} = i^*_{t,k} + \dot{a}_{set,t+k}$ , where  $\dot{a}_{set,t+k}$  denotes the expected future depreciation of the domestic currency.

impact of diseases (bird flu, foot-and-mouth disease) and natural disasters (storm, inundation and unusual frost) on supply.

Macroeconomic imbalances resulting from the rapid growth in consumption and investment <sup>28</sup> also played a role. Many experts are of a view that Vietnam's accession to the WTO was also one of indirect causes contributing to escalating inflation because of confusions and discrepancies in management and coordination of macroeconomic and price policies between ministries and branches amid the context of Vietnam's increasing integration into the world economy and substantial changes in capital mobility.

**Figure 6: CPI by Commodity Group (month-on-month rates)**



Source: GSO and CIEM's calculation.

The large foreign investment inflow was also far beyond anticipated levels but posed fundamental macroeconomic issues which needed to be addressed (for example the relationships between ER regime, capital mobility and money supply control) that were not recognised fully and properly. Money supply increased very rapidly when SBV bought a large amount of foreign currencies (especially in the first half of 2007), while sterilization measures were not implemented in a timely fashion.

The peg of VND to the USD can also be a channel for importing inflation in a period in which the USD was weak. Meanwhile, the recognition of causes and possible impacts of high trade deficits on the resistance of the BOP and the

<sup>28</sup> As shown in Sub-section 1.1.4 both investment and final consumption in 2007 increased sharply. Investment and consumption demand was also stimulated by excessive credit expansion and wealth effect.

production capacity was insufficient. Even there existed a perception that considered “investment stimulation” to be an urgent solution to restrain price increases.<sup>29</sup>

A considerable gap between nominal interest rates of VND and CPI together with possibility of worsening BOP gives rise to high expectation of further devaluation of VND. The inconsistent macroeconomic policies also encourage financial speculation behaviours, thereby making the allocation of resources less efficient.

Liberalisation of prices of some goods still controlled by the State should be made. However, this process required better preparation, including improved supervision capability, transparent information provision, better dispute settlement, improvement of market-based intervention instruments (such as development of future market, national reserves if necessary) and gradual development toward a more competitive market structure.

Resolution No 03/2007/NQ-CP<sup>30</sup> set the target: “to put in place the market price mechanism to the following commodities: cement, iron and steel, fertilizer, paper, coal (except coal for electricity generation) since 2007” and “the State just directly manages the price of some essential goods and services which have large impacts on production and citizen’s life (electricity price, diesel, vaccine)”; However, the Resolution failed to elaborate the preparations required to develop effective competitive market.

In fact, the State permitted enterprises the right of determining the oil price and then “broke its own law” to regain the right of determining oil price when seeing that the market was insufficiently competitive to be left to determine prices on its own, nor could the State had to rely on “political will” of SOEs to struggle against the pressure of increasing oil price in late 2007. These events demonstrated the conflicts that might arise in managing the price of a sensitive and strategic commodity like oil.

Confusions in management of macroeconomic policies originated from the fact that until early 2008, there had been an absence of convincing arguments and explanations about the choice, in the short term, between growth objective and inflation control objective. The coordination in planning and implementation of macroeconomic policies between policy makers and implementers remained limited in many aspects. The implementation of a tightened monetary policy although necessary was not sufficiently coordinated with fiscal policy. The lack of adequate information about the situation of commercial banks (also due to loosen supervision) in early 2008 led to regrettable consequence such as the serious liquidity situation in some banks, requiring administrative measures to control the situation.

<sup>29</sup> This perception is stipulated in Directive No 23/2007/CT-TTg dated 31st October 2007. However, theoretically, demand stimulation and export increase, holding other things constant, will lead to increased aggregate demand, thus resulting in price rise.

<sup>30</sup> The resolution was issued on 19th January 2007.



Resolution No 10/2008/NQ-CP<sup>31</sup> included eight policy packages aiming to “control inflation, stabilise macroeconomic situation, and ensure social security and sustainable growth”. However, its implementation showed a lack of determination and comprehension. In the first half of 2008, total liquidity increased only by 4.9 percent compared to the end of 2007, but the supervision and reduction of public expenditures was not implemented efficiently. As of 26th June 2008, there were only 36 ministries, agencies and provinces and 31 state-owned business groups and general corporations that reported MPI about the review of projects identifying those that could be postponed, stopped or stretched-out in the 2008 plan (1,736 projects and works with a total capital of 5,625 billion VND). Accordingly, the pressure on monetary and ER policies and the trade deficit remained considerable.

Though anti-inflation measures will affect economic growth in the short term, but the assurance for possibility of “soft landing” for the economy will depend very much on the comprehensiveness in implementation of eight policy packages of the government and effectiveness of the tightened fiscal policy through reduction of public expenditure and investment.

### 1.5.2. Exchange Rate<sup>32</sup>

The VND/USD ER in two years of 2007 and 2008 was generally stable but experienced complex movements in 2008. By the end of March 2008, ER witnessed a sudden turning point from VND appreciation to VND devaluation, then an emergence of USD fevers in May and June 2008.

In the context that foreign reserves increases, the level of foreign debts and debt services of Vietnam was considered to expose no big problem in medium term, plus with the fact that BOP in the first half of 2008 was not too bad, why did the aforementioned turning point occur? One cause was increased macroeconomic instability and signs of worsening BOP.<sup>33</sup> The stock market was up and down, external view on the Vietnamese economy is not favourable and foreign exchange speculation. More importantly, expected inflation remained high and there are projections that BOP in whole year 2008 could face a shortage of 2-4 billion USD. There is an urgent need for market actors to get access to transparent information on the situation of foreign reserves of Vietnam as well as the related handling capability of the State Bank of Vietnam (SBV).<sup>34</sup>

The behaviours of some foreign-owned funds who sold out a large volume of the Government bonds, especially during April-June 2008; and set ER of VND/USD much higher than that in the inter-bank market have also weakened

<sup>31</sup> The resolution was issued on 17th April 2008.

<sup>32</sup> This Sub-section is drawn on a report prepared by CIEM (2008a).

<sup>33</sup> This issue will be further elaborated in Sub-section 1.5.3.

<sup>34</sup> SBV just announced the official figure of net foreign reserves of Vietnam of 20.7 billion USD by the end of June 2008.



the public confidence in the relative stability of VND. Moreover, the foreign exchange market remains highly fragmented, and it depends on the level of the exporters' confidence in the macroeconomic stability of (and thus obtained foreign currencies from exports may not in many cases be used for imports) and the public confidence (who keep the right of holding and managing a very large amount of USD in the economy). Removing administrative regulations applicable to interest rates and allowing a more flexible VND/USD ER regime are also not easy at all.

### 1.5.3. Balance of Payment

In 2007, trade deficit grew drastically. The balance of current account in 2007 suffered a big deficit of about 7.0 billion USD (9.9 percent GDP) compared to 0.16 billion USD (0.27 percent GDP) in 2006. The current balance deficit was mainly resulted from the significant increase of merchandise trade deficit (10.36 billion USD in FOB price or 14.6 percent GDP)<sup>35</sup> and investment-induced income deficit (2.17 billion USD or 3.1 percent GDP) (Table 14).

However net transfers; particularly private transfers reached a high surplus, so that the overall BOP gained a large surplus of over 10 billion USD, with a rapid increase of foreign reserves.

In 2007, the balance of capital account continued to have a large surplus, reaching 18.77 billion USD or 26.44 percent GDP (compared to 3.09 billion USD or 5.06 percent GDP in 2006). In 2007, FDI disbursement from foreign sources reached 6.70 billion VND, which was much higher than 2006. The composition of foreign borrowings remained mainly medium and long term with a surplus of 2.04 billion USD; the surplus of short-term loans was insignificant (0.09 billion USD) and mainly related to trade credit. In this connection, it is worth noting that in 2008, enterprises will have to set aside a relatively large amount of foreign currency for paying mature foreign debts.

Foreign indirect investment in Vietnam in 2007 increased suddenly to 7.41 billion USD compared with 1.31 billion USD in 2006; however, there were differences between quarters (sharp increase in the 1<sup>st</sup> quarter, decrease in the 2<sup>nd</sup> quarter and increase again in the 3<sup>rd</sup> quarter because many investors transferred capital for buying shares to become strategic shareholders). Overseas investments under the form of deposits of commercial banks experienced considerable changes compared to 2006. In 2007, commercial banks mobilised a large amount of foreign currencies but they also sold a large amount of foreign currencies to the SBV resulting in the build up of foreign reserves. Net foreign assets of commercial banks summed up to 2.62 billion USD.

<sup>35</sup> Trade deficit in 2007 rose to 14.12 billion USD, increasing by 70 percent compared to 2006 for CIF-price imports. Vietnam's trade deficit mainly comes from Asian countries. In 2007, Vietnam's trade deficit included 9.1 USD billion with China, 5.4 billion USD with Singapore (38 percent ); 4.1 billion USD with Korea (29 percent); 2.7 billion USD with Thailand (19 percent); 1.36 billion USD with Hong Kong (9.6 percent ).

Table 14: Vietnam's Balance of Payment

	2006		2007		First quarter 2008		First half 2008		Prel. 2008	
	mill.USD	% GDP	mill.USD	% GDP	mill.USD	% GDP	Tr. USD	% GDP	mill.USD	% GDP
<b>Current account balance</b>	<b>-164</b>	<b>-0.27</b>	<b>-6,992</b>	<b>-9.85</b>	<b>-5,287</b>	<b>-32.29</b>	<b>-9,557</b>	<b>-25.20</b>	<b>-11,435</b>	<b>-12.85</b>
Merchandise trade balance (FOB)	-2,776	-4.55	-10,360	-14.59	-7,050	-44.39	-11,884	-31.34	-14,960	-16.81
Services trade balance	-8	-0.01	-894	-1.26	-277	-1.75	-648	-1.71	-1,300	-1.46
Investment income (net)	-1,429	-2.34	-2,168	-3.05	-510	-3.21	-1,230	-3.24	-2,432	-2.73
Transfers (net)	4,049	6.64	6,430	9.06	2,550	16.06	4,205	11.09	7,257	8.15
- private	3,800	6.23	6,180	8.70	2,500	15.74	4,100	10.81	7,000	7.87
<b>Capital account balance</b>	<b>3,088</b>	<b>5.06</b>	<b>17,540</b>	<b>26.44</b>	<b>6,841</b>	<b>43.08</b>	<b>8,856</b>	<b>23.25</b>	<b>14,432</b>	<b>16.22</b>
FDI (net)	2,315	3.80	6,400	9.30	1,462	9.21	3,834	10.11	7,000	7.87
Medium & long-term borrowings (net)	1,025	1.68	2,045	2.88	635	4.00	131	0.35	964	1.08
Short-term borrowings (net)	-30	-0.05	79	0.13	56	0.35	91	0.24	168	0.19
Portfolio investments	1,313	2.15	6,243	10.44	1,366	8.60	1,800	4.75	1,300	1.46
Currencies & deposits	-1,535	-2.52	2,623	3.69	3,322	20.92	3,000	7.91	4,800	5.39
<b>Overall balance (incl. errors)</b>	<b>4,322</b>	<b>7.09</b>	<b>10,168</b>	<b>14.32</b>	<b>2,768</b>	<b>17.43</b>	<b>500</b>	<b>17.43</b>	<b>2,697</b>	<b>3.03</b>

Note: Vietnam's FDI outflows in the BOP in 2006, 2007, and the first half 2008 are 85 million USD, 100 million USD, and 100 million USD.  
Source: SBV, MPI and CIEM's calculation.

To summarise, overall, in 2007, the capital balance surplus was much higher than current balance deficit. As a result, the overall BOP witnessed a large surplus of 10.17 billion USD or 2.35 times higher than 2006. Furthermore, foreign debts remained under control, at least in medium term. The share of Vietnam's foreign debts in GDP was about 30.3 percent, and the share of foreign debt obligations to exports was about 4.7 percent. Nearly two-third of foreign debts was of preferential nature.

Nevertheless, the situation changed remarkably by June 2008. The capital account balance was worth of 8.86 billion USD, which was lower than the figure of current account deficit. Vietnam still had a modest overall BOP surplus of 0.5 billion USD <sup>36</sup>), but it was obvious that the sustainability of financing trade deficit had become much more fragile. If the trade deficit continues, and private transfer and disbursement of FDI stalls due to the worsened macroeconomic environment and the bottlenecks in the economy, then the overall BOP will reverse. In this connection, it is noted that, with the implementation of the eight policy packages of the government, the overall BOP is projected to improve by the end of 2008, mainly resulting from a significant reduction of the trade deficit. Until the end of 2008, current account deficit and merchandise trade deficit was about 11.4 billion USD (12.9 percent GDP) and nearly 15.0 billion USD (16.8 percent GDP), dropped significantly from quarter to quarter. BOP was in surplus of 2.7 billion USD (Table 14).

Also it is noted that the level of current account deficit is equivalent to the gap between domestic savings and investment. Thus, in addition to direct measures relating to export and import, an increasing attention should be paid to aggregate demand reduction and savings promotion policies, and this once again stresses the important role of the public expenditure and investment reductions.

## 1.6. EMERGING ISSUES ON ECONOMIC GROWTH

The situation of economic growth for three years from 2006 to 2008 revealed two major issues influencing the capability of completion of the plan: the sustainability of economic growth and the competitiveness of the economy.

### 1.6.1. Sustainability of the Investment-Led Growth Model

For many years, Vietnam has pursued a policy with a strong focus on growth based on investment expansion. In 2007, total investment amounted to 46.5 percent GDP (this figure in 2008 was 41.3 percent GDP). Many warnings concerning inflation and the quality of investment, particularly public investment, received too little attention.

<sup>36</sup> Due to error in estimation of BOP.

### 1.6.1.1 Investment-Led Growth Model

In 2006-2007, the share of final consumption seemed to increase, while the share of domestic savings reduced correspondingly. The gap between domestic savings and investment has now widening, mainly thanks to soaring FDI. Since early 2008, priorities have been given to macroeconomic stability, anti-inflation and reduced state investment, which will lower the GDP growth rates significantly.

International experience shows that Singapore, Malaysia, China, Korea, Malaysia, Taiwan and Indonesia all have a relatively-high surplus of domestic savings over investment, especially Singapore. Meanwhile, less developing economies like Philippines have had a higher level of investment than domestic savings<sup>37</sup>. Vietnam experienced savings deficits throughout the period 1990-2008 and its level of trade deficit in this period was also high, reaching 10.9 percent GDP in 2006 and 17.4 percent in 2007. In 2008, the gap was narrowed to 12.5 percent.

An investment-led growth model based on FDI may expose the economy to high risks to economic growth in the face of FDI volatility. This is a likely scenario amid the context of financial crisis in the U.S. with resultant negative global impacts; meanwhile, the efficiency of investment in general and state investment in particular was still modest<sup>38</sup>. Dependence on this model therefore raises big questions about the sustainability of economic growth and this is also among causes of inflation.

### 1.6.1.2 Capital Absorption Capacity of the Economy

In the recent period, amid FDI flows flooding into Vietnam, the economy has started showing signs of slower disbursement due to being unable to absorb capital flows of such a large magnitude. Slow disbursement means capital will be put into use at a slower pace than planned progress longer gestation periods resulting in reduced efficiency of capital use. As a result, the economy may suffer a shortage of essential inputs such as electricity and steel, or suffer the delayed establishment of export industries.

Major factors currently restricting capital absorption capacity are related to weaknesses of institutions, infrastructure and human resources. FDI absorption capacity will continue if there is an absence of solutions to remove these constraints. Nevertheless, the removal of these three constraints is not easy.

Poor infrastructure has already caused considerable losses to production and business activities and social life as well as to limiting the exploitation of possible opportunities created as a result of international economic integration.

<sup>37</sup> Author's calculation using data from ADB (2007).

<sup>38</sup> See Sub-section 1.2.5.

Infrastructural development will require a great deal of investment, while Vietnam has currently to rely on foreign savings to finance such investment.

Vietnam is now experiencing the process of establishment and development of socialist-oriented market economy. Over the past three years, a great quantity of legal documents, including many documents of good quality, has been issued and well implemented. Cadres and the enforcement apparatus have demonstrated considerable commitment. However, there are a lot of things to do in this field so as to enable Vietnam to achieve the full conditions for the “rule of law”, where its citizens live and work in accordance with the rules of law.

With regard to issued documents, enforcement remains inadequate. Ineffective enforcement may be associated with unclear regulations and requirements; failure to identify enforcement responsibility with the organisation, leader of organisation or individuals. Incentives in case of outstanding performance and the sanctions in case of violations are insufficient.

### **1.6.1.3 Decentralisation Management and FDI Structure**

For three years 2006-2008, FDI structure by sectors witnessed a considerable shift from the export-oriented manufacturing industry and the post and telecommunication industry to real estate and hotel industries and production for the domestic market. In 2008, nearly half of registered FDI were classified to be FDI that will use a great deal of scarce natural resources (apartment and offices accounting for 15.9 percent, oil 17.5 percent; hotels and tourism accounting for 15.1 percent), or contaminate the environment (emitting noxious gas and associated green house effect such as steel mills).

The changing pattern of foreign investment is worrying because in the period 2006-2008, FDI enterprises accounted for 57.2-57.9 percent of total export value annually. This factor helped Vietnam’s BOP over the past 10 years. On the other hand, Vietnam’s real estate prices currently are excessively high and real estate is highly compared to other businesses. Many transactions in the real estate market are speculative, not producing real wealth and jobs for the economy. If these projects are FDI-related then giant profits after project completion will be transferred abroad and Vietnam will not be able to gain considerable benefits through spill-over effects on technology transfer, job creation and export-induced foreign currency revenue.

This is of course an unavoidable trend from Vietnam’s openness. However, Vietnam still has the right to select appropriate projects in accordance with its national benefits. Current policies, appraisal and approval agencies should act as filters and providers of effective directions to capital flows into Vietnam. Amid the drastic decentralisation of investment management to sub-national government in parallel with weak capability and modest accountability, a series of inappropriate projects has been approved recently without taking due consideration to the potential negative outcomes.



### 1.6.2. Production and Business Efficiency and Competitiveness of the Economy

For the recent three years, Vietnam has fallen six grades from 64th in 2006 to 70th in 2008 in the Global Competitiveness Index published by the World Economic Forum (WEF). WEF rankings reflect factors influencing business environment of countries, which are also fundamental to sustainable economic growth.

Four factors supposed to affect Vietnam's competitiveness index include inflation, infrastructure, skilled labour and corruption. On the one hand, the competitiveness index ranked by WEF is just of reference value; on the other hand, the falling rank of Vietnam's competitiveness index partly reflects its current economic environment. These four aforementioned negative factors are absolutely identical with challenges facing the economy recently, suggesting the need to overcome limitations and improve national competitiveness in the context of global integration.

Another sign of weak competitiveness is that though investment capital in two years of 2006 and 2007 increased rapidly (19.6 percent a year on average), job creation was not significant (1.9 percent a year), while labour productivity<sup>39</sup> increased by only 6.3 percent a year.

Low efficiency and competitiveness resulted from a series of factors relating to the following: (i) weak capability of a large number of enterprises; (ii) underdeveloped supporting services; (iii) protection policy; (iv) business environment; and (v) a serious shortage of qualified human resources for development, reflected in a big gap between the availability of technical and vocational skills and market needs. As a result, a large number of trained labourers are underemployed while enterprises face a lack of labourers with suitable technical skills.

#### 1.6.2.1 Weak Inherent Capability of a Large Number of Enterprises

Some 90 percent of Vietnam's enterprises are classified as SMEs.<sup>40</sup> Due to small scale, plus with a lack of qualified managerial human resources, capital and advanced technologies, and skilled labourers, efficiency of using resources remain low, production costs are high and products of many enterprises are of low quality. A majority of enterprises have not yet conducted their own research for improving product designs, and have failed to establish extensive distribution networks or service of customers. A majority of firms do not have marketing capacity.

<sup>39</sup> Labour productivity here is measured as GDP per capital calculated based on the number of working people in the economy at a certain time.

<sup>40</sup> Calculation made by authors using data of Enterprises Census in 2006 by GSO (2008c) with application of the SME definition stipulated in Decree No 90/2001/ND-CP dated 23rd November 2001 about Supporting development of SMEs, where SMEs are those with registered capital less than 10 billion VND or the average annual number of employees does not exceed 300.

Another weak point is related to the enterprise' capability to get access to information, including information on inputs (machinery, materials to be used as inputs for production, industries and supportive industries); on markets for outputs (domestic and foreign); policy and legal documents of the government; domestic and world development, their impacts on the whole economy and on enterprises themselves. In principle, enterprises have to use this information effectively to build and make adjustment to strategies, production and business plan.

The efficiency of SOEs, including relative large ones, in the economy is generally modest. Although those SOEs are capital-intensive, their output levels are low per unit of capital, in comparison with the non-State and foreign enterprises.

### **1.6.2.2 Underdeveloped Business Supporting Services**

Such business supporting services as transportation, warehouse, finance, banking, post and telecommunication, logistics, consultancy and insurance remain underdeveloped and lag behind the economy's requirements. As a consequence, costs for such inputs as transportation and other inputs are still high.

Many services (finance, banking, insurance, securities, audit, and tax consultancy) will be opened to foreign investors in accordance with the Vietnam's roadmap to implement WTO commitments. This is happy news to domestic enterprises and consumers, but is also worrying news to enterprises engaging in such kinds of activities, due to mounting pressure of fierce competition.

Some studies have shown that opening the service sector has had positive spill-over effects on enterprises within the sector through boosting competition and improving market discipline; forcing enterprises to reform themselves, strengthening competitiveness, acquiring advanced technologies and managerial skills, familiarising and applying international principles and standards; and expanding marketing services.

However, under pressures arising from rapid reform, these enterprises lobby to delay the implementation of the roadmap with regard to commitments not subject to compulsory time lines. Government should produce a roadmap that is optimal for the economy as a whole, not in favour of benefits of vested interest groups.

### **1.6.2.3 Legal Framework Regulating Aspects of the Business Environment**

The legal framework in Vietnam has been improving over time, especially since the recent time when Vietnam had to meet WTO policy adjustment requirements. Nevertheless, there remain many things to do in this field to create a favourable business environment.



The legal framework is not complete, of low quality, which is reflected in being not clear, not specific, not logic, not consistent, not transparent, not predictable, not effective and not efficient. The enforcement of low-quality legal regulations is very troublesome, costly, time-consuming, and requires a lot of efforts, particularly with regard to investors and enterprises.

On the other hand, low-quality legal regulations create favourable opportunities for rent seeking by incumbents, investors and entrepreneurs who abuse regulations to serve their interests and his/her related persons other than serving and protecting interest of the whole society.

#### 1.6.2.4 Human Resources

The reality of nearly two years after the accession to WTO reveals that Vietnam is still not ready to integrate to the outside world in term of human resources. Vietnam is facing a serious shortage of human resources of many skills, not only with regard to high-skilled labours managers, information technology, finance and banking, and even workers with medium-level of skills to work in sectors with comparative advantages such as T&G, footwear, electronics assembly. The shortage of relevant labour skills in these industries has been increasing.

Meanwhile, there emerges a paradox that many labourers, even trained labourers, especially in rural areas, are either underemployed or unemployed. Consequently, there will be a widening social gap between employed skilled workers and unskilled and unemployed labours, and inequality will increase as a result.

A large part of workers who are employed in export-oriented industries, just engaged in implementing a sub-contract or assembly of machinery and equipment requiring medium skills, so their wages are not sufficient enough to cover living expenses for their families and to have a modest saving. Many strikes in some enterprises to ask for wage increases have taken place. The value added of products is insignificant due to a large share of imported materials. Maintaining the current approach is likely to push Vietnam in the low-cost and low-income trap.

Human resource training to meet market needs is prerequisite for Vietnam to take advantages of emerging development opportunities. In this regard, special attention should be paid to relevant vocational training to enable workers to move from low-productivity and low-income agricultural production to industries and services with higher and stable income. Accordingly, the training and labour market systems have to experience fundamental changes so as to properly meet market needs for human resources. These changes will enable trained labourers to seek stable jobs with reliable incomes. This will act to foster education and training activities.



## PART TWO

### ENSURING PROGRESS IN THE SOCIAL SECTORS TO IMPROVE THE MATERIAL AND SPIRITUAL LIVES OF THE PEOPLE

#### 2.1. IMPROVING THE QUALITY OF HUMAN RESOURCES SO AS TO MEET THE NEEDS OF INDUSTRIALISATION AND MODERNISATION

##### 2.1.1. Pre-school and General Education

The opportunities for education for Vietnamese children have improved over the last three years. Pre-schools are operated in almost all communes; there are primary schools in every commune; a lower secondary school in every commune or group of communes; an upper secondary school in every district.<sup>41</sup>

The pre-school enrolment rate of children under five years old was 92.5 percent in 2008, reaching 97.4 percent of the target set for 2010. With the positive results of the implementation of a project on development of early child (pre-school) education 2006-2010, that gives priority to five-year-old-children in disadvantaged regions,<sup>42</sup> the number of nursery school attendants grew quite fast in 2006 and 2007 and is expected to grow in 2008 with increases of 9 percent, 6.7 percent and 7.3 percent respectively. The indicator “pre-school enrolment rate of the total number of children under five” can be met by 2010.

The primary net enrolment rate has been increasing steadily since 2005. The estimated figure for 2008 is 96 percent, equal to 97 percent of the target set for 2010. This indicator can be achieved in 2010 consolidating the result of primary school universalisation.

<sup>41</sup> Ministry of Education and Training (MOET) (2008).

<sup>42</sup> Enabling five-year-old children to go to pre-school education to get accustomed to Vietnamese language is an essential condition for increasing quality and efficiency of all general education levels.

Table 15: Implementation of Selected Indicators on Education Opportunities for Pupils and Students (%)

	2005	2006	2007	Estimated 2008	Target 2010	Implementation of the plan 2008
Percentage of state expenditure on education*	17.0	19.4	18.5	18.9	20	101.0
Number of provinces completed lower secondary education universal (provinces)**	31	32	39	47(1)	64	120.2
Pre-school enrolment rate of the total number of children under 5***				92.5	95	
Net primary enrolment****	94.6	95.0	96.0	96.0	99	98.6
Net lower secondary enrolment*****	77.6	76.6	78.2	79.0	90	92.9
Net upper secondary enrolment					50	
Growth rate of new enrolment of college and university student****	12.5	11.4	11.1	13.0	10.3	126.2
Growth rate of new enrolment of secondary technical education students*****	20.9	13.4	20.9	18.7(1)	14.7	113.3
Growth rate of new enrolment of vocational training*****	4.1	11.0	7.2	17(1)	7.2	236.1
Growth rate of new enrolment in long term vocational training *****		3.1	8.5	43(1)	17.0	252.9

Source: \* MOF (2007: 50); \*\* SRV (2008: 10); \*\*\* Data of Ministry of Education and Training (MOET); \*\*\*\* MPI (2008b); \*\*\*\*\* Authors' calculation using data of MOET and Ministry of Labour-Invalids and Social Affairs (MOLISA); (1) GSO data.

Note: Growth rate of new enrolment in long term vocational training in 2008 is only for vocational college and vocational secondary technical education.

However, lower secondary enrolment at the right age increased slowly from 76.6 percent in 2006 to about 79 percent in 2008. This objective is likely not to be completed in 2010 if there are no additional measures to encourage children to go to school.

Although elimination of illiteracy is an extremely important objective, in order to create a labour force with the ability to enquire new knowledge and upgrade skills to meet the demands of labour markets, secondary education and vocational training are needed. With secondary school attainment as the minimum level, labourers who proceed to vocational training should have basic knowledge to acquire skills through the courses. The low enrolment rate at lower secondary schools, dropouts during the secondary years as well as the lack of quality education resulted in a small number of qualified candidates for training in the subsequent years, therefore giving rise to a serious shortage of trained human resource.

A shortage of trained human resources, deficiencies of the present curriculum and teaching learning methodology (e.g. dominance of rote memorization) constrain to the international integration process and rapid and sustainable development. In recent years, a lack of skilful workers needed to work in export-oriented industries has been evident. Meanwhile, there are a large number of people who are unemployed due to a lack of training.

From the 2006-2007 school year, the number of pupils dropping out of school increased and the completion rate of all levels decreased. Seemingly, this may due to the fact that MOET has been determined to eliminate high graduation records of low quality, having tightened discipline in marking and evaluating pupils, as a result pupils who can not meet these requirements quit school. Although the results of final examinations are noticeably lower, the quality of graduates is higher. However, the nature of the phenomena of dropping out is much more complex. A recent study of UNICEF (2008b) showed a number of reasons of drop out, including economic and financial barriers, the need to work, the poor quality of teaching and learning in schools, inadequate school infrastructure, parent's perception of the value of educating girls, unfriendly relationship between teachers and pupils and relationship among pupils, early marriage.

The slow increase in the lower secondary enrolment rate probably has a number of causes. One of the main reason is inadequate education quality. Upgrading education quality to help pupils to get skilled jobs and higher income after graduating is a vital objective.

Education quality itself depends on a number of factors such as the number and standard of teachers, school facilities and funding, teaching programs, study time in classes and others. There are problems with real quality of teaching standards despite high probability of the achievement of these indicators. At primary school level, in the especially difficult regions, mountainous and remote areas, many teachers who just achieved

degrees of 5+; 7+; 9+. In lower and upper secondary school education, a number of teachers received the standardisation certificate through in-service training, distance learning, etc. so they can not meet the real requirements of the profession.<sup>43</sup>

Education is a prioritised sector for government spending. The share of state expenditure for education increased from 17 percent in 2005 to 18.9 percent in 2008, and this indicator should meet or exceed the objective of 20 percent in 2010. In the past three years, state expenditure focused on classroom solidification programs at primary and secondary schools, upgrading and improving material facilities from nursery schools to secondary schools, creating favourable conditions for attaining results of education universal and upholding education quality. State budget allocated for universalisation of primary education, consolidating the result of primary education universalisation and for lower secondary education universalisation has been increased 10 times from 15 billion VND in 2002 to 150 billion VND in 2006.<sup>44</sup>

However, the demand for resources for education is much higher than that allocated from the State budget, especially the expenditure for development and allocating scarce resources optimally is not an easy task, requiring in-depth studies. The public expenditure review 2004<sup>45</sup> showed that state budget allocated is not enough to cover all item of expenditure for normal activities. Therefore, educational spending has to be supplemented by contributions of parents. In the poor areas, parents cannot afford to contribute sufficiently to maintain education quality at a minimum level.

Differences in budget allocations for education, school facilities and other factors of education vary among regions strongly affecting educational quality and enrolment rates, especially in poor areas. One of the indicators of education quality is the completion rate. The data from MOET shows that while the primary enrolment rate of poor regions like Northern mountainous areas and the Central Highlands is not lower than that of rich regions, the completion rate of primary school of poor regions is much lower. Provinces that have not yet completed universalisation of lower secondary education are those facing more difficulties in term of economic development, infrastructure, supply of teachers and assuring conditions for boys and girls to access school (i.e. in the Northern Uplands, Central Highlands and Mekong River Delta). In 2006, on average about 91 percent of communes nationwide had lower secondary school, while in Bac Can province it was only 76 percent, in Khanh Hoa 57 percent, and in Long An 64 percent (GSO 2007a). It will be hard to meet the objective of completing universal lower secondary education in 2010. This results in a vicious circle for the poor and poor regions.

A large number of families having low incomes cannot afford education fees. The household living standards survey in 2006 showed that the proportion

<sup>43</sup> Source: Kim Dung (2008).

<sup>44</sup> Source: Mai Minh (2007).

<sup>45</sup> SRV et al (2005).



of children of lowest (20 percent) income families group going to school was much less than that in highest income families group. Moreover, time spent at schools leads to a decrease in time to do housework, help parents and even earn money for the family leading children to quit school or not go to school in the first place.

Other factors limiting participation of children in school include transport, language and cultural barriers in areas of ethnic minorities, and inappropriate programs. Some factors may not be solved by education policy but concern of other ministries.

### 2.1.2. Professional and Vocational Education

The number of students is increasing very fast, but the structure is inadequate. While the annual growth in enrolment in higher education is likely to exceed the target for the year 2010 (10.3 percent per annum), the enrolment rate for vocational training has increased slowly. In 2008, the new enrolment rate for vocational training increased sharply, especially enrolment in long-term vocational training; however the percentage of long-term vocational training students is still lower the target set for 2010.<sup>46</sup>

The quality of universities and colleges is cause for concern. The upgrading of colleges to universities and from secondary technical schools to colleges, and the establishment of new universities and colleges has been massive, but without adequate control and supervision. This has resulted in many sub-standard institutions (in terms of class-rooms and teaching facility, the mix and quality of trainers, training programs, training methods and others). The shortage of leading professors and associates, as well as sourcing out trainers is widespread. Most universities are very weak in research.<sup>47</sup> Very few Vietnamese professors and lecturers publish articles in international peer-reviewed journals.<sup>48</sup>

Although the number of vocational training institutions has increased dramatically, the number of vocational colleges and secondary vocational technical schools is still small and most of them are of a small scale, with limited capacity and training programs that do not meet the requirements of the labour market. The number of qualified teachers is limited, equipment and teaching aids are in short supply, and the quality assessment system is merely formalistic. Most of vocational training institutions can provide only short term training courses.<sup>49</sup> The increase of long-term vocational training student requires large financial investment, material supplies, trainers, curricula, etc. and this is difficult to achieve.

<sup>46</sup> The share of long-term training is about 17.6-19.5 percent compared to the target of 25-30 percent of the total number of students in vocational training.

<sup>47</sup> Source: Võ Tòng Xuân (2008).

<sup>48</sup> Source: Harvard Vietnam Program (2008: 22).

<sup>49</sup> MOLISA (2007, 2008).



### 2.1.3. Emerging Issues in the Education and Training Sector

There is an unbalanced development of the education system between pre-school, general education, vocational education and higher education. Pre-school is not paid enough attention. Vocational training does not meet requirements in either quantity or quality. The proportion of the labour force with vocational training is still very small and below planned objectives; the occupational mix is far from optimal, and highly-skilled workers are in a huge shortage.

Programs and methods of education and training are still backward and irrelevant. Improvements in management and innovation are slow and insufficient. Problems in education and training such as fraudulence during recruitment, schooling, examination, certificate/diploma granting or massive private after-school coaching linger.

Quality has a number of weaknesses and does not meet human resource development requirements. Self-motivation and creativity of students are not paid enough attention; students have a low ability to put onto practice what have been learnt. Qualification of graduates is usually insufficient to find a good job.

Outcomes of the education sector have not matched spending of the whole society. In spite of significant advances, education activities in remote and ethnic-minority areas still face an enormous number of difficulties, lagging behind urban and lowland areas. For example, shortage of class-rooms and teaching facilities, shortage of teachers in terms of number and qualification; policy for teachers in far and distant areas is not incentive enough, low teacher's salary; low living standards of people in mountainous areas and ethnic minority could not help their children to attend school.<sup>50</sup>

Constraints in providing higher education with adequate quality do not allow meeting the need of workers with relevant skills. The whole education and training system fails to meet the need of current development.

## 2.2. IMPROVING HEALTH PROTECTION AND HEALTH CARE

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### 2.2.1. The Result of Implementation of Some Indicators on Health and Commune Health Care

In the past three year, people's health has improved and prevalence of common diseases has declined. Access to health care services has been increased as a result of continuous strengthening and development of the health care system through-out the country.

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<sup>50</sup> Source: MPI (2008b: 28).

The number of beds per 10,000 people increased from 23.9 in 2005 to about 25.7 in 2008,<sup>51</sup> which met annual targets and equalled to 75 percent of the target set for 2010. Based on the results achieved in the last three years if the Government continues to invest in development of health care institutions and implements policies to encourage the private sector's investment in health care, the target for the number of beds per 10,000 people in 2010 can be reached before schedule.

Health status and child survival have been improved. In particular:

(1) National level malnutrition rate in children under five years old decreased from 25.2 percent in 2005 to about 21.0 percent in 2008, which has achieved 95 percent of the planned figure towards the target of 20 percent for the year 2010. This goal can be completed at the national level by the year 2010, but the disparities among the provinces remain striking with a number of provinces still having high levels of malnutrition. To reach the malnutrition reduction goals also at the provincial level remains a challenge.

(2) Under-five mortality rate decreased from 28‰ in 2005 to 25‰ in 2008, which fulfils the plan of the year and achieved the target set for 2010.

(3) Under-one-year-old child mortality decreased from 18‰ in 2005 to 15.5‰ in 2008, fulfilled the plan for the year.

One important factor that contributed to the improvement in reduction of childhood diseases was the successful implementation of Expanded Programme for Immunisation. In 2008, the Coverage of Fully-Immunised Children is 95.7 percent. This indicator is completed ahead the schedule set for 2010. Providing free health insurance cards to children under six has contributed positively on health protection for children. In 2007, 97 percent of children under six were provided with health insurance cards.

These achievements resulted from increasing investment by the Government on upgrading and developing the health care service system from the central to local level, expanding the involvement of the private sector, strengthening prevention and control measures for communicable diseases, improving reproductive health care and the programs on maternal care and child malnutrition.

Along with expansion of the state public health care system, the private sector has contributed to the national health care system. Up to 2006, about 36.3 percent of all communes in the country had private health care units in their areas.<sup>52</sup> These private units provide about 3 percent of the total number of beds.<sup>53</sup>

However, there are targets that are likely not to be met by 2010:

<sup>51</sup> According to the report of MOH, in 2008 the number of bed to 10.000 people is 17.3 and the target set for 2010 is 18.5.

<sup>52</sup> GSO (2007b).

<sup>53</sup> MOH (2008)

Table 16: Implementation of Selected Indicators on Health

Indicators	Unit	2005	2006	2007	Prel. 2008	Target 2010	Implement of 2008 plan (%)
Proportion of public expenditure on health care to total budget*	%	5.3	6.3	6.2	6.3	9.0	83.8
Number of beds per 10,000 people**	Beds	23.9	23.7	25.0	25.7	26.3	100.0
Percentage of private hospital beds in the total number of beds***	%		2.2		3		
Coverage of fully immunised children under one-year old *	%	97.8	95.7	81.8	95.7	95	99.6
Number of doctors per 10,000 people**	Pers.	6.2	6.2	6.5	6.3	7	100.0
Percentage of commune health centres with doctors**	%	65.1	65.1	67.4	70	80	95.9
Percentage of high-land area commune health centres with doctors	%					60	
Percentage of commune health centres with adequate facilities and midwives***	%	93.5	93.3	93.6	94	100	96.5
Proportion of people with health insurance****	%		43.8	40.8	43.8		
Proportion of poor and near poor people with health insurance****	%		18.0	18.2	17.9		
Under-five child malnutrition rate***	%	25.2	23.4	21.2	21.0	20	105.1
Maternal mortality ratio per 100,000 live births**	mother	80.0	78.0	75.1	75.0	60	99.3
Infant mortality rate**	%o	18.0	16.4	16.0	15.5	16	100.0
Under-five mortality rate**	%o	28.0	26.0	25.5	25.0	25	100.0

Source: \* MOF (2007: 50); \*\* SRV (2008); \*\*\* Ministry of Health (MOH 2008); \*\*\*\* Vietnam Social Security (2008); SRV (2006).

(1) The percentage of commune health centres having doctors increased from 65.1 percent in 2005 to 70 percent in 2008, just equal to 87.5 percent the target for 2010.

(2) The percentage of commune health centres with adequate facilities and midwives increased only modestly in the last three years, from 93.5 percent in 2005 to 94 percent in 2008.

(3) Maternal mortality per 100,000 live births was reduced from 80 in 2005 to 75 in 2008, equal to 80 percent target for 2010.

(4) Proportion of people with health insurance and the proportion of poor and near poor people with health insurance have not been increased, even fallen down in the last three years. Up to 2008, only 43 percent of population had health insurance and as for poor and near poor people, this was only 18 percent. The reasons for that situation are:<sup>54</sup>

- The lack of a law on health insurance and a complete set of regulations, which cause difficulties for implementation. Lack of criteria for identifying near poor people means that support for them could not be implemented.

- Some regulations have not been kept up-to-date, including those related to health care insurance coverage, compulsory health insurance, fees, rights and benefits of people joining health insurance schemes according to Decree No 63/2005/ND-CP<sup>55</sup>, and becoming inadequate, but have not been changed;

- The appraisers of Vietnam Health Insurance are still not sufficient in number and lack adequate knowledge. As a result, the appraising of testing and treatment fees in health care institutions faces many difficulties.

Although the number of beds has exceeded the target, the demand for beds is even higher. The bed occupancy rate in 2007 was higher than that in 2006: in some hospitals at the central level this rate rose to 135-139 percent; in provincial hospitals to 120-123 percent and in district hospital 115-118 percent. In some hospitals, it is common for two or even three people to share a bed.<sup>56</sup> This overload shows that the real demand for beds is 20-25 percent higher than the planned target. To meet the demand, there should be a strategy and policies to mobilise resources especially from the private sector, including FDI.

While the rate of bed utilisation and the demand for new beds is very high, the percentage of commune health centres with adequate facilities and midwives increased very modestly and has not met the target. State expenditure increased very slowly and has not been achieved the plan in 2007

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<sup>54</sup> Source: Vietnam Social Security (2008).

<sup>55</sup> Decree No 63/2005/ND-CP dated 16th May 2005 Promulgating Regulation on health care insurance.

<sup>56</sup> Source: materials of the distant workshop on the human resource, of three points: Hanoi, Hue and Ho Chi Minh City, organised by MOH on 12th June 2008.

and 2008.<sup>57</sup> More studies should be carried out to find better ways to increase financial disbursement. Initial conjectures show that there may be difficulties related to complicated disbursement procedures, rigidity in spending structures, and limited capacity to implement projects in the health sector.

Though the indicator the number of doctors per 10,000 people increased from 6.2 in 2005 to 6.3 in 2008, meeting the plan of the year and achieved 90 percent of the target set for 2010, so that this target can be achieved by 2010, as mentioned above, the number of commune health centres with doctors increased very slowly, especially in remote areas. This may result in failure in achieving this goal by 2010.

## 2.2.2. Emerging Issues in the Health Sector

### 2.2.2.1 Areas and Groups Lagging behind

To provide better health care services to communities in rural areas, the health system has been expanded in villages. In 2006, 89.2 percent of villages have health staff.<sup>58</sup> However, the quality of health care and treatment at commune health centres is still very low. Current human resource policies regarding health personnel do not attract sufficient doctors and health staff to work in mountainous and rural areas, rather health staff assigned to work in commune centres move back to district hospitals.<sup>59</sup>

The living standards in the mountainous and remote areas and locations are low, with poor hygiene conditions, infrastructure and transportation difficulties, lack of doctors and medicine. These contribute to high rates of child mortality, which are also under-estimated, especially due to a number of unreported new-born deaths.<sup>60</sup> Due to the high out-of-pocket expenditures the poor still are disadvantaged in relation to access to quality health care services, thus there is a gap in access to health care between the rich and the poor groups.<sup>61</sup>

### 2.2.2.2 Inadequacy in Training and Utilisation of Human Resources

There are total of 95 training institutions for health staff, including 19 universities and 25 colleges (MOH 2008). These institutions have received funding allocation and strengthened their training capacity. There is a specific

<sup>57</sup> The share of expenditure for health sector in the total state budget expenditure in the five-year plan is 8-10 percent, but this figure in 2008 is just 6.3 percent, achieving 83.8 percent of the plan and equal to 70 percent of the target set for 2010.

<sup>58</sup> GSO (2007b).

<sup>59</sup> UNDP (2007b: 141).

<sup>60</sup> Government of Vietnam (2008).

<sup>61</sup> UNDP (2007b: 133).

project to train health staff for disadvantaged provinces, especially for Central Highlands and Northern provinces.

According to the Science and Training Department of MOH, the demand for additional health care human resources over 2008-2010 is 109,521 people or 36,507 people annually.<sup>62</sup> In addition, about 12,000 health care officials who retire annually need to be replaced. However, up to 2007 the training system could supply only 24,534 staff every year. The biggest problems of training activities for health care staff at the moment are a lack of ability to supply sufficient number of staff, imbalances between specialties, limited training quality, and a lack of development of high-tech human resource. Main reasons for these problems are:

- Lack of vision and strategy for health resource development, trainers and teachers for the sector. Training activities are being organised in a passive way;
- Composition of specialised professions is slowly being restructured, focusing too much on the training of curative doctors, while there is not enough attention on training other preventive professional areas such as epidemic prevention and public health. The quality of training is limited due to the lack of practical hands-on sessions, and training materials and equipment;
- Investment in this area is not a priority, consequently budgetary resources for training and investment to upgrade training institutions fall short. At the same time, there is a lack of efforts to design and implement policies to encourage the private sector and foreign investment for training of health staff;
- Inadequate salaries and other incentives for the teachers and trainers in the training institutions.

### 2.2.2.3 Low Quality of Treatment and Quality of Services

The quality of services, as well as quality of drugs is variable, having a negative effect on the results achieved. For example, coverage of under-one-year-old children inoculated with six essential vaccines decreased sharply in 2007 to 81.8 percent from 95.7 percent in 2006 (about 200,000 children had not been vaccinated in 2007). The main reason for this problem was reported adverse effects of vaccination.

Many hospitals abuse testing and expensive diagnosis equipment for unnecessary paramedical examinations. Such abuse leads to wasting the money of patients and of the health insurance fund;

The quality of the health care services is still very limited, especially at commune level and not all health care services can follow National standards for care. At the same time, hospitals are still facing difficulties in identifying suitable models for management of quality of service.

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<sup>62</sup> Quoted in Khanh Nguyen (2008).



#### 2.2.2.4 Inadequacy in State Management of Health Services

The policy on hospital fees has not been revised in a timely fashion and the mechanism for payment of health insurance is still problematic and inconsistent, causing many difficulties for hospitals;

Regulations on hospital were promulgated in 1997 and now some articles are not consistent with new practices although they are still in effect. Some guidelines on diagnosis and treatment have not been updated.

Confusion still exists in the management in such new areas as supervision of food safety, management of the system of drug distribution, and treatment of waste, especially solid waste.

#### 2.2.3. Reducing Population Growth Rate and Improving Population Quality

The activities of population, family planning and reducing population growth rate are facing many difficulties. In 2008, the birth rate reduction is about 0.1 per thousand, equal to 33 percent of the plan for the year and just about 25 percent of the target set for 2010 (0.3 per thousand). The 2010 target “average birth rate reduction” cannot be achieved.

In 2008 the population growth rate is higher than that of 2007 and it is about 1.24 percent. The estimated total population in 2008 is 86.21 million people.

There are number of challenges, such as population boom, increasing number of third babies among couples, contraceptive use fell 20 percent short of the annual target, increasing gender imbalance among births, with boys prevailing over girls at a rate of 112 boys per 100 girls in 2007, a significant increase compared to 1999’s rate of 107 boys per 100 girls. As a country with a young population, Viet Nam is facing a growing number of women of reproductive age every year.

Among reasons for slow decrease of birth rate and of population growth rate, the most influential are: (i) Changes in the structure of state management on population and family planning that loosed the activities on propaganda, education and counselling on population and family planning to people; (ii) awareness of people on the right of determination of number of children according to the ordinance on population and the conception on sex of children on people.

Despite these difficulties, 2008 was marked by the issuance of a series of relevant legal documents, creating a legal basis for population control measures to progress in order to meet its ambitious target of reducing the number of births by 0.2 per thousand in 2009.

## 2.3. IMPLEMENTATION OF OBJECTIVES ON LABOUR, EMPLOYMENT AND POVERTY REDUCTION

### 2.3.1. Labour and Employment

With economic growth slowing down, many enterprises have had to reduce their labour force, although it is anticipated that in 2008 1.65 million jobs will be created (including labour export of over 80,000 people per year) (Table 17). The National Fund for Employment alone provides 350,000 jobs through credit activities.<sup>63</sup> Thus, indicator “number of new jobs” created each year and on average within three last years (2006-2008) has exceeded the planned target.

Similarly, the “urban unemployment rate” was reduced to 4.64 percent in 2007 and in 2008 it's expected to be 4.6 percent. Thus, since 2007 the “urban unemployment rate” achieved the target for 2010 (under 5 percent). If solutions for controlling inflation, stabilising macroeconomics, guaranteeing social policies are implementing successfully, the indicators on new jobs and on unemployment will exceed the target set for 2010.

The proportion of workers in the agriculture sector fell sharply in 2007 (to 53.9 percent) in comparison to the year 2006 (55.4 percent), but due to economic difficulties in 2008, it is expected that the proportion of labour in agriculture will fall only slightly to 53.2 percent. Thus, up to 2008, the “proportion of labourers in agriculture” attains 94 percent the target set for 2010 so that this target should be achieved by 2010.

However, in this area, there are several issues that need to be considered. Redundant workers from factories will go back to job-sharing in agriculture. Though this may be a temporary phenomenon, may result in increased underemployment and poverty. Moreover, the results of the Rural, agricultural and fishery census in 2006 show that economic restructuring from agriculture to non-agriculture in rural areas is proceeding slowly and differs among regions.<sup>64</sup> Central Highlands and Northwest are regions where economic restructuring has taken place very slowly in the past five years. The proportion of households engaged in industry, construction and service in the North West region increased only from 6.0 percent to 7.2 percent, in Central Highlands - from 6.7 percent to 9.1 percent.

Indicator “proportion of trained workers” increased from 25 percent in 2005 to 37 percent in 2008, exceeded 8.8 percent the plan of the year and equal to 92.5 percent the target for 2010. It's expected that this target will be met before schedule.

<sup>63</sup> Data of MOLISA (2007) and MOLISA (2008).

<sup>64</sup> GSO (2007a).

**Table 17: Implementation of Selected Indicators on Labour and Employment**

Objectives	Unit	2005	2006	2007	Prel. 2008	Target 2010	% plan implementation
Number of new job	mill. people	1.6	1.65	1.6	1.65	1.6	Exceed
Urban unemployment rate	%	5.3	5.2	4.9	4.6	< 5	Exceed
Proportion of trained workers*	%	25.0	31.6	35.4	37.0	40	80
Proportion of labourers in agriculture	%	56.8	56.7	52.8	53.2	50	52.2

Source: SRV (2008), \* MPI (2008a).

However, implementation of objectives on labour and employment is facing difficulties:

- Though the number of jobs created is rather large, quality is low. Jobs are mainly created in agriculture, the household economy, SMEs, industries with simple technology such as garments, leather and footwear, electronic assembling, etc. Working environment is improving slowly; labour accidents and occupational diseases are still high, especially in mining, construction, and electricity. The breaking of labour regulations is widespread, but investigation and supervision are inadequate.

- Toward the end of 2008, many enterprises faced a problem of downsizing labour force because of production contraction,<sup>65</sup> about 20 percent of small and medium enterprises faced a danger of bankruptcy.<sup>66</sup> It is estimated that by the end of 2008 about 30,000 workers have lost their job and the projected figure for 2009 is 150,000.<sup>67</sup> Labour relations heat up, and more and more strikes occur. There are difficulties in management of migrant workers. Workers at industrial parks are facing difficulties in terms of housing, transportation, daily life, study, medical care, cultural life, etc.

- Underemployment in rural areas is still serious. The unemployment rate in urban areas has fallen, but unemployment among the youth and trained labourers is still high.

- The proportion of trained workers increases, but the human resource quality remains far below the demand in labour market. Training quality in higher education, secondary technical professional and vocational schools are still low. 80 percent of vocational trainees just undergo primary or short termed training (less than three months). There is a shortage of high qualified

<sup>65</sup> Kim Toan and Ha Diu (2008).

<sup>66</sup> Phuoc Ha (2008).

<sup>67</sup> Hong Khanh (2009).

labourers, suitable engineers and high-ranking managers in the labour market.

- Labour restructuring is taking place slowly. Most workers are working in enterprises with low value added, with simple technology and risky market conditions. Deficiencies in training activity adversely affect sectoral labour shift and reduce the country attractiveness for investors.

- In a time of economic difficulties, many enterprises have to choose the solution of reducing their workforce, and the most likely to be made redundant are low skilled workers, migrant workers, female and other vulnerable groups. The “reverse migration” from urban to rural areas will increase a burden of employment creation in agriculture and informal sector and that will adversely effect the underemployment and poverty in rural areas.

### 2.3.2. Poverty Reduction

Until 2007, the proportion of poor families continued to decrease rapidly. The poverty rate decreased to 14.8 percent in the year 2007 as compared to 20.2 percent in the year 2005. However, what has happened since the beginning of 2008 showed that, the results of poverty reduction in the previous period are unstable and lack sustainability. In 2008, as a result of inflation and natural disaster, the proportion of poor household declined very little, to about 13.1 percent.<sup>68</sup> However, thanks to the good results in poverty reduction in 2006 and 2007, the target of 10-11 percent of poverty rate in 2010 can be met.

The achievement in poverty reduction is the result of the high priority give by the Government and local authorities to achieving this objective. Economic growth creates jobs for the poor. Many programs and projects are directed to hunger elimination and poverty reduction. National targeted programs (NTPs) on poverty reduction support investment in infrastructure, provision of credit for production and vocational training, and support for health service access, education, accommodation, and clean water.

Annually, NTPs of poverty reduction support infrastructure for hundreds of commune in especially poor areas. In particular, in 2006 and 2007, every year, there were 347 construction projects, and in 2008 there were 550 projects funded.

It is estimated that about 75 percent of total poor households, accounted for 15 percent of the total population have access to credit from the bank for social policy.<sup>69</sup> The micro-finance network is gradually becoming an important financial channel, contributing efficiently to poverty reduction and improvement in the living standards of the rural population. As of June 2008, these organisations provided credit to 25,000 poor people with 50 billion VND.

<sup>68</sup> According to GSO (According to MOLISA, it is 12.1-12.5%).

<sup>69</sup> UNDP (2007c).

However, beside the successes, there are still many problems which need to be addressed in the coming time period. In past years, although the poverty rate fell quite fast, the differences between regions and ethnic groups are still very high. In 2006, urban poverty rate was 3.9 compared to 20.4 in rural; poverty rate of Kinh and Chinese group was 10.3, while the poverty rate of ethnic minorities was 52.3; while the poverty gap of Kinh and Chinese group was just 2.0, that of ethnic minorities was 15.4<sup>70</sup>. Gap of expenditure between 20 percent richest and 20 percent poorest increased from 4.5 in 2006 to 4.57 in 2008 and the gap of income of 20 percent richest and 20 percent poorest increased from 8.4 to 8.5 in 2008<sup>71</sup>. Even in the same location, the poverty rate of ethnic minorities is higher of that of Kinh due to differences in human capital, social capital, effectiveness of capital utilisation and ability of using Vietnamese language.<sup>72</sup> Many households are in danger of falling back into poverty, especially among ethnic minorities in Northern mountainous areas and North Central Coast. Fluctuation of prices, unstable job, unfavourable weather, epidemic diseases, infertile soil, etc. make the border line between poor and non-poor becoming very faint.<sup>73</sup>

Infrastructural facilities vary greatly. Rural road building and upgrading in the mountainous areas and the Mekong River Delta still face many difficulties; almost 20 percent of communes in the North West region and the Mekong River Delta do not have vehicle access to the commune centre. In addition, the hamlet-connected-road systems are unequal among regions and provinces. The hamlet-connected-road systems are most developed in the Red river Delta and central southern region. The quality of hamlet-connected-road systems in other regions especially in the North West, North East regions and Central Highlands is still limited. The number of communes with hamlet-connected-road systems in those regions with more than 50 per cent concrete paved roads is only around 20 percent; in the North West region it is only 7.1 percent. In Ca Mau, only 25.9 percent of communes have vehicle access to the centres of the commune and there are only 24.7 percent of the communes with year round vehicle access, and there are only 22.2 percent of the communes that 50 percent hamlet-connected roads which were built by concrete.<sup>74</sup>

High inflation in 2007 and 2008 resulted in reductions in real income for some groups, and this affected seriously the poor and near poor people, some falling back to poverty. As the rate growth rate declined in the first six months of 2008, some enterprises were faced with recession there were losses in employment and income. Poverty is unfolding very complex. Some new types such as urban poor, poor children, poor migrant workers need to be more

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<sup>70</sup> Poverty gap measures how far average income of the poor is below the poverty line.

<sup>71</sup> GSO (2008b).

<sup>72</sup> Oxfam and Action Aid (2008a).

<sup>73</sup> Oxfam and Action Aid (2008b).

<sup>74</sup> Source: GSO (2007b).

emphasised. For stable poverty reduction, human resource is an important factor that determines economic status of rural people. A comprehensive social protection system should be in place to mitigate adverse impacts.

## 2.4. CULTURE AND SOCIAL AFFAIRS

### 2.4.1. The Development of Vietnamese Modern and Traditional Culture

In the past three years, cultural activities have been promoted in all localities. The NTP of culture was implemented with three objectives: (i) preserve and uphold the traditional cultural values of the nation; (ii) Build and develop the cultural life and information at grassroots; and (iii) support the development of the movie industry.

To preserve and uphold national cultural values, the collecting, developing, conserving, popularising and respecting traditional culture (both material and immaterial) were promoted, enriching the cultural heritage of Vietnam. The number of museums, exhibits and recorded relics acknowledged increased.

The activities of building cultural life at the grassroots received more attention, especially in mountainous regions and areas of ethnic minorities. The investment in building and promoting institution of culture intensified. In 2007, there were 16,509 public libraries; while the number of basic reading room (commune, precinct, town, village, small village, mountain village) was 14,333.<sup>75</sup> However, according to the appraisal of experts, the target that 100 percent of all villages having a public library would be difficult to achieve by 2010. Also, ensuring the quality of public libraries (numbers of books or types of books) will face many difficulties.

The indicator “proportion of villages meeting cultural standards” is about 62 percent in 2008, which achieves the plan of the year and equal to 88.6 percent of the target set for 2010. The target for this indicator can be achieved by 2010.

The number of hours of Vietnamese television and radio broadcasting has increased over the past three years. The number of hours of Vietnamese television programs is about 129 thousand hours in 2008, rising 41.2 percent compare to the year 2005, fulfilling the plan of the year and equal to 99.4 percent of the target for 2010. The number of hours of Vietnamese radio broadcasting also rose 5.3 percent during the same period, to about 51,800 hours in the year 2008, exceeding the plan of 2.2 percent and equal to 95.9 percent of the target for 2010.

Not only the duration of TV programs, but also the coverage of television

<sup>75</sup> Ministry of Culture, Sport and Tourism (2008).



and radio broadcasting has increased considerably. By 2008, approximately 96 percent of Vietnamese families were able to watch television and 98.5 percent of the Vietnamese families are able to listen to Vietnam's radio programs. Comparing to the target 99.5 percent of the year 2010, in 2008, the indicator "proportion of households having access to TV programs of Vietnam" is about 96.5 percent and "proportion of households having access to radio broadcasting programs of Vietnam" is about 99 percent. The targets for these indicators can be met by 2010.

**Table 18: Implementation of Selected Indicators on Culture**

	2005	2006	2007	Prel. 2008	Target 2010	Implement ation of plan 2008 (%)
Proportion of villages meeting cultural standards*	50	65	65	62	70	100.0
Proportion of households meeting the cultural standards***	73.4		74.2		90	
Number of hours with TV programs/year (1000 hours)**	91.5	104.0	105.0	129.2	130	100.0
Number of hours with radio broadcasting programs/year (1000 hours)**	49.2	50.4	50.6	51.8	54	102.2
Number of historical and cultural sites preserved***	330	340	370	350		
Proportion of households having access to TV programs of Vietnam**	90	92	94	96	99.5	100.0
Proportion of households having access to radio broadcasting programs of Vietnam**	95	97	98	98.5	99.5	100.0

Source: \* MPI (2008a); \*\* SRV (2008), \*\*\* Ministry of Culture, Sport and Tourism (2008).

Despite the achievements, there are difficulties as follow:

- Master planning for preservation and promotion of relics coordinate with tourism development, for dealing with the relationship of cultural relics preservation and economic development; relic preservation in the face of new construction, etc is not effective;

- Avoiding regulations protecting relics and famous pagodas and beauty spots is a serious problem, resulting in the degradation of historical sites and the environment of national beauty spots.<sup>76</sup>

- In the countryside and especially in remote areas there is a lack of a system to protect cultural institutions and programs are ineffective. Activities

<sup>76</sup> Ministry of Culture, Sport and Tourism (2008: 36).

are still poor. Professional activities often take place in urban areas, and are often seasonal.

## 2.4.2. Sport Activities and Physical Fitness

Thanks to the increase of investment for sport and construction of sports facilities in villages and districts and also the strengthening of physical education conditions in schools, the number of communes and wards having sports units reached 92 percent in 2007. The proportion of schools with adequate sport facilities is 92 percent in 2008, rising by 15 percent compared to the year 2005 and has passed the target of 90 percent for the year 2010.

**Table 19: Implementation of Selected Indicators on Sport**

	2005	2006	2007	Prel 2008	Target 2010	Implementa tion of the plan 2008 (%)
Number of communes and wards having sports units (%)		92		100		
Proportion of schools with adequate sport facilities (%)	80	91	92	92	90	107.0
Number of sports persons of high calibre (people)	2,750	4,500	4,700	5,000	2,900	176.1
Proportion of people engaged in regular exercise (%)	18	19	20	23	22	112.7
Proportion of households engaged in sport exercises (%)	10	11.6	12	13	15	100.0

Source: MPI (2008a).

Sport activities of “high calibre” have received much attention and the number of “high-level” athletes increases every year. Many activities have focused preparing Vietnamese sport teams for leading international competitions such as the South East Asian Games, the Asian football championship, and Olympics Beijing, etc. In comparison with the year 2005, the number of high-level athletes increased nearly 82 percent and reached around 5,000.

The law on sports and exercise which took effect since July 01, 2007 gives the basic framework for managing, mobilising resources and organising sport activities.

Public interest in sports increased gradually. With increasing awareness of the benefits of exercise and sport, there are many more people who exercise and are involved in sport. In 2008, about 23 percent of population exercised daily, exceeding the target of 22 percent by 2010. The indicator “Proportion of households engaged in sport exercises” is about 13 percent in 2008, equal to

86.7 percent of the target set for 2010. These targets will be completed on or before schedule.

One point that needs to take in to account in organising mass sport activities is the difference among the rates of people joining sport by sex, age and rural - urban areas. In particular, older groups are practicing sport more frequently than younger groups; men tend to practice more than women, city-dwellers tend to practice more than countrymen<sup>77</sup>. Therefore, it is important to have propaganda strategy, instruction, material basis investment for sport development, to accord with each specific group.

Despite the progress, exercise and sports development face a number of difficulties:

- Policies and programs financing for sports development are incomplete and not comprehensive causing difficulties. Moreover, there are no incentives to encourage investment by agencies and individual to develop sporting activities.

- Some areas, especially the mountainous areas, lack basic facilities, funding and staff.

- The process of decentralisation the management and strengthening the capacity of agencies in sport takes place slowly.

### 2.4.3. Policy for Supporting People who Made Contributions for the Country's Protection and Development

Support for people who made special contributions for the country's protection and development is an important part of Vietnamese social security system expressing the deep gratitude of the people for commitment and sacrifice. The Ordinance on People who made contributions for the country's protection and development has changed <sup>78</sup> administrative procedures, decentralised management, changed the record system record, and supported implementation of policies to support people who made contributions for the country's protection and development, providing money to buy equipment for rehabilitation and to help war invalids. Allowances are set in line with average income.

In 2006, provinces inspected, confirmed and admitted 15,651 people who had services rendered of nine types. Regular allowances were paid to 1.5

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<sup>77</sup> GSO (2008d: 179-181)

<sup>78</sup> Ordinance No 26/2005/PL-UBTVQH11 on People who made contributions for the country's protection and development promulgated on 29th June 2005. Guidance for implementation of the ordinance: Decree No 45/2006/ND-CP on 28th April 2006 on the regulation of management and use of the fund of repaying people for their favour; Decree No 54/2006/ND-CP on 26th May 2006 guideline on implementation of some articles of the Ordinance; Circular No 07/2006/TT-BLĐTBXH of MOLISA on 26th July 2006 Guideline on recording for implementation of the benefits of Devotees.

million pensioners, with the total amount of 8,352 billion VND, an increase of 30 percent compared to the year 2005. The total amount of expenditure in 2007 rose to 10 trillion VND, 19.7 percent increase compared to the year 2006.

In 2007, the Government continued the process of decentralisation of confirming pensioners, creating files needed for preferential support and providing money to eligible people for buying equipment. Nearly 1.2 million pensioners received health insurance, 14,350 people received preferential housing benefits for the oldest veterans

Society has been mobilised to participate in encouraging, taking care of pensioners, providing credit, training, employment, so that they can increase their incomes and improve their lives. In 2007, all over the country 12,597 “houses of gratitude” were built, 12,433 houses were repaired with an expense of 264.5 billion VND. The fund of repaying people for their services had mobilised with 268 billion VND.

However, the implementation of the policy to support people who served the country is still imbalanced, and not comprehensive. Economic preferential treatment does not go hand in hand with other allowances. Some economic preference like tax credits and employment are not coordinated with policies on health care, education, vocational training and housing. Moreover, the implementation of these policies also depends very much on the local conditions (the provincial budget, the job market, capacity of training institutions, etc). Local shortages have reduced the effectiveness of these policies and programs.

#### **2.4.4. Development of a Social Protection System**

A social protection system provides a basis for constructing policies in favour of the poor and it can help to develop economic models that benefit the poor.

The compulsory social insurance program covers labour in the formal sector – labour in public administration, private companies, state-owned companies and foreign-invested enterprises. By 2007, there were 7.7 million people involved, 1.4 million more than in 2005. By 2008, approximately 9.7 percent of population pay for compulsory social insurance, in comparison with 8.02 percent in 2006. In 2007, proportion of companies paying for compulsory social insurance increased by 1 percent and the number of people, who paid for compulsory social insurance, also increases by 4 percent as compared to 2006. However, there still only about 67 percent of total eligible labourers participating in compulsory social insurance. In 2006, in the non-state sector, the number of people paying compulsory social insurance accounted only for 20 percent of all eligible people. Evasion and postponement for compulsory social insurance are still very serious and there is no effective measure for dealing with. Until 2007, the arrears of enterprises to compulsory social insurance increased to 1,000 billion VND.

The voluntary social insurance program has been piloted for more than 10 years in Nghe An province. At present, there are nearly 100,000 people joining this scheme. According to the Law of Social Insurance 2006, voluntary social insurance for farmers and labourers in the informal sector has become effective since 1st January 2008. However, up to December 2008, this scheme has been implemented to a very limited degree.

The Social Assistance Program has two components of emergency relief and regular support <sup>79</sup> (which provides assistance to people in need in cash and in kind such as lonely old people, poor households and vulnerable groups, especially orphans, street children and the handicapped). The emergency relief program is implemented through two channels: State and community, including individuals, social associations, and non-governmental organisations.

**Table 20: Number of People Receiving Social Assistance (persons)**

	2005	2006	2007
Number of eligible for social protection allowances (pers.)	831,000	860,000	1,300,000
Number of beneficiaries of social protection (pers.)	416,000	470,000	578,000
Proportion of beneficiaries of social protection (%)	50.06	54.65	44.46

Source: MOLISA.

Support from community still plays an important role. However, two third of resources for annual emergency relief is spent by the state. Mobilisation of resources for emergency relief depends very much on the number of disasters and the losses caused, but the trend is to increase support in kind and reducing that in cash.

NTPs have sought to support disadvantaged groups. The Bank for Social Policy is a financial institution responsible for supporting the implementation of social policies, by 30th June 2008 had implemented 14 credit programs with total debit balance of 42,200 billion VND. Since 2006, the debit balance has increased by 43 percent annually.

After the Government issued Decree No 67/2007/ND-CP dated 13th April 2007<sup>80</sup>, the number of target groups were eligible for social assistance went up to nine, thus the number of people eligible for regular support increased to 1,3 million people, an increase of 51,2 percent in comparison to 2006. The number

<sup>79</sup> Regular support comprises of seven types: (i) allowance for bringing up; (ii) health care; (iii) education; (iv) vocational training and employment; (v) culture, sport and recreation; (vi) accessing public facilities and transport; (vii) accessing IT.

<sup>80</sup> Decree No 67/2007/ND-CP dated 13th April 2007 on assistance policy toward people eligible for social assistance.

of people actually enjoying allowances increased 23 percent, but the ratio of those enjoying benefits to the total eligible fell about 10 percent, from 54.65 percent in 2006 to 44.46 percent in 2007.

The Vietnamese social protection system faces inefficiency and a number of challenges. The gap between the rich and the poor has increased and there is unequal access to social services between different groups. According to UNDP (2007c), social policies in Vietnam are regressive. The rich receive 40 percent of social welfare resources while the poorest receive only about 7 percent. The richest group receives 47 percent of total pensions while the poorest take only 2 percent. The richest group enjoys 45 percent of medical services, but the poorest receives only 7 percent. The richest received 35 percent of support for education, but the poorest received only 15 percent. The increasing gap is due mainly to differences between rural and urban areas.

In general, the main problems of current social security system are coverage, equity and finance. The coverage is still limited. Inequality is still high. Expenditure for social security programs accounts for a small part in the total public expenditure. A strategy is needed to mobilise new resources for social security programs.

#### 2.4.5. Improving Material Conditions for Ethnic Minorities

Improvement of the material life of ethnic minorities has been given high priority in the system of social policies of Vietnam. Besides common policies, during the last three years, the State has continued with Program 135 Phase II for socio-economic development in especially poor communes in mountainous areas and for ethnic minorities (2006-2010) with four specific targets: Production development, increasing living standards for ethnic households; infrastructure development; essential local public service development such as electricity, schools, medical stations, clean water; and improving cultural life.

Program 135 Phase II began in 2006 with a total fund of about 12,000 billion VND, annually investing 3,000 billion VND in over 1,644 communes in extreme difficulty and nearly 2,500 hamlets and villages. Program 135 contributed to significant changes in the mountainous rural environment, improving people's lives<sup>81</sup>. This program also contributed to resettlement and strengthened the capacity of local cadres. Many communes try their best to invest and to organise and carry out projects.

Program 134 on supporting land for production and land for residence, housing and water supply for poor ethnic households has been implemented since 2004. After three years in execution of Program 134, an assessment showed that support in building houses, provision of concentrated and

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<sup>81</sup> Source: Bank of Social Policies (2006).



dispersed water supplies providing land for production, etc contributed significantly to the improvement in the quality of life of ethnic minorities. In many provinces, due to the lack of a supply of land for production, local authorities try to implement other policies such as vocational training and employment promotion for ethnic people and youths.<sup>82</sup>

The NTP on poverty reduction also supports poor ethnic minorities efficiently. Policies on ethnic minorities have brought specific results. Though poverty rate among ethnic minorities is still high in comparison with the Kinh and the Chinese, it has fallen from 60.7 percent in 2004 to 42-45 percent in 2008, a rate of reduction two times the national average.

Average income per month of ethnic people in 2008 is about 485-505 thousand VND, increasing by nearly 30 percent in comparison with that of 2006. However, income gap with the Kinh and Chinese has increased.

Gender equality of ethnic people has improved somewhat. The percentage of female leaders from minority groups of total governmental officers has increased from 13.58 percent in 2006 to 13.8 percent in 2008.

During the last years, development of education for ethnic people has improved considerably in terms of scale, networks of schools, material facilities, and teacher training. Presently, there are primary schools in all ethnic areas, classes in many mountainous villages and residential schools in all mountainous districts. These residential schools play an important role in human resource training human and play an important role in socio-economic development in ethnic areas. From 2003 to 2007, the number of residential schools increased by 8 and the number of pupils increased from 2,982 to 3,386.

On 31st October 2005, Prime Minister issued a Decision No 267/2005/QĐ-TTg on vocational training policy for ethnic pupils in residential schools. According to this decision, graduates of ethnic residential lower and upper secondary schools, including those at local people's houses are eligible to be selected for vocational training. The priority is given to children of ethnic people in extremely difficult areas. They are exempted from school fees, exam and entry fees; enjoy scholarships, social allowances and other social policies similar to students of residential ethnic upper secondary school pupils.

In short, carrying out policies on improving material life of ethnic people has had positive results, but there are still difficulties and inefficiencies:

- Regarding Program 135, selection of communes eligible for investment was not objective and there was a lack of incentives for the communes to fulfil the tasks. Resource allocation was not based on local condition and shortcomings existed in integration with other programs.

- Regarding Program 134, the deployment of farming land support was slow and ineffective. Land withdrawal from public farms and plantations faces

<sup>82</sup> Source: Bank of Social Policies (2006).

a lot of difficulties. Many localities lack land resources but have faced difficulties in developing alternative incentive policies such as vocational training and employment promotion.

- As analysed in Section 2.3.2, poverty is still widespread and serious among ethnic minorities. Two third of communes of 61 poorest districts are in the ethnic minorities with 95 percent ethnic minorities people. Ethnic minorities are poor not only in term of ‘material life’, but also in term of “spiritual and cultural aspects”.

- There have been difficulties in education for ethnic minority children. Their opportunity to attend school is low due to poor facilities, language and cultural barriers, and there have been difficulties in attracting good teachers to work in remote areas and developing suitable training programs.

- The vocational training policies have met only 10-15 percent of the need in ethnic minority areas. The beneficiaries of new policies are only ethnic students in residential schools (about 10 percent of total ethnic students) and there is still a lack of incentives for students in other schools (90 percent of total ethnic students).

#### 2.4.6. Gender Equity and Enhancing the Role of Women

Vietnam is recognised to be good at providing equal healthcare and education services for both male and female. Statistical data shows that there is only small difference between male and female enrolment rate at primary and lower secondary schools. The difference in illiteracy rate between male and female adults tends to decrease. With 17.7 percent female membership in governing bodies, People’s commission at all levels, and the National Assembly, Vietnam has the highest rate of female involvement in governing bodies in the region.

In 2007, the labour force participation rate of women (65.4 percent) compared with men (74 percent) in Vietnam, a ratio 0.88<sup>83</sup>, higher than that of the countries at the same income level (0.76). Labour Codes, the gender equity law and other policies are applied to ensure gender equality in work and payment. Laws also promote gender equality in access to production resources, credit, job generation, property and inherit.

Gender Development Index (GDI)<sup>84</sup> of Vietnam in 2007 was 0,732 ranking 91st in total 157 listed countries.<sup>85</sup> Despite the higher value, the ranking of Vietnam is lower than the year of 2003 when with the value of 0,702 Vietnam

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<sup>83</sup> MOLISA (2008).

<sup>84</sup> GDI measuring gender inequality in three basic dimensions: a long and healthy life, knowledge and a decent standard of living.

<sup>85</sup> UNDP (2007a).

ranked 83rd in a total 177 countries. Gender Empowerment Measure (GEM)<sup>86</sup> of Vietnam in 2007 was 0.561 ranking 93rd.

In terms of domestic violence, the family survey in 2006 carried out by GSO (2008a: 166) showed that 3.4 percent of families husbands fight with their wives, 15.1 percent husband abuse their wives and 7.2 percent husband coerce their wives. Violence occurs most in couples in the age group 31-40. The main reasons for family violence are drunkenness, difference in opinion in business, economic difficulties, conflict in bringing up children, addiction and gambling... The measures that tend to solve the problems of domestic violence have to do with solutions for rooting out these causes.

Treatment differently between a son and a daughter and valuing men above women still exist and a daughter can not be provided favourable conditions for getting further education. Girls from minority ethnic group have extremely low education attainment due to economic barriers, the need to work, parent's and girl's perception of the value of educating girls, etc.<sup>87</sup>

With the promulgation of the Labour Codes, the Law on Gender Equality, and the National Action Plan for Women Advancement 2006-2010 and other policies on gender, family, there have been improvements in all respects. However, the level of advancement is still slow; some policies to provide priority to women proved not to be feasible. The Law on Gender Equality is lacking of under law documents for implementation.

#### 2.4.7. Child Protection and Child Care

In the last three years, children protection and care has been paid much more attention. In addition to investment from the state budget, resource mobilisation and social participation in implementing rights for health care, education, protection and participation of children have received more attention. Initial results show that developing commune and ward level children-friendly consciousness has had a good impact on the deployment of the convention on the rights of the child, the law on protection and care of children, and the Action plan for children.

The education of children is more advanced.<sup>88</sup> The state has issued many policies to provide equal access in education, assistance to poor students, free health check-up and treatments for poor, under six-years-old children. These

<sup>86</sup> GEM is a composite index measuring gender inequality in three basic dimensions of empowerment: economic participation and decision-making, political participation, and decision-making and power over economic resources.

<sup>87</sup> UNICEF (2008b).

<sup>88</sup> Decision No 555/2007/QĐ-BKH added two indicators related to the child "percentage of communes and wards meets child friendly standard" and "percentage of children in difficult circumstances are protected and cared of". Currently, there is no data collected on these indicators.

policies help children in poor families, suffering from congenital diseases (e.g. heart diseases, blood diseases, and bone malformation) to receive treatment free of charge. Indicators on malnutrition and mother and infant mortality indicate improvement.

The National Action Plan for Children of Vietnam 2001-2010 includes 15 groups of targets and eight groups of solutions to create the best conditions to meet the needs and basic rights of children, to reduce risks of injury to children, to build a safe and healthy environment in which children can have the chance to be cared for, to be educated and to develop comprehensively to enjoy a better life. According to this program, child protection is approached based on needs and rights of the child.

There is considerable investment on concrete projects to protect and care for children such as: the National action plan for children of Vietnam 2001-2010; the nation action plan on preventing women and children trafficking 2004-2010; the program on prevention and solutions for homeless children, sexually abused children and child labour in harmful working conditions 2004-2001 and others. In parallel, the concerns of children are integrated into the strategies of the SEDP 2006-2010 and other related programs, to allow children more and more enjoy their rights.

In addition to the state budget, contributions of families and communities for the caring for, and study and play of children is great. The Fund for Children plays an important in the mobilising human resources for the protection and care of children. Yearly, this fund system mobilised hundreds of billion VND for the care, protection and education of children. The fund for protection of children originated from central to the units in all provinces/cities, 80 percent districts and 70 percent of commune/ward. In each year the fund for saving children was mobilised about 30 billion VND that support thousands of children.

In addition to providing free health cards for children under six years old and extending the vaccination program throughout the country, the state provided social support for 237.000 orphans, who are in a very difficult situation. The 64 provinces and cities received the support of documentary and communication products to protect children from injury and all districts have residential ethnic schools. Different models to prevent the injury of children are being piloted and they will be developed in the near future.

Every year, the NTP on culture allocates 15 percent of total expenditure to buy books for children. By 2008, all provinces and cities implemented child-friendly commune and 21 percent of commune and wards were recognised as child friendly;<sup>89</sup> 38 percent of communes had playgrounds for children. Children palaces have been built in many localities. Children now have more chance to express ideas in the family, community, school and at domestic and international forum.

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<sup>89</sup> Government of Viet Nam (2008).

Child labour under 15 is not common, but the labour of young people is quite common. According to the results of a survey on Vietnam's family in 2006 (GSO 2008a: 130), there were about 25 percent of juveniles (15-17 years old) who have ever worked and received wages, with the average of 18 hours worked weekly. There was no difference between boys and girls, but there was a great difference according to the economic status of the household, qualifications and ethnicity of the head of households. The rate of ethnic juveniles who worked for wages was double that of Kinh and Hoa ethnic groups (40.8 percent compared to 22.1 percent)<sup>90</sup>. The majority of juveniles who work have low qualifications (40.1 percent with qualification of secondary school and 43.1 percent of primary school).

The implementation of the program for protection of children has had some good results, but there are some shortcomings in the field of child protection and child care:

- The awareness of party committees and authorities at different levels on the protection and care of children is inadequate reducing the effectiveness of policies and programs. The child rights approach was rather new. Making sure that children matter is one of the challenges facing government.

- There is lack of a strategic framework which orients the building and linking of programs and projects related to children in order to effectively promote the protection, care and education of children. The regular supervision of the implementation of policies and programs is inadequate.

- There is about 34 percent of all children in Viet Nam below 16 years of age are poor.<sup>91</sup> This amounts to approximately 7 million, account for 52 percent of the total poor in Vietnam. More than one third of children were not fully immunised by the age of five. Almost 50 percent of all children do not have access to a hygienic sanitation facility in their home. Ethnic minority children face a higher poverty risk than children of Kinh or Chinese groups with child poverty rates for these groups are 63 percent and 25 percent respectively.

- The number of children facing some difficulties is tending to increase such as: children infected HIV/AIDS, abused children, violated children, migrated children, trafficked children, but there is no coordinated solution to these problems;

- Mechanisms of state management related to children, as well as services for protection and care of children in difficulties are uncoordinated and unclear and statistics and reporting on children's programs insufficient.

- Resources for the protection and care of children are insufficient and dispersed so as not to be used effectively.

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<sup>90</sup> GSO (2008b: 130).

<sup>91</sup> UNICEF (2008a).



## 2.5. EMERGING ISSUES

### 2.5.1. Increase of Inequality

Unequal development between areas and provinces, and an increase in gaps between the rich and the poor and among ethnic groups (between Kinh and Hoa and ethnic minorities) are obstacles for realising social objectives. In some provinces in the Northern Uplands, Central Highlands, and Mekong River Delta, due to difficult conditions, low economic development, shortage of infrastructure, high rates of poverty (there are 61 districts with poverty rates of over 50 percent) it is hard to realise such objectives as poverty reduction, lower secondary universal education, health care improvement, etc. These groups of people are lag in the process of development because of difficulties in gaining access to high quality education, health services, and other services for business and for daily life.

### 2.5.2. High Vulnerability

Poor, disadvantaged groups and most people living in rural areas, labourers working in informal sector, in fact the majority of Vietnamese are easily affected by economic shocks and risks caused by natural calamities. Due to the underdevelopment of the social protection system and weak risk management, the consequences of shocks may be severe and last for a long-term. This contributes to a vicious circle of poverty.

### 2.5.3. Lack of Qualified Human Resources

The training of human resource is a bottleneck that adversely affects the quality of socio-economic development. Shortages of qualified human resources occur in all sectors, occupations and at all levels of education. Alarm about the quality of education relates to all levels of general education, vocational training, secondary technical schools and higher education. The lack of qualified human resources is a serious obstacle to the realisation of industrialisation and modernisation of the country, attracting and utilising investment, and restructuring the economy. Shortage of qualified human resource is also a reason for the low position in the ranking of international competitiveness and the tardy process of internal reforms.

### 2.5.4. Lack of Qualitative Orientation in Determining Social Objectives

In education, while pursuing universal lower secondary schooling, fast increase in the number in higher education and vocational training, there is a lack of an effective system of quality supervision and assurance. In health care, there are number of difficulties in the management of quality of health care



services, including the quality of treatment, medical ethics and responsibility of health care staff, the quality of reasonably priced drugs, and the management of food safety. In relation to poverty reduction, many policies are promulgated, but with little coordination between them and many measures are not sustainable. The social security system is limited in coverage, unequal in its coverage and of unclear financial sustainability.



## PART THREE

### PROTECTING NATURAL RESOURCES AND THE ENVIRONMENT FOR SUSTAINABLE DEVELOPMENT

Together with the socio-economic development, environmental concerns have been given special attention by the Government towards SD, providing conditions for people to live in harmony with natural environment.

Natural resources and biophysical environment of Vietnam are diverse including mineral, energy, non-mineral, ecological, water, oceanographic and forestry resources. Environment concern is inter-regional in nature. Any impact on environmental incidents implies effects in broader area. Furthermore, throughout two wars Vietnam has been exposed to environmental incidents for many years. During the course of industrialisation and modernisation, Vietnam has been affected by potential environmental incidents and pollutions from emissions gases, domestic, industrial and solid wastes, wasted waters, thus destroying the ecological integrity and balance.

A number of regulations concerning natural resource utilisation and management, and environmental protection has been promulgated and implemented. Various important laws including Investment Law, Trade Law, Budget Law, Enterprise Law, Land Law, Construction Law, Environmental Protection Law, Ocean Law and their under-law regulations address many articles related environmental protection. The system of state management on environment has been established at all levels. Environmental protection tasks have been further strengthened.

### 3.1. IMPROVING SUSTAINABLE USE OF NATURAL RESOURCES

#### 3.1.1. Improving Forest and Biodiversity Management

The percentage of land covered by forest has increased, slowly reaching the percentage of forest cover before the war. The total forest cover in the whole country accounts 43 percent in 1943. During the war forest has been seriously destroyed, thus the forest cover changed to 27.2 percent in 1990. Thank to the forest protection and reforestation in the whole country, the forest cover has been improved and increased to 33.2 percent in 2000 and 36.6 percent in 2004. In average the annual forest cover increases 0.6 percent. Until 2007 the forest cover is almost 40 percent, reaching the percentage before the war.

Looking at the percentage of land covered by forest up to 2008 which is nearly 40 percent, almost the same ratio forest cover before the war 1945, one can say that the forest situation in Vietnam has been improved. However, if the quality of forest is taken into account, the current forest is not the same forest before the war. The target of proportion of protective forest area/total forest area, especially quality of forest has been met not fully.

**Table 21: Achieving Environmental Protection Targets (%)**

	2005	2006	2007	Prel. 2008	Target 2006-2010
Forest cover	37	38	38	39	42-43
Proportion of rural households accessing to fresh water	62	66	70	75	75
Proportion of urban households accessing to fresh water		76	75	80	95
Proportion of export-processing and industrial parks with central waste water treatment	45	50	55	60	100
Proportion of urban waste collected	65	70	75	80	90
Proportion of hospital waste treated	65	72	79	70	100
Proportion of polluting enterprises enforced to improve their environmental performance	33	41	50	60	75

Source: SRV (2008).

The remaining natural forest is being increasingly degraded except some area in the mountainous areas of the North and the Central Highlands. The forest cover increases but mainly through planting forest with low biodiversity value. About 18 percent of forest is planting forest, only 7 percent is natural forest, 70 percent is secondary forest with low

quality. The average timber is about 62-76 m<sup>3</sup>/ha, for the normal forest the average timber is only 20.8 m<sup>3</sup>/ha.<sup>92</sup>

Wetlands belong to highly sensitive and vulnerable ecosystems. The total area of mangrove forests in Vietnam has declined to 100,000 ha in comparison to that of 1990 from 155,290 ha, and continues to decline. Lagoon ecosystems, flooded forests and inundated grass beds have also been seriously depleted as a result of the changes of land into agriculture and aquaculture use.<sup>93</sup>

Vietnam has achieved some remarkable progresses in natural land reserve to maintain uniqueness and biological variety of the country. After more than 10 years of implementing the international Convention of Biological Variety, Vietnam currently has 126 natural reserves with over 2.5 million ha, increasing 28 percent compared with the area before its participation in the Convention. Natural reserves, national forests have been preserved and maintained with diversified ecology. The government wants to increase the ratio of reserved land up to 1.6 percent in 2010 and increase the investment ratio for reserve of biological variety to 20-30 percent in total investment of environmental field. However, this target has not been met in 2008 (about above 8.5 percent) to reach the target of 11.2 percent of the conservation forest cover in 2010.<sup>94</sup>

There are various reasons explaining why these targets have not been met in terms of quality of forest. First, it is the degradation of the natural forest system because of many changes over the last half of century, major pressure from economic development activities such as new economic zones in the forest area, transformation of land use for forest plantation to cash crop for export such as coffee, cashew nut, cacao and recently rubber. Second, the plan to develop hydropower has significantly contributed to the lost of upstream forest/watershed areas.

### 3.1.2. Ensuring Sustainable Use of Water Resource

The targets for rational and effective utilisation of water resource in river basins and ensuring quality ecological environment in 2008 have been met not fully, and not likely to be achieved in 2010 if no strong policy measures are taken. The population increase, rapid industrialisation and urbanization while the capacity to supply water remains unchanged are the main reasons for water degradation in terms of quality and quantity.

<sup>92</sup> According to Salmi et al (1999), no thorough forest inventory has been carried out in Vietnam recently. Consequently, information on the stocking and yield of the Vietnamese forests is not accurate or consistent. The growing stock in the forests is estimated at 560-590 million m<sup>3</sup>, the average stocking thus being 62 m<sup>3</sup>/ha (forested lands) or 30 m<sup>3</sup>/ha (all forest land). The figure includes stem volume only and the estimate was done in late 1980s. More recent or accurate data on the volume in Vietnamese forests are not available.

<sup>93</sup> National Environmental Protection Agency (2001).

<sup>94</sup> Ministry of Natural Resources and Environment (MONRE 2005).

Quality of water in a number of river basins has not met the environmental standards applied in agriculture and aquaculture. Recent environmental scandals from Vedan and Miwon Companies discharging their polluting waste water without treatment are alarming messages to the need to enforce the polluter pay principle. As a result, farmers have to change their aqua-cultural activities to other livelihood options.

The quality of water not only in river basin but also in other places is getting worse due to the waste water untreated or treated not properly, in line with environmental standards. Almost all water coming from urban areas has been not treated before being discharged. Those water leaked from landfill of solid waste become serious polluting sources to the ambient environment. In the whole Vietnam there is only a few landfill equipped with water treatment facilities. Waste water coming from different sources: industrial polluting, domestic, landfill, become the polluting sources for underground water with heavy metals such as nitro and aspen.

Currently, there are about 1,000 hospitals (down to district level) in the whole country. Everyday these hospitals discharge hundreds of thousands of cubic meters of waste water into the environment without treatment or without treatment that meets sufficient environmental standards. This is a source of many hazardous pollutants which may cause serious environment pollution. Many infectious diseases originate from this source and are potentially dangerous to local communities unless effective measures are taken to treat the discharged waste.<sup>95</sup>

Annual use of pesticide in agriculture is estimated between 0.5 and 3.5 kg/ha/crop. Shrimp farming along coast line especially in the Centre of Vietnam pollutes and enhances the salinisation in the underground.

In addition, activities of more than 1,450 handicraft villages in the country also create a huge volume of waste (waste water and solid waste) which is discharged to the environment in an indiscriminate manner causing serious pollution to water sources in many places, especially in paper production, slaughtering, weaving and dying villages. Shrimp farming on sands at coastal zones (particularly in Central coastal provinces) causes pollution and facilitates the intrusion of sea water into ground water levels.

Access to clean water is one of the top priorities of the Government. The proportion of rural households accessing to fresh water is 75 percent in 2008 meeting the target in 2010. However, the target on the proportion of urban households accessing to fresh water is only 80 percent in 2008, far to meet the proposed target of 95 percent in 2010.

### 3.1.3. Adopting More Effective Land Management Practices

Up to the year 2008 63 Provinces and Cities have completed the

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<sup>95</sup> MONRE (2005).

options to change land-use plans up to 2010 and land-use planning to 2010 and Five Year Land-Use Plan 2006-2010; 450 out of 676 districts, towns and cities completed their land-use plans 2010.<sup>96</sup> However, with the degradation of soil quality and the soil pollution because of economic development, the targets on effective use and management of land resource has not been met.<sup>97</sup>

Vietnam is the country whose average land per person is the lowest about 1/6 of the world average land per person. The main types of land degradation in the country are: (i) soil erosion, washing out and land slides; (ii) chemical degradation (salinisation, aluminisation, and alkinisation); (iii) alum soil, occurrence of toxic agents such as  $\text{Fe}^{3+}$ ,  $\text{Al}^{3+}$  and  $\text{Mn}^{2+}$  and desertification.<sup>98</sup>

Soil erosion potentially leads to the most rapid land degradation. Vegetation cover, especially tropical rain forests, is the best shield to protect or prevent land from erosion. The soil erosion level is often dependent on cultivation regimes. For a long period of time, as a consequence of shifting cultivation practices in mountainous areas, forests have been cut down for intensive agriculture practice, the time for self recovery of the land has been reduced resulting in an area of 17.7 million ha of slopping land, degraded at different levels.

In Vietnam there are 7,055,000 ha of land suffering severe impacts of desertification. This includes degraded fallow land, laterised land (7,000,000 ha); sand dunes and sand flats in Central provinces (400,000 ha), eroded land in North Western and Highlands and other places (120,000 ha), salinised and alkalinised land in Mekong river delta - Long Xuyen (30,000 ha) and seasonal drought land in South Central Part - Binh Thuan, Ninh Thuan and south Khanh Hoa (300,000 ha)<sup>99</sup>.

Land pollution has been caused by the use of chemical fertilizers. Technically improper use of chemical fertilizers leads to low effectiveness. It is estimated that about 50 percent of nitrogenous, 50 percent of potassium and 80 percent of phosphate fertilizers remain in the soil leading to land environment pollution. Acid residues of inorganic fertilizer belonging to "aluminous group" such as  $(\text{K}_2\text{SO}_4)$ ,  $(\text{NH}_4)_2\text{SO}_4$ ,  $\text{KCl}$ , super phosphate have made soil aluminised, exhausted alkaline cations and led to the occurrence of toxic substances like  $\text{Al}^{3+}$ ,  $\text{Fe}^{3+}$ ,  $\text{Mn}^{2+}$ , which decrease the chemical activeness of the soil as well as agricultural productivity.

<sup>96</sup> Source: SRV (2008).

<sup>97</sup> The targets for effective management and utilisation of land resource (according to the Decision No 555/2007/QĐ-BKH) are unclear, thus the assessment of the extent of plan completion faces difficulty.

<sup>98</sup> MONRE (2005).

<sup>99</sup> According to data from the Coordination Office for Convention on Desertification (Ministry of Agriculture and Rural Development).



Repellents are very harmful for all biological creatures; remain for long periods in soil and water and affect both useful and deleterious biological creatures in the land environment. According to studies, although the amount of repellents used in Vietnam is still small, averaging 0.5-1.0 kg/ha/year, repellent residues have been found in some places.

Land degradation leads to a decline in agricultural productivity, exhausts the vegetation cover and depletes biodiversity. These, in turn, will result in increasing land erosion and degradation. The high concentration of toxic agents and heavy metals in the soil will increase the amount of harmful substances absorbed by plants and animals causing negative impact on human health. The extensive use of chemicals in agriculture has led to an increase in the number of cases of food poisoning.

The current situation with the negative effects on effective use of land resource can be explained through the following reasons related to the regulatory system and its enforcement in land management. The formulation of some regulations on land under the jurisdiction of the central government has been delayed (e.g. regulation on finance of land, guiding regulations on conflict resolution and petition). Apart from this, laws on land and laws concerning land (house construction, investment) lack consistency, creating difficulties for government agencies in applying these laws and getting consensus among communities.

## **3.2. REDUCING POLLUTION AND ENVIRONMENTAL DEGRADATION**

During three years 2006-2008, some targets on reducing pollution in handicraft villages and industrial parks have not been met. With the target of 70 percent hospital waste treated in 2008, the final target on 100 percent waste treated in 2010 is less likely to be met. With the final target of 75 percent of polluting enterprises enforced in 2010, the current target in 2008 being only 60 percent, it is less likely that this final target will be met unless substantial efforts and resources are mobilised. The target on 70 percent of industrial and processing zones installing treatment facilities in 2010 appears to be achievable as 60 percent of these industrial and processing zones already installed treatment facilities in 2008.

### **3.2.1. Reducing Pollution in Handicraft Villages and Industrial Parks<sup>100</sup>**

Currently, there are over 1,450 handicraft villages in the whole country, creating jobs for about 30 percent of the rural labour force. Handicraft villages are distributed mostly in densely populated areas in plains and near urban areas and along rivers. The production activities of handicraft villages are very diverse and changing, but most popular are agricultural products and food

<sup>100</sup> MONRE (2005).

processing, slaughtering, textile and dying, handicrafts, waste recycling, construction material producing.

Presently, most of handicraft villages are using obsolete and outdated technologies which are material- and energy-consuming (material efficiency in almost all handicraft villages is from 60 percent to 90 percent). Most equipment used in handicraft villages was mostly manufactured in the 1950s and 1960s. The majority of workers in handicraft villages have low levels of education and professional skills. The majority of workers are untrained and low qualified.

Typically, the amount of waste water discharged from villages producing and dyeing textiles is significant and has very high concentrations of pollutants from the dyes that are used. Environmental parameters in waste water of these villages have all exceeded permitted standards.

Water and air pollution in villages processing food and other agricultural products is very common. Waste water from the handicraft villages is discharged directly into water sources without any treatment causing severe pollution of the surface water. The concentration of BOD, COD, SS, in most of handicraft villages has already exceeded the permitted standards. Annually, each craft village also produces a huge amount of solid waste as coal cinder.

Pollution in these villages affects surrounding environment, especially these villages and residential areas nearby. The mix of villages and polluting enterprises with living residential areas creates further pollution. In addition, the domestic waste untreated from the urban and rural areas making pollution become worse and very difficult to achieve the target set up in the plan.

### **3.2.2. Policy Measures and Laws on Environmental Protection Promulgated and Implemented during the Past Three Years**

Since the establishment in 2003, MONRE has developed a fairly complex system of legal documents for five state management areas of natural resources and environment.

A system of policies and laws on environmental protection is fairly developed and complex, providing a necessary legal space for state management of environment in the course of industrialisation and modernisation and for deepening economic integration into the world.

The issue of environmental protection has been mainstreamed in socio-economic development plans at the national, regional and sectoral level. The majority of state budget expenditure for environmental protection has been allocated to line ministries and sub-national government, thus increasing the effectiveness of state management of environment activities.

However, the formulation of some guidelines to implement some articles of Environmental Protection Law has been delayed; the application of economic tools for environmental management is limited and deficient; there is a lack of

policy measures to support environmental protection activities, to develop environmental services and promote socialisation in environmental protection.

In 2006 MONRE issued Circular 08/2006/TT-BTNMT to provide revision and augmentation to several articles of Decree 80/2006/ND-CP with regard to guidance for implementing the Law on Environmental Protection. The circular also gives guidelines for strategic environmental assessment, environmental impact assessment and environmental protection commitment for implementation of Article 14 of Law on Environmental Protection.

In 2007 MONRE contributed to the following legal documents: (i) Decree on Environmental Damage Compensation; (ii) decrees on environmental protection fees/charges for solid wastes, air emission and used wrapping products or eliminated. These decrees introduce the polluter-pay principle in the Vietnamese environmental policy, which help strengthening the financing of environmental services. MONRE has also contributed to the preparation of general technical guidelines on strategic environment assessment.

MONRE has cooperated with other ministries and provinces implemented the Project on environmental protection in Cau River, Nhue-Day and Dong Nai River Basin, checking environmental standards, especially standards on waste, import used materials, issue technical guidelines on environment according to the Law on Technical Standards and Norms, monitoring the enforcement and dealing with environmental hotspots with dioxin.

Environmental monitoring and information at national and local levels continues to be improved. This activity is focused in some priority economic and industrial zones, urban areas and river basins, thereby providing necessary information for preparing plan, program and projects on pollution prevention and reduction.

The Decision No 64/2003/QĐ-TTg<sup>101</sup> demonstrates the determination of the Government in the gradual removal of "black-listed" industrial establishments from residential areas. This also contributes to the strict implementation of the Law on Environment and other related regulations and policies. According to the objectives set forth in the decision, by 2005, 51 establishments which most seriously pollute the environment must be completely handled, by 2007 - 388 establishments and by 2012 - the remaining 3,856 establishments named in the list and other newly arising ones.

According to this decision, many polluting enterprises have been forced to improve their environmental performance. During the period 2003-2005, eight had stopped polluting, 240 had applied measures for treating their pollution, and the remaining 68 had not implemented any adequate solution.

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<sup>101</sup> Decision No 64/2003/QĐ-TTg dated 22nd April 2003 on Approval of a plan on strict measures for those enterprises that made massive pollution to the environment.

However, this is only enforcement of those seriously polluting enterprises discovered and listed in the “Black Book”. With regulations stipulating environmental standards to be applied in projects for review and appraisal, limited appraisal capacity of governmental agencies, weak financial enforcement, there are still many polluting enterprises not yet discovered and enforced to improve their environmental performance. This is the reason why pollution situation has not been improved on contrary getting worse.

It is time for Vietnam to incorporate environmental loss to appraise the efficiency of development. A green GDP is to be established and mainstreamed into the national system of statistics.

### **3.3. TOWARD SUSTAINABLE DEVELOPMENT**

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#### **3.3.1. Implementation of National Agenda 21**

In the past decade, the Government of Vietnam has developed numerous strategies and institutions aimed at promoting SD, among which the most important one is the “Strategic Orientation Strategy on Sustainable Development in Vietnam” (often referred to as Vietnam National Agenda 21 VA21). Besides, SD is also related to the National Strategy for Environmental Protection and Vision until 2020, and the Comprehensive Poverty Reduction and Growth Strategy, NTP for Energy Saving and Energy Efficiency, and National Action Plan for Environmental Protection.

A basic institutional framework for implementing VA21 has been established, which consists of National Council for Sustainable Development, Sustainable Development Office (SDO) at MPI, and Local Agenda 21 offices in six provinces and four ministries. In addition to Agenda 21, MONRE, in partnership with the United Nation Environment Program, is implementing activities under the Vietnam Assessment Report on Climate Change to, among other things, enhance capacity to reduce vulnerability to climate risks and provide relevant data on cost-effective adaptation options.

Though strategies and institutional frameworks exist, important policy and institutional gaps remain, and significant capacity constraints threaten to undermine strategy implementation and the achievement of SD outcomes. Convolved decision-making structures, confusion of roles and responsibilities, poor enforcement and compliance, and poor M&E contributes to slow progress in implementation of VA21 strategies at the local (provincial, district and commune), and national level.

#### **3.3.2. Barriers in implementing Agenda 21**

##### **3.3.2.1 Limited Capacity**

Many government agencies lack the technical or institutional capacity

to carryout activities as tasked under the Agenda 21 framework. The National Council for Sustainable Development (NCSD) is supposed to be comprised of various concerned stakeholders including government, business and civil society, and is tasked to generate consensus on development issues and policy direction for both government agencies as well as stakeholder groups. Environmental concerns are then to be mainstreamed in development plans and strategies. The SDO supports the NCSD and MPI in facilitating and coordinating the actual implementation of Agenda 21; however, it is insufficiently staffed to carry-out some of its core functions. For instance, the SDO, has one full-time deputy chief, one fixed staff (though they have five positions available), and five short-term consultants.

The concept of SD has been interpreted differently among local agencies and people. Further, provincial and local Agenda 21 offices are not aware of their duties or specific functions and lack the capacity and resources to make their positions functional. Few of the ten branches of the VA21 provincial pilot programmes are functional, raising questions about institutional gaps between the national and provincial levels. Local governments lack the financial and technical resources to carryout activities. For instance, there is some awareness among the key local agencies (Departments of Planning and Investment (DPIs), Departments of Natural Resources and Environment (DONREs), and Departments of Agriculture and Rural Development) and social organisations, such as the Women Union and Youth Union, on the Local Agenda 21 programme (LA21) in Quang Nam Province. The LA21 document has been prepared in a participatory way, and technical assistance has been provided by the Central SD Office in Hanoi. However, the information provided with regards to implementing SD in the Province LA21 Office was general, with limited understanding of how LA21 has actually been implemented.

### ***3.3.2.2 Overlap in Duties and Institutional Gaps between National and Provincial Levels in Implementing Agenda 21***

The structure for implementing SD is confusing, with multiple agencies performing overlapping functions. There is little cooperation and sharing of lessons learned between the main implementing agencies such as MPI's SDO, MONRE's VA21, DPI, DONRE, and LA21 Office, or with the MONRE central office.

### ***3.3.2.3 Public Participation***

Chapter V of the VA21 states that SD implementation is "to focus on mechanism and tools for mainstreaming environment into socio economic strategies and plans, encourage coordination of forces to formulate and implement SD action plans at national and regional levels". Key to this is ownership in the implementation of Agenda 21 by all citizens, social organisations, public institutions, and private sectors. Local Agenda 21 offices were established at the provincial and ministerial level to decentralise Agenda



21 implementation and foster public participation. However, comprehensive consultative and discussion processes have been few and the NCSD and other agencies are mostly comprised of high-level officials, with little or no civil society as well as business representation. Current structures must be reviewed to ensure adequate civil society and business representation.

### **3.3.2.4 Weak Monitoring and Evaluation Mechanism for Vietnam Agenda 21**

Implementation, monitoring, and enforcement of laws and policies for VA21 are generally weak. Though a draft Sustainable Development Mechanism was created to provide technical assistance to make NCSD, SDO and similar bodies at provincial level fully functional, as well as help mainstream environmental issues in development decision-making processes, the draft as has not become operational. Target of SD has been not met due to the limited capacity of local authority and operation mechanism of National Council for SD.

## **3.4. CONCLUSIONS**

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### **3.4.1. Challenges Ahead toward Rational Use of Natural Resources and Sustainable Development in Vietnam**

Vietnam's rapid economic growth of 7-8 percent has contributed to progress in improving its overall human development index, particularly in education, health, and increased standard of living. However, these gains have come at great cost to the environment, and particularly the seventy percent of Vietnamese people who depend on natural resources for their livelihoods. At the same time, rapid urbanization, booming population, expansion of agriculture, particularly rice production, and widespread conversion of natural habitats for infrastructure development has led to the destruction of important ecosystems, and decline in biodiversity. Nearly 700 animal species are now considered endangered. Urban and industrial pollution contribute to increased incidence of respiratory illness, while water pollution from discharge of industrial waste has made vast amounts of water unusable.

Rapid economic growth has also caused an increase in the demand for energy; demand for electricity in 2010 is expected to be triple that of 2002. Vietnam relies on coal, natural gas and large hydropower production to meet its energy needs. Total GHG emissions are projected to increase from net emissions of 104 million Mt CO<sub>2</sub>e in 1994 to about 233 million Mt CO<sub>2</sub>e in 2020. Despite rapid expansion of the national electric grid, majority of rural people in Vietnam still rely on traditional fuels such as firewood and crop residues for household energy needs, adding pressure to an already strained resource base.

Using energy resources in a way that is consistent with the aims of protecting human health, the atmosphere, and the natural environment is



crucial. Indeed, energy for productive uses, public health services, education, agriculture and food production, and a decent standard of living is an indispensable part of the millennium development goals recipe. Reliable, affordable electricity and high-quality fuels provide the energy underpinning of the SME sector, which is the engine of economic development in developing countries.

### **3.4.2. Strengthening Capacity**

There is a need for both capacity strengthening and specific operational guidance for integrating environmental dimensions into decision-making processes. Further, there needs to be better integration and strengthening of capacity in the area of enforcing environmental laws and decision-making on issues relating to environment and SD.

### **3.4.3. Dealing with Overlap in Duties and Institutional Gaps between National and Provincial Levels in Implementing Agenda 21**

To deal with the issue of overlap in duties and institutional gaps between national and provincial levels in implementing Agenda 21, a comprehensive national action plan is needed to: i) synchronize existing strategies and programmes; ii) identify organisational hierarchy; iii) assign roles and responsibilities; and iv) ensure stakeholder involvement. Roles and responsibilities need to be further clarified for better coordination and formulation of local, provincial, and national SD strategies. To do this, MPI should be supported in assuming a coordinating role within NCSD.

### **3.4.4. Strengthening Monitoring and Evaluation Mechanism for Vietnam Agenda 21**

A M&E mechanism needs to be in place and integrated into existing local M&E systems to ensure SD implementation at local level. Scoping and planning activities should be carried out to analyse M&E 'best practices' at the local level. People council at local level must be strengthened to help monitor and report on SD implementation and disseminate information (or best practices and lessons learned) to higher policy levels.



## PART FOUR

### STRENGTHENING STATE GOVERNANCE AND ESTABLISHING COMPREHENSIVE MARKET- ORIENTED SOCIALIST ECONOMIC INSTITUTIONS

#### 4.1. CONTINUING IMPROVEMENT OF ECONOMIC INSTITUTIONS

##### 4.1.1. Development and Improvement of Economic Institutions

The establishment of socialism-oriented market institutions is on-going in Vietnam. To join global and regional economic integration, one of the priorities of Vietnam is to develop the market economic institutions, which are relevant to the local conditions. In 2005 the Politburo of the Communist Party of Vietnam introduced the Resolution 49/NQ-TW, Legislation reform strategy to 2020 to give the orientations for the legislation reform in Vietnam. Since then the legal framework in Vietnam has been improved, especially for the last years, to fulfil the policy commitments to the WTO.

For the last three years, the highest priorities have been given to improving the legal framework regulating business environment, tax reform, encouraging the development of markets, environment and natural resource protection and inclusive social development. A big number of legal documents have been issued and effective. It is estimated that 42 laws, 462 decrees, 12 ordinances, 245 instructions, 957 circulars, 168 resolutions and thousands documents have been issued so far.<sup>102</sup> It serves the introducing the policies and principles for mobilising all resources for developing and operating a socialism- oriented market economy in Vietnam. The important markets, such as, capital, labour, real estates, science and technology markets have been developed.

<sup>102</sup> The data are taken from VietLaw website <http://www.luatvietnam.com.vn/default.aspx?tabid=217>. The data are as of November 2008.

Along with issuing new legal document, the government has revised and improved the current legal documents. Most of the legal documents reflect the spirit of transparency, accountability, efficiency and participation in state governance. However, there are still problems in laws making, reflecting in weaknesses of some legal documents, which have been amended a very short time after being effectiveness. For example, Decree No 111/2006/ND-CP issued on 29<sup>th</sup> September, Guidance on the implementation of the Law on Procurement, has been replaced by Decree No 58/2008/ND-CP issued on 5<sup>th</sup> May 2008; Decree No 99/2007/ND-CP issued on 13<sup>th</sup> June 2007, Regulation on Civil work costs management, has been amended and supplemented by Decree No 03/2008/ND-CP issued on 7<sup>th</sup> January 2008; and Decree No 92/2006/ND-CP issued on 7<sup>th</sup> September 2006 on formulation, approval and management of SED master plans, has been amended by the Decree No 04/ND-CP issued on 11th January 2008.

Some laws are not comprehensive. For example, the Law on Investment regulates the commercial investment, not public investment. Up to now the public investment has been regulated not by a specific law, but by different decrees on investment management (Decree No 52/1999/ND-CP; Decree No 12/2000/ND-CP and Decree No 07/2003/ND-CP). The provisions in these decrees have not covered adequately the issues relating to public investment management and at the same time, there are some overlaps with other legal documents. Delay remains in issuing by-laws guiding implementation of several new laws, e.g. Law on Environment Protection.

There is inconsistency in some legal documents. For example, the criteria for classification of investment projects are different in the Law on Construction (by project size and sector) and the Law on Investment (by project size only). The authority on investment approval has been also inconsistent in these two laws.

Some legal documents have been issued without studying carefully the practical conditions for enforcement, causing the case, that when some problems happen, people don't know what legal document they must refer. For example, to control the expenses under a public investment project, the Government has issued the Decree No 99/2007/ND-CP on 13<sup>th</sup> June 2007, Regulation on civil work quality management, which has been replaced by the Decree No 03/2008/ND-CP, issued on 7<sup>th</sup> January 2008. These two decrees include the provisions on the project cost adjustment in unanticipated cases (earthquake, flood, storms, soil slide, tsunami, war and others), in the case of master plans adjustment, in the case allowed by the competent persons who approved the investment projects, but not in the case of high inflation. This makes a lot of difficulties for public investment owners for the last months.

To enhance transparency, efficiency, participation and accountability many

legal documents have been issued. The Decree No 79 on Grassroots Democracy<sup>103</sup>, and its subsequent replacement - Ordinance on Grassroots Democracy 34/2007/PL-UBTVQH11, issued on 20<sup>th</sup> April 2007, requests all communes to disclose the plans and budget allocation to the publics. According to the reports sent by provinces/cities in July 2008 to MPI on Midterm reviewing the 2006-2010 SEDP performance, 100 percent communes disclosed planning and budgeting information to the public.<sup>104</sup>

At national level, the national SEDP and all sectoral SEDPs have been disclosed to the publics on the ministerial websites. MOF has disclosed to the publics on its website the budget plans with all the revenue and expenditure items and the budget utilisation clearance reports. However, up to now not all provinces/cities and districts have followed the public disclosure of their performance.

The Law on Issuing legal documents<sup>105</sup> requests disclosure of drafts of non-secret laws and legal documents on the website of the Government at least 60 days before submitting to the appraising authority.

To promote transparency in public management, Law on Auditing (2006)<sup>106</sup> requests disclosure of all state auditing reports. Since the law has been in effect, all state auditing reports have been disclosed in website. At present, not all ministries and provinces are audited annually. However, the number of the ministries, SOEs and provinces audited increases year by year. In 2004 the first time the state budget allocations and utilisation was audited in MPI, MOF and other 10 ministries/central agencies. The number of ministries/central agencies audited in 2006, 2007 and 2008 were raised respectively to 13, 19 and 20. Thank to the disclosure to the public of auditing report, the state budget spending agencies become more prudent in using the budget. The administrative overspending in 2006 was reduced in comparison to the on in 2005 (9.4 percent versus 42 percent of the projected expenditures).<sup>107</sup>

To make the policy on business entry, registration and operation more transparent, the Government has issued the Decree No 139/2007/ND-CP<sup>108</sup> to specify the implementation of some articles from the Law on Enterprises (2005). The decree stipulates very clearly what business areas are forbidden for entry, what are conditional, what areas need professional permits, who are eligible to business establishment.

<sup>103</sup> Decree No 79/2003/ND-CP dated 7th July 2003.

<sup>104</sup> Source: Reports on 2006-2010 SEDP performance mid-term review by ministries and provincial people committees (2008).

<sup>105</sup> According to the Article 62 of the Law on Issuance of legal documents approved on 12th June 2008.

<sup>106</sup> Promulgated on 24th June 2005, in effect from 1st January 2006.

<sup>107</sup> Source: State Audit (2007).

<sup>108</sup> Degree No 139/2007/ND-CP dated 5th September 2007 on Detailed guidance on implementation of a number of articles of the Enterprise Law.

The improvement of the regulatory framework in Vietnam has been recognised by the WB, reflecting in the scores they gave to the Quality of Regulatory Framework indicator. According to the evaluation of the group of WB experts, the indicator has been raised significantly from -0.57 in 2005 and -0.58 in 2006 to -0.43<sup>109</sup> in 2007, although it is still low.

**Table 22: Selected Governance Indicators**

	2007	2006	2005	2004
Government effectiveness	-0.41	-0.38	-0.29	-0.43
Regulatory quality	-0.43	-0.58	-0.57	-0.49
Rule of laws	-0.50	-0.41	-0.51	-0.53
Corruption control	- 0,69	- 0,75	- 0,77	- 0,79

Source: Kaufman et al (2007).

The policy and decisions making in Vietnam becomes more participatory. According to the Instruction on the 2006- 2010 SEDP preparation issued by the Prime Minister in 2004 planning should be participatory. The laws or other legal documents must also be prepared with wide consultations. However, in practice, participation and consultation in laws making and planning have not been as required. One of the obstacles to participatory planning is time constraint in planning. Communes have only 10 days in average to prepare annual SEDPs to send to their district. SEDPs have still been prepared annually, not as rolling plans within medium-term expenditure framework. The medium-term expenditure framework cannot be applied widely through the country by 2008 as originally planned. For budget allocation the people at grassroots levels have participated in the process through sharing their needs for public investment for local development, making comments on the budget allocation proposed by the commune people committee staff. Some mass organisations such as Youth Union, Women Union, Father Front Organisation take a very active role in this process... However, because of the capacity constraints local people, especially the poor, have been very passive in participation process.

For laws making the consultations could not be effective because so far despite big efforts made during laws, ordinance/decrees, decisions formulation. Wide consultations have been made only during laws drafting process, but not during getting consensus on policy concepts.<sup>110</sup> It means that wide consultations have been made after the policy concepts agreed. It is too late to have wide consensus on the policy to be introduced. Therefore, in some cases, laws have been drafted without wide consensus of all relevant stakeholders. At laws drafting stage people usually pay attention more to wording and

<sup>109</sup> Different institutions measure governance differently. ADB, for example, measures regulatory quality indicator by evaluating trade policy, competitive environment and markets. Kaufman et al (2007) use the evaluation results of 35 international institutions. The positive value (0-10) means good regulatory quality and vice versa.

<sup>110</sup> Article 23 of Law on Issuing legal documents No 17/2008/QH12 dated 3rd June 2008.



presentation than to the policy ideas introduced.

Despite the significant improvement in the legal framework towards being more transparent, the enterprises in many cities have still complained about difficulties they suffered in accessing to legal documents, especially in Dac Nong (-0.40 percent) followed by Ha Tay (-0,38 percent)<sup>111</sup>. Quite many businesses thought that “connections” are needed to access to planning documents, such as SEDPs, master plans. 73.4 percent of the respondents in Quang Ngai shared the same thought<sup>112</sup>. The complains of the entrepreneurs in the VCCI-USAID survey in 2007 can be explained by lags of the impacts of any legal issued document. Actually, the impacts of policy making becoming more transparent during the last two years can be seen only in some years, not now. However, these complains have aware us about the needs to make the legal and planning documents more transparent.

For the last years, rule of laws has been complained low by many people. Poor enforcement of a good legal framework makes high wastes of time, money and human resources. The rule of laws for the last three years is still low even within the regulatory framework of improved quality. Rule-of-law indicator<sup>113</sup> in Vietnam has been evaluated higher than other governance indicators, but with declining in 2007 (-0.50), compared to the one in 2006 (-0.41) (See Table 22).

One of the reasons, causing low rule of laws, is irregular and unsystematic education and dissemination of laws to the publics. People do not have update information on the legal documents to follow and supervise the performance of the government agencies. On the other hand, low rule of laws has been resulted by the unclear functions and mandates of many government agencies and lack of incentives and enforcement measures to make the head of government institutions accountable for the decisions made and lack of community participation in the process of laws making. The amendment of some decrees shortly after becoming effective as mentioned above shows the low feasibility of laws and weak rule of laws.

#### 4.1.2. Administrative Procedure Reform

To improve the administrative services, one-stop shop procedure has been introduced in administrative services delivery system. The percentage of district and commune administrative units applying one-stop-shop procedure in administrative services delivery increased from 87 percent in 2006 to 100 percent in 2007.<sup>114</sup>

<sup>111</sup> The difficulty in accessing to legal documents reduces from -1 to 0, and the ease of accessing to legal documents increases from 0 to +1;

<sup>112</sup> USAID-VCCI (2007).

<sup>113</sup> Rule-of-law indicator is measured by the level of compliance of relevant regulations governing relationships between a citizen and government bodies.

<sup>114</sup> Ministry of Home Affairs (2006, 2007).



To improve the quality of services, one-stop-shop procedure in business registration, tax payment and getting stamps has been piloted in Ha Noi, Hai Phong and Lao Cai.<sup>115</sup> Thank to application of one-stop-shop procedure, the time waiting for getting business licenses has been reduced in many provinces from 20 days in 2006 to 15 days in 2007.<sup>116</sup> Despite the time for business registration at the national level according to the International Financial Corporation (IFC) and WB has remained at 50 days for the last three years, IFC and WB have recognised the improvement of the business environment.<sup>117</sup>

The cost for business entry has also been declined thank to administrative procedure simplification (see Table 23). In 2007, the cost for busies entry in Vietnam was even lower than the regional average one; in Vietnam the cost is equal to 20 percent of the average income per capita, while it is 34.9 percent in other regional countries<sup>118</sup> and 5.1 percent in OECD countries.<sup>119</sup>

**Table 23: Time and Cost for a Business Start**

	2005	2006	2007	2008
Ease of doing business compared to other countries	99/155	98/175	91/178	92/181
Time for a business start (days)	50	50	50	50
Cost for a business start (% income per capita)	50.6	44.5	20	16.8

Source: IFC and WB (2008).

#### 4.1.3. Improving the Performance of Government Organisations and Staff

The amendment of some articles in the Law on Government Organisations has allowed reorganising the government to meet the objectives set in the public administration reform. For the last two years, some government ministries and agencies have been merged to reduce the number of government agencies. Some ministries and government agencies have been merged to make the policies issued by the Government more consistent and efficient. For example, Ministry of Trade have been merged with Ministry of Industry to be Ministry of Trade and Industry to work on the functions of industry development management and promotion. MONRE received further transfer, i.e. taking the lead in integrated administration of river basins and national coordinator of the Vietnam Mekong River Committee from Ministry of

<sup>115</sup> Stipulated by Decision 93/QD-TTg and detailed guidance is provided by Circular 02/2008/TT-BKHDT-BTC-BNV.

<sup>116</sup> Source: USAID-VCCI (2007).

<sup>117</sup> IFC and WB (2008).

<sup>118</sup> 24 regional countries include Brunei, Cambodia, China, Fiji, Hong Kong, Indonesia, Kiribati, Lao PDR, Malaysia, Marshall Islands, Micronesia, Mongolia, Palau, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Taiwan, Thailand, Timor-Leste, Tonga, Vanuatu, Vietnam.

<sup>119</sup> IFC and WB (2008).

Agriculture and Rural Development and the administration of sea and sea islands from Ministry of Fisheries. The new functions and mandates of many ministries and agencies have been issued.

However, the restructuring and merge of some ministries and agencies to establish new ministries, like Ministry of Industry and Trade, MOH, Ministry of Culture, Tourism and Sport has been mechanically without high improvement in functions and mandates. Moving state management with regard to population and family planning, and children to MOH and MOLISA without relevant restructuring has led to low achievement in population and family planning for the last two years and embarrassments in children- related state management at local levels. .

Within each ministry/government agency the restructuring has also been significant. Some new research institutes, departments have been established to meet the new requirements.

For some cross-sector issues, such as human resource development, public expenditure, environment protection there is still no effective coordination mechanism causing overlaps or gaps in state management.

One of very hot problems in Vietnam has been skills development. To address this problem it needs the coordinative efforts from MOET, MOLISA, MPI, MOF and many other ministries/agencies. It is very difficult to have a comprehensive education and training system, covering all integrated levels, when vocational training and technical education schools are under the management of MOLISA and secondary professional education schools - under MOET.

Similar problems happened with capital investment and recurrent investment budgeting. New investment without budgeting adequate funds for operation and maintenance is one of the reasons causing quick infrastructure deterioration, wasting public resources. It is especially important in the poor and mountainous areas, which have high needs, but limited resources. Many discussions have been made on merging the capital investment budgeting and recurrent investment budgeting functions, but this problem have not been solved.

Another problem is low progress in separating business administration from the state management functions. There are still many enterprises, general corporations under ministries, making obstacles to equitisation of SOEs.

In training and capacity building, the Government has focused on introducing standards on civil servants and the staff working in SOEs. Personnel management has been decentralised, which will be followed by revision and improvement of the personnel management system at commune level.

There is no incentive for good performance of the government staff. The salary of government officials is very low comparing to the salary of the staff of many private sector businesses and international organisations. Despite the

regular adjustment of the minimum salary systems to address the inflation problems, the salary of government staff is still not enough to afford their family. Promotion in government agencies has not been merit-based. In most of the government agencies there is no job description. Only in education sector the draft Standards on Teachers and Principals have been prepared. Many government staff left the government agencies for private sector or international organisations for the last about three years.

## 4.2. INCREASING EFFECTIVENESS OF AND TRANSPARENCY IN PUBLIC FINANCE MANAGEMENT

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Limit access to planning process by the public makes obstacles to mobilise the contribution to wide communities in the national and local development. According to a report written by USAID-VCCI (2007), in many provinces/cities businessmen/women have still complained about the difficulties in accessing to planning documents such as the provincial/city SEDPs, socio-economic development strategy, budget plans, land use plans.<sup>120</sup>

Some donors, like ADB, GTZ, JICA, OxFam GB, UNDP, UNICEF have provided assistance to various provinces to promote participatory planning at commune or village levels. Because of unchanged planning process and time constraints in annual planning practice, the community participation in the communes/villages supported by these donors has showed some progress in the budget allocation process and identifying public investment projects to be financed during the planning period, but not in annual socio-economic development planning process.

The state budget for capital expenditures has been allocated based on more scientific justification. To improve the efficiency of the public resource utilisation, the Prime Minister issued in 2006 the Decision No 210/2006/QD-TTg, Regulation on Criteria, Principles and Norms for allocating state budget for capital expenditures. According to this decision, some factors have been introduced for calculating the multiplier applied to the formula on state budget allocation estimates. These factors are population, poverty rate and infrastructure status. The criteria, principles and norms stipulated in the Decision No 210/2006/QD-TTg have been used by some provinces for allocating state budget for capital expenditures to districts.

To improve the efficiency of the state budget utilisation, the Government has issued the Decree No 43/2006/ND-CP on Autonomy, responsibility of the public service delivering state agencies for their assignment, organisational, personnel and financial aspects and the Decree No 115/2006/ND-CP on Autonomy, responsibility of the state-owned research institutions for their assignment, organisational, personnel and financial aspects. According to these

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<sup>120</sup> USAID-VCCI (2007).

decrees, state-owned hospitals, education and training institutions and research institutes are given organisational, personnel and financial autonomy. By giving autonomy to the state-owned public services delivering agencies and research institutions, the heads of those agencies become more active in making decisions on the services delivery.

Expenditure assignments have been delegated closer to beneficiaries, but expenditures assignments have not been in balance with revenue assignments and the local government capacity, making problems to public resource utilisation efficiency. By delegating more authorities to grassroots levels, communities have more opportunities to participate in planning, implementing and supervising the deliveries of public services. Therefore, the access and quality of public services delivered by the local governments have been improved for the last two and half years. According to the survey under the “Impacts of WTO on business environment in Vietnam” study by Dordi et al (2008) 77.6 percent of the respondents shared their opinion that the quality of public service has been improved. However, the delegation by provinces to districts and from districts to communes in many provinces/cities has not been made as required. For example, to the end of 2007 only 34 percent of 1799 poor communes are project owners.<sup>121</sup> Not many provinces/cities have issued the regulation on criteria on delegation of revenue and expenditure assignments to district and commune levels. At present, communes take high responsibility for local development, but not many revenue assignments have been delegated to them. Therefore, they cannot be active in making commune development plan because their dependence on the budget transfer from districts is too strong.

Delegation of state budget management to provinces/cities has not gone along with good M&E by the national government, causing low efficiency of the public investment. Because of poor M&E, some expenses under NTPs have been made for wrong purpose. Among 29 provinces having budget utilisation audited in 2005 and 2006, 17 and 16 provinces respectively used their state budget for wrong purposes (in 2005: 773 billions VND and 2006: 182 billions VND).<sup>122</sup>

#### **4.3. ENHANCE EFFICIENCY OF GOVERNMENT PERFORMANCE AND ANTI-CORRUPTION**

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The Anti-Corruption Law has been effective since 1st June 2006. To enforce the Law, many under-law legal documents have been issued.<sup>123</sup>

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<sup>121</sup> Source: Committee for Ethnic Minorities (2007).

<sup>122</sup> State Audit (2007 and 2008b).

<sup>123</sup> Decree No 107/2006/ND-CP issuing Regulation on the accountability of head of the government agencies when corruption discovered in the agencies under their management, Decree No 37/2007/ND-CP issuing Regulation on Disclosing assets and property and Decree No 47/2007/ND-CP issuing Regulation on some articles in the Anti-Corruption Law and on the role of society in controlling corruption.

However, the issuance of the Decrees to guide the implementation of this Law has not been in accordance with the schedule identified in the Actions Plan on implementation of the Anti-Corruption Law. The functions and mandates of the State Inspector, State Auditor and Ministry of Security have been revised to be more relevant to controlling corruption, ensuring higher law enforcement and higher efficiency in public management.

The requirement for providing information on procurement to MPI for the Procurement website by project owners of line agencies according to the Law on Procurement and the Decree No 58/2008/ND-CP aims to improve transparency in public procurement. Thank to the disclosing information on procurement on MPI or DPI website contractors have easier access to information on procurement. The strict regulation on limited bidding and single source procurement as stipulated in the Law on Procurement has prevented significantly non- competitive bidding. Clear regulation on procurement helps project owners in selecting contractors with better capacity and experience.

According to the Anti-Corruption Law, government officials have to disclose their assets and property. However, to 31st August 2008 only 15 ministries/government agencies and five provinces have completed this exercise.<sup>124</sup> To enhance control of corruption, Decree No 158/2007/ND-CP has issued the list of positions to be rolled over. Up to now, only seven ministries/government agencies have issued the decisions on rolling personnel.

To enhance anti-corruption efforts, the Government has tried to improve the regulatory framework to ensure high transparency in state governance. However the transparency index of Vietnam, ranked by Transparency International is still low. As mentioned above, Vietnam's corruption perception index evaluated by the Transparency International is very low (2.6 in 2006 and 2007 versus 2.4 in 2005). Although the corruption perception index in 2006 and 2007 were higher than the one in 2005, the rankings among the surveyed countries in 2006 and 2007 were worse, falling from 107 in 2005 to 111 in 2006 and 127 in 2007.<sup>125</sup>

State auditing system has been improved. The power of the State Audit has been enhanced with independence of the State Audit from the executing system. The Law on Auditing becomes effective since 1 January 2006, requesting the disclosure of auditing reports to the public. According to the Report made by State Auditor in 2007, 1.2 billions VND from the state budget expenditures were recovered. Although the reports on auditing state administrative agencies and SOEs have been disclosed to the publics, the performance of the state administrative agencies has not been used as the one of the criteria for state budget allocations. It may limit the positive impacts of transparency policy.

The Government effectiveness has been evaluated by a group of

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<sup>124</sup> State Inspector (2008).

<sup>125</sup> Transparency International (2007).



experts from WB not high, but higher than other governance indicators, like control of corruption, rule of laws and quality of regulatory framework (See Table 22). Poor enforcement of legal documents has been complained widely for many years in Vietnam. Poor enforcement is one of the causes to weak control of corruption and low efficiency of public investment. To improve rule of laws, the policies issued should be supported by communities, therefore, the participation of all stakeholders should be ensured.

The regulation on public management has been also improved to ensure accountability. The Decree No 107/2006/ND-CP, Regulation on the accountability of head of the government agencies when corruption discovered in the agencies under their management aims to improve not only transparency, but also accountability of the heads of government agencies. The amended Law on National Assembly, on local People Councils, on Government clearly define the accountabilities of National Assembly, local People Councils and the government agencies and the heads of these agencies for state budget allocation and utilisation oversight.

The strong decentralisation policy has been reflected in various legal documents issued for the last three years. The delegation in business registration and establishment<sup>126</sup>, investment management<sup>127</sup>, ODA management and implementation<sup>128</sup> and in public procurement<sup>129</sup> has been quite strong. The Chairman of provincial people committee now has more powers in making decisions on local development planning, budget allocation and others, but with higher responsibilities. However, the delegation has not linked to the capacity and M&E system of the delegated institutions, causing loss of public resources and corruption. According to the Resolution No 573 NQ/UBTVQH12, the delegated institutions themselves have paid low attention to M&E of plans, policy or public investment project performance.<sup>130</sup>

#### 4.4. EMERGING INSTITUTIONAL ISSUES

Despite big efforts made for improving the legal framework for state governance, the regulatory quality is not high, reflecting in existence of overlaps and gaps, irrelevance, controversial provisions and incomprehensiveness in some legal documents, especially relating to investment management, as

<sup>126</sup> The Law on Enterprises and Decree No 139/2007/ND-CP, issued on 5th September 2007 on Specific guidance on implementation of some Articles of the Law on Enterprises.

<sup>127</sup> The Law on Investment and Decree No 108/2006/ND-CP issued on 22nd September 2006 on Guidance on implementation of the Law on Investment.

<sup>128</sup> Decree No 131 on Regulation on ODA utilisation and management and various circulars.

<sup>129</sup> Law on Procurement and Decree No 58/2008/ND-CP issuing Guidance on implementation of the Law on Procurement.

<sup>130</sup> Decentralisation is analysed in more detail in Sub-section 1.6.1.3.



analysed above. The laws making procedures have been improved gradually to enhance transparency and participation, but there are still various problems. The quick amendment or removal of some legal documents after issuance or existence of several legal documents regulating the same behaviour show the lack of wide community participation in laws making, especially in the discussions on policy concepts before making decisions on legal documents drafting.

Even when the legal documents issued are considered good, the enforcement has not been strict. One of the reasons causing poor rule of laws is lack of enforcement measures in some legal documents. The responsibilities of heads of government agencies have not been defined clearly.

Government effectiveness is also a problem. There are still overlaps in functions and mandates of some government agencies. In most of central government agencies so far there have been no internal regulations on jobs description for each position; as a result personnel recruitment and assignment is not based on the need. The promotion is not merit-based. The salary of the government staff is not appropriate and not adequate to afford their family.

Although the anti-corruption legal framework has been improved strongly for the last three years, corruption control has been evaluated low by some international institutions. The low efficiency of public investment has been because of wasteful use and corruption in many public investment projects, partly due to the lack of an effective public investment M&E system. Public resource utilisation M&E functions and mandates have not been defined in the legal documents regulating the functions and mandates of the government agencies from the central to local levels. The results from the public resource utilisation M&E system has not been used for evaluating the performance of government agencies and the state budget allocation.



## PART FIVE

### OVERAL ASSESSMENT AND CONCLUSIONS

#### 5.1. OVERALL ASSESSMENT ON SOCIO-ECONOMIC SITUATION OVER THREE-YEAR PERIOD 2006-2008

Within three year from 2006 to 2008, Vietnam has experienced a new development stage with important milestones such as completed WTO accession and successful organisation of key regional events. Socio-economic developments over the last three years are relatively complicated and affected by many factors home and abroad. In 2006, Vietnam gained a large number of encouraging achievements such as high growth rate, macroeconomic stabilities, low inflation, and further reduction in poverty rate. However, the situation has changed dramatically since the second quarter of 2007, when domestic inflation began to escalate in association with world turbulence relating to rising oil prices and the financial crisis in the U.S. as well as resulting impacts of this crisis on the global scale.

In addition to achievements, there emerge a lot of shortcomings that need to overcome in the coming time. Development over the past three years provides substantial practical experience for Vietnam to draw useful lessons. The following is the summary of achievements, limitations and practical lessons.

##### 5.1.1. Achievements <sup>131</sup>

**Firstly**, the annual economic growth rate was estimated to be 7.6 percent, higher than the annual average of the period 2001-2005; accomplished planned objectives, in which the first two years witnessed an annual growth

<sup>131</sup> Progress of implementation of major planned indicators over 2006-2008 is summarised in the Appendix.

rate of over 8 percent. The agriculture-forestry-fisheries sector has managed to overcome numerous difficulties on natural disasters and diseases, obtaining a growth rate that exceeded the plan. The service sector also attained a relatively high growth rate, in which business supporting services witnessed the highest growth rate.

**Secondly**, the mobilisation of resources for development investment achieved substantial encouraging results, particularly with regard to FDI attraction. Total investment amounted to approximately 43 percent of GDP, exceeding the plan. Registered and implemented FDI increased to a record level in all of three consecutive years, resulting in a considerable increase of FDI as a share of total investment from 14.9 percent in 2005 to 31.5 percent in 2008. This reflects a strong confidence of foreign investors in a better transparent and more favourable environment of Vietnam following the accession to the WTO, as well as in high potentials and bright prospects of Vietnam. Investment capital has focused on infrastructure sectors so as to reduce costs as well as to improve competitiveness for the whole economy.

**Thirdly**, the situation of state budget revenue-expenditure has been improved, in which expenditures to improve human resource and generate favourable conditions for economic development such as those relating to education and training, healthcare, social insurance and economic services all increased considerably.

Fourthly, dealing with macro-economic instabilities since 2007, the government has implemented eight policy packages and thus gaining encouraging initial results. Though the most difficult period remains ahead, the economy overcame big shocks and seemed to be prepared with better resilience and responsiveness. The monetary policy has been managed more flexibly. As a result, the end of 2008 witnessed a substantially-reduced inflation, improved BOP, better liquidity of the banking system, stabilised ER and slightly-reduced interest rate.

**Fifthly**, international economic integration and foreign economic relations have achieved a new development stage in term of quality, laying a foundation for socio-economic development. Vietnam became a full member of the WTO with a lot of resultant development opportunities. Many multilateral and bilateral agreements were signed and implemented. Accordingly, Vietnam's reputation was improved significantly in the international arena through its increasingly important involvement in regional and international organisations such as APEC, UNDP and ASEM. Export markets were expanded; the export sector acted as a driving force for economic growth with a growth rate of 24.6 percent a year, exceeding the plan. The considerably high export growth rate in 2008 in the context of sluggish world economy and a lower domestic growth rate has revealed that Vietnam really has some development potentials in the long term. Export structure has been transformed positively from raw materials to processed products with higher technological content and skills.

**Sixthly**, the social sector also experienced positive changes in some aspects such as primary education and children health. Household income was improved and the poverty rate continued to decline. People's cultural and spiritual life was improved; performance of radio- and television-related indicators exceeded the plan; the majority of people were accessible to radio and television broadcast, providing them with updated information from the most important news programs. Physical and sport activities have been effervescent and attracted a high level of attention from the general public. The implementation of policies with regard to meritorious people was well reorganised with a timely adjustment of allowances in order to ensure stability and gradually improve living standards for them. The material and spiritual life of the ethnic minorities continued to be enhanced through development of basic public services such as electricity, transport road, school, clinic, drinking water; and/or through allocation of production and residential land, provision of vocational training and job creation. Gender equality also continued to be improved significantly.

**Seventhly**, the natural environment has been attended to, preserved, protected and developed in a more sustainable manner. Numerous important policies on management, utilisation of natural resources and protection of the environment have been adopted and implemented. Furthermore, the issue of environmental protection has been mainstreamed in strategies, socio-economic development plans, various programs at the national, regional and sectoral level, recently promulgated laws and legal documents. The state management system over the environment has been established from the central to the grassroots level. The issue of environment management has been intensified.

**Eighthly**, socialist-based market institutions promoting national socio-economic activities as well as consistent with the international practice have been improved. A huge number of legal documents has been promulgated and realised. Transparency, decentralization and participation of the whole community in the policy making have been enhanced to a significant extent. Administrative formalities have been simplified, which created favourable condition for businesses, reduced productions and private costs, The organisational apparatus of the Government has been reorganised, quality of the cadre has been improved step by step. Efficiency and transparency of the public finance has increased to a certain extent.

### 5.1.2. Factors Contributing to Achievements

One of the most important factors leading to the aforementioned achievements is that the Government has demonstrated a strong determination in implementation of a strategic goal of making Vietnam to become an industrialised country by the year 2020.

The Government has promulgated and implemented a series of policies gearing toward wider and deeper integration into the world economy. The

socialist-oriented market-economy institutions have continued to be further developed and improved to meet the needs of integration, economic transformation and production force development. Domestic reforms have also been accelerated not only to accomplish integration commitments but also to take emerging opportunities to better grasp benefits of international economic integration. Enormous resources have been mobilised from various sources to support the implementation of policies. A large number of policies have been realised and thus resulted in positive outcomes.

On the other hand, the thing that is not less important is the collective efforts of the whole Vietnamese people, with dynamic and creative nature, in realising policies of the government into real actions and resultant socio-economic achievements.

Last but not least, the comprehensive supports of international donors in the process of development, living standard improvement, poverty reduction and social equality assurance are highly appreciated.

### 5.1.3. Weaknesses

**Firstly**, despite a relatively high economic growth rate, growth quality and efficiency remain low; policy measures gearing toward sustainable growth and development have been less attentive and not well implemented. Growth is still heavily reliant on investment, while investment efficiency, particularly state investment, remains modest and the shift in the investment structure by sector is not in accordance with potentials, priorities and national interests. The gap between savings and investment is quite substantial and has been rising. Economical and efficient exploitation and use of natural resources remain short of adequate focus. There is a lack of thorough consideration of long-term environmental impacts; also there is an absence of imposition and strict implementation of environmental protection measures in performing economic activities. In addition, social equality has not been thoroughly addressed during the process of economic development, particularly in the context of wider and deeper international integration, which has resulted in a net benefit for the whole society, but several groups may lag behind or suffer losses.

**Secondly**, from 2005 to 2008, the economic structure is slowly transformed, failing to follow the right direction of industrialisation and modernisation (the share of industry and construction in GDP has reduced; while that of agriculture-forestry-fisheries has seemed to increase), threatening the possibility of accomplishment of the structural transformation objective by 2010. Furthermore, structural transformation remains self-contained within each province, thus lacking attention to take into account of regional and national pre-eminence and advantages. The far-reaching cause of this fact lies in the investment-led growth model of low efficiency, weak competitiveness of the economy and three major “bottlenecks” restricting the capital absorbability and economic growth (infrastructure, human resources and economic institution).



Manufacturing industry is mainly based on assembly and processing of products with a heavy use of imported materials, spare parts and equipment, thereby creating products of low value added. In the service sector, development of business-supporting services of higher value added does not keep pace with requirements, thus failing to significantly improve competitiveness of the economy. The booming development of the stock market and the real estate market during 2006 and 2007 was not noticeably translated into development of the real economy.

**Thirdly**, labour structure is transformed much slower than GDP structure by sectors, mainly because of low level of skills and qualification of the labour force in the agriculture sector, failing to meet requirements of the industry and service sectors. The shortage of qualified human resources has increasingly become an urgent issue restricting the development process. This is among major factors that may push Vietnam to fall in the low cost labour and income trap. The education and training sector is facing enormous challenges that require dramatic changes in terms of training curriculum as well as teacher quality.

**Fourthly**, Vietnam has not made full use of advantages of international economic integration, particularly for export expansion, attraction of foreign investment in industries of comparative advantages, or for removing restrictions to the development process, thereby improving capability of the economy as a whole. Exports remain dependent heavily on raw materials and manufacturing goods of low value added. Soaring trade deficit has negatively affected BOP and thus generating enormous risks facing macroeconomic stabilisation. Though the Action Plan on some major policies for rapid and SD of the economy upon Vietnam's accession to the WTO was prepared by the efforts of ministries and branches and localities, this Action Plan, however, has not yet been integrated into annual plans, thus its enforcement remains modest and formalism.

**Fifthly**, macroeconomic balances have remained limited, lacking solid foundations; escalating inflation since end of 2007 has resulted in troubles facing the economy in some time, making the assurance of macroeconomic-policy consistency become a challenging task. M2 expansion has been excessively large. The issue of "double mismatches" has become more problematic, thus making the shortage of liquidity become serious. Trade deficit and budget deficit have tended to increase; budget revenues have not been sustainable. Management and coordination of macroeconomic policies and prices of ministries and branches have exposed to a lot of confusions and discrepancies. Such fundamental macroeconomic issues as the relationship between the ER regime, capital mobility and money supply control capability has not been recognized and addressed fully, properly and comprehensively. In 2008 and early 2008, there was an absence of proper choice between the two major key objectives of growth maintenance and inflation control.

**Sixthly**, poverty reduction achievements are still not sustainable;



vulnerability and risk of falling back into poverty is high, making the combat against poverty become more and more challenging. The coverage of the social security network is not broad and efficient enough to be able to reduce shocks for the poor and near-poor groups, even regressive; the fund to finance the social security system remains very limited. Development gaps between regions and people groups have showed no sign of narrowing; the risk of lagging behind the development process of some people groups is relatively high.

**Seventhly**, environmental pollution is still pressing. Management and efficient use of natural resources by and large is not attainable. The formulation of some guidelines to implement some articles of Environmental Protection Law has been delayed; the application of economic tools for environmental management is limited and deficient; there is a lack of policy measures to support environmental protection activities, to develop environmental services and promote socialisation in environmental protection. Implementing capacity is still limited, M&E remains weak,

Eighthly, the regulatory quality is not high, The laws making procedures still have various problems, the quality of the legal regulations is not high. The law-making procedure has numerous deficiencies, lack of enforcement measures in some legal documents. Efficiency of public resources has not been improved much.

#### 5.1.4. Causes of Weaknesses

- In the era of wider and deeper international economic integration, many mechanism and policies have been issued, however, some mechanism, policies and measures were not really appropriate to the context and the changing situation. Monopoly and unfair competition still exist.

- In implementation arrangement, there is a lack of an overall assessment on interrelated issues and aspects necessary for national development process. Accountability has not been well implemented.

- Apparatus and personnel arrangements as well as administration reforms remain lagging behind requirements. Functions and tasks of each ministry have slowly been promulgated.

- Forecasting and warning activities have remained weak, lacking basic and standard information to advice the government for issuance of accurate, rapid and timely decisions.

### 5.2. LESSONS LEARNED

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#### 5.2.1. Lesson on Development Thoughts in Integration Process

Together with the inheritance and development of the promulgated

renovation policy, it is necessary to continue renovation and improvement of development thoughts to reach a strategic level, including economic thought, managerial organisation thought and political thought in the whole system; attaching national development thought with principles and laws of global economic development.

The reality shows that the awareness of theoretical and management aspects in some areas and stages is still far beyond the rapid development of the market economy in the context of increasing integration. Therefore, up to now, though the renovation process has created fundamental factors and frameworks for a multi-component commodity economy which run according to the market mechanism with the state management; nevertheless, some decisions of the state have not been fully aware of and understood thoroughly as well as exposed to inconsistency in direction and management of different levels, branches and localities.

This fact raises the necessity to continue renovation of development thoughts; the necessity to be fully, profoundly and consistently aware of the systematic nature of the market economy in the context of international economic globalisation and transforming into the knowledge-based economy. On this basis, the economic renovation process should be accelerated in a more comprehensive, deeper and wider way, targeting issues with more difficulty and complex than in the previous strategic period, such as economic institution, development driving force, ownership, benefit distribution, state economy, etc. in order to generate a new driving force to move the economy to a new development stage in the context of integration and globalisation.

### 5.2.2. Lesson on Sustainable Development

There is a need to have proper opinions and awareness of SD, which is reflected from macroeconomic policy to specific projects in the whole course of economic-social-environmental development. SD will enable the country to enter a new development stage, which is efficient, based on national advantages, thus helping to stabilise and improve people's life considerably.

SD, first and foremost, is development to meet increasingly sophisticated demand of life of the current generation but not reducing life quality and demand of the next generation. Economic growth in term of quantity must go together with improvement of quality, efficiency and competitiveness of the economy with modern technology, minimising the use of energy, materials, minimising waste disposal and following the environment-friendly approach. Employing extensive development factors (capital, land, natural resources, labour, etc.) and paying special attention to intensive development factors (technology, management, labour productivity, marketing capacity, etc.) to minimise production costs and the use of materials, fuel and energy.

In addition, SD must attach economic growth with cultural foundation

development, comprehensive human development, exercising democracy, advancement and social equality, job creation, life improvement, encouraging people to get rich legally together with poverty reduction. Environmental protection and improvement must be emphasised in every development step, avoiding destroying or polluting the environment. There is a need to integrate SD goals into socio-economic development goals for implementation based on the same platform of policies and mechanisms. Environmental factors should be included in the development efficiency.

### **5.2.3. Lesson on Improvement of Quality of Economic Forecast and Information Activities to Advise Management of the Economy at all Levels and Branches**

In the market economy, information provision, economic analysis, strategic forecast, short-term forecast and economic warning are of special importance in helping the government, leaders at all levels and branches to make relevant decisions to serve socio-economic management and limit and prevent possible risks and shocks. There needs to establish a systematic network of socio-economic information and forecast located in the Government Office, the National Assembly Office, line ministries and provinces/cities as well as to develop a set of regulations and procedures relating to information coordination and provision, developing standard analysis and forecast methods to be able to provide timely advice to leaders at all levels.

The reality in early months of 2008 with rapidly-changing developments of the world situation has showed that it is the lack and late update of information that limits the capability to advise the government in developing and promulgating proper policy responses.

In addition, a special attention should be made on the task of strategic forecast and development of strategic vision and objectives, in which the quality of forecasts on development of the international and national economic situation in the context of globalisation is crucial. These projections have immense impacts on the quality of development of strategies, especially with regard to the determination of strategic opinions and objectives. Accordingly, there emerges an urgent need to reorganise and improve the quality of socio-economic information and forecast activities.

### **5.2.4. Lesson on Establishment of a Full Market Economy, Mobilisation of All Domestic Development Resources and Attraction of Foreign Investment**

The international economic integration, particularly with regard to the accession to the WTO, being member of APEC, ASEAN and other international economic organisations, has enabled Vietnam to deeply and widely integrate into the world economy for further development. On the other hand, in this

integration context, Vietnam has opportunities to adjust and establish mechanisms and policies of socio-economic management in accordance with international practice; accelerate domestic development and improve efficiency of international economic integration in order to heighten positive impacts of the market economy in development of production and business and improvement of people's living standard; at the same time to detect limitations and negative aspects that need to be prevented and overcome.

It is strongly emphasised that the slow development of comprehensive market elements, lacking respect of the laws of the market economy, together with heavy intervention in the market with unnecessary administrative commands will distort the market, causing a lot of negative impacts on production and business.

The mobilisation and utilisation of development resources in the whole society need to go together with efficient use of those resources, including investment fields (industries), technological structure and environmental solutions. In the context of globalisation and regionalisation of the economy, domestic and foreign resources are subject to the same mechanisms and policies; thus mobilisation of capital resources will depend heavily on the macroeconomic environment and policies as well. In this regard, inefficient use of capital will likely affect capital mobilisation, thereby significantly affecting development capability.

The market economy has positive impacts on development of production and improvement of people's living standards; however, the market economy does not take a universal role in addressing socio-economic issues. In addition to its positive impacts, negative ones of the market economy need to be controlled, prevented and overcome; without state management and regulation then these negative impacts will develop and result in a lot of complex and unpredictable consequences.

### **5.2.5. Lesson on Management and Enforcement of Management Apparatus**

The role of macroeconomic management of the state is to orient and drive the development of the whole economy and society, creating economic environment and legal framework for production and business activities. Over the past many years, macroeconomic management bodies have gained considerable and quality advancements in management of implementation of socio-economic objectives. The Government has renovated substantially in its management tasks, leading to rapid detection of problems and focus of attention to address completely the most core and urgent issues. Resolutions of the Party and National Assembly, particularly of the Government in regular meeting sessions have demonstrated a high level of management because they contained very concrete solutions for practical implementation.

However, the implementation of these Resolutions remains very slow, especially at levels of implementers, making many burning and urgent solutions became out-of-date and less meaningful when implemented. This worrying fact is caused by many factors that need to be analysed. First and foremost, it is because of the existing cumbersome and duplications of many organisations within the management apparatus, which should have been removed with the acceleration of public administration reforms, apparatus reorganisation, personnel downsizing, clear task assignment, and assurance of consistent concentration in order to improve the capacity for the management apparatus. On the other hand, there needs to have regulations on public servants and specific assignments attached with specific positions, establishing well-organised laws and orders to enforce the implementation of assignments, thereby enabling the state apparatus to work really effectively and efficiently.

The progress of socio-economic renovation and development is heavily dependent on the willingness and capacity of implementation and management of levels and branches, where the human factor – cadres and public servants, particularly key leaders have a decisive role, which is reflected through the following qualities: (i) to be attentive to opinions of the people; (ii) to be able to analyse and evaluate situations and results of work within his/her authority and responsibility; (iii) to be able to make decisions timely, correctly and willing to be accountable to these decisions; and (iv) to be able to organise the implementation of work.

In order to be able to obtain good implementation, there is a need to put the right persons to meet work requirements, assign clear tasks and corresponding rights to leaders, including rights of personnel and apparatus arrangement; at the same time to require a strict adherence of responsibility to staff and particularly to leaders, imposing timely punishment, including replacement with regard to those in cases of incompleteness of tasks, sluggish work or detected violations and mistakes. It is necessary to issue concrete regulations on staffing to meet this requirement.

### **5.3. RECOMMENDED SOLUTIONS FOR IMPLEMENTATION OF THE FIVE-YEAR PLAN IN THE COMING TIME**

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In order to implement the objectives of the plan in the two remaining years, proposed solutions from now to 2010 should be focused on the following objectives:

- Eliminating difficulties in trade activities including market, price and payment capability of trading partners, technical barriers and ER; export volume to traditional export markets should be boosted; access to new markets should be promoted.

- Removing obstacles on capital for production facing enterprises, particularly SMEs.

- Providing supports to consumption of low-income groups of the population who faces difficult life; and

- Improving current account and overall BOP.

### 5.3.1. General Solutions

The policy packages adopted by the government to fight against inflation introduced in early months of 2008 have been implemented efficiently. It should be confirmed that maintaining macroeconomic stabilities is the most important objective and a lower growth rate in the short term should be a reasonable trade-off. Stabilising living standards of the population, strengthening the capacity to prevent and diminish negative impacts as a consequence of the world financial crisis and economic slowdown should also be priorities.

In this circumstance, economic growth needs to be carefully and properly considered and targeted. A large number of international experts pointed out that for the time being, Vietnam should implement policy measures to strengthen macroeconomic fundamentals, and using the current global financial crisis as a chance to restructure the economy.

With these objectives in mind, broad solutions to implement the objectives of the plan from now to 2010 are as follows:

- The socialist-oriented market economy institutions should be further improved; domestic reforms should be implemented in a comprehensive manner with a view to grasping benefits of integration to the maximum extent.
- From now to mid-2009, priorities should be given to maintaining macroeconomic stabilities through a comprehensive policy package of fiscal and monetary policies and strengthening supervision of banking activities. There needs to be ready to have active, flexible and timely responses to both internal and external changes.
- Policy measures to support enterprises to overcome difficulties in terms of capital, input price and output consumption market should be implemented. Social security measures for those groups affected adversely, particularly the poor and near-poor groups should be introduced. Measures to overcome the stagflation of the economy and facilitating recovery the economy in 2010 should be strengthened.
- Strict measures to improve state and SOEs' investment should be implemented; improvement of investment efficiency through mitigation of waste and losses should be carried out.



### 5.3.2. Concrete Policy Solutions

#### 5.3.2.1 Public Expenditure Policies

In the coming time, it is necessary to well implement investment stimulation solution in order to prevent the economic slowdown, maintain the economic growth, ensure social safety. Public investment should be prioritised and channelled to public goods and services, poverty reduction and ethnic minority areas, especially in rural and remote areas. Attention should be paid to improving services provided by commune health centres, strengthening qualification of teachers and upgrading infrastructure for secondary education in mountainous and remote areas, and be reduced for pure commercial projects. The Government should not provide guidance and warranty for SOEs to implement projects or to invest in such kinds of activities.

There needs to strengthen supervision, M&E of public projects to improve investment efficiency; to apply penalties of sufficient deterrence to cases of embezzlement, waste and violation of laws and regulation. The owners of public investment projects as well as the owners of the state assets should be clearly defined with a view to strengthening their accountability for the investment and assets. Agencies implementing public projects should send their progress report containing sufficient information for comprehensive evaluation of public investment on a regular basis to MPI. An independent agency should be established to supervise and monitor activities on SOEs.

In order to reduce current expenditure, implementation of lump-sum budget grant to qualified administrative units and the transformation of public service delivery units to those operating in accordance with Decree No 115/2005/ND-CP should be accelerated.<sup>132</sup> In order to maintain the work quality, it is necessary to conduct regular M&E of work results, attaching the allocation of funding for the later period with the level of plan accomplishment of the previous period. Budget support for targeted groups such as the poor people and poor region should be in place. Targeting efficiency should be improved.

In the long term, it is necessary to implement far-reaching salary reforms within the state sector to create sufficient motivation for public servants and officials to perform their duties in a creative, efficient and responsible manner.

#### 5.3.2.2 Policies for Mobilising Resources from Other Sources

Stronger socialisation policy to attract investments from the non-state sector, households and FDI in education and training, vocational training, establishing private health facilities, libraries, museums, cultural and sport works, etc, should be continued in order to ease the expenditure burdens for the

<sup>132</sup> Decree No 115/2005/ND-CP dated 5th September 2005 providing the autonomy and self-accountable mechanism applicable to public scientific and technological organisations.

state budget. Investment capital from households and the private sector should be mobilised to build local public works through various forms such as joint-venture capital contribution, build, operate and transfer (BOT), build and transfer, etc.

Further improvements should be made in management, transparency, and efficiency of allocating and using funds contributed by the society, community, enterprises and individuals for social protection programs, emergency relief for people affected by natural disasters, floods, protection and care for children, people with disability, and national devotees.

Regarding FDI, there needs to promptly implement some more fundamental measures such as change of thoughts and perception, and proposal of new viewpoints on attraction and utilisation of foreign investment capital; research on strategies to mobilise and monitor the use of FDI should be conducted; appropriate policies should be adopted to eliminate undesirable projects as well as to encourage necessary projects, paying attention to quality of investment (chosen sectors, investment partners, technological competency, usage intensity of natural resources and scarce resources, forward and backward linkages with domestic enterprises, spill-over effects, environmental-friendly level, etc.), raising awareness of investors on corporate social responsibility, thus developing appropriate criteria to appraise FDI projects as well as projects financed by other sources. The approval of all projects must be based on these criteria.

In order to have the best options with minimum costs, appropriate policies should be adopted to guide FDI into areas that help removal of factors hindering development and have capital absorption capacity of the economy through appropriate encouraging policies (such as partnership, BOT) so as to reduce the burden for budget expenditure. In this connection, infrastructure development is one of typical areas that allow taking advantage of a large investment source to remove one of the bottlenecks, thereby Vietnam will become more attractive to foreign investors. Similarly, appropriate policies should be introduced to encourage FDI inflows to the low value added areas to remove the second bottleneck of the economy.

### **5.3.2.3 Financial and Monetary Policies**

Implementation of the macroeconomic stabilisation policies should be continued, paying a due attention to the comprehensiveness of the monetary policy and the fiscal policy. Coordination in proposing and implementing policies in a closer and consistent manner between ministries and branches in charge of macroeconomic policies (SBV, MOF, and MPI) should be strengthened. It is necessary to gradually loosen the monetary policy, thus removing obstacles in capital for enterprises, particularly SMEs.

The regulatory framework of the financial and banking system should

be consolidated and improved. The system should operate based on more prudential regulations, mitigating high-risk loans or uncertain collaterals such as those relating to real estate and securities, at the same time facilitating access to credit by enterprises engaging in production and business of exportable goods and services.

On the other hand, in order to mitigate possible impacts of the world financial crisis and economic slowdown on domestic financial and banking activities and subsequent domino effect on other socio-economic aspects, the government should implement active supervising, monitoring measures over operation of financial companies, commercial banks (state, joint-stock and private) and business groups. An independent inspection and supervision agency should be established to perform this function.

#### **5.3.2.4 Sectoral and Enterprise Policies**

Programs improving competitiveness for all sectors of the economy, particularly those with weak competitiveness should be implemented. Regarding key export-oriented industries, a policy to gradually move from subcontract implementation to direct exportation should be implemented. Policies should be in place to encourage raising product value added in all sectors through improving human resources, upgrading technology level, improved access to source technology, long-term collaboration with leading partners in relevant fields, diversification and renovation of products,

Policies boosting development of sectors that Vietnam has potentials or comparative advantage should be introduced. Strong propaganda and encouragement should be made to domestic enterprises to serve domestic market, to make a better use of emerging opportunities by economic integration to open and penetrate into new overseas markets. Linkages with foreign-owned enterprises should be utilised better, deeper participation in the regional production network should be promoted.

Development of supporting industries to avoid excessive dependency on imported inputs, as well as to mitigate impacts of commodity price shocks in the world market, at the same time to obtain substantial savings of foreign currencies should be promoted. Business supporting services such as finance, credit, science and technology should be strongly encouraged; policies to attract investment into these sectors should be adopted.

With the introduction of the tightened monetary policy aiming to control inflation in 2008, commercial banks have "narrowed" the access of enterprises to loans through rapidly raising credit interest rates, making production and business of enterprises, especially SMEs, to face a lot of difficulties, particularly in term of capital. In the coming time, the government should introduce (in a cautious manner with careful consideration) necessary and efficient consumption of certain types of goods and services and provide loans to

enterprises to support respective production and business; considering the possibility of deregulating lending interest rate or reducing lending interest rate in a way that both serves the purpose of ensuring monetary tightening but also facilitating the removal of obstacles for production and business, thereby maintaining the economic growth rate and stabilising household living standards.

### 5.3.2.5 Social Policies

Focus should be made on rapid development of human resources, especially long-term vocational training and highly-skilled human resources to meet development needs in order to strongly attract investment projects that use a high level of technological competency and generate products with high value added. Special policies should be implemented to promote rural vocational training in order to accelerate sectoral labour shift and improve income.

Regulations on operation of public hospitals should be put in place in the near future; the management of hospitals should be improved; hospital fee policies and payment mechanism of health insurance benefits should be reformed. Stronger measures should be taken to increase the quality of health care services and code of conduct of health workers.

Measures to narrow large discrepancies in health status of population and health care services provided in different regions and for different groups of population should be adopted. Health care services should be restructured to meet the changes in the population structure and the disease pattern in Vietnam, dealing with new emerging issues such as child obese, food safety, drug abuse, HIV/AIDS and others.

Implementation of NTPs, other approved programs and projects should be continued to promote productive activities; to stabilise living standards of poor people, poor regions, ethnic minority groups and natural disaster-prone regions. Measures for sustainable poverty reduction should be pursued, ensuring that the poor share the gains of growth. Various farmers' contributions should be diminished. Improved living standards for people subject to land acquisition by the State should be guaranteed.

Efforts and resources should be directed to 61 poor districts in the coming two years if remarkable progress is to be made in poverty reduction in these areas. Training of local officers (both at commune and district levels) should be taken before implementing, incorporating programs and projects at the locality.

The Law on Health Insurance should be timely promulgated; regulations on health insurance for poor people should be reviewed and improved; criteria to identify near-poor people should be identified; quality of health care services for insurance card holders should be improved.

The voluntary social insurance scheme to expand the coverage of social security, especially for workers in informal and rural areas, where three third of the workforce are economically active should be introduced. Social security policies to provide supports to vulnerable groups should be adopted.

Comprehensive and efficient measures to prevent and combat against epidemic outbreak, especially those on human being should be implemented. Active prevention and mitigation of natural disasters, rescue efforts to minimize disaster-incurred losses in human life and people's assets should be in place.

The process of mainstreaming gender issue in socio-economic policies in line with the Law on Gender Equality should be reviewed. More efforts should be directed to achieve comprehensively targets of the National action program for children in Vietnam for the period 2001-2010.

Pressing social issues should be dealt with in an efficient manner, particularly with regard to crimes, drug addiction, transport accidents, traffic jams in big cities.

#### **5.3.2.6 Institutional Policies**

The quality of the participatory approach in the process of making laws and legal documents should be improved. Public consultation must be made right from the period of policy concept formulation to obtain consensus on basic ideas of the policy. If the consensus cannot be secured for a policy, the drafting laws should not start. It will help preventing waste of resources for drafting a law, which cannot be issued because the consensus cannot be secured or for drafting a law, which cannot contribute to the society development.

Both quality and enforcement of legal documents should be improved. Accordingly, legal documents must clearly specify implementer(s) and associated forms of bonus sufficient for encouraging implementation and forms of punishment sufficient for deterrence purpose. More attention should be paid to supervision and monitoring of implementation of policies. Policies should be reviewed, assessed and revised regularly so that they can meet the need of reality. The M&E system should be enhanced by giving clear functions and mandates on monitoring and evaluating the performance of state agencies to a relevant state agency, and the instruments should also be provided to them to enforce the decisions.

The information from state auditors and from M&E reports must be used for making policy decisions and allocation of public resources. The auditing system should be strengthened so that all state administrative agencies can be audited annually to show their performance.

The investment management decentralisation mechanism should be reviewed, evaluated and improved to address problems suffered in public investment management. The capacity should be built to the staff involving in project appraisals at local levels, linking the authority of project investment



approval to responsibility and remuneration and punishment system. Delegation of state management authorities should be in balance with the capacity of the agencies to be delegated.

The master planning work should be reorganised and reconsolidated to make master plans useful to local and sector development. Quality of master plans should be enhanced in every aspect, and their effectiveness should also be strengthened. All master plans should have a long-term vision, be comprehensive, practical and feasible to provide fundamental inputs for preparing plans. Master plans should be backed up by evaluating all economic, social and environment issues and linking to forecasts of key inputs and factors for social economic development (e.g. capital, land, human resources, especially those that either under-utilised or scarce), as well as outputs (domestic and foreign demand for relevant commodities and services, prices). All these will help to make the best use potentials of the country and diminish undesirable impacts. The master plan of a sector or province should be made in connection and linkages with other sectors and provinces as well as with the national master plan with a view to identifying an optimal division of activities to explore local comparative advantage to the most extent possible.

A relevant legal framework should be in place to enforce implementation of master plans, as well as to supervise and monitor their implementation. Content of master plans should be mainstreamed into five-year and annual plans of each ministry and province.

#### 5.3.2.7 Other Policies

Information disclosure and transparency, especially information for policy analysing, backing up business plans of enterprises and for the public to make the right judgement about macroeconomic situation should be ensured. The information sharing culture should be developed to improve the coordination between state administrative agencies. All the key and possible management decisions made by the state administrative agencies and the policies, development plans and strategies should be disclosed on the website of the state administrative agencies.

The policy analysis and forecast capacity of public servants in ministries and agencies should be improved and employed in policy advice.

### 5.4. PRELIMINARY ESTIMATION ON IMPLEMENTATION OF MAJOR INDICATORS OF THE FIVE-YEAR PLAN 2006-2010

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The real performance of the three 2006-2008 suggests that by the end of 2010, the country will achieve the following planned objectives and indicators:



#### 5.4.1. Groups of Indicators Estimated to Be Fulfilled by 2010

These groups include the following: GDP per capita, export growth rate, ratio of trained workers, ratios of primary school children, newly enrolled university and college students, newly enrolled students of vocational schools, rate of nationally-qualified teachers, children-related indicators, rate of households accessible to Vietnam's television and radio broadcast, rate of poor households.

#### 5.4.2. Groups of Indicators Estimated not to Be Fulfilled by 2010

These groups include the following: GDP growth rates at national level and GDP of industry-construction, GDP structure, state budget deficit, M2 growth rate, the rate of newly recruited technical workers of long-term training, maternal mortality, and environmental indicators.



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# APPENDIX

## APPENDIX 1: EVALUATION METHODOLOGY

The mid-term review for implementation of the SEDP will seek to apply the Results Based M&E Framework (RBMEF), which covers inputs of the plan, implementation process, outputs, outcomes, impacts and achievement of objectives.

### A1. KEY QUESTIONS

As a first step we need to identify the questions which the mid-term review should seek to answer. It is suggested that the seven key questions to be addressed should be:

**1. How far are output targets being met? Of what quality? Are the targets appropriate?**

**2. If the targets have not been met, why not? Answers could be found through reviewing:**

- Resources (effectiveness, sufficiency, efficiency, allocation and utilisation, sources);
- Implementation capacity;
- Mechanism and policies (regulatory system, apparatus, government intervention);
- Inter-sectoral and economy-wide interaction of various factors and events; and
- Influence of external development (global economy, world politics, calamity, others).

**3. If the targets have been met, would the targets be raised?** Answers could also be found through reviewing:

- Resources (improving efficiency, better resource allocation and utilisation, improved mobilisation from all sources);
- Implementation capacity;
- Mechanism and policies (improving regulatory system, apparatus, government intervention);
- Inter-sectoral and economy-wide interaction of various factors and events; and
- Influence of external development (more favourable global economy, world politics, others).

**4. How far are policies for change in all sectors being implemented according to schedule?** Answers should be sought through reviewing and monitoring implementation of Action Program, as well as effectiveness of approved laws and regulations).

**5. What problems have emerged which require modifications in the plan and actions by the Government?**

**6. What are measures taken by the Government to deal with constraints/bottlenecks or improve performance further?**

**7. What are recommendations on plan revision (downward or upward adjustment of the planned targets and indicators) and the rough magnitude?**

## **A2. EVALUATION METHODS**

- Quantitative method: data and information for analysis are taken from administrative reports and records, statistical and survey data.
- Qualitative method: (i) desk study of reports and studies under various projects and programs carried out by the Government and donors (multilateral such as UNDP, World Bank, ADB; bilateral donors such as SIDA, NORAD, DANIDA, DFID) on related issues; (ii) expert assessment through in-depth discussion with the responsible departments, to get their assessment of progress and emerging problems; (iii) participatory assessment; (iv) case study; and others.
- Each pillar (economic, social, environmental, state governance) may have some specific characteristics; therefore particular approach applied for evaluation in each pillar may be more qualitative or quantitative.

## **A3. STEPS IN EVALUATION**

The work can be divided into three stages:

**Stage 1 - factual review of implementation progress:** The first part of

the exercise should be largely descriptive, assembling factual data on progress in implementing the plan. Outputs of Stage 1, the Descriptive Stage, should be the identification of areas by the level of performance (over-fulfilment, fulfilment and under-fulfilment of the planned targets), with a special attention paid on those areas where performance is lagging.

**Stage 2 - analytical stage:** Having concluded an initial description of performance, the data should be analysed in depth to identify the causes of the observed performance. At this stage, the key questions to be addressed are: (i) why are parts of the program lagging/over-performing? (ii) What are the constraints and how can be handled? (iii) If the targets have been met, would the targets be raised? (iv) How far are policies for change in all sectors being implemented according to schedule? (Reviewing and monitoring implementation of Action Program, as well as effectiveness of approved laws and regulations). (v) Is there any connection between the policy implementation schedule and the level of plan fulfilment? (vi) What are constraints and how they should be dealt with? (vii) Can we make the full use of resources which were under-utilised? And (viii) what problems have emerged which require modifications in the plan?

**Stage 3 - final report:** the final report should provide a comprehensive overview of plan performance, including specific consideration of inter-sectoral linkages and constraints (e.g. is performance in one sector being constrained by lagging outputs from another sector), an overall assessment of progress, including reference to exogenous developments; findings clearly stating lessons and messages and summarising proposals to deal with constraints in plan implementation or special efforts to accelerate implementation of some parts of the plan. If the plan was implemented well, the report should seek for measures to improve performance further and identifying areas where some revisions in the plan are required.

#### **A4. ISSUES THAT MAY EMERGE DURING THE RESULT-BASED MONITORING AND EVALUATION PROCESS**

- While the distinction between “outputs”, “outcomes” and “impact” is clear in principle, in practice the distinction has not been applied clearly. Consequently it is not easy to collect consistent data and information for analysis.
- Although quantitative indicators are important, many of the targets, particularly those related to institutional change, cannot be meaningfully assessed in quantitative terms. Examples critical for the overall Plan outcome include a number of indicators related to the public administration reform, SOE reform, public financial management, management of the financial system and the legal framework for efficient economic activity.

- In many areas, a significant lag can be expected between an output and the intended.
- Among all targets and indicators it will be necessary to identify a much shorter list of Strategic Indicators which are particularly important for the Plan's overall success and which should provide the initial focus for the mid-term review.
- Performance of a target or indicator is a result of and interaction among numerous factors, not just of a single input or policy. When ones attempts to explain outcomes of the plan performance, the discussion should focus on social or economic changes resulting from achieving planned targets; supporting or obstructing plan implementation.
- Broad inter-related issues have been identified which may be critical for the implementation of the Plan 2006-2010 are inflation, the emerging international economic crisis and the great volatility experienced in Vietnamese asset markets.

## APPENDIX 2:

# STATISTICAL DATA

**Table A2.1: GDP for the Period 2005-2007 (billion VND)**

Indicators	2005	2006	2007	Prel. 2008
<i>In current price (billion VND)</i>				
Agriculture-forestry-fisheries	175,984	198,798	232,586	326,505
Industry-construction	344,224	404,697	474,424	587,157
Services	319,003	370,771	436,706	564,054
<b>GDP</b>	<b>839,211</b>	<b>974,266</b>	<b>1,143,715</b>	<b>1,477,717</b>
<i>In 1994 price (billion VND)</i>				
Agriculture-forestry-fisheries	76,888	79,722	82,717	86,081
Industry-construction	157,867	174,259	192,065	203,791
Services	158,276	171,392	186,561	199,960
<b>GDP</b>	<b>393,031</b>	<b>425,373</b>	<b>461,343</b>	<b>489,833</b>
<i>In USD</i>				
GDP by average ER (bill. USD)	53	61	71	89
GDP per capita (USD)	638	725	833	1,034

Source: GSO (2008c), SRV (2008).

**Table A2.2: GDP structure in 2006 (% GDP)**

Country	Agriculture	Industry		Services
		Total	Of which manufacturing	
Vietnam	20.4	41.6	21.3	38.1
China	11.8	48.7	43.1	39.5
Indonesia	12.9	47.0	28.0	40.1
Malaysia	8.7	49.9	29.8	43.5
Thailand	10.7	44.6	35.1	44.7
Philippines	14.2	31.6	22.9	54.2
Bangladesh	18.7	27.0	16.5	54.3
India	17.5	27.9	16.3	54.6
Sri Lanka	16.5	27.1	12.2	56.5
Korea	2.9	35.2	24.7	61.9
Singapore	0.1	33.0	27.7	66.9
Taiwan	1.6	25.0	21.4	73.4

Source: ADB (2007).



Table A2.3: Annual GDP Growth Rates (%) for Selected Countries

Country	Ave. 1996- 2006	2005	2006	2007	2008 Q1	2008 Q2	ADB forecast	
							2008	2009
Emerging East Asia <sup>1,2</sup>	6.6	7.8	8.7	9.0	8.5	...	7.6	7.6
ASEAN <sup>1,2</sup>	4.2	5.7	6.0	6.5	6.3	...	5.5	5.8
Brunei Darussalam	1.9	0.4	4.4	0.6	...	...	...	...
Cambodia	8.6	13.5	10.8	9.6	...	...	7.5	7.0
Indonesia <sup>3</sup>	3.1	5.7	5.5	6.3	6.3	...	6.0	6.2
Lao PDR	6.4	7.3	8.3	8.0	...	...	7.7	7.8
Malaysia <sup>4</sup>	5.0	5.3	5.8	6.3	7.1	...	5.4	5.6
Myanmar <sup>5</sup>	10.9	13.6	12.7	5.5	...	...	...	...
Philippines <sup>6</sup>	4.3	5.0	5.4	7.2	5.2	...	5.5	5.6
Thailand	3.1	4.5	5.1	4.8	6.0	...	5.0	5.2
Vietnam	7.3	8.4	8.2	8.5	...	...	6.5	6.8
Newly Industrialised Economies <sup>1</sup>	4.5	4.8	5.6	5.6	6.1	...	4.7	4.9
Hong Kong, China	3.8	7.1	7.0	6.4	7.1	...	4.9	4.9
Rep. of Korea	4.6	4.2	5.1	5.0	5.8	5.0	4.7	4.9
Singapore	5.6	7.3	8.2	7.7	6.9	1.9	4.9	5.8
Taipei, China	4.6	4.2	4.9	5.7	6.1	...	4.5	4.8
People's Rep. of China	9.3	10.4	11.6	11.9	10.6	10.1	9.9	9.7
Japan	1.3	1.9	2.4	2.1	1.3	...	1.5	1.5
U.S.	3.2	3.1	2.9	2.2	2.5	...	1.5	1.6
Euro zone	2.2	1.6	2.8	2.6	1.7	...	1.8	2.0

Note: . . . = not available.

<sup>1</sup> Aggregates are weighted according to gross national income levels (atlas method, current \$) from World Development Indicators (World Bank).

<sup>2</sup> Excludes Brunei Darussalam and Myanmar for all years as weights are unavailable.

<sup>3</sup> GDP growth rates from 1999-2000 are based on 1993 prices, while growth rates from 2001 onward are based on 2000 prices.

<sup>4</sup> Growth rates from 1999-2000 are based on 1987 prices, while growth rates from 2001 onward are based on 2000 prices; 2007 growth rate figure is based on the International Monetary Fund World Economic Outlook Database April 2008.

<sup>5</sup> For financial year April-March.

<sup>6</sup> Figures for 2004-2006 are not linked to the GDP figures 2003 backwards due to National Statistics Office revisions for sectoral estimates.

Source: ADB (2008).

**Table A2.4: Month-on-Month CPI (December previous year = 100)**

Month	2005	2006	2007	2008
Jan.	101.1	101.2	101.1	102.4
Feb.	103.6	103.3	103.2	106.0
Mar.	103.7	102.8	103.0	109.2
Apr.	104.3	103.0	103.5	111.6
May	104.8	103.6	104.3	116.0
Jun.	105.2	104.0	105.2	118.4
Jul.	105.6	104.4	106.2	119.8
Aug.	106.0	104.8	106.8	121.7
Sep.	106.8	105.1	107.3	121.9
Oct.	107.2	105.4	108.1	121.6
Nov.	107.6	106.0	109.5	120.7
Dec.	108.4	106.6	112.6	119.9

Source: GSO.

Table A2.5: Annual Inflation Rates (%)

Country	Ave. 1996- 2006	2005	2006	2007	2008 Q1	2008 Q2	ADB forecast	
							2008	2009
Emerging East Asia <sup>1,2</sup>	2.8	2.8	2.7	3.9	6.5	...	6.3	4.6
ASEAN <sup>1,2</sup>	6.4	6.3	7.2	4.0	6.4	...	8.0	5.5
Brunei Darussalam <sup>3</sup>	0.5	1.1	0.2	0.4	...	...	...	...
Cambodia	4.2	5.9	4.7	5.9	0.0	...	...	...
Indonesia	14.5	10.4	13.3	6.4	7.6	10.1	10.1	7.8
Lao PDR	30.5	7.2	6.9	4.5	...	...	...	...
Malaysia	2.6	3.0	3.6	2.0	2.6	...	4.1	3.4
Myanmar <sup>4</sup>	21.2	10.7	25.7	36.9	...	...	...	...
Philippines	5.9	7.7	6.3	2.8	5.5	9.8	7.2	5.3
Thailand	3.4	4.5	4.7	2.2	5.0	7.6	6.1	3.7
Vietnam	4.4	8.3	7.4	8.3	16.4	24.5	19.4	10.2
Newly Industrialised Economies <sup>1</sup>	2.1	2.2	1.7	2.3	4.1	...	4.1	3.3
Hong Kong, China	0.2	0.9	2.0	2.0	4.6	...	4.7	4.3
Rep. of Korea	3.5	2.8	2.2	2.5	3.8	4.8	4.1	3.3
Singapore	0.8	0.5	1.0	2.1	6.6	...	5.8	3.3
Taipei, China	1.0	2.3	0.6	1.8	3.6	4.2	3.3	2.7
People's Rep. of China	1.6	1.8	1.5	4.8	8.0	7.8	7.0	5.0
Japan	0.0	-0.3	0.2	0.1	1.0	...	1.1	0.8
U.S.	2.6	3.4	3.2	2.9	4.2	...	4.0	2.5
Euro zone	1.9	2.2	2.2	2.1	3.3	...	3.3	2.3

Note: . . . = not available

<sup>1</sup> Aggregates are weighted according to gross national income levels (atlas method, current \$) from World Development Indicators (World Bank).

<sup>2</sup> Excludes Brunei Darussalam and Myanmar for all years as weights are unavailable.

<sup>3</sup> Based on the International Monetary Fund World Economic Outlook Database April 2008.

<sup>4</sup> For financial year April-March.

Source: ADB (2008).

**Table A2.6: Recent Administrative and Fiscal Measures to Address Rising Inflation**

Measures	Cambodia	China	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Vietnam	Total
Reduce import duties		•	•	•		•		•			5
Increase supply using reserves	•	•	•	•					•		5
Build reserves/stockpiles	•				•	•	•		•	•	6
Increase imports/relax restrictions	•		•		•	•			•	•	6
Raise export duties		•	•								2
Export restrictions	•	•								•	3
Price controls/consumer subsidies	•	•	•	•	•	•		•	•	•	9
Minimum support prices		•				•					2
Minimum export prices										•	1
Assistance/subsidy to farmers		•				•					2
Promote self-sufficiency		•		•	•	•					4
Actions against/appeals to profiteers	•	•				•			•		4
Cash transfer		•					•				2
Food ration/stamp			•			•					2
<b>Total</b>	<b>6</b>	<b>10</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>9</b>	<b>2</b>	<b>2</b>	<b>5</b>	<b>5</b>	

Source: ADB (2008).

**Table A2.7: Fiscal Balance of Central Government (% of GDP)**

Country	Annual average for 2000-2004	2004	2005	2006	2007	2008*
Cambodia	-5.8	-4.6	-3.4	-3.0	-3.2	-3.2
People's Rep. of China	-2.2	-1.3	-1.2	-0.8	0.7	-0.8
Hong Kong, China**	-2.4	1.7	1.0	4.0	7.2	-0.4
Indonesia	-1.5	-1.1	-0.5	-1.0	-1.2	-1.7
Rep. of Korea	-0.7	-0.5	0.1	-1.3	-1.5	-1.2
Malaysia	-5.2	-4.1	-3.6	-3.3	-3.2	-3.1
Philippines	-4.4	-3.8	-2.7	-1.1	-0.2	-1.0
Singapore**	7.3	5.5	8.3	7.5	11.4	7.0
Taipei, China**	-2.2	-2.3	-1.8	-0.8	-0.1	-1.8
Thailand**	-1.1	0.1	-0.6	1.1	-1.7	-1.8
Vietnam	-3.2	-4.7	-4.6	-4.1	-4.9	-5.0

*Note: \*National budget except for Cambodia (IMF estimate); \*\*fiscal year.*

*Source: ADB (2008).*

**MID-TERM RESULTS-BASED REVIEW FRAMEWORK**  
**FOR IMPLEMENTATION OF THE SOCIO-ECONOMIC DEVELOPMENT PLAN (SEDP) 2006-2010**  
*(In accordance with the monitoring and evaluation framework issued at Decision 555/2007/QĐ-BKH on May 30, 2007)*

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
PILLAR 1: Ensure high and sustained economic growth through improving efficiency so that the country graduates from underdeveloped status							
1.1 Objective: Ensure high and sustained economic growth rate to emerge from undeveloped status							
1.1.1. To mobilize all resources for the growth and restructuring of the economy	- Mobilizing all domestic and external resources for investment	Total investment as per cent of GDP for 2006- 2010: 40%	- GDP growth rate for 2006-2010: 7.5-8% and expected to be higher than 8%.	Total investment as per cent of GDP for 2006-2008: 43% GDP .	- GDP growth rate for 2006-2008: 7.6%/năm.	Achieved	Achieved
		Total FDI capital/total investment for 2006-2010: 17.1%		Total FDI capital/total investment for 2006-2008: 24%		Over-fulfilled	
		Domestic private investment/ total investment for 2006-2010: 34.4%		Domestic private investment/ total investment for 2006-2008: 39%		Over-fulfilled	
		State credit investment/total investment for 2006-10: 9.3%	- GDP per capita: \$1050-\$1100 (current price)	State credit investment/total investment for 2006-2008: 7%	- GDP per capita in 2008: 1034 USD	Unachieved	Achieved
		Investment from SOEs/total investment for 2006-10: 15.1%		Investment from SOEs/total investment for 2006-2008: 10%		Unachieved	
		Investment from the state budget/total investment for 2006-2010: 20.2%		Investment from the state budget/total investment for 2006-2008: 21%		Achieved	
		ODA committed for 2006-2010: more than 19 bil.USD, disbursed for 2006-2010: more than 11 bil.USD	- GDP shares by sectors by 2010: 2007:	ODA committed for 3 years 2006-2008: more than 14.9 bil.USD, disbursed for 2006-2007: more than 6.1 bil. USD.	- GDP shares by sectors by 2008:	Achieved	
		Proportion of Investment by sectors/total investment for 2006-2010:		- Proportion of Investment by sectors/total investment for 2006-2007:			



Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008			Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Output	Outcome/ impact
1.1.1. To mobilize all resources for the growth and restructuring of the economy (cont.)	- Mobilizing all domestic and external resources for investment (cont.)	+ Agriculture, forest and fishery: 13.5%	+ Agriculture, forest and fishery: 15-16%	+ Agriculture, forest and fishery: 7.0%	+ Agriculture, forest and fishery: 22.1%	Unachieved	Unachieved	Unachieved
		+ Industry and construction: 44.5%	+ Industry and construction: 43-44%	+ Industry and construction: 43.0%	+ Industry and construction: 39.7%	Unachieved	Unachieved	Unachieved
		+ Transport and telecommunication: 11.9%	+ Services: 40-41%	+ Transport and telecommunication: 14.8%	+ Services: 38.2%	Over-fulfilled	Unachieved	Unachieved
		+ Education and training: 4.6%		+ Education and training: 3.1%		Unachieved		
		+ Health and social affairs: 2.7%		+ Health and social affairs: 1.4%		Unachieved		
		+ Science, technology, inventory survey and environment: 1.7%		+ Science, technology: 0.6%		Unachieved		
		+ Housing, water supply, services: 13.2%		+ Housing, water supply, services: 1.3%				
		+ Culture and sports: 2.3%		+ Culture and sports: 1.3%		Unachieved		
		- Number of internet users by 2010: 12.6 subscribers per 100 people	Proportion of people regularly using internet by 2010: 48% of the population	- Number of internet users by 2008: 7.8 subscribers per 100 people	- Proportion of people regularly using internet by 2008: 24% of the population	Unachieved	Unachieved	Unachieved
		- Cost efficiency (GDP/intermediate costs) by 2010: 1.5	Annual GDP growth rate by sector:		Annual GDP growth rate by sector for 2006-2008:			
1.1.2. Improve economic efficiency and competitiveness	- Reduce intermediate costs	+ In agriculture, forest and fishery: 1.64	- Agriculture, forest and fishery: 3-3.2%		- Agriculture, forest and fishery: 3.8%			Achieved
	- Develop technology market, high-tech R&D, technology transfer	+ In industry and construction: 1.28	- Industry and construction: 9.5-10.2%		- Industry and construction: 8.9%			Unachieved
	- Product quality management and trademarks creation	+ In services: 2.8	- Services: 7.7-8.2%		- Services: 8.1%			Achieved
			- Export value growth rate: 17.5%/annum		- Export value growth rate: 24.6%/annum			Achieved

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/Impact	Output	Outcome/Impact	Output	Outcome/ impact
1.2 Maintain a stable macroeconomic environment							
Ensure sound macro economic policies and intensify financial potential and scope, financial security	- Improve tax collection and budget management - Establish financial market policies and mechanism	- Total budget revenue to GDP: 21-22%	- Export/GDP by 2010: 69-72%		- Export/GDP by 2007: 70%		Achieved
		- Total budget revenue to GDP: 21-22%	- Budget deficit/GDP by 2010: 5%	- Total budget revenue to GDP in 2008: 28%	- Budget deficit/GDP by 2008: 4.95%	Achieved	Unachieved
1.3. Objective: Improve quality and productivity of labour							
1.3.1. Encourage change in labor force structure	-Encourage the development of processing industries, non-state enterprises, FDI and labor intensive industries	- Number of new jobs created for 2006- 2010: 8 million	- Increase proportion of non-farming household income	- Number of new jobs created for 2006-2008: 4.9 million		Achieved	
		- Proportion of agricultural labour for 2006-2010: 50%		- Proportion of agricultural labour by 2008: 53.3%		Unachieved	
		- Proportion of industrial labour for 2006-2010: 23-24%		- Proportion of industrial labour by 2008: 19.9%		Unachieved	
		- Proportion of service labor for 2006- 2010: 26-27%		- Proportion of service labor by 2008: 26.8%		Achieved	
		- Urban unemployment rate by 2010: less than 5%		- Urban unemployment rate by 2008: 4.6%		Achieved	
1.3.2. Improve the quality of labor	- Improve secondary professional, graduate and post- graduate education	- Percentage of new college and university entrants by 2010: 200 students/ 10,000 people	- Proportion of trained labor/total labor force for 2006- 2010: 40%	- Percentage of new college and university entrants by 2008: 188 students/ 10,000 people	- Proportion of trained labor/total labor force in 2008: 37%	Unachieved	Achieved
		- Secondary professional education enrollment growth rate: 14.7%/annum	- Of which with vocational training: 25%	- Secondary professional education enrollment growth rate: 17.6%/annum	- Of which with vocational training g: <25%	Over-fulfilled	Unachieved

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
	- Strengthen vocational training	- Vocational training graduates: 7.5 million		- Vocational intermediate and college training enrollment growth rate: 11.7%			
<b>PILLAR 2: Ensure progress in the social sectors to improve the material and spiritual lives of the people</b>							
<b>2.1 Improve the quality of human resources so as to meet the needs of industrialization and modernization</b>							
2.1.1 Improve access to and opportunities for education for all	<ul style="list-style-type: none"> <li>- Provide incentives to 'socialize' education and training;</li> <li>- Strengthen investment in vocational training's facilities</li> </ul>	- Proportion of total government budget spent on education/total government budget: 20%	- Pre-school enrolment at right age of the total number of children under 5 by 2010: 95%	- Proportion of total government budget spent on education/total government budget: 18.9%	- Pre-school enrolment at right age of the total number of children under 5 by 2008: 92.5%	Achieved	Achieved
		- Numbers of provinces meets LSE popularization	- Primary enrolment at right age by 2010: 99%		- Primary enrolment at right age by 2008: 96%	Achieved	Achieved
		- Hours of full day attendance at primary schools	- LSE enrolment at right age by 2010: 90%	- Numbers of provinces meets LSE popularization: 47/63	- LSE enrolment at right age by 2008: 79%	Unachieved	Unachieved
		- Number of provinces meets LSE popularization	- USE enrolment at right age by 2010: 50%				
			- Undergraduate enrolment growth rate by 2010: 10.3%/annum		- Undergraduate enrolment growth rate: 11.8%/annum	Over-fulfilled	Over-fulfilled
			- Secondary professional education enrolment growth rate by 2010: 14.7%/annum		- Secondary professional education enrolment growth rate: 17.6%/annum	Over-fulfilled	Over-fulfilled
2.1.2 Improve quality of education	<ul style="list-style-type: none"> <li>- Training and retraining of primary, LSE and USE teachers</li> </ul>	- Number of invested and upgraded vocational training's facilities	- Vocational training enrolment growth rate: 7.2%		- Vocational training enrolment growth rate: 11.7%/annum	Over-fulfilled	Over-fulfilled
			- Long-term vocational training enrolment growth rate: 17%/annum		- Long-term vocational training enrolment growth rate: 17%/annum	Achieved	Achieved
		-Proportion of primary education teachers with college education qualification: 40%	- USE completion rate by school level	-Proportion of primary education teachers with college education qualification by 2008: 40%	- USE Completion rate in 2005-2006: 93.7%; 2006-2007: 80.42%; 2007-2008: 86.6%.	Achieved	Achieved
		-Proportion of USE teacher with Masters degrees: 10%	-Percentage of teachers meeting the national and regional standards	-Proportion of USE teacher with Masters degrees by 2008: 9%	-Percentage of teachers meeting the national and regional standards: Primary: 98%; LSE: 98%; USE: 98%	Achieved	Achieved

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
2.2 Improve health protection and health care  2.2.1 To reduce the incidence of diseases, improve the health and life expectancy of the population by providing high quality health care services	<ul style="list-style-type: none"> <li>- Provide incentives for 'socializing' the health sector and enhance the local level health care system</li> <li>- Prepare and implement the health care services development master plan</li> <li>- Develop preventive health care; Strengthen reproductive health care; Run vaccination campaigns and programs to prevent dangerous diseases and HIV/AIDS</li> </ul>	<ul style="list-style-type: none"> <li>- Public expenditure on health care to total budget for 2006-2010: 8-10%</li> </ul>	<ul style="list-style-type: none"> <li>- Proportion of population having access to health care</li> </ul>	<ul style="list-style-type: none"> <li>- Public expenditure on health care to total budget for 2006-2008: 6.3%</li> </ul>		Unachieved	
		Number of beds per 10,000 people by 2010: 26.3	<ul style="list-style-type: none"> <li>- Life expectancy at birth by 2010: 72 years</li> </ul>	Number of beds per 10,000 people by 2007: 24.75; 2008: 25.7	<ul style="list-style-type: none"> <li>- Life expectancy at birth by 2008: 72.2 years</li> </ul>	Achieved	Over-fulfilled
		<ul style="list-style-type: none"> <li>- Number of private hospital beds/ public beds</li> </ul>	<ul style="list-style-type: none"> <li>Child (&lt;5) malnutrition rate by 2010: &lt;20%</li> </ul>	<ul style="list-style-type: none"> <li>- Number of private hospital beds/ public beds by 2008: 3%</li> </ul>	<ul style="list-style-type: none"> <li>Child (&lt;5) malnutrition rate by 2008: 21%</li> </ul>		Achieved
		<ul style="list-style-type: none"> <li>- Investment expenditures for provincial preventive health centers</li> </ul>	<ul style="list-style-type: none"> <li>- Maternal mortality to 100,000 safe births: 60 people</li> </ul>	<ul style="list-style-type: none"> <li>- Investment expenditures for provincial preventive health centers</li> </ul>	<ul style="list-style-type: none"> <li>- Maternal mortality to 100,000 safe births by 2008: 75</li> </ul>		Unachieved
	Training and retraining for healthcare workers/doctors	<ul style="list-style-type: none"> <li>- Percentage of children under 1 year old inoculated with 6 essential vaccines by 2010: 95%</li> </ul>	<ul style="list-style-type: none"> <li>- Infant (&lt;1) mortality by 2010: 1,6‰</li> </ul>	<ul style="list-style-type: none"> <li>- Percentage of children under 1 year old inoculated with 6 essential vaccines by 2007: 81.8%; 2008: 95.7%</li> </ul>	<ul style="list-style-type: none"> <li>- Infant (&lt;1) mortality by 2007: 1.55‰;</li> </ul>	Over-fulfilled	Achieved
		<ul style="list-style-type: none"> <li>- Number of doctors/10000 people by 2010: 7 doctors</li> </ul>	<ul style="list-style-type: none"> <li>- Infant (&lt;5) mortality by 2010: 2.5‰</li> </ul>	<ul style="list-style-type: none"> <li>- Number of doctors/10000 people by 2007: 6.44 doctors; 2008: 6.7</li> </ul>	<ul style="list-style-type: none"> <li>- Infant (&lt;5) mortality by 2007: 2.5‰</li> </ul>	Achieved	Achieved
		<ul style="list-style-type: none"> <li>- Percentage of commune health centers with doctors: 80%; in mountainous areas: 60%</li> </ul>	<ul style="list-style-type: none"> <li>- Reduction in the proportion of patients infected with Malaria, Goiter, TB, Leprosy, and other dangerous epidemic</li> </ul>	<ul style="list-style-type: none"> <li>- Percentage of commune health centers with doctors by 2008: 70%</li> </ul>	<ul style="list-style-type: none"> <li>- Proportion of patients infected with Malaria (8.3%), TB (15.4%), Goiter, Leprosy, and other dangerous epidemic</li> </ul>	Unachieved	
		<ul style="list-style-type: none"> <li>- Number of pharmacist per 10,000 people: 1-1.2</li> </ul>		<ul style="list-style-type: none"> <li>- Number of pharmacist per 10,000 people: 5.74</li> </ul>		Over-fulfilled	
		<ul style="list-style-type: none"> <li>- Percentage of commune health centers with adequate facilities and midwives: 100%</li> </ul>		<ul style="list-style-type: none"> <li>- Percentage of commune health centers with adequate facilities and midwives: 94%</li> </ul>		Unachieved	

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/Impact	Output	Outcome/Impact	Output	Outcome/ impact
2.2 Improve health protection and health care							
2.2.1 To reduce the incidence of diseases, improve the health and life expectancy of the population by providing high quality health care services	- Provide incentives for 'socializing' the health sector and enhance the local level health care system	- Public expenditure on health care to total budget for 2006-2010: 8-10%	- Proportion of population having access to health care	- Public expenditure on health care to total budget for 2006-2008: 6.3%		Unachieved	
		Number of beds per 10,000 people by 2010: 26.3	- Life expectancy at birth by 2010: 72 years	Number of beds per 10,000 people by 2007: 24.75; 2008: 25.7	- Life expectancy at birth by 2008: 72.2 years	Achieved	Over-fulfilled
		- Number of private hospital beds/ public beds	Child (<5) malnutrition rate by 2010: <20%	- Number of private hospital beds/ public beds by 2008: 3%	Child (<5) malnutrition rate by 2008: 21%		Achieved
	- Prepare and implement the health care services development master plan						
	- Develop preventive health care; Strengthen reproductive health care; Run vaccination campaigns and programs to prevent dangerous diseases and HIV/AIDS	- Investment expenditures for provincial preventive health centers	- Maternal mortality to 100,000 safe births: 60 people	- Investment expenditures for provincial preventive health centers	- Maternal mortality to 100,000 safe births by 2008: 75		Unachieved
		- Percentage of children under 1 year old inoculated with 6 essential vaccines by 2010: 95%	- Infant (<1) mortality by 2010:1.6‰	- Percentage of children under 1 year old inoculated with 6 essential vaccines by 2007: 81.8%; 2008: 95.7%	- Infant (<1) mortality by 2007: 1.55‰;	Over-fulfilled	Achieved
		- Number of doctors/10000 people by 2010: 7 doctors	- Infant (<5) mortality by 2010: 2.5‰	- Number of doctors/10000 people by 2007: 6.44 doctors; 2008: 6.7	- Infant (<5) mortality by 2007: 2.5‰	Achieved	Achieved
	Training and retraining for healthcare workers/doctors	- Percentage of commune health centers with doctors: 80%; in mountainous areas: 60%	- Reduction in the proportion of patients infected with Malaria, Goiter, TB, Leprosy, and other dangerous epidemic	- Percentage of commune health centers with doctors by 2008: 70%	- Proportion of patients infected with Malaria (8.3%), TB (15.4%), Goiter, Leprosy, and other dangerous epidemic		Unachieved
		- Number of pharmacist per 10,000 people: 1-1.2		- Number of pharmacist per 10,000 people: 5.74		Over-fulfilled	
		- Percentage of commune health centers with adequate facilities and midwives: 100%		- Percentage of commune health centers with adequate facilities and midwives: 94%		Unachieved	

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
	- Universalize coverage of health insurance	- Proportion of people with health insurance	- Proportion of people reporting satisfaction with service obtained through health insurance	- Proportion of people with health insurance: 43.8%			
		- Proportion of poor and near poor people with free health insurance		- Proportion of poor and near poor people with free health insurance: 17.9%			
2.2.2 Reducing population growth rate; Improve population quality physically and spiritually	- Intensify propaganda on the guideline, policy of population	- Birth rate reduction: 0.4% o		- Birth rate reduction: 0.22%o		Unachieved	
	- Improve the quality of population planning services	- Population growth rate by 2010: 1.14%		- Population growth rate by 2008: 1.24%		Unachieved	
2.3. Develop Vietnamese modern and traditional culture	- Develop private-public partnership in culture and information sector. Create community cultural centers	- Proportion of communes/wards meeting cultural standards: 70%					
		- Proportion of villages meeting cultural standards: 70%		- Proportion of villages meeting cultural standards by 2008: 62%		Unachieved	
		- Proportion of households meeting the cultural standards: 90%		- Proportion of households meeting the cultural standards by 2007: 74%		Unachieved	
		- Proportion of villages having public library: 100%		- Proportion of villages having public library by 2007: 80%		Unachieved	
	- Improve access to mass media for people, including the poor and people from remote areas	- Number of hours with TV programs by 2010: 130,000 hours/year	- Proportion of households having access to TV programs by 2010: 99.5%	- Number of hours with TV programs by 2008: 129.2 hours/year	- Proportion of households having access to TV programs by 2008: 96%	Achieved	Unachieved
		- Number of hours with radio broadcasting programs by 2010: 54,000 hours/year		- Number of hours with radio broadcasting programs by 2008: 51,800 hours/year		Unachieved	
							Achieved



Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
2.3. Develop Vietnamese modern and traditional culture (cont.)		- Number of radio and TV programs broadcast in ethnic minority languages	- Proportion of ethnic minorities listening to radio and TV programs in ethnic minority languages	- Number of TV programs broadcast in ethnic minority languages: 10; - Number of radio programs broadcast in ethnic minority languages: 13			
	- Preserve traditional and ethnic minority culture	- Number of historical and cultural sites preserved	- Number of people visiting cultural and historical sites - Number of traditional intangible culture preserved	- Number of historical and cultural sites preserved in 2006: 330; in 2007: 370; in 2008: 350			
2.4. Develop quality and access to sport activities	- Encourage team sports, amateur sports.	- Proportion of communes and wards having sports units: 100%, of which nonstate sport units: 90%	- Proportion of people engaged in regular exercise by 2010: 22%	- Proportion of communes and wards having sports units by 2007: 92%	- Proportion of people engaged in regular exercise by 2008: 23%	Unachieved	Achieved
		- Proportion of schools have physical education: 90%	- Proportion of households engaged in sport exercises by 2010: 15%	- Proportion of schools have physical education by 2008: 92%	- Proportion of households engaged in sport exercises by 2008: 13%	Over-fulfilled	Unachieved
	- Plan infrastructure development for sports	- Proportion of provinces, communes with adequate sport facilities (stadium, swimming pool, sports complex)	- Number of sports persons of high caliber by 2010: 2,900 people, of which the number at champion level: 2,000 people		- Number of sports persons of high caliber by 2008: 5,000 people.		Over-fulfilled
	- Training young sportsmen/women	-Proportion of state budget expenditure on sport training	- Number of coaches by 2010: 2,500 persons				
	- Localize the high performing sports	- Some sports operated professionally	- Number of gold medals in ASIAD 2010: 8-10				

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/Impact	Output	Outcome/ impact
2.5. Sustain poverty reduction and reduce inequality; adequate support to the people who made contributions for the country's protection and development; develop social security system							
2.5.1. Reduce poverty and inequality	- Targeted programs for hunger eradication and poverty reduction (HEPR) and Program 135	- Proportion of poor communes being supported with basic infrastructures for 2006-10: 100%	- Poverty rate by 2010: 10-11%	- Proportion of poor communes being supported with basic infrastructures by 2008: 100%	- Poverty rate by 2008: 13.5% (GSO); 12.1-12.5 (MOLISA)	Achieved	Achieved
		- Proportion of poor commune with car access to commune centers	- Average income's growth rate of the poor	- Proportion of poor commune with car access to commune centers: 98,5%	- Average income's growth rate of 20% of poorest household: 31.19%	Achieved	Achieved
		- Proportion of rural population with access to clean drinking water: 75%	- Income gap between regions and quintile groups	- Proportion of rural population with access to clean drinking water by 2008: 75%	- Income gap between regions and quintile groups: 8,4 times	Achieved	Achieved
	- Increase budget allocation for the poor provinces	- Number of poverty elimination communes and households	+ Average income of 20% of the poorest household	- Number of poverty elimination households: 3 - 5%/year	+ Average monthly head income of 20% of the poorest household: 639.5 thousand dong		
					+ Average monthly head income of 20% of the richest household: 1541.7 thousand dong		
2.5.2. Support the people who made contributions for the country's protection and development	- Implement policies for the people who made the country's protection and development	- Budget expenditure for the people who made contributions for the country's protection and development	- Expenditure index between the highest income quintile group and lowest income quintile group		- Expenditure index between the highest income quintile group and lowest income quintile group: 4.57		
			- Proportion of the qualified households with access to government support; - Proportion of households with improved livelihoods	- Budget expenditure for the people who made contributions for the country's protection and development in 2007: 10,000 bill. dong for 1.5 mill. People	- Proportion of the qualified households with access to government support; - Proportion of households with improved livelihoods		

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/Impact	Output	Outcome/ Impact
2.5. Sustain poverty reduction and reduce inequality; adequate support to the people who made contributions for the country's protection and development; develop social security system							
2.5.1. Reduce poverty and inequality	- Targeted programs for hunger eradication and poverty reduction (HEPR) and Program 135	- Proportion of poor communes being supported with basic infrastructures for 2006-10: 100%	- Poverty rate by 2010: 10-11%	- Proportion of poor communes being supported with basic infrastructures by 2008: 100%	- Poverty rate by 2008: 13.5% (GSO); 12.1-12.5 (MOLISA)	Achieved	Achieved
		- Proportion of poor commune with car access to commune centers	- Average income's growth rate of the poor	- Proportion of poor commune with car access to commune centers: 98.5%	- Average income's growth rate of 20% of poorest household: 31.19%	Achieved	
	- Increase budget allocation for the poor provinces	- Proportion of rural population with access to clean drinking water: 75%	- Income gap between regions and quintile groups	- Proportion of rural population with access to clean drinking water by 2008: 75%	- Income gap between regions and quintile groups: 8.4 times	Achieved	
		- Number of poverty elimination communes and households	+ Average income of 20% of the poorest household	- Number of poverty elimination households: 3 - 5%/year	+ Average monthly head income of 20% of the poorest household: 639.5 thousand dong		
2.5.2. Support the people who made contributions for the country's protection and development	- Implement policies for the people who made the country's protection and development	- Budget expenditure for the people who made contributions for the country's protection and development	- Expenditure index between the highest income quintile group and lowest income quintile group		+ Average monthly head income of 20% of the richest household: 1541.7 thousand dong		
				- Expenditure index between the highest income quintile group and lowest income quintile group: 4.57			
			- Proportion of the qualified households with access to government support; - Proportion of households with improved livelihoods	- Budget expenditure for the people who made contributions for the country's protection and development in 2007: 10,000 bill. dong for 1.5 mill. People	- Proportion of the qualified households with access to government support; - Proportion of households with improved livelihoods		

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
<b>2.6. Improve the spiritual and material living standards of minorities (cont.)</b>	- Strengthen training for teachers teaching by minorities languages	- Proportion of primary schools and LSE schools teaching in minority language	- Proportion of children taught in minority languages	- Proportion of provinces having primary schools and LSE schools teaching in minority language: 46.9% (600 schools)	- Proportion of children taught in minority languages: 200,000 pupils/year		
	- Allocate land to ethnic minority communities and individuals	- Proportion of ethnic minorities with land use right certificate for agricultural land and forest land.	- Proportion of minority households having stable residence and farming place				
<b>2.7. Promote gender equality, improve the status of women and protect the rights of children</b>							
2.7.1. Promote gender equality, improve the status of women	Implement the National Strategy for Women Advance 2010	- Proportion of women in the elected bodies at all levels by 2010: increase by 3-5%	- GEM (Gender empowerment measure) - GDI	- Proportion of women in NA: 25.8% (decline by 1.5%); People Council: at provincial level: 23.8% (increase by 1.5%), at district level: 23.2% (increase by 3.1%), at commune level: 20.1% (increase by 3.5%)	- GEM: 0.561 (2007 by HDR) - GDI: 0.732 (2007 by HDR)	NA: Unachieved All levels: Achieved	
	Raise awareness of all levels on gender Improve policies relating women	- Proportion of women suffering from domestic violence	- Proportion of female workers getting the newly created jobs for 2006-2010: 50%	- Proportion of women suffering from domestic violence in 2006: 3.4% (husband beats wife); 15.1% (husband scolds wife)	- Proportion of female workers getting the newly created jobs by 2008: 49.39%		Achieved

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
2.7.2. Create safe, friendly environment for children	Implement the National Action Plan for Children 2010	<ul style="list-style-type: none"> <li>- Number of communes/wards are children- friendly by 2010: 70%;</li> <li>- Number of schools having safe water and hygienic latrines for boys and girls by 2010: 85%;</li> <li>- Number of especially disadvantaged children protected by 2010: 90%;</li> </ul>	<ul style="list-style-type: none"> <li>- Proportion of poor, minority children, children from disadvantaged areas and homeless children with access to education, health care and other social services;</li> <li>- Proportion of children abused, violated, harassed or with a big workload;</li> <li>- Proportion of children working under 16 years of age</li> <li>- Proportion of homeless and disabled children receiving social security support</li> </ul>	<ul style="list-style-type: none"> <li>- Number of communes/wards are children- friendly by 2008: 21%</li> </ul>		Unachieved	
2.7.3. Prevent social evils	<ul style="list-style-type: none"> <li>- Provide incentives to prevent and fight against social evils</li> <li>- Investment for establishing centers for educating and curing drug addicts</li> </ul>	<ul style="list-style-type: none"> <li>- Proportion of communes regularly organizing IEC against social evils;</li> <li>- Number of drugs-addicts in care</li> </ul>	<ul style="list-style-type: none"> <li>- Number of women and child trafficking cases;</li> <li>- Number of drug trade and utilization cases addressed</li> <li>- Reducing number of re-addicted</li> </ul>				

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
PILLAR 3: Protect natural resources and the environment for sustainable development							
3.1. Improve sustainable use of water, land and forests							
3.1.1 Improve forest and biodiversity management	- Implement 5 million ha program	- Proportion of protective forest area/total forest area 2010: 40%	- Forest coverage by 2010: 42-43%		- Forest coverage by 2008: 39%		Unachieved
		- Proportion of specific forest area/total forest area 2010: 15%	- Proportion of forests area that has a nature reserve in total nature land area by 2010: 11.2%		- Forests area that has a closed canopy: 2.5 mill. ha, compared to total nature land area by 2008: 7.5%		Unachieved
	- Improve forest quality	- Proportion of production forest area/total forest area 2010: 45%	- Percentage of degraded watershed forest recovered: 50%				
				- Percentage of forest with the reserve of 100 m3/ha			
3.1.2. Ensure sustainable use of water resources, environmental resources	- Implement policies for the efficient exploration and use of water resources; - Control environmental accidents on rivers	- Urban water supply: 2,600,000 m3	- Proportion of rural households accessing to fresh water 2010: 75%		- Proportion of rural households accessing to fresh water by 2008: 75%		Achieved
		- Address the problems caused by dioxin	- Proportion of urban households accessing to fresh water 2010: 95%	- Address the problems caused by dioxin: 60%	- Proportion of urban households accessing to fresh water by 2008: 80%		Unachieved
3.1.3 Adopt more effective land management practices	- Promote land planning; - Implement anti-drought programs	- Exploited land areas to be protected; - Unused land areas to be exploited; - Percentage of land under management	Proportion of land efficiently exploited and used				
3.1.4. Improve forecasting and warning to reduce disasters' consequences	-Forecasting dangerous meteorological phenomenon storms, flood... - Natural disaster warning	- Forecasting flood height on Red river, Thai Binh river 48 hours in advance with 80.5% precision by 2010	- Reducing human and physical losses due to storms, floods and tsunami				



Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008			Achievability of targets by 2010	
		Output	Outcome/Impact	Output	Outcome/Impact	Output	Output	Outcome/ impact
3.1.4. Improve forecasting and warning to reduce disasters' consequences	- SOS and anti-flood and anti-storm activities	<ul style="list-style-type: none"> <li>- Forecasting flood on Mekong river 3-5 days in advance with 80.5% precision by 2010</li> <li>- Release precise warnings about storms 48 hours in advance</li> <li>- Forecasting tsunami and floods with high precision</li> </ul>	- Reducing human and physical losses due to storms, floods and tsunami					
<b>3.2. Reduce pollution and environmental degradation</b>								
3.2.1 Reduce pollution in handicraft villages and industrial parks	- Improve the regulation and legal framework on environment protection	- Proportion of enterprises complying with ISO 14001 for 2006-2010: 50%	- Pollution reduced in industrial parks, handicraft villages and areas with high population density					
	- Issue environment standards	- Proportion of newly established enterprises using clean technologies or equipped with wastes disposing facilities meeting environmental standards (100%)						
	- Improve awareness about environmental protection	- Proportion of export-processing and industrial parks with waste water treatment: 70%; urban zones: 40%		- Proportion of export-processing and industrial parks with waste water treatment by 2008: 60%; urban zones: 28.96%		Unachieved		
	- Apply and transfer the pollution disposing technologies	- Proportion of solid wastes disposed: 90%		- Proportion of solid wastes disposed by 2008: 80%		Unachieved		
		- Proportion of hospital wastes treated: 100%		- Proportion of hospital wastes treated by 2008: 70%		Unachieved		
		- Proportion of the enterprises causing serious pollution closed down: 75%;		- Proportion of the enterprises causing serious pollution closed down by 2008: 60%		Unachieved		

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
3.1.4. Improve forecasting and warning to reduce disasters' consequences	- SOS and anti-flood and anti-storm activities	- Forecasting flood on Mekong river 3-5 days in advance with 80.5% precision by 2010 - Release precise warnings about storms 48 hours in advance - Forecasting tsunami and floods with high precision	- Reducing human and physical losses due to storms, floods and tsunami				
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	- Apply and transfer the pollution disposing technologies	- Proportion of solid wastes disposed: 90%		- Proportion of solid wastes disposed by 2008: 80%		Unachieved	
		- Proportion of hospital wastes treated: 100%		- Proportion of hospital wastes treated by 2008: 70%		Unachieved	
		- Proportion of the enterprises causing serious pollution closed down: 75%;		- Proportion of the enterprises causing serious pollution closed down by 2008: 60%		Unachieved	

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
PILLAR 4: Strengthen state governance, establish comprehensive market- oriented socialist economic institutions							
4.1. Continue improving the socialism- oriented market economic institutions							
4.1.1 Establish and improve economic institutions	Review and improve the legal framework by sectors	- Number of ineffective or overlapping legal documents removed; - Number of legal documents newly issued:	Legal environment improved	- Issued: 36 documents + Decrees by Government: 18 = 9 (2006); 5 (07); 4 (2008) + Decisions by PM: 4 = 1 (2006); 1 (07); 2 (2008) + By ministries: 3 Decision + 14 Circulars	Some legal documents remains contradictory		By 2010, it is possible to conduct a survey to know citizens' satisfaction with administrative procedures and public services
	4.1.2. Administrative procedures reform	- Number of districts and communes adopting one-stop shop model; - Number of unnecessary permits removed; - Number of state agencies applying ISO 9001.2000	- Proportion of enterprises reporting satisfaction with administrative procedures; - Proportion of citizens reporting satisfaction with key public services (in number and service quality) - Number of state agencies grants certificate of ISO 9001.2000	- 15 ministries and 5 provinces that have reports of public servants' asset declaration; - Decree 107/2006/ND-CP on regulation on the responsibilities of the heads of government organizations when detecting corruption	77.6% of people asked for research "Impact of WTO on business environment in Vietnam" stated that the business environment has been improved	100%	
4.1.3. Improve performance of government organizations and staff	- Issue the amended Law on government organization; - Issued and implement the Law on government staff	Proportion of government organizations with clear mandates and functions					
	Provide training for government staff	Qualification of government staff improved					
4.2 Promote practicing economy and prevent corruption	Issue the Implementation guidelines of the anti- corruption law	- Number of high-level national and local public servants that declare their assets in accordance with the anti corruption law; - Regulation on the responsibilities of the heads of government organizations issued	- Vietnam's ranking on international corruption indicators	- 15 ministries and 5 provinces that have reports of public servants' asset declaration; - Decree 107/2006/ND-CP on regulation on the responsibilities of the heads of government organizations when detecting corruption at interior management bodies	2006: 2.6, rank 111; 2007: 2.6, rank127 (compared with 2.4 in 2005, rank 107)		

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
4.2 Promote practicing economy and prevent corruption (cont.)	Implement new procurement law	Proportion of public procurement transactions posted on the government website	- Vietnam's ranking on international corruption indicators				By issuing adequately the implementation of the anti-corruption law and improving the citizens' awareness, the Vietnam's ranking on international corruption indicators will be higher than 2.6
	Strengthen local supervision of development projects	Proportion of local development projects with strong participation of local people in supervision					
	Improve performance of 'vulnerable to corruption' government services (e.g. customs, land administration, traffic police)	Proportion of government service facilities with published fee schedules;					
		Proportion of government service agencies conducting transactions through an electronic interface					
4.3 Increase effectiveness and transparency of public finance management	- Improve effectiveness and transparency of land administration system - Establish fully functioning districts land administration offices	Proportion of districts having complete cadastral maps for all land and made publicly available	- Number of land related complaints raised before State authorities; - Satisfaction of end-users of land administration services				
		Proportion of land users with Land Use Certificate.					
4.3.1 Strengthen capacity of sub-national government	- Provide effective support to planning reform at provincial level	- Proportion of provinces with plans that are results-based and have undergone a consultation process with the people, including the poor	- Number of communes making detailed budget information public	Non provinces or state agencies sent the plan implementation evaluation report that applied the "result-based" approach.			
	- Implement grassroots democracy decree	- Number of communes making detailed budget information public		- 100% of communes making budget information public			

Objectives	Activity/ Input	Indicators/ targets		Implementation by 2008		Achievability of targets by 2010	
		Output	Outcome/impact	Output	Outcome/impact	Output	Outcome/ impact
4.3.2 Ensure better state budget management	Bring all off-budget expenditure items (including ODA) on budget	Proportion of public spending that is on-budget (by sector and province)	Proportion of line ministries and provinces with budget implementation reports presenting reliable and comprehensive information on their public expenditure, and its impact				
	- Well-implement Law on Auditing	- Proportion of audit reports applying Vietnam auditing standard - Number of annual audit reports of the state budget submitted to National Assembly and disclosed to the publics	- Increase transparency in State Budget	The 2006 and 2007 audit reports of the state budget are disclosed on the media	The budget plans and balance-sheets are disclosed to the publics on the MOF's website		It is expected that after the state budget law is modified, transparency in state budget will be enhanced
4.3.3. Ensuring equality and transparency in state budget allocation at local levels	- Develop clear and transparent criteria on public resources allocation (investment and recurrent expenditures)	- Medium Term Expenditure Framework (MTEF) in place in ministries and provinces	- The allocation of budget expenditures is linked to the local socio-economic development plan and sector development plan	MTEF was applied for 6 ministries and 4 provinces. By 2008, MTEF are continuously introduced to 19 ministries and 30 provinces	- The allocation of budget expenditures is, to some extent, linked to the local socio-economic development strategy and sector development strategy	It is expected that MTEF will be applied for 19 ministries and 30 provinces	
	- Improve linkage between frequent spending plans and investment plans	- Improving state budget spending forecast of line ministries and people councils	- Proportion of maintenance spending/total state budget spending and/or total development investment				

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**RESULTS-BASED MID-TERM REVIEW REPORT**

**FOR IMPLEMENTATION OF THE FIVE-YEAR SOCIO-  
ECONOMIC DEVELOPMENT PLAN  
2006-2010**

IN CHARGE OF MANUSCRIPT  
**MINISTRY OF PLANNING AND INVESTMENT**

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Print 1.655 copies, size 20.5 x 28 cm by New Technology Printing Joint Stock Company.  
Publishing license No.65/GP-CXB dated May 22, 2009  
Completed and registered in May 2009