

# JOINT COUNTRY ANALYSIS OF VIET NAM

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## Prefatory Note

The Terms of Reference (TOR) for the Joint Country Analysis (JCA) were ambitious and exceptionally wide-ranging. The team was assigned the following tasks:

- Assess Viet Nam's development challenges over the period 2011-20 in relation to economic growth, human development and environmental sustainability, giving due recognition to the impact of these challenges across the full range of sectors and on women, children and ethnic minorities as well as the various regions of the country;
- Assess policy options proposed to address these challenges in the medium and long periods, with a specific focus on those challenges that present themselves during the transition to middle income status;
- Assess the impact of the global financial crisis on Viet Nam's development prospects;
- Assess the initial drafts of the government's 2011-15 Socio-Economic Development Plan and propose additions and modifications based on the analysis;
- Estimate the government's external financing requirements over this period and the expected contribution of donor agencies;
- Determine whether Viet Nam is actually in the transition to middle income status or whether in fact this transition is still several years away;
- Map out a transition plan for the architecture of Official Development Assistance (ODA) during the transition from lower income to middle income country status;
- Assess the relevance of the "middle income trap" to Viet Nam's development trajectory in comparative perspective, and propose policies to enable Viet Nam to avoid this trap.

Completing any one of these tasks would have been a substantial undertaking given the complexity of issues involved. Whole books have been and are being written about Viet Nam's macro-economy, industrial performance and strategy, reform of state-owned enterprises, higher education development, ethnic minorities and poverty, the provision of health and education services, and the environment, just to name a few of the topics covered. Tackling them all with a relatively small team (two international and four national consultants) with a limited time commitment and a tight deadline and at the level of detail suggested in the TOR was an ambitious assignment, to say the least.

This report covers most of the issues set out in the Terms of Reference. It also benefits from comments offered on an earlier draft from UN agencies and the LMDG. However, given the small team and very limited time, it would not be surprising if the report still fails to do proper justice to the wide range of issues covered by the Terms of Reference.

In revising the draft a great deal of use has been made of the excellent peer review by Jonathan Pincus. Much of his analysis is incorporated into the report, particularly in relation to his insightful discussion of industrial strategy options, the measurement and analysis of poverty and possible models for the development of higher education.

The team believes that we have provided a relevant overview of the challenges Viet Nam is likely to face in its economic and social development over the coming decade, and as such we hope that the report will provide some pointers to possible priorities for the future programs of the UN and the LMDG.

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## Abbreviations

ADB	Asian Development Bank
AIDS	Acquired immune deficiency syndrome
ARV	antiretroviral
CCT	conditional cash transfer
CEMA	Committee for Ethnic Minorities and Mountainous Areas
CHC	commune health centre
CT	Computed tomography
DAC	Development Assistance Committee
DONRE	Department of Natural Resources and Environment
DPPPs	development policies, plans and programs
EIA	environmental impact assessment
FAO	Food and Agriculture Organization
FDI	foreign direct investment
GDP	Gross Domestic Product
GNI	Gross National Income
GoV	Government of Viet Nam
GSO	General Statistics Office
HIV	Human immunodeficiency virus
ICOR	incremental capital output ratio
IFC	International Financial Corporation
IMF	the International Monetary Fund
IPCC	the Intergovernmental Panel on Climate Change
JCA	Joint country analysis
JICA	Japan International Cooperation Agency
LMDG	Like-Minded Donor Group
MARD	Ministry of Agriculture and Rural Development
MDG	millennium development goal
MIC	middle-income country
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOH	Ministry of Health
MOHA	Ministry of Home Affairs
MOLISA	Ministry of Labour, Invalids and Social Affairs
MONRE	Ministry of Natural Resources and Environment
MPI	Ministry of Planning and Investment
MRD	Mekong River Delta
MRI	magnetic resonance imaging
NA	National Assembly
NCD	non-communication disease
NGOs	non-governmental organisations
NTP	national targeted programs
ODA	Official Development Assistance
P135-II	Program 135 Phase II
PAR	Public Administration Reform
PEDC	Primary Education for Disadvantaged Children
PLHIV	People living with HIV
PPP	purchasing power parity



PSA	Provincial Seed Agencies
PWDs	People with disabilities
RIA	regulatory impact assessment
SARS	Severe Acute Respiratory Syndrome
SCIC	State Capital and Investment Corporation
SEA	strategic environmental assessment
SEDP	Socio-Economic Development Plan
SIDA	Swedish International Development Cooperation Agency
SITC	Standard International Trade Classification
SOE	state-owned enterprise
TB	Tuberculosis
TOR	terms of reference
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
US	the United States
USD	US dollar
VFA	Viet Nam Food Association
VHLSS	Viet Nam Household Living Standards Survey
VLSS	Viet Nam Living Standards Survey
VMS	Viet Nam Migration Survey
VND	Vietnamese dong (domestic currency)
WB	World Bank
WHO	World Health Organization
WTO	World Trade Organization

## Chapter 1

# Introduction

1. This study has been commissioned by the United Nations (UN) and a group of “like-minded” partners (LMDG) with the purpose of achieving a deeper knowledge of current key development challenges and policy choices facing Viet Nam. The study identifies development challenges, analyses potential barriers to maintaining rapid economic growth and explores the requirements of promoting broad-based improvements in living standards and welfare, inclusive of the most disadvantaged and vulnerable segments of Viet Nam’s population.
2. The study also explores the policy implications, both for Viet Nam and partners, of the achievement of middle-income country (MIC) status. While welcoming the achievement of MIC status, there is a concern within the government about the possibility that the momentum of development may slow down – that Viet Nam may be caught in a so-called “Middle Income Trap”.
3. In considering possible developments over the coming decade, it has to be recognised that economic and social forecasting is a very uncertain art. In order to explore possible challenges, the study develops a number of possible scenarios. These are not forecasts as such, but a presentation of possible outcomes, the plausibility of which will depend on a number of exogenous factors (e.g. evolution of global markets), the behaviour of key actors in the economy and the policies implemented by government. Thus negative outcomes suggested by the various scenarios may be avoidable by appropriate policy interventions, or may not occur if exogenous factors are very favourable.
4. One theme of this study is that in the coming decade Viet Nam may face a number of challenging turning points. One is the possibility that the existing strategy of low-value added labour intensive exporting may no longer offer the same growth possibilities, posing difficult challenges in seeking the route to a different growth path.
5. A second set of issues relate to equity in the distribution of the benefits of the growth achieved. With the reduction in absolute poverty, while poverty will not be so widespread, in the new urbanized and industrialized society many will remain vulnerable, for example as a result of unemployment, migrant status, age and disability. With these developments, a new set of policy issues emerges.
6. Some groups (e.g. the poor ethnic minorities) may still be subject to persistent poverty. Although the number of absolutely poor may be much less than in the past, it may be more difficult to continue to raise the poor out of poverty simply through the process of economic growth, given the cultural and physical causes of their continuing condition. Economic and social inequalities are increasing, including in relation to access to social services. While

available income data suggest that Viet Nam is still a relatively egalitarian society, signs of social differentiation are easy to observe, and are a portent for the future. There is therefore a danger in economic privileges and disadvantages being transferred from generation to generation. This poses a quite new set of issues for Viet Nam.

7. The study includes:

- A review of past progress with economic and social development over the *Doi Moi* period, including an analysis of sources of growth and social development.
- An overview and assessment of the socio-economic development challenges and opportunities facing Viet Nam in the short and medium terms, leading into an analysis of the policy and reform options available to exploit opportunities and relax constraints.
- An analysis of the implications of the current global financial crisis on development in Viet Nam.
- A critical overview of Viet Nam's national and regional development priorities and strategies.
- A discussion of the financing needs and external financial resources that Government of Viet Nam (GoV) needs from all sources to realize its development programme, including a review of the contributions that international development partners plan to make in addressing these requests in the next programme period and in a new aid environment.
- An analysis of critical policy areas in light of the shared concerns of GoV and partners concerning the achievement of sustained growth and continuing poverty alleviation; and
- An identification of some new options for development assistance, including an orderly transition from current aid arrangements to new modalities of support appropriate to Viet Nam's rising income level and new policy challenges, and explores the potential risks of premature withdrawal of aid, particularly in light of the fragile international economic environment.

## Some of the Messages of the Report

1. **The central economic challenge:** Viet Nam's market transition and its progressive integration with global processes and institutions created a sustained burst of economic growth. The country has experienced significant and broad based productivity gains in agriculture along with steadily increasing flows of foreign investment looking for cheap labour to produce simple manufactured exports. The result has been fast growth and rapid reductions in poverty and unprecedented improvements in living standards.
2. One challenge identified which this report subscribes is that this growth model may reach its limits during the coming decade. Viet Nam is set to become a "middle-income country", but there is real uncertainty about whether and how Viet Nam can continue to grow at a high rate having achieved that status. In order to sustain growth, poverty reduction, and broad based gains in living standards, Viet Nam will need to achieve productivity enhancements across all sectors. This, in turn, will require continuing renovation of institutions, not only in the economy, but also in public administration and the delivery of essential social services. There are, in addition, other significant challenges arising from rapid growth, including environmental pressures, increasing economic inequality, and stresses arising from urbanization and migration, all of which will require effective responses. Moreover the exogenous challenges arising from climate change may prove the biggest problem of all.
3. **Middle income status:** Although the targets in the draft Socio-economic Development Plan (SEDP) 2011-15 are likely to prove over-ambitious, Viet Nam will have achieved middle income status before the beginning of the plan, and is likely to consolidate its position during the plan period. However:
  - The economy remains vulnerable to fluctuations in the world economy. Its export base is still dependent on primary commodities. If the world economy slips back into recession, the economy might just hover at the lower end of middle-income status.
  - Many provinces will continue to have average per capita income levels well below the middle income level, so that big segments of the population will remain poor.

These points suggest that donors should not rush to scale down their support. The Vietnamese government is hopeful that it will continue to receive significant concessional aid during the coming plan period, an expectation which has some merit.

4. **Growth sustainability:** the draft SEDP recognises, correctly, that sustaining Vietnamese growth in the coming decade will require substantial structural change, including a change in the structure of exports towards higher value added and more sophisticated goods.

However, while the need for a new pattern of growth is recognised, it is far from clear how this will be achieved. It will be neither automatic nor easy. Existing strategy places a good deal of emphasis on foreign private investment in manufacturing, involving a combination of imported technology, local land (often supplied by state-owned enterprises (SOEs) as their contribution to a

joint venture), and low skilled local labour. Technical transfer to local firms is limited. As growth gets translated into higher wages, it is not evident that existing firms will be interested in moving into more sophisticated manufacturing or even remaining in Viet Nam, or that new foreign firms will be attracted to invest in sufficient quantities in higher wage activities to maintain growth momentum.

Discussion in Viet Nam sometimes holds out the hope that a shift to more advanced technology could be spearheaded by Vietnamese SOEs transforming themselves into Korean style “chaebols”, but so far the state general corporations do not exhibit the required innovative flare. Nor is there a sufficiently developed national private sector to fill the gap.

5. **Human capital development:** Whatever institutional arrangements emerge to implement industrial transformation, a transformation in the skills of the Vietnamese labour force will be necessary. The need is both for the development of high-level skills of the type required to develop more sophisticated activities and to generate high rates of innovation, and middle level vocational skills that will be needed to operate in new lines of industrial activity.

In the last two decades there has been a very rapid expansion of the number of Vietnamese receiving tertiary education, but this has been largely a quantitative achievement. Teacher-students ratios have risen sharply and there has been little improvement in average staff qualifications. Although in some areas there has been significant progress in reform of curricula, often with external support, the system still lacks the quality required to enhance human capital in ways to meet future challenges.

Moreover, while the number of Vietnamese seeking tertiary level training abroad has increased rapidly, largely through private efforts, it is not clear that the bulk of students are going to the better institutions or enrolling in the more challenging courses.

One area where LMDG could make a key contribution to the next stage of Vietnamese development could be through a concentrated program to help improve the quality of tertiary education, including building of “centres of excellence” in technical and scientific subjects, and by offering much enhanced (and coordinated) scholarship assistance for Vietnamese students to attend the best universities abroad.

6. **Efficiency of investment:** Recent data suggest a sharp decline in the efficiency of investment, as evidenced by the rise in incremental capital output ratio (ICOR). The figures in the draft plan suggest that government is willing to accept a low level of efficiency of investment, and will attempt to sustain growth by very high rates of investment/GDP.

This study does not have the resources to undertake an in-depth study of investment efficiency and can only report on some of the suggested reasons for low efficiency, including:

- A duplication of efforts, particularly in provincial level investment programs;
- Corruption raising project costs;

- The poor quality of monitoring and evaluation in the Public Investment Program;
- A shift in foreign direct investment (FDI) towards investment in speculative property development;
- Wasteful use of resources by some of the large State general corporations.

The implication for donors is both that:

In their own programs they should address the need for efficiency (they should part of the solution – in the past, some tied-projects have been part of the problem, raising the project costs).

Continuing support is required to improve the efficiency and integrity of public investments.

**7. Continuing poverty:** while continuing progress can be expected in reducing overall poverty, remaining pockets of poverty may be more intractable. The following observations are relevant:

- As the government recognises, one cause of persistence poverty is geographical remoteness. While the continuing extension of the transport system will alleviate this problem, some remote areas will remain, where the potential for profitable investment will remain low, and where the long-term result may be depopulation;
- The poverty of ethnic minorities will remain a concern. Indeed the economic development of areas where the ethnic minorities are concentrated will not necessarily improve their condition, as one result of growth in economic opportunities is to attract Kinh in-migrants. More efforts are required to upgrade the education and skills of the minority communities, to put them on par with the majority.
- Increasing inequality of incomes, combined with a shift to user charges at point-of-delivery for public services is likely to increase the inequality of access to education and make upward social and economic mobility more difficult;
- Many of those who have moved above the poverty line in recent years are still highly vulnerable and could easily slip back into poverty – this is both the case for poor farmers and for urban workers (e.g. in construction) who lack job security.
- With urbanization, greater attention needs to be given to the urban poor, who are often not recognised because of their insecure residence status.

**8. Gender issues:** while in some areas and by international comparative standards, Viet Nam's record on gender is positive (e.g. access to secondary education), gender inequity remains an important challenge in a number of areas:

- At the top of the system, women are grossly under-represented, with the government and Party failing to meet the targets they have set

themselves for female participation in decision-making institutions, and with few women holding higher level political and administrative posts (e.g. ministers and vice ministers). This “glass ceiling” requires urgent action. (In addition to gender bias, one impediment to female promotion is the gender differential in the retirement age).

- There is evidence of deterioration of the position of the female child, as in response to increasing education and health fees, male children are favoured.
- The most pervasive form of gender bias is within the household, with gender differences in the burden of household work (particular onerous, as most women are also involved in paid employment) and domestic violence.

While issues such as the first and second can be addressed by readily identifiable adjustments in public policy, the third issue requires a widespread shift in behaviour and culture, particularly in men’s attitudes. Such changes can be stimulated by active programs of public education, and specific forms of negative behaviour can be punished (e.g. domestic violence), but the movement towards full gender equality will require a sustained effort over the long term. The donor community needs to give attention to how it can increase its contribution to this process of social change.

9. **Education and health:** in the past, including in the pre-*Doi Moi* period, Viet Nam achieved great progress in public education and health, resulting in much better education and health standards than would be expected at the existing income levels. In recent years the public provision of education and health services has been subject to rapid change. Care is needed to avoid the attrition of the benefits of the old system. A management and incentive system is needed which ensures equitable access (including gender equality in access) and continued improvements in the quality of education and health services. In particular, it is important to be fully aware of the impact of market incentives on social service delivery, and to avoid such changes undermining earlier achievements.

10. **Public administration reform:** There has been a steady improvement in many aspects of public administration, with the reduction in unnecessary bureaucratic procedures and the improvement in the quality of staff. Effective donor interventions in future to support the continuation this progress requires the following:

- A long view is required – experience with public administration reform (PAR) in most countries (including the historical experience of donors) is that it requires an effort over decades.
- The design of interventions should be based on a deep understanding of how the existing system works before reform, its strengths as well as weaknesses, and a clear view of the gradual step-by-step process which is likely to improve the system. Attempts to introduce systemic reform based on imported models and ideal visions of an appropriate administrative system are unlikely to work;
- Reform is most likely to work in the parts of the system where the local authorities recognise the need for change, and have identified

problems that they need help to resolve. This may mean working with the more developed, progressive parts of the system, rather than the poorest (for whom change is likely to come from emulation of successful practice).

- Many issues which now need to be tackled relate to administrative coordination, both horizontally between different ministries and departments, and vertically between different levels of government and the more rational allocation of functions within government.
- With the implementation of decentralization the possibility of using public oversight of public sector performance in principle increases, but there is little evidence that it has yet happened.

**11. Corruption:** Government (including through statements in the draft SEDP), the Party, the general public and donors all express concern about corruption. Petty corruption is pervasive, through the “envelope” system. More alarming, in recent years there have been enough instances of “grand corruption” (large scale stealing or diversion of public assets) to suggest that this is an increasing problem. This could be act as a check on growth prospects, both because of the waste of resources and the distortion of incentives. It can also lead to the erosion in the public respect for public institutions (taken together, resulting in the dysfunctional outcomes as seen in the region under the “crony capitalism” of Indonesia and the Philippines). To tackle this problem, the Vietnamese system need to exhibit the political will to tackle the problem with vigour.

**12. Climate change:** Parts of Viet Nam are likely to be particularly vulnerable to the negative impacts of climate change. Although, necessarily, the precise timing and level of the impact is unpredictable, the negative impacts may be very large under plausible scenarios, so that this issue needs to be awarded high priority by government and the donor community. Decisions are required to ensure that investments and new developments are designed to minimize the possible impact (which is not currently the case) and that protective/preventative interventions are implemented.

Given Vietnamese experience with the management of water systems, and impressive record in responding to natural disasters, the nation should be reasonably equipped to respond to the challenge. However, although in a general sense there is an awareness of the potential challenge, at least at national and provincial level, many issues of principle (specific analyses of the likely impacts under alternative scenario) and practice (a clear identification of institutional responsibility and division of labour in undertaking disaster minimization programs) need to be addressed. The donor community needs to gear itself to working in this area both in the long term and on a sufficient scale to make the needed impact.

**13. Land use:** in relation both to environmental protection and to the efficient long-term exploitation of natural resources, there is a challenging set of issues to be faced in relation to land use. The current system encourages land degradation and the inefficient allocation of resources. While some reforms have been implemented in recent years, this is an area where a major push will be required in the coming period. External assistance will be needed.



**14. Urban issues:** The terms of reference for this study did not include urban issues. This was somewhat surprising. With the current pace of urbanization, Viet Nam will fundamentally shift from being a predominantly rural society to be an urban-based economy over the coming decade. Many issues (e.g. poverty) which in the past have been seen as mainly rural in nature will now have to be confronted in an urban setting.

At the early stages of any urbanization process, governments are ill-equipped to handle emerging policy issues as they will be beyond previous experience. This is an area in which the donor community can draw on its own experience to provide help.

In Viet Nam, the high pace of urban development has not been accompanied by sufficient forethought by government. The unrestricted development of high rise buildings and the uncontrolled development of traffic are cases in point. As cities grow, choices which could have been made at little cost at earlier stages of growth become increasingly expensive (e.g. the allocation of space for public purposes) or difficult to implement because of the emergence of new interests (e.g. the use of private automobiles). The result will be a polluted and nasty urban environment of the kind which can be observed in many middle income countries. This should be one of the high priority areas for external assistance.

## Chapter 2

# Viet Nam's Socioeconomic Development: Implications for the Future

The main themes of this report relate to difficult challenges facing Viet Nam over the coming decade, including analyses of weakness in social development and economic policy. However, it is important to preface any discussion of weaknesses with a clear recognition of the impressive achievements of Viet Nam in the past two decades, which suggest the capacity that exists to meet these challenges.

Over the last two decades, Viet Nam has experienced rapid economic growth and marked improvements in living standards. Data indicate dramatic declines in poverty and impressive progress across a range of development indicators. Table 2.1 summarizes the more recent draft data on the achievement of the millennium development goals (MDGs).

Available data suggest that many MDGs have been achieved or are likely to be achieved by 2016, and all are achievable. Given that in the late 1980s household incomes in Viet Nam were still among the lowest in the world, and that the country faced food insecurity to the point of near-famine, the record of achievement has to be recognised as truly impressive.

This chapter addresses the question “what does Viet Nam’s impressive socioeconomic development to date mean for Viet Nam’s future?” To answer this question, a simple review of familiar development indicators is inadequate. A critical and nuanced analysis is needed. One that draws upon the wealth of existing data and analysis, but also identifies ambiguities, contradictions, and unanswered questions that emerge in official accounts of Viet Nam’s socioeconomic development and observations of critical features of Vietnamese society.

## 2.1. Economic Growth

Since 1989, Viet Nam has experienced two decades of rapid economic growth and very significant declines in poverty. Transformations in Viet Nam’s economic institutions and external relations resulting from the implementation of *Doi Moi* have been crucial, along with the implementation of a range of policies designed to promote economic growth and social wellbeing.

Viet Nam’s transition to a market-based economy improved economic opportunities and incentives, while the country’s expanding international ties permitted access foreign markets and capital. Economic expansion has, in turn, permitted household incomes to grow along with increased household consumption, savings, and investment. Growth has been uneven, but sufficiently broad-based to alleviate large-scale acute material deprivations.

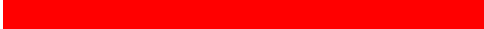
**Table 2.1. Achievement of the Millennium Development Goals**

Goals and Targets	Indicators for monitoring progress	Value	Year	Source	Assessment/progress	Status/ Follow-up
Goal 1: Eradicate extreme poverty and hunger						
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	1. Proportion of population below USD 1 (PPP) per day[a]	12	2008	MOLISA & UNDP	Poverty reduced by two thirds between 2005 and 2008	Already achieved
	2. Poverty gap ratio [incidence x depth of poverty]	NA				
	3. Share of poorest quintile in national consumption	NA				
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	4. Prevalence of underweight children under-five years of age	19.9	2008	HSYB2008	Proportion reduced by more than two thirds between 1993 and 2008	Already achieved
	5. Proportion of population below minimum level of dietary energy consumption	NA				
Goal 2: Achieve universal primary education						
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	6. Net enrolment ratio in primary education	95.4	2006	MISC	Grade 5 completion rate has risen has reached 89 percent	Likely to be achieved
	7. Proportion of pupils starting grade 1 who reach grade 5[b]/ Primary completion rate	81.7	2006	MISC		
	8. Literacy rate of 15-24 year-olds	NA				
Goal 3: Promote gender equality and empower women						
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015	9. Ratios of girls to boys in primary, secondary and tertiary education	0.92/1.06	2007	GSO	Gender equality at all school levels, except for ethnic minorities	Already achieved
	10. Ratio of literate women to men, 15-24 years old	NA				
	11. Share of women in wage employment in the non-agricultural sector	NA				
	12. Proportion of seats held by women in national parliament	27.3	2007	GSO		
Goal 4: Reduce child mortality						
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	13. Under-five mortality rate	25.5	2008	GSO/MOH	Reduced by two third between 1990 and 2008	Likely to be achieved
	14. Infant mortality rate	15	2008	GSO/MOH		
	15. Proportion of 1 year-old children immunized against measles (< 1-year)	95.6	2008	HSYB 2008		
Goal 5: Improve maternal health						
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	16. Maternal mortality ratio	162	2005	MISC		Likely to be achieved
	17. Proportion of births attended by skilled health personnel	94.7	2008	HSYB 2008		
Goal 6: Combat HIV/AIDS, malaria and other diseases						

Goals and Targets	Indicators for monitoring progress	Value	Year	Source	Assessment/progress	Status/ Follow-up
Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	18. HIV prevalence among pregnant women aged 15-24 years	NA			Infection rate went up from 0.34 percent in 2001 to 0.44 in 2005	Likely to be achieved
	19. Condom use rate of the contraceptive prevalence rate[c]	10.9	2008	PCS2008		
	19a. Condom use at last high-risk sex	NA				
	19b. Percentage of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS[d]	NA				
	19c. Contraceptive prevalence rate	79.5	2008	PCS2008		
	20. Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years	NA				
Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	21. Prevalence and death rates associated with malaria	0.03	2008	HSYB 2008	Malaria cases and deaths reduced	Already achieved
	22. Proportion of population in malaria-risk areas using effective malaria prevention and treatment measures[e]	NA				
	23. Prevalence and death rates associated with tuberculosis	NA				
	24. Proportion of tuberculosis cases detected and cured under directly observed treatment short course DOTS (Internationally recommended TB control strategy)	NA				
Goal 7: Ensure environmental sustainability						
Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	25. Proportion of land area covered by forest				Forest cover up but loss in closed canopy forest and biodiversity	Uncertain to Achieve
	26. Ratio of area protected to maintain biological diversity to surface area					
	27. Energy use (kg oil equivalent) per USD 1 GDP (PPP)					
	28. Carbon dioxide emissions per capita and consumption of ozone-depleting CFCs (ODP tons)					
	29. Proportion of population using solid fuels					
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation	30. Proportion of population with sustainable access to an improved water source, urban and rural	86.7	2009	Census	Share without improved water source fell by almost three quarters	Likely to be achieved
	31. Proportion of population with access to improved sanitation, urban and rural	45	2009	Census		
Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	32. Proportion of households with access to secure tenure	NA				
Goal 8: Develop a global partnership for development						

Goals and Targets	Indicators for monitoring progress	Value	Year	Source	Assessment/progress	Status/ Follow-up
<b>Target 12:</b> Develop further an open, rule-based, predictable, non-discriminatory trading and financial system	<i>Some of the indicators listed below are monitored separately for the least developed countries (LDCs), Africa, landlocked developing countries and small island developing States</i>					
Includes a commitment to good governance, development and poverty reduction – both nationally and internationally	33. Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors' gross national income					
<b>Target 13:</b> Address the special needs of the least developed countries	34. Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation)					
	35. Proportion of bilateral official development assistance of OECD/DAC donors that is untied					
Includes: tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction	36. ODA received in landlocked developing countries as a proportion of their gross national incomes					
	37. ODA received in small island developing States as a proportion of their gross national incomes					
<b>Target 14:</b> Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)	38. Proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries, admitted free of duty					
<b>Target 15:</b> Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term	39. Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries					
	40. Agricultural support estimate for OECD countries as a percentage of their gross domestic product					
	41. Proportion of ODA provided to help build trade capacity					
	42. Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)					
	43. Debt relief committed under HIPC Initiative					
	44. Debt service as a percentage of exports of goods and services					
<b>Target 16:</b> In cooperation with developing countries, develop and implement strategies for decent and productive work for youth	45. Unemployment rate of young people aged 15-24 years, each sex and total[f]	NA				

Goals and Targets	Indicators for monitoring progress	Value	Year	Source	Assessment/progress	Status/ Follow-up
<b>Target 17:</b> In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries	46. Proportion of population with access to affordable essential drugs on a sustainable basis					
<b>Target 18:</b> In cooperation with the private sector, make available the benefits of new technologies, especially information and communications	47. Telephone lines and cellular subscribers per 100 population	285171	2006	Statistics Handbook 2007		
	48. Personal computers in use per 100 population					
	Internet users per 100 population					

	Achieved
	On track
	Special attention required

Source: UNDP Working Draft only 25 March 2010.

The country has experienced significant productivity gains in the rural economy owing to improved incentives, expanding markets and access to improved technology (notably new seeds, varieties and crops).

Substantial flows of foreign investment looking for cheap labour to produce simple exports have boosted industrial production. Rapid economic growth, including expansion in employment and sustained increases in agricultural productivity have resulted in exemplary reductions in poverty. Viet Nam's demographic transition – and, in particular – its transition to lower birth rates (though Viet Nam has alarmingly high abortion rates), has undoubtedly also helped to reduce poverty.

Growth in the availability of economic resources associated with accelerated economic growth has permitted continuous increases in spending to enhance welfare, including the expansion of public spending on welfare-enhancing state services and private spending on items such as food, health care, education, housing, and so on. In so doing, Viet Nam has, along with growth in household incomes and poverty alleviation, expanded the supply of important public and quasi-public goods, such as infrastructure, education, health care, etc.

Average per capita GDP in Viet Nam has steadily progressed from less than USD 200 in 1989 to above USD 1,000 by 2009 despite a temporary decline in the rate of income growth induced by recent domestic and global economic turbulence. Income levels will place Viet Nam in the lower ranks of the group of countries considered to be “middle income” (versus “less developed” or “least developed”).

Of course, as is well-known, the scope and pace of socioeconomic development in Viet Nam has varied (sometimes sharply) across different geographical regions and segments of the population. Some of the contrasts in the pace of development between regions are inevitable at this stage of development, in particular the increasing gap between rural and urban income levels and the contrast between the very rapid growth in the two main growth poles and lagging provinces.

Income growth has occurred most rapidly in and around Viet Nam's large cities and in areas that have experienced an agglomeration of export-oriented economic activities.

Growth and living standard improvements have been slower in the Northwest and Central Highlands (as well as other poor regions), and among certain ethnic minority groups. It has become apparent that the Mekong River Delta (MRD), routinely considered better off because of the storied fertility of its soils and its proximity to Ho Chi Minh City is, by many measures, less well off than is commonly assumed.

## **2.2. Poverty Reduction**

Rapid economic growth in Viet Nam since the early 1990s has driven sustained declines in the country's poverty rate, which is estimated by comparing per-capita monthly household expenditure to a government-determined poverty line.<sup>1</sup> The

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<sup>1</sup> Viet Nam's general poverty line is set by the General Statistics Office (GSO) with assistance from the World Bank (WB). It is based on average monthly expenditure per capita. The poverty line has been

poverty line set for the 2006-10 period was a monthly income VND 200,000 per capita (roughly equal to USD 11.50). Against this government-determined poverty line, the proportion of poor households in Viet Nam is estimated to have declined from over 60 percent in 1990 to 28.9 percent in 2002, and to 16 percent by 2006. Preliminary figures suggest poverty will decline to about 12 or 10 percent by 2010 (Ministry of Planning and Investment (MPI) 2008: 16).

Internationally, the USD 1 dollar-a-day in purchasing power parity (PPP) threshold line for establishing the prevalence of acute poverty has enjoyed great popularity, though it is a problematic measure. According to this metric, severe poverty in Viet Nam has declined remarkably – from 39.9 percent in 1993 to less five percent in 2006 (MPI 2008: 22). This and similar data have led the WB to assert that “the achievement of Viet Nam in the area of poverty reduction is the most impressive of developing economies”.

The poverty gap, which estimates the depth of poverty by comparing the difference in average expenditures of the poor to the poverty line, has also declined substantially, from an estimated 18 percent in 1993 to below 4 percent in 2006.

There are also many things the mostly commonly cited poverty data do not tell us. One of the most important is that substantial portions of Viet Nam’s population remain near-poor.

Food poverty is another measure of poverty. In Viet Nam it is calculated by the GSO using standardised WB methods. Specifically, the food poverty line is the estimated amount sufficient to purchase an essential “basket” of food items that provide a basic per capita energy intake of 2,100 kcal per day.<sup>2</sup> The Government estimates that between 1993 and 2006 the food poverty rate in Viet Nam declined from 25 to 7 percent. A target of 3 percent has been set for 2010.

As can be observed in Table 2.2, by various measures, poverty in Viet Nam has different rates across regions and segments of the population.

The figures above show that substantial declines in estimated poverty have occurred across all regions, though the pace of declines has varied considerably. Data indicate poverty is more prevalent in rural areas and that poverty is most concentrated in the northern mountainous region, northeast, and central highlands. The north central region is also relatively poor, in income/expenditure terms. The noted failure of survey data to capture the migrant poor suggests general and urban poverty may be higher than the above figures indicate.

Poverty is much more prevalent among ethnic minorities, i.e. non-Kinh and Hoa. It is important to note, however, the existence of variation among minority groups. The Muong and Thai groups, for example, exhibit living standards comparable to Kinh. Other groups, however (e.g. the Hmong and Khmer) continue to experience comparatively great economic difficulties. For many minority groups, poverty is the outcome of many causes, including but not limited to physical

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adjusted several times in recent years, as follows: 1998, VND 149,000; 2002, VND 160,000; 2004, VND 173,000; and 2006, VND 213,000. In general, Viet Nam’s poverty line is quite restrictive.

<sup>2</sup> Rural and urban food poverty lines are calculated for urban and rural areas to account for differences in the prices of foods, with the urban food poverty line set 25 to 35 percent higher.



remoteness and linguistic differences, Food poverty among ethnic minority households, at nearly 30 percent, is ten times that among ethnic Kinh and Hoa.

**Table 2.2. Poverty Rates Viet Nam (%)**

	1993	1998	2002	2004	2006	2008
<b>Poverty rates</b>						
Poverty (using official poverty line)	58.1	37.4	28.9	19.5	15.97	<14
Poverty rate (<USD 1 (PPP) per day)	39.9	16.4	13.6	10.6	4.9	Na
Poverty gap <sup>1</sup>	18.5	9.5	6.9	4.7	3.8	Na
<b>Poverty rates in urban/rural areas</b>						
Urban	25.1	9.2	6.6	3.6	3.9	Na
Rural	66.4	45.5	35.6	25.0	20.4	Na
<b>Poverty rates by region</b>						
Northern Mountains	81.5	64.2	43.9	35.4	30.2	Na
Red River Delta	62.7	29.3	22.4	12.1	8.8	Na
North Central	74.5	48.1	43.9	31.9	29.1	Na
South Central Coastal	47.2	34.5	25.2	19.0	12.6	Na
Central Highlands	70.0	52.4	51.8	33.1	28.6	Na
Southeast	37.0	12.2	10.6	5.4	5.8	Na
MRD	47.1	36.9	23.4	19.5	10.3	Na
<b>Poverty rates by ethnic group</b>						
Kinh and Chinese	53.9	31.1	23.1	13.5	10.3	Na
Other	86.4	75.2	69.5	60.7	52.3	Na

*Source: MPI 2008:21); GSO Viet Nam Living Standards Survey (VLSS) 1993, 1998, Viet Nam Household Living Standards Survey (VHLSS) 2002, 2004 and 2006; Viet Nam Development Report, the WB 2003 and 2007 (proportion of households spending less than USD 1 (PPP) per day).*

## 2.3. Socio-Economic Development, 1989-2009

Socioeconomic development data suggest not only that there is economic growth, but also that there is “progress” with respect to key indicators of wellbeing. In addition to income and income poverty, various measures of health, nutrition, and education provide useful indicators of wellbeing. Other measures of socioeconomic development, such as access to clean water, transport infrastructure and means, electricity, and the prevalence of sanitary conditions provide a fuller picture of Viet Nam’s socioeconomic development.

However, data only take on meaning through comparison and analysis of context. Across all indicators of socioeconomic development, it is useful to observe trends across time and place, and different social groupings. Spatial comparisons of socioeconomic development in Viet Nam reveal important differences across rural and urban zones, distinct geographical regions, different income/expenditure strata, sex, age, and other dimensions of variation. For the main audience of this report, much of the data are familiar, and are therefore not discussed at any length.

With respect to health and nutrition, Viet Nam has evidenced clear improvements in life expectancy, maternal and child mortality, and the prevalence of severe underweight children. Between 1992 and 2007, life expectancy increased from

65.2 to 74.3 years (and 75.6 for females). Between 1998 and 2008, maternal mortality has declined from 160 per 100,000 live births to 75. During the same period, under-one infant mortality has declined from 31 per 1,000 live births to 15.5, while under-five mortality has declined from 42 to 25. Malnutrition among children has declined from an estimated 44.9 percent in 1994 to 19.9 percent in 2008.

Viet Nam has been praised for achieving far better results in health indicators relative to countries of similar level of economic development. By 2006, Viet Nam had overtaken the Philippines, Thailand and Indonesia (countries in the same region with higher levels of per capita GDP) in reducing infant mortality rate.

Some communicable diseases such as polio, newborn tetanus and leprosy have been successfully eradicated. Malaria and dengue are no longer among the leading causes of morbidity and/or mortality as they were in mid-1990s. Complications of pregnancy and delivery are no longer among the leading causes of morbidity; foetal retardation and malnutrition are no longer as prevalent as in the early 2000s. Viet Nam will be among a relatively small number of countries to achieve MDGs on maternal mortality and infant mortality.

**Table 2.3. Under-One Infant Mortality Rate**

	<i>Census</i>	<i>Population Survey</i>	<i>Population Survey</i>	<i>Population Survey</i>	<i>Population Survey</i>
	<i>1/4/1999</i>	<i>1/4/2000</i>	<i>1/4/2002</i>	<i>1/4/2007</i>	<i>1/4/2008</i>
<b>Whole country</b>	<b>36.70</b>	<b>31.20</b>	<b>26.00</b>	<b>16.00</b>	<b>15.00</b>
Urban	18.30	20.10	17.00	...	...
Rural	41.00	34.60	28.80	...	...
<b>Region</b>					
Red River Delta	26.50	26.30	20.00	10.00	11.00
North East	40.80	36.00	30.20	22.00	21.00
North West	58.30	40.60	40.50	29.00	21.00
North Central Coast	37.00	31.50	30.90	20.00	16.00
South Central Coast	40.60	29.20	23.60	17.00	16.00
Central Highlands	64.40	43.20	30.90	27.00	23.00
South East	23.60	22.90	18.90	10.00	8.00
MRD	38.00	32.10	21.20	11.00	11.00

*Source: 1999 Census, GSO Population Surveys, various years.*

In many respects, health policies have contributed to improvements in health status. Over the last two decades, Viet Nam has seen improvements in the geographical coverage of the health system and the availability of health services. The state's large network of preventive health stations has been extended to every commune in the country. The state-run network of hospitals approaches 1000. And, since 1989, the government has permitted the private provision of health services.

Important problems notwithstanding, the development of a significant preventive health network that provides services at low or no cost has undoubtedly contributed to improvements in Viet Nam's health status. The proportion of births attended by health personnel is indicative. As of the 2008, this figure was over 95 percent nationally, and in urban and delta areas reached 98 percent (MPI 17). That said, limitations on the accessibility of quality preventive and curative health services – due to reasons varying from physical location, to cost, and staffing – contribute to

significant variation in health outcomes across regions. Disaggregated estimates of infant mortality across regions (presented in Table 2.3) are suggestive of more general regional variation in socioeconomic conditions and the accessibility of appropriate care.

Recent policies on health care for the poor and health insurance have yielded some encouraging results. The proportion of insured population has increased significantly, from less than 15 percent in 2001 to 43 percent in 2007. Most of the certified poor families are provided with health insurance. Near-poor families also get support to enrol in health insurance. According to Viet Nam Household Living Standards Survey (VHLSS) 2006, three-quarters of patients from the poorest income quintile in rural areas that visited a health facility had health insurance. Across ethnic minority groups (excepting the Hoa), an average of 60 percent to 97 percent of group members who came to seek treatment had health insurance cards. This reflects efforts to increase equality in access to health services.

Education has been hailed as one of the great successes of Viet Nam's development and there have indeed been dramatic improvements in the availability of education, as measured by gross and net enrolment figures, teachers, classrooms, and so on. Apparent improvements in education reflect the commitment of Viet Nam's government to promoting education, which accounts for 20 percent of the state budget. Nonetheless, and as emphasized at the outset, weaknesses in Viet Nam's education system are surely among the greatest challenges Viet Nam faces and will face over the decade ahead.

The gains Viet Nam has recorded in primary and secondary school enrolment have been truly impressive. Net (i.e. age appropriate) enrolment in primary education has increased from an estimated 87 percent in 1993 to a projected 96 percent in 2008, while net enrolment figures for the poorest and richest expenditure quintiles of the population have declined from 20 percent to 5 percent, within the same interval. Preliminary estimates are that, by 2008, the national primary net enrolment rate will have reached 96 percent.

Gains in secondary education have been even more striking. Between 1993 and 1998, net enrolment in lower-secondary education more than doubled (from 30 to 62 percent), and reached an estimated 79 percent by 2006. Between 1993 and 2006, upper-secondary net enrolment increased by seven times, from roughly 7 percent to 54 percent. According to MPI, by 2007, 42 of 63 provinces had achieved the national standard of universal lower secondary education, according to which 85 percent of those aged 15 to 18 have completed lower secondary education. Nationally, the average time spent at school has reached 10.8 years. In recent years, Viet Nam has seen significant increases in pre-school enrolment, while higher education in Viet Nam is quickly becoming mass education. Challenges in education, health, and other social fields are discussed at greater length below and in later parts of this report.

However, at the higher education levels gains in coverage must be evaluated in light of quality of the education offered. Growth in numbers in tertiary education has not been matched by commensurate increases in the number of staff. Most importantly, the level of professional and technical education is not sufficiently high to provide the level of skills required to support the next stage of Vietnamese growth.

## 2.4. Constraints on Poverty Alleviation and Socio-Economic Development

Poverty reduction and improvements in health, education, and other social indicators have obviously benefited from economic growth; as it is growth that has permitted increased consumption and investment. But it is also true that poverty reduction and improvements in socioeconomic status (e.g. health, nutrition, and education) have contributed to economic growth.

Decades of war, geopolitical isolation, and failed economic policies conspired to make Viet Nam among the poorest countries in the World. At the outset of market reforms, Viet Nam confronted poverty on a massive scale. Systemic deficiencies in the planned economy, severe shortages of economic resources, wholly inadequate transport and energy infrastructure, and harmful economic incentives thwarted economic accumulation and growth. Viet Nam's market transition, its rapid integration with the regional and global economies, and the state policies that have steered this process have created a burst of growth.

However, in important respects, Viet Nam's impressive record of poverty reduction in the 1990s owes much to legacies of the pre-*Doi Moi* period, including the fairly egalitarian distribution of land and the government's historical attentiveness to health, education, and other social policies, even during the difficult decades preceding reforms. The efficacy of welfare institutions prior to the 1990s should not be exaggerated, but it is important to recognize however, that the government's significant efforts to promote a degree of social equity through its policies have had tangible positive impacts.

Some of the problems Viet Nam now faces may be viewed as the down-side of the shift to the market. In the early stages of reform, reform-mongers chose not to focus on the social weaknesses exhibited by market economies, so as not to provide ammunition to the opponents of reform.

In the late 1980s and early 1990s Viet Nam's welfare institutions were severely weakened. The government's commitment to preventive health (assisted by international donors) was instrumental in avoiding the collapse of the public health system and a commitment to mass education resulted in improvements in the availability of education, especially basic education. Economic growth accelerated by the middle 1990s and sustained growth since has permitted continuous increases in expenditure on important social public-goods. However, it is also the case that health, education, and welfare-related sectors are beset by a range of problems, so that the quality and distributions of essential social services in Viet Nam is now inadequate to meet the country's development challenges over the coming decade.

The Government of Viet Nam has been wrestling with the challenge of providing reasonable access to essential social services under the conditions of a market economy.

Since the early 1990s, the government has worked to ensure that a floor of essential social services is available to all or most Vietnamese. With the growth of the middle class, the impact of official user charges, and the burden of unofficial charges (i.e. the "envelope" or *phong bì* system), the provision and payment for services has become more subject to commercial forces, and access to quality services more unequal. This is unfortunate both from the point of view of economic efficiency and

social equity. The increasing commercialization of essential services at the point of delivery, including nominally public services, and especially health services, is occurring in the context of increasing economic inequality. This raises profound concerns as to whether and how Viet Nam can avoid the stalled development characteristic of low-performing countries in East Asia and other regions.

Viet Nam has seen rapid increases in health spending in both absolute terms and as a proportion of GDP. As of 2006, total health spending was estimated to equal 6.6 percent of GDP, while average expenditure for health was estimated to be USD 46 per capita. World Health Organization (WHO) statistics indicates health spending in Viet Nam is relatively high compared to other countries in the region. What is notable is that, in Viet Nam, the largest single source of health spending is out of pocket spending, estimated to account from between 60 and 75 percent of total health spending.

Problems in Viet Nam's health system are most visible with respect to differentials in the quality and distribution of services as well as the payment for services. Quality issues range from disparities in the adequacy of health infrastructure and staffing to misallocation of resources owing to misaligned policies and perverse incentives. Generally, access to high quality services has become increasingly contingent on out-of-pocket payments, while well off Vietnamese increasingly seek treatment overseas.

Overall, the amount and quality of schooling and formal training in Viet Nam represents a significant constraint on future growth. Education and training hold the promise of limiting the intergenerational transmission of poverty, but also the peril of reinforcing and perpetuating inequalities. In education, of course, it is not only the amount of time spent in school or the percentage of children enrolled, but the timing of education and training and its content. Comparatively speaking, gains in pre-school education and tertiary education have been less impressive than achievements in primary and secondary education.

Although the government has recently committed itself to undertaking expansions in pre-school education, limited access to pre-school education in poor regions and among poor households remains a constraint on poverty reduction. As might be expected, in pre-school education and upper-secondary education, educational achievement remains significantly lower among poorer children and the ethnic minority groups that are over-represented within the poor. While efforts to overhaul higher education and vocational education are underway, the weaknesses that remain must be addressed effectively and in a timely manner if Viet Nam is to achieve its desired trajectories of social and economic change.

**Gender:** Gender issues involve a particular and critical aspect of Viet Nam's modernization. And as with other aspects of equity, consideration of gender not only involve issues of fairness, but also very pragmatic concerns regarding the need to effectively mobilize human capital to sustain growth and development – which is hardly possible if the potential of half of the population is not fully utilized.

Gender inequalities represent a real constraint on socioeconomic development. It is the case that Viet Nam has performed better than other countries (including much wealthier countries) on a range of issues. Unlike China and many other countries, Viet Nam does not exhibit significant disparities in enrolment rates between boys and girls

and men and women. Though certain forms of gendered educational inequalities do persist, the proportion of girls at all education levels is approximately fifty percent.

However, the preference for sons over daughters is now showing evidence of skewing the natural distribution of population. While a large majority of the population has remained gender-neutral in their fertility choices, incidence of sex-selective abortion has increased and it is possible that the sex ratio balance could cross the 115 male to 100 female births in a few years. The consequences of gender imbalance are now having to be faced in China, and the signs that a similar imbalance may occur in Viet Nam is a cause of concern.

In international comparative terms, for its income level Viet Nam's record in relation to some dimensions of gender has been positive. Gender balance in secondary and higher education still favoured men in the 1990s, this was not so exaggerated as in many other countries: As a result of the cumulative impact of past enrolment, in 2002, for every 100 women aged 15 and over, there were 25.5 primary graduates, 25.8 lower secondary graduates and 9.4 upper secondary graduates. Respective figures for the male population were 27.3, 29.5 and 12.0. The figures at college and university level were 2.7 percent for women and 4.2 percent for men.

By now the gender gap at secondary and tertiary education in numerical terms has been substantially reduced. However, there is still a gender imbalance when choice of subjects is analysed, with women concentrating their attention on the "softer" subjects such as education, leaving the more technical subjects (e.g. engineering) to be dominated by men. Moreover, the gender gap is sharply greater at post-graduate level. In 2002 the percentage of women with postgraduate was 3 times lower than men (0.04 percent in women and 0.13 percent in men).

## **2.5. Data Limitations**

Having summarized the available evidence of poverty trends and wellbeing, a warning note is appropriate about limitations in available data.

Measurement problems with regard to poverty and human development indicators are serious. Figures that they routinely cited as evidence of progress are in fact highly problematic. Development partners, including UN agencies should give high priority to supporting the improvement of the quality of economic and social statistics.

The broad picture outlined above is that liberalization of agriculture and trade created opportunities for farmers to earn profits and created wage labour opportunities for unskilled workers in garment, shoe, furniture and other factories. Occupational and geographic mobility, combined with greater incentives for small farmer to produce for market and to diversify into non-traditional crops like fruit, vegetables and cut flowers and other activities like raising fish and livestock all contributed to poverty reduction, but there is little detailed knowledge of how much each of these changes has contributed to poverty reduction, which groups in the population have benefited most and which are most at risk in normal times or during times of economic hardship, for example during the global economic crisis of 2009.

One problem is that official statistics continue to exclude mobile people, defined as anyone who has not been living in their current residence for at least six months. Even migrants who have been living in their destination location for six

months are for the most part excluded because their official residence is somewhere else, and therefore for official purposes they cannot be surveyed where they actually live and work. The result is the lack of hard information about the living conditions of the people who are powering Viet Nam's export success: namely, migrants.

There is an important gender dimension to this ignorance about the relationship between liberalization, mobility and quality of life. The success of the East Asian export-oriented growth model is based at least in part on the availability of millions of underemployed young women, who, partially subsidized by their families, are willing to work very long hours for low wages.<sup>3</sup> More needs to be known about the working conditions and wellbeing of this crucial component of the labour force.

There is also a lack of good information on wages and working conditions in large and small enterprises. None of the available surveys account for seasonality, including the relative importance of agricultural wage employment and how poor people combine work on their own or someone else's farm with other kinds of jobs. This there is a lack of reliable information on the relationship between employment in agriculture and labour intensive manufacturing and poverty reduction.

Economists, donors and government officials routinely "fill in the blanks" with assumptions about the behaviour of factory and agricultural workers based on the partial information available. Rarely is it noted that the data from which conclusions are derived exclude mobile people. This is inevitably a source of significant potential bias in the data.

Because statistics take a snapshot of the population at one point in time, poverty studies tend to focus on static indicators and scrutinize the relationship between poverty and household size, whether the head of household is a man or woman, his or her highest educational qualification, distance to a market, school, a hospital or a city.

Dynamic poverty studies (that is, surveys that follow the same households over time) are rare because they are time consuming and costly. However, studies in both poor and rich countries show that many "poor" households are "non-poor" at least once over a given period of time, and many "non-poor" households in any given year have been poor at least one year in the recent past.<sup>4</sup>

Viewing poverty outcomes over time highlights the importance of life events to poverty status. It is probably that the main causes of poverty are no longer the sex of the household head or distance to a paved road, but rather loss of a job; illness and the cost of health care; old age; sudden, large expenses (for example weddings and funerals); and the cost of raising children. Dynamic studies therefore signal the overriding importance of access to wage employment and mechanisms to manage risk in reducing poverty in rich and poor countries alike.

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<sup>3</sup> Stephanie Segundo (2000)

<sup>4</sup> See, for example, Pablo Antoine *et al.* (1999) Baulch and Neil McCulloch (1998), Aired Krishna (2004).

## Chapter 3

# Sources of Economic Growth over the Past Two Decades

### 3.1. Introduction

This chapter analyses the sources of economic growth over the past two decades. The main purpose of this exploration is to assess future prospects in light of the analysis of past performance. Can the momentum of growth be maintained over the coming decade through a similar pattern of growth as over the past two decades or will significant changes in direction be needed?

The analysis presented falls short of a systematic attribution of growth between the various inputs into the growth process. Some aspects of Viet Nam's growth performance – its strengths and weaknesses – require more research. For example, there is a need for deeper study on the determinants of investment productivity, particularly the apparent decline in the efficiency of investment in recent years. Also, information of the sources of entrepreneurship is still sketchy and often anecdotal. However, some of the main features of past growth are clear:

**Agricultural growth** was a key component of the economic transformation – at the beginning of the period under review Viet Nam was still predominantly rural. Moreover, during the 1980s agricultural output was insufficient to meet Viet Nam's food needs. Prospects for overall growth were therefore significantly dependent on agricultural performance, both because so many households were dependent of agriculture as a source of income, and because growth in agricultural productivity affected the possibility of transferring surplus (of labour and product) to the non-agricultural sector. The economic transformation of populous rural society is necessarily dependent on a successful agricultural revolution.

Moreover, the agricultural and aquacultural sectors made a substantial contribution to export growth.

While the relative importance of the agricultural sector's contribution to GDP has declined, it is still large enough (and it remains a source of well-being for rural households) that prospects for sustaining past growth rates in agricultural output remains an important issue.

**Export growth** has been of central importance – a key aspect of Vietnamese growth has been the rapid rise of exports, which has accommodated the rapid growth in needed imports and stimulated structural and technical change.

Analysis of the sources of past export growth is important particularly because it suggests the need to seek new directions for export growth, which is likely to pose one of the most difficult challenges to economic policy in the coming decade.



The role of **investment** has been more problematic – initially the acceleration of growth was not associated with high levels of investment, but in recent years the ratio of capital formation to GDP has risen sharply (and with it the ICOR), while rising investment levels have not been matched by comparable increases in domestic saving, resulting in rising trade deficits and dependence of foreign finance. Critical issues for the future concern the level of investment, sources of investment demand and the associated roles of differing potential entrepreneurial groups (State enterprise, the private national sector and foreign direct investors).

Observation of the Vietnamese economy over the past two decades suggests that high levels of individual entrepreneurship and initiative have played an important role in maintaining growth momentum, although the magnitude of the contribution cannot be documented.

## 3.2. Agricultural Policies and Agricultural Growth

### 3.2.1. *The Importance of Agricultural Growth*

Agriculture has made a central contribution to economic growth, which has been supported by innovation (particularly new seeds and new products) and also by supporting infrastructure like irrigation, power and roads.

Without the rapid growth in agricultural output, Viet Nam would not have achieved the successful growth of the past two decades. Agriculture and aquaculture made a substantial contribution to export growth. Expansion in food production ensured food security – a continuation of the near-famine conditions experienced in the 1980s would have held back overall growth. And agricultural growth underpinned the increases in household incomes enjoyed by many rural families.

The scope for yield increases depends both on the development of new seed varieties and the introduction of new products, and also on access to sufficient supplies of fresh water for irrigation and drainage and addressing the negative effects of salinity intrusion. Rice agriculture and aquaculture in the Mekong Delta face three key risks: first, declining water volumes from the Mekong as a result of construction of dams upstream; second, the falling water table in the Mekong Delta because of overuse of groundwater; and finally, the impact of climate change. The government is developing mitigation strategies to cope with these challenges but most observers consider the risks to Viet Nam's most productive agriculture region to be highly significant.<sup>5</sup>

### 3.2.2. *The Revolution in Rice Production*

Rice plays such an important role in the culture as well as the economy of Viet Nam, that the transformation to rice production deserves detailed attention. However, so as not to unbalance the flow of the chapter, more detailed discussion of the rice “revolution” is placed in an appendix to this chapter.

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<sup>5</sup> See Milton Osborne (2009).

The rapid growth in rice output was a key component of Viet Nam's economic success. In the simplest statistical terms, given the relative importance of agriculture, the achievement of high rates of overall growth would have been unlikely without a buoyant agricultural sector. Rice, the staple food of the country which account for three-quarters of the caloric intake of the population, is by far the dominant product of Vietnamese agriculture.

Even more important, the achievement of the reduction of poverty was only possible with significant growth in rural incomes. Rice is not only the main product of Vietnamese agriculture and the dominant food staple, but also provided the basic income source for a large segment of the population of poorer farmers. Data from the 1992-93 VLSS indicated<sup>6</sup> that almost three fifths of the per capita income of people in the lowest expenditure quintile was generated by agricultural activities, compared to less than one fourth for the highest quintile. The reverse is true for income generated through non-agricultural self-employment activities. These activities account for 15 percent and 52 percent of total per capita income for the lowest and highest quintiles, respectively. For all quintiles, the income from wage labour activities was around 20 percent.

Vietnamese agricultural growth succeeded both as a result of market reforms providing incentives to the farmer and through continued public provision of infrastructure, including extensive efforts to rehabilitate the irrigation systems and improve the transport network, and a pragmatic and rather ad hoc approach to the reform of the system of input provision and technical support.

The weakening of the state trading system at the local level permitted private traders to develop local markets, while many state trading enterprises became more responsive to market opportunities.

From 1989 international trade in agricultural products was also gradually liberalized allowing private sector participation at successive stages. All these reform initiatives have been accompanied by sweeping macroeconomic policy reforms, including the unification and realignment of the exchange rate, which gave a strong incentive to agricultural export, and in its turn to agricultural production.

However, the marketing system still needs further reform. The importance of agriculture to growth, exports and job creation raises key policy issues relating to the role state trading companies in the business of exporting agricultural commodities. Exports of rice are regulated by the Viet Nam Food Association (VFA) to ensure food security. VFA is closely linked to the state trading companies VINAFOOD 1 and VINAFOOD 2. Farmers and non-state traders complain that VFA and the two VINAFOODs manipulate the export market - in essence, using their market power to

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<sup>6</sup> Using the 1992-93 survey, a very basic measure of severe poverty was based on the income level which was estimated to be necessary to sustain consumption of 2,100 calories per day (which was estimated to be the case for incomes equivalent to VND 1.07 million per person per year at 1992-93 prices to cover food and non-food consumption). The poverty line of 2,100 calories for total consumption expenditures, of which 65 percent was food expenditures, included rice consumption of 171.5 kg per person per year, or 263.8 kg of paddy (using a conversion factor of 1:0.65). Using that measure, households with incomes below the poverty line (i.e. subject to severe poverty) accounted for 51 percent of the population.

buy cheap from farmers and reap huge profits on export contracts.<sup>7</sup> Indeed, in 2009 it was discovered that VINAFOOD 2 was selling domestic rice at depressed prices to its wholly owned subsidiary in Singapore, Saigon Food Pte, with the approval of VFA, members of which are VINAFOOD 2 officials.<sup>8</sup> In effect, large enterprises with market and state power use that power to extract rents from the small scale producers. In doing this they are not serving any larger public good, but they do increase the costs to farmers and firms of competing on global markets.<sup>9</sup>

The predominance of agriculture in the pre-reform economy - its importance in determining the fortune of the economy and in maintaining the livelihood of the vast majority of people, made sweeping agricultural reforms politically palatable. Given the vast untapped potential of agriculture during the command-economy era, the response of agriculture to policy reforms was swift and remarkable. The impressive reform outcome in agriculture played a pivotal role in sustaining the momentum of reforms, assuring the continuation of market-oriented reforms.

### 3.2.3. Other Crops

Although the growth in paddy production was the prime mover of agricultural growth in the immediate post-reform period, from the mid-1990s there was notable diversification of agricultural production into other food crops (maize, peanuts, soybean), industrial and export crops (in particular rubber, coffee, tea, cashews, pepper, cinnamon), fruits and vegetables, marine and aquaculture products (shrimps, fish, cuttlefish and crab), and animal husbandry (pork and chicken). In agricultural export crops, such as coffee, cashews and pepper, Viet Nam moved from negligible production to become a major player in world markets. The initial production expansion of some cash crops (particularly rubber) reflected returns from state farm investment in the 1980s, but growth of agricultural production during the post reform era came predominantly from private smallholder production.

Coffee, rubber and sugar cane are the three most important cash crops in Viet Nam. By 2004 coffee accounted for 3.8 percent of agricultural output, with sugar cane and rubber respectively accounting for 3.4 percent and 2.3 percent. Coffee and rubber production is largely for export markets while the sugar industry produces to meet domestic demand.

Coffee is predominantly a small-holder crop. As a result of the rapid growth in coffee production, Viet Nam has become the second largest coffee producer, after

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<sup>7</sup> *Người Lao Động* newspaper in Ho Chi Minh City has recently run a series of articles based on submissions from its readers on this issue. See Chia sẻ quyền lợi (March 20, 2010), <http://www.nld.com.vn/20100320125118533P0C1014/chia-se-quyen-loi.htm>.

<sup>8</sup> “VINAFOOD 2 Found Selling Cheap Rice to Singapore Subsidiary,” Vietnamnet, October 8, 2009, <http://english.vietnamnet.vn/biz/200910/Vinafood-2-found-selling-rice-cheap-to-Singapore-subsidiary-872720/>.

<sup>9</sup> The claim that export controls are needed to protect food security are spurious since the same objectives could be met with an export tax, under which rents would accrue to the treasury rather than do specific state-owned enterprises. See also, “Rice exports: privileged traders earn big bucks, farmers get pennies,” Vietnamnet, October 7, 2009, <http://english.vietnamnet.vn/biz/200910/Rice-exports-privileged-traders-earn-big-bucks-farmers-get-pennies-872517/>.

Brazil. Viet Nam has become a large enough producer that its supply affects World prices, with the prospect that further rapid growth in supply will undermine prices.

Rubber is mainly produced in state-owned farms owned by the general Rubber Corporation (an SOE at the national level) or by SOEs at the provincial level. Cultivated area, production and yield of both rubber and coffee have recorded impressive growth over the past one-and-a-half decades. Sugar production recorded a sudden jump in 1995 following the introduction of the ‘one-million sugar program’ and continued to increase up to 1999. There has, however, been a mild downward trend, with significant fluctuation of annual production, thereafter. The area under sugarcane cultivation has declined in recent years as a result of switch of farmers to other crops.

The other cash crops which have recorded impressive growth during the post-reform era include cashew, ground nuts, tea and pepper. By the mid-decade Viet Nam had become the biggest producer of pepper, the third biggest producer of cashew nuts, fifth largest producer of tea and the tenth largest producer of ground nuts in the world. However the combined share of these products in total agricultural GDP of the country still remains small (less than 3 percent).

Livestock production has increased rapidly since the early 1990s, accounting for about 14 percent of agricultural value added by 2000 (IAPP 2001, as quoted in Nguyen and Grote 2004). Pork is by far the most important livestock product (60 percent) followed by chicken (15 percent) and beef (8 percent). The share of pork in agricultural value added increased from 6.4 percent during 1990-94 to 10 percent during 2000-04. Currently over 90 percent of pork production is consumed domestically, but exports (predominantly to China) have begun to increase rapidly in recent years.

Another striking development in the rural economy has been the rapid growth in aquaculture, particular the mass production of tiger shrimp and pangasius (cat-fish), which pushed aquatic exports beyond USD 4 billion by 2008.

### ***3.2.4. Future Output and Income Growth in Agriculture***

Looking to the future, it is not easy to predict the potential for further agricultural growth. In the early 1990’s, well informed observers of the agricultural sector thought that the spurt of growth achieved at that time was largely the result of market liberalization and might run out of steam as the immediate efficiency gains were exhausted. That proved not to be the case.<sup>10</sup> New seeds, improvements in agricultural practice and the introduction of new products (including aquaculture) all contributed to sustaining output growth.

It should be noted that some of the sources of the transformation of agricultural production were one off – including the impact of shifting to a market economy and

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<sup>10</sup> This pessimistic prognosis about the future of agricultural output was conveyed to the team by members of the WB/FAO team reporting on the agricultural sector in 1994. The view was expressed that the gains from reform having been reaped, deceleration in growth could be expected. See the 1994 study cited below.

extending the area devoted to multiple cropping. This leads to the question of whether the growth in agricultural output can be sustained in the coming period.

However, it was not solely the “magic of the market” that resulted in sustained agricultural growth. No doubt the flexibility and improved incentives resulting from market reforms was the most important moving force in initiating the growth process, but sustained growth in small-holder agriculture also required the support of effective infrastructure, particularly in the provision of irrigation and transport, and the supply of improved inputs. And the spread of new seeds has been combined with increases in farm inputs (fertilizers and insecticides).

However maintenance of irrigation systems in particular is chronically underfunded: this problem must be resolved if the agricultural economy is to continue to play an important role in the economy.<sup>11</sup>

Ministry of Agriculture and Rural Development (MARD) projections for future rice production and exports suggest that up to 2020 changes in rice production can be expected to result from a compound of a number of influences:

- A decline in the area devoted to paddy production (planted area from declining from 7.2 million ha in 2007 to 6.8 million ha in 2020);
- An increase in yield, from 4.98 tonnes/ha/season in 2007 to 5.65 tonnes in 2020;
- A resulting increase in paddy production from 35.8 million tonnes in 2007 to 38.5 in 2020;
- Allowing for the growth in domestic demand, exports can be expected to fall from 4.3 million tonnes in 2007 to 2.1 millions tonnes in 2020.

However, per capita incomes derived from production can be expected to increase faster than output growth, because of increasing labour productivity, as a result of trends which are already observable.

In the last few years labour has been getting scarcer and more expensive. This is evident in the MRD, where development of new off-farm employment opportunities has resulted both in a decline in labour availability within the household, as family members have sought out new job opportunities, and increasing scarcity of labour seeking farm employment.

This change is evidenced in available data on labour utilization in Figure 3.1.

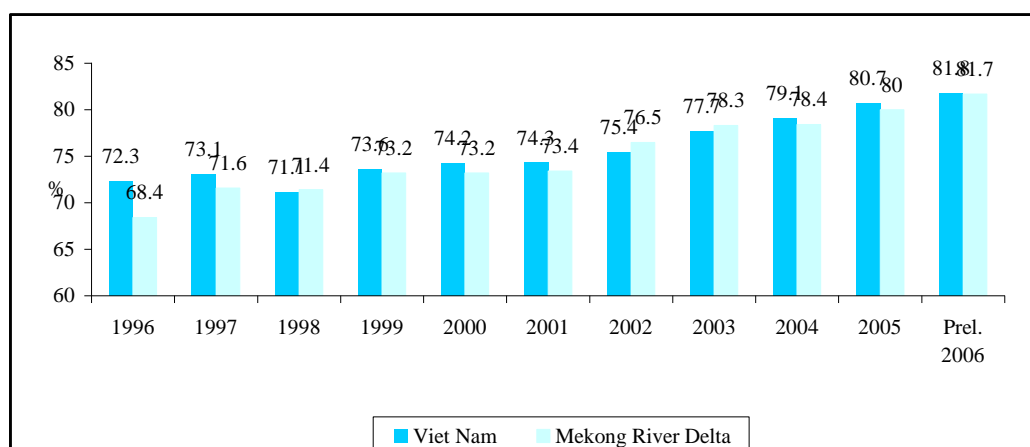
In the MRD, the utilization of labour has steadily increased. As a result, the interest of farmers has been increasingly focussed on labour saving equipment at peak production times (notably for harvesting). An average labour utilization of 80 percent over the season must imply very high rates of utilization during peak seasons. What can be observed on the ground is a process underway which could be described as a new rural transition in the MRD to a more sophisticated, complex production system, with higher levels of mechanization economizing on labour use.

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<sup>11</sup> Barker and Molle (2004).

Increasing farm incomes are also likely to result from a shift from rice production to other, more valuable, food crops to meet the growing demand resulting from urbanization and in consumption patterns, with food purchases becoming more diversified as a result of rising household incomes.

**Figure 3.1. Proportion of Working Time Used by Workers of Working Age (%)**



Source: GSO.

In the longer-term, sustained agricultural growth will require massive infrastructural investment, in water management and transport infrastructure in particular, the strengthening of research, extension and other agricultural support services and the encouragement of increasing competition in the agricultural trading system. Within agriculture, it is likely that increasing labour scarcity and rising wage costs will lead to labour-displacing innovations. This can already be observed at the micro-level in the MRD.

In summary, agriculture has been a remarkably efficient and dynamic part of the Vietnamese economy. The scope for yield increases depends both on the development of new seed varieties and the introduction of new products, and also on access to sufficient supplies of fresh water for irrigation and drainage and addressing the negative effects of salinity intrusion. Agriculture also needs to be served by a competitive and efficient marketing system, both in supplying inputs and marketing outputs. While progress has been made in improving the agricultural marketing system, this remains an area in which further reform could raise farm incomes and stimulate growth.

There are significant risks. Rice agriculture and aquaculture in the Mekong Delta face three key risks: first, declining water volumes from the Mekong as a result of construction of dams upstream; second, the falling water table in the Mekong Delta because of overuse of groundwater; and finally, the impact of climate change. The government is developing mitigation strategies to cope with these challenges but most observers consider the risks to Viet Nam's most productive agriculture region to be highly significant.<sup>12</sup>

<sup>12</sup> See Milton Osborne (2009).

### 3.3. Export Growth

One of the most extraordinary aspects of Vietnamese growth has been the explosion of export earnings over the past two decades. Exports have been growing rapidly at two-digit rates, averaging 18.1 percent per annum for the period 1991-2009, except for 1998 and 2001 (one-digit growth rate) and 1991 and 2009 (declines). The low growth rate in 1998 was partly induced by the Asian financial crisis through drop in the price of crude oil and manufacturing goods. The decelerated growth in 2001 was a result of a low price of crude oil and primary commodities.

There have been only two periods when there was an actual contraction in exports. An early contraction in exports (1991) resulted from the collapse of the major trading partners in the socialist trading bloc (Council for Mutual Economic Assistance CMEA). In 1990, Viet Nam exported roubles 2.5 billion worth of goods to these markets, falling to just roubles 70 million in 1992. However the decline in exports to members of the former CMEA was rapidly replaced by the growth of new markets.

The second contraction took place in 2009 when importers' demand for Vietnamese goods dropped and the crude oil price experienced a sharp drop.

**Table 3.1. Export and Import of Goods 1990-2008**

Year	Value (million USD)				Index (Previous year = 100, %)		
	Total trade	Of which		Trade balance	Total trade	Of which	
		Exports	Imports			Exports	Imports
1990	5156.4	2404.0	2752.4	-348.4			
1991	4425.2	2087.1	2338.1	-251.0	85.8	86.8	84.9
1992	5121.5	2580.7	2540.8	39.9	115.7	123.7	108.7
1993	6909.1	2985.2	3923.9	-938.7	134.9	115.7	154.4
1994	9880.1	4054.3	5825.8	-1771.5	143.0	135.8	148.5
1995	13604.3	5448.9	8155.4	-2706.5	137.7	134.4	140.0
1996	18399.4	7255.8	11143.6	-3887.8	135.2	133.2	136.6
1997	20777.3	9185.0	11592.3	-2407.3	112.9	126.6	104.0
1998	20859.9	9360.3	11499.6	-2139.3	100.4	101.9	99.2
1999	23283.5	11541.4	11742.1	-200.7	111.6	123.3	102.1
2000	30119.2	14482.7	15636.5	-1153.8	129.4	125.5	133.2
2001	31247.1	15029.2	16217.9	-1188.7	103.7	103.8	103.7
2002	36451.7	16706.1	19745.6	-3039.5	116.7	111.2	121.8
2003	45405.1	20149.3	25255.8	-5106.5	124.6	120.6	127.9
2004	58453.8	26485.0	31968.8	-5483.8	128.7	131.4	126.6
2005	69208.2	32447.1	36761.1	-4314.0	118.4	122.5	115.0
2006	84717.3	39826.2	44891.1	-5064.9	122.4	122.7	122.1
2007	111326.1	48561.4	62764.7	-14203.3	131.4	121.9	139.8
Prel. 2008	143398.9	62685.1	80713.8	-18028.7	128.8	129.1	128.6

Source: GSO (various years).

Although there has been a small shift from primary products to manufactured goods, Viet Nam's exports have relied heavily on primary commodities, especially crude oil and agricultural products; Table 3.2 shows that two largest items in recent years, together accounting for around 40 percent of the total exports, were mineral fuels and foodstuff. Hence, export values are vulnerable to shocks from volatile prices in world primary commodity markets.

**Table 3.2. Exports of Goods by Standard International Trade Classification (SITC)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>TOTAL</b>	<b>5449.0</b>	<b>7255.9</b>	<b>9185.0</b>	<b>9360.3</b>	<b>11541.4</b>	<b>14482.7</b>	<b>15029.2</b>	<b>16706.1</b>	<b>20149.3</b>	<b>26485.0</b>	<b>32447.1</b>	<b>39826.2</b>	<b>48561.4</b>
<b>Primary products</b>	<b>3664.1</b>	<b>4537.7</b>	<b>4780.9</b>	<b>5006.4</b>	<b>5996.2</b>	<b>8078.8</b>	<b>8009.8</b>	<b>8289.5</b>	<b>9397.2</b>	<b>12554.1</b>	<b>16100.7</b>	<b>19226.8</b>	<b>21657.7</b>
Food, foodstuff and live animals	2064.2	2424.1	2691.9	3158.1	3283.8	3779.5	4051.6	4117.6	4432.0	5277.6	6345.7	7509.2	9191.7
Beverages and tobacco	5.0	7.0	33.8	4.9	15.0	18.8	45.5	75.2	159.8	174.0	150.0	143.5	155.1
Crude materials, inedible, except fuels	370.5	499.6	376.7	283.1	302.2	384.0	412.6	516.5	631.3	830.9	1229.1	1845.3	2199.8
Mineral fuels, lubricants and related materials	1210.6	1572.0	1653.5	1543.5	2372.5	3824.7	3468.5	3567.8	4151.1	6233.2	8358.0	9709.4	10061.0
Animal and vegetable oils, fats and wax	13.8	34.9	25.0	16.7	22.6	71.8	31.6	12.5	23.0	38.4	17.9	19.4	50.1
<b>Manufactured products</b>	<b>1784.8</b>	<b>2710.5</b>	<b>4401.3</b>	<b>4350.1</b>	<b>5540.6</b>	<b>6397.5</b>	<b>7019.0</b>	<b>8414.6</b>	<b>10747.8</b>	<b>13927.6</b>	<b>16341.0</b>	<b>20592.0</b>	<b>26886.1</b>
Chemical and related products, n.e.s.	30.9	65.9	106.6	93.6	147.0	158.5	222.1	262.2	339.9	421.3	536.0	791.9	1028.5
Manufactured goods classified chiefly by materials	349.8	382.6	563.0	441.1	864.8	911.1	989.7	1124.9	1354.8	1889.6	2165.4	2926.3	3975.7
Machinery, transport and equipments	89.4	414.6	752.7	808.8	978.0	1276.0	1399.0	1336.9	1792.8	2562.1	3145.1	4194.7	5601.2
Miscellaneous manufactured articles	1314.7	1847.4	2979.1	3006.7	3550.8	4051.9	4408.2	5690.6	7260.3	9054.6	10494.5	12679.1	16280.7
<b>Commodities not classified elsewhere in SITC</b>	<b>0.0</b>	<b>7.7</b>	<b>2.8</b>	<b>3.7</b>	<b>4.6</b>	<b>6.4</b>	<b>0.4</b>	<b>2.0</b>	<b>4.3</b>	<b>3.3</b>	<b>5.4</b>	<b>7.4</b>	<b>17.6</b>

*Source: GSO (various years).*



**Table 3.3. Exports of Goods by Economic Sector and by Commodity Group**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Prel. 2008
<i>Value (million USD)</i>														
<b>TOTAL</b>	<b>5448.9</b>	<b>7255.9</b>	<b>9185.0</b>	<b>9360.3</b>	<b>11541.4</b>	<b>14482.7</b>	<b>15029.2</b>	<b>16706.1</b>	<b>20149.3</b>	<b>26485.0</b>	<b>32447.1</b>	<b>39826.2</b>	<b>48561.4</b>	<b>62685.1</b>
<i>By economic sector</i>														
Domestic economic sector	3975.8	5100.9	5972.0	6145.3	6859.4	7672.4	8230.9	8834.3	9988.1	11997.3	13893.4	16764.9	20785.7	28155.9
Foreign invested sector <sup>(*)</sup>	1473.1	2155.0	3213.0	3215.0	4682.0	6810.3	6798.3	7871.8	10161.2	14487.7	18553.7	23061.3	27775.7	34529.2
<i>By commodity group</i>														
Heavy industrial products and minerals	1377.7	2085.0	2574.0	2609.0	3609.5	5382.1	5247.3	5304.3	6485.1	9641.9	11701.4	14428.6	16000.0	19200.0
Light industrial and handicraft goods	1549.8	2101.0	3372.4	3427.6	4243.2	4903.1	5368.3	6785.7	8597.3	10870.8	13293.4	16389.6	21598.0	28575.0
Agricultural products	1745.8	2159.6	2231.4	2274.3	2545.9	2563.3	2421.3	2396.6	2672.0	3383.6	4467.4	5352.4	} 7200.0	10400.0
Forest products	153.9	212.2	225.2	191.4	169.2	155.7	176.0	197.8	195.3	180.6	252.5	297.6		
Aquatic products	621.4	696.5	782.0	858.0	973.6	1478.5	1816.4	2021.7	2199.6	2408.1	2732.5	3358.0	3763.4	4510.1
<i>Structure (%)</i>														
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<i>By economic sector</i>														
Domestic economic sector	73.0	70.3	65.0	65.7	59.4	53.0	54.8	52.9	49.6	45.3	42.8	42.1	42.8	44.9
Foreign invested sector <sup>(*)</sup>	27.0	29.7	35.0	34.3	40.6	47.0	45.2	47.1	50.4	54.7	57.2	57.9	57.2	55.1
<i>By commodity group</i>														
Heavy industrial products and minerals	25.3	28.7	28.0	27.9	31.3	37.2	34.9	31.8	32.2	36.4	36.1	36.2	32.9	30.6
Light industrial and handicraft goods	28.4	29.0	36.7	36.6	36.7	33.9	35.7	40.6	42.7	41.0	41.0	41.2	44.5	45.6
Agricultural products	32.0	29.8	24.3	24.3	22.1	17.7	16.1	14.3	13.3	12.8	13.7	13.4	} 14.8	16.6
Forest products	2.8	2.9	2.5	2.0	1.5	1.1	1.2	1.2	1.0	0.7	0.8	0.8		
Aquatic products	11.4	9.6	8.5	9.2	8.4	10.1	12.1	12.1	10.8	9.1	8.4	8.4	7.8	7.2

Source: GSO (various years).

Note: <sup>(\*)</sup> Included crude oil.

Until about the mid-1990s, both rapid volume expansion and favourable price trends contributed to growth in export earnings from agricultural products. From then on, prices declined, with the rate of decline intensifying up to 2001.

During the bad years such as 1998 and 2001, growth was sustained by an increase in export volume. Rapid volume expansion compensated for decline in prices to generate mild, but positive growth in export earnings.

The question Viet Nam now faces is how sustainable is this rapid export growth. In the international historical record, many primary product exporting countries have experienced substantial bursts of growth, either because of temporary booms in commodity prices, or as a result of rapid output growth. However, such growth has often proved difficult to sustain, both because limits are reached on the capacity to produce (e.g. because of limited land or mineral deposits), or because of limits in the size of world demand. As Viet Nam has become a leading world exporter of a number of crops (e.g. coffee), it can no longer so readily increase its market share and further increases in output are likely to result in price declines.

The rapid growth in industrial exports has been mainly in labour intensive finishing activities. These have the characteristics that they have low domestic value added contribution, so that gross export figures tend to over-value their contribution to the economy. Moreover, in these activities Viet Nam is competing with other low labour cost countries, so that as wages rise with increasing labour scarcity, competition with other producers will become more challenging. Inherent in Viet Nam's past success in exporting there are the seeds of future difficulties – footloose industries may be as ready to leave as they were to enter Viet Nam. Future export growth will only be sustained if there is significant diversification into more sophisticated manufactured goods and services.

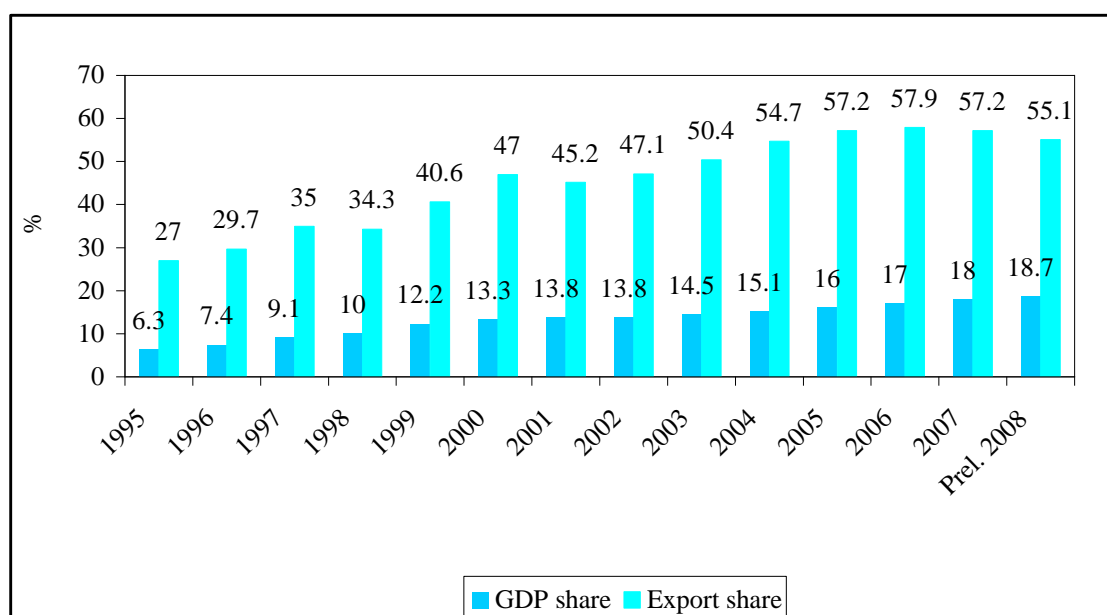
An important contribution to export growth has come from foreign firms seeking to access cheap labour. Figure 3.2 reveals that foreign-owned enterprises have been relatively more export-oriented than the domestic sector. Their contribution to exports has been about three folds their contribution to GDP. Nevertheless, as the FDI activity experienced a strong shift since the mid 2000s from manufactured goods to hotels and real estates, the contribution of the FDI sector to exports is expected to decline in the future.

### 3.4. Capital Formation

Capital formation contributes to growth both on the supply side (increasing the capacity to produce) and the demand side (providing a boost to aggregate demand). On the supply side, it is not so much that accumulation of capital *causes* growth, but it is required to accommodate growth. Without sufficient capital formation, growth will be eventually constrained. However, if the other components of growth – sources of demand, entrepreneurship etc. – are not present, investment will not itself result in growth. This point is made, because some approaches to planning tend to assume that raising the rate of capital formation will automatically raise the rate of GDP growth.

This point is worth making because recently there has been a sharp rise in Viet Nam's ICOR – that is capital formation has been increased without a commensurate increase in output. Therefore one concern of this section is the record on the productivity of capital.

**Figure 3.2. Share of Exports and GDP by Foreign-Owned Enterprises for the Period 1995-2008 (%)**



Source: GSO (various years).

Table 3.4 shows the sustained increase in the proportion of GDP being allocated to capital formation. Capital formation rose from 28 percent of GDP in 1996 and 1997 to peak at 43 percent in 2007. This rate of capital formation is very high by international comparison. However, the extraordinary increase in capital formation has not been associated with a rise in the growth rate. This should be a cause for concern, as it suggests that the higher levels of investment have not been allocated efficiently.

The Fulbright/Harvard group (Dapice, *et al.* 2008) identified this as a serious issue. Rapid growth in recent years has required a relatively high rate of investment (33.5 percent of GDP), implying an economy-wide ICOR of 4.4, higher than for China (4.0) or other East Asian economies at a similar stage of development. Taiwan, during the 1960-1980 period of high growth grew at 9.7 percent per annum, but invested on average only 26 of GDP, implying an ICOR of 2.7, 40 percent lower than Viet Nam's. The Fulbright/Harvard study and other commentators argue that one reason for Viet Nam's relatively high ICOR is corruption and waste in public investment projects and SOEs.<sup>13</sup>

<sup>13</sup> However investment in SOEs cannot explain the sharp rise in the ICOR in a period when the share of SOE's investment was falling. There is a need for a careful study on factors determining level of capital productivity and its change over time.

**Table 3.4. GDP Composition on Demand Side 1996-2008 (% of GDP)**

Year	Gross capital formation			Final consumption			Trade (goods & services)			Statistical discrepancy	Total GDP
	Total	Of which		Total	Of which		Trade Balance	Of Which			
		Gross fixed capital formation	Changes in stock		State	Private		Exports	Imports		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1996	28.1	26.3	1.8	82.8	8.4	74.4	-11.0			0.1	100.0
1997	28.3	26.7	1.6	79.9	8.1	71.8	-8.1			-0.1	100.0
1998	29.0	27.0	2.0	78.5	7.6	70.9	-7.3			-0.3	100.0
1999	27.6	25.7	1.9	75.4	6.8	68.6	-2.9			-0.2	100.0
2000	29.6	27.7	2.0	72.9	6.4	66.5	-2.5	55.0	57.5	0.0	100.0
2001	31.2	29.2	2.0	71.2	6.3	64.9	-2.3	54.6	56.9	-0.1	100.0
2002	33.2	31.1	2.1	71.3	6.2	65.1	-5.2	56.8	62.0	0.6	100.0
2003	35.4	33.4	2.1	72.6	6.3	66.3	-8.4	59.3	67.7	0.3	100.0
2004	35.5	33.3	2.2	71.5	6.4	65.1	-7.6	65.7	73.3	0.6	100.0
2005	35.6	32.9	2.7	69.7	6.2	63.5	-4.2	69.4	73.5	-1.1	100.0
2006	36.8	33.4	3.5	69.4	6.0	63.4	-4.6	73.6	78.2	-1.6	100.0
2007	43.1	38.3	4.9	70.8	6.1	64.8	-15.9	76.9	92.7	1.9	100.0
2008	41.1	36.0	5.1	73.4	6.2	67.3	-16.5	78.2	94.7	2.0	100.0

Source: derived by authors using data of GSO (various years).

**Table 3.5. Contribution to GDP Growth on Demand Side 1996-2008 (% of GDP growth, 1994 price)**

120	Gross capital formation			Final consumption			Trade (goods & services)			Statistical discrepancy	Total GDP growth
	Total	Of which		Total	Of which		Trade Balance	Of Which			
		Gross fixed capital formation	Changes in stock		State	Private		Exports	Imports		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1996	41.5	38.1	3.4	77.6	6.5	71.1	-12.6			-6.5	100.0
1997	32.7	33.0	-0.3	56.8	3.9	52.9	13.9			-3.5	100.0
1998	63.0	58.1	4.9	59.6	4.3	55.3	-20.8			-1.8	100.0
1999	7.7	9.5	-1.8	29.4	-9.0	38.4	63.1			-0.2	100.0
2000	44.1	41.7	2.3	36.3	5.0	31.3	17.7			2.0	100.0
2001	47.6	44.6	3.0	49.6	6.4	43.2	-3.2	162.4	165.6	6.0	100.0
2002	56.8	54.0	2.8	75.2	5.1	70.2	-51.7	-100.7	-49.0	19.6	100.0
2003	53.8	50.8	3.0	77.9	6.4	71.5	-43.7	-52.6	-8.9	12.1	100.0
2004	46.9	43.8	3.1	66.5	6.5	60.0	5.1	149.9	144.9	-18.5	100.0
2005	47.0	38.7	8.3	62.6	6.3	56.3	18.6	467.7	449.1	-28.2	100.0
2006	52.4	40.8	11.7	72.4	6.7	65.7	-18.9	270.9	289.8	-5.9	100.0
2007	119.4	98.3	21.1	89.7	6.9	82.8	-156.4	-199.8	-43.3	47.4	100.0
2008	44.8	24.5	20.3	106.2	8.0	98.3	-52.5	210.8	263.3	1.5	100.0

Source: derived by authors using data of GSO (various years).

Many commentators have pointed out, correctly, that capital output ratios are much higher for the SOEs than other sectors, and that the SOE record on employment generation per unit of output lower. This is then claimed to present conclusive evidence of their inefficiency. This case may be overstated as it should also be noted that government has tended to opt for continuing State involvement in areas which are inherently capital intensive, such as heavy industry and oil production, while private firms are in activities which are inherently more labour intensive. In part this reflects a rather old-fashioned view that the State should control “strategic” industries – old-fashioned because it is no longer evident that heavy industries are the commanding or leading sectors in modern economic development.

Data on capital formation also throw light on the roles played by different sectors in Vietnamese development – the State, SOEs, the domestic private sector, and foreign investors.

Table 3.6 shows that there is a shift between state investment and non-state investment. By 1995, the growth in non-State investment had resulted in an even balance between state and non state investment. In the period 1998-2003 there was resurgence in the emphasis on state investment, following the impact of the 1997 East Asian financial crisis, which had led to a decline in the importance of FDI.

**Table 3.6. Investment by Ownership Sector 1995-2008 (%)**

<i>Year</i>	<i>State</i>	<i>Non-State Domestic</i>	<i>FDI</i>	<i>Total</i>
1995	42.0	27.6	30.4	<b>100.0</b>
1996	49.1	24.9	26.0	<b>100.0</b>
1997	49.4	22.6	28.0	<b>100.0</b>
1998	55.5	23.7	20.8	<b>100.0</b>
1999	58.7	24.0	17.3	<b>100.0</b>
2000	59.1	22.9	18.0	<b>100.0</b>
2001	59.8	22.6	17.6	<b>100.0</b>
2002	57.3	25.3	17.4	<b>100.0</b>
2003	52.9	31.1	16.0	<b>100.0</b>
2004	48.1	37.7	14.2	<b>100.0</b>
2005	47.1	38.0	14.9	<b>100.0</b>
2006	45.7	38.1	16.2	<b>100.0</b>
2007	37.2	38.5	24.3	<b>100.0</b>
Prel. 2008	28.6	40.0	31.4	<b>100.0</b>

*Source: GSO (various years).*

Following the 1997 crisis there was also a sustained increase in the weight of the domestic non-state sector.

FDI increased remarkably in 2007-08 after Viet Nam joined World Trade Organization (WTO), but fell off again in 2009 as a result of the international financial crisis.

It should be noted that FDI allocation between sectors has been shifting noticeably. During the period 2001-05 FDI had been concentrated in export-oriented manufacturing and telecommunication, but from 2006 onward the share of FDI in these sectors has been declining; at the same time investment in real estate and hotels has been rising strongly (Table 3.7). This recent boom in real estate and hotel

investment repeated the experience before 1997, when a boom in foreign investment in hotels and real estate ran out of steam because of the 1997 crisis.

**Table 3.7. Licensed FDI Projects by Economic Sector (% of registered capital)**

<i>Sectors</i>	<i>1998-2005</i>	<i>2006</i>	<i>2007</i>	<i>Prel. 2008</i>
1. Agriculture and forestry	6.7	1.2	0.2	0.4
2. Fishing	2.0	0.2	0.0	0.0
3. Mining and quarrying	1.3	1.2	1.2	17.5
4. Manufacturing	64.6	68.9	51.0	36.0
5. Electricity, gas and water supply	0.3		0.0	
6. Construction	1.9	5.3	4.7	0.6
7. Wholesale and retail trade; repair of motor vehicles, motor cycles and personal and household goods	1.1	1.2	0.6	2.1
8. Hotels and restaurants	3.2	4.2	9.2	15.1
9. Transport, storage and communications	3.0	0.4	1.7	3.1
10. Financial intermediation	0.8	0.3	0.2	0.0
11. Real estate, renting and business activities	12.0	15.2	28.6	24.3
12. Education and training	1.1	0.2	0.1	0.8
13. Health and social work	0.5	0.1	0.5	
14. Recreational, cultural and sporting activities	1.2	1.6	1.9	
15. Community, social and personal service activities	0.2	0.1	0.0	
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source: GSO (various years).*

Table 3.8 shows that the private sector has been the driving force for growth, while the role of the state sector has been diminishing.

**Table 3.8. Contribution to GDP Growth by Ownership 2000-08 (%)**

<i>Year</i>	<i>Total</i>	<i>State</i>	<i>Domestic private</i>	<i>Foreign investment sector</i>
2000	100.0	45.9	36.6	17.5
2001	100.0	44.0	44.7	11.3
2002	100.0	41.1	47.9	11.0
2003	100.0	42.7	41.7	15.6
2004	100.0	40.9	42.6	16.5
2005	100.0	35.9	46.0	18.1
2006	100.0	30.5	48.5	21.0
2007	100.0	27.9	52.5	19.7
2008	100.0	26.6	55.9	17.4

*Source: derived by authors using data of GSO (various years).*

By sector, the largest contribution to GDP growth comes from manufacturing, from 31.0 percent of GDP growth in 2000 to 39.7 percent in 2008. The second largest contributor to GDP growth is domestic trade and small repairs (17.0 percent in 2008).

Table 3.9 shows that the state and domestic private sector have been experiencing increasing growth in gross output per worker, while in the FDI sector it has dropped gradually. This suggests that FDI has become more labour-intensive. The private sectors are much more labour-intensive and have low gross labour productivity than the State sector, employing 87 percent of the employees while producing just 47 percent GDP in 2008.

**Table 3.9. Labour Gross Output by Ownership 2000-08**

(million VND per employee)

<i>Year</i>	<i>Total</i>	<i>State</i>	<i>Domestic private</i>	<i>Foreign investment sector</i>
2000	7.3	31.9	3.9	79.2
2001	7.6	33.3	4.1	70.8
2002	7.9	34.2	4.3	57.6
2003	8.3	34.2	4.5	48.5
2004	8.7	36.2	4.7	44.0
2005	9.2	39.6	5.0	41.9
2006	9.8	43.0	5.3	40.7
2007	10.4	45.1	5.7	39.3
Prel. 2008	10.9	46.0	6.0	39.6
<b>Annual average GDP growth (%)</b>	<b>7.5</b>	<b>6.7</b>	<b>7.5</b>	<b>10.6</b>
<b>Annual average employment growth (%)</b>	<b>2.2</b>	<b>1.9</b>	<b>1.9</b>	<b>20.6</b>
<b>Annual average growth in output per worker (%)</b>	<b>5.2</b>	<b>4.7</b>	<b>5.5</b>	<b>-8.3</b>

Source: derived by authors using data of GSO (various years).

Note: Productivity in this table is defined as GDP per employee.

One aspect of Vietnamese investment growth which deserves attention is the pattern of investment finance. Unlike China and other countries in the region, Viet Nam has run persistent and now growing trade deficits. It can even be argued that on the demand side Viet Nam's growth has been *investment led* as much as export led throughout the *doi moi* period (Figure 3.3). That is, Viet Nam has consistently invested more than it saves. The trade deficit has represented a net drag on domestic demand.<sup>14</sup> This is a distinction that is often missed between Viet Nam and the earlier export-led East Asian Newly Industrialized Countries (NICs) which pursued a strategy of accumulating foreign assets on the basis of trade surpluses. In contrast, Viet Nam is chronically dependent on foreign savings because of the persistent gap between investment and domestic savings.

This pattern has two vulnerabilities. First, chronic and widening trade deficits mean that Viet Nam depends on access to foreign capital inflows, which in times of crisis may decline, resulting in the "sudden stop" that affects countries dependent on large capital inflows for investment and/or to finance trade deficits. Second, one of the main benefits of export led growth is that companies have to compete to survive in export markets. This forces them to produce things that people want to buy and continually improve product quality. Even if they are heavily subsidized they cannot produce outdated or low quality products and remain in business. The main advantage

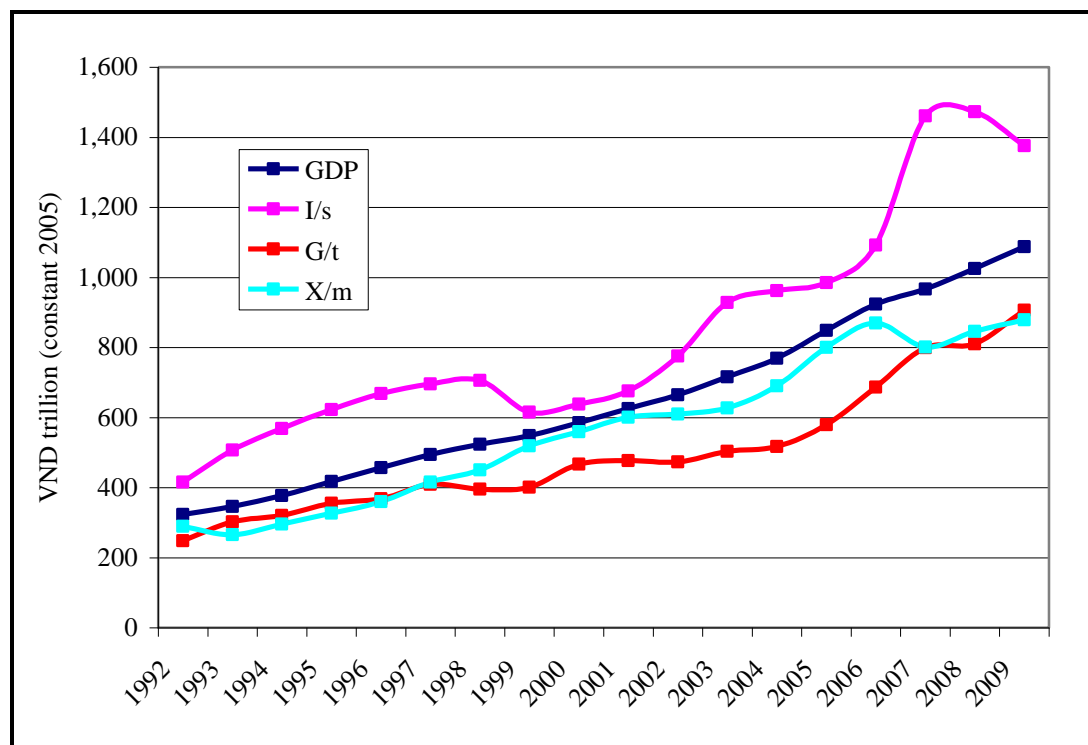
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<sup>14</sup> Data constraints make it impossible to separate out private from public investment in Vietnam. Government spending figures are limited to current spending. In fact, the growing fiscal deficit is another injection of domestic demand, but we do not have statistics on the division between public and private investment.



of export led growth to the Korean, Japanese and Taiwanese economies was not so much the accumulation of capital as the intense pressure that export markets exerted on domestic firms.

**Figure 3.3. Demand Injections and GDP, 1992-2009**



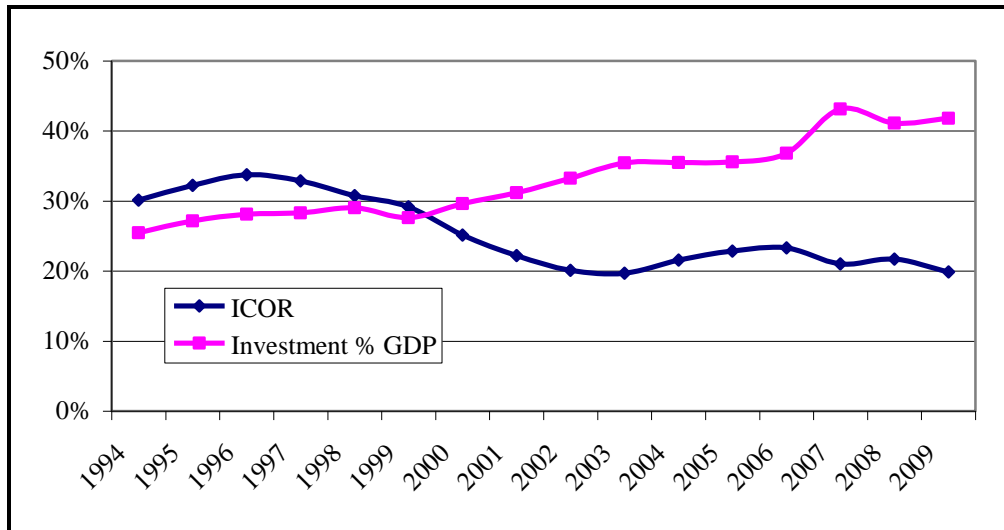
Investment led growth does not impose similar demands on companies. International banks are perfectly willing to lend money for white elephant projects if they can get an explicit or implicit government guarantee and the interest rate is high enough. The companies involved are not necessarily under any pressure to compete, particularly if they are investing in fixed assets like land and buildings or selling into captive domestic markets.

The savings-investment gap widened suddenly in 2007 and has remained large since then. Viet Nam has driven the ratio of investment to GDP over forty percent, which is an exceptionally high rate. The investment rate has remained high despite the effects of the global crisis last year. As a result, there is a danger of in the same macroeconomic instability that was faced in 2008.

The rate of investment has increased steadily since the early 1990s but domestic savings have not kept pace (Figure 3.4). However, the rate of return on investment for the economy as a whole has been declining just about as fast as investment has been increasing.

The slow pace and high cost of public infrastructure development is a serious cause of concern. Viet Nam began the reform period with a massive infrastructural backlog, so that initial investment decisions were straightforward, much investment being allocated to obviously high priority renovation and bottleneck easing. As this work on this backlog was completed, decisions had to be made about big new infrastructural investments.

**Figure 3.4. Gross Investment as Share of GDP and Incremental Capital Output Ratio, 1994-2009**



While there have been some important achievements in developing new capacity, progress has been slow despite the fact that the country invested more than ten percent of GDP per annum in infrastructure since 1997 - an even higher rate than China.<sup>15</sup> The country still lacks an effective primary north-south highway and freight rail system. Part of the problem is bad decision-making. Rather than focusing on completing the upgrade of Highway 1 - the main north-south road link - the government invested two billion dollars in the Ho Chi Minh Highway. While this had symbolic political significance it was probably not An Optimal economic decision. This road, which runs parallel to Highway 1 traverses the mountains of central Viet Nam, is underutilized and prone to flooding.

Similarly, instead of upgrading the vital north-south freight railroad, the government plans to invest USD 54 billion into a “high speed” north south rail link. More than 20 large-scale ports are planned along the coast, when two would be adequate to meet the country’s shipping needs.

Viet Nam invests so much more than it saves because of the inefficiency of investment. Typically in most economies a high proportion of domestic savings comes from profits. Inefficient investments translate into lower profits and hence lower savings. But the additional investment must be financed from somewhere. Viet Nam has imported savings in the form of foreign direct investment, and has borrowed both at home (from the domestic banking sector) and overseas. One of the problems that Viet Nam faces is that levels of debt are building up in the state sector as state owned enterprises rely heavily on leveraging state assets to borrow from domestic and international banks and other investors. In order to fix this problem, Viet Nam must either invest less, invest more profitably or both. Failure to do so would mean continued macroeconomic instability. Pumping more and more inefficient investment

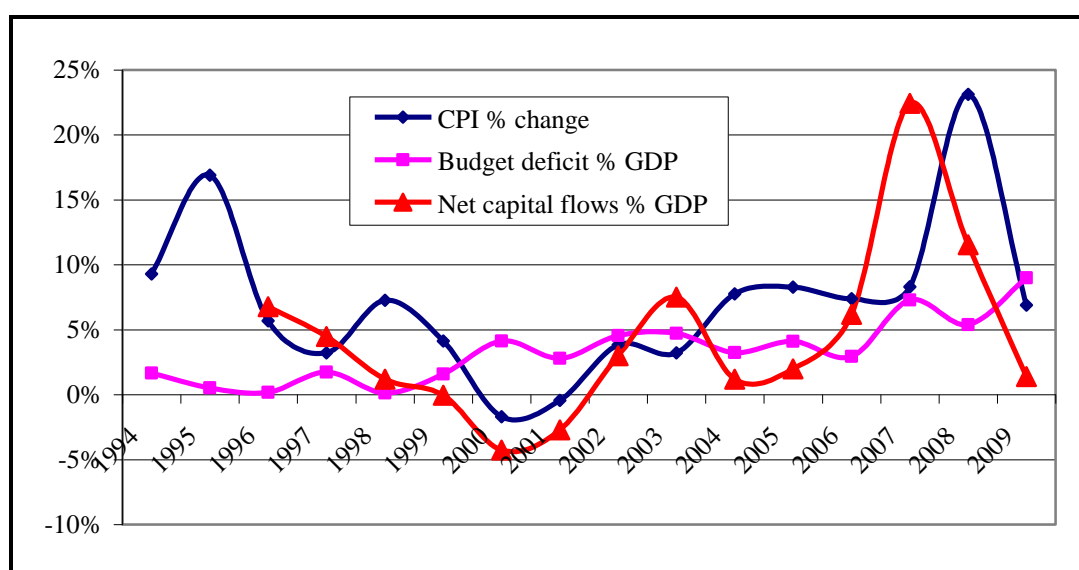
<sup>15</sup> See Nguyen Xuan Thanh and Dapice (2009).

into the system generates price inflation, weakens the currency and expands the trade deficit.

Other policy weaknesses have also contributed to Viet Nam's tendency towards macro instability. In effect, Viet Nam has pursued "pro-cyclical" macroeconomic policies since 2003. Fiscal and monetary policy has been loosened during times when the economy is overheating, often due to large inflows of foreign capital (as evidenced in 2008). This is not an unusual problem in developing countries.<sup>16</sup> Capital inflows are unpredictable and fiscal policy adjusts slowly. But as shown in Figure 3.5, fiscal policy in 2008 remained expansive even in the midst of rapid price inflation and an investment boom. Monetary policy also remained too loose for too long.

Fiscal deficits have expanded because of the rapid increase in the public investment program and lending to state owned enterprises. Current spending in the government budget has not increased sufficiently to maintain the capital stock and increase the supply of government services. Massive borrowing by public companies has also contributed to rapid credit growth. Asset bubbles in land and stock prices have also stimulated credit growth, and the high gearing ratios of state owned enterprises and their easy access to capital from state owned banks is a part of the problem.

**Figure 3.5. Fiscal Deficits, Capital Inflows and Inflation 1994-2009**



<sup>16</sup> For an excellent explanation of the role of procyclicality in macro instability in developing countries see Kaminsky et al. (2004).

**Table 3.10. Investment by Ownership**

Year	Total	Of which			Total	Of which		
		State	Non-State	Foreign invested sector		State	Non-State	Foreign invested sector
	<i>billion VND, current price</i>				<i>At constant 1994 prices, billion VND</i>			
1995	72447	30447	20000	22000	64685.0	27185.0	17857.0	19643.0
1996	87394	42894	21800	22700	74315.0	36475.0	18537.0	19303.0
1997	108370	53570	24500	30300	88607.0	43801.0	20032.0	24774.0
1998	117134	65034	27800	24300	90952.0	50498.0	21586.0	18868.0
1999	131171	76958	31542	22671	99855.0	58585.0	24012.0	17258.0
2000	151183	89417	34594	27172	115109.0	68089.0	26335.0	20685.0
2001	170496	101973	38512	30011	129460.0	77421.0	29241.0	22797.0
2002	200145	114738	50612	34795	147993.0	86677.0	35134.0	26182.0
2003	239246	126558	74388	38300	166814.0	95471.0	42844.0	28499.0
2004	290927	139831	109754	41342	189319.0	105082.0	53535.0	30702.0
2005	343135	161635	130398	51102	213931.0	115196.0	62842.0	35893.0
2006	404712	185102	154006	65604	243306.0	126601.0	72903.0	43802.0
2007	532093	197989	204705	129399	309117.0	131905.0	92517.0	84695.0
Prel. 2008	610876	174435	244081	192360	328827.0	110326.0	104524.0	113977.0
<i>Structure (%)</i>					<i>Index (Previous year=100)-%</i>			
1995	100.0	42.0	27.6	30.4	111.9	111.8	105.0	119.0
1996	100.0	49.1	24.9	26.0	114.9	134.2	103.8	98.3
1997	100.0	49.4	22.6	28.0	119.2	120.1	108.1	128.3
1998	100.0	55.5	23.7	20.8	102.6	115.3	107.8	76.2
1999	100.0	58.7	24.0	17.3	109.8	116.0	111.2	91.5
2000	100.0	59.1	22.9	18.0	115.3	116.2	109.7	119.9
2001	100.0	59.8	22.6	17.6	112.5	113.7	111.0	110.2
2002	100.0	57.3	25.3	17.4	114.3	112.0	120.2	114.9
2003	100.0	52.9	31.1	16.0	112.7	110.1	121.9	108.8
2004	100.0	48.1	37.7	14.2	113.5	110.1	125.0	107.7
2005	100.0	47.1	38.0	14.9	113.0	109.6	117.4	116.9
2006	100.0	45.7	38.1	16.2	113.7	109.9	116.0	122.0
2007	100.0	37.2	38.5	24.3	127.0	104.2	126.9	193.4
Prel. 2008	100.0	28.6	40.0	31.4	106.4	83.6	113.0	134.6

One interpretation of Viet Nam's macroeconomic volatility is that it is a consequence of attempting to combine international integration with uncompetitive institutions. Pumping increasing amounts of capital into unprofitable ventures generates inflation and trade deficits. Government body responsible for macroeconomic management face pressure from powerful actors demanding increases in public investment and credit growth. Macroeconomic instability also harms the country's competitiveness by making the country less attractive to the right kind of foreign investment: that is, foreign investment that can link Viet Nam to global supply chains in income elastic industries like electronics and auto parts. The government needs to operate the key tools of fiscal and monetary management more effectively if it is to achieve macroeconomic stability.

For the future, two issues which emerge from the historical record are:

1. The foreign invested sector has grown more vigorously than the domestic private sector, partly as a result of policies which have favoured foreign investors (sometimes in joint ventures with State firms) over the domestic private sector. This was specially the case before 1997. Since 2000, with the passing of legislation setting a more positive framework for the registration domestic companies, private companies have expanded rapidly.

One of the important conclusions of this report is that more rapid development of the domestic private sector will be needed in the future, if the domestic private sector is to develop the capacity to play an innovative role in export diversification and development the national market.

2. Data suggesting a recent sharp rise in the ICOR needs to be studied further. Particularly as Viet Nam has to access foreign commercial borrowing to finance capital formation, the efficiency of the investment process will become critical to the sustainability of Viet Nam's development.

### **3.5. Entrepreneurship and Managerial Capacity**

Entrepreneurship involves the activity of creating new forms of economic activity, opening up new investment opportunities and in general stimulating innovation. It is a key factor in any process of rapid economic growth and structural change. Effective management involves the technical and professional skills to operate modern businesses.

In a "follower" economy in the early stages of accelerated economic growth, of the kind that Viet Nam has experienced over the past two decades, entrepreneurship does not necessarily involve innovation in the sense of inventing new products or processes, but rather involves taking advantage of relevant technologies available internationally, introducing new products and processes to Viet Nam.

There is no comprehensive study available on the agents of change in the Vietnamese economy, and in the context of this study it would be too much to attempt to fill the gap. However, some elements are clear enough. Entrepreneurship has been supplied from all sectors, and FDI has been the vehicle for the introduction of many new industrial products and in particular beginning a process of diversifying the export base. Parts of the State sector have also been important in stimulating productivity growth, particularly in agriculture, through supporting increases in

productivity in established crops (see the annex to this chapter on the transformation in rice production), in stimulating to development of non-traditional crops (e.g. coffee and cashew nuts) and in contributing to the rapid expansion of the thriving aquaculture export sector.

State owned firms have also contributed to the high growth in some manufactured goods, such as garments and footwear.

The explosive growth in the registration of private business, since the legislation provision to more readily accommodate private business in 2000, suggests that this may be a potent source for entrepreneurship. Of course, the high rate of registration exaggerates the real growth of businesses, as many of them were active as unregistered entities before 2000. Small- and medium-sized enterprises (SMEs) have been important in the development of the tourist industry in the development of services and of trade, in organising networks of craft production and in finding niche markets in the export trade. Some have grown beyond SME status.

However, the key and difficult question for the future is how far the endowment of entrepreneurial and managerial skills will be sufficient for the next stage of Vietnamese development. At some point in the future - the achievement of high rates of growth will depend on the quality of the country's public and private institutions and its capacity to master new technologies and participate in technological innovation. Viet Nam has some advantages relative to other developing countries. Institutional change has been rapid and profound over the past twenty years. The country has demonstrated the capacity to reform its institutions, even if the process still has a long way to run. However, the specific challenges of the coming period will involve quite complex responses.

Globalization has changed the nature of manufacturing and in the process has rendered earlier approaches to industrialization paradigm largely irrelevant. It has been abandoned in China and most of the ASEAN countries, which are now trying to work out new strategies to survive in an era of fragmentation of production, modularity, constant technological innovation at breakneck speeds and cutthroat competition. The challenge for the coming decade will to translate the government's rhetorical commitment to integration into an effective set of policies to develop the managerial skills needed to redefine Viet Nam's position in the global economy. This would mean exposing the corporate sector to pressures to improve efficiency; imposing discipline on the public investment program; reducing costs and improving quality of infrastructural investments; reforming the personnel system in the state sector to draw in the talent and skills needed to manage a more complex economy and society; reforming the education system to promote excellence, innovation and critical thinking; and encouraging grass-roots to engage in constructive community-based activities and to voice the concerns of specific professional and community groups.

Viet Nam's main advantage in terms of technology is the existence of a large group of Vietnamese scientists and technologists that have been trained overseas. In this, Viet Nam is similar to China and Taiwan at their early stages of development. Unfortunately, many of these highly trained individuals are still overseas, unable to find suitable employment in Viet Nam. Like China and Taiwan, Viet Nam must find ways to bring them back and put them to work for the national economy.

Viet Nam must also overcome some serious obstacles if the country is to accelerate the processes of institutional and technological change. The main point is

that Viet Nam will need to *deepen* its international integration. So far, Viet Nam's international economic relationships are fairly simple and are concentrated on trade in commodities and low-tech manufactures and foreign investment. This model is no longer enough. It must follow China and Taiwan's lead in leveraging international relationships to embed domestic actors in international economic, scientific, technological and institutional networks. This will require a radical rethinking of the country's development strategy, discussed in the next chapter, and a recasting of some long held political and cultural norms. This is the only way that Viet Nam can achieve sustainable growth over the long period.

The process of globalization has fundamentally altered the set of choices open to countries like Viet Nam. Manufacturing used to be carried out by individual firms that designed and made products mostly in house. The high cost of encoding and sharing information and moving intermediate inputs around the world (because of transaction and transport costs and trade barriers) meant that it was generally more cost effective to integrate production within the firm or source locally from firms with long established relationships to the final assembler. Industrial development was considered to be a process of learning by doing. Infant industry protection was justified on the basis of the need to give domestic firms time to acquire new technologies and to adapt them to local conditions. This is the old paradigm, but this paradigm is no longer relevant.

Globalization has - particularly over the past twenty years - transformed the way things are produced and consumed. The dramatic decline in transportation, communication and computing costs, combined with falling barriers to international trade and investment, has changed the nature of business enterprises, research, innovation, marketing, finance, and economic development. It is now very cheap to codify designs in digital form and send them around the world. Moving inputs from place to place is also cheap because of technological change in transport and falling tariffs. Manufacturing nowadays is fragmented into numerous discrete steps organized into value chains that stretch across the globe and are comprised of increasingly specialized and technologically sophisticated production niches. These changes are often referred to as "outsourcing", "fragmentation of production" or "vertical specialization", and include not only intra-firm trade resulting from the relocation of multinational companies' production facilities, but also sub-contracting of product-specific materials and components to other firms.

A small number of multinational "systems integrator" companies dominate product design, branding and marketing in a vast array of products. These system integrators use their market power to intervene directly in the production decisions of suppliers, demanding constant innovation and cost reductions. The clear borders between firms that used to exist in the days of arms-length contracting are now blurred. Cooperation between any given system integrator and its component suppliers is intensive, as suppliers are directly involved in the design of components. Costs are compressed through intensified competition at every stage of production. It is getting harder to break into component manufacturing, because even lower tier manufacturers are now very large scale, technologically sophisticated and efficient.

Manufacturers of even the simplest parts of mobile phones or computers invest huge amounts of money in research and development.<sup>17</sup>

Viet Nam needs to remove remaining obstacles to deeper integration into global supply chains. Most of these obstacles are institutional (although infrastructure remains a problem). Universities are largely unreformed, technologically out of date and inattentive to the needs of industry and the community. The legal and judicial systems are unpredictable, opaque and subject to political manipulation. Government agencies prioritize the acquisition of short-term rents over equity and sustainability. Macroeconomic management is fixated on short-term indicators, which gives rise to instability and discourages long-term planning and investment. In sum, Viet Nam needs to make a concerted effort to upgrade domestic institutions to achieve international standards.

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<sup>17</sup> See Peter Nolan *et al.* (2007).



## Appendix: The Transformation in Rice Production

Nutritional standards were low in the 1980s, and output increases of nearly 2 percent per annum were necessary just to match population growth. The growth in food production was therefore an essential condition for economic and social progress for the mass of the population.

The boost in rural incomes meant that despite a widening gap between urban and rural incomes, which acts to pull population from rural to urban areas, there was no strong push for people to leave the countryside. That limited the pressure for heavy expenditures on urban development.

Perhaps most important, the success of the agricultural sector relaxed the pressures and anxieties of ensuring national food security. In the mid-1980's, Viet Nam had been faced with the need to import substantial quantities of food. Fluctuations in the rice harvest, at a time when the external financial situation was precarious, had placed national food security in question, resulting in incidents of widespread near famine.

One determinant of agricultural success was the Vietnamese reform process *Doi Moi*, which began with reforms in the agricultural sector in 1985. Since then there has been a continuing process of reform in policies and institutional arrangements, often involving government acting to accommodate changes that are already established through spontaneous change at the grass-roots. Given the timing of the reforms and the subsequent acceleration in growth there can be no question that the move to a more decentralised, market orientated system of agricultural production was a decisive factor in determining agricultural growth.

The basic unit for agricultural production in Viet Nam is the family farm (it should also be noted that the market reforms followed an earlier land reform under which land had been expropriated from the landlord class). There are some 10 million agricultural households. State farms are restricted to about 4 percent of Viet Nam's agricultural land and concentrate on the production of industrial crops, such as rubber and food crops such as sugar, where there are considerable economies of scale in production.

Even during the period of tight State control of agriculture, the family holding had remained at the base of the production system, although subject to considerable control from the co-operative. Following the reforms of the 1980s, the family farm became even more important as the basic production unit. The development of the household farming unit as the core of the rural production determined the nature of the rural economic system. The growth of the private trading and transport system has resulted in a competitive, low cost and innovative rural trading system.

Market oriented reforms in Viet Nam, among other things, attempted to unshackle domestic agriculture, and reforms in this area came earlier and were more wide-ranging than in other areas. A key step in the transition to a more decentralised, market-oriented system of agricultural production was the adoption of the Decree No. 10 by the Communist Party of Viet Nam in 1988 which recognized the peasant household, rather than the cooperative, as the basic unit in the agrarian structure. It gave the households right to conditional use of private land for a period of 10-15 years, own their own draft animals, farm tools and other equipment, barter output for inputs, and retain income earned from production after paying a modest tax.

Further measures introduced in 1989 reduced the direct involvement of the state in input allocation. In July 1993, tenure over agricultural land was extended to 20 years and farmers were permitted to sell, lease, exchange, mortgage, and bequeath land. Cooperatives were still meant to provide a focus for various rural activities sponsored by the state, but in the majority of communes the cooperatives were reduced to only a minor role, their functions reduced to acting as local tax collectors, as the holders of residual property rights, and as an element of the formal state structure.

Land tenure reforms were accompanied by sweeping domestic market (price) reforms. In 1987 and 1988, the rationing system was abolished for many commodities, and official prices of non-essential goods were raised to a level close to free market prices. Administrative prices of most consumer goods, and a large number of agricultural and industrial inputs were abolished. In June 1990 procurement of farm products by the state (usually at prices below the free market) formally ended allowing farmers to sell their produce at market price. By 1990, commodity prices were largely market determined and direct subsidies had been eliminated. The former sellers' market was replaced with the shift towards market-clearing prices.

Reforms contributed to a spectacular rise in rice output. Total rice production had not met domestic demand up to 1988, necessitating imports of 700,000 to 1,600,000 tonnes annually. From being a net importer of rice, Viet Nam became sufficient and then a net exporter of rice. As a result of the spectacular growth in rice production, Viet Nam has been a leading rice exporter since 1989. Initially, it captured the international market for low-quality rice, but over time the milling quality has improved. Exports of milled rice increased from 1.4 million tonnes in 1989 to 4.6 million tonnes in 1999. Viet Nam is now the second largest exporter of rice in the world market, after Thailand.

By 1992, staple food production was 24.2 million tonnes (paddy equivalent), of which paddy was 21.6 million tonnes, while 1.95 million tonnes of rice were exported. Food output growth continued, total grain production rising to 26.2 million tonnes paddy equivalent in 1994 and an estimated 27.4 million tonnes in 1995. Rice exports were an estimated 2 million tonnes in 1994 and 1995. The growth in food production was sustained throughout the decade. During the period of fastest growth, between 1987 and 2000 rice production grew at 6.1 percent per year.

In the early years of export growth, the quality of Vietnamese rice exports was low. The main competitor, Thailand, enjoyed a significant price premium. With improvements in quality, Viet Nam has been able to steadily reduce the price gap.

An important contribution to growth came from the expansion of the rice harvested area, with a shift to double- and triple-cropped short-duration, high-yielding modern varieties, particularly in the MRD. There was also an impressive growth in rice yield, from 2.70 tonnes per ha in 1987 to 4.25 tonnes per ha in 2000, a growth of 3.3 percent per year.<sup>18</sup>

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<sup>18</sup>These figures are taken from the WB report (1994): Viet Nam Agricultural Marketing Study.

**Table 3.11. Basic Rice Statistics, Viet Nam**

	1985	1990	1995	1998	1999	2000
<i>Rice</i>						
Area harvested (ha)	5,703,900	6,027,700	6,765,600	7,362,700	7,648,100	7,654,900
Yield (tonne/ha)	2.8	3.2	3.7	4.0	4.1	4.3
Production (tonne)	15,874,800	19,225,104	24,963,700	29,145,500	31,393,800	32,554,000
Imports (tonne)	336,100	1,900	11,000	1,300	5,200	na
Exports (tonne)	59,400	1,624,000	1,988,000	3,700,000	4,600,000	na
<i>Other crops</i>						
Population, total (thousand)	59,898	66,689	73,866	77,562	78,705	na
Population agric. thousand)	43,275	47,546	51,232	52,869	53,330	na
Agric. area (thousand ha)	6,750	6,726	7,085	7,892	na	na
Irrigated area (thousand ha)	2,500	2,900	3,000	3,000	na	na
Fertilizer cons. (tonne)	385,600	544,484	1,214,000	1,947,400	na	na
Tractors used	31,620	25,086	97,817	122,958	na	na

Source: FAOSTAT online database.

**Table 3.12. Viet Nam's Rice and Total Exports Value (million USD)**

Year	1987	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Exports Value (FOB)	854	7255	9185	9360	11541	14482	15029	16706	20149	26504
Rice Exports (FOB)	17	854	870	1020	1025	668	624	726	720	950
% of total exports	2%	12%	9%	11%	9%	5%	4%	4%	4%	4%

Source: General Statistical Office.

About 52 percent of Viet Nam's rice is produced in the MRD and another 18 percent in the Red River Delta. The northern provinces of Viet Nam have a total rice area of 2.5 million ha or about a third of the total rice planted area. The Red River Delta, with very small landholdings, has long practiced double cropping with highly labour intensive rice cultivation methods. The winter and spring season rice crops cover almost the same area (530,000 ha), with a similar yield in both seasons. Almost 85 percent of the total area is irrigated lowland.

The MRD has three cropping seasons: spring or early season, autumn or midseason, and winter, the long-duration wet-season crop. The largest rice area is cropped during the autumn season (1.95 million ha), followed by spring (1.45 million ha), and only a small area is cropped in winter (0.6 million ha). The rice yield is highest in the spring season, and lowest in the winter season. Fifty-two percent of the rice in the MRD is grown in irrigated lowlands, with the remaining 48 percent grown under rain-fed conditions.

The existence of a large exportable rice surplus provides a cushion whereby the impact of fluctuations in production on domestic supply can be limited. However, it also exposes rice farmer incomes to the impact of fluctuations in international rice prices.

An important component of success has been that alongside the market reforms, the State organization responsible for infrastructure have operated effectively, and SOEs responsible for servicing the agricultural sector have in many instances adjusted to the complexities of the new economic environment. Although private firms now play an increasingly important role in promoting innovation (e.g. introduction of hybrid maize and horticulture seeds), State organizations also played an important role in promoting new crops and cultivation methods, e.g. introducing such crops as cashew in the 1980s, promoting the massive development of coffee in the Central Highlands and supporting the introduction of new varieties of paddy seed. With the introduction of new varieties and improved cultivation methods, yields have risen significantly

The State was also important in maintaining and expanding infrastructure. Important investments included rehabilitation of the storm protection system and rehabilitation of the transport network. Investments in irrigation have facilitated multiple cropping. The Vietnamese government also repeatedly demonstrates a high level of commitment and effectiveness in disaster management – Viet Nam is frequently subject to climatic disasters.

It is not entirely clear how the combination of State support, development of private marketing and processing and household agriculture has worked. In a general sense, the basis of success seems to be that market liberalization has been combined with a continuing reasonable level of State capacity in providing to farmers.

During the reform period many State research and service institutions suffered from financial distress, sometimes resulting in a diversion of energies from their main task. And the references in consulting reports and even in official pronouncements to the inefficiency of State enterprises are legion. Nevertheless the system worked well enough, often through a mixture of pragmatic response by State institutions, competing with each other, accommodating newly emerging private firms, co-operating with foreign businesses and demonstrating a continuing professional commitment to research and advisory work

An example of the mixture of public service and private provision supporting agricultural growth can be drawn from the seed sub-sector. Improvements in seed varieties and seed quality have accounted for an estimated 15-20 percent of the increases in crop yields. Before *Doi Moi*, the seed sector was in principle tightly organised into four distinct administrative levels:

- The central level (research, production of pre-basic seed - national seed companies);
- The provincial level (production of basic seed - provincial seed agencies);
- The district level (production of first generation certified seed by seed stations); and
- The local level (multiplication of seeds by specialised brigades in the co-operatives).

With *Doi Moi*, the process of seed multiplication and distribution was liberalised de facto, so that all economic sectors, including SOEs, private companies, farmers' groups and farmer households participated actively. The resulting system was somewhat chaotic but had distinctly positive characteristics.

The industry comprised of a large number of different agencies. At the base, the farm household had a choice as to which seed was used. Formal agencies included two state-owned national seed companies, one each in the North and South, under the umbrella of the MARD Provincial Seed Agencies (PSA) comprising Provincial Seed Companies (in the North and Central Regions) and Seed Centres (in the Southern Region) owned by the provincial governments, a number of government research and breeding institutions, responsible for research and development, which also produced and sold seed directly to farmers and a few private companies, mainly based on Foreign Direct Investment, which produce and/or import and sell hybrid cereal seed and vegetable seed to farmer. A PSA typically faced competition for its open pollinated varieties from seed companies in the neighbouring provinces, one or both of the national seed companies, the agents of government research and breeding institutions, co-operatives and farmers' groups. In the market for vegetable and hybrid maize seed, there was competition from other SOEs, private seed producing companies and importers. In a number of cases, the PSA co-operated with private companies and serve as their "sales agents", buying and selling hybrid and vegetable seed with an attractive margin.

Even in the formal sector the emerging institutional structure was quite complex. Almost all the higher level research, university and breeding institutions, which might have been expected to specialize in the pre-basic and prior levels of activity, engage in some activities supplying seed directly to the market.

## Chapter 4

# Viet Nam's Economic Development Goals and Options

The draft Five Year SEDP 2011-15 was made available in December. The contents of the draft plan are quite similar to the current SEDP.

The 10-year Strategy document was still being prepared while this report was being drafted; this may be more interesting, as it is likely to explore at greater depth some of the dilemmas Viet Nam may face as it enters “middle income” status. This document may be more important and revealing than the Five Year SEDP, as it is the perception of this report that the difficult issues Viet Nam is likely to face are likely to become critical towards the latter part of the decade. This report seeks to identify strategic areas of concern in relation to which government needs to define more specific policies and programs if it is to achieve its development goals over the coming decade.

The 2011-15 SEDP rests on optimistic growth projections. With respect to economic goals, the document speaks – sensibly – of the need for Viet Nam to diversify the structure of its exports, reduce its reliance on primary commodities, and gradually promote the development of higher-value added manufacturing.

The general orientation of draft five year SEDP is indicated in the following quote:

*“To strongly develop industry and construction by improving quality, competitiveness and modernization. To rapidly develop industry and improve industries’ growth quality through industrial structure change, in which the proportion of exploiting industries sharply decreases and the proportion of high value-added manufacturing and processing and manipulating industries increases. To develop industry to become the driving force in economic development and industrialization and modernization process.”*

These aspirations make sense. And, to a degree there is recognition in the various chapters of plan of the broad requirements for the various sectors and reform programs to achieve the overall objectives. What is lacking, however, is adequate identification of the mechanisms that might drive this process. In making this criticism, it is important to point out that what is not being suggested is a detailed set of targets.<sup>19</sup> Rather, what is needed is a clearer identification of policies and strategic choices.

### 4.1. Growth Targets

The government has indicated its goal is to achieve an average per capita income of USD 3,500 GDP by 2020; this assumes an annualized growth rate of eight to nine percent per

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<sup>19</sup> The attempt to monitor “plan performance by results” did a considerable disservice. To a significant extent, the donor was misleading, as it implied that detailed outcomes were the result of planned interventions, which of course in a market economy cannot be the case. Indeed such an approach harks back to earlier central planning, which specified planned outputs in great detail – although in the case of earlier Vietnamese Five Year plans, without a clear specification of the instruments that were to achieve the targets.

annum. While this is consistent with performance during the high growth periods of the past two decades, it is significantly higher than during periods of international slowdown. In 2009, for example, growth was estimated to be 5.3 percent, roughly similar to growth rates in the period following the 1997 Southeast Asian crisis.

The Plan's optimism is not without some possible justification, as it notes an estimate by the International Monetary Fund (IMF) that by 2014, global economy growth could revive to 4.5 percent per annum, which implies that Viet Nam would return to the buoyant growth path enjoyed before the onset of the crisis. On the other hand, there are five years between now and then, and current developments still hold the possibility of a "double dip" World recession, with continuing stagnation. Thus, however attractive the USD 3,500 figure may be, evidence suggests that it is likely to be difficult to achieve. It is worth asking whether socioeconomic plans should be based on the assumption of such high growth. A safer option would for the government to incorporate at least two different scenarios, including one based on more cautious target, so as to better anticipate development challenges.

Specific ambitions are that:

- In 2015, GDP per capita should reach approximately USD 2,100, 1.7 times as much as that in 2010;
- Agriculture, forestry and fishery sector should constitute 18-19 percent of GDP by 2015; industry and construction sector approximately 40-41 percent; and the service sector 40-41 percent;
- Labour productivity in 2015 should reach 1.5 times that of 2010;
- The export turnover growth rate in 5 years should reach 12 percent per annum, with export turnover approximately USD 1,260 per capita, 1.4 times as much as that in 2010;

Investment targets are:

- Average rate of capital mobilization for the State budget in 5 years from 2011 to 2015 should reach 23-23.5 percent of GDP;
- The investment-to-GDP ratio in 5 year period 2011-2015 shall reach at least 40.2-40.6 percent (2001-2005 ratio shall reach 37.5 percent; 2006-2010 ratio shall reach 42.5 percent), and average investment growth rate shall be 16.1 percent per annum;
- In 5 year plan 2011-2015, total investment is expected to be at approximately equivalent to nearly USD 320 billion, with domestic resources contributing approximately 70 percent, foreign resource about 30 percent (in the 2006-2010 period domestic capital resource is estimated to have contributed 67.2 percent compared with a target of 65 percent, foreign resources contributed 32.8 percent compared with the target of 35 percent);
- Of this, it is projected that investment from State sources is likely to account for roughly 37 percent (proportionally, investment capital from the budget is expected to account for 18.8 percent of total investment, while investment financed from government bonds, government credit, and SOEs are projected at 3.5 percent, 6.3 percent and 8.3 percent respectively); it is estimated that investment from households and private enterprises approximately 40.9 percent of total investment capital; while investment capital from foreign investment is expected to be approximately USD 56 billion (excluding domestic contributions), accounting for 17.6 percent of the total.

The investment targets suggests that government will attempt to maintain investment/GDP ratios at the very high levels achieved in the recent period, while accepting a continuing extremely high incremental capital output ratio – the investment effort is to be considerable, but the efficiency of investment is expected to remain rather poor. Moreover, the levels of investment proposed imply that the actual growth targets will be achieved – as that is somewhat problematic, it may prove difficult to achieve investment program targets. The expectation also is that FDI is to make a similar contribution as in the previous plan period.

The growth rate of export goods from 2011 to 2015 is targeted at 12 percent a year, to reach USD 117 billion by 2015. The export structure is expected to shift to the export of higher valued added goods; increasing processed and manufactured products, and products which involve high technology and intelligence, gradually decreasing the percentage of raw materials such as crude oil and fossil coal. Also it is intended to “gradually limit the export of crude oil in order to keep it for use in Dung Quat oil refinery factory, which provides fuel for domestic manufacturing and therefore, heightens the added values”.

In manufacturing, the Government’s ambition is to continue increasing exports of textiles and footwear, but also to expand production of new export commodities, including ships, mechanical products, electricity, fine arts handicrafts, processed foods, wood products, consumer commodities, and plastic products, but also electronic, informatics and software products. The Government intends to do this by promoting diverse forms of relationships with investment partners; locate and exploit opportunities to increase export rates in every available market including new markets, and to increase exports to markets with high purchasing power but which still account for small percentages of current exports.

In specifying the ambition to change the structure of exports, the plan recognises the probable limits to the existing model of export growth. Changing the export structure in this way makes good sense. But the fundamental question of how Viet Nam will make the transition to its desired new growth path is left unclear.

One particular example of this concerns what specific roles the government has in mind for the “non-state” sector. Reference in the TOR for this study about “dynamic role of the private sector as an engine of growth for the country’s economic development” (UN 2009 TOR LMDG, emphasis added) speak to this ambiguity. The Plan does recognise the need to stimulate the private sector, but appearances on the ground suggest SOE and equitized firms continue to be favoured within Viet Nam’s economy and that the state is intent on developing these businesses rather than using available policy instruments to promote other non-state businesses.

## **4.2. The Implications of the International Economic Crisis**

Economic forecasting is always difficult, more of an art than a science (some would say not very far from the art of fortune telling). At this time, forecasting for the immediate future of the Vietnamese economy is particularly difficult, because of the uncertain international economic environment. At the outset of the period considered in this report the international economy is still recovering from the international economic crisis of 2008-09, so some discussion of the implications of that crisis for Viet Nam is appropriate at this point in the report. The two of the factors that will determine the pace of Vietnamese growth over the coming decade are likely to be:

1. The buoyancy of the international economy, which will both influence the demand for Vietnamese exports and the size of investment in-flows; and



2. The degree to which Viet Nam can continue to expand its capacity to produce to supply international markets.

The 2008-09 crisis in the world economy is the most severe since the 1930s. It is not only the depth of the crisis, but also the slowness of the recovery and its pervasive impact throughout the international economy that makes it such a major economic event. Although the impact has varied between countries, with some (including Viet Nam) continuing to achieve significant growth, all countries have been negatively affected. Viet Nam is faced with specific risks resulting from its great dependence on foreign investment, only moderately diversified export structure, and modest rates of domestic savings prior to the crisis' onset.

This section draws heavily on the broad-ranging report of the implications for Viet Nam of the international economic crisis produced for the UNDP by Riedel in 2009.

One thrust of the Riedel's study is to argue that the evidence suggests that the crisis will not be as severe as many commentators suggested, and that it is reasonable to expect a good recovery. To some degree the recovery since that report was drafted has validated that view – although not unequivocally as there are still those (including the head of the IMF) who warn of a “double dip” recession. The Greek debt crisis and the potential for contagion to other highly indebted European countries is another cause for concern.

James Riedel, in the piece cited above, poses the question regarding the likely pace of recovery in the international economy by asking whether it is likely to be V-shaped or L-shaped. The answer to this question depends on how the crisis is interpreted. If it is seen as similar in kind to other post-war recessions, then it may be reasonable to suppose that there could be a sustained recovery in the coming two years. Even if it is predicted that the recovery will be slow in the United States (US) and Europe, growth in the Asian economies could contribute to a quickening of the international growth rate. However, Viet Nam is heavily dependent on European and US markets, so that their trajectory will be of considerable importance.

Viet Nam has made impressive gains over the past decade and a half in terms of growth and stability, but the ongoing global economic crisis has put a dent in those gains and cast a shadow over prospects for sustaining growth at the same high rate in the future. Viet Nam's integration into the world economy, as indicated by the growing importance of trade and foreign investment in the economy, was a major contributor to Viet Nam's past success, but these are the very sources of growth that have deteriorated as a result of the global crisis. The question naturally arises as to whether Viet Nam should take measures to reduce its reliance on global sources of growth.

However, Riedel is correct in implying that any assessment of the cost Viet Nam has borne as result of the international crisis has to be balanced against the enormous benefits reaped from participating in the global economy over the past decade. James Riedel notes that in the face of the crisis,

*“Many have begun to question whether a development strategy based on openness to international trade and financial flows is any longer appropriate. Pronouncements of the ‘end of capitalism’ and the ‘death of globalization’ have become commonplace. Developing countries are being urged by some to abandon the liberal policies that worked well in the past and seek some new yet-to-be-defined growth strategy.”*

After exploring the arguments for abandoning a liberal, open-economy approach to development, Riedel concluded that there was no plausible alternative strategy which would deliver better growth possibilities for Viet Nam. However, it should be noted that on the other side of this new “globalization” debate there are a number of distinguished mainstream economists<sup>20</sup>, so that despite the persuasiveness of Riedel’s arguments, consideration of alternative strategies cannot be ruled out.

One of the main effects of the crisis on developing economies is through the disruption in international trade. As Riedel reports (op.cit.) the slowdown in economic activity beginning in 2007, developed countries imports declined from 7 percent growth in 2006 to zero growth in 2008 and a negative growth rate of about 13 percent forecast for 2009. This had a devastating impact on the growth in exports from developing countries and in turn on their GDP growth. However, Riedel also cites some evidence (from US data) that during the crisis Viet Nam’s export performance has been better than that of its competitors.

The other important impact was through a severe decline in capital flows. Recent inflows into Viet Nam have been highly volatile, with what Riedel (op. cit) describes as a “rollercoaster ride that capital inflows have taken the past three years, rising more than five-fold in 2007, falling by half in 2008 and by half again (according to the IMF forecast) in 2009. Particularly volatile have been portfolio and other short-term flows, which flooded Viet Nam’s banking system with foreign exchange in 2007 and then virtually disappeared in 2008 and 2009. FDI flows are more stable, but are also expected to fall by half in 2009, reflecting the expected decline in export demand and a diminished appetite for risk among foreign investors.”

Riedel has argued that Viet Nam’s mini crisis in the summer of 2008 gave Viet Nam an early warning of the dangers of financial globalization in an economy with an underdeveloped financial system and a weak regulatory regime. He argues that the government could have prevented that crisis if it had adopted a more prudent fiscal policy in 2007 and taken measures to control the “hot money” inflows that financed the large increase in public and private spending. This suggests the need for government to be more circumspect in its approach to foreign investment.

In the midst of the crisis in the world economy and in economic thinking about the appropriateness of past strategies and policies, what are Vietnamese policy-makers to do? They need to adopt policies to contain the immediate fallout from the crisis (such as the Viet Nam stimulus package), but they must also consider the long-run implications of the current crisis and their responses to it.

Even apart from the affects of the crisis, in the coming decade Viet Nam will have to address a number of difficult challenges in re-structuring is economy – any deceleration in the growth in international trade is likely to sharpen this need.

### 4.3. Alternative Scenarios

Given the uncertainty, medium terms options might be best considered using two scenarios for growth prospects under conditions of:

#### **Scenario 1: Slow expansion in the world economy resulting in modest growth**

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<sup>20</sup> Riedel cites Dani Rodrik, “Death of Globalization Consensus,” Korean Times, July 15, 2008.6 Ibid.

In fact in 2009 Viet Nam weathered the crisis quite well, despite the facts that exports values declined and the boom in FDI slowed down. The estimated GDP growth of 5.3 percent was impressive in that context, helped by the government's stimulus package. However, continued growth of 5-6 percent would have a number of policy implications.

A number of points about the consequences of continued stagnation in international markets need to be noted:

- i. On the positive side Government again demonstrated considerable ability in managing economic crises - Viet Nam has been affected by two substantial international shocks in the past 13 years - the Asian financial crisis of 1997 and the international economic crisis of 2008-09. In both cases the government's acted swiftly and sensibly to limit the negative economic impact.
- ii. On the negative side, growth at the rate achieved in 2009 would not achieve Viet Nam's growth goals;
- iii. The experience of 2009 demonstrated that Viet Nam is still very much a primary commodity exporter, and as such particularly vulnerable to price volatility (although there is evidence that suggest that Viet Nam's light industry exports held up better than competitors)
- iv. Many poorer households were particularly hit by the deceleration in growth (rural households; unskilled worker in export industries);
- v. A continuation of such growth retardation would suggest the need for a slower transition in the reduction donor concessional support (i.e. caution in moving to a MIC stance).

One implication of slower growth in the international economy for Viet Nam would be the need for a greater emphasis on production for the domestic market. This is not to argue against continuing openness, or for an abrupt shift to an import substitution strategy, but to suggest a shift in balance, which might be considered a natural outcome at this stage of Viet Nam's growth - past growth in Viet Nam has involved very high and increasing ratios of trade to GDP. Manufactured exports have been very import intensive - domestic value-added in exports has been estimated at no more than half the value of exports due to exporters' heavy reliance on imported intermediate inputs, (Riedel op. cit.). Also, the import content of consumption has increased (the actual dimensions of this shift have not been estimated in this report, but observed patterns of consumption support such a view).

Government needs to explore possible measures to increase the domestic component in exports and to encourage consumption of domestically produced goods, without abandoning the policy regime which has encouraged exports.

Also a growth rate lower than the projected rate would result in the need to trim investment targets and government spending programs. This makes the need to address the efficiency of investment imperative.

## **Scenario 2: Buoyant world growth**

This is the scenario implicit in the targets for the coming SEDP. Viet Nam has enjoyed two decades of high rates of growth, led by extremely high rates of export growth. A rapid return to buoyant World growth will make it more likely that the target growth rates could be met, although probably not at the beginning of the coming plan period.

However, even with a revival in growth in the World economy, it is unlikely that in the longer term, high export growth will be sustainable without significant structural change and productivity gains across sectors. The reasons for this are discussed in the next section.

## **4.4. Longer Term Growth – Challenges and Strategic Responses**

This section addresses economic challenges that are likely to emerge over the coming decade. In particular it discusses aspect of the potential “middle income trap”, which is now of concern to Vietnamese policy-makers.

### ***4.4.1. The Limits of the Existing Growth Model***

As the discussion in Chapter 3 made clear, one feature of Viet Nam’s growth has been the extraordinarily rapid rise in exports. From 1996 to 2008, exports grew at an average annual rate of 20 percent and increased as percent of GDP from 29 percent in 1996 to 70 percent in 2008. The “middle income trap” concern is basically asking whether this sort of growth can continue to carry the economy forward after entry to middle income status. The theoretical basis for a possible middle income trap can be outlined as follows. Viet Nam has achieved rapid growth through the process reviewed in Chapter 3. The response of actors in the domestic economy (both in the State and private sectors) to the opportunities provided by the shift to the market, and the impressive increase in overseas investment (both by foreign businesses and overseas Vietnamese) generated dramatic growth.<sup>21</sup>

However, the particular attraction of Viet Nam as a destination for FDI and as a source of exports was the availability of a large pool of rural cheap labour, which could be drawn into employment at a stable, low real wage rate. With the achievement of high growth rates, household incomes have risen and labour is becoming scarcer, so that labour is no longer so readily available at the old real wage rate (news reports in early 2010 indicated that export firms in industrial parks were finding it increasingly difficult to recruit labour at the wages they were willing to offer).

In a sense, the very success of the low-wage export strategy undermines its continuance as rapid growth results in rising household wages, increasing wages and labour scarcity. Growth can only continue if the product mix and technology shift in response to rising wage costs. This shift will be neither easy nor automatic. In particular, the firms which came to seek cheap labour will not necessarily be able or willing to adjust their products or technologies. Indeed, experience elsewhere suggests that foot-loose investors may be as ready to move out as wages rise as they were initially willing to move in when wages were low.

Past export growth has had two key characteristics:

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<sup>21</sup> In reviewing past performance, Riedel (op. cit) noted that since the mid 1990s Viet Nam has ranked as one of the world’s fastest growing countries, perhaps second only to China. Over the period from 1996 to 2007, the average annual real GDP growth rate was 7.4 percent, with the average over 2003-07) rising to 8.2 percent. Growth slowed, following the Asian financial crisis in 1998 and 1999, but then recovered. In 2008, there was another downturn, the growth rate falling from 8.5 percent in 2007 to 6.2 percent in 2008. The slowdown in 2008 was the result of a local macroeconomic crisis, unrelated to the global crisis that erupted in mid 2008. The international crisis began to impact by the end of 2008, pushing growth down a further percentage point to an estimated 5.3 percent (GSO estimate, December 2009).

- i. An important component of growth has come from the expansion of primary commodity exports (e.g. rice, coffee, and fishery products). Future growth is likely to be constrained by supply side constraints in some of these activities, while in some markets Vietnamese market share has increased to a level at which future growth is likely to be constrained by the growth of the overall market.
- ii. Industrial exporting has been based on "shallow" low value-added production processes, concentrating on the labour intensive parts of production processes; foreign investment in these activities has been attracted by low Vietnamese wages. As the labour market gets tighter and Vietnamese workers begin to enjoy the benefits of higher wages resulting from labour-market tightness and greater education, the logic of comparative advantage is likely to require a shift in the product mix and a move to processes involving higher labour productivity "deeper" higher-valued added production processes.

Continued export growth will be needed to sustain growth in GDP, though not at the rate experienced in the past two decades. Past high rates of growth were from a very low base – if growth rates of 20 percent+ were to be sustained over the coming decade the absolute value of Viet Nam's exports would approach USD 300 billion a year. However, a lower rate of gross export growth would be consistent with a GDP growth rate matching past performance, because of the one hand a deepening in the industrial structure should result in a higher proportion of domestic value added in industrial exports, and on the other hand producing more for domestic consumption would be a normal outcome at the next stage of Viet Nam's development. Partly this is a result of an increase in the relative weight of services as incomes rise and the business sector becomes more sophisticated, while an increasingly effective industrial sector should be able to increase its share of the national market both for consumers and capital goods.

In other words, Viet Nam will have to make the sorts of structural transition which characterized the successful earlier newly industrialised countries (e.g. Korea and Taiwan), which continued to enjoy high growth as middle income countries but in a new environment of a much more globalized world economy. In these terms, one strategic set of policy issues relates to the government interventions needed to lay the foundation for this new stage of industrial development. For example, failures either to provide sufficient quantities or quality of economic infrastructure and skilled labour could constrain this process, while attention will also need to be given to the sorts of institutions needed to stimulate the required new forms of investment, entrepreneurship, and innovation.

There is some evidence that development of economic and social infrastructure has not kept pace with the growth in the directly productive economy, and that therefore infrastructural constraints could act to check future growth. Annually Viet Nam invests about 10 percent of GDP in the physical infrastructure (mainly transportation and power), but as argued in the previous chapter, it seems likely that the return on these investments is not as high as it should be, due to waste, corruption and delays in infrastructure projects, as reported in the Vietnamese press.

The weaknesses in Viet Nam's social and economic infrastructure carry a potential high cost. Weaknesses in transportation infrastructure undermine Viet Nam's international

competitiveness.<sup>22</sup> Weaknesses in the health care system lower labour productivity. Weaknesses in the education system also contribute lower labour productivity and discourage investment in industries other than the least skill-intensive.<sup>23</sup> Such weaknesses threatened the sustainability of growth before the global crisis erupted and will continue to do so after the crisis has ended.

Since the resources to address these problems are likely be more constrained in the wake of the crisis, it is all the more important that immediate steps be taken to improve the efficiency of public goods provision by tackling waste and corruption and relying more on assessments of economic benefits and less on political judgments in making public investment decisions.

This study does not have as a central theme an assessment of the need to improve physical infrastructure – that lies outside its TOR. However, although physical infrastructure constraints could limit growth, conceptually dealing with physical infrastructure needs is probably the easier part of the problem – the more subtle and difficult issues relate to institutional and human capital requirements.

This becomes evident when addressing the question “where are new exports to come from?” An answer to this question has two parts. First, what type of commodities will Viet Nam produce? Increasingly Viet Nam will face the challenge of producing commodities of increasing technical sophistication, produced by workers with much higher technical skills. For this to happen there has to be investment in human capital not only in terms of quantitative targets (e.g. the number of university graduates) but also in terms of qualitative improvements (e.g. the mix of subject studies and the quality and relevance of the instruction).

Second, what firms are going to produce new types of product? The discussion in the next section argues that in current international conditions a key part will need to be played by national firms sophisticated enough to find a place in a new international division of labour in cooperation with a new type of international partner.

There has been a dramatic expansion of FDI in Viet Nam. FDI inflows in 2007 rose to a level equivalent to 57 percent of total exports and almost 40 percent of industrial output, substantially more, in fact, than domestic private investment. The inflow of FDI over the past two decades contributed decisively to the rapid growth of exports, inflow of technology and expansion in the industrial workforce.

Some momentum may still be derived from the existing model of FDI in labour intensive exports, but the evidence from the most successful Asian economies, starting with the earlier development of Japan, the follower economies of Korea and Taiwan, and the current performance of China, is that a leading role has been played by national firms in development in general and sustained export promotion in particular. However, as the following section argues, in the modern globalized economy this require a more subtle and complex strategy than that which worked in Korea and Taiwan a generation ago.

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<sup>22</sup> The WB (Doing Business, 2007) reported that the cost to ship a 20-foot container from Viet Nam is twice what it costs to ship from China.

<sup>23</sup> The study by Dapice *et al.* (2008: 22) reports, anecdotally that “Both foreign and domestic firms report that recent university graduates have virtually no economically relevant skills.

The success in promoting FDI was probably at the expense of the development of the national private sector. Bias in support to foreign over domestic private investors relates to access to bank credit and access to land (often in joint ventures with SOEs).

Although the private sector has grown, it is mainly composed of small and medium enterprises. Since the change in legislation related to private companies in 2000, there has been an enormous growth in the number of firms registered. Some of these are successful exporters of a quite wide range of products. If Viet Nam is to sustain its growth in the longer term, some of these medium scale enterprises will need to grow to be very large indeed.

To achieve this, certainly one thing government should do is systematically eliminate any biases against private business – critical issues are fair access to land and credit. Government and donors should also seek out ways to help the private sector to access the technology and market information required for the private industrial sector to play a rapidly expanding role in exports. A number of donors have attempted to aid the private sector, and continuing efforts would be desirable.

Another difficult policy issue relates to the role to be expected from the SOEs and equitized firms. One possibility which is sometime aired is that the large SOEs could become the foundation for the development of a Viet Nam style “chaebol”. However, while the restructuring of the State sector in the early stages of *Doi Moi* made administrative sense, as it grouped firm in the same industry under one general corporation, it probably reduced the competitiveness of the system (one positive characteristic of smaller provincial owned SOEs were that they had to face competition from other SOEs in the same line of business). Also it created businesses with quite different characteristics than the Korean chaebol, which are typically diversified conglomerates.

SOEs do seek to diversify out of their core business (and have been subject to criticism for so doing). In doing so, they behave rationally in seeking safe profits given the incentives they face, going into real estate development (easy because of their privileged access to land) and finance, using their considerable financial resources.

If SOEs and equitized firms still close to the state, are to play a more dynamic role the system of incentives, sanctions and outside pressures which determine behaviour would have to be transformed to promote more attention to export markets, higher levels of efficiency and positive entrepreneurship. In so doing, the appropriate business model in contemporary circumstances is unlikely to be the Korean chaebol, for reasons set out in the next section.

#### ***4.4.2. Technical Transformation and New Patterns of Economic Integration in a Regional Context***

The plan assumes that high rates of investment can continue over the medium term without risk of macroeconomic instability and that large inflows of foreign capital will be available for investment. Exports will grow and domestic industries will shift from low to higher value activities. However, there is no clearly articulated strategy of how this will be achieved.

International competitiveness is of central importance to Viet Nam’s development strategy. Taking competitiveness seriously would necessitate thoroughgoing reform of domestic institutions to enable the country to make full use of its impressive stock of talent and entrepreneurial energy.

At low levels of income, the marginal productivity of labour is near zero, in part because many people are underemployed or work sporadically on the family farm or “business” (for example, petty trade, tending livestock or collecting firewood). As the process of development gathers pace, labour moves from these very low productivity occupations to jobs like sewing shirts or shoes, or, for example, raising fish instead of planting rice. The phenomenon of labour moving out of unemployment or underemployment to slightly higher productivity occupations as “Lewis” processes, after W. Arthur Lewis, the economist that first described the mechanism.<sup>24</sup> The basic message is that at the early stages of development labour, and also land and capital are not fully employed and high rates of growth can be achieved by making better use of existing factors of production.

These processes continue to unfold in Viet Nam. However, opportunities to shift labour and land into higher productivity uses eventually become harder to find. Less underemployment means that rising demand for labour translates more quickly into wages increases, which will impact on the competitiveness of labour-intensive industries like shirts and shoes. Also Viet Nam is probably already running up against land constraints (n.b. the Viet Nam Rubber Company is now acquiring plantations in Laos and Cambodia). When this occurs, the economy can no longer rely on the mobilization of *underutilized* resources to accelerate growth. Growth must come from redeploying land, labour and capital to even higher productivity uses. However, the redeployment process becomes more difficult as “easy” productivity gains are used up. Rather than shift labour from doing nothing or collecting firewood to sewing shirts, the economy must now move from sewing shirts to electronics.

Higher value added activities require more and better quality hard infrastructure (power, ports, roads, rail, telecommunications) and soft infrastructure (rule of law, enforcement of property rights, transparent and impartial economic regulation, robust financial institutions, competent macroeconomic management).

In addition to the need for hard and soft infrastructure, moving into higher value added production also means competing with companies and countries that have much more experience in producing these goods. Setting up a factory to sew shirts is not terribly difficult, and as long as labour is sufficiently cheap the company can maintain its cost advantage. It is a different thing entirely to break into sectors like electronics components and car parts, which require a command of rapidly changing technologies, close relationships with suppliers and buyers, highly specialized knowledge, massive capital investment, rigorous quality control standards and meticulous cost control. Cheap labour is not much of an advantage in these industries. There is an “easy” stage of development during which high rates of growth can be achieved without much technological or institutional change. Eventually this period comes to an end. Hence the term “middle income trap”.

There are several key points about the global revolution in manufacturing of the past three decades or so that Vietnamese policy makers have not yet taken on board. First, systems integrators, the great organizers of trans-national production processes, achieve high profits on the basis of innovation, branding and market power. Despite their high profits they defend themselves from new entrants by rapid and incessant product innovation. They spend massive

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<sup>24</sup> Lewis (1954). A British economist originally from Saint Lucia, Lewis later recalled that he came up with the idea of the Lewis model on a visit to Bangkok. The model has always had particular relevance to Southeast Asia, a region that made a very rapid transition from low to high population densities in the 20<sup>th</sup> century.



amounts of money on research and development and on acquiring other firms that possess knowledge that they need. Failure to keep up in this race for innovation does not mean a drop in profits, it means the death of the firm.<sup>25</sup> Just to take one example, the number of US, European and Japanese auto assemblers fell from 42 in 1960 to twelve in 2005. More are disappearing during the present crisis. Each of the independent assemblers in 2005 spent from two to eight billion dollars *per year* on research and development of new products to make their cars lighter, more fuel efficient, safer and more attractive. Selling cheaper cars has not worked as a survival strategy. Another example is the market for smart phones. The introduction of the Apple iPhone did not just dent the sale of Palm, Inc. (a previous market leader in handheld digital devices) but in the end drove the company to the brink of bankruptcy.<sup>26</sup>

Systems integrators use their market power to promote competition among suppliers and to demand constant innovation all along the supply chain. Each auto assembler spends ten of billions of dollars per year on materials and components. Since supplier companies are dependent on sales to major assemblers to stay in business, they seek to participate directly in the development of new products and the improvement in quality at the point of assembly. Pressure to innovate and reduce costs has led to consolidation of second, third and even fourth tier suppliers. In automobiles, three parts companies (Delphi, Denso and Bosch) are far ahead of the pack, each spending more than two billion dollars on R&D per annum. The trend is replicated in tires, auto glass, seats and brakes.

Even relatively low-tech, labour intensive sectors are not free from these pressures. Systems integrators in athletic footwear compete with each other by expanding the array of styles on offer and by rotating products in ever shorter seasonal cycles. They force CMs to compete with each other in reducing production times and improving quality. For example, Taiwanese contractors operating in China reduced the time required to produce a pair of athletic shoes from 25 days to ten hours over the period 2002 to 2006.<sup>27</sup>

The revolution in manufacturing has opened up some new opportunities for developing countries. American, Taiwanese, Japanese and other companies have moved operations to the ASEAN countries to produce components that are ultimately shipped to China for final assembly. Component manufacture now accounts for a sizeable share of exports from some of these countries. Local companies benefit by subcontracting from foreign firms further down the supply chain. Some even move up the supply chain, graduating from the production of simple to more complex materials and parts. But to gain access to these opportunities firms must survive cutthroat competition involving numerous contenders from around the world. Cheap labour provides some advantages, but not enough to guarantee survival: on average, labour costs make up three to four percent of the FOB price of products shipped from the developing world to the United States, and 0.75 percent of the retail price.<sup>28</sup> Cheap labour strategies work at the low end of the value chain, but success in higher value added components and materials depends more on innovation, flexibility and quality control.

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<sup>25</sup> Baumol (2002).

<sup>26</sup> David Sarno (2010). Palm was acquired by Hewlett Packard in April 2010 for the cut-rate price of about one billion dollars.

<sup>27</sup> Chang (2008).

<sup>28</sup> Berger (2005).

What does this mean for an emerging, outward oriented country like Viet Nam? One message is that the “infant industry” model is now largely irrelevant. For the most part, manufacturing is so modularized, fragmented and globalized that protection is self-defeating. In a world of system integrators and modular production, infant industry protection is a route into the middle income trap.

The development of technological and managerial capabilities is the key to surviving the global business revolution. Some of these capabilities can be acquired locally the old fashioned way: learning by doing, reverse engineering and hiring experienced workers from other firms. But in most cases technology is too advanced, and learning times too truncated, to succeed using these methods. The best hope for developing country firms in many product lines is to develop strong linkages with multinational enterprises that have an interest in cultivating capabilities amongst their supplier firms.

Global FDI has grown in tandem with the global business revolution. The stock of FDI in developing countries soared from USD 529 billion in 1990 to USD 4.2 trillion in 2007, a rise of 13 percent per year on average. Inward investment is now a vital link to global supply chains and technological capabilities within and between firms. Intra-firm trade has risen to more than 35 percent of total world trade in goods as multinational companies diversify the location of their production facilities. Countries compete for investment not just on price but also on the availability of skilled labour, the density of domestic supplier industries, the quality of infrastructure and the transparency of business regulation. The issue is no longer simply the amount of foreign investment: increasingly middle income countries have focused their attention on the type and quality of investment.

Several ASEAN countries have succeeded in attracting foreign investment in components manufacturing. Much of the output from these industries is exported to China, which has emerged as the main host for assembly companies. As shown in Table 4.1, Malaysia, the Philippines and Thailand sell billions of dollars worth of telecom parts, transistors, machinery and equipment to China. Most of these components are produced by foreign manufacturers from the US, Korea, Japan and Taiwan. The two countries in the table that have not broken into this business in a substantial way are Viet Nam and Indonesia, which largely export natural resources to China.

**Table 4.1. Top Twenty Exports to China, Average 2006-08 (USD millions)**

	<i>Indonesia</i>	<i>Malaysia</i>	<i>Philippines</i>	<i>Thailand</i>	<i>Viet Nam</i>
Fruit, veg, rice, fish and shellfish	-	-	26	666	373
Oils and oilseeds	1,536	2,798	23	-	-
Rubber and materials	737	1,294	-	1,940	763
Wood, pulp and paper	903	134	-	199	106
Ores and metals	744	157	405	-	122
Petroleum products, natural gas and coal	3,851	508	119	1,301	1,110
Chemicals and plastics	324	786	38	1,555	-
Footwear, leather, cotton, textiles and yarn	-	-	-	-	59
Machinery and equipment	155	<b>1,135</b>	<b>984</b>	<b>3,364</b>	58
Telecom parts, transistors, switches	-	<b>4,531</b>	<b>3,401</b>	<b>2,067</b>	-
Other	-	1,661	40	-	311
<b>Total</b>	<b>8,249</b>	<b>13,003</b>	<b>5,037</b>	<b>11,092</b>	<b>2,903</b>

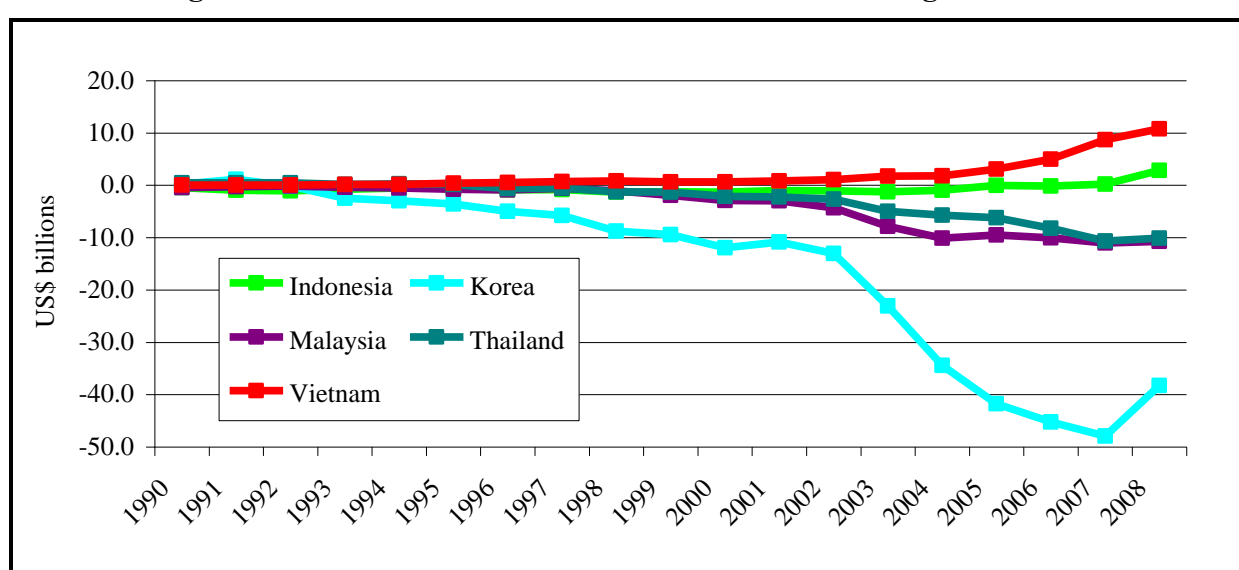
*Source: UN Comtrade.*

Countries that sell components run trade surpluses with China. Countries that do not - Indonesia and Viet Nam - post large and growing trade deficits (Figure 4.1). Viet Nam

imports many things from China, including steel, fuel, consumer goods and more than a billion dollars worth of textiles each year. In return, Viet Nam sells raw materials. The relevant question is why has Viet Nam not yet succeeded in entering the components manufacturing business like Malaysia, Thailand and the Philippines?<sup>29</sup>

Part of the answer is that Viet Nam is not attracting the right kind of foreign investment. In recent years, Viet Nam has received billions of dollars of investment in casinos, hotels and property development, but very little from component manufacturing companies. The arrival of Intel was heralded as a new beginning, and if their venture is successful perhaps it will turn out to be so. However, at the moment similar investors are not coming because Viet Nam cannot yet offer them what they need: a large supply of well-trained, English speaking technologists, technicians and managers; world-class infrastructure to get their inputs to the factory and their products to the port; a transparent and stable regulatory environment; and a stable macroeconomic environment.<sup>30</sup>

**Figure 4.1. China's Trade Balance with Selected Trading Partners**



Viet Nam needs to give careful attention to the generational and policy shift that occurred in China in 1997-98 as the region was engulfed in the East Asian financial crisis (Steinfeld 2010). The main conclusion of the Chinese leadership was that a lethal combination of cronyism, over-indebtedness and hubris had contributed to the regional crisis, and that China needed to become more competitive in order to keep growing. China surrendered most of its demands and signed a WTO deal that it had been negotiating for

<sup>29</sup> Another question also suggests itself: namely, why does Vietnam import more than a billion dollars in cloth from China every year? The failure of the domestic textile industry deserves more attention than it has received to date.

<sup>30</sup> According to a Grant Thornton survey of private equity investors in 2009, 88 percent of investors reported that dealing with government red tape was the most significant hurdle in Vietnam. The legal system was the second most cited obstacle (85 percent), followed by infrastructure, corruption, currency controls, real estate ownership laws and access to debt finance. For these reasons, investors tend to treat Vietnamese assets as high-risk, long-term investments

years. The agreement opened up its domestic market to foreign competition. China welcomed global systems integrator companies, embarked on a crash program to build world-class infrastructure, reduced the size of the bureaucracy and simplified international financial transactions. Crucially, when the Chinese leadership realized that firms and government agencies did not have the expertise required to manage the new economy, they turned to Chinese citizens that had been educated and had remained overseas. Most of these highly trained individuals had completed advanced degrees in the US and Europe but had not come back because they could not get jobs at home that could compare with what was offered to them overseas. Beginning in the mid-1990s, the state actively recruited them into the party, into high level government positions, state-owned enterprises and universities. They were offered not only international standard salaries, but also real power to change the system from within.

Viet Nam needs to learn this lesson from China. Success in the globalized economy depends on managerial and technological capacity combined with good infrastructure and more transparent regulation and administration. Vietnamese firms, government agencies and universities must have access to the best talent. This means that personnel decisions must become merit based, and compensation determined by the market rather than government decree. Multi-billion dollar public companies cannot be run by managers who do not earn competitive salaries and who have no experience of international business. Hiring, compensation and promotion of university lecturers should be based on research and teaching performance rather than seniority. In short, Viet Nam must build world class institutions if it wants to compete successfully in the global economy.

## Chapter 5

# International Resource Requirements for Continued Growth

### 5.1. Trends in External Resource Mobilization

This chapter reviews the changing nature of external resource mobilization at Viet Nam moves into middle income status and explores the policy implications of these changes. The external resource requirements for the coming five years are reviewed, based on the government's own projections and the team's assessment of likely macroeconomic trends. The chapter then examines the possible roles of various groups of external actors.

An overall indication of past external financing is indicated by the current account balance. This indicates that before 2007 inflows were quite modest – in the years 2002-06 ranging from a low of USD 183 million in 2006 to a high of USD 1,931 million in 2003. From 2007 there was a sharp change in this pattern – the balance on the current account rose to -USD 6,992 million in 2007 and -USD 10,706 million in 2008; figures for 2009 were not available at time of drafting.

The increase in the external deficit reflected the rise in capital formation as a percentage of GDP and the steady rise in the outflow on investment income. The current account would have been much more imbalanced if not for the substantial rise in private transfer (from USD 1,790 million in 2002 to USD 6,804 million in 2008).

A current account deficit is a perfectly reasonable outcome for a country at Viet Nam's stage of development – it reflects the inflow of foreign resources which contribute to development.

In addition to the private transfers (which are recorded in the balance of payments under the current account) the other important source of funding has been foreign direct investment. This made a fairly stable contribution to the balance before 2007 (rising steadily from USD 1,400 billion in 2002 to USD 2,315 billion in 2006). Then in 2007 there was a sharp increase to USD 6,550 billion in 2007 and USD 9,065 million in 2008. This boom is often interpreted as a post-WTO entry effect. Although 2009 data were not available at time of drafting, the indications are that there was a sharp drop in FDI in 2009.

Before 2005 there was no international portfolio investment recorded. Since 2005 it has been recorded as a significant element of the balance of payments – and became a potent source of volatility. In 2007 portfolio inflows estimated at USD 6,243 million contributed to the inflationary boom, but declined sharply to -USD 580 million in 2008.

There is some ambiguity in the draft plan document as regards external finance needs, because in the balance of payments projections “FDI capital in five years 2011-15 is expected to be disbursed over USD 37 billion, USD 7.4 billion per annum on average (accounted to balance of payments)”, while it is also noted that “Foreign loan disbursement shall reach approximately USD 22 billion in the next five years”.

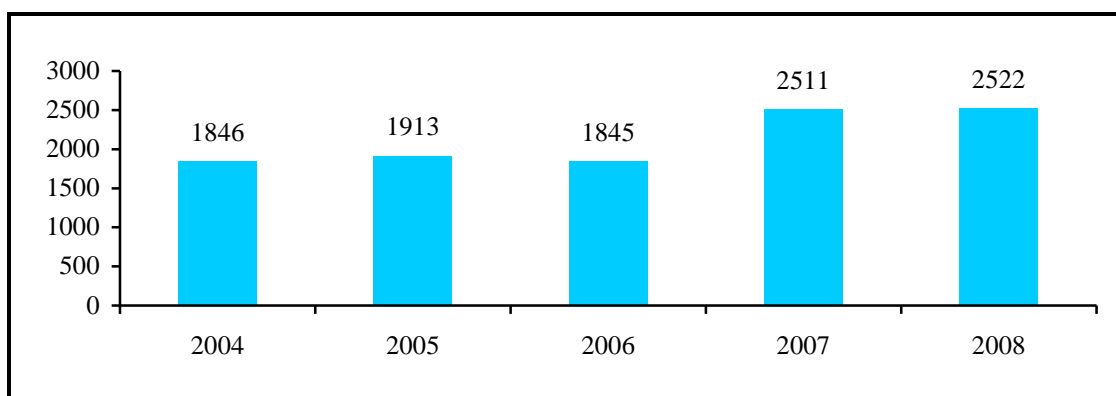
In five years 2011-15, ODA committed capital is expected to be at approximately USD 26-28 billion, with disbursed capital at approximately USD 14-15 billion. Figure 5.1

shows aid flows from Development Assistance Committee (DAC) members as recorded in DAC statistics. On the basis of disbursements in the first nine months of 2009, it seemed likely that disbursements would be above 2008 levels.

In most years the disbursement of official grants and loans has been less than the inflow of FDI, and also less than private transfers. The relative importance of ODA is thus not that great, targeted in the coming five year plan at about 8.5 percent of total capital formation

DAC figures estimate that disbursements of aid from DAC members reached 2.9 percent of Gross National Income (GNI) in 2008. While this is a significant level of assistance, it does not imply a high level of aid dependence (as compared with a number of aid dependent countries receiving 10 percent+ of GNI in aid flows).

**Figure 5.1. Aid Disbursement to Viet Nam from DAC Members (million USD)**



*Source: DAC Statistics (2009).*

*Note: 2008 disbursements = 2.9 percent GNI.*

The plan projection of external assistance is based on an expectation that the contributions of ODA will remain approximately in line with the past performance during the coming plan period. This seems to be a reasonable expectation, given the backlog of aid commitments (although the cautious scenario projected by the team below allows for a possible modest decline). Given lags between ODA commitments and disbursements, these aid expectations should prove achievable – reductions in concessional support resulting from achievement of middle income status are likely to impact more in the 2016-20 period. However it seems likely that in the coming plan period disbursements of concessional funding will overtake the level of new commitment, as the level of new concessional aid is likely to decline. Over the coming decade, given existing policies of multilateral and bilateral partners, the commitment of new support in the form of highly concessional loans and grants will tail off.

Although external assistance has made a significant contribution to financing Viet Nam's development, Viet Nam has not become heavily aid dependent. Therefore the adjustment to the decline in concessional assistance should be manageable. However, the shift in the balance of external flows will pose new risks and policy challenges

In the past two decades, the government has not faced great difficulties in managing capital flows. In two periods, following the 1997 East Asian financial crisis and during the 2007-08 inflationary episode capital account flows did create problems. Following 2008, the decline in direct foreign investment could have generated an economic down-turn, in the

absence of corrective measures. And during 2007-08, the inflow of foreign funds contributed to excess demand and inflationary pressures.

## **5.2. International Financial Requirements for the Next Plan – an Exploration of Possible Order of Magnitudes**

As discussed in the previous chapter, given rapidly changing internal and external circumstances, the annual GDP growth rate of 8-9 percent per annum set in the draft of Five Year SEDP 2011-15 may be difficult to achieve. A more realistic GDP growth rate for the period 2011-15 might be of the order of 6.5 percent per annum.

This chapter therefore provides two scenarios for international financial requirements. The first scenario is the one estimating the requirements for maintaining the SEDP growth (below referred to as SEDP Scenario), and the second one accommodates our scenario (JCA Scenario).

We adopt all assumptions made in the draft SEDP, averaging them to the following:

- Average GDP growth rate is 7.5 percent per annum;
- Total social investment shall be 40.6 percent of GDP;
- State investment constitutes 37 percent of total investment capital; investment capital from households and private sector is expected to be 41 percent; investment capital from foreign direct investment constitutes 22 percent of the total investment;
- In 5 years 2011-15, ODA committed capital is expected to be at approximately USD 26-28 billion, with disbursed capital at approximately USD 14-15 billion;
- Revenue of the government budget shall reach 23.4 percent of GDP. State budget expenditures shall be 28.5 percent of GDP, leaving the budget deficit at 5.1 percent of GDP. Average share of development investment shall reach at least 28 percent of total State budget expenditure;

We also add the following assumptions:

- Annual grants are at VND 4 trillion, which is 41 percent (in current price) less than the current five years' figure. As we have no reliable information to project this figure, this is just an ad hoc assumption;
- The budget deficit will be financed by two sources: domestic (4.1 percent of GDP) and foreign borrowings (1 percent of GDP). This level is slightly lower than the current one.

We think that this scenario may be too ambitious. Below are some qualifications of the SEDP scenario:

- Average annual growth rate of the five years 2011-15 is rather ambitious given international conditions at the beginning of the plan period, the growth rate could decelerate. While the rate for the period 2001-05 was 7.5 percent, the figure for 2006-09 went down to 7.0 percent;

**Table 5.1. SEDP Scenario (current price)**

<i>Indicators</i>	<i>Measure- ment unit</i>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	<i>Explanation</i>
<b>1. GDP</b>												2006-2008 actual figures (GSO, various years), 2009 preliminary (GSO website), 2010 onward planned target (MPI 2009)
Value	Tril.VND	974	1144	1478	1645	1931	2271	2651	3075	3548	4074	
Growth in 1994 price	%	8.2	8.5	6.2	5.3	6.5	7.5	7.5	7.5	7.5	7.5	
<b>2. State budget</b>												2006-2007 final account, 2008 2 <sup>nd</sup> est., 2009 1 <sup>st</sup> est. 2010 planned, 2011 onward draft plan targets (MOF website)
2.1. Revenue	Tril.VND	351	431	428	417	463	531	620	719	830	953	
<i>Of which: grant</i>	<i>Tril.VND</i>	8	6	7	6	5	4.0	4.0	4.0	4.0	4.0	
2.2. Expenditure	Tril.VND	386	470	495	533	582	647	755	876	1011	1161	
<i>Of which: development investment</i>	<i>Tril.VND</i>	88	104	136	136	126	181	212	245	283	325	
2.3. Deficits	Tril.VND	-49	-65	-66	-116	-120	-116	-135	-157	-181	-208	
Memo: deficit as % GDP	%	5.0	5.6	4.5	7.0	6.2	5.1	5.1	5.1	5.1	5.1	
2.4. Sources of deficit funding	Tril.VND	49	65	66	116	120	116	135	157	181	208	
2.4.1. Domestic borrowing	<i>Tril.VND</i>	36	52	51	100	99	93	108	125	145	166	since 2011: 80% of deficit
2.4.2. External borrowing	<i>Tril.VND</i>	13	13	15	16	21	23	27	31	36	42	since 2011: 20% of deficit
<b>3. Investment</b>	<b>Tril.VND</b>	<b>405</b>	<b>532</b>	<b>611</b>	<b>704</b>		<b>922</b>	<b>1,076</b>	<b>1,248</b>	<b>1,440</b>	<b>1,654</b>	2006-2008 actual figures, 2009 preliminary, 2010 onward planned target
3.1. State	Tril.VND	185	198	174	245		341	398	462	533	612	
<i>Of which: budget</i>	<i>Tril.VND</i>	100	107	99	154	126	181	212	245	283	325	
3.2. Non-state domestic	Tril.VND	154	205	244	278		378	441	512	591	678	
3.3. Foreign	Tril.VND	66	129	192	181		203	237	275	317	364	



**Table 5.2. JCA Scenario (in current price)**

<i>Indicators</i>	<i>Measure- ment unit</i>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	<i>Explanation</i>
<b>1. GDP</b>												2006-2008 actual figures (GSO, various years), 2009 preliminary (GSO website), 2010 onward our assumption
Value	Tril.VND	974	1144	1478	1645	1931	2250	2602	2992	3423	3898	
Growth in 1994 price	%	8.2	8.5	6.2	5.3	6.5	6.5	6.5	6.6	6.6	6.6	
<b>2. State budget</b>												2006-2007 final account, 2008 2 <sup>nd</sup> est., 2009 1 <sup>st</sup> est. 2010 planned (MOF website); 2011 onward authors' assumptions
2.1. Revenue	Tril.VND	351	431	428	417	463	630	729	838	958	1091	
<i>Of which: grant</i>	<i>Tril.VND</i>	8	6	7	6	5	4.0	4.0	4.0	4.0	4.0	
2.2. Expenditure	Tril.VND	386	470	495	533	582	742	859	987	1129	1286	
<i>Of which: development investment</i>	<i>Tril.VND</i>	88	104	136	136	126	186	215	247	282	322	
2.3. Deficits	Tril.VND	-49	-65	-66	-116	-120	-112	-130	-150	-171	-195	
Memo: deficit as % GDP	%	5.0	5.6	4.5	7.0	6.2	5.0	5.0	5.0	5.0	5.0	
2.4. Sources of deficit funding	Tril.VND	49	65	66	116	120	112	130	150	171	195	
<i>2.4.1. Domestic borrowing</i>	<i>Tril.VND</i>	36	52	51	100	99	90	104	120	137	156	since 2011: 80% of deficit
<i>2.4.2. External borrowing</i>	<i>Tril.VND</i>	13	13	15	16	21	22	26	30	34	39	since 2011: 20% of deficit
<b>3. Investment</b>	<b>Tril.VND</b>	<b>405</b>	<b>532</b>	<b>611</b>	<b>704</b>		<b>921</b>	<b>1,066</b>	<b>1,225</b>	<b>1,402</b>	<b>1,596</b>	2006-2008 actual figures, 2009 preliminary, 2010 onward authors' assumption
3.1. State	Tril.VND	185	198	174	245		832	963	1107	1266	1442	
<i>Of which: budget</i>	<i>Tril.VND</i>	100	107	99	154		186	215	247	282	322	
3.2. Non-state domestic	Tril.VND	154	205	244	278		922	1067	1227	1403	1598	
3.3. Foreign	Tril.VND	66	129	192	181		495	573	658	753	858	

- The share of expenditure in the budget (26.4 percent of GDP) is rather low compared to the current level (around 36 percent), while the planned share for investment capital is high (28 percent of the state budget) compared with 2006-2009 (24.5 percent). The current ratio between capital and recurrent expenditure is already biased against the latter, which commentators often point out is too low to cover, among other things, normal O&M;
- Even at this relatively high investment level, investment efficiency should be improved to keep ICOR at least around 5.4, which is the pre-2008 crisis level. This may be very challenging as the country has to both cushion the post-crisis adverse impacts and move up in the value chain ladder;

Assumptions for an alternative JCA Scenario:

- Average GDP growth rate is 6.5 percent per annum;
- Total social investment is 40.6 percent of GDP;
- State investment constitutes 37 percent of total investment capital; investment capital from households and private sector is expected to be 41 percent; investment capital from foreign direct investment constitutes 22 percent of the total investment;
- In 5 years 2011-15, ODA disbursed capital is expected to be at approximately USD 9-10 billion;
- Revenue of the government budget should reach 28 percent of GDP. State budget expenditures shall be 33 percent of GDP, leaving the budget deficit at 5 percent of GDP. The average share of development investment shall reach 25 percent of total State budget expenditure;
- Annual grants could be around VND 4 trillion, which is 41 percent (in current prices) less than the current five years' figure. As we have no reliable information to project this figure, this is just an ad hoc assumption;
- The budget deficit will be financed by two sources: domestic (4 percent of GDP) and foreign borrowings (1 percent of GDP). This level is slightly lower than the current one.

### **5.3. Financing Modalities in the Longer Term and External Finance Management Issues**

The figures set out in the previous section provide an indication of financial requirements in the immediate future. The projections do not indicate dramatic changes in past patterns, as seen from the standpoint of the State budget.

However, the prospects for international resource flows over the longer term, in the context of the overall economy, as reflected in the balance of payments, are more complex. There is little point in attempting long-term numerical projections of requirements as these are subject to such uncertainty, but the broad trends, and the policy challenges resulting from them, need to be discussed.

Overall ODA is a relatively minor part of the balance of payments picture even now, and will become of even less relative importance in the future. The challenging policy issues will revolve around alternative sources of international finance, private financial flows and public commercial borrowing.

Private transfers, mainly from overseas Vietnamese, have been an important component of overseas resource flows and are likely to remain a significant element in the future. There is apparently no available study of the determinants and prospects for these flows. Some are fuelled by the remittances workers who travel overseas as “guest workers”. Other funds come from permanently resident overseas Vietnamese communities. Current experience will provide evidence of the degree to which these flows are subject to cyclical volatility, in the face of conditions in the host economies, but there is no basis for judging likely long term trends.

As set out above, another important source of external funding is FDI. This form of external funding has some virtues. As the investment is in equity, the investor bears the risk of the performance of the investment. Moreover, much of FDI until recently concentrated on export production, so that the investment was likely to generate the foreign exchange needed to fund profit repatriation (which is now growing rapidly).

However, the flow of profit remittances is now growing rapidly. While government is not responsible for payments, the generation of foreign exchange resources to support a fairly liberal external payments regime will be necessary to provide the means for investors to transfer their funds. The possibility of repatriating profits is a necessary condition for continuing flows of FDI.

In the recent economic boom, there was a tendency for FDI to move into investments which do not directly generate foreign exchange, such as real estate. Large investments of this sort may create problems, as they do not directly generate the foreign exchange to fund profit repatriation.

More serious issues arise in relation to portfolio investment, short-term capital movements and public sector overseas borrowing at commercial rates.

Already, Viet Nam has experienced the problems resulting from large financial flows which fuelled the 2007-08 boom. The experience of the East Asian financial crisis of 1997 demonstrated the potential for uncontrolled international financial flows to the region to create extreme economic volatility.

Another risk which may emerge (which has affected a number of middle income countries) is that of a debt crisis. Available estimates of external debt<sup>31</sup> indicate modest and manageable levels of debt. The total public and publicly guaranteed debt was estimate at USD 21,817 million in 2008, which at less than 20 percent of GDP is not high. Moreover as more than half of that was to multilateral development banks, debt service remained low (principal and interest payments around 5 percent of the total debt).

However, Viet Nam has ambitious investment plans, which if realised will be well in excess of domestic saving. Although grants and concessional borrowing will not fall immediately, and when they do decline, will do so gradually, as a proportion of total investment spending the relative contribution to a growing investment level will decline.

External commercial funding will be available, and it is quite rational to make use of such funds. However, this will require careful management and discipline.

Experience over the decades of a number of Latin American economies, and the recent headline cases of Greece and Dubai, have demonstrated how easy it is to get into

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<sup>31</sup> See Table A5.5 in the statistical annex to the 2010 Vietnam Development Report (Modern Institutions).

trouble with international debt. Indeed, a crisis in debt management could be seen as another manifestation of a “middle income trap”.

The potential risk is not that external finance will be unavailable, but that it will be too readily available. In the past, it was part of the credo of some liberal policymakers to believe that markets in debt would be self-regulating – that it was neither in the interest of lenders nor borrowers to push debt beyond serviceable levels. Any such view is no longer tenable, in light of the recent history of national and international credit markets. Nor have those who should police debt (Central Banks, the IMF and credit assessment agencies) shown a good deal of competence of foreseeing potential crises.

What this suggests is the need for Viet Nam to set up an effective system for monitoring and controlling debt – particularly obligations entered into by sub-national government authorities and State owned enterprises, and even the private sector. In the event of a debt crisis governments find its practical responsibility to ensure debt servicing extends well beyond its strictly legal obligations.

## Chapter 6

# Promoting Wellbeing and Social Protection

The middle income countries that have been most successful in sustaining high growth and broad-based improvements in human development have been those which have effectively promoted economic opportunities, addressed economic and social vulnerabilities, and avoided pernicious forms of social inequality that can constrain opportunities and increase vulnerabilities over the long term.

This chapter addresses challenges Viet Nam faces with respect to the promotion of wellbeing and social protection. The chapter includes an assessment of poverty, social inequalities, and vulnerability in Viet Nam and the social policies aimed to reduce poverty and promote wellbeing. Key social policy areas addressed in this chapter include labour markets policies, social insurance policies, and targeted assistance policies designed to promote the wellbeing of especially vulnerable groups, such as children, ethnic minorities, and migrants.

### 6.1 Poverty, Vulnerability and Inequality: the existing situation

With respect to poverty and vulnerability it may be useful to clarify some concepts:

- *Poverty* in this discussion refers to deprivation of basic needs. The most common approaches to the measurement of poverty, are income-based measures that establish a “poverty line” based on the estimated cost of a “basket” of essential goods (Laderchi *et al.* 2003). Based on the government-established poverty line, the poverty rate in Viet Nam has declined from 58 percent in 1993 to under 12 percent in 2009.
- Sometimes poverty is used to describe a situation in which multiple forms of deprivation exist, for which monetary measures alone are inadequate (De Neubourg 2010); Some find it more useful to speak of “poverties,” as deprivations can be income-based or not, material and non-material, relative and absolute, etc (Gough *et al.* 2007).
- *Wellbeing* refers to a situation in which basic needs are satisfied and adequate protections are in place to insure continued wellbeing in the face of adversity;<sup>32</sup>
- *Social inequalities* refer to uneven distributions of certain quantifiable valued resources (Tilly 1999); Social inequalities include inequalities of wealth, such as income and assets, and inequalities of opportunity.
- *Vulnerability* here refers to susceptibility to deprivations of need, or susceptibility to harm. Vulnerability goes beyond narrow economic issues, as it includes discrimination, abuse, and violence (Kirby 2006).

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<sup>32</sup> See also, Gough *ibid.*

**Poverty:** High rates of economic growth during the past two decades have raised the vast majority of the population above the poverty line. In rural areas, poverty reduction has been most dramatic in the heavily populated areas of the two Deltas, and has happened either by increases in rural output, or through the movement of population to the cities. The poverty rates of these Red river and Mekong river deltas decrease from 62.7 percent and 47.1 percent in 1993 to 8.1 percent and 12.3 percent in 2008 respectively. In the wealthiest areas of Viet Nam, such as the South East region, poverty appears to have declined to very low levels. (2.3 percent). The poorest region is the Northern midlands and mountainous area, where the poverty rate is still at 25.1 percent (2008), with the Central Highland and the Central Coast regions also lagging.

However, although the reduction in poverty has been impressive, many households which are no longer poor are still very close to the poverty line and as such are vulnerable in the face of economic fluctuations. For example, if there were a continuing deceleration in growth because of continuing lethargy in the international economy, or rapid price increases for essential items, many households could be forced back into poverty (London and van Ufford 2008). It is also likely that poverty estimates understate the incidence of poverty due to its failure to fully capture migrants, among whom the poor are overrepresented.

Some groups have fared less well in the market economy than others. Ethnic minorities, though they account for less than 13 percent of the entire population, account for nearly half of the poor. Incomes, life expectancy, and other measures of wellbeing are significantly lower among ethnic minorities.

All ethnic minority groups (except for the Chinese) experience greater incidence of poverty than the Kinh. Selected results of the Program 135 Phase II (P135-II) baseline survey, generally regarded as the best available data-base on ethnic minorities, provides a suggestive glimpse of life in National Target Program (NTP) communes. The rate of poverty (against the official poverty line of VND 200,000 per capita per month) was 51 percent for ethnic minority households and 26 percent among ethnic Kinh. In these communes 46 percent declared food shortages over the previous 12 months and, within this group, 32 percent *very often* or *always* experienced food shortages. On average, 45 percent of ethnic minority households lacked access to clean water for cooking and drinking. With respect to accessing essential social services, 48 percent were reported as not having sufficient medicines when they encountered illness, while 33 percent reported lacking cash for school fees.<sup>33</sup>

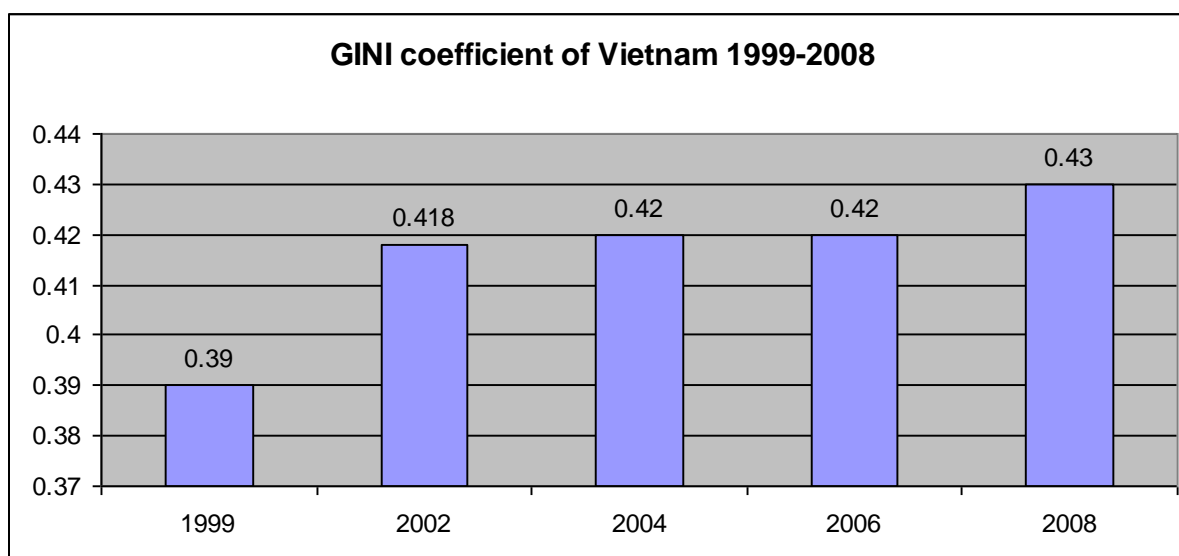
While this study uses the standard available measures of poverty, some data limitations should be noted. Data from the VLSS and VHLSS provide a reasonable foundation for understanding poverty in Viet Nam, including regional trends. That Viet Nam has experienced rapid declines in poverty is undeniable, but as Viet Nam grows wealthier and more socially differentiated so, too, does the need for a more nuanced understanding of wellbeing in Viet Nam. A number of analyses (Pincus and Sender 2008) have drawn attention to some of the important limitations of available surveys. Others have emphasized the need for studies of poverty and vulnerability to be more attentive to the institutional contexts in which poverty and vulnerability occur (United Nations Children's Fund (UNICEF)/Ministry of Labour, Invalids and Social Affairs (MOLISA) 2009).

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<sup>33</sup> Committee for Ethnic Minorities and Mountainous Areas (CEMA)/UNDP (2008).

**Social inequalities:** available data on income inequality suggest that social inequalities are not extreme as in some other countries, Figure 6.1 depicts current estimates of Viet Nam's income Gini coefficients for the years 1999 through 2008.

**Figure 1.1. Estimates Income Gini Coefficients, 1999-2008**



*Source: VHLSS (various years).*

As Figure 1.1 indicates, in 2008, the most recent year for which household income data are available, income/expenditure estimates suggest a slight rise in the Gini coefficient to over 40 percent. However, observation of the impact of recent economic development on consumption patterns suggest that some forms of inequality in Viet Nam may be rising quite rapidly (evidence for this is the conspicuous consumption of luxuries by well off groups, aspects of which are quite new to Vietnamese society), even if this is yet to be clearer demonstrated in the statistics. For example, the sharp increase in self-funded overseas students suggests a rise in incomes among better-off households

It should be noted that there are many non-income forms of social inequality (both absolute and relative), such as inequalities of access to essential social services, to loan capital, or to clean water or sanitary facilities. There is solid evidence of significant and possibly rising inequalities in accessing services and resources.

Inequality is common in market economies, and more so in developing countries, Some forms of social inequality may be unavoidable, and others may even be desirable (e.g., offering greater material support to disadvantaged individuals and groups). However, certain forms of social inequality can deepen, reproduce, and exacerbate poverty and vulnerability, undermine foundations of sustained economic growth, and have pernicious effects with respect to equity, participation, and community. There is no need to be immediately alarmist about social inequalities, as no doubt in international comparative terms Viet Nam still has a relatively equal distribution of income and wealth. But extrapolation of observed tendencies could change that quite rapidly.

**Vulnerability:** those with household incomes just above the poverty line remain prone to adverse shocks. These include events that affect individuals, households, and particular localities (e.g. the financial fallout that may befall a household resulting from the

acute illness or death of a family member).<sup>34</sup> There are also shocks which affect whole communities or segments of society, including food insecurity in the face of food price inflation, adverse weather events, global economic turbulence, and in the longer run the impact of climate change.

The vulnerable include the poor, and those less able to adapt to changes or cope with adversities, such as children or elderly who live alone. Owing to social, economic, and cultural institutions that disadvantage them, women tend to be more vulnerable than men.

Vulnerability is not limited to narrow economic concerns; basic needs include both material and non-material needs and susceptibility to deprivation stems from many causes, including neglect, social exclusion, abuse, and inadequate presence or enforcement of legal protections.

Except for the very wealthiest segments of Viet Nam's population, most Vietnamese households have some degree of vulnerability. Vulnerability will tend to be higher among poor, dependent, disadvantaged, and marginalized population segments, but vulnerability extends to large segments of the population.

Migration is one source of vulnerability. It has been an important aspect of social change and has made a significant contribution to economic growth. Many migrants have confronted difficulties due to rigidities in formal institutions governing household registration and access to public services. The extent of the problem has tended to be under-estimated, as migrants in many cases cannot establish legal residential status and as a result lack access to basic services and are not incorporated into many official statistics.

## **6.2 Wellbeing and Protection Challenges**

Social welfare challenges which will be faced in the coming decade include:

- Achieving further reductions in poverty and addressing the sources of vulnerability will require Viet Nam's government to address issues of employment creation and skills enhancement, the provision and payment for essential social services, social protection and targeted support, the care and protection of children, policies for migrants and other vulnerable populations segments, and the needs of women.
- Over the coming decade, large segments of Viet Nam's population – and not only the poor – will face diverse threats to their wellbeing. Viet Nam's ability to sustain economic growth and welfare improvements will require steps to address such risks. Much of the work on this front involves crafting more effective interventions, such as health insurance and unemployment benefits, to cite just two examples. The recent turbulence of the international economy indicated the potential impact on the more vulnerable in society of sharp fluctuations in business activity and prices, indicating the need for economic safety nets to cushion the effects of unemployment and sudden loss of income.
- In addition to economy-wide uncertainties, there are also the local effects of catastrophes, such as climatic extremes, which may become more important with

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<sup>34</sup> Notably, only just over a quarter of the elderly can sustain themselves with their pension or subsidy, while 39 percent rely on their children's support, and the rest still have to work to earn their own living (MOCST, GSO, IFGS and UNICEF 2008).



global warming. Government has experience and a good record in dealing with the immediate impact of climatic disasters but may need to give deeper thought to the longer term aftermath and to the impact of climatic uncertainty on the wellbeing of communities, particularly in the central coastal provinces.

- With urbanization and rural transformation, Vietnamese will be increasingly mobile. Many development challenges concern ways to maximize contributions of the migrant population to Viet Nam's development and the contributions of Viet Nam's development to Viet Nam's migrants.
- Attention needs to be given to the impact of demographic changes. With industrialization urbanization and the expansion of wage employment, the needs of the population will change. Larger numbers of youth and women will enter the labour market, raising the need for welfare and economic policies to address these groups' needs and rights. Welfare policies should ensure women's rights during pregnancy and motherhood, for example.
- Another issue relates to the situation of the elderly – only just over a quarter of the elderly can sustain themselves with their pension or subsidy, 39 percent rely on their children's support, and the rest still have to work to earn their own living. Beyond 2020, Viet Nam's population will become much older (owing to the country's rapid demographic transition) and the changing family structures resulting in increasing numbers of 'elderly people-only' households will increase the vulnerability and need for care for the elderly. The 2008 VDR notes that households with elderly that are headed by a woman are significantly more likely to be extremely poor (VDR 2008:27).
- A fundamental challenge for the Party and Government is to promote a reasonable degree of equality of opportunity. If the growth in inequality is not limited, Viet Nam may well face social divisions such as those seen in such countries as the Philippines, Indonesia and many Latin American countries, with large poor and near poor populations, a small very wealthy elite, and a limited middle class. If carried to an extreme this could create another sort of "middle income" trap as discussed in Chapter 4.<sup>35</sup>

### ***6.2.1 Wellbeing and Protection: Policy responses***

The state plays a critical role in promoting the wellbeing of all citizens, by creating conditions for economic growth and the efficient operation of markets, through productivity-enhancing public investments in infrastructure and human capital, and by intervening where the markets fail to deliver.

Social policies have a potentially important role. Social policies may include labour market policies designed to expand economic opportunities through the creation or indirect promotion of employment; various forms of social protection and social insurance, which

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<sup>35</sup> Some Latin American economists have argued that the great inequalities of their societies choke off growth because the consumption patterns generated by highly unequal consumption limit the size of the domestic markets for those commodities which could be efficiently produced locally.

help individuals, households, and communities cope with adversity; and targeted material assistance to individuals, households, and communities in special need.<sup>36</sup>

The Government's socioeconomic plans aim to further reduce poverty through the expansion of economic opportunities and the promotion of a society in which people's wellbeing is secure in the face of adversity and risk. However, public policy often proceeds without adequate attention to the weaknesses and gaps in existing programs. There is need for a realistic assessment of the potential and limits of the market; the 2008 VDR report on social welfare promotes a particular view of welfare policy in which the idealized strengths of market forces are confused with their actual operations and outcomes.

**Employment and labour market policies:** The 2009 report, *Viet Nam Employment Trends* (ILO 2009) indicated that, nationally, over three quarters of working age Vietnamese (77 percent) are employed in vulnerable jobs (e.g. employment as unpaid contributing family workers or own-account workers). Unpaid family workers accounted for 42 percent of total employment, while own-account workers accounted for 34 percent. The remaining 23 percent were in wage employment. In the P135-II survey, 58 percent of working people in P135 communes reported being under-employed, and that under-employment was higher among the poor.

While unemployment figures are of limited value, recent data suggest that unemployment among youth is increasing. Between 1997 and 2007 youth unemployment (i.e. in the 15-24 age group) has increased by more than a full percentage point, and over two percentage points for females (ibid: 8). This despite marked declines in the labour-market participation of young people. Other estimates are higher still. According to the Central Institute for Economic Management (2009) unemployment among workers under 30 was at 9.3 percent, compared to 3.4 percent for workers in the 30 to 39 age group, and 2.1 percent for those in the 40 to 49 age group.

Members of disadvantaged and vulnerable groups continue to encounter special difficulties in accessing the labour market and in finding decent work; these include young workers, women, ethnic minorities, disabled workers, and unskilled migrant workers. State-sponsored schemes for promoting employment among these disadvantaged groups need to be attentive to the real effects of such schemes, so as to avoid situations where workers from disadvantaged backgrounds are subjected to grossly exploitive terms of employment.

Government has experience with job creating efforts. In the past, the National Fund for Job Creation provided concessionary loans to create new jobs, absorb workers, and improve workers' income. The policy was directed at individuals, households, non-state enterprises, as well as private businesses, members of mass organisations, and trade associations. Between 1992 and 2000, the Fund made a total of VND 4,443,604 million Dong in loans, which were issued to some 112,675 job creation projects, and resulted in the employment of an estimated 2,705,297 persons. By 2007, the Fund provided total loans of VND 2,900 billion to SMEs, villages, collectives, farms and households with preferential policies, and about 30 provinces and cities have set up funds to create jobs for local people.

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<sup>36</sup> Similarly, the 2008 Viet Nam Development Report (VDR 2008), on *Social Protection*, usefully distinguished three main modalities by which the Vietnamese government can promote welfare; namely, through the creation of (market) opportunities, targeted support "to those left behind," and insurance, to help households and communities manage various kinds of shocks.

There are a number of possible limitations to past efforts. The implementation of employment, skill improvement and training policy is mainly based on the State budget; however, there is no efficient mechanism to guide spending. Training is inclined towards theory and neglects practical work. No standard system to evaluate the quality of vocational training exists. Many training and employment service establishments are self-financed, therefore, they are more interested in their organizations' immediate financial gain, more than the broader benefits to workers and society.

**Social insurance:** Since the 1990s, Viet Nam's social insurance policies have increased in scale and scope, including old-age pensions, unemployment insurance, and various benefits in cases of sickness, maternity, occupational disease or injury, and disability. (Health insurance is addressed in the health chapter).

Insurance is provided through various means including state organized insurance agencies, state-affiliated agencies, and private agencies. In contrast to the past, when the scale of insurance was small and the financial mechanisms in place rudimentary, social insurance is emerging as an increasingly important policy area.<sup>37</sup>

In the past, social insurance in Viet Nam was a non-contributory scheme available only to current and former employees of state enterprises. In 1993 a contributory scheme was introduced for those in non-state domestic and foreign enterprises; the entitlements of eligible state employees were included in this scheme and financed through the budget. Additionally, MOLISA administers a non-contributory pension scheme for those over 85 who are in need of support. Commenting on social insurance for public sector workers, the 2008 VDR notes the regressive aspects of the scheme, in that pension payments go to wealthier segments of the population; the VDR also notes that the poverty rate would likely be several points higher without the pension system. By and large, Viet Nam's current social insurance arrangements fail to protect the poor, the near poor, and those vulnerable to various kinds of shocks.

Since 2006, social insurance in Viet Nam has been reformed and expanded. A compulsory scheme was introduced for all Vietnamese citizens working in any kind of enterprise for at least three months. A scheme was also introduced for informal sector workers, in an effort to expand coverage. The contribution rate for old age pensions and survivor benefits was at 16 percent of salary as of 2008 (with 11 percent covered by the employer), with plans to increase to 22 percent by 2014. Participants must contribute for 20 years to receive a pension.

Recent estimates are that one in ten households receives some form of pension income (many households in Viet Nam are multi-generational.) The number of beneficiaries today is relatively small, as all were former employees of government agencies or members of the armed forces.

At present, more than 9 million Vietnamese participate in some form of social insurance. As of 2008, roughly 70 percent of those who were required by law to participate in social insurance were enrolled (TCCS 2009); the present number of contributors represents roughly 18 percent of the total labour force (VDR 2008, 96). Perhaps the most notable strength of the social insurance system is the potential it has to grow into a core component of

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<sup>37</sup> VDR 2009. Viet Nam Development Report 2008: *Social Protection*. This discussion draws heavily on the 2008 Viet Nam Development Report, *Social Protection*.

Viet Nam's welfare mix. A challenge facing Viet Nam over the next ten years is to extend coverage.

The VDR is high on the promise of market mechanisms (i.e. private insurance schemes) as a way of diversifying forms of insurance and cushioning shocks overall. Indeed, the number of insurance providers in Viet Nam has approached forty, and includes state, state-affiliated, and private providers. However, private insurance is unlikely to insure those in most need.

**Targeted programs:** While their absolute budgetary share may be modest, Viet Nam's targeted programmes – of which there were 12 at last count – have since the mid-1990s grown into quite substantial interventions and feature prominently in the government's approach to social protection. A recent Draft Social Protection Strategy prepared by Institute of Social Science and Labour Affairs strongly embraces "safety nets" and many donor organizations believe there is merit in strengthening various safety nets and social protection measures, in ways that draw lessons from past and recent experience. There are even new initiatives, including conditional cash transfer schemes and subsidized housing, alongside continued subsidization of health and education for poor and other prioritized groups.

Among numerous government-sponsored anti-poverty efforts, programs targeting poor communes (the most important being P135) and support to ethnic minorities (handled primarily through P132 and Program 134) are among the most important. Some programs have focused on infrastructure (Programmes 135 and 143, and the water component of 134). Other programmes have focused on providing "soft" support, such as credit for investments in production, subsidies for education and training, health, and agricultural extension.

Program P135-II is a useful case to discuss, as it is among the largest programmes and one whose administration shows both the promise and the limits of existing NTPs. Initiated to "radically accelerate" poverty reduction, P135-II provided designated communes support for production and economic reorganization, construction of essential infrastructure, capacity-building for local officials, and support for essential social services and legal assistance. In order to meet its objective of reducing poverty below 30 percent by 2010 in the target areas, the program needed to achieve 4 percent annual reductions in poverty – twice the national poverty reduction rate and annual declines of roughly 8 percent for minority groups between 2008 and 2010.

As it stands, many of the P135-II communes remain far from achieving programme goals. As of 2008, only 78 percent of P135-II communes had schools (compared to a target of 100 percent by 2010) and 85 percent of respondents indicated the most serious obstacles to primary education were inadequate physical facilities. Gaps in enrolment rates at the primary and secondary school levels between the national average and P135-II communes approached 20 percent, although at the lower- and upper-secondary levels, 81 percent and 69 percent of students were exempted from school fees and contributions. Less than five percent of P135-II communes had access to piped and filtered water; only 53 percent of households reported having access to clean water; some 27 percent below the program goal. Notably, only 13 percent of P135 households had one of three types of hygienic toilets, whereas the remainder had "other" types. Overall, there was a large gap between program goals and observed

conditions, particularly with respect to infrastructural components, such as roads, schools, water, and sanitation<sup>38</sup>.

One concern that has been expressed widely both among donors and Government, is the sheer number of programs which, it is observed, can place a tremendous strain on local units of government charged with their administration. (One local official informed a donor mission that he completed over 4,000 reports in a single year!)<sup>39</sup> By 2010, there were, by one count, 12 NTPs, with more being proposed. A longstanding concern that is frequently voiced by those in poor communities but also noted by state analysts, is that targeted programmes do not reach all or even most of those who are truly poor; the rather low poverty line and regional variations in the prices of essential goods and services means that large shares of poor and vulnerable households are not eligible for support.<sup>40</sup> Arguably, improvements in the availability, quality, and accessibility of essential social services could address the limitations of targeted programmes.

**Essential social services:** The foundations for the achievements of the past two decades were partly laid through the earlier provision of mass education and concern for public health, which meant that at the beginning of the *Doi Moi* period human capital was high given low per capita income. Having achieved much, in the coming decade, Viet Nam will be confronted with difficult issues in the provision of social services, even if a high rate of economic growth generates increases in resource availability.

One of the most important outcomes of *Đổi Mới* was the shifting of institutional responsibility for the provision and payment for social services in the direction of households. While gains in education, health, and other areas of service provision have been impressive, the delivery and finance of these services was beset by a range of problems. Generally, the quality and distribution of essential social services in Viet Nam is now inadequate to meet the country's development challenges over the coming decade, while the cost of services is frequently prohibitive for poor and even middle-income households.

The increasing commercialization of essential services at the point of delivery, including nominally public services, is occurring in the context of increasing economic inequality. If this pattern continues, it threatens to promote rather than ameliorate existing social inequalities and harm Viet Nam's growth prospects at the same time. This raises profound concerns as to whether and how Viet Nam can avoid the stalled development characteristic of low-performing countries in East Asia and other regions.

### **6.2.2 Key Tasks in the Provision of Essential Social Services**

In addition to employment and economic security, access to quality social services is a key determinant of wellbeing and requirement for any effective system of social protection. The Government's commitment to promoting participation and equality calls for effective policies and rules that ensure fair access to services and reduce gross disparities in the costs, qualities, and distributions of such services across the population. Chapters Seven and Eight

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<sup>38</sup> CEMA/UNDP (2008).

<sup>39</sup> DFID (2009).

<sup>40</sup> Nguyen Hai Huu *et al.* (2006).

of this report address education and health at greater depth. Some general points however need to be made about challenges concerning essential social services in the coming decade.

- Across areas of service provision, a better balance needs to be struck between the use of market tools to sustain funding and the need to provide services of required quantity and quality on an equitable basis;
- Recent research and policy experimentation in Viet Nam indicate that there is good reason to integrate more sophisticated understandings of child poverty and gender discrimination into policy planning and implementation across a range of social services;
- Across different types of services, there is a need for more effective models of service provision in different kinds of rural areas and the need to address new requirements for social services resulting from rapid urbanization;
- Demographic changes require attention. Declining fertility and changes in the age structure of the population will result in changes in the pattern of demand for social service, ranging from education to pension schemes;
- There is a need for innovative approaches to further improve the economic and social security of vulnerable groups throughout society, including children, marginalized ethnic minorities, and disabled persons;
- There is a need to address the infrastructure requirements for public health – particularly in water and sanitation;

Moving forward, decisions need to be made about principles that will govern budgeting and finance for social services and protection in the context of decentralization. These include coordination among different agencies across different jurisdictions, identifying and addressing strategic needs, and achieving stability in institutional responsibility for the provision and payments for different kinds of services.

**Social insurance:** While the country is still not so well-off there is a limit to the degree that government can take on the burden of ensuring income security, but as the country becomes wealthier an increasing effort to provide security to the vulnerable should be possible. The demographic bonus Viet Nam will experience in the coming decades provides a favourable environment to tackle these challenges, as its working age population will be double that of its dependent population.

**Targeted assistance:** The government has placed continuing emphasis on providing assistance to socially disadvantaged groups through various targeted programs. There is now debate, however, as to what the future role of targeted programmes ought to be. Though not without difficulties, many of the targeted programs have produced promising results. Infrastructure projects in poor communes have, for example, facilitated economic development, thereby contributing to household incomes, and permitted expansions in schooling and access to health care.

Tension between ‘targeted’ and ‘universal’ social policies is nothing new and most countries – particularly market economies – have tended to feature combinations of the two.<sup>41</sup>

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<sup>41</sup> See, for example, Mkandawire, 2005. *Targeting and Universalism in Poverty reduction*. Social Policy and Development Paper No. 23. UNRISD.

Looking forward, it might be more helpful to ask how, in light of observed strengths and weaknesses of existing programs and in view of international experiences, National Targeted Programmes (NTPs) can be adjusted so as to maximize their contributions to the government's overall strategic aims.

It has been argued that targeted programmes have “not been a critical component of government strategy (VDR 2008: *ii*)” in that they have never constituted a very substantial part of the budget, and their benefits have only reached a fraction of the poor (.005 or half of one percent of the population receive cash transfers). Sceptics regarding targeted programs argue that since the GoV's clear ambition is to develop universal programs, targeted programs are best treated as a transitional measure to facilitate participation in mainstream policies.<sup>42</sup> Indeed, some of the most successful targeted programs have been ones that have subsidized participation in mainstream programs.

With respect to targeted programs, three sets of challenges are apparent. There is a need to incorporate lessons learned from recent analyses of these programs' performance. Issues that require attention include perceived or real overlap in program aims, over-burdensome transactions costs (i.e. time and effort) associated with the administration of these programs in an environment of uneven institutional capacities, and coordination problems between government agencies in connection with the administration of some programs. Measuring impacts of programs also present formidable challenges. Programs vary widely in the way that they are administered, with more beneficiaries and lower payouts in some provinces and few beneficiaries and higher payouts in others.

A second set of challenges involves addressing current gaps in the programs, which may be addressed either through improving mainstream policies, or adjusting the emphases of the targeted programs themselves. As migrants make major economic contributions, social protection systems should thus leverage the positives benefits of the migration process while protecting those involved. The vulnerability of migrants has become evident since the economic downturn of 2008-09, with wide ranging repercussions on not only the migrants themselves, but also on the sending and receiving communities

Thirdly, the changes that Viet Nam will encounter in the next decade will no doubt transform the qualities and distribution of poverty and vulnerability. The food-price crisis of 2008 and the financial crises of 2009, required sophisticated policy responses. Internationally, targeted cash transfers and “near” cash transfers have been used as means of extending support to the poor without wreaking havoc only local economies.<sup>43</sup> Interesting research is exploring the effectiveness of such schemes for addressing nutrition among children.<sup>44</sup> Overall, global economic turbulence and threats emerging from pandemics and adverse

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<sup>42</sup> Such a view, while reasonable in some respects, probably rests on an exaggerated confidence in the poverty-reducing powers of markets or the adequacy of “mainstream” programs to disadvantaged groups and no doubt miss the social and (especially) political significance of targeted programs.

<sup>43</sup> Brahmabhatt, Milan and Luc Christiansen 2008. *Rising Food Prices in East Asia: Challenges and Policy Options*. World Bank. May 2008; See also Jonathan London and Paul Van Ufford. 2008. ‘Food Prices and Vulnerability in Viet Nam. Ha Noi. UNICEF.

<sup>44</sup> Basset, Lucy. 2008. *Can Conditional Cash Transfer Programs Play a Greater Role in Reducing Child Undernutrition?* Social Protection and Labour unit. World Bank. <http://www.foodsecurity.gov.kh/otherdocs/CT-nutrition-WB-paper-Eng.pdf>> Accessed February 2010.

climactic changes may create additional impetus of sophisticated and swift targeted interventions.

### **6.2.3 Labour Market and Employment Challenges**

Economic growth is necessary but not sufficient for sustained reductions in poverty and vulnerability. In Viet Nam as elsewhere, poverty reduction depends significantly on the distribution of economic growth and its benefits, including new economic opportunities. International experience suggests that access to stable and gainful employment is a – and perhaps *the* – key link between economic growth and poverty reduction. Creating more and better employment opportunities is therefore seen as especially important for creating routes of escape from poverty and vulnerability.

Overall, more and more-decent wage-based employment opportunities are needed to allow greater numbers of Vietnamese to make a permanent transition from poverty. The challenge in the labour market is to create conditions whereby increasing numbers of Vietnamese can find decent work and gradually move into higher-skilled, higher-paying, and more secure forms of employment.

An important challenge is the development of a more skilled workforce. Between 1997 and 2007, the share of labour in agriculture declined by from 65 to 52 percent.<sup>45</sup> But Viet Nam's labour force remains relatively lacking in formal skills. As of 2005, 75 percent of the labour force was composed of rural labourers of which only 32 percent received training and 14 percent have short-term vocational training certificates.<sup>46</sup> Professionally trained workers are estimated to meet only 30 to 40 percent of domestic demand.<sup>47</sup> The concentration of relatively skilled and therefore higher-paid labour in urban areas contributes to widening income gaps between rural and urban zones. While efforts to develop skills are ongoing, prolonged shortages of skills could constrain the sustainability of rapid economic growth.

One of the emphases in the literature on employment is expanding formal wage employment. There are several reasons for this. Formal sector employments tends to be associated with higher wage levels, greater security of employment, and inclusion in workplace sponsored social programs, such as insurance. By contrast, informal sector workers have little security of employment. Informal sector and contributing family workers are also frequently the most susceptible to adverse impacts of inflation and other shocks and have greater difficulty in accessing essential social services, including those that they are nominally entitled to as citizens. In times of economic turbulence, landless informal sector labour is likely to be worse off than labour in low productivity agriculture

For many, the route from poverty will be from low or non-paying family-based agriculture work into self-employment, and wage employment. (Employment for wages is no panacea. Large numbers of Vietnamese remain in relatively low-paying informal employment without means of contesting unfair labour practices or other rights violations.) For others,

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<sup>45</sup> ILO Office in Vietnam (2009).

<sup>46</sup> MOLISA Report (2006) quoted in Viet NamNet Bridge, 31<sup>st</sup> July 2007 'Labour Quality – Thorny Problem for Viet Nam' at <http://english.VietNamnet.vn/reports/2007/07/724529/>, accessed 15 July 2008.

<sup>47</sup> *Thanh Nien* news, 'Local Employers Cope with Human Resource Crisis', 20<sup>th</sup> July 2006.



improved agricultural infrastructure and techniques will generate growing incomes. Finding ways to promote these outcomes constitutes a key development challenge.

In the next ten years, population growth will generate a potential ‘demographic bonus’ as the proportion of working age in the population increases. To reap the potential benefits, job creation for 1.4 million annual labour-market entrants will be particularly important.

In important respects the employment and labour challenges that Viet Nam will face in the coming decade will be different than those encountered in the past. By 2007, agricultural employment still accounted for just over half total employment, and has probably fallen below fifty percent by 2010. Employment in manufacturing, construction, and services has increased. Labour in Viet Nam will increasingly locate in cities. Labour in rural and urban areas will require new skills.

What paths should Viet Nam take to more decent and more readily available jobs? The proposed transition from an economy based on primary commodities and labour-intensive manufactured goods to a more “knowledge-based” economy centred on the production of higher value-added goods and services implies the need for massive changes in the organization and operation of labour market. What does this mean for employment policy?

This question can be addressed on two levels; on the one hand there are the employment generated policies overseen by MOLISA, MARD and other agencies, designed to lift people from poverty. On the other there are broad structural conditions that Viet Nam should strive to achieve so as to maximize welfare gains for its labour force.

MOLISA’s recently disseminated Draft Social Protection Strategy has specified a number of steps to promote job creation for poverty reduction. These include steps to more aggressively promote vocational education, extend loans to the self-employed, and introduce a public works scheme that will provide guaranteed work.<sup>48</sup>

As a complementary strategy, the role of remittances is seen as an important strategy for poverty alleviation in Viet Nam. Consequently, exporting skilled labourers (as opposed to manual labour) is central to the current MOLISA employment strategy. According to MOLISA, labourers contracted to work abroad are under-skilled, and there is concern that Viet Nam will resort to a classic pattern of exporting unskilled labour and importing skilled labour’.

No doubt improvements in information systems at the city and provincial levels will help address the local mismatches between the supply and demand for skilled workers. Collaboration between MOLISA and the ILO on the refinement of information on the labour markets will intensify in the coming years. For example, a labour skills project of USD 18.3 million between the European Union, MOLISA and the ILO will be targeting 15 selected cities and provinces, with the aim of “supporting research on projected demands for skilled

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<sup>48</sup> Perhaps one weakness of the strategy is the continued use of physical “production” targets across various policy areas. Thus, with respect to labour market policies, the general announced goal is to “offer adequate and timely support for those in need”, whereas development goals are a laundry list of as yet unspecified targets for the number of youth in need receive vocational training, the number of unemployed and without livelihood be provided “retraining,” the percent of new entrants into labour market receive training, percent of unemployed persons receive loans and credit for self-employment, percent of people have access to and make use employment services, percent of unemployed persons with expired unemployment benefit participate in public works (MOLISA 2009).

workers, skill needs in each economic sector – and addressing any skills mismatches involving young people.” This will involve working with provincial employment centres to obtain a profile of registered job seekers and vacancies.

On a macro level, international experience suggests general directions whereby Viet Nam can promote employment and economic growth to maximum benefit. A recent study by Coxhead *et al.* (2009) distils five lessons from the experiences of successful labour market strategies in East and Southeast Asia. These include:

- A focus on labour-intensive, export-oriented industries, which both ensured rapid growth in employment and balanced employment growth and productivity growth - this is the model Viet Nam has implemented with some success in the past two decades.
- Success in ensuring availability of educated and skilled labour keeps pace or exceeds demand, which prevents bottlenecks and the intensification of wage-inequalities. In East and Southeast Asia, Thailand is a notable example of the growth-slowdown that can occur when skills development stalls. This report has emphasised the high priority Viet Nam needs to give to this need as it enters a new stage of industrial development.
- Policies that encourage (rather than frustrate or penalize) labour mobility across regions and economic sectors, promoting labour market flexibility. China and India’s failures on this count has contributed to inequalities – this is a policy area in which quick gains could be made in Viet Nam with little difficulty by continuing the process of relaxing constraints on movements of labour and improving the ease of registration in new locations.
- The development of enterprises of diverse sizes, ownership, and levels of labour productivity in labour intensive industries, which suggests the need for policies favourable to the development of small and medium sized firms, including private (non-SOE, non-equitized) firms, self-employed household, and informal sector enterprises. Such enterprises are flourishing in practice but could be much more effective with enhanced support in terms of access to land, credit and technical know-how.
- Adequate investments in urban areas, and urban infrastructure, permitting cities to grow and absorb surplus labour from rural areas. This issue is discussed in the urban chapter.

In agriculture, more and better training opportunities can create possibilities of mobility into other rural activities within and outside of agriculture. In peak seasons, scarcities of agricultural labour will become more widespread, and there will be an increasing incentive to introduce labour saving technology. This will both increase incomes for farm labour and create a demand for new skills in the rural economy. The currently high incidence of under-employment in rural areas suggests there is substantial idle labour power in off-peak seasons that could be mobilized for productive uses.<sup>49</sup>

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<sup>49</sup> A 2008 ILO study found, for example, that working time in rural areas had increased by ten percent in the ten years prior to 2006 to 82 percent, which still indicates a relatively high incidence of rural underemployment. (ILO 2008: 18, cited in ##).

## 6.3 Vulnerable groups

### 6.3.1 *Ethnic minorities and Communities in remote areas*

Among poor and socially excluded groups, special emphasis is needed on measure to disrupt the intergenerational transmission of poverty, particularly through efforts to ensure greater equality of access to education, with access to better schools and higher education strictly based on ability rather than means. In assessing prospect for alleviating poverty in the remotest areas there is a need for a frank assessment of the options in areas where the productivity of new investment is likely to be severely constrained by natural conditions. Pushing resources into area where the marginal productivity of capital is close to zero may give a short-term boost to incomes, but will not offer a lasting solution.

Moreover, if poor and poor ethnic minority communities are poorly educated and organised, and politically marginalised, developing the areas where they are resident may do little to improve their economic condition – and under certain circumstances the reverse can happen. Thus the rapid development of coffee in the Central Highlands led to the economic displacement of some members of the local ethnic minority communities in the face of rural-rural migration of Kinh.

It is, of course, desirable that ethnic minority languages and culture should be encouraged, but equally economic transformation and integration into the larger economy will no doubt come with deep social changes and an increasing degree of assimilation into the dominant culture. Improvements in education are therefore doubly important; not only to improve participation in the economy, but also to ensure that minority communities can adapt and manage change on their own terms.

Another area where progress is needed is in relation to public attitudes, prejudices and stereotypes which are supportive of economic inequality and victimization. In many societies, the poverty of ethnic minorities is mistakenly taken as evidence of their inherent inferiority. The situation of the poor and minorities should be treated with sensitivity, as poverty typically results from the objective circumstances facing households, rather than any failing on their part.

For ethnic minorities in particular a holistic approach will be necessary to change their social and political status, as well as their economic position in society. In particular, it will be necessary to raise their educational status and increase their participation in the administrative and political system. Party and Government leaders recognise in principle the desirability of greater ethnic minority political participation, and frequent statements are made to that effect, but progress is slow.

In assessing prospects for alleviating poverty in the remotest areas there is a need for a frank assessment of the options in areas where the productivity of new investment is likely to be severely constrained by natural conditions. Pushing resources into area where the marginal productivity of capital is close to zero may give a short-term boost to incomes, but will not offer a lasting solution. The development of remote ethnic minority communities therefore presents a profound challenge to the Government and the international community which wishes to help address this issue.

Ethnic minorities are frequently lumped together in program design, but the analyses of programmes performance needs to distinguish between different minority groups.<sup>50</sup> Given local diversity and assuming improved information, there is a need to move beyond location-based targeting. The P135-II baseline survey recommended disaggregating ethnic minorities into at least 10 different groups.

In one recent British-Vietnamese study led by Baulch<sup>51</sup> addressing chronic poverty among ethnic minorities will require aggressive steps to:

- Expand agricultural extension and marketing services but in ways appropriate to the diverse agricultural methods of localities;
- Redouble efforts to improve education for ethnic minority pupils, particularly by offering increased bi-lingual education;
- Increase ethnic minorities' access to wage employment;
- Improve Vietnamese language skills among many minority groups.

### 6.3.2 Children

Special attention is required to the needs of children, who tend to be more vulnerable to deprivations and are less able to assert the rights. Research on child poverty in Viet Nam illustrates how children are at a higher risk of poverty and are differently affected by poverty as compared to adults.<sup>52</sup> The research demonstrates that children who grow up in poverty are more likely to be poor in adulthood.

Recent work by UNICEF has argued that child poverty has many dimensions other than income poverty. Put more precisely, children can be deprived even in higher income households through neglect or misguided parental behaviour. In their efforts to develop more adequate measures of child poverty, UNICEF has advocated the application of a multidimensional approach that measures poverty in relation to deprivations of eight types of needs (including nutrition, health, water and sanitation, shelter, education, excessive labour, leisure, and social protection). Such an approach highlights the distinctiveness of children and emphasizes their needs.<sup>53</sup>

Urbanization and rural transformation, industrialization, and attendant migration will affect all aspects of children's lives. In rural areas, while many will enjoy improvements in material conditions, others may be affected by greater landlessness and chronic unemployment and underemployment among their parents. This will take a toll on families' ability to look after their children. New circumstances and attendant risks are also faced by children who are left behind when one or more parents migrate.

Growing urban poverty is a real risk to children's wellbeing and has received comparatively little attention. Rapid urban growth poses the challenge of rapidly scaling-up basic services, including institutional arrangements for the support and protection of children.

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<sup>50</sup> Economic and Social Research Council (2009).

<sup>51</sup> Economic and Social Research Council *ibid*.

<sup>52</sup> UNICEF/MOLISA (2009).

<sup>53</sup> UNICEF/MOLISA (2009).

Among the issues that may become more prevalent with a move to the urban areas is an increased risk of accidents and injuries. Economic imperatives, coupled with the change in family circumstances, poses a risk of greater numbers of children being susceptible to abuse, exploitation, violence and neglect.

Issues of adequate time for children and parental guidance/supervision is one that will be increasingly prominent and this will need to be addressed not only via moral persuasion/parental education campaigns, but policy interventions that support the needs of working parents and their children.

Institutional child care is an area that remains somewhat under-regulated and where enforcement of existing regulations needs to be strengthened; with industrialization, growth of the private sector and increased demand for domestic help, there is a need to protect children from being subject to exploitative labour.

While there are differences of opinion of whether dimensions of child deprivation should be termed 'poverty' or not, it is clear that children experience multiple forms of deprivation and household income is an inadequate form of measure to used in addressing issues of child deprivation.

Changing lifestyles, particularly in urban areas, will have an effect on the overall well-being and development of children. Eating habits often change with greater income – a tendency to move away from healthier traditional diets to processed and 'fast-food' options coupled with a more sedentary lifestyle for children will mean that childhood obesity will be on the increase. Thus Viet Nam will face the double burden of malnutrition – that of under-nutrition in disadvantaged populations and over-nutrition in others.

The inadequacy of recreational space and facilities in rural and urban areas is already an issue for many children and with growing urban areas this will become an acute problem unless planned for.

Among young people smoking and substance abuse is likely to increase as an outlet to cope with pressures and as an expression of a 'freer youth'.

Children living in risk prone areas of the country will continue to be vulnerable to periodic and repeated floods and typhoons and the new threats posed by climate change. Communities and families will be displaced and children's lives, and particularly education, will be disrupted. For those living in marginal areas, the repeated nature of these 'shocks' is likely to weaken the household's coping mechanisms and thereby overall stability of a family environment for children. Predictions on the effects of climate change and rising sea levels indicate that as many as 20 million people in Viet Nam may be displaced. In addition the country will face newer environmental problems of industrial pollution and natural resource depletion.

Promoting the rights and wellbeing of children has become a central part of the GoV's approach to welfare and social protection. Viet Nam's government has long evidenced a commitment to children's wellbeing. But recent collaborations between the government, international and bilateral donor agencies, and non-governmental organisations (NGOs) have reenergized this commitment. In the reform era, there have been a range of policies and programmes that have secured tangible gains in children's status. More recently, Viet Nam's government has moved toward the adoption of a comprehensive approach to children's rights and wellbeing. At the core of this approach is the observation that the determinants of children's wellbeing are multi-dimensional, and that efforts to promote children's rights and wellbeing must reflect this reality.

The evolution, efficiency and “child-friendliness” of the social welfare system will impact on the lives of disadvantaged children. Viet Nam’s political leaders have indicated their desire to develop welfare institutions that are capable of ensuring all Vietnamese access to the essential social services they require. There will be a need to ensure that child-centred expenditures are not marginalized in the budget.

As a component of a social welfare system, the development of the social work profession is needed. This is at a very early stage in Viet Nam and it is anticipated that in the future there will be a cadre of qualified and paid social workers who will be able to fulfil a critical role in society. This has the promise of at least being able to provide the type of professional care that is needed by families and children in need of special assistance.

As Viet Nam has devolved budget allocation authority to sub-national authorities, their decisions and actions have become an important determinant of outcomes for children and women. Decentralized arrangements could be advantageous for children and women through offering greater accountability and better avenues for participation. However, levels of capacity within sub-national authorities tend to be proportional to that province's wealth. This means that children and women in the poorest provinces are at risk of finding that decentralization also leaves them in the poorest managed and least resourced circumstances. Thus it is important that the needed capacities are strengthened in the most disadvantaged provinces, and that these provinces are supported in making pro-poor decisions.

### **6.3.3 Migrants**

Migration flows have contributed to economic development and poverty reduction. Remittances are significant direct contributions to poverty reduction in rural areas. The amount of remittances received from international and internal migration in 2007 was estimated USD 5.5 billion<sup>54</sup>, and 87 percent of Vietnamese households were estimated to receive some form of remittances<sup>55</sup> indicating the large reach of migration impacts on poverty.

Migration has been a crucial aspect of social change in Viet Nam and an important contributor to economic growth. Economic migrants contribute to economic accumulation, and it is notable that in past surveys<sup>56</sup> large majorities of migrants report improvements in their living conditions as a result of their migration. It is also known that migrants confront difficulties in escaping from poverty or vulnerabilities due to rigidities in formal institutions governing household registration and access to public services. The extent of the existing problem has tended to be under-estimated, as the poor people who move into the cities and peri-urban areas in many cases cannot establish legal residential status and as a result are not incorporated into many official statistics. Generally, the increased recognition of migrants’ special contributions and needs has not been accompanied by sufficiently timely and appropriate policy responses; though the Government’s movement toward portable social security benefits an encouraging sign.

At present, more than half of all migration in Viet Nam is between rural areas. But Viet Nam is also urbanizing. Managing migration and urbanization processes will require

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<sup>54</sup> United Nations Development Program (2009).

<sup>55</sup> VHLSS 2004.

<sup>56</sup> See, for example, GSO & UNFPA (2006).

learning from international experience, not only with respect to migration, but issues such as settlement, appropriate infrastructure, employment opportunities, and social services. Part of any poverty reduction regime should recognise and respond to the distinctive needs of migrants and new urban residents, which are currently neglected because recipient authorities do not recognise responsibility for new, unregistered arrivals.

As the economy gets more urbanised and sophisticated, as in most societies even in the wealthier areas, such as the big cities, there will be categories of people who are marginalised for reasons of disability and old age. Moreover, with the passage of time, village-based family support networks will weaken, so that urban households which slip into poverty will be less able to call on family networks for support.

To implement all these tasks, which attempt to reach and serve abused, “at risk”, and marginalized people and communities, will require enhancement of the administrative capability to handle social needs. This includes the need to promote the development of a cadre of professional “social workers” that have sufficient independence from local authorities, so as to engender trust and a feeling of confidence in those whom they are to serve.

Experience from Viet Nam and other countries (China, in particular) indicate the particular importance of the protection of the land rights of poor households. With rapid industrialization, urbanization and building of large infrastructure more and more land is needed. It is only too easy for the land rights of poorer households to be displaced – even where compensation is provided this does not mean that displaced communities will easily develop alternative livelihoods.

#### 6.3.4 Gender

##### **Box 1.1. Gender Inequality in Viet Nam: Progress or Stagnation?**

Along with the general population, women in Viet Nam have experienced important average improvements in their living standards. Nonetheless, gendered inequalities in Viet Nam remain. There are still strong persistent gender norms, values and stereotypes which lead to inequality between women and men in all spheres of life and in all stages of the life cycle;

- The sex ratio at birth (of boys to girls) has increased to alarming levels, from 107 in 1999 to 110 in 2006 and 112 in 2008 (according to the 2009 Population Census).
- Women spend as many hours in employment as men but are paid less: In 2002, the figure was 4.9 hours per day for women and 5.0 hours for men, while wages earned by women were 67–85 percent of men’s wage. The average hours used per day for housework by women is 2.5 times higher than men in urban areas and 2.3 times higher in rural areas.
- Women remain under-represented in the political system. The percentage of women in the National Assembly (NA) XII is 25.7 percent - falling short of the target (30 percent) set by the National Strategy for the Advancement of Women to 2010; only 6 percent of the 10<sup>th</sup> Party’s Central Committee are women, There is no woman in the Communist Party Politburo and only one of 22 ministers is female.
- While among the more educated and better-off, girls and boys are treated fairly equally, whereas in poorer households priority in education and health care is often given to boys;
- In 2002, average health care expenses for a woman who got treatment within 12 months prior to the survey was equal to only 90 percent expenses for men, in 2004 – 85 percent and in 2006 – 80 percent.
- The Family Survey of 2006 showed that households are mostly headed by men, 80 percent



of houses and land/farm are under the name of the husband, 65 percent of the newly married couples live with the husband's family while only 8.4 percent of them live with the wife's family.

- When it comes to childcare, the average time women spend to take care of children under 15 years old is 6 times more than men. Similarly, while nearly 47 percent wives are given the responsibility of taking care of the elderly and sick people in the family, only 9 percent of husbands are doing so.
- Gender inequality is not getting better. In urban areas (where wage jobs, requiring relatively high levels of education and training are concentrated) the unemployment rate has tended to be lower for men than for women, and recent studies have suggested that the unemployment impact of the current international economic crisis is greater on women than men.
- Women in political power are apparently decreasing: there were fewer women in NA XII than the in NA XI and less female ministers than in the previous cabinet.

Some key gender issues include:

- Gender norms and treatment of girls and boys varies for different social groups. There is no longer one unified gender norm for the whole country. While among the more educated and better-off, girls and boys are treated fairly equally, it is not the case among the poorer populations. When the family has fewer resources, priority in education and health care is often given to boys.
- Some aspects of gender discrimination seem to be worsening. A striking example is of the sex ratio at birth, which has increased from 107 in 1999 to 110 in 2006 and 112 in 2008 (according to the 2009 Population Census). Aborting a female foetus is an extreme act to avoid having more daughters and leaving "space" for boys. It shows how strongly families want boys instead of girls. While son preference does not exist in all families it must exist in a large proportion of the population – sufficient to make sex-ratio-at-birth so skewed.
- In 2002, average health care expenses for a woman who got treatment within 12 months prior to a survey was equal to only 90 percent expenses for men, in 2004 – 85 percent and in 2006 – 80 percent.
- A study carried out in 2 national and 1 provincial hospitals discovered that boys accounted for 61 percent of all children admitted to these hospitals in 12 months in 2006 and 2007. The study report cited results of another study in 3 national children hospitals in which 70 percent of all children admitted were boys.<sup>57</sup> The effects of user charges should be monitored as with increases of education fees there is a bias towards investing in boys which will tend to reduce girl participation in higher education, and increases in health care costs may introduce an increasing bias in access to health.

Paradoxically, some aspects of discrimination work to the benefit of women. Although men are more privileged they die earlier – probably partly because of their life style

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<sup>57</sup> MOH, NPH, UNCEF (2008).



(e.g. usage of alcohol). In 2003, the male percentage was 48.4 percent in the 45-49 group, 46.3 percent in the 55-59 group and 42.2 percent in the 65-69 group. Hospitalized traffic injuries among men are twice that of women.<sup>58</sup> However, this leaves a burden on women: 10.7 percent of women were widows (2003) vs. 2 percent in men who are widowers.

In relation to gender inequalities, two of the most alarming aspects concern the imbalance in the sex ratio and domestic violence. The sex ratio at birth is changing rapidly in Viet Nam, by 1 point annually since 2006 and was at 112:100 boys to girls nationally in 2008 according to data available from GSO's annual Population Change Survey. At the present rate of increase, United Nations Population Fund (UNFPA) estimates there will be a 10 percent "surplus" of men by 2035. Several factors influence this, including the availability of sex-selection technology, the two child policy (now renamed) and perhaps most critically, persistent son preference based on the patrilineal family structure and perceptions of the value of the male child. The skewed sex ratio will have implications for the "marriage market", and will potentially increase trafficking and sex work, while also contributing to a breakdown in traditional family make-up and cultural norms.

The family's investment for boys is not only because of cultural norms concerning boys and men – as "default head of the household" – but also because for practical reasons. Children are their last and in many cases – the only resource that guarantees financial, physical and emotional support. The Family Survey of 2006 showed that households are mostly headed by men, 80 percent of houses and land/farm are under the name of the husband, 65 percent of the newly married couples live with the husband's family while only 8.4 percent of them live with the wife's family. The majority of daughters when they marry no longer live with parents, nor do they have the power over their own family's resources or even their own time, and are therefore less likely to be a source of support. Parents count on sons, thus invest in sons. Even if parents have their own financial resources if they fall sick or become disabled, they will need physical help as their health condition deteriorated. Emotional support is no less important. With such a small chance of having a daughter around, parents rely on sons for company as they age.

Changes in public attitudes are needed to reduce the unfair treatment of women everywhere in all its forms. This relates to the unfair distribution of the work burden and to the incidence of violence. There has been progressive and important government legislation to protect the rights of women, but change cannot come from legislation alone – it requires a transformation in attitudes, particularly within poorer communities. This will require action through education, the media, and Party training programs.

Violence against women is a threat to human security with high costs for families, communities and the economy. Gender-based violence includes sexual, physical, emotional and financial abuse, structural discrimination (e.g. institutional structures that result in disparities in access to services); violence perpetrated or condoned by officials (i.e., persecution of sex workers, men who have sex with men, women living with Human immunodeficiency virus (HIV)) and trafficking of women and girls.

Estimates of prevalence of domestic violence in Viet Nam vary widely with no national data available, however nearly two thirds of women see violence as acceptable in Viet Nam. A national study of the family conducted in 2006 indicated that 21.2 percent of

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<sup>58</sup> [http://www.wpro.who.int/Viet\\_Nam/sites/dhp/injury/programs.htm](http://www.wpro.who.int/Viet_Nam/sites/dhp/injury/programs.htm).

married couples had experienced at least one form of domestic violence, including verbal, emotional, physical, or sexual violence. Other small-scale studies give estimates ranging from 16-37 percent physical violence, 19-55 percent emotional violence, and 6-33 percent sexual violence. Although there are no definitive statistics, estimates of trafficking in women suggest that thousands of Vietnamese women and girls have been trafficked for sexual exploitation in China as well as in Cambodia and through Cambodia to the third countries annually.

The current law on Gender Equality and Law on Domestic Violence Prevention has supported efforts to create a legal and policy framework that addresses domestic violence. Key gender-based violence issues should be addressed such as institutionalizing GBV data collection system, allocating adequate state budget resources for GBV, strengthening capacity to implement GBV policies and legislate at all levels, integrating GBV issues into the education system, and an essential “minimum package” of GBV prevention, treatment, protection and support services. GBV intervention programs are mostly at the pilot stage and operate on a small scale.

Prevention of violence must remain at the forefront of any national GBV response. One of the most effective ways to prevent and control GBV is to challenge gender inequality norms and promote gender equality among citizens from a young age. Efforts to ensure equal female access should not be only for social services and political offices, but for opportunities in terms of work, voice/representation, career development, workers with family responsibilities. Efforts should be made in terms of promoting sharing of responsibilities, addressing the issue of care and informal economy, domestic violence, and gender based violence.

## **6.4 Some Policy and Program Priorities**

### ***6.4.1 Better Measurement of Poverty and Vulnerability***

The SEDP calls for a 2 percent annual reduction in poverty. If achieved, this suggests that poverty in Viet Nam would be eliminated by 2020. If achieved, that would be impressive. Probably, even if there is continuing success, there are likely to be remaining pockets of absolute poverty. This is particularly likely to be the case for remote communities and for the poorer ethnic minorities. However, the target applies to absolute poverty as currently measured.

When poverty was the general condition for a large proportion of the population, there was little point in discriminating one form of poverty from another. As Viet Nam grows wealthier, so too does the significance of relative poverty, and it is likely that the meaning of poverty and poverty reduction will be reconsidered. A careful distinction is therefore needed between performance in reducing absolute poverty, in relation to which the performance has been impressive, and performance in relation to inequality.

In the coming decade, relative poverty will emerge as a more important phenomenon than absolute poverty. Indeed, it is quite possible (even likely) that continued reductions in absolute poverty may be combined with rising inequality. A careful distinction is therefore needed between performance in reducing absolute poverty, in relation to which the performance has been impressive, and performance in relation to inequality.

As Viet Nam grows wealthier and more socially differentiated so, too, does the need for a more nuanced understanding of wellbeing in Viet Nam. A number of analyses (e.g. Pincus and Sender 2008) have drawn attention to some of the important limitations of survey.

Others have emphasized the need for studies of poverty and vulnerability to be more attentive to the institutional contexts in which poverty and vulnerability occur (UNICEF 2009b).

Moving forward, a greater understanding of social inequalities in Viet Nam will be needed. Poverty must be one of the most researched issues in Viet Nam, with numerous studies by the Government, the WB and various other donors, non-governmental organizations, and scholars. Data from the living standards household surveys in particular (the VLSS and VHLSS) have been widely used and provide a reasonable foundation for understanding poverty in Viet Nam. Regional trends in rural poverty (in particular the differences in trends between the two deltas, and between the delta areas and less fertile and more remote areas) are well known.

Similarly, increasingly a more nuanced understanding of poverty and vulnerability is needed to effectively formulate poverty policy. It is no longer adequate to state that poverty in Viet Nam is more frequent in rural areas and in particular regions – the northwest, central highlands, and northeast having the highest incidence. Who, specifically, are the poor and where specifically are the poor? And which specific poor are and are not being counted? These are the questions that need to be addressed. Existing programmes intended to track wellbeing, such as the nutrition sentinel survey, need to be strengthened.

Recent research also reveals that income – while of critical importance – is by itself an inadequate yardstick for gauging patterns of deprivation across regions and different segments of the population. It is also necessary to better recognize distinctive forms of poverty and deprivation across regions, so as to inform more effective policy planning. Moving forward, a greater understanding of social inequalities in Viet Nam is needed. In the coming decade, relative poverty will emerge as a more important phenomenon than absolute poverty. Indeed, it is quite possible (even likely) that continued reductions in absolute poverty may be combined with rising inequality. A careful distinction is therefore needed between performance in reducing absolute poverty, in relation to which the performance has been impressive, and performance in relation to inequality.

### ***6.4.2 Improving Essential Social Services***

As this report argues, the pace and character of Viet Nam's economic growth over the next decade remains unclear, as does the scope and distribution of its effects on the wellbeing and/or vulnerability of the general population. What is clear is that in *any* foreseeable growth scenario, further improvements in living standards will depend significantly on outcomes of efforts to improve the availability and quality of essential social services.

While progress has been great, it is widely acknowledged that Viet Nam's system of social service provision has important weaknesses. Pointing this out is not to diminish past achievements, but to ensure a sober analysis of present and prospective challenges. Moving forward, there is a need for Viet Nam to move beyond providing a basic floor of services. Arrangements must be struck that promote the provision and payment for higher quality social services.

In light of resource constraints, how can government most effectively ensure the supply of essential social services and protection?

One route could be through a more vigorous implementation and expansion of the ordinance on “grass roots democracy”, to increase popular oversight of service provision. However, while building grassroots democracy represents a laudable goal, its achievement will not be easy. It requires the encouragement of open dialogue and widespread participation in decision-making, a stated objective in many political systems but not typically easy to

achieve in practice as it is not untypical that local officials do not welcome being constrained by popular opinion.

A rights-based approach to essential social services can be used extensively in policy-making and analysis to identify gaps between the rights of access to basic social services and failures to provide. The gaps identified would inform the types of challenges relating to each population group with an analysis on how to fill the gaps.<sup>59</sup>

The 2011-15 draft SEDP recognizes social protection as necessary for sustaining rapid and broad-based economic growth and the needs of disadvantaged groups. Viet Nam's Draft Social Protection Strategy is sensible in its focus on the management of *ex-ante* and *post-hoc* risk. However, analysis of anti-poverty programs suggests the need to improve the precision of targeting anti-poverty programmes, and to protect rights of access to essential social services.

Declines in birth rates, changes in the age profile of the population and changes in the household structures of families will result in shifts in the patterns of demand for social service, ranging from education, pension schemes to elderly care. Given the increase in elderly population in the next 10 years and also elderly living alone in rural areas left by the children who are migrating to urban centres, there is a need for the social services and social protection schemes to address the needs for this segment of the population. Experience can be taken from other countries such as China who is already facing many of these challenges.

The government recognizes that improving existing modalities of government assistance will be necessary to promote living standards improvements over the long term.<sup>60</sup>

## 6.5 Policy Options, Recommendations, and the Role of Donors

In addressing the challenges of ongoing poverty and vulnerability, and emerging inequality of opportunity, among the things government can do are the following:

- More vigorous and innovative research needs to be undertaken on issues pertaining to poverty and vulnerability and social policies intended to address them.
- Recognize with greater precision diversity in and prevalence of various forms of poverty and vulnerability as they occur across the country and across and within different regions and segments of the population;
- Improve economic opportunities for all socially excluded groups with special emphasis on disrupting intergenerational transmission of poverty;
- Develop social security institutions more capable of protecting or insulating various segments of the population against the vagaries of markets; limit the contributions of illness, accidents, and related debt to poverty;

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<sup>59</sup> In this context, the social budgeting frameworks being experimented with by UNICEF Viet Nam represent a promising avenue for policy dialogue and planning. See "Analytical & Methodological Framework for Social Budgeting Work", A Study for UNICEF, Vietnam Office, Final Draft, Mark Minford, 15<sup>th</sup> December 2009.

<sup>60</sup> This is clearly evidenced in the recent and widely-praised draft Social Protection Strategy document put forward by Institute of Labour and Social Science Affairs.

- Strengthen existing mechanisms and devise new ones to promote the fulfilment of human and constitutional rights in the context of a decentralized but weakly regulative administrative system;
- Address problems arising from ethnic and linguistic difference, and stigma, through education and the use of popular media;
- Institutionalize and promote policies (including those related to investment planning and evaluation procedures) that are attentive to the special vulnerabilities of children to various forms of material deprivation;
- Recognize the distinctive needs of migrants and new urban residents, to reap the full potential of internal migration for the development of the migrants themselves.
- The need for capacity building in utilizing population data and population projections for policy formulation as well as social economic development planning at central, regional and provincial levels.
- In relation to gender, the underlying sources of gender inequalities include deep-seated cultural values and widely held gender stereo-types. While such attitudes may be difficult to influence through government policies, the negative consequences can be addressed by conscious efforts] to ensure equal female access to the social services and a strong pension and elderly care system that will reduce the reliance on sons as care takers and by ensuring equal female access to political office and to break through the “glass ceiling” in the allocation of positions of power and influence.
- Integrate the multidimensional approach to child poverty (i.e. take into account diverse forms of deprivation among children) into the national system for poverty monitoring as UNICEF has advocated
- Support the redesign of sample frames in major national surveys to include vulnerable groups (migrants, unregistered households, etc.) which are presently excluded.
- MOLISA has articulated its own wishes for support. In particular, support is needed for IT infrastructure development, training in monitoring and evaluation, and assistance in information sharing and the promotion of inter-sector/institutions activities. With respect to employment, donor assistance can contribute to the development of national and regional networks of labour information centres. With respect to labour market oriented training activities assistance is desired in evaluating the design of current processes and regulations. In social insurance, assistance with legal review is required, particularly as it concerns the collection of contributions, the coordination of subsidies, and funds management. General support for policy research, implementation, and capacity building and training is needed.
- Support is also desired for the funding of local pilot projects as well as project funding for conditional cash transfers (CCTs), particularly in education and health. The growing volume of scholarly literature on CCTs suggests CCTs will be most

effective when they are integrated with ‘mainstream’ social programmes. Failure to do so will tend to reproduce existing patterns of social fragmentation.<sup>61</sup>

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<sup>61</sup> See, for example, Lomeli (2008).

## Chapter 7

### Education

Promoting the development of a more skilled and productive workforce – and doing so rapidly – is undoubtedly among the greatest and most urgent development challenges Viet Nam confronts. Meeting the demand for skills in a fast growing and changing economy is already proving to be a great challenge, as evidence suggests skills bottlenecks are limiting productivity gains and acting as a brake on the pace of foreign investment. International experience suggests prolonged shortages of skilled labour would harm Viet Nam’s growth prospects over the long term and contribute to the intensification of social inequalities.

Viet Nam needs to improve its education and training system at all levels. The importance of education and training as an input into economic growth and of economic growth to support expansion in education and training is well established. The value of education and training is not merely economic. Education imparts morality and civility, as well as creativity and ingenuity, and the ability to critically evaluate information and ideas.

Many of Viet Nam’s achievements in education have been impressive indeed. It is clear, however, that Viet Nam’s current education system is inadequate to the country’s current and future needs. This chapter assesses strengths, weaknesses, and gaps in Viet Nam’s education system, identifies key education-sector challenges, and discusses the requirements for addressing them. The chapter concludes with a discussion of how donors might assist the Government address challenges and seize opportunities in the field of education.

#### 7.1 Educational Strengths, Weaknesses, and Gaps

Viet Nam’s government recognizes education to be a universal human right and is cognizant of education’s centrality to a human-development paradigm and to the future of Viet Nam itself. Viet Nam’s leaders have consistently emphasized that education is a – perhaps *the* – “national priority”. In particular, the Government has demonstrated its commitment to expanding the availability of education and training opportunities.

Many of Viet Nam’s achievements in education have been justifiably lauded. By 2009, literacy approached 94 percent nationally and 97 percent in urban areas.<sup>62</sup> Enrolment data suggest dramatic improvements in the availability of formal education at all levels of schooling, including doubling and trebling of lower- and upper-secondary enrolment over the past two decades, and a thirteen-fold increase in post-secondary enrolment. As a result, there have been impressive declines in disparities across different regions and socioeconomic groups. Remarkably, enrolments among boys and girls are now roughly equal across primary and secondary education, with girls’ enrolment in upper-secondary education exceeding that of boys in some regions.

It is doubtless that improvements in the availability of education have contributed to Viet Nam’s economic growth. But the most commonly cited statistical indicators of education in Viet Nam – especially (but not only) enrolment figures – can present a misleading picture. Powerful incentives for education managers to report “good news” has resulted in something

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<sup>62</sup> GSO 2009. Census Sample Results.

that Vietnamese refer to as “achievement syndrome” (*bệnh thành tích*), which has resulted in a systemic neglect of the quality and relevance of education.

The fact that higher proportions of Vietnamese are attending school is certainly a good thing. But this tells little about the quality, or its adequacy to Viet Nam’s current and prospective developmental needs. Available research suggests education and training in Viet Nam has system-wide problems and unacceptable unevenness in the quality and relevance of education and instruction.

**Public spending on education:** Public spending on education has grown significantly in both absolute terms and as a proportion of GDP. Between 1990 and 2006, recurrent budgetary spending on education increased from 1 to 3.5 percent GDP (MOF 2006). Between 2001 and 2006 the government’s annual budget for education trebled. Currently education stands as the largest single expenditure item in the regular budget. By 2008, education accounted for roughly 23 percent of the state budget and the government has indicated its intention to maintain this level for the foreseeable future. The government has sought to bring total public spending on education up to 6.9 percent of GDP by 2010,<sup>63</sup> as compared to roughly 1.8 percent in 1994.<sup>64</sup>

In the 2007 education budget, primary education accounted for some 28 percent, lower- and upper-secondary for a combined 36 percent (24 and 11 percent respectively), followed by tertiary education (16 percent), vocational and professional secondary education (4 percent each), continuing education (2 percent), with the remainder going to “other” categories.<sup>65</sup> Viet Nam’s Government has stated its intent to raise public expenditure on education to 5.5 percent of GDP by 2020.

As in most developing countries, a large proportion (over 80 percent) of recurrent public spending on education goes to teachers’ wages.<sup>66</sup> Recent years have seen several rounds of wage increases, reflected in a more than four-fold increase in recurrent expenditures. Salaries and wages vary considerably across regions and different parts of the education system. The very slow growth in teachers pay over the 1990s had created hardships for teachers and contributed to the institutionalization of such practices as illegal fees, the private provision of after-hours “extra-study” classes by nominally “public” teachers, and various forms of academic corruption. Future policies on teachers’ pay have wide-ranging implications for the costs and quality of education in Viet Nam and may or may not mitigate the current trends toward the commercialization of education.

## 7.2 Primary and Secondary Education

Table 1.1 presents estimates of net enrolment in urban and rural areas of Viet Nam up to 2006, the most recent year for which data are available.

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<sup>63</sup> MPI (2006).

<sup>64</sup> Nguyen Thi Canh (1997).

<sup>65</sup> MOET.

<sup>66</sup> According to the MOET <<http://www.moet.gov.vn/?page=11.6&view=9268>>.



**Table 1.1. Estimated Net Enrolment by Urban and Rural Areas, 1993-2006**

	1993	1998	2002	2006
<b>Primary</b>				
Urban	85.58	95.92	94.1	89.7
Rural	76.56	91.96	89.2	89.1
<b>Lower secondary</b>				
Urban	48.5	80.3	80.8	86.9
Rural	26.3	57.9	69.9	83.3
<b>Upper secondary</b>				
Urban	17.3	54.5	59.2	66.3
Rural	4.7	22.6	37.7	50.3

*Sources: VLSS 1997-98 (GSO 2000: 49); VLSS 1992-93 (GSO 1994: 51); 2006 data is calculated by authors on the basis of VHLSS 2006.*

As the data indicate, disparities between urban and rural areas have declined at all levels of the general education system. The movement toward greater equality of opportunity in urban and rural areas is encouraging. The narrowing of the urban-rural gap is particularly striking at the lower-secondary level. Other data (presented below) shows declines in enrolment disparities across regions, and various socioeconomic groups. Enrolment gains no doubt reflect the Government's concerted efforts to expand educational opportunities. Once again however, enrolment figures like these tell little about the great variation in Viet Nam that remains in costs, qualities, and outcomes of education.

**Primary education:** The government has sought to ensure that all children get a primary school education. As a result, it is in primary education that there is the smallest urban-rural gap – primary education is the only level of education that is both compulsory and entirely publicly financed. The relation between income and primary enrolment has also declined over time. By 2006, the difference between the poorest and wealthiest quintiles of the population was around five percent, as is illustrated in Table 1.2. Regional disparities have also narrowed, as have disparities among ethnic groups. High rates of primary enrolment are surely an encouraging sign that aspects of Viet Nam's education system are becoming more inclusive.

Despite this impressive record there are reasons for concern, as substantial share of children do not attend school in a regular manner. This is particularly the case among poorer children, children in remote and mountainous regions, and children in ethnic minority groups. VHLSS and other data reveal significant attendance disparities exist across regions, income/expenditure groups, and ethnicities, even at the primary level. Using VHLSS and MICS data from 2006, UNICEF analysts found that one in ten children between the ages of 11-15 had not completed primary school (UNICEF 2009). Gross completion ratios for primary education remain significantly higher (at 89 percent) in urban areas than rural areas

(80 percent) (UNICEF-GSO 2008: 98). Household survey data likely *overestimate* actual enrolment and completion rates, as household surveys in Viet Nam to date do not capture significant numbers of migrant households, who are likely to be poor and whose children typically exhibit lower enrolment and completion rates

Notably, Viet Nam's poorest regions – the northwest and central highlands – but also one of its richest (in income terms) – the Mekong delta, exhibit some of the lowest primary enrolments. As listed in Table 1.2, estimated net primary enrolment rates for these regions in 2006 were 83, 87, and 88 percent respectively.

Large disparities exist in the quality and material circumstances of primary education and instruction. Viet Nam's government has made significant efforts to address quality concerns, though there is not space to analyse these efforts in a compressive manner. One recently-concluded large-scale foreign-supported initiative, the Primary Education for Disadvantaged Children (PEDC) project, has aimed to promote education among children in ethnic minority groups, poor households and areas, and remote regions over a six-year period. The project took place at over 3,000 primary school campuses across the country.

**Table 1.2. Estimated Net Enrolment Rate in Primary Education**

	1993	1998	2002	2006
<b>Whole country</b>	<b>86.7</b>	<b>91.4</b>	<b>90.1</b>	<b>89.3</b>
Urban	85.58	95.92	94.1	89.7
Rural	76.56	91.96	89.2	89.1
<b>Region</b>				
Red River Delta	85.12	95.8	94.88	90.4
North East	75.35	95.53	94.10	89.2
North West			91.47	82.9
North Central Coast	79.69	95.11	--	91.8
South Central Coast	76.62	89.39	97.20	89.6
Central Highlands	59.2	82.33	94.49	87.5
South East	85.26	94.32	96.81	89.1
MRD	72.79	87.66	91.79	88.4
<b>Income quintiles</b>				
Quintile 1	66.9	84.8	84.5	85.4
Quintile 2	77.57	94.47	90.3	88.3
Quintile 3	81.49	94.82	91.9	90.1
Quintile 4	84.96	96.27	93.7	90.1
Quintile 5	84.77	96.81	95.3	90.1
<b>Ethnicity</b>				
Kinh/Hoa	90.6	93.3	92.1	-
Other	63.8	82.2	80	84.99

Sources: VLSS 1997-98 (GSO 2000: 52); VLSS 1992-93 (GSO 199: 50); 2004 and 2006, the author calculated percentages on the basis of VHLSS (2004; 2006);.

As a PEDC appraisal document notes, “Studies of primary school completion and learning outcomes show the most important school related performance determinants are teachers’ qualifications, subject knowledge, and training; school resources and facilities; community/parental participation; and instructional time.” To support and monitor improvements in quality, the PEDC project developed outcome indicators that included measures to increase student aptitudes in Vietnamese and math; realize improvements in grades scored in Vietnamese (language) among minority, female, and rural students; increase the number of years of primary education among minority students; and, increase the proportion of students receiving at least 30 periods of instruction per week.<sup>67</sup> These outcome indicators reflected some of the weaknesses in primary education in Viet Nam, but the project achieved notable successes.

The effectiveness of the PEDC project in achieving fundamental school quality levels for primary schools in project districts is clearly demonstrated. At the beginning of the PEDC less than half the schools in the project met the standards. After four years of project implementation, the proportion of schools in the project meeting them had increased to 70 per cent, with a growth rate nearly double the national average and more than double that of districts not in the project in the same provinces. Areas of difficulty in the project are also indicative of problems in primary education. These included the continued prevalence of multi-grade classrooms and long delays in the construction of schools owing, frequently, to institutional rigidities and administrative problems.

**Lower- and upper-secondary education:** Between 1993 and 2006, net lower-secondary enrolments more than doubled. Although disparities between regions have narrowed, they remain significant, while disparities between different socioeconomic strata and ethnic groups remain high, as is evident in Table 1.3.

**Table 1.3. Estimated Net Enrolment in Lower Secondary Education**

	1993	1998	2002	2006
<b>Whole country</b>	<b>30.1</b>	<b>61.7</b>	<b>72.1</b>	<b>78.8</b>
Urban	55.8	81.9	80.8	82.8
Rural	31.8	57.2	69.9	77.7
<b>Region</b>				
Red River Delta	51.7	83.5	88.2	86.9
North East	29.7	56.4	70.86	83.3
North West			50.32	61.1
North Central Coast	39.6	62.3	88.47	84.2
South Central Coast	42.7	63.2	81.64	81.6

<sup>67</sup> NORAD (2009).

Central Highlands	21.4	43.7	69.45	69.9
South East	44.8	71.7	73.31	78.2
MRD	22.3	44.9	56.75	69.3
<b>Income quintiles</b>				
Quintile 1	18.6	35.1	53.8	62.4
Quintile 2	27.8	53.7	71.3	76.3
Quintile 3	34.9	65.0	77.6	82.9
Quintile 4	44.6	70.9	78.8	84.7
Quintile 5	54.7	90.8	85.8	88.3
<b>Ethnic groups</b>				
Kinh/Hoa	33.6	66.2	75.9	78.91
Others	6.6	36.5	48	61.54

Source: GSO.

Low net-enrolment rates reflect low rates of school attendance and high prevalence of delayed schooling. Household data indicate that almost one out of five children aged 5-15 do not attend school at a level that is appropriate for their age. Many children – particularly in poorer and disadvantaged groups – encounter difficulties in moving from primary to secondary education. Completion rates for lower-secondary education are much lower among poorer income strata and ethnic minority groups.

The improving availability of education is perhaps most dramatically illustrated in upper-secondary enrolment rates. As Table 1.4 shows, increases in upper-secondary education have been even more rapid than at the lower-secondary level, with a more than seven-fold increase between 1993 and 2006. The urban-rural gap has narrowed significantly, though remains large.

Data in Table 1.4 show substantial inequalities across regions – with the Northwest and Mekong Delta showing the lowest rates. Large differentials also persist across income and ethnic groups. The fact that net enrolment in the Mekong River Delta region was estimated at less than 40 percent indicates children in that region are perhaps not as well off as conventional poverty estimates imply. That only slightly more than half of young people – and fewer than one in four young people in the lowest income quintile – are enrolled in the age-appropriate upper-secondary grade suggests large proportions of Vietnamese youth are not getting the education they require.

**Table 1.4. Net Enrolment Rate in Upper-Secondary Education**

	1993	1998	2002	2006
<b>Whole country</b>	<b>7.2</b>	<b>28.6</b>	<b>41.8</b>	<b>53.9</b>
Urban	30.2	54.9	59.2	66.3
Rural	6.9	21.9	37.7	50.3
<b>Region</b>				

Red River Delta	19.1	45.5	72.8	68.3
North East	{ 9.5	22.2	43.7	55.3
North West				34.7
North Central Coast	7.2	29.6	57.2	59.8
South Central Coast	15.2	32.6	54.0	58.1
Central Highlands	1.9	10.6	34.3	43.8
South East	15.5	36.5	47.3	55.2
MRD	5.9	17.3	29.2	38.4
<b>Income quintiles</b>				
Quintile 1	2.2	5.2	17.1	22.8
Quintile 2	3.7	13.2	34.1	46.5
Quintile 3	7.5	21.7	42.6	57.9
Quintile 4	14.5	36.3	53.0	65.4
Quintile 5	25.6	64.2	67.2	78.3
<b>Ethnic groups</b>				
Kinh/Hoa	7.9	31.9	45.2	--
Others	2.1	8.1	19.3	--

*Source: GSO.*

**Obstacles to improvements at the primary and secondary levels** While the availability of education has improved in recent years, there are numerous factors that undermine the accessibility of education. Distance, cost, ethnic and linguistic barriers, competing demands on children's time, and perceptions regarding the value of education have been found to be most important.

Geographical distance: In remote rural areas, physical distance and topography remain obstacles, though improvements in transport infrastructure have greatly reduced their significance, and school districts have utilized satellite schools to reach out to isolated communities. The problem of distance and physical barriers to education in Viet Nam is partly reflected in regional discrepancies in enrolment levels (Table 1.5).

Disparities in the quality of primary and secondary education typically mean lower quality education for children from poor and marginalized groups; precisely those groups that are in greatest need. In many areas, especially in remote areas, coverage of the satellite schools intended to improve access remains quite thin. The establishment of boarding schools for students from households in remote areas has gained popularity, but the scope of such programs is limited, their quality is uneven, and their effectiveness remains unclear.

**Costs**: Economic growth had permitted continuous increases in education expenditures. But household expenditure on education has grown faster than those of the

state. In the mean time, cost has emerged as an important barrier to education, suggesting that household expenditures on education can become too burdensome. The two most fundamental changes in principles governing the provision and payment for education concern the introduction fees-for-service principles and the gradual expansion of non-public schooling.

**Table 1.5. Net Enrolment by Region, 2006**

<i>Region</i>	<i>Primary</i>	<i>Lower- Secondary</i>	<i>Upper- Secondary</i>
Red River Delta	90.4	86.9	68.3
Northeast	89.2	83.3	55.3
Northwest	82.9	61.	34.7
North Central	91.8	84.2	59.8
South Central	89.6	81.6	58.1
Central Highlands	87.5	69.9	43.8
Southeast	89.1	78.2	55.2
Mekong Delta	88.4	69.3	38.4

*Source: authors' calculations on the basis of VHLSS (2006).*

In Viet Nam, out of pocket expenditures on education represent a significant share to total education expenditure and extra-study courses are of vital importance. By 1996, household expenditure was estimated to account for 43 percent of total (i.e., state and household) expenditures on education<sup>68</sup> and today's estimates are that roughly 50 percent of total spending on education is out of pocket spending. Since 1989, fees and other education costs have expanded continuously so that an average household can expect to pay five or six different types of school fees, in addition to other expenses discussed below. As a result, education has become a significant and at times overwhelmingly large expenditure item for households. Table 1.6 indicates the large disparity in education spending across different socio-economic groups.

**Table 1.6. Average Expenditure on Education per Student in the Past 12 Months per Expenditure Quintiles (thousand VND in current prices)**

<i>Quintile</i>	<i>2002</i>	<i>2004</i>	<i>2006</i>	<i>2008</i>
Poorest	236	305	429	696
Near Poor	345	503	725	1194
Middle	467	652	1051	1586

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<sup>68</sup> World Bank (1996).

Near Rich	740	1024	1585	2176
Rich	1418	1752	2443	3787

Source: GSO 2003, 2005, 2008.

- As Table 1.6 illustrates, household educational expenditures of Viet Nam's wealthiest quintile are roughly five times that of the lowest. These differences reflect not only regional variations in school fees and other charges, but also the varying sums households across and within regions pay for private "extra-study" classes. For example, by 2008 it was not uncommon for households in Ho Chi Minh City or Ha Noi to pay over USD 100 per month on "extra study" classes – an unimaginable sum for poor households in any region.
- Education comprises a significant share of total household expenditure. The amounts are large relative to household income. In 2008, the estimated average annual household expenditure on primary education – for which no tuition fees are charged and which is widely said to be free of charge – nearly VND 2 million, equivalent to 3 times months' income per capita for even a middle-range household. Among households in the *lowest* expenditure quintile, average estimated education expenditure on upper-secondary education exceeded VND one million. The estimated average annual household expenditures on the education of one student in 2008 in primary, lower-secondary, and upper-secondary education was VND 770 thousand, 1.07 million, and 1.9 million respectively. There was no significant observed difference on expenditures for boys and in girls, but the households expenditure on general education (including primary and secondary education) in urban area is three times higher than households in rural area.<sup>69</sup> In 2006, nearly 30 percent of children in households of the wealthiest income/expenditure quintile scored outstanding marks in school, as compared to 5.5 percent from households in the lowest income quintile (VHLSS 2006: 84).

The costs of education escalate after the primary level, making it increasingly difficult to keep a child in school. There is abundant evidence that costs play the most important single role in the discontinuation of studies. By official count, dropouts in Viet Nam have been in decline and have stabilized at a very low number. In 2008-09, dropouts at the primary and secondary levels amounted to a half of one percent. A look behind the numbers is revealing. At first glance, drop outs are very low, at half of one percent. In Viet Nam, "dropouts (*bỏ học*)" defined in Viet Nam as discontinuation of studies *during the school year*. In 2008-09, of 86,000 dropouts, 40,000 were in lower secondary education, and 38,000 in higher secondary education. Notably, the Mekong Delta has the largest number – 25,000 – accounting for more than one fourth of the national total; the central highlands were second highest, with 11,000.<sup>70</sup> Dropout rates do not reflect the very many more children who discontinue their studies at the end of a given school year.

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<sup>69</sup> GSO VHLSS (2008).

<sup>70</sup> Hồng Hạnh (2009).

The result is not only inequality between rich and poor households, but a pervasive sense of inequity; even as overall school participation rates are improving in objective terms. It is notable that in the 2005 Survey Assessment of Viet Nam's Youth, 44.1 per cent of youth not attending school cited financial reasons, while 25 per cent of those who dropped out of school reportedly did so for financial reasons (Survey Assessment of Viet Nam's Youth 2005).

**Gender:** One striking feature of enrolment trends in Viet Nam is the relative parity that now exists in boys' and girls' enrolment from kindergarten through upper-secondary education and into tertiary education. Table 1.7 presents the most recent available enrolment data on boys and girls at the secondary level. As recently as the mid-1990s, nation wide enrolments in lower-and upper-secondary education were a full five percentage points lower for girls. Today, the primary school and secondary completion rate for girls and boys is virtually equal.

**Table 1.7. Primary and Secondary Education Indicators, 2006 (%)**

	<i>Primary net attendance ratio</i>			<i>Lower and upper secondary net attendance ratio</i>		
	<i>Male</i>	<i>Female</i>	<i>Total</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>
Urban	94.6	94.6	<b>94.6</b>	86.2	91.4	<b>88.8</b>
Rural	95.6	95.6	<b>95.6</b>	76	76.2	<b>76.1</b>
<b>Regions</b>						
Red River Delta	97	96.8	<b>96.9</b>	88.1	87.4	<b>87.7</b>
North East	97.7	96.4	<b>97.1</b>	75.9	70.1	<b>73.1</b>
North West	94.2	94.5	<b>94.4</b>	69.6	69	<b>69.3</b>
North Central	98.4	96.3	<b>97.3</b>	85.5	86.7	<b>86.1</b>
South Central	94.7	92	<b>93.4</b>	81.7	79.2	<b>80.5</b>
Central Highlands	90.8	95.4	<b>93</b>	72.3	77.7	<b>74.9</b>
South East	89.9	93	<b>91.4</b>	74	83.9	<b>79</b>
Mekong Delta	95.9	96.2	<b>96</b>	67.1	68	<b>67.5</b>
<b>Income quintiles</b>						
Quintile 1	95	93.1	<b>94.1</b>	62.3	57.3	<b>59.9</b>
Quintile 2	96	95.2	<b>95.6</b>	71.8	74.7	<b>73.2</b>
Quintile 3	93.9	97.6	<b>95.7</b>	79.7	80.8	<b>80.3</b>
Quintile 4	98.3	95.2	<b>96.8</b>	84.4	85.7	<b>85</b>
Quintile 5	94	96.1	<b>94.9</b>	89.4	93.6	<b>91.5</b>
<b>Ethnic groups</b>						
Other	93.8	93.8	<b>93.8</b>	67.8	61.6	<b>64.9</b>



Kinh/Hoa						
	95.7	95.7	<b>95.7</b>	80	82.6	<b>81.3</b>

Source: MICS, tables ED 1 - ED4, page 209-215.

Table 1.7 contains several points worth noting. In Viet Nam's south-eastern wealthiest region, female enrolment in (lower and upper) secondary education is, at 83.9 percent, significantly higher than male's, at 73.7 percent (UNICEF-GSO 2008: 96). Nationally, female net enrolment in upper secondary education is 56.4 percent, whereas male enrolment is at 51.5 percent (VHLSS 2008). Enrolment among the poor is significantly lower at the secondary level of education, especially among girls.

Enrolment parity does not mean that gendered inequalities in education have ceased to exist. Research by Belanger and Liu (2004), for example, suggests that in poorer families, boys' education tends to be privileged over girls. Enrolment data indicate a significant disparity in girls and boys enrolment at the secondary level among poorer segments of the population, though the gaps are not as large as can be observed in other countries. An interesting question is whether and to what extent household expenditures on "extra study" differs among boys and girls across and within households in different socioeconomic groups.

- Educational inequalities across ethnic groups: Poverty in Viet Nam is increasingly concentrated among ethnic minorities. In recent years, the government with donor support has taken important steps to improve education for ethnic minorities. But evidence suggests that cultural and linguistic barriers remain important obstacles. Across different levels of education, ethnic minorities continue to lag behind those in the ethnic *Kinh* and *Hoa* groups.
- The reasons for this include the physical remoteness of many ethnic populations, lags in developing public infrastructure (including schools) in remote areas, as well as various forms of cultural and linguistic barriers, and discrimination. Past efforts to rapidly "universalize" primary education among ethnic minorities did not always contribute to better educational outcomes. The rush to boost primary education (and enrolment figures) among ethnic minorities in the 1990s, for example, involved new arrangements that allowed students to "pass" two grades in a single year, and five grades in as few as 120 weeks for ethnic minority students).<sup>71</sup>
- The difficulties confronting girls in ethnic minority groups are illustrative of how multiple barriers to education can combine. Economic and financial burdens, work (whether in the household or informal sector), linguistic and cultural barriers, the poor quality of instruction and learning, and parents and girls perceptions of the low value of education all conspire to lower girls' participation in education. Enrolments have increased among children from ethnic minority groups. But children from such backgrounds –especially girls – continue to face obstacles to continuing their studies. As a result, girls from ethnic minority backgrounds had systematically lower educational attainment, despite the increasing availability of

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<sup>71</sup> London (2010).

schools in their areas. However, the research also noted significant variability across ethnic groups, suggesting caution in making sweeping generalizations and that attention is needed to how different factors combine across different parts of the country and among different ethnic groups.<sup>72</sup>

### 7.3 *Preschool Education*

Further improvements in the availability and quality of preschool education are necessary to achieve desired development goals. Early childhood education includes nursery school (*mầm non*) and kindergarten (*mẫu giáo*). “Kindergarten” can be misleading for foreigners, as it refers to preschool for children aged from three to five. Of all the different parts of Viet Nam’s education system, it is preschool education that has seen the most disorganized growth. Today, there are concerted efforts to improve the availability and quality of preschool education. As of 2009, roughly 3 million children regularly attend nursery school and kindergarten.

Until the late 1980s, nursery school and kindergarten education were – in principle – to be provided and paid for by collective institutions, such as agricultural cooperatives, enterprises, and other state organizations. When these institutions unravelled, so too did institutional arrangements governing early childhood education. Central government efforts to develop new delivery systems lagged during the 1990s and preschool education has generally been underfunded. Preschool and kindergarten education have gradually been reintegrated into the administrative and financial operations of the educational system, but many aspects of preschool education have been subject to market principles. Even state-managed preschools charge fees for service.

There are nearly 12,000 preschools, roughly half of which are public and half so-called “people-founded” (sometimes also called “private”). Within these 12,000 there are roughly 9,000 nursery schools (35 percent of which are people-founded) and some 3,000 kindergartens (which are 70 percent “public”).<sup>73</sup>

Public and private expenditure on preschool and kindergarten education has increased alongside economic growth, but public spending on early childhood education remains marginal compared to that of other education levels. In 2002, the government mandated that early childhood education must account for 10 percent of education spending, but as of 2006, only 17 of 64 provinces were able to reach this target.<sup>74</sup> Notably, average expenditure on preschool education in urban areas was more than double that in rural areas (VHLSS).

A recent UNICEF-sponsored survey is revealing. By 2006, an estimated 57 percent of children aged 36 to 59 months were regularly attending some form of school with wide gaps across different segments of the population (MICS 2006). Roughly 75 percent of urban children in this age group attended some form of schooling, compared to just over half in

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<sup>72</sup> UNICEF *et al.* (2008).

<sup>73</sup> Day care has been shifted mostly to non-state provision. As of 2008, only 36 public crèches (*nhà trẻ*) remained. (There are nearly 42,000 nursery school groups (so-called *nhóm trẻ*), 75 percent of which are ‘people-founded’ (and therefore entirely people-paid).

<sup>74</sup> See also, UNICEF *et al.* *ibid.*

rural areas.<sup>75</sup> There was significant variation across regions, with the highest rates in the Red River Delta (80 percent) and north central regions (67 percent). Interestingly, the lowest rates are found in Mekong Delta (roughly 40 percent) and the south central coastal region (44 percent). While the low rate for the Mekong region may be attributed to geographical barriers, the low figure for the south central coast is not readily explicable. Viet Nam's poorest regions – the northwest and central highlands also fared poorly, with just 50 and 44 percent of children attending some form of early childhood education.

The obstacles explored above with respect to primary and secondary education also apply to preschool education, though special features of preschool education and of young children also come into play. In rural and remote regions, the material circumstances of early childhood education can be extremely rudimentary. In many rural areas, kindergartens are staffed by underpaid and sometimes under-qualified young women on short-term contracts.<sup>76</sup> In poor regions, many preschools and kindergartens lack water or electricity and use open pits as toilets. Some preschools make use of available non-school facilities, such as commune “cultural houses”. Many localities are unable to meet local preschool needs. In fieldwork carried out in Lao Cai province in 2008, local authorities related their need to turn many three and four-year-old students away for lack of adequate facilities (UNICEF 2009b).

There are large gaps in pre-schooling across ethnic groups. An estimated 39 percent of small children from non-Kinh ethnic groups were attending school, compared to 60 percent for Kinh, though these figures may overestimate actual enrolment.<sup>77</sup> Part of this has to do with the higher likelihood of minority households to be located in remote or mountainous areas, where access to preschool education is more limited. Reluctance to send children to school at an early age also tends to be higher among ethnic groups, particularly where linguistic difference and other perceived and real forms of social exclusion are in evidence. There have been state efforts to boost early childhood education in poor regions and among poor groups through conditional cash payments and other schemes.<sup>78</sup> Nationally preschool and kindergarten attendance is higher for girls than boys, at 61 and 53 percent respectively.

Current efforts to promote preschool education are motivated by the observed consequences of inadequate preschool education, particularly among the poor. Children with some preschool education tend to perform significantly better in later education, while those without it are more likely to lag behind. In Viet Nam, only 60 percent of children under five live in houses with a minimum of three non-children's books and only 24.7 percent of children under five lived in houses with children's books (UNICEF-GSO 2008: 93).

## 7.4 Higher Education

Higher education in Viet Nam (which is broadly and somewhat misleadingly called “university education” – *giáo dục đại học*) commonly refers to all post-secondary education, including four-year, two-year, and short-term degree programmes, as well as postgraduate

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<sup>75</sup> See also, UNICEF *et al.* *ibid.*

<sup>76</sup> As of 2007, 170,000 of 172,000 instructors were female.

<sup>77</sup> The UNICEF multi-cluster index survey includes the wealthier and well-educated Hoa Kiêu within the broad category non-Kinh.

<sup>78</sup> Decision 112 (2006) provides for cash payments to children of eligible poor and minority households.

degrees, but excluding certain kinds of post-secondary and secondary vocational education linked to specific technical trades.

By 2009, there were over 1.7 million students in tertiary education, roughly double that of the number enrolled in 1999 and more than 10 times that of the 162,000 enrolled in 1993. Gross enrolment in tertiary education over this period has increased from 2 to more than 13 percent. By 2008, roughly 400,000 students were enrolled in colleges or college-equivalent programs alone. Demand for higher education outstrips supply, even as the number of schools has increased sharply. Between 1999 and 2008 the number of universities more than doubled from 69 to 160, while the number of vocational schools (colleges) nearly trebled from 84 to 209 (Ministry of Education and Training (MOET) 2008, cited in London 2010b).

Between 2000 and 2007, the national budget for higher education increased more than four-fold (MOET 2008). Still, public spending on tertiary education remains at barely more than 1 percent of GDP, and combined spending on training and tertiary education amounts for less than a quarter of the entire education budget. Private (household) spending has grown continuously. But the accessibility of education is of special concern to those who wish for Viet Nam to develop an equitable society. Examples of promoting accessibility include controls on tuition costs, targeted subsidies, and scholarships.

While inequalities are moderating, sharp inequalities remain. As of 2004, enrolment rates among students from the richest quintile of Viet Nam's population are roughly four times that of the poorest while ethnic minorities, which accounted for 13 percent of the total population and 39 percent of those below the poverty line accounted for just 4 percent of tertiary enrolment. A report by Vu *et al.* (2010) indicates that poorer households experience greater burdens in paying for higher education than do richer households.

Regional unevenness is another concern. As of 2005, the Red River Delta (led by Hanoi) and the Southeast (led by Ho Chi Minh City) - Viet Nam's second and most wealthy regions accounted for 60 percent of all universities and 67 percent of all enrolment. Gross tertiary enrolment in each of these regions was roughly three times that of the country's poorest region, the Northwest. Across rural areas, but especially remote regions, there remain few outlets for higher education and most schools that do exist tend to offer training that is incommensurate with ongoing processes of economic diversification or the skills that need to be taught if these regions are to avoid sinking further behind. That said, there have been recent increases in scholarships for eligible and officially-certified poor students and students from households of valued political constituencies, such as war veterans. Vu (Ibid.) indicates that government supports to students from disadvantaged areas have positive impacts on their access to higher education.

Female participation in higher education has increased steadily and now exceeds that of men. However, higher concentrations of women are enrolled in junior colleges than men. In post-graduate education, sharp disparities remain, with men outnumbering women by large margins.

As it stands, staff qualifications remain low, on average, while many staffs are engaged in teaching part-time students in special non-degree programs. As of 2008, roughly 55 percent of Vietnamese academic staff had postgraduate qualifications, and most of these (73 percent) were at the master's level (MOET 2008). Less than 1 percent of academic staff in Viet Nam is full professors, which partly reflects the state's desire to limit pay promotion and spending on higher education. In some universities, more than 60 percent of academic staffs are bachelor degree holders. It is not uncommon for recent graduates of undergraduate

programs to go up to the front of the class and lecture the class, a practice some Vietnamese have referred to as “eating rice with rice” (*cơm chấm cơm*).

Within the last ten years, efforts to reform higher education in Viet Nam gained momentum. Successive Prime ministers have convened blue-ribbon commissions, held meetings with the leaders of elite universities around the world, and enlisted the support of a diversity of international partners. Vietnamese intellectuals at home and abroad have weighed in energetically. The appointment in 2007 of Minister of Education Nguyễn Thiện Nhân to Deputy Prime Minister has given education and higher education greater political prominence.

Special attention has been given to the governance of higher education. Party organs and State agencies (including MOET) have generated a number of important policy documents that appear to embody a progressive reform agenda. Among the most important of documents as Resolution 14 of 2005 on the “Fundamental and comprehensive renovation of university education in the period 2006-20,” which identified general and specific aims for higher education in Viet Nam. Resolution 14 states its general aim as:

To fundamentally and comprehensively renovate university education, bring about fundamental changes in the quality, effectiveness and scale, meet the requirements of industrialization and modernization of the country, of international integration, and the educational demands of the people: By 2020, higher education in Viet Nam (should) reach an advanced level in the region and approach advanced levels in the world; have the capacity to compete on a high level, adapt with a socialist orientated market mechanism.

Resolution 14’s specific aims include:

- Fully work out the national network of university education, establishing stratification with respect to functions, training missions, system of qualifications, professional coverage, and geographical distribution, corresponding to the aims of “socializing” education and advancing the general socio-economic development of the country;
- Establish research and professional education streams; establish and perfect measures to ensure quality and accountability through accreditation schemes; establish some universities up to international standards;
- Increase the scale of training, achieve a ratio of 200 students for every 10,000 population by 2010 and 450 per 10,000 by 2020; of that, ensure 70-80 percent are following professional education, and 40 percent of students are in non-state higher education.
- Develop a cadre of teachers and education managers of sufficient quality, ethical standards, and professional commitment, with high levels of qualification, advanced methods of teaching and management; ensure student/teacher ratios in the entire system is not beyond 20. By 2010, 40 percent of teachers will have a master’s degree and 25 percent a doctoral degree, with the corresponding figures of 60 percent of masters and 35 percent of doctors by 2020;

The impact of Resolution 14 has been mixed. The resolution drew a great deal of attention and served to energize national debate on higher education. The issuance of the Resolution was followed by a flurry of announcements, decisions, and practical steps, including establishing a “Steering Committee for the Renovation of Higher Education” to be headed by the Deputy Prime Minister, a position that is now occupied by the current Minister of Education.<sup>10</sup> One issue has been whether or under what conditions Viet Nam should seek

to develop international standard universities (as it presently lacks) that would be the apex institutions of Viet Nam's higher education system, with debate centring on whether such a university would draw resources away from the rest of the system.

In 2006 the Prime Minister issued a decision to build one or more "international standard" "technical universities". There have been sharp increases in funding for some national universities, but not others (Hò *et al.* 2008).

However, as with previous efforts to reform higher education (an earlier reform effort in the 1990s contained much of the same rhetoric as Resolution 14), aims of the Resolution have yet to be fully implemented in relation to curriculum reform and there seems to be some reluctance of central agencies to cede sufficient autonomy to universities.. The December MOET Draft National Education Strategy 2009-20 did not fully incorporate the recommendations of Resolution 14.

The government had indicated its intention to mobilize and invest USD 20 billion in higher education by 2020. According to strategy documents, a full USD 18 billion of this is to be earmarked for physical infrastructure. While there is no doubt that investment in higher education physical facilities is needed, it is arguable that the planned balance underestimates the importance of higher education "software", including sufficient numbers of quality instructors, drawn from Viet Nam and other countries.

There is a strong emphasis by government to meet certain targets for graduates of higher education, PhD degrees, and so on. There is a tendency to assume the more formal credentials, the better. However, chasing paper diplomas should not be the aim. For Viet Nam's government and households, the quality and relevance of higher education programs needs to take greater precedence.

MOET has indicated a desire to achieve a system of accreditation and to institute a system of ranking to foster competitiveness among higher education institutions. Accreditation should be a mechanism to promote and ensure quality. It needs to be conducted by bodies independent of MOET and provincial Departments of Education. However, while there is a need for regulatory bodies in higher education, the micro-management of the education sector needs to be reduced.

It is widely recognized that higher education in Viet Nam is excessively bureaucratic, over-politicized, and inadequately academic. Over-politicized here refers not to the ideological content of higher education, but to the tendency of higher education institutions in Viet Nam to operate on the basis of seniority, reciprocity, and informal patronage networks, rather than academic criteria.

## **7.5 Vocational Education**

Shortages of workers with vocational skills are increasingly acute. According to an assessment of the World Bank, the quality of human resource of Viet Nam is at 3.79 point (in scale of 10 point) ranked 11th out of 12 countries reviewed in Asia. There is no vocational school in Viet Nam that yet meets regional or international standards. Some Vietnamese enterprises have even had to hire skilled labour from abroad.<sup>79</sup>

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<sup>79</sup> <http://canbotre.danang.vn/home/showthread.php?p=3433>.

In the past, vocational education has not received appropriate recognition in Viet Nam, both by schools but by state authorities. As in many pre-industrial societies, formal education has historically been viewed as a pathway into careers in the state. In a developed market economy, education that leads to careers in public service needs is only one of many competing needs. Two reasons for the historic emphasis in Viet Nam on education for careers in public service was (1) low regard for business pursuits and (2) the poor status of vocational schools, which have historically been viewed as less desired educational path. Attitudes are changing among university graduates, many of whom now prefer to seek out careers in business. But there is probably still too little awareness of the potential returns from the acquisition of vocational skills.

That the scale of vocational education in Viet Nam is expanding rapidly is a promising sign. Between 1998 and 2008, enrolment in vocational schools and colleges grew by four times, and in 2009 stood at 1.7 million. Between 1999 and 2008 the number of vocational schools (colleges) nearly trebled from 84 to 209 (MOET 2008, cited in London 2010b).

By 2010, nearly half of Viet Nam's districts had at least one vocational training centre. Since 1997, the rate of vocationally trained workers increased from less than 10 percent to an estimated 30 percent in 2010 respectively<sup>80</sup>. Thousands of vocational training centres have sprouted up across the country, but the country is only now developing systems of accreditation. In the mean time, credentialism and commercialism fuel over-rapid growth; the quality and relevance of vocational education is uneven. Currently, virtually every province is keen on establishing a university, but there is typically less enthusiasm for vocational schools. Notably, the construction of several high profile industrial zones (such as Dung Quat and Chu Lai) did not include plans for vocational education.<sup>81</sup>

Generally, vocational education remains supply driven, with emphasis on training in outdated production methods; studies suggest that insufficient attention is given to current and future needs of enterprises or developments in the labour market. Cooperation between schools and enterprises has lagged. Insufficiently qualified teaching staff and inadequate public support from public authorities have undermined the quality of teaching and teaching facilities.

The 2006 Law on Vocational Training in 2006 and 2005 Law on Education are the main legal documents guiding the re-organization of vocational training. The aim is to provide vocational training for 24.58 million people during 2009-20. To guide the development of vocational education government has constructed and issued a list of 301 careers for which vocational colleges are to focus training, and some 385 careers for secondary vocational schools. Despite efforts to improve consultation, more comment from schools, enterprises, professional associations, managers and vocational experts is necessary.

There is wide agreement that the effectiveness and strategic development of vocational education in Viet Nam continues to be compromised by its fragmentation and the resulting confusion about the mission and value of vocational education. There are effectively

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<sup>80</sup> <http://www.molisa.gov.vn/news/detail/tabid/75/newsid/50067/language/vi-VN/Default.aspx?seo=Hoi-nghi-Lay-y-kien-Doanh-nghiep-ve-Du-thao-Chien-luoc-phat-trien-day-nghe-giai-doan-2011—2020>

<sup>81</sup> "Vietnam needs radical vocational training reforms." Education in Viet Nam Discussion ANU Giaoduc website, 9<sup>th</sup> June 2008.



two separate systems of vocational education (under MOLISA and under MOET). In Viet Nam, “vocational education” (*giáo dục dạy nghề*) programmes are largely under the management of MOLISA, whereas professional education schools and colleges (*giáo dục chuyên nghiệp, cao đẳng chuyên nghiệp*) have in the past been administered jointly by MOET and specific functional ministries.

There is a desire to have all vocational and professional education students study certain elements of the standard upper-secondary school curriculum, in addition to the specialized training. The proposal to re-establish vocational high schools (*trường trung cấp học nghề*) under one ministry should be considered as a way to overcome this fragmentation while ensuring that vocational school students also get a well rounded education. The Singapore model of polytechnic schools may warrant attention, as it is a model that offers both standard and vocational education, while also providing students with the possibility of later seeking admission to a four year university.

There are other quite ambitious initiatives to promote vocational education that are just getting started. One example is the “Training for Rural Workers to 2020” plan, which calls for issuing “study cards” to train one million rural workers per year (including 100,000 rurally-based state officials), and a mandate that each district and commune have a cadre responsible for vocational education, and providing free education to poor youth willing to work overseas.

## 7.6 Some Key Challenges in Education

### 7.6.1 Primary, Secondary and Preschool Education Challenges

The adjustments in the education system that Viet Nam requires can not be achieved without decisive and appropriate interventions. But the nature of those interventions needs to be informed by a clear assessment of challenges.

Great achievements notwithstanding, education and training levels could prove to a critical weakness as Viet Nam seeks to adjust its economic development strategy in the face of rising incomes, in the manner outlined in earlier chapters. In primary, secondary, and early childhood education, general strategic challenges arise from the need to:

- Further expand the availability of education to meet the needs of continued poverty reduction and mass participation in the benefits of growth;
- Improve the quality of instruction at all levels, including improvements in pedagogical practices, teachers’ qualifications, and in the suitability of learning environments;
- Improve the quantity of well-trained teachers and improve incentives to ensure well-trained teachers are working where they need to be;
- Reduce obstacles to education based on location, income, ethnicity, and gender.

At lower levels of education, challenges in education must be geared to sustained reductions in poverty through broad-based improvements in the availability and quality of education. To realize substantial reductions in poverty among the most disadvantaged groups the challenge is to address and reduce obstacles facing children and households, including distance, financial, and linguistic barriers.

If education is to contribute to the further reduction of poverty, it is necessary that Viet Nam’s education system be substantially more inclusive than it is, particularly in early



education and in upper- and post-secondary education. Assisting disadvantaged children to complete their schooling and enhancing the quality of their educational outcomes are perhaps the most effective tools Viet Nam possesses for counteracting existing social disadvantage and reducing intergenerational transmission of poverty.

The government's emphasis on achieving universal education (*phổ cập giáo dục*) is an appropriate and ambitious goal. Much has been achieved, but meaningful education remains far from universal and the poor segments of Viet Nam's population continue to confront many obstacles. Indeed, it is important for the government (and others) not to be lulled into false thinking about universalization.

According to official norms, "universal" access to lower-secondary education is achieved when 80 percent of those between the ages of 15 from 21 have completed lower-secondary education. The government recently announced that it was close to "universalizing upper secondary education." A recent national economic strategy report indicated that, by 2010, 55 provinces will reach standards of "universal upper secondary school coverage". In fact, "universalization" of upper-secondary education is defined as having 50 percent of lower-secondary school students in a province continuing (though not necessarily competing) studies at the upper-secondary education.<sup>82</sup>

Additional steps to improve primary education are underway. The recently-launched Secondary Education Quality Assurance Programme is noteworthy; it aims to promote further improvements in primary education by improving the national policy framework, promoting the adoption of curricula that offer 30 to 35 periods of weekly instruction, supporting improvement in teaching and management practices, and assisting schools with infrastructure upgrades and supplements to teacher salaries for additional workload. The package will target 1,770 primary schools in 36 provinces.

Still, efforts to improve the quality of education in poorer regions are frequently overwhelmed by local environmental and institutional factors within and outside the bounds of the education sector. A 2009 conference in Cao Bang province found a keen awareness of problems concerning education in mountainous areas, but an inability to solve them.<sup>83</sup> One of the principal weaknesses cited in management, which created problems in staffing and regulating education at lower levels. Other known problems included the poor quality of schools themselves; given the low incomes of households, efforts to finance maintenance (let alone upgrades) through "socialization" is difficult to impossible. Officials complained that economic resources provided to education are inadequate to need and an expressed a keen need for help from outside.

Despite efforts to address the problem of dropouts - through special attention to struggling students, increased accountability and training measures for teachers - dropout figures increased; perhaps a consequence of the adverse weather and price fluctuations that hit Viet Nam and northern Viet Nam at the time. Although local leaders adopted the "Follow the Ethical Example of Ho Chi Minh" movement (which emphasizes ethics, independent learning, and ingenuity), the number of ethics violations among teachers in the region climbed to 46 cases, up 17 compared to the previous period. Details on the nature of the

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<sup>82</sup> Socialist Republic of Vietnam (2009).

<sup>83</sup> Region 1 includes the provinces of Bắc Kạn, Cao Bằng, Hà Giang, Tuyên Quang, Lai Châu, Sơn La, Yên Bái, Hòa Bình, Lào Cai, Thái Nguyên, Phú Thọ, Lạng Sơn, Điện Biên, Quảng Ninh, and Bắc Giang.

violations were not made available, but resulted, among others, in the dismissal of eight teachers, warnings to five, and 25 reprimands. To education officials in Viet Nam, the situation in Region 1 is no surprise. There are, it is frequently stated, great efforts being made to improve education in poorer areas of the country. And yet fundamental challenges remain.<sup>84</sup>

### ***7.6.2 Higher and Vocational Education Challenges***

In higher education and vocational education, access to more and higher quality technical and professional education is urgently needed principal challenges arise from the need to:

- Achieve rapid progress raising the number and quality of skilled workers;
- Develop a higher education system in which excellence in teaching and research are emphasized and encouraged;
- Better and more strategically align education and training with current and projected demand for skilled labour;
- Challenges that Viet Nam now faces reflect the fact that although over the past two decades great efforts were put into increasing the numbers benefiting from higher education, too few resources were available to provide for strategic improvements in educational quality. Many of the problems in higher education are familiar. The aim here is to identify core strategic challenges, rather than provide an exhaustive summary of existing knowledge.
- The fundamental challenge is to rapidly expand the quantity and quality of skilled labour. Doing so will require the creation of more and better training opportunities, the reduction of barriers to education and skills acquisition; improvements in quality and relevance of education, and addressing challenges in educational policy and administration.
- In the coming decade, Viet Nam has ambitious plans for upgrading the existing industrial structure, advancing into the production of higher value-added goods and services, and rapidly adapting to new technologies and management techniques. This report agrees that this strategy is appropriate. Such a re-orientation will need a larger and more effective higher education and vocational education systems.

To build an appropriate pool of skilled labour, graduates of Viet Nam's education system need to be better prepared than they presently are to meet the demands of a rapidly changing labour market. This, in turn, will require sharp improvements and greater consistency in the quality and relevance of educational curricula and educational outcomes at all levels. The need is to develop skills ahead of the present demand for skilled labour.

Viet Nam must work to overcome two features of its higher and vocational education systems that are no longer appropriate to the country's needs. Consistent with the Soviet model that inspired the design of Viet Nam's education system, the vast majority of "advanced" research (in the basic and social sciences) occurs within specialized research agencies associated with functional ministries, rather than within universities, as is often the

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<sup>84</sup> Nguyễn Hùng (2009).

case in the rest of the world. Viet Nam's efforts to develop national research capacities must shift the locus of advanced research into universities.

Second, in the past, the MOET has had little responsibility for vocational education, which lies within MOLISA. Moving forward, a more collaborative division of labour and responsibility is needed. Viet Nam requires specialised research and design capacities and highly educated professionals and also large cohorts of skilled technicians and workers with specialized post-secondary education. Viet Nam needs to make improved education and training opportunities more available at all levels of post-secondary education, and to the entire spectrum of the population, not just those (or especially those) with money to pay. This, in turn, requires that vocational education be a more prominent feature of the mainstream education system.

## 7.7 Summary of Requirements

The persistence of shortcomings in Viet Nam's education and training system poses immediate as well as medium and long-term threats to the country's socioeconomic development. Given both international experience and present and projected resource constraints, it is only with adequate quantities and qualities of skilled labour will it become possible for Viet Nam to achieve the technical-upgrading and productivity gains upon which sustained economic growth and living standards improvements depend. To achieve these challenges will require some general shifts in policy as well as fresh interventions tailored to the specific attributes of different education levels and to the specific needs of different regions and population segments. Some general requirements are discussed that apply to all parts of the education system. This is followed by an analysis of more specific requirements at the preschool, vocational, and tertiary education.

**General requirements in education** include improvements in education strategies, improvements in the quality of instruction and learning, and improvements in the relevance of curricula. Viet Nam's current education "strategy" appears reasonably comprehensive in its ambition, but sometimes appears to amount to a rather loose list of goals and policies that remain insufficiently fleshed-out in their specific goals and substance, which encourages weak policy execution. Despite some promising efforts, there tends to remain an overemphasis on upholding general principles through the promotion of mass "movements" (*phong trào*) and the meeting of quantitative targets (*chuẩn*). Strategies need to instead be geared to achieve specific desired outcomes. As a high-ranking and now retired educational official has expressed it, there is a lot of talk about "what to do" but insufficient emphasis on "how to do". In this sense the strategy needs to be more strategic.

The quality of instruction needs to be enhanced at all levels. Large-scale donor-funded initiatives aimed at improving the quality of education have yielded promising results in primary education. This is an area in which partner efforts should continue, and even be enhanced, as Viet Nam moves to middle income status. Viet Nam would benefit greatly, and this is an area in which many donors have competence. Tertiary, preschool education, vocational training, and education among ethnic minorities are four areas of special strategic importance and areas of recognized weakness. The Government has stated its intent to promote improvements in the quality of education. This includes measures to improve the physical educational infrastructure and its upkeep, upgrade the qualifications and skill of educational staff, lengthen periods of instruction, and reform curricula in a way that increases the relevance of teaching materials and methodologies.

Until quite recently, many schools in rural and remote areas were makeshift facilities. New school construction, infrastructural upgrades, and gradual declines in population growth have reduced the incidence of double- and triple-shift schools and allowed for longer school hours. As recently as the late 1990s, it was common for children in remote areas to have no more than two hours of schooling a day in a 33 week school year – one of the shortest school years in the world.<sup>85</sup> By contrast, in April of 2009, MOET announced that some 35 percent of primary students in 35 poor mountainous provinces would study two periods per day, like students in wealthier provinces. While investments in school construction have reduced this phenomenon, it remains common in preschool education in many rural areas. Today, large proportions of schools in rural areas lack adequate water and sanitation facilities. With respect to the quality of instruction, gaps remain. In remote and rural areas, schools are often under-staffed and lack teaching materials.

Another dimension of quality concerns the relevance of curricula. If Viet Nam is to chart a path of sustainable, rapid, and equitable development it must – at the very least – develop a skilled workforce capable of creating value and competing internationally. But there is a wide questioning in Viet Nam of the adequacy and appropriateness of educational curriculum at virtually all levels. Talk of the need for curricular reform is nothing new, but the sense that there is a need for change is perhaps stronger today than in the past. Today, Viet Nam’s leaders frequently speak of their intent to develop a “knowledge economy”. In practice, much of the emphasis remains on rote memorization. Attempts to innovate are discouraged. By contrast, there is a growing awareness internationally that teaching centred on exams does not always contribute to education quality.

Viet Nam will need to vigorously reform the manner in which education policies are designed and implemented. Special efforts are needed to move from established planning procedures to those that emphasize greater participation by marginalized groups, education planning and programs that are responsive to local needs, and education strategies that draw on international experience. The selection of students based largely on entrance examination performance and matters of finance depend largely on state budget allocations; this may not permit sufficiently informed determination of training costs (such as average cost per student) and training results (intended and real learning outcomes; percentage graduating).

**Specific education requirements** in preschool, vocational, and tertiary education are now discussed in turn. Achieving sharp improvements in the quality and availability of preschool education must be a priority. International experience suggests that children from unprivileged backgrounds in particular gain from an early start. Viet Nam has rightly begun to place greater emphasis on preschool education. Arguably, the country should be still more aggressive in promoting preschool education among especially needy groups, including the rural poor and ethnic minorities. International experience suggests expanding preschool education and offering it earlier to needy groups will be necessary for sustaining poverty reduction. Promoting preschool education must also be seen as a means to promoting participation among economically and socially marginalized populations, including the urban and rural poor, and ethnic minority groups. The government needs to consider whether, in some or all poor areas, investments can be made to permit children to begin schooling at four years of age.

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<sup>85</sup> Oxfam Great Britain (1998).

To address inequalities in early childhood education will mean diminishing the currently strong association between income and schooling on the one hand and parents' level of education and schooling on the other. More than 80 percent of wealthier households send their children to preschool, as do over 83 percent of mothers with an upper-secondary education. By contrast, less than half of mothers with no upper-secondary education send their pre-school-aged children to school. Sex discrimination in early childhood education does not appear to be a problem, at least within the Kinh ethnic group. But the major and rising imbalance in sex-ratio at birth makes it necessary to take a broader view of sex discrimination with respect to children.

The government's new focus on vocational education is sensible, but there a need to reconsider the content and modalities of current training programmes, as evidence suggests many programs are not yielding their intended benefits. In many countries, including Singapore in Southeast Asia, there is a two stream system of education at the upper-secondary level. After nine years of primary and lower-secondary education, an exam is administered. Those scoring below a determined mark can continue their studies in a vocational "polytechnic" college. Those who perform well at this level can apply for admission to a four year university. In Viet Nam, vocational schools at the upper-secondary level are still in relatively short supply. Studying the Singaporean model and that of other countries, including Korea and the Czech republic, may help Viet Nam make vocational education a more integral feature of the mainstream education system.<sup>86</sup>

Arrangements in Singapore during the 1980s, though dated, merit consideration, particularly given Viet Nam's similar need to promote rapid skills upgrading and make vocational and technical education more attractive. In the Singapore case, all students received the same education through the primary and lower-secondary education in the first two years of upper-secondary school studied the same curriculum. In the second two years, students in vocational schools have the opportunity to train in vocational subjects only vocational schools offer. Students also have a 'practicum' (off-campus) learning component of their curriculum. The key to the Singapore system has been to develop a system in which vocational education is not seen as a "dumping ground" for failed students. Students from the polytechnics may still proceed to University. Making this model work requires schools that can provide their graduates with relevant, marketable skills.

Training programs targeting youth ought not to disregard agriculture. Training that promotes employment in rural areas through diversification and entrepreneurship should be encouraged, which implies that training schemes be based on an intimate knowledge of the local setting (FAO *et al.* 2009). The P135 Baseline Survey and other analyses have indicated that southern agriculture is considerably more commercialized than in central and northern region and that the organization of purchasing and trade in agricultural produce exhibits significant difference across regions. Across P135-II communes nationally, non-farm income accounted, on average, for 20 percent of total income.

Where training for industry and services are concerned, international experience suggests the most effective vocational training schemes are those that foster partnerships between the state and industry. Coxhead *et al.* (2009) suggests Viet Nam's government needs to avoid attempting to achieve too much, by locating what turn out to be poorly-designed,

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<sup>86</sup> Gill, Fluitman, and Dar (2000). For an interesting if somewhat dated analysis, see Selvaratnam and Viswanathan Selvaratnam (1989).

top-down training programs in remote areas, in a bid to both train and reduce income inequalities. It is preferable to more closely align training with the needs of employers.

There is, in this context, a need for more effective labour market information and analysis along the lines of that called for under National Cooperation Framework on Decent Work (2006-10), in which government, employers' and workers' organizations agreed to collaborate in monitoring and addressing such vital concerns as productivity and competitiveness, occupational wages and labour costs, economic sectors and shifts in employment, unemployment and under-employment, youth unemployment, mobilization and development of human resources, and internal and external migration of labour.<sup>87</sup>

Vocational skills and knowledge are typically acquired by a mix of on-the-job experience ("learning by doing") and formal training. An effective system will therefore need to provide for formal or informal apprenticeship and formal instruction. However, while there are many benefits from on-the-job training and company based training school, to a significant degree such training will always be insufficient, because of the simple economic point that the returns from the training will not be fully captured by the supplier, if the trained worker moves to another job (i.e. training is to some degree is a social good).

If instruction is full time, there is a particular need to ensure that training addresses the likely requirements of the labour market. However, vocational training part-time can be particularly effective, as it combines more academic instruction with practical experience. This can be achieved either by courses taken while the student works (e.g. evening courses) or in "sandwich" programs, where the student is given leave to take a period of course work. Many Viet Nam education officials are of the view that businesses should set up training centres of their own. MOLISA has put forth supportive policies to the government for corporations which opened training centres.<sup>88</sup> Other officials suggest that vocational schools should sign training contracts with specific businesses before selecting students. One risk of both approaches is that you end up with cohorts of trained workers with skills sets are too narrow. Such students may encounter difficulties in finding new work.

Shifting to **tertiary education**, by most indications the Government now recognizes the importance of improving the quality and relevance of higher education, but there are important questions as to whether and how current higher education strategies can get Viet Nam to where it needs to be. Viet Nam today has a suitably aggressive plan for higher education that includes investments of substantial amounts of resources. However, some aspects of higher education strategy seem constrained by conservatism and institutional rigidities engrained in the present system.

The world's best higher education systems exhibit a clear (if not always formally defined) functional division of labour. The most effective systems tend to be characterized by an educational hierarchy, with the top institutions distinguished by their research and teaching performance. In the U.S., for example, so-called "medallion" universities – which include famous private research universities (such as Harvard and Chicago) and large public research universities (such as California, Michigan, and Wisconsin) are recognized as peak

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<sup>87</sup> ILO Office in Vietnam (2009), MOCST, GSO, IFGS and UNICEF (2008).

<sup>88</sup> According to MOLISA statistics, Vietnam has nearly 150 training centres run by corporations like Viet Nam Shipbuilding Industry Corporation (Vinashin) and Viet Nam Machinery Erection Corporation (LILAMA) (TBKTSG, SGGP).

institutions. Alongside the “premier league”, there are very many worthwhile public and private institutions which do a good job of undergraduate education.

In principle Viet Nam appears to have embraced this model, having put forth plans for several “international standard” research universities and having stipulated that, by 2020, 20 percent of students ought to pursue a research track, while 80 percent should be encouraged to pursue professionally oriented higher education streams. There is also a general recognition that state expenditure on higher education should be directed toward those areas for which there is high social return but which market forces cannot be expected to supply; basic and applied research in the national sciences and high level social scientific research is likely to fall under this heading. Professional education programmes that are likely to bring high financial returns to graduates – e.g. business, accountancy, dentistry, and some branches of medicine – should arguably rely less on public sources of funding.

But in some regards, Viet Nam’s higher education system displays a degree of organizational incoherence. The rapid development in the number of state-run and non-state higher education institutions reflects increased demand for higher education. But the manner in which growth is occurring has been disorganized. The question of autonomy has received a great deal of attention, and the GoV has stated its desire to gradually reduce MOET detailed control of universities. However the development of greater university autonomy at the same time as undertaking necessary monitoring standards will be a challenging task.

In the ranking of universities in Viet Nam there is already a distinction between some which are widely recognised as centres of excellence and the rest. If the system does develop in the direction of pursuing continuously improved standards in clearly recognised centres of excellence, the importance of ensuring that recruitment to those institutions is based on merit rather than wealth or connection takes on great importance. Differences in education levels result in social stratification. It is important therefore that they do not become vehicles of inter-general transmission of privilege. The tendency for all post-secondary institutions to be called “universities” has not been resisted.

The idea of allowing corporations (primarily state owned companies, it seems) to open up “higher education facilities” is at odds with international best practice. The Korean Chaebol most certainly did not get involved directly in the provision of higher education. The promotion of close relations between higher education and industry should not mean promoting higher education within the corporate sector. University education and technical training are different enterprises.

**The donor role:** In vocational and higher education, policies and donor support need to be geared to promote the development of skills for lifelong learning. The Taskforce on Higher Education and Society has suggested that higher education systems needs to: (1) produce a body of students with a general education that encourages flexibility and innovation, thus allowing the continual renewal of economic and social structures relevant to a fast-changing world; (2) teach students not just what is currently known, but also how to keep their knowledge up to date, so that they will be able to refresh their skills as the economic environment changes; (3) increase the amount and quality of in-country research, thus allowing the developing world to select, absorb, and create new knowledge more efficiently and rapidly than it currently does; and, (4) provide increasing numbers of students, especially those from disadvantaged backgrounds, with specialized skills, because specialists are increasingly in demand in all sectors of the world economy (World Bank 2000: 10).

## Chapter 8

### Health

#### 8.1 Introduction: Progress in Achieving Health MDG's

Many of the MDG's relate to the health sector; one way to review progress in the health sector is to review progress in achieving the health sector MDG's. As shown in Table 0.1 it is anticipated that all health-related MDGs' targets will likely to be met although there are questions in the area of HIV and AIDS. However, there are large disparities between geographic regions and income groups.

Where people live influences whether a child will survive its first years of life, whether a woman will survive child bearing and child birth, and whether the TB, malaria patient, or AIDS patient will recover.

**Table 0.1. Summary of Progress toward Health-Related MDGs**

<i>MDGs and targets</i>	<i>1990-91</i>	<i>2000-03</i>	<i>2008</i>	<i>Target for 2010</i>	<i>Estimated target for 2015*</i>
<b>Goal 1. Eradicate extreme poverty and hunger</b>					
Halve between 1990 and 2015, the proportion of people who suffer from hunger					
% underweight among children under 5 years of age	45 (1990)	33.8 (2000)	19.9	20	
<b>Goal 4. Reduce child mortality</b>					
<b>Target 5. Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate</b>	58.1 (1990)	43 (2000)	25.5	25	<20
<i>Infant mortality rate</i>	44	35.7 (1999)	15	<16	
<b>Goal 5: Improve maternal health</b>					
<b>Target 6. Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio</b>	200-249 (1990)	95 (2000)	75	70	<60
<b>Goal 6: Combat HIV/AIDS, malaria and other diseases</b>					
<b>Target 7. Have halted by 2015 and begun to reverse the spread of HIV/AIDS</b>		0.23 (2003)	0.29	<0.30	<0.30
<b>Target 8. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases</b>					
<i>Prevalence of malaria</i>	1.65 (1991)	0.38 (2000)	0.07	0.15	
<i>TB incidence rate AFB+ (%)</i>	0.086 (1992)	0.07	0.06	0.07	

Source: Ministry of Health (MOH), Health Statistical Yearbooks 2000, 2008; The National Strategy on HIV/AIDS Prevention and Control in Viet Nam till 2010 with a vision to 2020. Viet Nam HIV/AIDS Estimates and Projection 2007-2012. Source: MOH, Health Statistical Yearbooks 2000, 2005, 2008 [5-7]; Goals taken from the Prime Ministerial Decision No. 108/2007/QĐ-TTg, dated 17 July 2007, approving the NTPs on social diseases, dangerous epidemics and HIV/AIDS for 2006-2010.



*Note: \* Estimates by the authors basing on MDGs' targets and national target.*

The number of newly diagnosed AFB+ TB is decreasing but the recurrence cases and non-pulmonary TB are not, and AFB- is increasing. While impressive progress is observed at the national level, there is still an urgent need to improve maternal, reproductive and child health in mountainous regions and among ethnic minorities. Similarly, while reproductive health services for married couples have been greatly improved, studies indicate gaps in delivery of reproductive health and HIV services for vulnerable populations such as migrants, youth and sex workers. There are also concerns over the quality of reported data such as with maternal mortality due to complexity of data collection methods, and – in case of HIV and AIDS – the way targets were set.

#### **MDG4. Reduce child mortality**

Viet Nam has achieved impressive results in reducing under-five mortality rate. Targets set for MDG 4 by 2010 are very likely to be achieved.

Unfortunately, under-five mortality data are not segregated by region. DHS data (2002), however, indicated that under-five mortality rate in rural areas was 2.2 times higher than in urban, and among children born to mother with no education was 2.3 times higher than those born to mother with higher education. National IMR data mask regional disparities, and the regional data – in their turn - mask severe local disparities. While infant mortality at national level was only at 15/1000 live births, the regional lowest was seen in South-East at 8 per 1000, while the highest rate was seen in Central Highlands - at 23 per 1000. Wider disparities are observed between provinces. While Hanoi enjoyed the rate of 7, Kon Tum was suffering at rate of 48. Within the Central Highlands region, IMR in Kon Tum is 3.4 times higher than that in Lam Dong (48 versus 14). Disparities also exist in the rate of progress. In 2002, a report commissioned by World Bank pointed out that progress for rural areas and the poor had been slower than for the urban and the better-off.<sup>89</sup> Table 0.2 shows that some regions were progressing faster than some others and that within the same regions, some provinces were progressing very fast, while some were even moving backward, such as Cao Bang and Tuyen Quang, Kon Tum and Lam Dong. While Hanoi and Tuyen Quang cut their infant mortality rate by more than a half, Cao Bang and Kon Tum increased theirs.

To monitor the progress of MDGs, and to identify the priority areas and populations that need further investment, it is important that updated data segregated by geo-socio-economic categories should be made available.

#### **MDG5. Reduce maternal mortality**

National data indicate that the MDG target for achieving sharp declines in maternal mortality is being met with MMR declining rapidly from over 200 per 100,000 live-births in early 1990s to 75 in 2008, on the way to meeting the target of 70 by 2010. However, it should be noted that WHO and UNICEF estimated higher maternal mortality for Viet Nam (162 by UNICEF in 2005 and 150 by WHO in 2007). It is difficult and costly to accurately measure

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<sup>89</sup> Swinkels and Turk (2002).

MMR because of under-reporting and misclassification. In some studies, the actual number of maternal deaths was double or triple what was initially reported.<sup>90</sup>

Regional data on maternal mortality are not available. However, reported data on incidence and deaths relating to 5 major obstetric complications – an important cause of maternal mortality - as represented in the Table 0.3 pointed out to North West upland and Central Highlands as the regions of concern for both death rate among women who experienced complications and maternal deaths in general. In comparing North West and South East regions, the death rate among women experienced complication was 14 times higher and maternal deaths due to complications was almost 16 times higher in the former than the latter.

**Table 0.2. Examples of Changes in Infant Mortality**

<i>Region/province</i>	<i>2002 (‰)</i>	<i>2008 (‰)</i>	<i>Changes between 2002 and 2008 (%)</i>
<b>Red River delta</b>	<b>20.4</b>	<b>11</b>	<b>-46.1</b>
Hanoi	17	7	-58.8
Hung Yen	17	15	-11.8
<b>North East region</b>	<b>30.2</b>	<b>21</b>	<b>-30.5</b>
Cao Bang	38	40	5.3
Tuyen Quang	40	17	-57.5
<b>North West region</b>	<b>30.2</b>	<b>21</b>	<b>-30.5</b>
Lai Chau	62	33	-46.8
Son La	36	22	-38.9
<b>Central Highlands</b>	<b>30.9</b>	<b>23</b>	<b>-25.6</b>
Kon Tum	47	48	2.1
Lam Dong	24	14	-41.7
<b>South East region</b>	<b>18.9</b>	<b>8</b>	<b>-57.7</b>
HCMC	17	12	-29.4
Ninh Thuan	24	20	-16.7

*Source: Data is derived from MOH (2003 and 2009).*

<sup>90</sup> UNFPA (2006, 2007).

**Table 0.3. Reported Data on Five Major Obstetric Complication by Region, 2008**

<i>Region</i>	<i>Incidence</i>	<i>Death</i>	<i>Death rate among complications (%)</i>	<i>Estimated maternal deaths due to obstetric complications (per 100,000 births)</i>
Red River delta	261	11	4.2	3.51
North East region	241	12	5.0	7.54
North West region	95	21	22.1	40.29
North Central Coastal	264	12	4.5	7.31
South Central Coastal	301	6	2.0	4.20
Central Highlands	297	15	5.1	13.99
South East region	948	15	1.6	6.68
Mekong River delta	718	7	1.0	2.56

*Source: Data are derived from MOH (2009).*

Maternal deliveries attended by trained health workers increased from 85 percent in 2000 to 94.7 percent in 2008. However, in difficult-to-reach regions, the rates of deliveries attended by trained health workers were a lot lower. Research has shown over 90 percent home delivery in some ethnic minority regions. Home delivery was particularly prevalent in the mountainous provinces of the north and north central coast (over 80 percent). It is estimated that over 80 percent of home deliveries were not supported by a health provider. About 30 percent of home deliveries were attended by untrained traditional birth attendants, without the assistance of proper equipment. Between 7 percent and 27 percent of pregnant women were found to give birth alone.<sup>91</sup>

The contraceptive prevalence rate for married couples has greatly improved in the past ten year, reaching 80 percent in 2009. Although CPR amongst the young and unmarried population is not available, high abortion rates amongst adolescents suggested a significantly lower CPR in this population group<sup>92</sup>. There is no available data to measure the achievement of two important indicators of MDG 5b: adolescent birth rate and unmet needs for family planning. There are concerns over the quality of reported data. For instance, a study (NeoKIP 2010) conducted in 8 districts of a northern province in 2005 revealed significant differences between data reported by the Provincial Health Department, data collected from hospitals and

<sup>91</sup> Bramley (2001), Yet *et al.* (2004), Nhu, H.V. *et al.* (2003).

<sup>92</sup> UNFPA (2007).

health centres, and data collected by the study team. In the same areas, for the same period, data for neonatal deaths were 70 by Provincial Health Department and Provincial Reproductive Health Centre, 126 by data collected from hospitals and health centres, while the team recorded 284 cases. Similarly, while the Health Department and Reproductive Health Centre reported 4 maternal deaths, the team found 8<sup>93</sup>. This suggests a great need to improve further health management information system.

## **MDG6. Reduce HIV, tuberculosis, malaria and other diseases**

### ***Tuberculosis (TB)***

Viet Nam has succeeded in reducing the number of newly diagnosed AFB+ TB cases. In the whole country, total number of new cases has been reduced from 58,389 in 2004 to 53,484 cases in 2008. However, in the same period, recurrence TB was fluctuated between over 6,300 and 6,700 and there is no sign of steady reduction. Non pulmonary TB has increased quite steadily from 16,218 to 18,675 in 2007 and only slightly declining in 2008 to 18,610<sup>94</sup>.

Disparities are reported between provinces – in regard to registered cases, proportion of patients cured, and death rate. In 2008, reported cure rate ranged from 97.8 percent in Thanh Hoa to 71.1 percent in Lai Chau, and death rate was from 0.8 percent in Thanh Hoa and Bac Ninh to 5.1 percent in Can Tho and 10.9 percent in Lao Cai.

### ***Malaria***

Malaria prevalence has been reduced rapidly. In five years between 2004 and 2008, the number of positive tests was reduced by more than half – from 24,909 to 11,355. Number of severe cases has reduced at the similar rate – from 240 to 141.

### ***HIV and AIDS***

With the mobilization of resources, supported by efforts to reduce stigma and discrimination against people living with HIV (PLHIV), the number of AIDS patients receiving ARV treatment has been increasing rapidly – from virtually no treatment in early 2000s to over 67,000 people on ARV by the end of 2009 – about 54 percent of AIDS patients.

Data shows that the chance of survival depends largely on where a PLHIV lived. The disparities between provinces are severe. In 2008, within the South East region, reported death ratio was around 16 percent in Binh Duong, 35 percent in Ho Chi Minh city, and 87 percent in Ninh Thuan. In the Red River Delta region, Ha Noi had a ratio of 59 percent while Hai Duong was at 76 percent and Ninh Binh was 90 percent.

The above data also reflects a paradox in working toward targets set for HIV in Viet Nam. The chosen target is HIV prevalence. Prevalence consists of 2 components: 1) new infections, and 2) survival of the diagnosed. A raise in prevalence may indicate prevention failure, treatment success or both. For example, in 2009, according to MOH report, the new reported cases reduced by 14.3 percent, the newly diagnosed AIDS cases reduced by 11.1 percent, and deaths from AIDS reduced by 27.5 percent in comparison to the previous year, yet the estimated HIV prevalence continue to rise. To better measure the progress made in HIV response, it might be preferable to replace HIV prevalence with more appropriate

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<sup>93</sup> Dinh Thi Phuong Hoa (2009).

<sup>94</sup> MOH (2008).

indicator(s), which reflect progress made in both prevention of new infections and improvement in quality of life of PLHIV.

**In summary**, good progress has been made in meeting targets set for MDGs. The achievements of Viet Nam, however, would be even more meaningful if disparities between geographical locations and socio-economic groups were narrowed. Also, to accurately monitor progress, the quality of some of the data needs to be improved.

## **8.2 The Public Health System**

The health care system consists of preventive and curative medical institutions at central, provincial, district and commune levels. In the government health care system, by end of 2008, there were 44 central-level, 383 district level hospitals, 10,866 commune health centres (CHC), plus 764 non-health-sectoral-based health facilities.

The Commune level is the base of the health care system, where CHC provide both curative and preventive primary services. By the end of 2008, up to 98.6 percent of communes in had a CHC, 66 percent of CHC had a doctor, 93 percent of CHC had at least a midwife, or assistant doctor. Village health workers – the extended hands of CHCs – covered 84 percent of the villages<sup>95</sup>.

### **8.2.1 The Budget for Health Care**

The total health budget has increased remarkably in the recent years – from 5,098 billion in 2000 to VND 43,048 billion in 2008, far offsetting inflation in the same period. Such increases are due to the increases not only in the government investment but also health insurance and user fees. To secure the health budget, in 2008 the National Assembly passed Resolution 18 which required the government to increase the annual budget for health care, to “ensure that health expenditure is increased at the higher rate than the state expenditure in general”.

In fact, government’s expenditure for health – both in terms of real expenditure and share in the government expenditures has increased significantly since 2001. Share of budget for health in overall government’s expenditures more than doubled between 2001 and 2008 (from 5.0 percent to 10.79 percent).

In addition to the government’s spending for health, the health insurance contribution to health services in the same period has increased by more than 10 folds, from less than 1,000 billion to over VND 10,000 billion. User fee – mostly paid out-of-pocket increased by 5 times, from less than 900 billion to VND 4,464 billion. Having “more money for health” is a great opportunity but also poses a challenge of efficiency to have “more health for the money”.

The Government’s health sector financing strategy seeks to combine state and non-state provision and payment for health services in a way that is intended to ensure all Vietnamese access to appropriate care. However, one feature of health finance is its reliance on household (out-of-pocket) expenditure. Reliance on out-of-pocket spending poses obvious problems for the poor and makes catastrophic health payments an important source of

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<sup>95</sup> MOH (2009).

economic and social insecurity for all Vietnamese. And in a broader sense, where health is understood as mental and physical well-being, health care should not only be about commoditized services, but also about such preventative measures as promotion of a healthy life style and avoidance of danger practices (e.g. smoking).

Moving forward, the Government has committed itself to ensuring increases in public health spending. In 2005, central and local government spending accounted for 16 percent of total health spending, while health insurance accounted for 9 percent. Although health insurance has now reached over 40 percent of the population, it still accounts for only 13 percent of the health expenditure (Annual Joint Health Review 2008).

Health insurance for the meritorious, for the poor, the ethnic minorities, etc., with financial contributions from the local and central budget, brings significant resources for health care services. In addition to that, in the last few years, government's bonds have been used to improve health infrastructure. Universal health insurance is an attractive choice government has made to finance health care services. The ambitious goal is to achieve universal coverage by 2014. However, with less than four years left, Viet Nam has only achieved around 40 percent coverage while the Health Insurance Fund is experiencing deficits, even though not all insured have been using their cards.

It makes sense that the government should consider the near-poor as the next priority group after the poor and ethnic minorities to receive government's support through health insurance. As discovered during the team's field visit, in certain provinces, near-poor are now getting free health insurance – thanks to co-sponsorship between the central government, local funds and projects.

However, more efforts will need to be made to make the health insurance system work, especially for the disadvantaged. In 2007, for example, health insurance covered 43 percent of the population, but only 35 percent of medical consultations were insured. More troubling is the fact that while the poor accounted for almost 32 percent of the insured, they accounted for just over 10 percent of the consultations covered by health insurance (Health Statistics Yearbook 2007). Some informants have voiced concern over this “reverse subsidy”, where spending supposedly for the poor benefits the better-off.

Reasons for the poor not using insurance include: 1) insured services are not available at a place that is easily accessible for them, so that the cost saved by using insurance cannot match the transportation and opportunity costs to access the service; and 2) insured services are seen as of low quality – not having the right medicines and being perceived as not having necessary diagnostic equipment.

Many poor people only use insurance for cases of severe illness, and seek private health care or buy drugs for self-treatment for milder illness. However, as pointed out by a study by the World Bank, half of the households experiencing catastrophic spending for health care were due to “the steady drip-drip-drip of spending on drugs and out-patient visits” (Lieberman and Wagstaff 2009).

Health insurance should be expanded not only to cover more of the population but also to cover more aspects of health care. With the perspective of Viet Nam becoming a middle income country which will no longer be eligible to some of the disease-specific funding such as Global Fund for Malaria, AIDS and TB, as well as some other funding mechanisms, it is time for Viet Nam to prepare to integrate services necessary to respond to these health needs into the insurance system. AIDS and contraception are good examples. To survive and reduce further transmission, AIDS patients have to be on antiretroviral drugs (ARVs). Family planning is crucial to avoid unwanted pregnancies and child-bearing. Stable

long-term systems that ensure uninterrupted services are needed. Health insurance should be an option to finance these services.

### *8.2.2 Spending Targets*

National Assembly Resolution 18/2008 is an important legislative document regarding financing for health care, in which the National Assembly required that in the years to come the increase in health spending should be more than that of general state budget, and that government's bonds will continue to be used for building of "poorer" hospitals such as district hospitals, mental health, TB hospitals, etc. In the mean time, The Law on Health Insurance became in effect on Jan 1<sup>st</sup>, 2010, making a dramatic increase in number of insured people whose funding coming from outside health sector. Health sector will have a significant bigger budget. One of the key issues then is where and how the money should be invested.

The crucial issue is not one of simply increasing public spending on health (which will occur automatically, with economic growth) or getting insurance to play a larger role, the challenge is to continually structure public, insurance, and out-of-pocket spending on health in ways that align spending with public health needs. Doing so effectively will require, among other things, more prescient and responsive central steering and more substantial and independent regulatory institutions. Improvement in the performance of the health sector is necessary to sustain declines in poverty and inequality, and can contribute to a more productive economy.

Key issues government will have to confront in aligning its spending priorities with health goals include:

- The need for mechanisms that encourage greater responsiveness to public needs, including the needs of vulnerable populations. Patient groups and emerging civil society organisations should be encouraged to monitor health service performance;
- The need to allocate resources in ways that avoids the excessive commoditization of health care;
- The need to make investments in health education that are aligned with health sector needs;
- The need to strike the appropriate balance between preventive and curative care, the shift of resources to provide expensive curative care at the expense of cost effective preventative measures (which would reduce the demand for curative medicine) needs to be curtailed;
- The need to strengthen and consolidate primary health care. In Viet Nam. Questions about the balance of preventative and curative care have become inextricably linked to questions about institutional responsibility for the provision and payment for health services. But the mix of state and non-state has become exceedingly complex.

### *8.2.3 The "Socialization" Policy*

"Socialization" of public services, including health care was an important strategy initiated to cope with the crisis in late 1980s – early 1990s when Viet Nam started the *Doi Moi*. The resolution of the 4<sup>th</sup> meeting of the VII<sup>th</sup> Party's Central Commission in 1993, which approved health care socialization, read "Health care is responsibility of the community and each person, is responsibility of Party's executive committees and authorities

at all levels, mass organization and social organizations, in which health sector plays the key role”.

Health care socialization, as interpreted by those who designed it involved: 1) “All for health” - engaging the population in health care; 2) participation of mass organizations, professional associations and NGOs; 3) involvement of private sector as a component of the health care system; and 4) role of the state in policy making, resource coordination, enforcement to ensure that health care is developed following the motto “Equity, Efficiency and Development”<sup>96</sup>.

Socialization in implementation has been mainly about mobilizing financial resources to pay for medical services as commercial commodities. In this sense, socialization has been a success. The population was the first to pay fee-for-service, so much that Viet Nam was among the countries with the highest out-of-pocket payment (as a proportion of income) in the world.

If the policy on socialization of health care is to be fully and properly implemented as described above, Viet Nam would move closer to a right-based and sustainable health system.

### *8.2.3.1 .Capacity of the Population to Participate*

The population can participate in health care in many different ways: contributing to financial resources through paying taxes, buying health insurance, paying fees; participating in discussions and debates on policy related to health; monitoring the implementation of policy; and responding positively to health promotion efforts such as adopting healthy life styles.

For past 2 decades, the health system has successfully mobilized financial contributions from the population through out-of-pocket payment. Other examples of success could be seen in the participation of PLHIV in HIV response – from policy development, service provision, to monitoring implementation. People with disability have also contributed to policy development. However, there has been little to no organization to mobilize participation in other health-related issues (for instance, the participation of young people, migrants, ethnic minorities and sex workers in relevant sexual and reproductive health and HIV programmes).

### *8.2.3,2 Support from International Partners*

Successes of PLHIV and PWD could only happen with strong support from donors and international organizations to build capacity of civil society and provide leverage. Similar support is needed if the meaningful participation of the population in health care is to happen.

Support from international development partners not only provide an additional financial resource but also bring in improved practices, successful models and approaches to address challenges and modify Vietnamese conventional approaches.

As Viet Nam moves to the MIC status, the next few years will be critical for Viet Nam and development partners together to work on establish a rights-based and sustainable health system while development partner still maintain a significant presence. Government will also need to organise a smooth transition in areas where partner funding is likely to be reduced.

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<sup>96</sup> Pham Manh Hung (2009).



For instance, 85 percent of contraceptives in Viet Nam are supported by international donors. By the end of 2010, this support substantially reduced but the government have not yet established a national financial framework to secure the provision of contraceptives.

## **8.3 Challenges Facing the Health System**

### ***8.3.1 Changes in Patterns of Ill-Health***

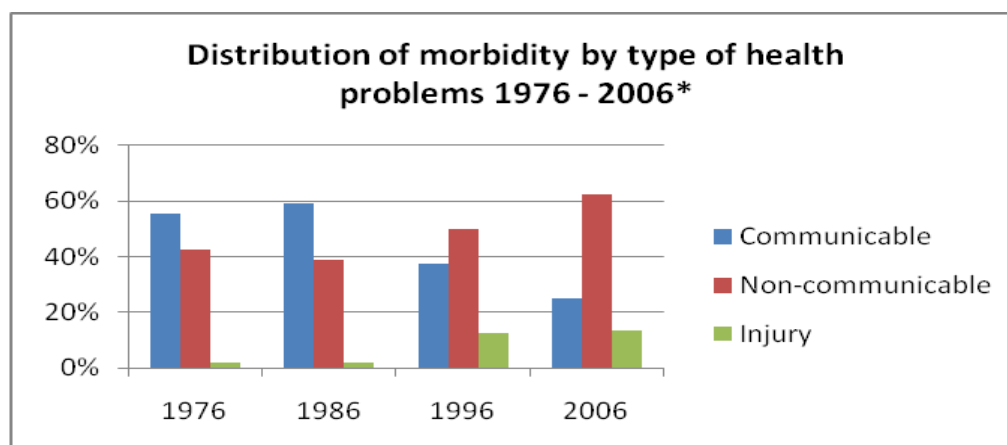
From the outset, there is a need to distinguish between public health needs and the demand for health services. While these are related issues, they are not the same. Viet Nam's public health needs refer to the entire set of conditions which Viet Nam requires to meet specific identified health challenges. Broadly – these include the need to expand the availability of quality health services to all segments of the population, and means and measures to effectively respond to and anticipate changing patterns of disease and disease threats. Detailed analysis of these areas of need is informed by a consideration of available data and the growing number of analyses of Viet Nam's health sector.

To speak of “demand” for health services in Viet Nam indicates some of the special challenges involved in the design and conduct of health policies in a market economy. As the economy grows, health services are going to emerge not only as an important area of service provision but also as a major economic sector in its own right. A growing market economy has many apparent benefits with respect to health policy. These include increases in the amount of public and private spending, and harnessing market forces to achieve improvements in the range and efficiency of health services provision. However there are also, as is well known, considerable risks. In Viet Nam as in other countries, there is an observed tendency for the interests of health service providers to displace public health needs. Hence, what is needed in is not only effective responses to increasing and changing demand for health services, but also policies and practices that promote public health needs in the face of massive commercialization.

The demand for health services is growing, but health needs are changing, with a substantial decline in the prevalence of infectious disease and an increase in non-communicable diseases and injuries owing to lifestyle, consumption, and the management of health risks. At the same time, Viet Nam must confront familiar as well as new communicable disease threats, ranging from HIV/AIDS to avian and swine flu and the possibility of other as yet unpredicted epidemics.

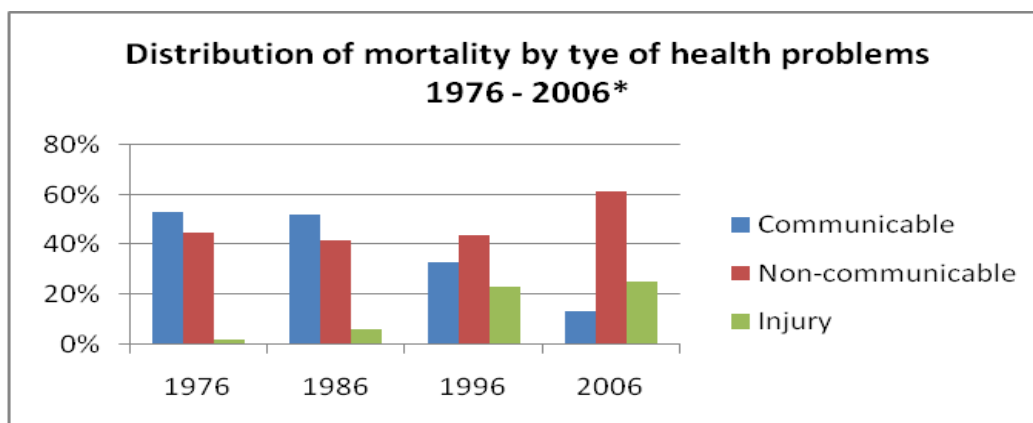
Although the overall decline in communicable diseases is significant, some communicable diseases remain persistent. Between 2004 and 2007, pneumonia has remained the leading cause of morbidity, with an incidence rate of 326 per 100,000 population in 2004 and 412 in 2007. Viet Nam has experienced a high burden from tuberculosis; ranking 13<sup>th</sup> in the world for several years. HIV-related problems, pneumonia, septicaemia and respiratory tuberculosis were among the 10 leading causes of deaths in 2007. Thus, while the burden of non-communication diseases (NCD) and injuries are increasing, communicable diseases remain a significant cause of morbidity and mortality.

**Figure 0.1. Distribution of Morbidity by Type of Health Problems 1976-2006**



Note: \*Data derived from Health Statistic Yearbook 2007 (MOH 2008).

**Figure 0.2. Distribution of Mortality by Type of Health Problems 1976-2006**



Note: \*Data derived from Health Statistic Yearbook 2007 (MOH 2008).

In the coming decade, the share of older persons in Viet Nam's population will grow, posing distinctive health sector challenges. Aging is an important cause for the increased demand for health services, and of changing health needs. According to the definition used by UN ESCAP, a population starts aging when older-age persons account for more than 10 percent of the total population; Viet Nam will reach this level in 2010 and the percentage will continue to grow. An aging population means increasing needs for health care adapted to the illnesses of old age.

The declining growth rate of Viet Nam's population has contributed to its improved health status. But Viet Nam population is still growing. In the next decade, Viet Nam will remain in a so-called "demographic bonus" phase, as a large portion of the population moves into the reproductive and sexually active age groups. Between 2010 and 2040, there will be 2 or more persons of 15-60 years old for every one person of other age groups. Each year the working-age (and sexually active) population will be increased by 1 million. This implies a continued strong need for appropriate health services and health promotion interventions, especially reproductive health including reducing unwanted pregnancies, prevention and treatment of sexually transmitted infections, and interventions to combat HIV and AIDS.

Risk factors for communicable diseases (e.g. limited access to clean water, unsafe sex and injection of drugs, lack of hand-washing) continue along emerging factors for NCD (e.g.

obesity) and injuries (e.g. increasing traffic activity, construction activities, etc.). Also significant resources have been required in recent years to tackle emerging infectious diseases such as Severe Acute Respiratory Syndrome (SARS) and Avian Flu.

### *8.3.2 Inequality in Access to Services and in Health Outcomes*

Equality and equity are very much a health sector issue. The need to institutionalize policies and practices that reduce inequalities and inequities and ensure access to timely and appropriate health interventions is among the greatest challenges Viet Nam will face in the coming decade. Managing health services in a market economy has special complexities owing to the difficulties in achieving an appropriate balance in the management of public and private interests.

Inequalities of access to health services and health outcomes in Viet Nam are multifaceted and include inequalities based on income, gender, ethnicity, place of residence, as well as residential registration status.

Income based inequalities in Viet Nam's health system are evident not only with respect to the burden of expenditure on households, but also with respect to the effectiveness of diagnosis and treatment of disease, site of treatment, and other factors that promote unequal health outcomes.

The VHLSS 2006 showed that a person in the lowest income quintile spent on average 14 percent of their annual income if seeking treatment while their counterpart in the highest income quintile would spend an amount equivalent to only 5.4 percent of their annual income. In the case of in-patient treatment, the poorest would have to spend 39 percent of their annual income for the treatment in comparison to 28 percent by the richest.

Data from various sources suggest there is reason for concern about gender discrimination in health. The VHLSS 2006, for example, indicated that household spending for health care for female members has been declining relative to that for male members. In 2002, average health care expenses for a woman who got treatment within 12 months prior to the survey was equal to 90 percent expenses for men, in 2004 it was 85 percent and in 2006 only 80 percent.

Other data show a troubling gap in the sex ratio of children admitted for hospital care. A study carried out in three national and provincial hospitals found that boys accounted for 61 percent of all children admitted to these hospitals in 12 months in 2006 and 2007 while another study, of three national children's hospitals, found that 70 percent of all children admitted were boys<sup>97</sup>. It is important to ascertain whether these data are indicative of a wider trend and to how and to what extent policies and practices favour men over women.

A large study commissioned by UNICEF in over 37,000 households in rural areas of all 8 economic regions showed that only 11.7 percent of the rural population had access to tap water. Meanwhile, among nearly 3,000 water samples taken from water sources considered "clean" in the rural area (well, rain, surface water and tap water) and examined in a study

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<sup>97</sup> MOH, NPH, UNICEF (2008).

conducted by General Department of Preventive Medicine only 25 percent met microbiological standard (75 percent of tap water samples met this standard)<sup>98</sup>.

There are many factors making the situation difficult for migrants when it comes to health. Not having *hộ khẩu* (permanent resident registration book) where they stay, they are not accounted for in the local budget, thus not included in local health programs, which limits access to free primary health services such as family planning, immunization, or community-based health education. For many migrants, as the purpose of leaving home is to make money for the family, they tend to work too hard and save money to send home - neglecting their health and their nutrition. Being away from the most important social network – family and kin - once falling sick and finding it not possible get back home, they are likely to be in miserable conditions – psychologically, physically and financially.

Poor migrants are not entitled to most of the support available to the resident poor. A study in 2007 in Hanoi found that only 10 percent of migrants have health insurance<sup>99</sup>, which is much lower than the national coverage of 43 percent (MOH 2007). And even if migrants have insurance, the policy requires attendance first at the particular facility registered on the card – mostly in their original residential place - preventing them from using it. Now that all hospitals require patients to make a deposit before getting any service, migrants with not enough money would have no chance to be taken care of. In addition to that, almost all health facilities offer only clinical services and not nursing (feeding, bathing...), migrants without someone to provide care suffer.

The number of CHC health providers in the mountainous areas is less than the average throughout the country. In the mountainous areas 33 percent of the CHCs reported having only two trained staff and only one in every ten had a doctor. This compares unfavourably with the much higher nationwide average rate of 66 percent. Data also found that the significant shortage of health providers with specialization in obstetrics and paediatrics (Nhu *et al.* 2003). The lack of trained professional staff significantly increases the risk of obstetric complications.

Ethnic minority populations usually live in scattered communities with some households located between 5 and 10km away from the nearest CHC. Transport is inadequate and approximately 20 percent of mothers interviewed said that the only means of transport to the CHC was on foot thus explaining to some extent the prevalence of home deliveries as mentioned earlier in this chapter.

Economically, direct costs of health services were not considered as much a barrier to accessing health care services as indirect costs such as the time factor and the need for relatives to escort the patient (Man, N.V., *et al.* 2006). The severe shortage of health providers particularly specialists in obstetrics and paediatrics together with difficult working conditions (distances, poor transport, low salaries), lack of training opportunities and weak supervision have impacted negatively on health provider performance and the reproductive health care services. These factors are further aggravated by the poor local infrastructure found in most CHC in mountainous areas.

Although data in health outcomes disaggregated by socio-economic parameters are not available, disparities in achieving MDGs clearly show that inequality in health outcomes

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<sup>98</sup> MOH, UNICEF (2006).

<sup>99</sup> Truong Hien Anh.

very much exist. Data from VHLSS 2006 on disability show that rural population, women, and the poorer people suffer from higher rates than the average for most types of disability.

### ***8.3.3 Health Needs of Some Special Populations***

#### **People living with HIV (PLHIV)**

PLHIV – who numbered over 254,000 in 2010 and over 280,000 in 2012 – are in need of transmission prevention, and an increased percentage of them are in need of anti-retroviral drugs (ART) and opportunistic infection treatment. Coverage of ART treatment has increased rapidly from almost non-existence in early 2000s, to over 67,000 people in 2009. This rapid coverage, however, still accounts for only 54 percent of the estimated number of people who need this life-saving treatment<sup>100</sup>. ART is much more available in provinces with international funding while PLHIV in the so-called non-project provinces are facing the risk of losing their life for not accessing treatment.

Prevention of mother to child transmission is one of the most cost-effective HIV prevention intervention. The Law on HIV/AIDS gives priority for this intervention. Coverage of intervention has increased significantly but is still very far from desirable levels. In 2009, less than one third of positive pregnant women received the treatment to reduce the risk of transmitting HIV to her baby.

Meeting the sexual and reproductive health needs of PLHIV and their partners is a challenge for the health system. A recent study found that two-thirds of PLHIV were having a regular partner, and almost half the partners were either negative or having an unknown status.

#### **Drug users**

Drug users, of whom around 150,000 were in the records of MOLISA (2010), are in dire need of treatment as well as prevention of blood-borne diseases such as HIV, Hepatitis B and C. Drug treatment such as methadone maintenance therapy were successfully piloted and the government has made a commitment to scale up the treatment to 80,000 drug users by 2015. Scaling up treatment from just more than 1 percent of drug users (over 1,700 patients) to coverage of over 50 percent in 5 years is a considerable challenge. On top of that, conflicting policies towards drug users may make it harder for the methadone treatment target to be met since the drug control program aims at sending more drug users into drug centres and the recent Decree 97 in 2009 actually made drug users who are sent to drug centres stay for a longer time.

Prevention programs that distribute needle and syringes, have been scaled up rapidly, to almost all provinces and cities. It is reported that in 2009 alone, 24 millions needles and syringes were distributed to injecting drug users. Nevertheless, the most recent study carried out by MOH and Family Health International in 10 provinces found that prevention efforts had only reached 17 percent of injecting drug users in the 10 studied provinces, and among them, only 45 percent received clean needles.

#### **People with disabilities**

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<sup>100</sup> The Socialist Republic of Vietnam (2010).

People with disabilities (PWDs) are among the most under-privileged groups in Viet Nam. According to the most recent national census, in 2009 a total of 3.9 million people with vision problems, 2.5 million cases of hearing problems and 2.9 million cases of mobility problems were identified, while 2.8 million individuals claimed to have some degree of a "memory problem" (it should be noted that some individuals may have reported more than one disability, and data on people with other types of disability was not enumerated). Nearly 8 percent of the Vietnamese households have members who are disabled, and most of these households are poor. Despite considerable achievement in poverty reduction, PWDs together with ethnic minority groups remain persistent pockets of poverty. By the World Bank's estimation, the adjusted poverty rate of the disabled population is 20.1 percent against 13.5 percent of the nation.

The Government's Ordinance on Disabled Persons stressed the importance of meeting the healthcare needs of PWD. Over the last decade, great efforts have been made by the government and society to support PWDs with better and equitable health care services. One important support was the provision of health insurance cards, or cards for health checks and treatment for PWDs. Yet, compared to the general population, PWD still face forbidding challenges regarding access to much needed health care services. Findings of a large-scale survey on PWDs (Le *et al.*, 2008) show that despite government support, close to a half of PWDs still have difficulties in getting health care services due to poverty, the lack of appropriate services for some specific needs, distance of services from home and the lack of physical access to health care facilities, as well as stigma and discrimination at healthcare establishment against PWDs.

#### ***8.3.4 Balancing Essential Services with More Sophisticated Health Care Technologies***

As Viet Nam's wealth has increased, there has been, as might be expected, an increase in the consumption of health services and demand for more sophisticated health services. Hospitals in the region are advertising in Viet Nam pointing to their sophisticated technologies and high quality services. There have been some suggestions from the government that investment should be made domestically to compete with international hospitals to meet the demands of well-off patients and gain that money for the health sector. Service quality and cost is often equated to the technology involved.

Ultrasound machines, which were found only in big hospitals in early 1990s, now can be found in almost all district hospitals and many private clinics. Computed tomography (CT) scanners and magnetic resonance imaging (MRI) machines are increasingly available. Reported data from MOH reflects the massive increases in the use of laboratory and imaging technologies. In 2008, for nearly 180 millions consultations, over 205 millions lab tests were done, and over 10.6 millions ultrasound scans were carried out<sup>101</sup>. In 2000, for nearly 132 million consultations, there were only 46.5 millions lab tests and 2.6 millions ultrasound scans<sup>102</sup>.

In contrast, studies identified weak CHC infrastructure in poorer areas, particularly in the mountainous regions. In Tay Nguyen, for example availability of electricity in 33 percent

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<sup>101</sup> MOH (2009).

<sup>102</sup> MOH (2001).

of CHCs was either irregular or non-existent. Further, 20 percent were without access to clean water and 33 percent, lacked a waste dumping site<sup>103</sup>. Many CHCs were unable to provide rest rooms or bathroom facilities. The telephone, a vital means of communication, was found installed in only 66 percent of CHCs in Dak Lak and Kon Tum. Ninety percent of CHCs in Ha Giang lacked seven of the essential items needed to complete their sets of equipment. All had inadequate drug supplies. At most, seven of the ten essential drugs stipulated by the National Standards were available, satisfying only 20 percent of drug needs. Insufficient supply of essential sedative drugs (diazepam), antispasmodics (such as ergometrin, oxytocine) or antihypertensive (hypothiazide) was evident in all these CHCs<sup>104</sup>.

The increased consumption of health services (including drugs and technologies) is not always appropriate to need. Investment in high-tech and expensive services that serve a few in some cases may compromise the essential services for a larger number of people. Moreover, financial incentives for health workers to prescribe – and in many cases – over-prescribe costly diagnostic tests and treatments contribute to the increase of health care costs, which are borne mostly by either the patients or health insurance. Income of the health sector from insurance and hospital fee increased from VND 1.57 billions in 2000, to 3.8 billions in 2004 and 14.5 billions in 2008. Of these increases, it is hard to say how much was due to increase in access and improvement in quality, and how much was due to improper prescription and excessive use of sophisticated technologies.

The status of the health sector as an income/profit generating sector carries inherent risks. Like many developing countries, Viet Nam faces the risk of having a health sector in which consumption of pharmaceutical products, medical technologies, and clinical services overshadows interventions aimed at promoting the adoption of healthy lifestyles and behaviour. Interventions to promote healthy lifestyle (limiting smoking, alcohol abuse e.g.) and diet (e.g. reducing salt in food) are currently lacking, while ultrasound machines are flooding the country – making Vietnamese women excessive users of ultrasounds during pregnancy<sup>105</sup>.

Educating the population and health professionals about the proper use of technology, and strike the right balance between improvement of essential services and investment in high-tech equipments are among the keys to getting “more health for money”

### 8.3.3.1 Rights-Based Approach to Health

In Viet Nam so far health services are considered by most as either a gift, a charitable act of the government to which one should feel thankful and be content with whatever provided, or a commodity one needs to pay to get.

Although the Law on Protection of People’s Health stipulated people’s right to health protection, there has been almost no discussion on the exercise of such a right. To the vast majority of the population, there is little awareness of the notion that people are the right holders and government institutions are duty bearers. Most of the popular newspapers have a corner asking for donations to help people in the extremely disadvantaged situations – and the majority of these cases are people who need money to undergo certain kind of treatment.

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<sup>103</sup> Tuong, P.V. (2007).

<sup>104</sup> Nhu, H.V. *et al.* (2003).

<sup>105</sup> Gammeltoft and Nguyen TTH (2007).



Quite often, those who read Vietnamese newspaper come across stories about children who have to stop schooling to work since the parents have a costly treatment which put them in debt, or are unable to work due to some health conditions that they can not afford to treat. The fact that these newspapers run such stories in a routine manner reflects the reality that the public do not yet see the government accountable for people's unmet needs in health care.

Increase awareness of the population, the government and policy makers about people's rights to health, and government's duty to protect people's health, build capacity of right-holder to demand for their rights and duty-bearers to fulfil their duty will require strong support from international partners, broad participation of the public and the engagement of policy-makers.

## **8.4 Policy Priorities in the Health Sector**

### ***8.4.1 Governance of the Health System***

Functions of governance should include defining expectations and granting power to monitor performance of various institutions in the system. In the health system, these functions could be translated into setting up targets, standards, regulations, assigning tasks and functions, coordinating, monitoring and regulating the implementation of different health facilities and institutions working in health.

A well-functioning governance structure should be able to regulate, coordinate and facilitate key players' participation to meet common targets set for the system. The three key players in health system of Viet Nam are: governmental facilities and institutions, private for-profit sector, and the non-governmental not-for-profit sector.

#### ***8.4.1.1 Policy Development***

While the management of health services are in the process of decentralization, the health care system still relies heavily on the central level for policy and guidelines – whether it is technical or managerial. MOH's role in development of policies – including operational and technical guidance, therefore, is critical to the functioning of the system. Recent policy documents (and lack of some) and their development processes reflect that there are essential policies still to be developed, and room for improvement in policy development processes – in terms of using evidence, and increasing the participation of stakeholders, especially those affected by the policies.

The development of policy documents and operation guidelines in health sector has tended to reflect the concerns of donors and implementing partners for particular health-related projects and programs. Reproductive health and HIV are examples of areas where policy and guidance are relatively comprehensive – with national strategy, action plans and detailed technical guidelines. In HIV, action plan and technical guidelines are developed for each of 8 intervention programs such as treatment of HIV and AIDS, voluntary counselling and testing, monitoring and evaluation. In reproductive health, National Standards and Guidelines on Reproductive Health Care sets technical norms, decentralizes service provision, and provides concrete guidance for each of many reproductive health care services, as well as serves as a legitimate tool to monitor the compliance of service providers. A document of this type, unfortunately, has never been developed for other medical services, making it hard to monitor the quality of services, leaving a room for ambiguity and possibly abuses when it comes to prescription of lab tests and medicines, which impacts directly on the cost of services.



While some health care policies are developed based on appropriate research data and needs of different population segments, some are not based on evidence and do not serve the needs on the ground. For instance, many managers at provincial and district level described Decree 172 issued in 2006 as having “come out of nowhere”. The decree divided district health services into three administrative units – district hospital, district preventive medicine centre and district health bureau. This eventually caused disconnection between different functions of the health system and caused confusion to CHCs. This decree created particular difficulties for mountainous provinces having to post 3 doctors and many other health professionals to fill the 3 units while trying to cope with serious shortage of skilled health workers<sup>106</sup>.

Health policy development is currently centralized at the MOH and does not always reflect the needs and the reality on the ground particularly in the health care networks in hard-to-reach regions. For example, a village health worker who can play a significant role in providing health services in a mountainous does not have the same significance in an urban setting. The configuration of a CHC in a remote area may need to be different than in the lowlands. A study by MOH and UNFPA (2009) suggested an urgent need to develop appropriate policies and guidelines for ethnic minority and hard-to-reach provinces in order to achieve objectives and targets of reproductive health care programmes.

The licensing of medical practitioners – as stipulated in the recently developed Law on Examination and Treatment raised concern among some development partners. The license, as read in the law, is granted on the ground of experience other than competencies, and no continuity in practice or education is required for the license to be valid. A doctor will only need to work in a hospital for 5 years to be granted a license for life. This may affect not only the quality of care in Viet Nam, but in the region – as Viet Nam is a member of ASEAN and the region seems may move to sharing the benefit of their medical professionals by allowing practitioners licensed in one country to practice in the others. Weaknesses in this proposal, as in the case many others, may be due to the low participation of different stakeholders. The development of this important law saw very little – if any – participation of health professionals, patient groups or the private sector.

#### *8.4.1.1 Health Sector Decentralization*

Decentralization, giving more power and responsibilities to the lower level to increase efficiency and effectiveness, is one for the most important administration reforms in Viet Nam. For decentralization to succeed, decentralization of financial resources and responsibilities should couple with decentralization in policy development, capacity strengthening at all levels – higher levels need to provide assistance and supervision, lower levels to make decisions, manage implementation and hold accountability. Not less important for the decentralization process is the involvement of citizens in supporting and monitoring implementation.

In light of international experience and what is known about health in Viet Nam it seems evident that partners and government did not take sufficient account of some of the implications of decentralisation. Specifically, the manner in which Viet Nam has decentralized institutional responsibility for health policy carries excessive risks. Experiences in China, Indonesia, the Philippines and many other countries show that the decentralization

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<sup>106</sup> It notes that MOH has corrected this decree in 2009.

of health sector administration without effective regulatory mechanisms in place is a recipe for a very expensive and poorly performing health system. While major political reforms in Viet Nam are unlikely before January 2011, the recently passed Law on Examination and Treatment will need to be revisited and overhauled. In particular, the very loose and relaxed legal provisions regarding the licensure and regulation of health professionals goes against much of what has been learned in the field of international health.

At the present, capacity at local level greatly varies. More often than not, sub-national levels have not been able to identify, make decisions on local priorities and develop plans that best serve the local community. Rather, local plans simply copy national targets and adopt approaches from central guidelines without necessary modification to the local context (MOH&UNFPA 2009). Central level staff is not mandated to assist at the local level, and are too occupied with other activities to provide support. Training on health system management for those who are in such positions is lacking.

Government's Decree 10/2002, later replaced by Decree 43/2006, on the autonomy of public-establishments (including hospitals) eventually giving authorities for health facilities the right to charge fee-for-service. For clinical services, the practice of free diagnosis and treatment has disappeared, being replaced by fee-for-service. As Decree 10/2002 and Decree 43/2006 were implemented, the contribution of hospital fees to health funding jumped from VND 1,161 billion in 2003 to 2,900 billion in 2004, and continued to rise to nearly 3,900 billion in 2007. Health insurance payments jumped 7 times from less than VND 1,200 billion in 2003 to over 8,000 billion in 2007. Meanwhile total number of consultations had increased only by 20 percents (155.7 vs. 183 million consultations) (Health statistic yearbooks 2004 and 2007) reflecting the fact that health care costs had increased significantly.

Decree 10 and Decree 43 allows public hospitals paying staff as much as three times the government salary and also set aside 25 percent of their income for development funds and some more to other funds including welfare funds. Increased revenue collection in one hospital sets the example for the others, and for the private practices.

While it is appropriate that health care workers enjoy higher incentives, some patients risk falling back into or staying in poverty longer because of having to pay high fees. And insurance has to cover not only the standard salaries of health care workers but also the financial incentives that their hospitals have introduced. In 2007, a year after the Decree 43/2006 came into effect, the health insurance fund – for the first time in its history - experienced a deficit of over 20 percent.

#### 8.4.1.2 Accountability, Reporting and Monitoring

In recent years, the performance of the health sectors has from time to time been subject to public debate and scrutiny, a sign of some increase in transparency and accountability. However, these are isolated incidents, mostly scandalous in nature, such as an outbreak of cholera, or clearly unjustified death of a patient. Such incidents usually stir up some media frenzy before being forgotten as some other media sensation comes up.

The level of accountability in the health system – as in many other sectors – can be improved greatly in all regards – awareness in the health system of the need to be accountable, and mechanisms for such as the National Assembly, People's Councils, patient's group, health professional associations and other civic bodies to hold health governing bodies and institutions accountable.

Public health institutions should be held accountable for the health of the population. Media reports on patients turned away from health facilities for not being able to put a deposit

should be taken up vigorously by appropriate legal authorities. There should be greater efforts to cultivate public concern over the present situation, in which thousands of PLHIV die every year in Viet Nam due to lack of access to existing life-saving treatments and in which tens of thousands more are infected due to the failure to adequately embrace relatively simple preventive measures.

It is not easy to get information about the performance of health sector – even for researchers. With the internet becoming increasingly popular, official websites could be an effective and cheap tool to provide the public with information. However, visitors to the websites of MOH or Viet Nam Health Insurance will find only very little, mostly outdated information, even on such things as health statistics.

While there are many surveys repeated annually, there is still a lack of some vital data. Vertical health care database systems pose a heavy workload for health workers reducing the reliability of collected data. For purposes of treatment and planning, there is a need for unified health management information systems that can collect and organize medical data.

Monitoring and scrutiny by the representatives of the population, People's Councils and National Assembly is inadequate, due to lack of resources, lack of technical capacity, and lack of consultation with the population. Monitoring by the citizen is even more limited – mostly due to the weakness of patient groups, and NGOs.

#### *8.4.1.2 Public Participation in Policy-Making*

Although the official policy on socialization clearly mentions the participation of the private sector, citizens and NGOs in policy development, implementation and monitoring of health care services, this has not been implemented beyond financial contributions by the population and service delivery by private sector. Participation in policy advocacy and development is seriously lacking. Private sector, despite being the provider of one third of outpatient services, has almost no say in health-related policy.

In 2008 and 2009, the National Assembly discussed and approved two important laws on health – the Law on Health Insurance, and the Law on Examination and Treatment and resolution No 18 on “Improving the implementation of the socialization policy and legislation to improve people's health”. However, there was almost no debate. There was some discussion between a few National Assembly members and the MOH, but there was no participation of other citizens, of patient associations, the private sector and professional associations.

This was quite different from the development of the HIV/AIDS Prevention and Control Law, which took 2 years to be approved, in which the participation of citizens and people living with HIV was vibrant. There are many reasons behind the low (if any) participation in the discussion of such important legislation. While hundreds of groups and various networks of people living with HIV are present all over the country, other patient associations are almost non-existent. Local NGOs, lacking funds to work on other health issue, flock to work on HIV where funding is made available. Organizations of PLHIV grow quickly thanks to the investment from various donors. The result has been the positive development in the national AIDS program including the development of internationally recognized policies, the rapid scaling up of interventions, and increases in accountability. Meanwhile, almost all other areas of health care are left for the government to play solo.

For socialization to work in a full sense so as to “uphold intellectual and material potentials of the population, mobilize the whole society to participate in the protection and

care for people's health" (MOH 2005), the scope of participation should be extended through the organisation of patients groups (e.g. around particular health needs) and the encouragement of health related national NGOs.

#### *8.4.1.3 Coordination*

Important issues need to be addressed in regard to coordination in health sector. Instead of concentrating efforts in coordinating different implementers and service providers to ensure the coverage, and effectiveness of health services against set standards, different departments at MOH are busy implementing different and sometimes overlapping health initiatives, diverting limited human resource at these departments from policy-making and regulatory functions. This kind of practice also hinders the accountability of these – usually big – projects as conflict of interest is an apparent issue, and limits the ability of MOH to coordinate where there is competition between implementers.

Hospitals, especially those at higher levels, usually report bed utilization of over 100 percent while some lower health facilities are not fully utilized. Patients concentrate in facilities at higher level due to belief that services there are better. The government helps to feed that belief by allowing higher-level hospitals charge higher fees, thus enabling them to pay health workers better, thus attracting more competent and/or better-trained professionals. The limitation in regulating the use and promotion of high-tech medical equipment, and the failure to educate the population, leave the industry promoting the belief that high-tech means high quality services. The higher-level hospitals, which receive more investment for expensive high-tech equipments, therefore are more attractive to clients. The lower level facilities are left with health professional who are either less competent or perceived to be so by the population, and with less investment. Patients flock into specialized hospitals for simple services such as antenatal care.

An example of poor coordination is the lack of coordination between VAAC, MCH and GOPFP which results in ineffective linkages between sexual-reproductive health services and HIV service provision. While the law on HIV and AIDS asserts the full human rights of PLHIV, Decree 12/2003 which prohibited access of PLHIV to assisted reproduction is a barrier for PLHIV to access this type of services. Lack of coordination between HIV and family planning activities may lead to waste of resources for condoms while many vulnerable population segments do not have access to this commodity for prevention of unwanted pregnancies, sexually transmitted infections, and HIV.

Coordination between health and non-health sectors is often difficult. While health programs are vertically organized, and each health program is usually responsible by one particular department, the hierarchical culture makes MOH's departments reluctant to communicate and coordinate with other ministries. A clear example is the treatment of drug users. While international and national evidence shows clearly that keeping drug users in closed settings is ineffective in preventing relapse, and substitution therapy is an international best practice to stabilise drug users' life and reduce crime, more centres are being built to keep more drug users in for longer time. As such, treatment of drug users is primarily the responsibility of MOLISA rather than MOH. Another classic example of the lack of coordination in HIV and AIDS is that health system organizes clean needles and condoms to be distributed to drug users and sex workers to prevent HIV transmission while public security and social evil controllers use those items as evidence to arrest and/or convict individuals or establishments. Coordination between government agencies and non-governmental sectors is usually in the form of the government regulating the others, with too little dialogue between government and non-government sectors. In health matters other than

HIV and AIDS, the non-government sector is often interpreted as being represented by international NGOs.

Support is needed to further strengthen the steering and regulatory roles of the MOH. To this end, the following questions need to be addressed:

- What are the factors determining public demand for health services in the coming decade?
- What policy requirements are likely to emerge given government health targets? and
- What options are available to promote broad and equitable access to quality health services on a financially sustainable basis?

The high rhetorical priority given to health needs to be matched by policies and practices that ensure that access to appropriate health care is a right realized by all segments of society. This needs to be done in a way that recognizes the special health needs of vulnerable groups and the many gendered aspects of health and health care.

### **8.4.2 Service Delivery**

In Viet Nam, government is still the most important health service provider yet no longer the only one – as it was before *Doi moi*. The private sector is growing rapidly. In 2008, up to 25 percent of hospital beds in Viet Nam were in private facilities MOH (2009). Over 30 percent of out-patients visits were to a private facility (VHLSS 2006). The non-governmental, non-commercial sector is still playing a modest role in health care in general but in some areas, especially in delivering services for marginalized and hard to reach populations such as PLHIV, drug users, sex workers or men who have sex with men (MSM), they have shown an increasingly important role. It is estimated that in 2008 and 2009, between 51 to 75 percent of community and home-based care services for PLHIV were provided by civil society organizations such as self-help groups of PLHIV, NGO or faith-based organizations (Socialist Republic of Vietnam 2010). Most of prevention services for drug users, sex workers or MSM are delivered by outreach workers who are members of the targeted communities.

The role of commune health stations (CHS) is critical. Impressive health indicators were largely attributable to the wide-spread and highly cost-effective primary health care system<sup>107</sup>, which provided access to essential preventative medical services such as vaccination against the most common causes of death and morbidity among young children and pregnant women, promoted healthy practices such as food hygiene and environmental cleanliness, and carried out important public health campaigns from promoting the use of bed-nets for malaria control to providing contraceptive services to prevent unwanted pregnancy or implementing DOT (direct-observation-therapy) to treat TB patients, as well as treating common illnesses and diseases. Commune health centre staff and affiliated village health workers are in the front line to implement various disease-specific programs. CHSs also play an important role in providing services that have met one quarter of the needs for

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<sup>107</sup> Viet Nam has an extensive network for primary health care, consisting of more than 10,800 commune health centres with 57,000 health workers covering almost all communes in the country, plus more than 100,000 village health workers who are working in nearly 85 percent of all villages in the country, and thousands of health workers working in schools, factories and sector-based institutions.



outpatient services and one tenth of inpatient services (VHLSS 2006), especially for those who live in remote areas and ethnic minority people who prefer to seek consultation and treatment in their own language near where they live. CHSs, however, are struggling to find their space in the new universe of health care. CHSs are responsible for implementation of and reporting to tens of vertical health programs – such as immunization, maternal child health, mental health, TB, malaria, HIV and AIDS, sanitation and food safety. Now they have to compete with other service providers if they are to provide medical services for the population. In some places, health insurance does not want to sign contracts with CHSs to avoid having to manage too many contracts with low client volume. The re-organization of the health system at district level in early 2000s, which put district hospital and CHSs under two different managements, reduced the coherence of the network.

Design of primary health care: service delivery points are based on the administrative unit, regardless of the population size, geographical location and the needs of the people.

There is a need to more carefully integrate non-state provision of health services into the national health system. The significant proportion of patients seeking services in private clinics – which mostly do not have a contract with health insurance and none has governmental financial support – reflects a reality of health financing in Viet Nam that expenditure for health care mostly comes directly out-of-pocket so that it does not make much difference whether one seeks health care in public or private facilities.

In the sphere of regulation, one challenge concerns the pricing of health services and pharmaceuticals. A new State pricing scheme is set to be released. Such a list was introduced 14 years ago, but since then there have been dramatic increases in drug prices, while over-prescription of drugs and superfluous laboratory tests contribute to the surge as a proportion of health care expenditure spent on these items. In 2007, drug expenditure per capita was USD 13.4 compared to USD 8.6 in 2004.

**Human resources for health.** Achieving broad improvements in the quality of care will require increases in the number of trained health professionals (including not only doctors, but also nurses and other kinds of professionals). This need is flagged here, although health education issues are not discussed in this report.

### ***8.4.3 Specific Interventions***

There are also policy challenges owing to specific health threats, particularly in light of Viet Nam's changing health needs. Programs that address the most common NCDs (hypertension, e.g.) are not yet in place. Although injuries due to traffic accidents have been reduced significantly in recent years (from over 29,000 in 2002 to just over 10,000 in 2007), the number of deaths remains high MOH (2008). Traffic-related injury and head injury (for different causes) is still among the leading causes of morbidity and mortality. While the mandatory universal motorbike helmet has had an impact on reducing traffic-related injuries, the absence of helmet arrangements for children is a major policy shortcoming and needs to be urgently revisited. In the mean time, no large scale intervention has been seen as to address serious injuries inflicted by other causes – which in fact accounted for more than half of all reported injuries.

Respiratory tract infection is always cited by primary health workers and paediatricians as the most common health problem they have to deal with. Pneumococcal vaccine which acts against a significant number of the bacteria that cause pneumonia - currently among the most important causes of morbidity and mortality - have not been made available to the majority of the population. In the mean time, large amounts of resources have

been used to purchase medicines to treat pneumonia, and many working days of the patients and carers are lost due to the illness.

## **8.5 Health Sector Requirements and the Role of Donors, 2011-20**

Consultations with MOH have identified a number of areas of focus for future collaborations with Donors.

Currently, the MOH is developing its strategy document for the 2011-20 period and the five year plan for 2011-15. An interview with the General Policy office has identified projected needs with respect to foreign assistance.

Although the Government will give high priority to the health budget in the coming years, the role of donors will remain vitally important with respect to the health sector. MOH hopes that donors continue their support (technical and financial) for health.

In the area of policy support, assistance will be requested to support:

- Development of the national health strategy for 2011-20, with a vision to 2030;
- Development of the FYP for 2011-15 (EC, WHO, UNICEF already have plans);
- Development of a carefully researched systematic plan for implementing the 2011-20 health strategy (this work presently relies on funds from the state budget);
- Development of a price framework for health services (for hospitals and preventive health service providers);
- Developing a phasing out strategy for donor-funded programs/projects, with careful planning to ensure continuous provision of services, allowing enough time for transferring norms, sharing values and improving skills;
- Support the development and involvement of civil society, including professional associations, patient groups/associations to monitor the implementation and advocate for patients and vulnerable/marginalized populations.

MOH has met many difficulties establishing an evidentiary foundation for its policies and desires to have survey research that could assess the situation with respect to service users and service provision, as well as the supply and needs/demands for various health services. Data from the National Health Survey, conducted in 2001 and 2002, are now outdated and data from the Joint Annual Health Review is insufficient, both with respect to coverage and reliability.

Support is needed in the analysis of needs and in developing a comprehensive strategy with a concrete implementation plan and a coherent monitoring and evaluation system. The National Strategy for People's Health Care Protection 2001-10 is soon going to end. This is an opportunity for UN and LMDG to support Viet Nam to make evidence-based decisions on where to go and how.

Investment is needed in preventative health care but, in contrast to the past, few donors have expressed an interest owing to the difficulty in establishing the efficacy of aid. The WB's 47 million dollar program covers 46 of Viet Nam's 63 provinces. Investment in provincial hospitals through various loan schemes has been beset by some unforeseen problems. The Japanese International Cooperation Agency scheme has been severely damaged by the fallout of the PMU18 corruption scandal, which has resulted in understandable but practically burdensome procedural requirements that have slowed the pace and scope of new capital investment.

To avoid the increase of inequality and poverty due to increasing health care cost, there is an urgent need to regulate clinical practices and health service fees. UN agencies and bilateral donors can play important roles in helping with this. WHO obviously can assist Viet Nam to set relevant standards for clinical practices, while ILO can advise on norms regarding salary/income of health care workers relative to other members of the workforce. Examples from other countries, which have faced the same problems, can be shared with Viet Nam.

In addition to these requirements, there is a need to buttress the sustainability and development of donor-funded and programs for the neglected. With the future scaling down of support from donors, who often promote equality and inclusion, vulnerable and marginalized populations may not be able to exercise their rights to “the highest attainable standard of physical and mental health”.

Over 90 percent of funding for the HIV/AIDS interventions in the country are financed from bilateral, multilateral donors or global programs<sup>108</sup>. Funding for family planning programs has been critical to meet contraceptive needs of the population, making Viet Nam a successful example of family planning. Multi-million dollars donor-funded projects and programs have helped promote safer sexual behaviour as well as providing greater access to condoms and clean needles, and life-saving ARV treatment for people living with HIV.

Donor funding for these programs has not only about filling financial gaps. In many cases, it is the incentive for the country to implement the interventions to which it has not in the past given priority or to which it was reluctant to commit domestic resources. HIV/AIDS is an example – as is providing preventative services to marginalized populations, and treatment for people who are considered as engaging in “social evils” was not seen as high priority. It can also be a vehicle to transfer new skills, to introduce new values, and to promote international best practices. Encouraging the participation of people living with HIV and most-at-risk populations would have taken much longer to happen in Viet Nam if international organizations had not pioneered programs through their funding and technical support. In the area of family planning in particular and reproductive and sexual health in general, without intensive efforts by donors, it is unlikely that sexual education would have introduced in schools.

Among donor-funded programs, some activities have already been established and can be more or less run effectively if government funding is made available to replace the donor support (e.g. delivery of contraceptive services for married couples, or out-reach activities to provide clean needles to drug users) but some areas still need encouragement and technical support (e.g. addressing GBV in health care settings, delivery to marginalized populations and promoting partnership with civil society in responding to HIV) as well as advocacy for the government to adopt international best practices (e.g. provision of contraceptive services for young/unmarried people).

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<sup>108</sup> In 2008, for example, total funding for HIV/AIDS in Vietnam was almost USD 85 millions, of which, state budget and local budget accounted for only 6.9 millions (Vietnam Country Proposal Round 9 to Global Fund to fight AIDS, TB and Malaria. 2009).



## Chapter 9

# Institutional Renovation Required for Sustained Development

### 9.1 Introduction: Governance and Development

The importance of effective institutions as a factor in economic development is now widely recognised. The importance of institutional reform in Viet Nam was emphasised in the latest **Viet Nam Development Report (World Bank 2010 Modern Institutions)**. That provides a broad review of institutional issues, there is no need to cover the same ground. Therefore, in this report emphasis is placed on some high priority issues which should be addressed by government and the donor community in the coming decade.

**Governance:** The term “governance” has been in widespread use in the aid community for the past fifteen years. However, it is the view of the team that the term governance is an overloaded concept, which has been used to cover many different issues, ranging from mundane issues of public administration to more controversial aspects of political process. The term “governance” has many possible meanings, ranging from the promotion of particular political institutions and (ultimately) ideology to a more pragmatic support for the development institutions needed for sustained economic success.

The vision of Governance which sometimes motivates approaches among the LMDG and the UN incorporates notions of a pluralistic, decentralised, caring and democratic society, incorporating ideals of the good society which the Like Minded aspire to in their own countries. However, it should be noted that while claims of universality can be made for some of these ideals, other aspects by no means shared by all political systems and philosophies. Thus an alternative vision can be found in neo-conservative support for the untrammelled and uncontrolled operation of “free” markets, in the ideals of Sharia in Muslim societies and in the political system operating in the most populous of the UN member states, China. This suggests that discretion is appropriate in advocating some components of the governance agenda.

Effective pursuit of improvements in governance is most likely in areas where there is a shared vision between the donor community and aid recipients regarding social goals and ideals, with the emphasis then being placed on the identification and implementation of effective means to achieve those goals. It is neither appropriate nor likely to be effective to use aid as a vehicle for promoting changes in political systems.

An aspect of governance, which is of particular concern to the UN system and LMDG is the notion of equity, which in UN system is incorporated in the concept of “rights based” development. The concept of “rights” encompasses the idea of fairness or equity but is seen by the UN as being much broader and deeper. It captures the idea of upholding human dignity regardless of one’s background or position in society, respect for individual differences and opinions, freedom from violence or oppression, and freedom of choice and expression. Important parts of this agenda are shared by the Viet Nam socialist government as evidenced by its invocation of issues of fairness and equity, reflective in an impressive record of achievement in the spread of welfare, even if would argue that it does not yet take full account of the broader concept.

A broad concern for equitable, rights-based development pervades the whole report. Equity can be understood as a subjective notion of fairness and even “civility” (*văn minh*) – which are an established concern of the Vietnamese government and are repeated themes of party ideological statements. The team shares this concern for equity, not only as an overarching development **objective** but also as part of the requirements (**means**) for promoting and sustaining long-term growth.

Thus commitment to concerns about equity, in many of its key aspects, flows directly from the stated objectives of the Communist Party and GoV, as articulated in the constitution, government plans and party programs. This chapter addresses how such commitments can be attained through the more effective operation of government. The chapter concentrates on the reform in public administration and in economic institutions required to meet the needs of a modern economy.

Partly the need for reform results from the need for effective institutions to support the operation of the market economy and, in particular, to move the economy into a new, more sophisticated stage of development, as described in earlier chapters.

While impressive progress has been made in such areas as accounting, law and banking and finance, in none of these areas is capacity yet adequate for the demands of a more sophisticated economy that needs to emerge in the coming decade. Weakness in public administration and widespread corruption could act as a check on development. In the region, there have been dramatic examples of economic stagnation resulting from excessive levels of corruption (e.g. “crony capitalism”).

Efforts to decentralize the administration to achieve greater efficiency need to be combined with appropriate regulatory institutions capable of influencing local service providers who prove unresponsive to local needs. Across sectors, careful judgment is required about where future external support for capacity building and institutional change should be concentrated and what modalities of intervention are likely to be most effective. In the past, commitment of significant support in such areas as PAR have not been seen to yield results commensurate with the effort being made, and more innovative thinking may be required particularly in light of the changing needs of a more sophisticated economy.

This chapter has sections dealing with:

1. A review of progress in the development of the law, particularly commercial, and financial institutions and a summary of priorities for the institutional development in these areas, including identification of the need for international support.
2. A review of progress with PAR, including the success/failure of donor supported programmes and review of priorities for PAR in light of the government’s views and observations of donor involved in this sector.
3. A review of government’s past and intended future efforts to tackle corruption.

## 9.2 Development of the Commercial and Financial Legal Institutions

The development of commercial and financial legal institutions covers the development of the relevant legal framework to create a conducive environment for economic development, setting up the relevant organizational structures to execute economic state management and formulate the policies for running the system.

### 9.2.1 The Legal Framework

There are two aspects of the development of the legal system which are crucial for the modernization of Viet Nam:

1. The development of an increasingly sophisticated economy needs to be supported by a legal framework that establishes clarity in such areas as property rights and contractual obligations and which can be called on to enforce contractual obligations and protect property rights. An effective system of commercial law reduces risk and transaction costs. The business environment has become more equal and competitive, but in some areas the legal framework is not yet fully comprehensive and does not yet meet the needs of the various actors in the economy (businesses, farmers, consumers, etc.).
2. Respect for the law by citizens and government officials, and the development of a belief that resort to the law can assert citizens' right and act as a check on misbehaviour by officials will improve respect for the government and discourage recourse to other avenues to influence official (e.g. bribery). The Development of the 'Rule of Law' implies that citizens are protected from arbitrary behaviour by officials

A good deal of work has been put into developing commercial and financial legal framework, in many areas starting from scratch. In recent years, many legal documents have been revised, amended or newly issued to meet the requirements of membership of the WTO and to overcome the challenges resulting from WTO membership, which was completed in 2007. The amended Law on Enterprises 2005 has clarified regulations on entry, operation and exit from business activities, resulting in gradual easing of business entry in Viet Nam<sup>109</sup>. With the issuance of the Law on Investment and the related enabling legal documents, such as the Decree 108/2006/ND-CP, "Guiding the implementation of the Law on Investment", the support given by the government, the areas in which business entry is limited or allowed under particular conditions have been stipulated more clearly. The list of goods and areas of economic activity which are not allowed, or allowed within some limits or with some conditions, has been stipulated in enabling decrees for the Commercial Law<sup>110</sup>. From January 1<sup>st</sup> 2009 all enterprises with 100 percent of foreign investment have become eligible to import and export.

Commercial laws and regulations now provide more equal to all types of businesses. Non-state investors, including foreign investors, are now allowed and even encouraged to invest in some areas, which had previously been restricted to state-own enterprises or government non- income generating institutions, like education, health, and infrastructure development... The legal framework for public- private partnership has been improved with the issuing an amended Decree on BOT, BT and BOO and some other relevant legal documents.<sup>111</sup> However, there is still further room for improving the legal framework and the business environment, such as improvements in State financial management, clarification and

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<sup>109</sup> the International Financial Corporation (IFC), Doing business in Vietnam, 2008, 2009, 2010.

<sup>110</sup> Decree 59/2006/ND-CP and Decree 43/2009/ND-CP, guiding the implementation of the Commercial Law.

<sup>111</sup> Decree 108/2009/NĐ-CP Regulation on BOT, BT, BOO, replacing the Decree 78/2007/ND-CP and Circular 03/2009/TT-BKH, Guidelines on selection of investors in the projects with land use.

regularization of incentives available to private investors, and in particular land law and land management.

SOEs reform aims to increase the efficiency of the use of public resources as well as to give more space for private investment. However, the progress of SOEs reform implementation has been slower than projected by the Government. By the end of 2009 only 3,800 SOEs have been transformed into shareholding companies and 300 into one-member limited liability state companies<sup>112</sup>. According to the Law on Enterprises 2005, all SOEs were to be transformed into either shareholding companies or one-member limited liability state companies by July 1<sup>st</sup>, 2010. It seems unlikely that this target will be achieved.

Some efforts have been made to create a competitive business environment. The Law on Public Procurement (2005) and the related Decrees, guiding the implementation of the Law<sup>113</sup> require competitive bidding for procuring all goods and services, except in some exceptional cases, as a contribution to the creation of a competitive and efficient business environment. A competitive business environment has been promoted further by the Competition Law of 2004 and the associated legal documents<sup>114</sup>. However, some of the provisions in the Competition Law are too vague. For example, Article 3 gives an unclear definition of the concept of stakeholders to be protected. Exceptional cases permitted to be considered for single source procurement defined in the Decrees, guiding the implementation of the Law on Procurement, have been changed regularly, not based on any evident systematic criteria.

The Law on Enterprises have made the requirements and procedures for business entry clearer, especially with the one-stop-shop for business registration. However, there are some provisions under the Common Investment Law which are inconsistent with the Law on Enterprises, such as the provisions on required legal capital.

The discrimination between foreign investors and domestic investors has been reduced with the abolition of the Law on Foreign Investment, but differences remain between enterprises registered under the Law on Enterprises and the enterprises which must first get permits for investment and use those permits for business registration. Many foreign investors still face ambiguities as to whether they are regulated by the provisions of the Law on Enterprises, when they register under the Law on Investment.

Along with improving the legal framework for easing entry, the Government has also made some efforts to improve the legal framework to ease business exit, through issuing the Law on Bankruptcy and various related decrees<sup>115</sup>. However, there have been still many problems with the Law on Bankruptcy, causing delays and high costs.<sup>116</sup> The criteria for

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<sup>112</sup> Cổ phần hóa các DNNN còn nhiều lực cản, 25/12/2009, báo điện tử ATP Vietnam.

<sup>113</sup> Decree 111/2006/ND-CP, the Decree 58/2008/ND-CP and the latest Decree 85/2009/ND-CP) (Decree 111/2006/ND-CP, the Decree 58/2008/ND-CP and the latest Decree 85/2009/ND-CP).

<sup>114</sup> Decree 116/2005/ND-CP, guiding the implementation of the Competition Law and the Decree 120/2005/ND-CP, regulation on dealing with violations in competition matters.

<sup>115</sup> Resolution No 03/2005/NQ-HĐTP issued by the Committee of Judges, Supreme People Court, Guidance on implementation of the Law on Bankruptcy, Decree 10/2009/NĐ-CP on administrative punishment during applying bankruptcy procedures.

<sup>116</sup> Five years and 15 percent of the values of estate according to IFC, Doing business 2006, 2007, 2008, 2009, 2010.

enterprises to declare bankruptcy, valuation of the remaining assets, responsibilities for assets management, and capacity of the asset management teams are still an issue requiring further clarification.

Overlaps and gaps of laws still cause obstacles to doing business. The issuance of investment licenses and business registration has been much improved, but construction permits and regulations still create great delays. The time and costs for getting construction permits had increased from 133 days in 2006 to 194 in 2007.<sup>117</sup> One of the reasons is that construction is regulated by many different laws, including the Law on Construction and associated regulations, the Law on Investment, Land Law, the Law on Real Estate business, the Decree on Resettlement, and the Decree on Master Planning. The long time and high costs required for getting construction permits reflects in particular an unclear relationship between the procedures to access land defined under the Land Law and other procedures defined under other laws.

Despite the efforts made to improve the legal framework on land, the definition of land ownership in the existing is unclear resulting in problems in establishing land rights. This and poor transparency in spatial land planning have generated opportunities for many government officials to get tremendous profits from involvement in real estate transactions in recent years.

Land clearance and compensation are other key problems causing delays in construction. In 2009, the amended Decree on Land clearance, Compensation and Resettlement, was issued to provide clearer guidelines on land compensation and resettlement. However, it is not easy to define the “market price” for compensation.

Arrangements for employment have been simplified with the development of the labour market, resulting in reducing the rigidity of employment<sup>118</sup>. According to the Labour Code wages should be set based on the free negotiation between employers and employees and the free movement of labour is ensured. However a minimum wage has been set by the State for all private enterprises, including domestic and foreign. In principle state sector wage levels are to be adjusted regularly to adapt to market changes. However, wage levels have not been adjusted adequately to reflect market changes in practice, causing a brain drain from the government agencies in recent years.

Investor protection has been strengthened, reflected in a significant improvement of the investor protection index calculated by IFC for 2007-09 three years (2.7) in comparison to the one in 2006 (2.0).<sup>119</sup> This has been partly thanks to the amended Law on Enterprise and Securities Act, which mandates shareholder participation in major company decisions and increases disclosure requirements, especially for related-party transactions. The 2005 Civil Code and Decree 163/2006/ND-CP on Secured transaction allows businesses to use movable assets – present and future, tangible and intangible as collateral. These two laws have helped strengthen the power of creditors by granting a higher priority ranking to secured creditors and eased access to credit by broadening the scope of asset that can be used as collateral. The confidence of businessmen/women and investors has been enhanced further with the issuance of the Law on real estate business and amended Civil code. Secured transactions could be

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<sup>117</sup> IFC, Doing Business 2006, 2007, 2008, 2009, 2010.

<sup>118</sup> IFC, Doing Business 2006, 2007, 2008, 2009, 2010.

<sup>119</sup> IFC, Doing business 2007 and Doing business in Vietnam, 2008, 2009, 2010.

further facilitated if the Land Law expanded rights to land, allowing land use certificates to be used as collateral.

The enforcement of contractual obligations is very important to business development. This is an area in which there is much room for improvement. According to IFC the cost of enforcing contracts in Viet Nam remains high. The existence of many laws/ordinances regulating contractual matters, including the Civil Code, the Ordinance on Economic Contracts and the Commercial Law, has led to different interpretation in applying laws, increasing business risks (Nguyen Am Hieu 1999). There are still two separate laws regulating civil contracts, the Civil Code (amended 2005) and the Ordinance on Economic contracts. Along with these two key legal documents, the contracts in some specific areas are regulated by specific legislation, such as the Marine Law, the Commercial Law, the Civil Airline Law, the Law on Credit institutions, and the Law on Insurance business... There has been discussion about the merits of removing the Ordinance on Economic Contracts and amending the Commercial Law and the Civil Code to improve the provisions on economic contracts or upgrading the Ordinance on Economic Contracts to the status of a law. Further efforts are also needed to improve the legal framework for non-contractual obligations, such the compensation to the affected for the damage of the assets belonging to others.

To facilitate doing business easier efforts have been made to improve tax management. The Law on Corporate Income Tax, the Value Added tax Law and Law on Personal Income Tax all aimed to clarify the tax system. These laws are new, so great efforts are still needed to be made by the government for ensure fair and effective enforcement.

Government continues to control the prices of some important goods, like electricity, water supply, and telecommunication service. It is intended to end price control for these basic utilities in 2010, giving more autonomy to the public utility companies. However, as some of these suppliers have monopoly power, some continued price oversight will be appropriate.

The key legal documents regulating financial management are the Accounting Law, Law on State Budget, Law on Corporate Income Tax, Law on Value Added Tax, Law on Personal Income Tax and the Decrees on independent auditing. Based on the Accounting Law and other related legal documents, the Ministry of Finance had introduced varying accounting procedures for different types of entities (such as government agencies delivering public services, businesses, SMEs, differing types of state-owned corporations etc.). However, from January 2010, one accounting procedure (Circular 244/2009/TT-BTC) was to be applied to all enterprises, regardless of ownership and types of business activities. Despite the efforts made to improve the accounting system, the current accounting procedures applied to the government agencies delivering public services have not been fully aligned with international public accounting standards, causing difficulties in monitoring liabilities, assets and flow of funds flows.

To improve the efficiency of public investment and prevent corruption, the role of state and independent auditing has been strengthened by issuing the Law on State Auditing (2005) and preparations are underway for enacting a Law on Independent Auditing (expected in 2010). The Law on State Auditing has given much higher status to the Auditing system. The Chief State Auditor has no longer to be appointed by the Prime Minister, but by the National Assembly (Article 17, Law on State Auditing). However, this provision is inconsistent with the Law on National Assembly organization (Article 2) and the Constitution (Article 84).

Many laws have been issued but their effectiveness has been delayed because of delays in issuing the required decrees and regulations necessary to implement the laws.

Many decrees have been amended after a short time like the Decree 111/2006/ND-CP, Guiding the implementation of the Law on Procurement, amended by the Decree 58/2008/ND-CP, after that by the Decree 85/2009/ND-CP or the Decree 92/2006/ND-CP, Regulation on Master development plans, issued on September 7<sup>th</sup>, 2006, was amended by the Decree 04/2008/ND-CP, issued on January 11<sup>th</sup>, 2008. This has made for confusion in applying laws.

Questions on the quality of many existing legal documents have been raised. Inconsistency between laws opens the door to violations, sometimes by the government itself. It has also led to tardiness in drafting enabling legal documents by various government agencies. The inconsistency between laws and the laws and enabling decrees and regulations has undermined the public and government officials' confidence in following the law.

### *9.2.2 Renovating Law Making Practice and Improving the Quality of Legal Documents*

To improve the quality of legal documents to be issued, Viet Nam revised and issued the amended Law on legislation (or “Law on Laws”) in 2008 with provisions seeking to ensure more transparency. According to the Law on Laws, drafting agencies must “create the conditions for the public to make comments on the draft legal documents”.<sup>120</sup> However, this 2008 Law and Decree 24 cover only the legal documents issued by central state agencies.

The specific requirement for “all central-level draft legal documents to be posted online on the Drafting Agency and/or Government websites for a minimum comment period of 60 days” is applied to draft legal documents, but not for proposals to draft laws, decrees or other legal documents. A requirement for posting proposals on drafting legal documents online on the Government website (for decrees or similar legal documents) and on the NA website (for the laws or ordinances) was also stipulated in the Law on Laws (Article 26, Section 2 and Article 59, section 3), but this was not as specific as the requirements for posting draft legal documents. Therefore, many proposals have been posted together with the draft legal documents, too late for comments to be made on the need to draft the legal document.

One year after promulgation of the new law, some draft laws have been posted on the drafting agency websites for a minimum comment period of 60 days. For example, the draft Law on Access to Information was posted on the government website for public comments, together with the draft submission to the Government on why the proposed law is necessary. However, many drafting agencies post only the bare draft with no accompanying explanatory documents. For draft legal documents to be issued by the local agencies, consultation with public has been required as stipulated in the Law on issuing local documents 2001.

#### *9.4.2.1 Priorities for the Improvement of Legislation*

Despite the great efforts made by the government to improve the legal framework for commercial and economic development, much work still needs to be done. Priority tasks include the revision of Common Investment Law to make the status and requirements for

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<sup>120</sup> Article 4, Law on Legal Documents Issuing 2008.



business registration more clear and equal. The drafting Law on Public Investment should be accelerated and the consistency between the Law on Public Investment, Investment Law, Law on Construction established.

Work on the Land Law is also of high priority. The comments and findings made by IFC from its study reviewing the Land Law should be circulated for wider consultation before sending the proposal on revising and amending the Law to the National Assembly. During revising and amending the Land Law, all other related laws and legal documents, such as the Law on Construction, Law on Investment, and the Law on Real Estate business should be revised also to ensure consistency.

The legal framework relating to contractual obligations enforcement and business exit should be revised and improved to increase investor protection and reduce the costs for doing business.

To ensure the enforcement of the new laws, the dissemination of laws to the public and law enforcement capacity should be strengthened.

### *9.2.3 Implications for Donors*

The development of the legal system is a monumental task, involving legislation, the development of legal enforcement systems, and training of the fast expanding legal profession. The discussion above has identified some immediate priorities, but over the coming decade new priorities will emerge and there will be an ongoing need for partner support, both in the immediate tasks of framing new legislation and in providing the training needed to develop the nation's legal capability.

Regulatory impact assessment capacities can be built with the support from donors to the government agencies, especially the agencies involving in proposing and appraising legal documents.

## *9.3 Use of the Judicial System*

The development of a fully effective legal system is only partly a matter of creating appropriate legislation. For laws to be operative, they need to be enforced and utilized. In practice only limited use is made of the legal system. In general, courts are used infrequently for settling many forms of disputes, including administrative disputes with government bodies and commercial disputes. A recent survey suggested that in business disputes, only 0.7 percent of firms would appeal to courts as their first strategy, even less than the 1.1 percent who said “nothing, I am powerless.”<sup>121</sup> Individual citizens are even less likely to use the courts. Among more than 9,000 respondents to the 2008 VHLSS Governance Module only one percent had made use of the courts in the two years before the 2008 VHLSS survey.<sup>122</sup>

The typical way of solving disputes, especially administrative and commercial disputes, is through negotiation and compromise. This in itself not necessarily bad, as in all societies litigation is time consuming and costly – the importance of the legal framework is that it defines ‘the rules of the game’, which may be followed even if there is little litigation. However the evidence suggests that the very limited resource to the courts has resulted from

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<sup>121</sup> VDR 2010, WB, p.87.

<sup>122</sup> VHLSS 2008 survey, GSO.



low trust of the citizen and businesses in the court system (Pham Duy Nghia 2000). Moreover, this avoidance of legal processes can result in bribery of officials to get what should be a matter of legal right.

Unclear legislation and overlap of laws have created difficulties for people who want to use the courts. “Data from the 2008 VHLSS Governance Module shows that there are practical problems with the current system of administrative complaints: one in three respondents who dealt with administrative complaints found it very difficult or difficult to find the necessary information on the procedures, and nearly half encountered difficulties”.<sup>123</sup>

To improve public confidence in courts a healthy, strong, strict, fair and justice-protecting judiciary is needed. To this end, the Politburo issued Resolution 49 in June 2005 laying out the objectives, principles, and tasks of an ambitious program of Judicial Reform to 2020 (JRS 2020). According to the JRS 2020 the functions to the courts will be more decentralized and a court system will be organized independent from the administrative levels of government.

Along with decentralization and more judicial independence, effective supervision and much more openness in the operation of the system is needed. As in other sectors, there has been low transparency in the operation of the judiciary. “While there has been some progress in making case records public, this is so far limited to some high-level judgments which were publicized on websites”. Similarly, “although the trials of civil and criminal cases are officially public and open to everyone, except for some cases, the exceptions prove to be numerous”.<sup>124</sup>

Key official functions and mandates of mass organizations (such as the Fatherland Front and the Women’s Union) are to help to deliver information on government policies and procedures to the citizen and provide guidance to citizens on how and where to direct their complaints. However, even commune leaders (in Dinh An commune, Tra Cu district, Tra Vinh province, for example) do not understand the official functions and mandates of mass organizations. The commune Secretary of the Communist Party said that local people should come to the Commune Inspectorate unit of the commune party committee to give their complaints.

### *Priorities for Judicial Development*

The most important legal document requiring amendment is the Constitution. Revision of the Constitution is expected to enable reform of the court and financial and banking system.

Respect for laws should be observed both by citizen and the government. The initiation, drafting, appraising and approving capacities for laws should be strengthened to improve the quality of legal documents and to avoid inconsistency. The requirement for regulatory impact assessment (RIA) before sending the proposals for drafting legal documents should be fulfilled strictly by all proposing agencies. RIA capacity should be built to both legal documents proposing and appraising agencies.

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<sup>123</sup> VDR 2010, Worldbank, p.94.

<sup>124</sup> VDR 2010, Worldbank, p.91 and 92.

One weakness of the system is the haphazard and selective implementation of laws and governmental ordinances and directives discussed in the previous section. As a result, in a number of areas although Viet Nam has an increasingly impressive set of laws, implementation is wanting – examples mentioned elsewhere in the report relate to environment regulations and gender laws. Sometimes it seems as though laws and directives are seen as a sort of library, which can be drawn on selectively or left on the shelf according to the interest of the official concerned. Of course, the outcome might seem desirable when the regulation is impracticable or counter-productive, but such weak discipline leads to certain incoherence in policy implementation.

In summary, there has been great progress in developing a system of commercial law and financial regulation. However, developing such a system is a mammoth task, and along the way inconsistencies and conflict of laws emerge which require continuing assessment and amendment.

Moreover the creation of the “Rule of Law” is much more than a matter of enactment of appropriate legislation. Government agencies at all levels need to recognize that their actions should be bound by the new system of laws which limit arbitrary actions on their part and that they will be subject to the law as much as private citizens. There is often a gap between the good intentions incorporated into laws and the reality as experienced on the ground (this is not unique to Viet Nam).

Consistent enforcement of laws is equally important, involving ease of access to unbiased courts, staffed with a professionally competent judiciary, serviced by a developed legal profession and supported by effective institutions to enforce court decisions. There is also a need for good court reporting and full public access to all judicial decisions. In other words, the undoubted progress of building an appropriate legislative framework needs to be translated into an effective and well understood system in operation.

For the coming years, judicial reform should continue to a high priority, along with efforts to help protect the results gained from the current reform efforts.

One important task for judicial reform is the restructuring of the court system. There have been active discussions of the merits of moving from a court system organized according to administrative levels (central, provincial, district courts) to a system organized by judicial functions and mandates (primary courts, court of appeal, reviewing court and supreme court). Court reform requires the revision and amendment of the Constitution. Discussions have been also focussed on how the party can lead the courts, while still ensuring the independence of the court system<sup>125</sup>.

### *9.3.2 Implications for Donors*

There is no doubt that, to varying degrees, progress has been made on all fronts in the development of the legal system. There is, for example, now a growing cadre of well trained lawyers.

Raising awareness of laws and legal rights among the public, especially in poor and remote areas needs assistance from donors, especially with the help of NGOs.

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<sup>125</sup> Nguyen Van Hien (2007).

The realization of the desired goal of the “Rule of Law” will require further efforts over the coming period, and support for training of lawyers, the judiciary and the general public on the content and meaning of the emerging legal system would be an appropriate object of donor support.

## **9.4 Government Organization and Public Administration Reform**

Viet Nam has been made significant efforts to reform its public administration. Recognizing the need for sustained PAR efforts, and with the support of donors, government has been pursuing an integrated PAR program. According to the government’s 2006-10 PAR action plan PAR has focused on five programs: institutional reform, administrative organization reform, improvement of the quality of civil servants, public finance reform, and state administration modernization.

While the effectiveness of the administrative system is not yet satisfactory, when measured against abstract criteria of performance, and in light of imported models of reform, in fact the last two decades have seen considerable improvements in many aspects of public administration.

Frustrations often expressed by donors regarding the slow pace of reform are sometimes unfair, partly because few donor experts have a long-term perspective on the operation of the administrative system and therefore underestimate reform achievements. Moreover, there is sometimes a failure to recognise the length of time required for the implementation of systemic reform, in light of experience not only in developing countries but also in the historical experience of developed countries. The implementation of administrative reform requires decades of effort.

In terms of output, the administrative system has certain robust strengths. These are exhibited, for example, in government response to natural disasters and, from time to time, in the application of not necessarily popular reforms (possibly trivial but revealing examples include the banning of fireworks at Tet and the introduction of motor-bike helmets – neither popular measures but both effectively and rapidly enforced).

Parallel to the improvement in the legal framework, progress has also been made in improving the commercial and financial institutional structure to enable the more competitive and fair environment for business development. Government has made significant efforts to improve the performance of state agencies.

Along with the merger of many ministries and agencies, removal of district people council has been piloted in 10 provinces/cities. This pilot exercise was started recently, so that no evaluation has been made on the effectiveness and efficiency of the elimination of this level of government.

To ensure the effective separation of business management from state administration functions of the government agencies, in 2007-08, the functions and mandates of all the government agencies were revised and improved.

Government departments were no longer been allowed to make interventions in the business management of enterprises, but were to focus on facilitating business development and quality assurance. One stop-shop institutions have been established for business registration to facilitate business entry.

The list of sectors requiring professional permits as the condition for business registration has been reduced. Line ministries have moved from involvement in issuing permits for the establishment of enterprises in their sectors (except some special sectors

where professional permits are still needed) to being responsible for service and goods quality assurance. To fulfil these responsibilities, new departments have been established in many government agencies, like the Department of Accreditation and Testing under the MOET or the Electricity Price regulatory bureau under Ministry of Industry and Trade.

To facilitate competition and monitor the implementation of the Competition Law, the Department of Competition Control has been established under the Ministry of Industry and Trade and the Committee for Competition under the office of the Government to supervise electricity pricing.

Line ministries have stopped ‘owning’ enterprises and state assets in their sectors on behalf of the State. This function has been transferred to the State Capital and Investment Corporation (SCIC) which has been established to supervise the use of state investment and capital by all state-owned enterprises and corporations. However, there are many problems in the organizational structure and management mechanism of the SCIC, raising questions about its efficiency (Nguyen Minh Phong 2009).

To improve the efficiency of government performance, public service delivery has been separated from public administration functions. Public agencies delivering services, including training and research services, have been awarded greater autonomy. However despite greater independence, the efficiency and quality of public investment used by these agencies has not been much improved. One of the key reasons for this is that the funds granted by the State to those agencies have not been based on clear criteria or on a competitive bidding basis.

For the social services delivery bodies, like schools or hospitals, financial autonomy gives significant privileges to those located in more developed areas or whose clients are from better off groups. For those located in poor and remote areas or whose clients are poor, no relevant mechanism has yet been introduced by the government to ensure sufficient public investment and good quality of services.

A block grant system was introduced in 2005<sup>126</sup> and applied in many government agencies at both national and local levels<sup>127</sup>. However, the efficiency of state budget utilization has not improved because the budget tends to be allocated among agencies based on the approved number of staff, rather than responsibilities and workloads. This may discourage reductions in the number of staff in many state agencies. Unclear regulations on procuring fixed assets that state agencies are allowed to buy has resulted in reluctance to purchase fixed assets but keeping the funds as the budget savings. The accountability of the heads of state budget spending units also has not been stipulated clearly.

The requirement for auditing the use of state budget and public resources has been imposed as mandatory to all state budget spending units. However, most of the audits of state agencies or state-owned enterprises done so far have been compliance audits and audits of financial statements, but not performance audits. Without performance auditing, it is difficult to see whether a state budget spending unit efficiently uses the budget allocated. More

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<sup>126</sup> Decree 130/2005/ND-CP, Full autonomy in using allocated state budget and personnels in public administration agencies.

<sup>127</sup> By the end of 2008, 22 ministries and national agencies have applied bloc grant system to all their budget spending units, 44 cities/provinces have applied the system for all provincial budget spending units and 48 cities/provinces applied for all their district budget spending units.

attention should be given to capacity building in performance auditing to provide the means to evaluate the performance of the state budget spending units.

The efficiency of public resource use should also be monitored internally. In fact, in some ministries/agencies efficiency has been monitored by their sector inspecting units, which have been recently established in all ministries/government agencies. However, internal auditing has not been given adequate attention by many government agencies, reflected in the work done by many sector inspectors who act not as internal auditors, but as controllers over the work done by other units in their agencies or in the sector agencies at local levels.

The evaluation of efficiency of resource use by government agencies is also hampered by similarity of the functions, mandates and organizational structure of four administrative levels of government, which causes the difficulties in identifying the rights and responsibilities of each level and each agency. The government at all levels have responsibilities for economic development, for infrastructure development, for security, for social affairs, for education, for environment protection, etc... Because of the similarity of the functions, mandates and organizational structures of four administrative levels the content of SEDPs at all four levels are similar. The division of labour between the levels of government has not been clear, causing many gaps and overlaps in using public resources for development.

Planning has been considered by many leaders and government officials not as the instrument for policymaking and priority setting, but more as a lever for getting funds from the state budget. Weaknesses in planning practice have been rooted in a lack of understanding of the role of the State in guiding socio-economic development.

One weakness of the Vietnamese administrative system is rather poor horizontal and vertical coordination between departments and agencies. Poor coordination has been reflected in planning practice at national, sector and local levels. Draft plans are usually developed based on the inputs of individual units/agencies/departments/ministries without discussions between the potentially concerned parties to agree on the development objectives, priorities and solutions. Inter-departmental meetings typically are organized only after plan and program drafts are completed, which is often too late for proper discussion of development priorities and coordination of government interventions. Entrepreneurs and citizen are rarely invited to participate in the national and local development planning.

Master development planning (*quy hoạch tổng thể*) which functions at all levels of the government and sectors has failed to ensure coordination between levels and consistency between development policies. Preparation of master development plans by all provinces/cities, districts, sector ministries without strong coordination and wide consultation has led to fragmentation and duplication in public investment. The existence of too many cement plants operating under-capacity, too many airports and seaports in adjacent province are evidence of poor master planning. The separation of master development planning functions from socio-economic development planning (*kế hoạch*) functions, and spatial planning (*quy hoạch lãnh thổ*) functions has also caused fragmentation in policymaking.

In the 2006-10 PAR program, public administrative organization reform has been identified as one of the key areas of concern. However, the progress in the administrative organization reform has been slow. The working culture of government agencies has not

changed much. “After 15 years of reform, the lesson of looking upon people as the fundamentals... has not been learnt well, and instead could have been partly forgotten”.<sup>128</sup> Information sharing even between government officials even within one ministry/agency or department has been limited, weakening policy analysis because of the failure to make full use of data available within the government system.

#### *9.4.1 Priorities for Organizational Development*

Although the government structure has been changed significantly, restructuring should be continued. The institutions established recently to take responsibility for services and quality assurance, and accreditation of education and training programs, should be given a more independent status. Citizens’ participation in overseeing the performance of government agencies should be encouraged.

The block grant system should be extended to all budget spending units, and supported by results-based monitoring and evaluation of government agencies performance. The Law on Government Organization, the Law on local peoples’ committees and peoples’ councils and the Constitution should be revised clarify the distinct functions and mandates of each government level, based on a coherent division of labour to provide a more effective basis for accountability of each level. The functions and mandates of the government agencies should be revised to make the responsibility and accountability of each agency clearer. Accountability for the use of public resource by both public administrative and service delivery agencies should be monitored and evaluated.

The role of the government in socio-economic development should be clarified along with the promotion of planning reform. A coordination and information sharing culture should be built.

#### *9.4.2 Implications for Donors*

There has been a steady improvement in many aspects of public administration, with the reduction in unnecessary bureaucratic procedures and the improvement in quality of staff. Effective donor interventions in future to support the continuation this progress should take account of the following:

- Helping in clarifying the role of the state and the functions and mandates of each levels;
- The design of interventions should be based on a deep understanding of how the existing system works, its strengths as well as weaknesses, and a clear view of the gradual step- by-step process which is likely to improve the system. Attempts to introduce systemic reform based on imported models and ideal visions of an appropriate administrative system are unlikely to work;
- Reform is most likely to work in parts of the system where the local institutions recognise the need for change, and have identified problems that they need help to resolve. This may mean working with the more developed, progressive parts of the system, rather than the poorest (change often comes from emulation of successful practice);

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<sup>128</sup> Dang Duc Dam: “Doi moi to chuc bo may quan ly nha nuoc nham thuc hien tot cac chuc nang quan ly nha nuoc ve kinh te”, unpublished and undated paper, p.6.

- Many issues which now need to be tackled relate to administrative coordination, both horizontally between different ministries and departments and vertically between different levels of government and the more rational allocation of functions within;
- For planning reform, Belgium has given significant financial support to MPI. However, it is difficult to introduce the result-based planning approach into practice without changes in the government (national and local) structure and without introducing a mechanism improve accountability for the use of public resources. Because of that the support to planning reform should be associated with support the government restructuring;
- A particular need is for help in evaluating the results from the piloting of removal of district people councils.

## 9.5 Reform of the Civil Service

### 9.5.1 Competence and Efficiency of the Civil Service

One of the four components of the 2006-10 PAR actions plan is the improvement of civil service cadres. The new Law on Public Officials and Civil servants has sought to develop a merit and performance-based civil service system. However, substantial discussions are still being held on the degree to which now is the right time to promote merit and performance-based principles.

The perception is that it is very difficult to apply merit and performance-based principles in the civil service system partly because of the deep tradition of “a mandarin structure to rule society rather than a civil service to serve the general public”. Moreover, it has been argued that “Viet Nam is a single party ruling country with the communist Party of Viet Nam as the leading force of the government. Most of the public officials are also members of the party and the notion of “civil servant neutrality” have never applied” (UNDP 2009: 203).

To apply merit and performance based principles many changes are needed. The design of the job structure should be aligned with policy goals. Competency requirements, performance indicators and staff appraisal processes need to be developed.

To improve the quality of civil servants competency-based training curricula have been introduced by Ministry of Home Affairs (MOHA). However, competency requirements have not been developed for all types of positions and work, so the training so far given has been competency-based only in special cases. The government has borrowed USD 15 millions from Asian Development Bank (ADB) for the retraining of government officials, but this program has been implemented very slowly because of the lack of competency requirements to be used for the design of competency-based training.

Low salaries is one of the factors making jobs in the government unattractive to well qualified staff. Brain drain has happened for the last five years, especially to the financial and banking sectors.

There have not been clear and rational criteria for promotion, with many cases of promotion not based on merit. During the latest session of the NA in November 2009, members of the NA discussed vigorously the phenomenon of “bribery for getting promoted”.



Recently commune vice-chairman/woman positions for the communes from 62 poor districts have been advertised. It is a new practice, and if it is successful, good lessons can be learnt for competitive recruitment and promotion of the government officials and civil servants in the future.

In addition to merit-based recruitment and promotion, sound performance appraisal is needed to serve as one of the motivation for good performance of government staff. Motivation and stimulating interest are considered by some knowledgeable senior officials as being the most important problems to be addressed when talking about the PAR in Viet Nam.<sup>129</sup>

### ***9.5.2 Priorities for Civil Service Development***

To create motivation for civil servants and to ensure the best people are in the right posts, recruitment and promotion should be merit-based. The new Law on Public officials and civil servants has integrated many positive ideas for civil service reform. However, to ensure the Law is effective, under the law, legal documents required for its implementation should be enacted, incorporating the merit-based principle. Jobs description and performance appraisal criteria should be developed in all government agencies.

Competency requirements must be developed for all types of position and work, so that the training given to the cadres and civil servants can be competency-based and recruitment and promotion can be merit-based. Gender equality should be taken in account in developing criteria for recruitment and promotion.

The performance of government officials and civil servants should be evaluated based on performance and output indicators, and competencies required to do the job. Recently, a new department/unit (staff performance appraisal) has been established in all ministries/agencies. Further efforts should be made by all the government agencies to establish job description, and performance appraisal criteria.

#### ***9.5.2.1 Implications for Donors***

Most of the tools needed for ensuring a merit-based civil service system are new to Viet Nam. Donors should continue to provide support to MOHA and other national and local government agencies to help in developing appropriate tools, like recruitment criteria, performance appraisal criteria, promotion/advancement criteria, jobs descriptions, enforcement procedures, appeal mechanisms, etc...

### ***9.5.3 Efficiency of Public Administration***

According to the enterprise survey conducted by the Business Forum Secretariat in 2009 the efficiency of administrative service is one of five areas with lowest rankings although most of the respondents appreciated the efforts made by the government to reform administrative procedures and public finance management.

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<sup>129</sup> Administrative reform: Breakthrough from administrative procedures reform or interest?, “Tuan Viet Nam” online 1<sup>st</sup> October 2009.



### ***9.5.3.1 Reform of Administrative Procedures***

The government recognised that complicated administrative procedures were among the key obstacles to business development, especially to business entry. The importance of administrative procedure reform has been reflected in various round table discussions between the key members of the government task force team.<sup>130</sup> The Government has approved a large project (Project no 30) with three phases on implementation of the reform of administrative procedures, chaired directly by the Prime Minister. Significant achievements have been made under this project. In the first phase, all administrative procedures have been listed and disclosed to the public. For the second phase, various proposals on simplification of administrative procedures are being introduced and reviewed. For the third phase, the potential proposals on simplification of administrative procedures will be implemented.

The main output of the first phase (about one year) has been to list 5,700 administrative procedures with more than 8,000 legal documents on administrative procedures, application forms and more than 91,000 statistical forms relating to administrative procedures at the four government levels. At present, the government is working on the database on the administrative procedures and hopefully the work can be finished by October 2010.

The “One-stop-shop” approach to state administration has been seen by government as an important way to reduce the time and costs for citizen and enterprises to access public administrative services. “One-stop-shop” practice has been rolled out to all central and local administrative service delivering agencies. It is considered to be one of the big successes in PAR by the government. It has resulted in a continuing process of reduction in the costs for business entry.<sup>131</sup> At present, this practice has been reviewed and improved to become more relevant and efficient. Some lessons have been learnt from administrative procedures reform and “one-stop-shop” practice as follows:

- Success has resulted from strong commitment of the central and local leaders to the reform;
- There has been active participation at local levels by key groups and stakeholders;
- Good tools and facilities have been created for monitoring and evaluation of the project’s outcome and to disseminate successes by the “project 30” team; and
- There has been strong central coordination by the “project 30” team, chaired by the Prime Minister.

### ***9.5.3.2 Public Finance Management Reform***

Viet Nam has put great efforts into the reform of public finance management, with support from WB, UNDP and a number of other donors. Budget management has been decentralized to provincial level. Many provinces have also decentralized management and assigned stable allocation norms for recurrent expenditure for periods of three years to their budget spending units.

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<sup>130</sup> Administrative reform: Breakthrough from administrative procedures reform or interest?, “Tuan Viet Nam” online 1<sup>st</sup> October 2009.

<sup>131</sup> Doing business, 2008, 2009, 2010, WB group.

At the local level predictability of funds for commitment to budgeted expenditures is very limited because the estimation of some revenue sources is often inaccurate, while other sources are not predictable. This situation impacts negatively on budgeting and execution and creates difficulties for managing the budget.

Budget management has suffered difficulties because of the separation of capital budgeting from recurrent budgeting at both national and local levels. When the capital expenditure estimates are prepared, related recurrent expenditures are not budgeted, such as the recurrent resources required for operation and maintenance of new facilities created by capital spending. In the worst cases this undermines the usefulness of the investment.

Budget expenditures have been controlled by State Treasury with the involvement of Home affairs agency in managing the payroll items. To save the time and costs for state budget spending units the State Treasuries at both national and local levels have applied a “one-stop shop” mechanism for transaction and payment activities.

Except expenditure control by the State Treasury, few budget spending units have internal audits. Where internal audits are done in many cases they fall short of international standards for professional internal audit.

For public procurement although the Law on Procurement has emphasized competitiveness as the key principle for bidding, Decree 85/2009/ND-CP raised the threshold of bid package value permitted to be procured by the “single source mode” from VND 1 billion (according to the Decree 58/2008/ND-CP) to VND 5 billions after only one year. In February 16<sup>th</sup>, 2009, the Prime Minister issued an instruction to allow single source procurement for urgent bidding packages with a value even higher than VND 5 billions.

Relaxing the conditions for contractors to get advance payments for public contracts (no maximum ceiling for advance) has “reduced the quality of disbursement because of big delays” in project implementation and “created the dangers of financial losses, especially relating to funds from the government bonds, as contractors may use the advance “not for implementing projects”.<sup>132</sup> Raising the benchmark for single source procurement, relaxing the conditions for contractors to receive advances and easing access to funds from government bonds and implementing a “demand stimulus” package as carried out by the government in 2009 to accelerate public investment disbursement, although understandable as measures to accelerate implementation, have created greater opportunities for misuse of funds and corrupt practices.

Certain daily management decisions are made in a fashion inconsistent with the current laws, breaking some core principles of good government, such as efficiency and accountability. It has resulted in low efficiency of public expenditure, various problems in budget management and management of public debt<sup>133</sup>.

#### *Budgeting and public investment*

Budgeting at both national and local levels have not been based sufficiently on information on the performance of state management agencies and the impacts/results of public investment programs/projects and policies. Reliable, timely and comprehensive data

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<sup>132</sup> People Newspapers, 19 December 2009.

<sup>133</sup> See Kaufman D., Kraay A., WGI, 1996-2007; ADB measured government effectiveness by efficiency of public expenditures, budget management, debt management and competence of civil service.

on the impacts/results of many public investment programs/projects and policies are unavailable. Staff in some districts and provinces uses statistics offices as the key channel for data<sup>134</sup>. However, the data from statistics offices is not sufficient for making analysis of outcomes and impacts of the PIP.

The justification for selecting certain projects for public investment often has not been clear. “Budget proposals are not disclosed until after the budget is adopted by the legislature. This, together with the lack of a formal mechanism for public consultation on the budget, limits public participation”.<sup>135</sup>

It is often not clear why a project is being financed by government, when it could be readily undertaken by the private sector. Lack of clear and systematic criteria for selection of public investment projects/programs and poor coordination in planning have contributed to the low efficiency of public investment. For the twelve adjacent coastal provinces from Thanh Hoa to Khanh Hoa, there are nine airports (eight in operation and one in construction). Many cement plants and cane sugar mill have been built in a given province or in adjacent provinces causing shortage of input materials and excess capacity. Wrong selection of projects/programs to be financed by public funding may also result from bribes from the entities who benefit from those projects/programs. This type of corruption will not be exposed even with careful auditing.

In some provinces the requirement for project proposals to be included in the provincial Public Investment Funding List is that project feasibility study reports should be submitted together with the request for funding. Because of shortage of capacity, many districts have to recruit consultants to work on project proposals. Some consultants help districts in preparing proposals if they see the opportunity to profit from the future project, thus helping to cover the costs for the consultancy provided for the proposal (usually districts do not have sufficient funds to pay the consultants adequately for preparing the project proposals). As a result, some public investment projects have been included in the Public Investment Requesting List not because of their potential positive impacts for society, but because consultants see the opportunities for making profit from their implementation.

To improve public investment efficiency, efforts have been made to reform public financial management. The most notable changes in public financial management resulted from the amended Law on State Budget 2002 which increased the autonomy of the provincial authorities. Around 50 percent of the budget has been delegated to provinces for to their allocation. However, decentralization has not supported by adequate improvement in local authorities’ management capabilities and inter-provincial and regional coordination.

For the poor provinces, the provincial authorities have control over the use of the resources for capital investment for less than a half of the budget, while some very poor provinces (for example Quang Tri, Ninh Thuan, Lai Chau) control only around one third of their budget. The rest must be used for earmarked interventions under NTPs or targeted budget support: many provinces do not pay great attention to the efficiency of the public investment projects/programs financed by the funds through those channels. Many NTPs

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<sup>134</sup> DANIDA public finance management assessment, planning/M&E review in five provinces: Dien Bien, Lao Cai, Lai Chau, Dak Lak, Dak Nong, 2009.

<sup>135</sup> VDR 2010, p. 46.

have been designed by central agencies (the NTP's line agencies) with overlapping activities. The overlaps can be seen in various poverty reduction interventions under the NTPs.<sup>136</sup>

Poor monitoring and evaluation of the Public Investment Programs has made it difficult for the public to judge whether the selection of the public investment programs/projects by government officials has been right or wrong and whether the use of public resources has been efficient or not. MPI and DPI at provincial level have been given the mandates to monitor and evaluate the Public Investment Programs; however, so far no reports evaluating the impact of the Public Investment Programs have been issued. For example, difficulties were experienced in accessing data on the poverty reduction related public investment programs for the 2009 joint UNDP-Viet Nam review even with active participation of MPI and MOF in this work.<sup>137</sup> For individual public investment projects, project "owners" and line agencies are responsible for monitoring and evaluation, however, so far reports evaluating project impact have mainly been for ODA projects, where donors require project evaluation.

Monitoring and evaluation of the Public Investment Programs has been given low priority by the heads of many agencies. Baseline data has often not been required before project activities are started to provide a basis for evaluation of the impact of the project when completed. Funds from the state budget are allocated to project owners without requiring data on the impact of their projects which used funds from the state budget in previous years.

#### ***9.5.4 Policy Priorities for Improving Efficiency of Civil Service***

Despite the attention given by the government to institutional reform, questions have been raised by many researchers, scholars and even policy makers, whether the PAR institutional reform can be successful without "direct linking to wider reform agenda covering legal, political and constitutional aspects of Viet Nam's institutions of government"<sup>138</sup>.

The implication of this criticism is that more efforts should be made to enhance accountability through improving access to information, with greater transparency, allowing the public and their representatives to assess the quality of public services delivered by administrative agencies, and establishing procedures for complaints to improve performance. Many people think that existing approaches to administrative reform can help solve surface problems, but will not lead to deep renovation. The need for "motivation and political reform"<sup>139</sup> has been recognised by high ranking people in the government and the NA.

Consideration should be given to unifying the capital and recurrent expenditure management functions to increase the coherence of budgeting.

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<sup>136</sup> Viet Nam's poverty reduction policies and projects, UNDP - Viet Nam's NA, 2009.

<sup>137</sup> Viet Nam's poverty reduction policies and projects, UNDP - Viet Nam's NA, 2009.

<sup>138</sup> Can PAR deliver Institutional Reform without Deeper Structural Change?, UNDP- One Pager, May 2009.

<sup>139</sup> Administrative reform: Breakthrough from administrative procedures reform or interest?, "Tuan Viet Nam" online October 1<sup>st</sup>, 2009.

*Internal auditing should be strengthened and external performance auditing should be introduced to improve the quality and efficiency of spending programs.* 9.5.4.1  
*Implications for Donors*

Donors can help in the following areas:

- Support for building capacity to assure the quality of public services including the development of evaluation departments which are more independent from the implementing authorities, to set standards and monitor delivery performance in an independent and transparent fashion.
- Support the development of monitoring and evaluating of management performance and the use of the results to inform policy and investment decisions.
- Support specific initiatives to introduce performance auditing
- Continue to help enhance the oversight capacity of elected deputies at all levels to oversee the performance of government agencies.

## **9.6 Corruption**

A critical set of difficulties relate to widespread corruption. Some aspects of this phenomenon are not particularly odious, when for example the exchange of modest payments (under the envelope system) involves modest “gifts” which have a traditional, almost ritualistic function of registering respect, and as such do not influence decisions. However, corruption is seriously dysfunctional when it increases the cost of projects or distorts the allocation of public funds. It is also pernicious when nepotism and the payment of bribes influence civil service recruitment and promotion, which is both inequitable and results in lower civil service effectiveness. And, of course, the payment of bribes to attain office or promotion itself reinforces bribery practices, as officials attempt to generate a return on their investment.

These systemic weaknesses will need to be effectively addressed if the State apparatus is to reach levels of performance consistent sustained growth.

Recently the need for anticorruption measures has been discussed widely in Viet Nam. In the last sessions of the autumn 2009 National Assembly, the elected members devoted a significant amount of time to a discussion of these problems. The government has recently flagged a commitment to fighting corruption by signing the International Convention on Anti-Corruption (in June 2009). In May of 2009, the National Anticorruption Strategy to 2020 was approved, which explicitly recognizes the role of openness and transparency in reducing corruption, and includes an action plan, complete with timetables of legislative changes.

The Government Inspectorate has been strengthened with the establishment of a sector Inspector in each ministry and local government agency. The Government Inspectorate has received the support from many donors, such as Swedish International Development Cooperation Agency (SIDA), ADB, UNDP, and WB.

The Law on Anti-Corruption has been enacted with a set of decrees and other legal documents to give guidance on the implementation of the law. The responsibilities of the heads of government agencies were clearly defined in one decree. All the government officials and civil servants are required to disclose their assets.

Low awareness of laws and their legal rights by citizens has created obstacles to fighting corruption. In a recent survey, many interviewees in Dinh An commune, Tra Cu

district, Tra Vinh province did not know their rights. This is also confirmed by the result of the survey of 500 citizens in Ha Noi, Quang Binh, Ninh Thuan and An Giang run by members of People's Participation Working Group, which found that "more than half of the respondents were unfamiliar with the Ordinance on Grassroots Democracy, a fundamental piece of legislation establishing the rights of information and participation".<sup>140</sup> Low awareness of laws and their legal rights by citizen has also reduced the effectiveness of many good policies. The Ordinance on Grassroots Democracy gives the right of community participation in national and local social economic development planning, budgeting, discussing and owning public investment allocated to support local development, but not many people have understood and utilized these rights.

Despite formal commitment to anti-corruption efforts, corruption is still widespread in Viet Nam.

Petty corruption through the envelop-giving practice has been accepted as normal as tips by many people within the government, partly because of the low salaries of civil servants. The envelop culture would become very negative if the value of envelops become higher and the purpose of giving envelops becomes rent-seeking.

Many of the more serious corruption cases involve the use of public resources for private purposes, easier where public resources are not allocated and utilized to achieve specified results.

There is a lack of correspondence between delegation of authority and the new accountability mechanisms. As the VDR 2010 comments, "much of the devolved power has gone to the provinces, most of the new accountability mechanisms have centred on communes".<sup>141</sup> This may increase the opportunity for provincial leaders to engage in corrupt practices because their limited accountability in some areas for the powers given to them.

Lack of clarity, inconsistency and overlaps in legislation can create opportunities for corruption. The low quality of some legal documents has also created opportunities for corruption. The officials in the State Treasury of many districts complaint that many contractors receive 80-90 percent of the funds for their contract in advance of work and do not come back for payment clearance even by the time the contract has been finished. The permission to give advances and to apply single source procurement has created big opportunities for contractors and government officials to misuse public resources.

### *Implications for Donors*

To prevent corruption, support should be given to the agencies who are involved directly in anti-corruption activities, like the Government Inspectorate, State Auditor and Courts. SIDA and some other donors, who have rich experience in support anti-corruption and are trusted by Government, should continue helping the Government Inspectorate, internal auditors and courts in building their capacities. NGOs should help in raising awareness of laws and the legal rights of citizens.

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<sup>140</sup> "Some Initial Findings from the Survey of Citizen's Information Accessibility Situation and Needs as Conducted by Members of People's Participation Working Group" People's Participation Working Group and DEPOCEN. Draft August 20, 2009. Survey of 500 citizens in Ha Noi, Quang Binh, Ninh Thuan and An Giang.

<sup>141</sup> VDR 2010, p. 58.

The Vietnamese public needs to be made better aware of success efforts to combat corruption in other countries.

## 9.7 Decentralization

### 9.7.1 Decentralization and Unequal Patterns of Growth

Considerable efforts have been made to decentralize government administration over the past decade. Many aspects of economic and social policy are now quite decentralized – Viet Nam has always had a higher degree of decentralized control over programs at the provincial level *de facto* than is suggested by the formal constitutional arrangements.

This has had some beneficial effects, as more progressive provinces have been able to experiment with reform which has been emulated in follower provinces if they have proved successful, and the mix of programmes and policies have been adjusted to local conditions.

However, decentralization of decision-making is not without problems:

- Weaknesses in coordination of provincial level investments has led sometimes to excess investment in “popular” activities and a chaotic pattern of development (e.g. port development);
- There may be dangers of polarization as more successful provinces are able to pull further ahead of the pack;
- An additional problem that has been by now widely recognized in relation to the movement toward decentralized control of essential social services is that while decentralization can promote greater responsiveness to local needs and can enhance efficiency of operations, it can also produce unaccountable and corrupt local institutions that respond inadequately to public needs.

This section therefore explores the issues of decentralized policy-making, and the implications of this for central government and for partners’ interventions. It is particularly concerned with addressing regional development in the context of government reforms that are decentralizing government functions. There is a risk that granting greater powers and discretion to local units of government – especially provinces – may foreclose opportunities or undermining the effectiveness of efforts to effectively address pernicious forms of regional inequality.

Viet Nam is characterized by a high degree of regional diversity. Over the past two decades, regional inequalities have increased, as a result of the heavy concentration of industrial and service sector growth around the two main urban growth poles.

One risk in the unequal spatial patterns of growth is that a cumulate process may result in increasing gaps emerging between more and lesser developed regions, a process which could be exacerbated by the effects of administrative decentralization.

For reasons of physical geography and the dynamics of economic agglomerations, uneven development in the course of industrialization is virtually unavoidable, under any kind of economic system. Regional inequality per se is not bad; a certain degree of inequality is unavoidable in the course of industrialization. But it is also well known that regional inequalities of certain forms and magnitudes can undermine the sustainability of national development, constrain the social benefits of industrialization, and promote the development of a highly unequal society. Such outcomes would be at odds with the stated commitments of the Party and government.



Certain pernicious forms of regional inequality are increasing. Moreover, haphazard industrialization encouraged by rash decentralization and shaped by perverse incentives at the provincial level is wasting resources and leading to economic inefficiency. The newly empowered provinces have less incentive to coordinate their activities than when there was a strong guiding hand at the central level. To some extent, competition among provinces is a good thing, especially when they compete to create an enabling environment for business to operate efficiently. But when the decisions of one province have an effect on another, whether positive or negative, the lack of regional cooperation can lead to inefficiencies.

Therefore there are issues of regional development which should be addressed in the coming decade.

As has been observed in many of East Asia's most successful economies, carefully thought out strategic planning can have great value, but so far Viet Nam has achieved little success in regional planning. There have been too many examples of incoherent or redundant development that has occurred as a result of the weakness of regional planning. Ports and oil refineries come to mind. Viet Nam's newspapers are awash with accounts of failed development schemes, many of which had high social and environmental consequences. What is to be done?

Moving forward, Viet Nam will need to seriously reconsider its regional development and, in some carefully selected instances of high strategic importance, may need to take bold *centralized* decisions which, while difficult politically, could save the country from the waste and inefficiencies resulting from provinces attempts to maximize their own perceived development opportunities through provincial initiatives.

In relation to urban growth, given the challenges of managing large conurbations and inequalities resulting from the concentration of wealth in the two growth poles of HCMG and Hanoi, there is a case for a conscious effort to be made to develop other urban growth poles. In fact, in earlier plans there was a stated intention to develop a third central growth pole, around Da Nang and some effort was made to locate large projects in that area. Also, Can Tho has developed as a substantial city, serving the Mekong economy.

The degree to which governments can affect the regional pattern of growth should not be exaggerated; the record of success in such efforts in other parts of the World has not been that great. Nevertheless, at the margin government can influence the spatial pattern of growth, and probably should do so by boosting the growth that is already happening along the central coast and in Can Tho.

There has also been unequal rural growth, with the rapid growth in rice production and aquacultural development in the MRD and the rapid development of tree crops (notably coffee) in the Central Highlands. Other areas (e.g. the Northern Uplands) have enjoyed much lower growth.

Insofar as issues of persisting poverty are partly spatial in cause, with poverty increasingly concentrated in remote and highland areas, efforts to accelerate growth in the more backward rural areas will continue to be a crucial element in anti-poverty efforts.

However, it should also be noted that a continuing characteristic of growth at this stage of Viet Nam's development will be migration, so that for many households the solution to poverty resulting from location in an inhospitable area will be to move to other areas; in the past twenty years this has happened both through rural-urban movement, and through rural-rural migration into the higher potential rural areas (notably into the Central Highlands).



The potential high rates of migration also means that the beneficiaries of development in a given area will not only be the existing residents of high growth areas, but will also be migrants into the area (in the case of the development of the Central Highlands, the lion's share of the benefit went to migrants from other rural areas).

While in principle, public policies need to incorporate elements appropriate to the specific characteristics of different regions and to promote and exploit regional advantages, there is also a need to address and off-set growing regional inequality. Which among Viet Nam's many policies with respect to regional inequality have shown promise and which have proven counterproductive? What kind of challenges does current regional inequality present and how might this be addressed at a juncture when the flow of power has been from the centre to the provinces?

Arguments in favour of decentralization are well known and include presumptive gains in the efficiency, responsiveness, and accountability of government. These are all highly desirable. But it is incorrect to assume that decentralization automatically produces such outcomes, which depend on the interests and capacities of diverse social actors in local institutional settings.

Viet Nam has embraced decentralization, but Viet Nam's increasing formally decentralized public institutions are poorly regulated. Local government is seldom transparent; so that decentralization has sometimes seemed to have resulted in a kind of bureaucratic patrimonial localism.

In the past, Viet Nam has actually had a more redistributive fiscal system than China. Viet Nam's state needs to reconsider the wisdom of overzealous fiscal federalism.

The aggressive decentralization policies that Viet Nam has chosen have hazards that are not sufficiently grasped by Government. Contrary to the assumptions of many international donors and Vietnamese government agencies, there is nothing *inherently* good about decentralization. In practice, outcomes of decentralization depend on the content of specific policies and the interests, capacities, and behaviours of decentralized actors. Decentralization requires effective regulatory mechanisms, which Viet Nam presently lacks.

In the coming decade, central government will need to develop its regulatory and steering roles and to strengthen its regulatory capacities. Central government may need to work to incentivise desirable behaviours and de-incentivise negative ones. Across education, health, and social protection, Viet Nam will need to identify ways of improving the steering, stewardship, and enforcement roles of central government agencies. Overall, a forward-looking strategy is needed – one that is evidence based – but one that is not constrained by existing institutional arrangements, which may well need to be changed.

Institutional developments needed to reap the presumed benefits of decentralization are challenging – more challenging than decentralization of bureaucratic practice. In particular, it requires a far-reaching development of institutions that can ensure accountability of the administration at various levels to public and equally the development of central government capacity for surveillance and regulation. This involves:

1. The implementation of "Grass Roots Democracy", the chosen mechanism for increasing local participation in control of programmes at the local level.
2. The development of the capacity of representative institutions at the higher levels of government to guide policymaking and hold public officials to account.

3. The need for truly autonomous regulatory institutions that are insulated and protected from leading political institutions. There are several models of regulatory agencies that might be suitable to Viet Nam.

### ***9.7.2 Institutional Development for Decentralized Accountability***

This section flags a set of local government issues which are likely to be important for the development of Vietnamese society over the coming decade, particular in light of steps already taken to decentralize government. One important dimension of Viet Nam's ongoing renovation and modernization is the development of institutions which increase popular participation in decision-making.

As people become wealthier, the access to rising household incomes provides opportunities for increasing choice in consumption and household investment. Parallel with improvements in household living conditions, and the control people have over the private lives, the Party and Government have committed themselves to the development of institutions that allow for greater participation in the control over collective resource allocation, through the development of "grass-roots" democracy.

Decentralization has become a popular strategy for reforming government. Proponents of decentralization assume that delegating power to local units of government can promote greater efficiency in government, as local units have a better understanding of local needs and can be more cost effective and responsive in meeting those needs. While it is true that, under certain conditions, decentralization can indeed bring such benefits, it is also true that there is nothing automatic about achieving genuine responsiveness to local community needs.

Experience in Viet Nam and in other settings shows that while it is easy to decentralize power, it is quite difficult to decentralize power in a way that promotes cost efficiency and effectiveness of services on the one hand, and responsiveness to local needs and accountability on the other. Managing power in a decentralized system is both difficult and important.

To ensure that the needs and concerns of the broad mass of the population are reflected in government programs and officials are accountable for performance, there is a need for the continuing development of the role of representative political institutions at the grass-roots.

The potential importance of incentives and sanctions to perform, resulting from public monitoring of performance cannot be overemphasized. In education and health especially, the problem of incentives is of critical importance – particularly in an increasingly decentralized administrative environment. In many areas of services provision, there are fundamental conflicts of interest that arise from service providers' desire to enhance incomes and public needs.

With the implementation of decentralization the possibility of using public oversight of public sector performance in principle increases. However, for this to happen there has to be the development of channels for expression of community choices and for community monitoring of performance of public bodies.

This is a challenging task. Even in societies with a long tradition of decentralised local government, active participation of the population is often limited, with control over local decision-making falling into the hands of local interest groups and political cliques. It is therefore not surprising that progress in making "grass-roots" democracy operational has been slow.

Typically, officials anywhere would prefer not to be constrained by expressions of popular opinion. Obviously, an official is more likely to respond to local views if faced with the potential sanction of removal from office by the local electorate. This is not yet the practice in Viet Nam.

Even in the absence of the sanctions that would result from grass-roots election and removal of officials, a vigorous assertion of public opinion could have its effect. However, one of the reasons for the slow development of public oversight of public sector performance is low awareness of new rights to monitor service delivery by the public.

Surveys have indicated that not many people at grassroots level know about the Ordinance on Grassroots Democracy, issued in 2007 and their rights as stipulated in the Ordinance.<sup>142</sup> Two of the three key rights of local people (being informed, involved in discussions and ownership of projects) are usually ignored. The right to be involved in discussions has been mentioned by many local leaders, but in practice local people have rarely been given appropriate opportunities to participate in discussions and express their opinions to influence choices in local development. Community participation has been limited, in most of cases, to offering comments on the list of public investment projects to be financed by communes, already identified by the local leaders.

Positive results of decentralization can be observed in particular in more progressive provinces, which have been able to experiment with reform, and it is to be hoped that such positive experience will be emulated in follower provinces where they have proved successful. Also, even where local participation in decision making has not developed, decentralization has allowed the mix of programmes and policies to be adjusted to local conditions.

To increase the efficiency in the use of public resources for delivering public services, the public services deliverers (schools, hospitals, universities, research institutes) (Decree 43/2005/ND-CP) and administrative agencies (Decree 130/2005/ND-CP) have been given more autonomy and accountability. With autonomy, public services deliverers and administrative agencies have the rights to make their own decisions on using the resources given by the government or raised by themselves, but not on personnel matters. However, while such decentralization has advantages, there are obvious dangers when agencies are on the one hand no longer so accountable to the centre, but at the same time the institutions for supervision and monitoring from below have yet to be developed.

A case can be made that Viet Nam has done precisely the correct thing, by rapidly decentralizing authority over many facets of service provision. However, Viet Nam's decentralization may have proceeded too quickly, ahead of adequately developed regulatory and popular control and monitoring institutions. Developing technically sound and politically workable regulatory institutions is a difficult challenge facing Viet Nam in the next decade. The problem is that there is built in resistance to regulation, as regulation involves getting people to behave in ways they would otherwise prefer not to.

Any discussion about accountability touches on politics, which the team producing this report recognises as lying outside its mandate. However, given commitments the Party and Government have already made to decentralization and the development of "grass-roots" democracy, it is appropriate to discuss the mechanisms whereby these goals can be achieved.

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<sup>142</sup> As shown from interviews of the local people in Dinh An commune, Tra Cu district, Tra Vinh province.

While in principle Viet Nam's political institutions (including party mechanisms and mass organizations and elections) and its state regulatory institutions (e.g. the inspectorate) play critical regulatory roles, in practice, these institutions are ill-equipped to handle the regulatory tasks and performance monitoring Viet Nam will need at it develops over the coming decade.

The Party and Government should consider in depth how Party and Government bodies should be better designed to ensure that Viet Nam's institutions are responsive to the democratic aspirations of the people. Participatory and representative institutions, such as grassroots democracy activities and the election and operation of political bodies (e.g. People's Councils, People's Committees, and the NA) should be designed to ensure greater accountability. In addition to improved representative oversight, Viet Nam may also need a quite different kind of regulatory body that, ideally, functions autonomously from local and national units of government.

## **Chapter 10**

# **The Environment**

### ***10.1 Introduction***

This chapter analyses the challenges Viet Nam will face over the coming decade in managing the environment. The chapter begins with examining Vietnamese experience in designing and implementing environmental protection and management policies. The chapter then examines future potential pressures on the environment and the impact of endogenous forces, in particular population growth, economy and the adoption of technical changes, on the rural environment. The chapter also examines the major exogenous sources of risk to rural environment over the coming decade. Finally, the chapter considers the agenda for future actions, and possible role of donors in supporting Government intervention.

### **10.2 Past Policies and Management Achievements**

#### ***Environmental Protection***

##### **Institutional and Policy Development**

A number of policy responses have addressed the nation's environmental problems. The Law on Environmental Protection was issued in 1993 and revised in 2005 to better address environmental issues in the context of industrialisation and modernisation. Other relevant legislation has been promulgated to address environmental protection in the development process. This includes the Law on Water Resources 1998 and the Law on Forest Protection and Development 2004. A large number of regulations regarding environmental impact assessment, environmental monitoring and pollution control have also been issued to provide guidelines for the implementation of the laws.

In addition, new environmental protection organisations have been established. In 1992, the Ministry of Science, Technology and Environment and provincial Departments of Science, Technology and Environment were established to manage environmental protection at national and provincial levels respectively. In 2002, these organisations were restructured to form the Ministry of Natural Resources and Environment (MONRE) and Departments of Natural Resources and Environment (DONRE) in all provinces to better address increasing demands for environmental protection. In 2008, the Viet Nam Environment Administration (equivalent to General Department of Environment) was established to upgrade the previous environmental departments under the MONRE. At provincial levels, sub-departments of environment were also established. In addition, participation of organisations such as those involving women, youth, trade and farmer unions has increased since 1993. These have strengthened environmental organisation systems at both national and grassroots levels.

So far, command and control has been the prevailing approach in environmental management in Viet Nam (Do 2008). The National Strategy for Environmental Protection 2001-10 stresses the need for strengthening the institutional framework and legislation as the highest priority. Proposing solutions to environmental degradation, reviewing and revising legislation have been always ranked as the leading tasks in environmental programs (Do 2008).

Economic instruments are also being developed. Wastewater fees have been put into operation since 2003 (MONRE/MOI/WB 2007), while emission charges are being considered by the Government. Deposit-refund has been used to promote recycling, although on an *ad hoc* basis. Resource taxes have been applied for mining industries. Viet Nam Environmental Fund was established in 2003 to provide soft loans for investment in waste treatment technologies. Public disclosures have been applied in a small scale for some areas.

There has been a significant increase in investment to environmental protection. In 2006, a separate category for an environmental budget was established and since then at least one percent of the annual state budget has been allocated for this category. Policy responses have shown awareness of the Government about environmental problems as well as its commitment to solving the problems. The most notable achievement of policy responses is that Viet Nam has developed a large number of legal documents and policy instruments in the last 15 years while this took some other developed countries such as Australia and the USA some decades to develop (MONRE/MOI/WB 2007).

### [Integrating Environmental Considerations into Socioeconomic Planning](#)

Under the Law on Environmental Protection every project has to prepare an environmental impact assessment (EIA) to analyse and forecast environmental impact during the period of project implementation, to be submitted to competent authorities for approval. Approved environmental protection measures should be realised through the construction, start-up and operation phase by the project owners.

To consolidate the framework for evaluating the environmental impact of policies and programs, the Environmental Protection Law 2005 set up strategic environmental assessment (SEA). SEA is conducted to analyse and predict the environmental impact of development policies, plans and programs (DPPP) prior to the approval, at the earliest possible time before the individual DPPP are started. The target DPPPs are strategies and plans which are concerned with national socio-economy or national-scale developments. In addition, environmental protection commitments (EPC) are required for small-scale projects for which EIAs are not required. The purpose of EPC is to increase project owner's commitment and responsibility to implement environmental production measures. In addition, environmental indicators were included in the Government SEDP 2006-10 plan. Environmental issues have been integrated and addressed as one of the key considerations (together with social and economic issues) in short-and long-term socio-economic development plans both at the central and local levels. Government believes that these measures have contributed to harmonising economic development and environmental protection (MONRE 2008).

### [Industrial and Urban Pollution Management](#)

Along with rapid industrialisation and urbanisation deriving from the fast growing socio-economic development, environmental pollution has become serious and attracted attention from the Government. The Government and the Communist Party have promulgated a number of national guidelines and policies. Recent policies related to pollution management are in Table 0.1.

Over the 1996-2005 period, there were 145 pollution abatement and control-related projects. Annual expenditure increased significantly to reach USD 600 millions in 2005. The expenditure reached a cumulative level of USD 1.5 billion for the period 1996-2000, and approximately USD 2.3 billion for the period 2001 to 2005 indicating a new level of attention and priority given to pollution control and abatement (JICA/MONRE 2009). ODA has been

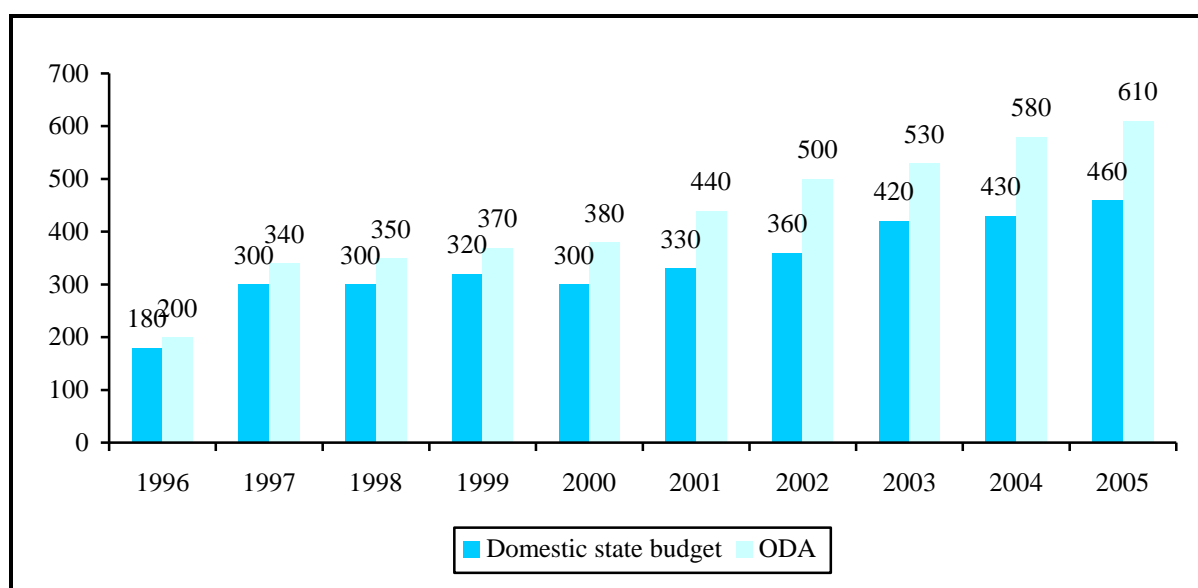
the main source of funding for pollution abatement and control expenditures, amounting for approximately USD 3 billion over the period 1996 to 2005 (Figure 0.1).

**Table 0.1. List of Recent Policies Related to Pollution Management**

<i>Date</i>	<i>Guideline/Policy</i>
April 2003	Decision 64/2003/QĐ-TTg approving the plan for thoroughly handling establishments which cause serious environmental pollution
December 2003	National Strategy for Environmental Protection until 2010 and Orientation toward 2020
August 2004	Oriented Strategy for Sustainable Development (Viet Nam's Agenda 21)
November 2004	Resolution Of Communist Party Politburo: Environmental Protection in the Period of Modernization and Industrialisation
February 2005	Government's Action Program for Implementing Politburo Resolution
December 2005	National Plan for Environmental Pollution Control until 2010
December 2005	National Project of Environmental Pollution Control in Craft Village
December 2009	Decree 117/2009/ND-CP on handling environmental violation
December 2009	National Strategy on Integrated Management of Solid Waste to 2025 and vision to 2050

*Source: Japan International Cooperation Agency (JICA)/MONRE (2009).*

**Figure 0.1. Amount of Capital Expenditure for Pollution Abatement and Control**  
(million USD)



*Source: UNDP Database on environmental project compendium and MPI public investment programs (2005).*

## **Natural Resource Management Reforestation**

Important achievements in reforestation have been made. To protect natural forests, in early 1997, the Prime Minister issued a Decree banning all exploitative activities of natural forests. In 1998, a 5-million-hectare-afforestation program was launched on the basis of Program 327, with the total of USD 2.5 million for 10 years. This is a significant leap forward in Viet Nam's forest policy. In addition to the Governmental programs, the social safety

development projects of the World Food Program supported the Government in alleviating poverty and dealing with several environmental problems in Viet Nam by encouraging households to protect existing natural resources as well as to develop forests. Through these projects, the Government has developed forests in 23 provinces, focusing on poor provinces with large areas of bare land. As a result, since 1995, the forest cover in Viet Nam has steadily increased (MONRE 2005) (Table 0.2).

**Table 0.2. Reforestation Results 1943-2008**

Year	Area (1000 ha)			Cover level (%)
	Natural forest	Planted forest	Total	
1943	14300	0	14300	43
1976	11077	92	11168	33.8
1995	8252	1050	9302	28.2
2000	9444	1471	10915	33.2
2002	9865	1920	11785	35.8
2004	10088	2219	12307	36.7
2008	10349	2770	13119	38.7

Source: MONRE (2005) and Decision 1267/QĐ-BNN-KL dated 04/5/2009 of MARD on the forest state.

### Land Management

Part of the *Doi Moi* renovation process is a fundamental change in land policy. Under this policy, cooperative land was allocated to cooperative members free of charge and with equality among the members for all types of land. The policy facilitated agricultural production potential by giving households freedom for deciding on investment in their land and finding ways to increase the productivity and yields. With implementation of the policy, from a state suffering from severe food shortages, Viet Nam increased agricultural output to meet the food demand for the whole country. Hunger remained only in mountainous and remote areas where agricultural land was in shortage. By mid-1990s, Viet Nam became the world third biggest rice exporter (Dang Kim Son 2008).

During the decade 1986-96, the land administration system of Viet Nam was set up and concentrated initially mainly on developing land legislation. Then it set up the cadastral record system, issued land use certificates for farmer-households and enabled farmers to exercise the five rights to land. These rights are land exchange, land transfer, land lease, land inheritance and land mortgage. As of May 2007, land use certificates were issued for households and individuals for 80 percent of agricultural land parcels (the rest is undergoing a land consolidation process), 75 percent of land parcels with production forests, 75 percent of non-agricultural land parcels in rural areas, and 65 percent of non-agricultural land parcels in urban areas.

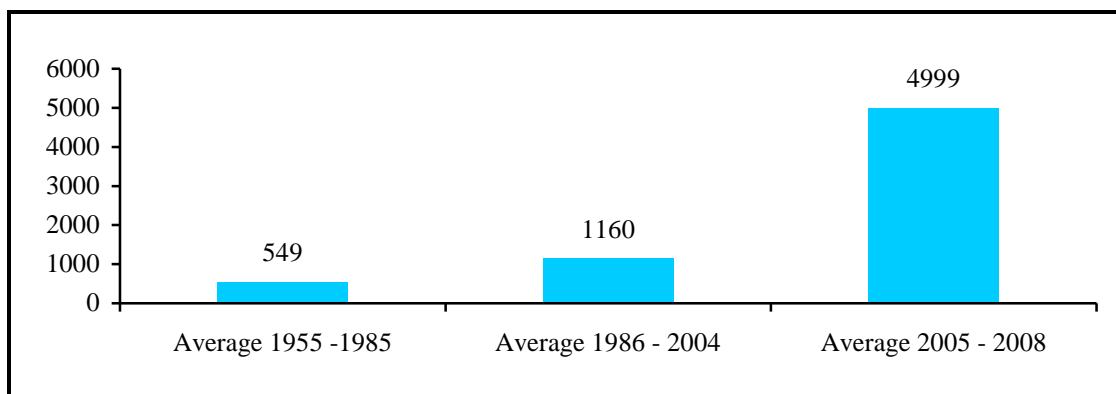
### Water Resources Management

A key responsibility of GoV is to provide water for agricultural production and people living rural areas. To maintain the rice production sustainability, the irrigation system receives the largest investment in the agricultural sector budget. Investment in irrigation infrastructure has steadily increased over time (Figure 0.2). The percentage of irrigated areas has increased from 84.5 percent in 1996 to 89.1 percent in 2007 with 6.85 million ha. Nevertheless despite these achievements the future challenges are considerable, particularly in maintaining water quality in the Mekong River Delta.



The Government faces problems as it has to spend a large amount of budget to maintain these services (from VND 2,000 to 3,000 billion yearly for irrigation and VND 4,500 billion in 2006-10 for rural drinking water supply) (MARD 2006). Nevertheless, these amounts of money are insufficient to cover proper maintenance of water storage and distribution systems, so that the performance of the system declines. According to MARD (2006), due to degradation, the current irrigation system only ensures from 55 to 65 percent of designed capacity.

**Figure 0.2. Public Investment in Irrigation Systems between 1955 and 2008**



*Source: Data of Irrigation Department of MARD (2009)*

The provision of drinking water in rural area since 1998 has benefited from two successive National Target Programs in 1998-2005 and in 2006-10. Between 1999 and 2008, more than 3.3 million drinking water supply works were built (MARD 2008).

An area in which Viet Nam has had a good record is in relation to managing climatic disasters. A comprehensive institutional structure for floods and storms control has been established at national, provincial and district level with MARD as the chairman of the Central Committee of Flood and Storm Control. The dyke system in the North (5,700 km of river dykes, 2,000 km of sea dykes, 23,000 km of protective band and thousands of drainage works) constructed over centuries and has been the subject of active repair and maintenance.

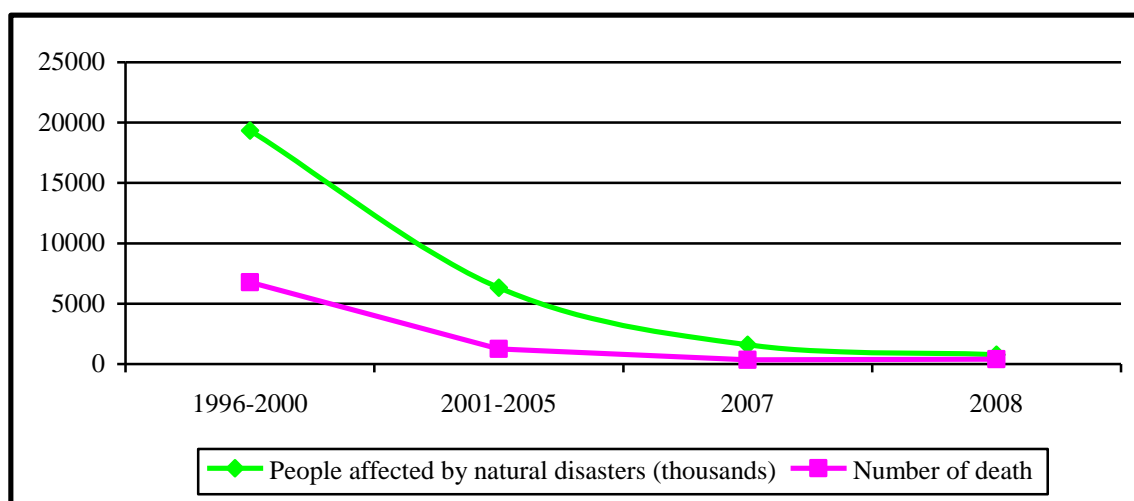
The success of disaster management efforts is suggested by decline in the number of people affected and fatalities due to natural disasters steadily decreased over time (Figure 0.3).

## 10.3 Future Pressures

### *Population Growth*

Viet Nam is the third most populous country in Southeast Asia and 14<sup>th</sup> in the world (Central Population and Housing Census Steering Committee 2009). The population annual growth rate is approximately 1.2 percent during the period of 1999-2009. Population growth rate differs between urban and rural areas. During the 1999-2009 period, urban population increased by 3.4 per cent per year while rural population increased by 0.4 per cent. Population distribution is uneven. While Mekong River Delta and Red River Delta account for only 17 percent of the land, they accommodate 43 percent of the whole population. In the future, the population will continue to increase and create greater pressures on the environment.

**Figure 0.3. The Number of People Affected and Dead due to Natural Disasters between 1996 and 2008**



Source: Economic and Social Commission for Asia and the Pacific, 2001. 'Statistical Yearbook for Asia and the Pacific 2009', Chapter 30: Natural Disasters.

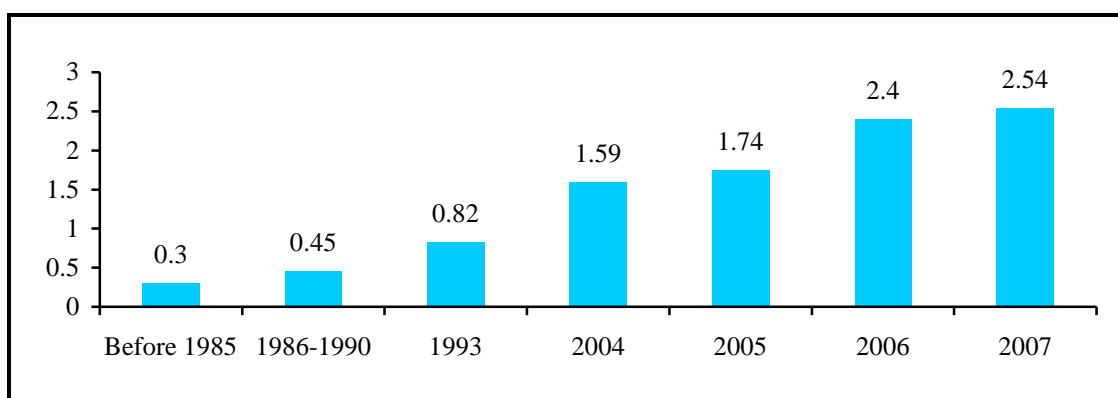
### ***Agricultural and Rural Development***

Following the implementation of reforms, agriculture and the rural sector have developed steadily with the annual average rate of 4 percent. Concerns are being raised as to whether this development is environmentally sustainable. The first problem is the uncontrolled pollution from agricultural production activities. Overuse and misuse of agricultural chemicals (i.e. pesticides, herbicides and insecticides) stands as the most significant danger to the rural environmental, health of farmers and agricultural products consumers.

According to National Report on Environmental Health (2006), there were about 5 to 10 thousands of people poisoned by pesticide per year between 1997 and 2004. Two studies in the Red River Delta and Mekong River Delta of Pesticide Action Network Asia and the Pacific (2009) also showed that pesticide use has caused negative impacts on a considerable numbers of farmers in Viet Nam.

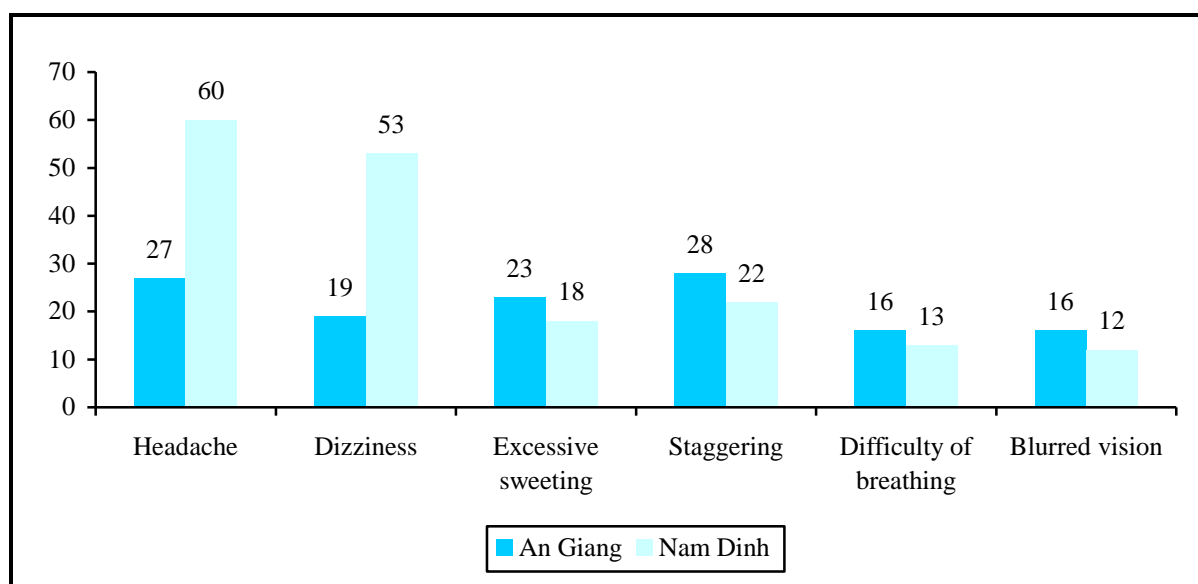
Pollution from off-farm activities has also increased dramatically in recent years. According to MONRE (2009b) most craft villages are not equipped with proper treatment systems, and produce considerable water contamination (i.e. BOD, COD, SS, coliform), the air (e.g. dust, CO, SO<sub>2</sub>, NO<sub>x</sub>, CH<sub>4</sub>), solid waste and other types of pollutants (i.e. temperature, humidity and noise) to the environment.

**Figure 0.4. Amount of Pesticide per ha of Agricultural Land (kg)**



Source: Ministry of Agricultural and Rural Development Report (2008).

**Figure 0.5. Proportion of Symptoms Reported by Pesticide Users in An Giang and Nam Dinh Province in 2009 (%)**



Source: Pesticide Action Network Asia and the Pacific (2009). *Communities in peril: Asian regional report on community monitoring of highly hazardous pesticide use*, page 118 and 132.

Another problem is the over-exploitation of natural resources such as ground water, forest, and inshore fisheries (An *et al.* 2004). Figure 0.6 shows that while the total of horsepower that fishing vessels using for fisheries harvesting increased over time, the average yield of caught fisheries per horsepower decreased. This implies that fisheries reserves have declined over time.

Coastal and freshwater aquaculture have made a big contribution to rural livelihoods as well as the national economy, but recently the rapid growth of aquaculture, with total aquaculture area increasing from 339 thousand ha in 1996 to 729 thousand ha in 2008, without a sustainable planning capacity and plausible management regime has caused serious environmental problems in coastal provinces of the Mekong River Delta.

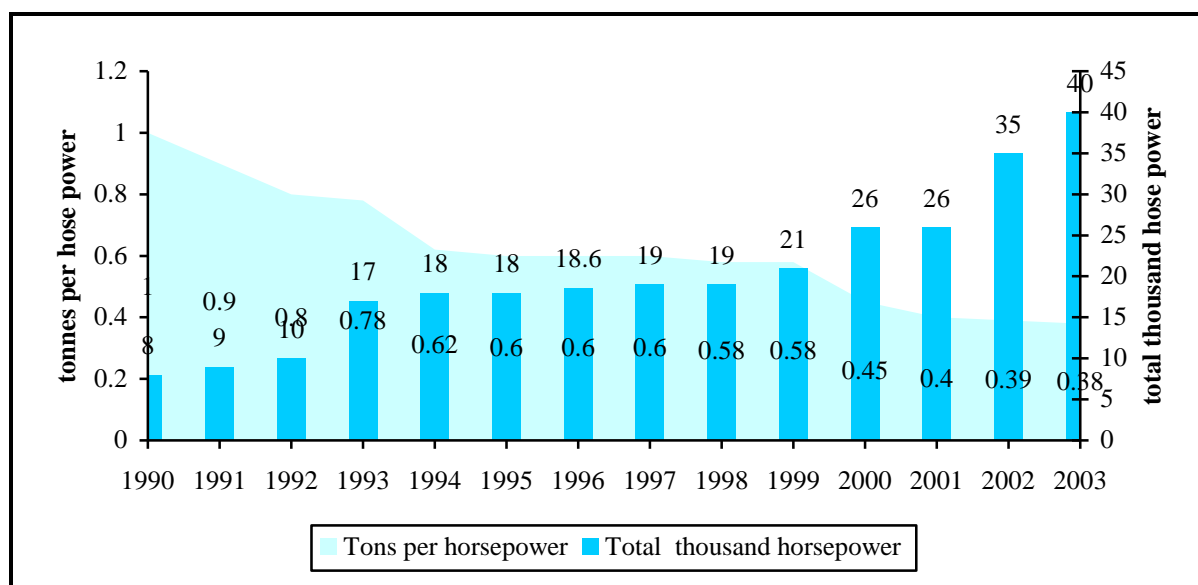
**Table 0.3. Pollution Caused by Craft Villages in Viet Nam in 2005-15**

Criteria	Unit	2005	2015	Difference
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			(Forecasted)	(%)
Number of craft villages		655	719	10
Amount of solid waste	million tons	1.24	2	61
Max level of Dust	mg/m <sup>3</sup>	32,000	39,000	22
Max level of SO <sub>2</sub>	mg/m <sup>3</sup>	16,000	26,000	63
Max level of NO <sub>x</sub>	mg/m <sup>3</sup>	14,000	23,000	64
COD	kg/day/village	190,000	320,000	68
BOD	kg/day/village	90,000	150,000	67

Source: National Environmental Report in 2008 of MONRE (2009c): The environmental situation of craft villages in Viet Nam.

**Figure 0.6. Over-Fishing in Coastal Areas, Viet Nam**



Source: Fisheries Informatics Centre of Ministry of Fisheries, Viet Nam (FICEN), 2007. 'Trade promotion and export statistics database', <http://www.fistenet.gov.vn/Xuat%5Fnhapkhau%5F/> (10/08/2007).

## Industrialisation

The number of industrial zones has rapidly increased over the last decade. In 1995, there were 12 industrial zones. In 2008, the number of industrial zones reached 223. There are severe problems with the current management of these industrial zones. First, conversion of prime agricultural land to industrial parks and export processing zone continues while there are already too many industrial parks and zones that are only partially being used. Second, there exists no consideration of climate change impacts in planning the location of new industrial parks and export processing zones. Third, there is a trend of avoidance of the requirement to install wastewater treatment plants at industrial parks and export processing zones by expanding the size of the parks so that the percentage occupied is less than the percentage that would require installation of wastewater treatment plants. Fourth, many wastewater treatment plants in industrial parks fail to operate properly. Consequently, a large amount of untreated industrial waste is discharged into the environment every day.

Another pollution source comes from construction activities. House, road and bridge construction activities are taking place everywhere, particularly in the urban centres.

Activities such as digging up of soil, demolition of old building and building materials dropped during transportation generate serious dust pollution. Monitoring results show that 70 percent of dust volume in urban air is from construction activities (MONRE 2007).

## 10.4 Current and Future Challenges

### *Natural Resources Issues*

#### Forest Degradation

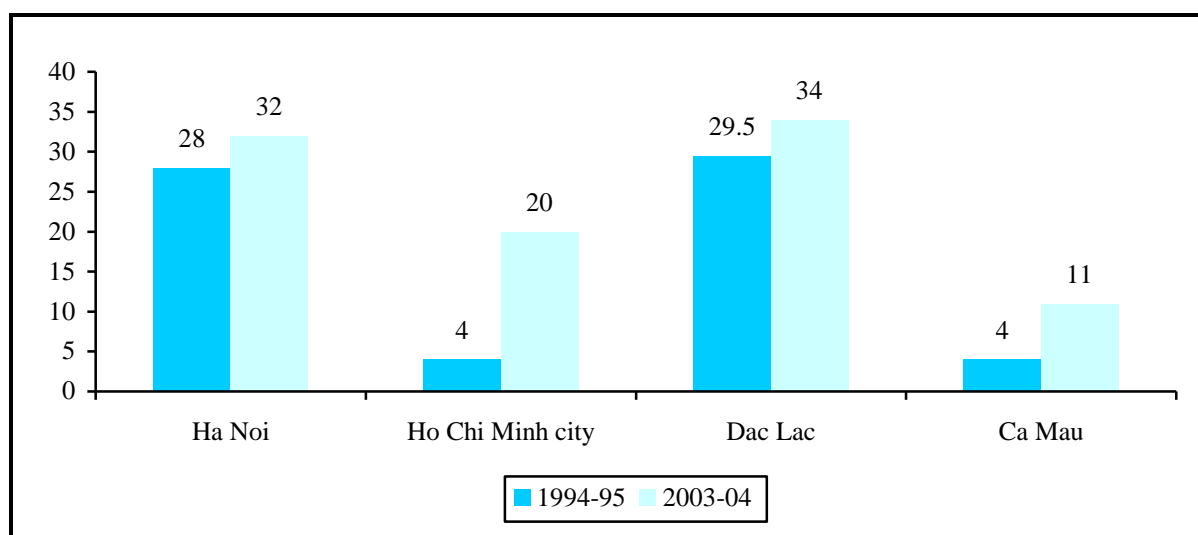
Although forest cover has slightly increased in recent years, the quality of forest remains poor (MONRE 2008). The majority of forests is newly planted forests, which do not provide as much biodiversity as old growth forests.

Current methods of exploiting forest resources are unsustainable. Illegal logging remains a big threat to forest biodiversity. According to official statistics of the forestry department of MARD, there were 4,841 cases of illegal deforestation and hundreds of attacks on forestry officials resulting 14 serious injuries and 1300 ha of forest destroyed in Viet Nam in the first half of 2009. However, the real number is much higher. After the Typhoon Ketsana occurred in October 2009, thousands of illegally harvested logs clogged the Vu Gia River in Quang Nam, jammed under bridges and piers (Overland, 2009).

#### Degradation of Water Resources

Population growth, intensive agricultural production, industrialisation and urbanisation combined with the under-pricing of both drinking and irrigation water have increased water demand as well as waste discharged to water. This leads to decrease in stock of available water quantity. Figure 0.7 shows that over time people have to dig deeper into the ground to obtain water.

**Figure 0.7. The Depth of Ground Water Found (m)**



Source: MONRE (2004).

Recently, partly due to the negative impact of climate change, salt intrusion has become increasingly serious. In Mekong River Delta, salt water advanced about 65 km inland in the dry season of 2008, and about 70 km in the same period in 2009. Between 2008 and

2009, some areas in Tra Vinh and Ben Tre provinces, the salt level doubled from 0.35 percent to 0.67 percent and from 0.2 percent to 0.4 percent respectively (MARD Website 2010). This phenomenon is likely to be continued in the future as sea level is expected to rise from 0.66 to 1 meter by 2100 (MONRE 2009).

In addition, the construction of upstream dams may change the hydrological regimes in the Mekong River and the Red river of Viet Nam. Upstream countries such as China, Thailand and Laos which provide about 60 to 70 percent of water for Viet Nam, are about to build from 20 to 30 dams for hydropower production. The water volume impounded by these hydro-power reservoirs will total around 55 billion cubic meters. Consequently, serious water supply -demand imbalance may soon happen due to water control of upstream countries. Moreover if upstream dams discharge water in the flood season, it will make floods more dangerous. If in the dry season water is held in upstream reservoirs, the country will face drought and higher salt intrusion level. More dangerously, if water from the upstream contains wastewater, the losses of Viet Nam will be enormous (MONRE 2009b).

In rural areas, a large number of people still have limited accessibility to clean drinking water sources. People in many areas such as mountainous, coastal and dry areas have access to only 20 liters/person/day. In many areas, water scarcity occurs from May to June, including in the Central Highlands Region and the Southern part of the Central region. In 2008, only 15 percent of rural population could access drinking water via rural water supply systems which were co-invested by the Government, whereas 75 percent of rural people still use drink water from their individual water supply facilities (building tanks, dug wells) and about 12 percent of people still take drinking water directly from rivers and ponds. It means that the quality and sanitary condition of a large amount of water used rural population are not regularly examined and are likely to be lower than national standard. In 2008, in Nghe An only 24 percent of water samples meeting the sanitary standard of MOH (Decision 09/2005/QD-BYT), while in Dong Thap, 100 percent of water sample had a Coliform level higher than standards. Moreover, as the rural water supply systems are not well managed, the water loss rate from these systems is around 20 percent to 40 percent and these works only attract 20 percent to 30 percent of water users compared to the designed capacity (National Centre for Rural Water Supply and Environmental Sanitation 2009).

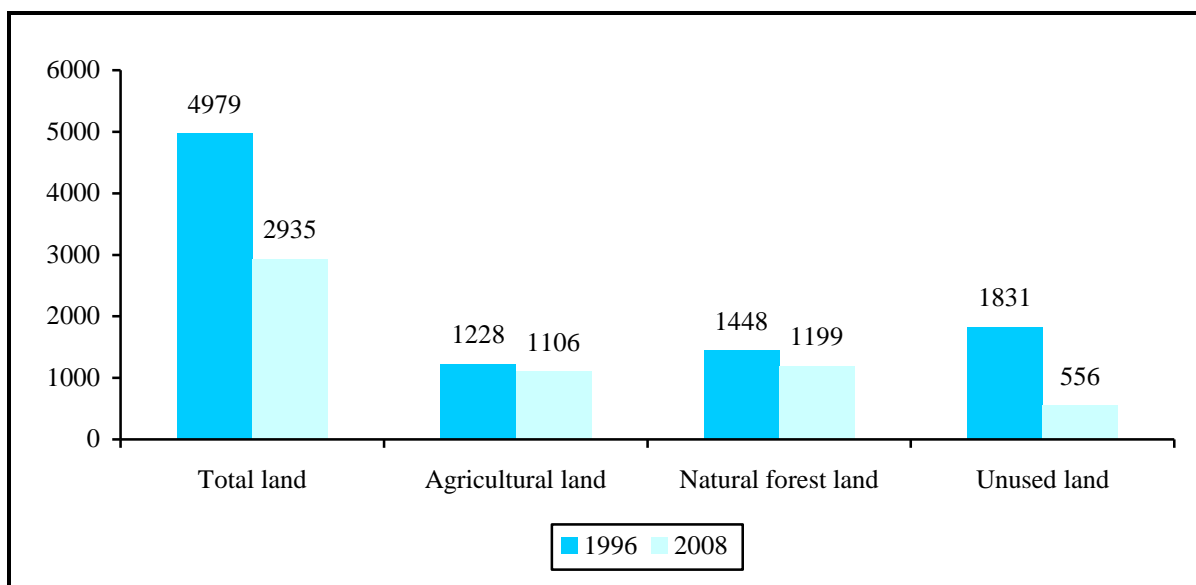
### *Land Use Inefficiency and Soil Degradation*

Due to the rapid population growth, arable land resources per capita have become increasingly scarce. Over the 1996-2008, the average usable land area per capita had reduced by around 2000 m<sup>2</sup> from 4979 to 2935 m<sup>2</sup> which is equal to about half of the world level in the year of 2007 at 4653 m<sup>2</sup> (World Resource Institute Website 2010).

Nevertheless, a huge part of land managed by state-owned farms (3.2 million ha of forest land) has been used inefficiently. According to IPSARD's calculation using data from Agrocensus 2006 and VHLSS 2006, the average annual revenue of one ha of forest land managed by state owned farms was 30 percent lower than that of households.

Moreover, a large proportion of agricultural which has been diverted for urbanisation and industrialisation purposes is not fully used. According to MONRE (2005), in order to develop 132 industrial zones and 60 industrial clusters, 29,214 ha of agricultural land was diverted by 2005 but only a small proportion of land was rented out to enterprises (Table 0.4).

**Figure 0.8. Average Land Use per Capita (m<sup>2</sup> per person)**



Source: GSO (2008).

**Table 0.4. Proportion of Land in Industrial Zones Rented by Enterprises (%)**

<i>Proportion of land rented out</i>	<i>Percentage of industrial zone</i>
Over 80%	21.9
50-80%	23.68
30-50%	15.79
10-30%	14.04
1-10%	5.26
Not yet be rented out	19.3

Source: MONRE (2005).

More seriously, the majority of Viet Nam's land is classified as degraded (MARD 2002). As in other countries, land degradation in Viet Nam is caused by both natural and anthropogenic phenomena. Natural topographical and geological conditions make certain areas susceptible to soil erosion, while drought and floods exacerbate degradation processes. Anthropogenic causes primarily relate to high population pressures, inappropriate cultivating techniques, deforestation and land conversion, contamination from chemicals used during the American war (1959-75), use of pesticides, water pollution, and inappropriate policy, legislative and incentive frameworks (United Nations Convention to Combat Desertification National Action Programme of Viet Nam 2002). The total land area affected by land degradation process is 7,850,000 ha supporting the livelihoods of about 22 million people.

Change in Mekong Delta's annual floods due to the building of upstream dams may also contribute to the degradation of soil quality. At the moment, provinces along the border of Viet Nam and Cambodia earn around VND 4,500 billion from the annual flooding of the Mekong River as these floods deposit silt on rice fields, creates good conditions for aquaculture, and flush salt from the soil. In the future, this return will be reduced if upstream countries continue the hydropower planning (MONRE 2009).

### *Biodiversity Loss*

Another environmental issue relates to biodiversity loss. Some wild animals have been completely lost. Some species are in danger of extinction, including tigers, single-horned rhinoceros, grey bulls, golden deer, musk-deer, and white-neck cranes. From 1996 to 2004, the number of endangered species increased from 226 to 259. The Viet Nam's Red Book published in 2007 shows that 882 species of rare animals and plants are in danger of extinction at different levels.

Biodiversity loss also applies to the aquatic and marine environment. Both the quantity and quality of the fish stock has declined. The fish stock is estimated to have decreased by a quarter from 1990 to 2003 (MONRE 2005a). The number of threatened fish species increased from 15 in 1989 to 135 in 1996. The establishment of artificial reservoirs for hydropower projects has adversely affected the spawning grounds of fish that are used to migrating to upper reaches to give birth. Due to development activities and exploitation, the area of coral reef has decreased 30 percent over the last two decades. Up to 50 percent of coral reef is threatened and 17 per cent is highly threatened.

### *Mineral Resources – Overexploitation and Pollution*

Mineral resources have been exploited on a large scale, rapidly depleting reserves. The most important mine is crude oil. Analysts expected production of crude oil will be more than 400,000 barrel per day in the future years (Energy Information Administration 2007). Some estimates show that oil reserves vary from as low as 600 million barrels to as much as 3 billion barrels. Thus, if new offshore oil fields are not discovered, the oil reserves could only be maintained for next 15 years. Coal is the second most important mineral fuel in Viet Nam. Between 2002 and 2005, coal output doubled from 16 to 32 million tons and demand is expected to grow strongly, for both internal use and for exports. In fact, it is estimated that if this exploitation level maintains, Viet Nam would have to import coal in around 2015 (VietnamNet, 2006).

Mining is also a great source of pollution. Technology used in mineral exploitation is often backward and enterprises are not equipped with proper waste treatment systems. For instance, in Quang Ninh province, coal mining has seriously degraded air, water and soil resources of the area. In 2007, the dust level of Cam Pha district was 3 to 4 times higher than the national standard. Solid waste has been piled as a mountain (in order to exploit 1 ton of coal, it is necessary to dig and move 5 to 5.5 tons of soil and rock). More seriously, water waste is being kept in a large pond of 200m depth with 5 million m<sup>3</sup> capacity without any treatment (Quang Ninh media and television website 2010).

### *Urban Pollution, Waste Disposal and Sanitation*

Urban pollution, water disposal and sanitation issues are discussed in the chapter on urban management.

## **10.5 Barriers to Addressing the Environmental Challenges**

### *Awareness*

#### *Policymakers*

The awareness of policymakers about environmental issues is still limited, especially when it comes to the consideration of trade-offs between economic development and



environmental protection. Although under the Law on Environmental Protection 2005 strategic environmental assessment (SEA) must be done for new policies, projects and programs, the implementation of SEA remains nominal. Some big scale projects have been approved before their environmental impact assessment was finished. In addition, follow up monitoring and supervision of EIA requirements are poor. This results in the situation in which good pollution counter measures are described in EIA so that the projects can be approved, but these measures are not implemented during the project cycles. This problem worsens at provincial and local levels where fewer checks on environmental requirements are in place.

Although a large number of policies and legal documents have been issued, suggesting reasonable policy awareness of environmental protection issues, the implementation of these policy remains slow and ineffective. In relation to the National Strategy for Environmental Protection 2001-10, many of the quantitative objectives have not been met. For example, one objective is to complete addressing 439 seriously polluting firms as identified in Prime Minister's Decision 64 by 2010. However, as of the end of 2009, only about half of these firms have taken measures to address pollution as required (JICA 2009). There are several reasons. First, the objectives were unrealistically set. So that makes it difficult to implement in reality. Second, the human and financial resources are insufficient to support the attainment of the objectives. Third, there was a lack of commitment from stakeholders, in particular policymakers, to take measures to achieve the objectives.

### *Public Awareness*

The limited awareness of environmental protection needs also extends to the community. Surveys show that when buying products, most customers do not care about environmental performance of a manufacturer (VEPA 2007). This limits the demand for environmental protection. Many people think environmental protection is the task of Government, although environmental protection is usually ranked by citizens as lowest priority for Government funding (Do 2007). People living in polluting industrial villages care more about their losing jobs and consequent loss of incomes than the impact on their health.

With respect to climate change (see the next chapter), surprisingly, when asked about climate change, many of the vulnerable groups of local farmers living along coastal areas in the Mekong did not know what climate change meant. Obviously, they also are not aware of potential impact of climate change on their livelihoods.

### *Industry*

Industry, an important stakeholder in environmental protection, is far from being convinced of the importance of investing in environmental protection. Efforts, for example, in operating waste treatment facilities, are typically only aimed at the minimum level to satisfy environmental regulations and only when inspected by relevant authorities. Industry is not aware of the benefits to themselves from investing in environmental protection that have been demonstrated in developed countries.

## ***Institutions and Policies***

### *Overlapping and Ineffective Regulations*

Overlapping and ineffective regulations are found in all areas of environmental management. Specifically, the overlaps and ineffectiveness of regulations can be classified into the following categories (Institute of Science for Environmental Management 2009).

- Regulations related to organizational structure;
- Regulations related to pollution control and waste management;
- Regulations related to assessment and evaluation of environmental impact;
- Regulations related to water resource;
- Regulations related to inspection and handling violations of the environmental law;
- Regulations related to financial mechanisms.

There are two main reasons for the poor quality of regulations. First, regulations are often issued without adequate research (scientific evidence and cost benefit analysis) and the regulation development process often lacks input from all stakeholders. Consequently, they are often criticized as not reflecting and addressing the needs of society.

The second reason for poor quality of policy and regulation is that reviewing existing regulations to identify needed revisions is not regularly conducted. Complex administrative procedures make it time and resource consuming to revise regulations. In addition, a lack of pressure from stakeholders such as the public and businesses may not provide sufficient incentives for regulators to amend regulations they have issued.

### *Weak Enforcement of Regulations*

Some believe that the most important policy issue in many areas is not the lack of laws and regulations but weak law and regulation enforcement. This belief also applies in environmental areas. Inspections conducted at 90 manufactures and trading facilities in six provinces in 2005 and 2006 show that environmental violation rate was about 96 percent (MONRE 2008). Numerous other violations such as littering public places and illegal dumping are not handled. Insufficient monitoring capacity particularly results in problems when manufacturers operate their waste treatment plants when inspected by environmental officers and shut down when these officers leave the site.

### *Weak Collaboration among Stakeholders at All Levels*

- Line ministries

Chapter XIII of Environmental Protection Law dated 2005 does not clearly define the role of the MONRE in assisting the Government to lead and coordinate the activities of state management. It does not require ministries and agencies to coordinate with the MONRE to perform the tasks of environment protection in the industry or areas under their scope of management. The functions and duties of the MONRE and other Ministries such as MARD, MOH, and Ministry of Construction, have also been found to overlap, involving duplication of effort. Examples are overlapping in responsibility for waste management between MONRE and Ministry of Construction (MOC); the management of river basins between MONRE and MARD, and tasks of responding to climate change between MONRE, MARD, MPI and MOC.

### *Central and local levels*

Environmental decision making often involves many stakeholders including national and local environmental authorities and line ministries. On the one hand, this enables different stakeholders to contribute to the process. On the other hand, this makes it more difficult to assign properly and clearly tasks and responsibilities of each stakeholder.

### Poor Land Use and Infrastructure Planning

The current planning and zoning for natural resources and environmental management combines top-down and bottom up approaches. However, neither of these approaches uses scientific evidence and cost benefit analyses as a background. Mostly there are ad hoc and politically oriented interventions.

### Underdeveloped Framework for an Environmental Services Market

At the moment, there is no proper market for environmental services. If all natural resources are underpriced, then they are likely to be used wastefully.

*Water:* Before 2008, the State set the water fees at an underpriced level to support for its people particularly the poor. Most recently, Decree 154/2007/ND-CP of the Government exempts the irrigation supply fee for farmers served by Irrigation management companies. This system has caused a 'false economy' in which water users tend to overuse water, while these companies do not provide water as well as before because they now receive subsidies from the State.

*Land pricing:* According to Land Law 2003, based on the Governmental land price framework, provincial people committees have to determine land prices on an annual basis. However, up to now, the regulated land price is usually less than the market price by 50 percent.

**Table 0.5. Comparison between Agricultural Land Market Price and Regulated Price in 2009 (thousand VND)**

<i>Province</i>	<i>Market price</i>	<i>Regulated price</i>
Ca Mau	500	205
An Giang	450	220
Vinh Long	1000	400
Dak Lak	450	255
Ninh Thuan	300	245
Thai Binh	No transaction exists	280
Vinh Phuc	No transaction exists	255

*Source: Survey of Institute of Policy and Strategy for Agricultural and Rural Development (2009).*

This price system encourages speculators who buy agricultural land and convert to non-agricultural land to gain the profit from the difference between regulated and actual price. This process has reduced agricultural land use efficiency as land is diverted and stays idle to wait for the price increase.

*Forest environmental services:* The lack of a mechanism to value the environmental contribution from forests, and the failure to identify those responsible for payment has undermined forest quality and the forestry sectors. Farmers and companies do not receive any payments for their environmental services they in effect supply (flood control, greenhouse gas absorption), while the timber products from forests yield a only very long-term profit. Thus, they have to harvest trees illegally or support illegal timber traders to maintain their livelihoods. Payment for environmental services has been recently introduced to address this problem. However, it was in form of small pilot exercises only. The prospect for wider application of payment for environmental services remains unclear.

### ***Insufficient Human Capacity***

There are only about 1900 environmental staff members nationwide. That means there are only 22 environmental officers per one million people. It is estimated that to fulfil increasingly demanding environmental tasks, this number should be double (Nguyen 2009).

Particularly, human resources for enforcement are limited. The inspection service, which is in charge of environmental enforcement and compliance, faces a severe problem of staff shortage. With only about five inspectors, each DONRE inspection division has to supervise compliance of the whole province not only in terms of environmental issues but also in terms of other issues such as land, housing, water resources and mining. In addition, these inspectors often have not been fully trained in environmental inspection.

### ***Inadequate and Improperly Managed Budget***

Since 2006, an annual budget for environmental protection activities nationwide has increased to one percent of the annual state budget. However, this is not meeting the need (ICEM 2007) and a significantly higher state contribution is required. In addition, experience with the state budget for environmental protection shows that the budget is poorly managed at local levels (ISEM 2009). Due to unclear instructions on how to allocate the budget, in some cases, the budget is used on purposes not related to environmental protection. This suggests the need for careful preparation for suitable mechanisms for using the expected large amount of budget for climate change in the next few years.

## **10.6 Suggested Solutions**

### ***Institutional Improvement***

The environmental policy and regulation development process needs to be improved. Adequate research needs to be carried out before issuing policy and regulations. More specifically, the development of policy and regulations need to be evidence-based, including as assessment of the needs of society.

Mechanisms to facilitate the participation of stakeholders in environmental decision-making need to be developed. Public debates on environmental issues need to be facilitated so that different viewpoints and arguments have a chance to be heard. The public media's duty to disseminate information without bias needs to be highlighted. Public disclosure, which involves publicizing information on businesses' environmental performance, needs to be promoted.

Most importantly, the enforcement of regulations needs to be strengthened. The tendency to pay more attention to issuing the regulations than to their implementation needs to be addressed. In other words, more resources need to be allocated to enforcement. More environmental officers need to be assigned at district and commune levels.

With respect to the organizational structure of environmental management, coordinating mechanisms among line ministries need to be reviewed and improved. Tasks should be clearly assigned to organizations to help increase accountability for environmental decisions. On the other hand, information sharing needs to be strengthened as at present weaknesses in cooperation have resulted in overlaps and duplication of many operational activities of Government agencies. It should also be noted that coordinating mechanisms will be even more important if additional funding from international donors becomes available

(e.g. to deal with climate change). Good coordinating mechanisms will facilitate effective and efficient use of the resources.

Better environmental policy development and implementation might be achieved by upgrading the current MONRE to a Ministry of Environment, as with some middle income countries in the region including Singapore and Korea. This organizational upgrading should be reflected in the allocation of more human and financial resources for the Ministry to fulfil its demanding mandate. By assigning environmental tasks and responsibilities to a single organisation, the Ministry of Environment, the upgrading will also help address the current problem of the policy “mosaic”, in which environmental tasks and responsibilities are scattered over many ministries.

### ***Capacity Building***

Capacity in environmental policy development and implementation needs to be strengthened. This can be achieved through domestic and overseas training and education for Government officers. One observation is that there has been a trend for high quality staff to leave Government agencies to work for the private sector and international organizations. To address this problem would be to ensure the promotion of well trained people.

Capacity building can be achieved by secondment mechanisms in which Vietnamese officers work for overseas research or Government agencies and international experts take a position in Government agencies in Viet Nam. It can also be achieved by conducting joint research projects between Vietnamese and overseas organizations.

The larger community also needs to build its capacity to cope with emerging environmental issues such as urban pollution and climate change. Such capacity building can be further by campaigns to raise awareness and through involving the community in environmental decision-making, research activities and environmental enforcement. By being involved in such activities, the community will have better access to information, have better chances to have their voice heard, and improve their own capacity in a “learning by doing” process. In addition, local communities use traditional knowledge and practice that are valuable for developing relevant policies.

### ***Market-Based Instruments***

More market based instruments need to be developed and applied to address problems of public goods and open access problems of environmental goods and services. In this regard, MONRE issued Resolution 27/NQ-BCSDTNMT on 2 December 2009 for boosting the application of market-based instruments in natural resource and environment management. It should be noted, however, that the success of market based instruments is conditional on a well functioning regulatory system. For example, a wastewater charge will not have the effect of providing incentives for polluters to reduce emission if the enforcement of paying for the charge is weak. Another example is that in a tradable permit mechanism, enforcement needs to be sufficient to make polluters feel obliged to use the permits and hence start trading to achieve pollution abatement in a cost effective manner.

### ***Awareness Raising***

Awareness of environment and climate change issues needs to be raised both for the public and for policymakers. For the public, educational campaigns and propaganda need to be implemented. New methods for disseminating information such as interactive learning and marketing strategies will be needed to increase effectiveness of propaganda campaigns.

Environmental and climate change education needs to be integrated into the educational syllabus at all levels.

To raise policymakers' awareness, environmental criteria to assess policy performance need to be developed. Green GDP, which includes environmental impacts in GDP calculations, is one possible approach. Policymakers and Government officers need to report to the public not only on socioeconomic results but also environmental achievements. This should be applied at all levels from national to provincial, district and commune levels.

### ***Increased International Cooperation***

Increased international cooperation could bring about multiple benefits. First, it will help transfer of knowledge and technology needed to address environmental and climate change issues. Second, it will provide new and additional funding sources for tackling the issues. Third, Viet Nam should adopt a good stance in the international arena and participate fully in international negotiations on environmental and climate change issues.

## **10.7 Possible Environmental Projects for Partner Consideration**

Tasks which have been identified as needing partner support include:

- Reviewing and completing environmental standards
- Introducing environmental taxes and tradable permits
- Developing payment for environmental services
- Upgrading the current MONRE to a Ministry of Environment
- Public private partnership in providing environmental services
- Building wastewater and solid treatment facilities for densely populated areas
- Improving drinking water supply and sanitation
- Enhancing environmental enforcement capacity
- Facilitating business to meet environmental requirements for exporting commodity
- Improving land use planning
- Land use inventory and database
- Enhancing hydropower planning and sustainable water resources usage
- Introducing water pricing and tradable permits
- Enhancing capacity in marine resources investigation and sustainable use
- Enhancing mineral resource sustainable use



## Chapter 11

# Climate Change Adaptation and Mitigation

### 11.1 Introduction

Climate change is a looming problem that impacts at global level but also at regional and local levels. Problems are emerging in both physical and socio-economic forms. Although progress has been made, there are large uncertainties and pitfalls in effectively examining the level of vulnerability and how future adaptation and mitigation can be shaped.

This chapter explores the level of vulnerability to climate change impacts in Viet Nam, and examines the challenges and opportunities in developing a long-term strategy for effective adaptation and mitigation.

There is a large amount of uncertainty regarding the level of vulnerability to climate change. Discussion in this chapter is based on past research work by governmental and international agencies (e.g. MONRE, MARD, UNDP, and the World Bank). Exploring the level of climate change vulnerability will reveal the current knowledge base regarding climate change in Viet Nam, needs for financial and human resources for current and future activities to cope with and adapt to climate change impacts, opportunities to establish adaptation and mitigation plans, and the need for those plans to be integrated into national socio-economic development strategies.

### 11.2 Current Climate Change Observations in Viet Nam

International studies, such as the Fourth Assessment Report of the Intergovernmental Panel on Climate Change released in 2007 (IPCC, 2007), the World Bank's study on the impacts of sea level rise (SLR) on developing countries (World Bank, 2007), the National Target Programme to Respond to Climate Change (MONRE, 2008) and the Climate Change Scenarios for Viet Nam (MONRE, 2009), all have indicated that Viet Nam is '*particularly vulnerable to the adverse effects of climate change*' as defined in the UN Framework Convention on Climate Change (UNFCCC).

Observations by the Institute of Meteorology, Hydrology and Environment (IMHEN) indicate possible major effects on the country from climate change including increased climatic extremes as well as less spectacular, but gradually growing climatic stresses on resources and communities. IMHEN's analyses of observed climatic parameters over the past decades have revealed an increase between 0.5-0.7° C of annual temperature in Viet Nam during the past 50 years or so (1958-2007) (MONRE, 2009). Observation also showed average temperatures during winters increased faster than those of summer. The North of Viet Nam experienced more rapid temperature rise than the South (MONRE, 2009). The impact of global warming is suggested by the higher temperature rise in the last four decades (1961-2000) than that of the three previous decades (1931-60).

Also there have been significant changes in precipitation. Rainfall data from all available hydrological and meteorological stations nationwide in the last nine decades (1910s-1990s) does not show any clear patterns. Annual rainfall seemed to decrease in the North while there was an indication of rainfall increase in the South. Analyses of overall data during the past 50 years (1958-2007), however, showed a decrease by approximately 2 percent (MONRE, 2008). Even annual rainfall amounts may not change appreciably, but rainfall

distribution may change both spatially and temporally. Rainfall amounts caused by storms and tropical depressions probably increased by 10 percent to 25 percent (CCFSC, 2005).

Observation by IMHEN during the past two decades (1990s and 2000s) also revealed that the number of cold fronts affecting Viet Nam was significantly reduced, although extreme cold fronts have occurred in recent years, such as the extremely damaging cold surge lasting consecutively 38 days during January and February 2008 in the North of Viet Nam (MONRE, 2008).

Though there may be differences in observation and analyses of climatic data between international organisations (i.e. IPCC, the World Bank, ADB and so on) and national agencies (i.e. IMHEN, MONRE), all agree that the most damaging and serious extreme events, tropical cyclones, have during recent years occurred more frequently and with higher magnitude. Tropical cyclone tracks also seem to have moved southward while the tropical cyclone season appears to start and end later in the year.

Viet Nam is one of the most disaster-prone countries in the world (UNDP, 2007). There are about 30 tropical cyclones<sup>143</sup> occurring in the Western North Pacific annually, of which 11 to 12 land in the East Sea, and six to seven storms and tropical depressions<sup>144</sup> affect the territory of Viet Nam (CCFSC, 2005). The cyclone season lasts for about six months from June to November. It is anticipated that the number of heavy storms and typhoons to hit Viet Nam will increase both in number and intensity with climate change (CCFSC, 2005). The annual number of storms affecting Viet Nam is predicted to increase by one to two.

Storm intensity is also expected to increase. There may be storms at a Beaufort Scale 12 or 13 in the coastal areas of North Viet Nam and the north of Central Viet Nam; storms at Beaufort Scale 11 or 12 in the South of Central Viet Nam and in the East of South Viet Nam; and storms at Beaufort Scale 10 or 11 in West of South Viet Nam. (CCFSC, 2005).

Observation of global sea levels (IPCC, 2007) in the South East Asia region and national data (MONRE, 2008) indicated an increase between 2-3 mm annually during the 1990s and 2000s. Data from tidal gauges along the coast of Viet Nam suggests a rise in sea level of 3mm per annum during the period of 1993-2008. Significantly, data collected from Hon Dau oceanographic station during the past 50 years showed a rise of 20 cm (MONRE, 2008).

Recent studies have shown that El Niño and La Niña have had distinct and significant impact on disaster conditions in Viet Nam (Kelly *et al.*, 2001). The impact of the El Niño in 1997 and 1998 was successive periods of droughts and floods: major floods in 1999 and 2000; major droughts in 1997 and 1998; severe coastal erosion in 1999; and a massive storm causing historically high losses in the South of Viet Nam at the end of 1997 (MARD, 2005). During La Niña years, the number of cyclones making landfall on the coast increases, *vice versa* during El Niño years (Kelly *et al.*, 2001).

Whatever the long-term future may hold in store, Viet Nam needs to strengthen its defensive system to cope with possible damage caused by potential climate change impacts.

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<sup>143</sup> Tropical Cyclone: A non-frontal cyclone of synoptic scale developing over tropical waters and having a definite organised wind circulation with a maximum sustained wind speed of 34 knots (63 km per hour) or greater (WMO, 2007).

<sup>144</sup> Tropical Depression: A tropical disturbance in which the central position can be identified and the maximum sustained wind speed is less than 34 knots (63 km per hour) (WMO, 2007).



The country has a good network of hydrological and meteorological observation stations in all provinces, especially those highly exposed to hazards. Climate change scenarios were essential to support efforts of all provinces and sectors in planning to cope with and adapt to future climate change impacts.

### **10.3 Climate Change Scenarios for Viet Nam and Potential Impacts**

During 2009, IMHEN applied global climate change scenarios to the Vietnamese situation to develop climate change scenarios for Viet Nam. The global scenarios are taken from the Fourth Assessment Report by the Inter-governmental Panel on Climate Change (IPCC, 2007). These are different global socio-economic scenarios associated with certain levels of future green house gas emissions, and more or less severe climatic changes (UNDP, 2008). IMHEN chose three (B1, B2 and A2) of the six scenarios for the development of Climate Change Scenarios for Viet Nam. They are low emission scenario (B1), intermediate emission scenario of the medium scenario group (B2), and intermediate scenario of the high scenario group (A2). The baseline period was identified as 1980-1999 which is the same period used in the Fourth Assessment Report of the IPCC (2007).

Temperatures in winter could increase faster than those in summer for all climate zones. Temperatures in the North can increase faster than those in the South. B1, B2 and A2 scenarios suggest annual mean temperatures in the North may increase by 1.6 to 1.9°C; 2.6°C; and 3.1 to 3.6°C respectively by the end of the 21<sup>st</sup> century, relative to the baseline period (1980-99). The increase in temperatures in the South is expected to be less, between 1.1 to 1.4°C; 2.0°C; and 2.6°C respectively to the B1, B2 and A2 scenarios (MONRE, 2009).

Of the three scenarios developed for Viet Nam, the Government has agreed that the B2 medium emissions scenario should be used as a basis for Vietnamese climate change projections and planning. The B2 scenario will lead to an average annual temperature rise in Viet Nam by 2100 of about 2.3°C compared to the last decades of the 20<sup>th</sup> century. The temperature increase will be felt especially in the North of Viet Nam. However, recent scientific data suggests that the world is still on a high emissions pathway (IPCC, 2007), and according to the A2 high emissions scenario, the average annual temperature rise would be as much as 4°C in the North and Central coastal regions.

Rainfall during dry seasons may decrease in most climate zones while the South of Viet Nam may experience a more extreme decrease. In contrast, rainfall during rainy seasons and the total annual rainfall may increase nationwide. B1 scenarios suggests that annual rainfall, by 2100, may increase about 5 percent in the North West, North East, Red River Delta (North Delta), and North Central zones while the Central, including the South Central, Central Highlands and South zones, the increase may only be between 1-2 percent in (MONRE, 2009). B2 scenarios suggests higher increase of 7-8 percent in the North West, North East, North Delta, and North Central zones, and 2-3 percent in the South Central, Central Highlands and South zones. A2 indicates a much higher annual rainfall would increase, between 9-10 percent in the North West and the North East; 10 percent in the North Delta and the North Central; 4-5 percent in the South Central, and 2 percent in the Central Highlands and the South (MONRE, 2009).

Analysis results of sea level change predict a rise by 28 to 33cm by the mid 21<sup>st</sup> Century and up to 65-100 cm by the end of 21<sup>st</sup> Century compared to the baseline period of 1980-99. Rising sea levels will seriously affect Mekong Delta and Ho Chi Minh City, parts of the Red River Delta and also a significant coastal strip, including small estuaries. The highest

IPCC scenario (A1F1) projects a global average rise in sea levels of 59cm by 2100, due to thermal expansion of warmer sea water (IPCC, 2007). The climate change scenarios for Viet Nam (MONRE, 2009) is 75cm, based on a downscaling process of the IPCC models to the national level (B2 medium emissions scenario) and accounting for some melting of land ice.

A one metre rise in sea levels by 2100, according to the A2 high emissions scenario, which accounts for some melting of land ice, is used in the NTP-RCC, prior to the release of CCSV (MONRE, 2009) and was approved by the Prime Minister in December 2008.

The IPCC (2007) has identified the Mekong Delta as one of three ‘extreme’ global hotspots in terms of potential population displaced as a result of a sea level rise. By 2050, as many as one million people risk being displaced in the Mekong Delta (McGranahan *et al.*, 2007) Viet Nam also currently ranks 6<sup>th</sup> among countries in the world with the highest proportion of population living in Low Elevation Coastal Zones (LECZ) (Hugo, 2008).

Flooding and other extreme events such as tropical cyclones affecting coastal livelihoods may increase the tendency of migration, both temporarily and permanently, from the coastal zone to safer and more stable places, therefore causing the displacement of millions of people. The poor living in the coastal zone, women, children and the elderly, will be most affected by increase in magnitude and frequency of floods, tropical cyclones and other extreme climatic events. In urban areas, with low quality drainage and flood protection infrastructure, and lack of clean water supplies, city residents will experience serious disruptions to their daily lives. Without large-scale and systematic actions, land in the Mekong Delta, the coastal zone, and coastal cities will be increasingly inundated with saline water. Importantly, the rise in the average sea level increases saline water intrusion into estuaries. This means that surface water for irrigation is affected and that groundwater is also subject to increasing salinity, so soils and crops will be affected.

## 10.4 Vulnerability to Climate change

### *Understanding Vulnerability to Climate Change in Viet Nam*

Fully understanding climate change impacts to develop an effective coping and adaptation strategies for the vulnerable is a challenge for any developing countries (IPCC, 2007), especially in regions where the socio-economic environment is in such transition as in Viet Nam. Assessments of climate change impacts show that Viet Nam is potentially one of five most affected countries in the world (UNDP, 2008). Viet Nam’s population is increasingly vulnerable to the stresses and shocks brought about by climate variability and climate change (Hulme *et al.*, 1999; Kelly *et al.*, 2001).

Climate change impacts in Viet Nam include severe climatic shocks as well as more gradual changes in climate variables such as temperature and rainfall. Vulnerability to climate change should be considered in two ways, both in terms of the level of physical exposure to adverse climate impacts/events, which can be identified from the CCSV as discussed in previous section, or in terms of the impact on human systems.

The first approach considers vulnerability in relation to how climate impacts (e.g. storms, floods) affect communities, generally associated with specific vulnerable geographical locations. This approach to vulnerability tends to focus on vulnerability as a spatial characteristic (Kelly and Adger, 2000).

The second approach sees vulnerability as an aspect of social communities and their conditions, and the degree to which a group social location affects exposure to the adverse

effects of a diverse range of climate-related, political and/or economic impacts (Watts and Bohle, 1993; Blaikie *et al.*, 1994; Kelly and Adger, 2000). Differential vulnerability is determined by the inequitable exposure to risk and resulting damage amongst groups of people within a community (Adger, 2003a, b). Vulnerability can be seen as a characteristic of social processes that limits access to resources required by individuals and groups to cope (Blaikie *et al.*, 1994). This approach focuses on the importance of social factors that establish different levels of exposure to risk (Hewitt, 1997). In other words, in addition to physical (including climate) influences, social and economic factors affect vulnerability at the community level (Eriksen *et al.*, 2005).

### ***Physical Vulnerability***

IMHEN, the scientific think tank on hydrology, meteorology and climate change in Viet Nam, has applied GCMs for various climate zones in Viet Nam according to three of the global scenarios of socio-economic development and related greenhouse gas emissions for the long-term future, as used by the IPCC (2007). MONRE has reported on how the average climate and sea water levels are likely to change by the years 2050 and 2100 in different parts of the country.

IMHEN has emphasised the uncertainties in the projections and takes a cautious approach in choosing the most likely climate change scenario and its effects. The approach is cautious as it is based on a '*medium global emissions*' scenario which assumes that the world will limit GHG emissions and avoid 'dangerous climate change' (IPCC, 2007). The medium emissions scenario is possible with a successful outcome of the international climate negotiations and subsequently effective actions on global GHG emissions reduction. However, recently observed changes in emissions, average temperatures and sea level rise, for example, suggest that the world is currently on a high emissions and dangerous climate change path. The failure to reach a concrete agreement on cutting down green house gas emission at the UNFCCC-COP15 in Copenhagen in December 2009 has also been a serious set-back to the efforts of developing countries in adapting to and mitigating climate change impacts. For Viet Nam, climate change impacts are highly likely to be worse than estimated by the IPCC in 2007 (MONRE, 2009). The CCSV (MONRE, 2009) will be updated over the coming years, with further global analysis and national data collection and application of models, as per the decision in the NTP-RCC.

Climate change will make annual total rainfall higher in most, if not all, regions in Viet Nam, by an estimated average for the country of 5 percent over the course of the 21<sup>st</sup> century, according to a medium emissions scenario, and rainfall will become more variable. The average rainfall is already decreasing in the dryer months (December to May), especially in the Mekong Delta, the Central Highlands and the South-Central Coast regions, and increasing in the wetter months (June to November), especially in the northern regions. The entire Mekong River basin wet season rainfall is increasing, meaning that peak water discharge is also going up, and floods such as those in 2000 and 2001 could be repeated unless mitigation measures are taken. Floods and droughts are becoming more likely, which will affect agriculture, water supplies and hydro-electricity generation, as well as trade and industrial production in urban areas. Floods and droughts especially affect the poorest women and men who have the least resilience to deal with climatic stresses. These stresses are felt in particular in rural areas, and provide additional incentives to migrate.

Viet Nam is one of the most at-risk countries for sea level rise and increased saline water intrusion, in terms of total land area, numbers of people affected, projected GDP loss and impact on agriculture. Mean sea level rise impacts many economic sectors, especially in

the Mekong Delta, Ho Chi Minh City, and parts of the Red River Delta, especially the northern coast, as well as a significant part of the central coast. The average global sea level rise will be up to 0.75 -1 metre by 2100, according to the CCSV, higher than that of the Fourth Assessment of the Intergovernmental Panel on Climate Change (IPCC, 2007) as melting of land ice based on scientific data published after the IPCC report of 2007 has been taken into the CCSV. This estimate is also similar to that of NTP-RCC, consistent with MONRE's calculations for a high emissions scenario.

The one meter sea level rise by 2100 in the NTP-RCC and the CCSV is a reasonable estimate for national and provincial planning on climate change adaptation and mitigation under the NTP-RCC. This amount of sea level rise by the year 2100 would inundate a total of 30,945 km<sup>2</sup> land around the country, without measures such as strengthening of dykes and drainage systems. This is more than 9 percent of Viet Nam's land surface. The inundation threat is greatest in the Mekong Delta, but is also significant for the Dong Nai River Delta including Ho Chi Minh City, the Red River Delta and along all coastal areas. The coast of Viet Nam is the habitat for a large number of poor rural people whose livelihoods are especially vulnerable to flooding and extreme climatic events. But cities and industrial parks are also affected, and poorer urban residents generally live in neighbourhoods with low quality drainage and flood protection infrastructure.

Tropical cyclone intensity will also be stronger, especially during El Niño years. Tropical cyclones are historically expected in August in the north of Viet Nam, in October in the centre and in November in the South. However, recent years have seen the tropical cyclone season occurring later and moving southwards with greater intensity and magnitude. These changes imply increased risks for coastal populations, especially from storm surges, whilst heavy rainfall from typhoons causes major landslides in the uplands. This calls for further strengthening of disaster risk reduction (DRR) capacities and measures at all levels, including both coastal and upland regions.

Compared to 1990s, the average temperature is expected to increase by nearly 2°C in the southern regions of Viet Nam and up to 2.8°C in the northern regions by 2100, according to the medium emissions scenario. However, in the high emissions scenario this could be as much as 3.6°C in the North Central Coast region. The minimum temperatures will increase and the number of days with temperatures higher than 25°C will increase. Heat waves are expected to increase too, which affect elderly people in particular. Higher temperatures are expected to increase the spread of vectors of human diseases such as dengue fever and malaria. Temperature increase and changes in rainfall and drought patterns may enhance the spread of crop pests and diseases, and affect ecosystems and farming seasons. Warmer seawater affects several marine ecosystems negatively.

Climate change effects include increased major climatic extremes as well as less spectacular, but gradually growing climatic stresses on resources and communities. Averages do not fully illustrate the extent of 'dangerous climate change'. The fluctuations year on year and the occurrence and frequency of extremes within years and seasons – i.e. climatic events further away from the trend and the average – are difficult to ascertain with any precision. The models cannot show all the increased 'climate variability' and associated risks, but various data have brought the IPCC to the conclusion that with more than 2°C average global warming variability will increase strongly. There is, however, no guarantee that the world will be set on a low emissions pathway that would make it possible to limit global warming to 2°C. Furthermore, even if this widely accepted long term target were achieved, 'avoiding dangerous climate change' is then possible but not certain. While Viet Nam has chosen a medium emissions planning scenario with somewhat higher global warming as the most

realistic of all scenarios, there is a need to invoke the ‘precautionary principle’ when formulating, planning and designing parameters in response to climate change. This means that anticipatory action must be taken because climate change effects may be very extreme, even if the scientific data cannot provide certainty of that.

### ***Social Vulnerability***

A key aspect of the lives of the rural poor in Viet Nam is vulnerability to natural disasters and therefore to climate change impacts. Floods, drought, and crop failure are more frequent in poor areas than in those inhabited by the rich. Not only are poor areas more likely to experience natural disasters, they are also less able to cope because of their lower wealth which limits disaster management capabilities.

Tropical cyclones striking central and southern regions in Viet Nam seriously effect agricultural production and fishing, the main livelihood source for most rural poor households.

Along with much effort being put in to identifying the physical vulnerability of the region, projecting the physical impacts in the future, there is an equal need to identify social and economic factors affecting vulnerability to climate, including identifying groups whole are likely to both be heavily affected but poorly equipped to cope. To do so, social and economic analysis needs to be integrated into the technical research efforts.

## **10.5 Challenges and Opportunities to Climate Change Adaptation and Mitigation**

Since the Human Development Report 2007-08 (UNDP, 2008) and the Fourth Assessment Report of the IPPC (2007) were released, both of which indicated the urgency of climate change impacts affecting Viet Nam, there has been great attention given to climate change in the national and international media. A number of awareness raising and capacity building programmes have been conducted at national and local levels, not only by the Government but also by non-governmental and international organisations. In December 2008, the approval by the Prime Minister of the National Target Programme to Respond to Climate Change (NTP-RCC) was an official call for further actions on awareness raising and capacity building. The NTP-RCC indicated the urgency of developing plans and mobilizing substantial human and financial resources, to achieve significantly improved awareness and capacity among the governmental system and the general public of climate change. It also emphasised that actions against the impacts of climate change must be understood as a human development challenge.

### ***Awareness and Knowledge Base***

Public awareness is currently concentrated on the effects of climate change on natural disasters. In other words, the changes in magnitude and frequency of natural disasters and some recent climate extremes affecting local lives and economy have been given much attention as the impacts of climate change. There are other impacts which are potentially will be as damaging as those visible to the general public, such as impacts on human health and ecosystems.

Despite media attention and discussion at the national level, it is evident that at the grassroots level many of the communities which are most vulnerable still have little knowledge of climate change and its potential affects.

There is also little awareness of the need and opportunities for GHG emissions control, even within the government and among business leaders. Awareness of climate change, up to date, has not been effectively linked with other current important environmental protection and conservation activities.

Significantly improved awareness will not be achieved without coordinated efforts at all levels by several ministries, mass organizations, national and international NGOs, and other stakeholders. So far, there have been too few changes in behaviour at community levels and within the government system.

Accessing state-of-the-art data to support policymaking and formulate action and investment plans is of high priority. The NTP-RCC emphasises that this can be achieved by strengthening research capacity on climate change. While there are many research organisations, there are too few high quality researchers focusing on climate change, and financial resources for research are spread thinly. Most of the knowledge think-tanks on climate change are concentrated at national level, while knowledge sharing to the local levels and dissemination has not been effective. An increase in investment in research and strengthening research collaboration are needed.

There is also an urgent need for improved understanding of the impact of climate change on socio-economic development and of the economic opportunities from GHG emissions control. For instance, little research has been done on the implications when communities under threat of climate change need to migrate.

The knowledge base areas which should be strengthened include the specifics of how the climate change threat should effect investment decisions, including the location of new projects, cost and benefits of climate proofing of infrastructure; energy efficiency in the manufacturing sector to reduce the Vietnamese GHG contribution; and the use of financial instruments for promoting innovations to produce low carbon emission technologies.

Improving the knowledge base of technical, economic and planning issues associated with the response to climate change should involve a wide range of activities at both national and local levels. This means that the financial resources required will be substantial but with careful planning and involvement of the international community, it can be done effectively. Setting up a formal and widespread network of scientists, policies makers, and important stakeholders and most importantly, the affected communities, will be the most effective way to raise awareness and build capacity.

## ***Adaptation***

It is recognised by the NTP-RCC that adaptation is necessary to prepare Viet Nam for a changing climate and, in parallel, new investments are required to effectively adapt to future changes. Adaptation to climate change may occur in three forms:

- Anticipatory adaptation that occurs before climate and/or climate-related impacts takes place or are observed, also referred to as proactive adaptation.
- Autonomous adaptation which is *“triggered by ecological changes in natural systems and by market or welfare changes in human systems”* (IPCC, 2007:896). Autonomous adaptations are seen as adaptive activities which take place without direct intervention of a government agency. This type of adaptation activity, undertaken in response to short-term climate variability (e.g. the aftermath of tropical storm), may be considered as coping activities. One interesting question is



how far such short-term adaptation can contribute to longer-term adaptation to climate change.

- Planned adaptation is “*the result of a deliberate policy decision, based on an awareness that conditions have changed or are about to change and that action is required to return to, maintain, or achieve a desired state*” (IPCC, 2007:896). This type of adaptation has often been initiated in recognised disaster prone areas where the government has given special attention to vulnerable economic sectors and communities. Planned adaptation is what the GoV aims to initiate nationwide, aiming to shape future adaptation and reduce vulnerability, by assessing the distribution of climate impacts, exploring the ability of individual actors to respond to climate change and adaptation options, and facilitating ways in which adaptation practitioners deliver and gain access to external resources to facilitate adaptation.

Planned adaptation may include large scale activities such as planting mangroves to protect shore lines, diversifying local livelihoods to reduce dependence on natural resources, relocating development activities to reduce vulnerability, establishing schemes to assist vulnerable households to relocate as a pre-emptive response to climate-related events.

The need of building adaptive capacity in the agriculture, livestock, and aquaculture sectors is essential. Farmers already face the multiple risks of drought, heavy rains and floods, strong winds and extreme temperatures, saline water intrusion in the lowlands and soil erosion in the uplands. International and national investment in agricultural research and development, however, remains comparatively limited in scope, not yet focussing sufficiently on climate change effects. Action is required to increase the economic options open to households in the event that climate change undermines their existing livelihoods.

## **Mitigation**

Viet Nam should actively participate in international efforts to mitigate the causes of climate change. There are opportunities for Viet Nam to start preparing now for a low-carbon, developed economy by using modern technologies and making investments that save costs and are socially and economically attractive, while at the same time mitigating GHG emissions.

In moving towards a low-carbon economy, use can be made of international policy developments on climate change, especially as additional finance is becoming available to developing countries and efforts at capacity building are stepped up. Technology transfer is one of the core issues in the international negotiations, particularly technologies for low GHG emissions, although technology transfer for adaptation is also important. This is closely linked to the negotiations on additional finance and financing mechanisms, which should support developing countries in making energy available to low income groups, developing energy efficient manufacturing, generating renewable energy, improving energy efficiencies in transport and of buildings, and applying carbon capture and storage. Technology transfer, including the adoption and development of low GHG emissions technologies, is possible and can provide immediate benefits for low income households. The primary roles of the Government in terms of technology transfer are regulation, capacity building, and providing some incentives.

Businesses need to find innovative ways to improve energy efficiency including conducting energy audits and implementing newly proposed energy management standards, all of which the Government can help realize through support programmes. Businesses need

access to capital to fund innovative approaches, which can be supported through loan guarantee schemes.

There is a need for long-term thinking about the location of industrial parks, in order to protect them from floods and at the same time conserve the most productive agricultural lands. The location of coal-fired power plants should be in areas where there is potential for carbon capture and storage.

The Clean Development Mechanism (CDM) under the Kyoto Protocol, which relates to the generating and trading of emissions reduction credits, is functioning in Viet Nam but not yet on a large scale. Blockages to full development of the CDM in Viet Nam still exist. These include a lack of awareness in the business community, a lack of high-risk investment capital, a lack of appreciation among officials of the benefits of CDM projects, and limited capacities at various levels of Government and in the business sector (including among those required to monitor carbon saved based on verifiable baselines). In addition, current regulation requires that all ODA-supported carbon finance credits under the CDM accrue to the Viet Nam Environment Fund and not to the project owners, which is a disincentive to investors. To ensure large-scale CDM application, in-depth analysis of the barriers and a policy dialogue between Government, businesses and international stakeholders is needed, as well as agreement on appropriate actions, especially in terms of regulation and capacity building.

### ***Energy Demand and Shortage***

Though Viet Nam has nearly all kinds of energy resources, its capability of exploiting, processing and using energy is limited. An imbalance between supply and demand for energy will appear in 2010-2020 and Viet Nam will gradually turn from exporting to importing energy (Dung *et al.*, 2003 and Dung, 2008).

Waste of energy is a big problem in Viet Nam. The productivity of energy use in coal-fuelled power plants in Viet Nam is very low, at 28-32 percent, which is 10 percent less than in developed countries. According to the Ministry of Industry and Trade, to produce the same product, Viet Nam has to use 1.5 to 1.7 times more energy than Thailand and Malaysia. The ratio of growth of demand for energy to growth of GDP in Viet Nam is 2:1, while it is less than 1:1 in developed countries (USAID, 2007).

Recent discussions at national level emphasized the urgency of issuing a Law on Energy Conservation to ensure national energy security, protect the environment and mitigate climate change. To create USD 1000 of gross domestic product (GDP), Viet Nam has to spend energy equivalent to 600kg of oil, 1.5 times higher than Thailand and 2 times higher than the world's average (Than, 2008). The electricity industry has to grow 14-15 percent annually to meet the country's goal of GDP growth of 6-8 percent a year, while, other countries only increase energy consumption by 1.2-1.5 percent to have the GDP growth rate of 1 percent (USAID, 2007). Energy loss in Viet Nam is caused by backward technology, the frequent cuts of electricity, the old electricity wire systems in some places, problems associated with energy management and use.

It is essential to encourage and assist organisations and individuals to use energy economically and effectively to protect the environment and for sustainable development. Energy-fuelled equipment should be strictly managed and outdated equipment should be gradually phased out. Within the government system, government-funded organisations should design energy-saving policies and report to the government on their use of energy on an annual basis.



60 percent of power is currently sourced from hydro electricity but this is changing rapidly, coal is the chosen fuel of the future (USAID, 2007). This political choice to pursue coal reflects a trend not only in Viet Nam but across Asia. A trend that is disastrous for climate change policy and that highlight the direct opposition between fuel security and climate change policy when looking at fossil fuels.

Under the NTP-RCC, the Government is initiating a more aggressive program to reduce carbon intensity in key sectors of the economy including industry, electric power, and transport (MONRE, 2009). Time-of-use power tariffs have been introduced, which provides a strong incentive for efficiency improvement. Other options under consideration by the Government include: energy efficiency standards for new vehicles, optimization of urban transport routes, restriction and control of private transport in urban areas, and hybrid and conversion of buses for public transport.

By means of technology transfer, the capacity to act can be gradually increased. At the international level, strong leadership and commitment by developed countries are needed for developing countries like Viet Nam mount effective programs.

### ***Forestry, Agriculture and Mangrove Systems***

There is currently little by way of institutional and policy interventions to facilitate the incorporation of climate change into tropical forestry in Viet Nam. One need relates to dissemination of practical guidance. There are relatively detailed UNFCCC guidelines for estimating and reporting greenhouse gas emissions and carbon dioxide removals associated with different land uses, land-use changes and forestry activities, but little or no published guidance on adaptation to climate change in tropical production forests. The available guidance to assess impacts and vulnerability of forests to climate change in order to delineate adaptation options is both generic and outdated while recent guidance on developing broad adaptation strategies does not include forestry activities within its illustrative set of examples.

Forestry projects rarely acknowledge that tree planting efforts may be vitiated if for example a plantation is poorly adapted to the climate changes it is supposed to mitigate. Although some international initiatives for independent carbon forestry certification are fostering the inclusion of adaptation measures, these still do not mention specific practice. A more explicit dissemination of tools and approaches for enhancing the adaptive capacity of natural and planted forests in Viet Nam is necessary.

Developing and implementing adaptation strategies for tropical forests in Viet Nam may also necessitate institutional interventions aimed at raising the awareness of society about current and/or future climate changes. Climate change risks in Viet Nam are not often well perceived by foresters, forest managers, or forest-dependent communities. For most of them, climate change may represent a continuation of existing challenges and environmental stresses and even if they acknowledge climate-related risks, changing attitudes may not be straightforward.

The Reduced Emissions from Deforestation and forest Degradation (REDD) scheme could be an important opportunity for Viet Nam. REDD will involve ODA funding for forestry conservation and protection, and funding from the proceeds from carbon trading. ODA funding is likely to be dominant in the early stages. The inclusion of forests in carbon markets is expected, allowing industrialised countries to off-set agreed emissions reduction targets in this way.

Mitigation actions within agriculture should be in line with related benefits in terms of food security, poverty reduction, improved gender equality and enhanced resilience of

agricultural production systems. Examples of techniques with good potential to reduce or remove emissions which are already being applied in Viet Nam include the production and use of bio-gas from animal waste, and organic farming. Agricultural sector could also play an important role in reducing agricultural emissions and environmental pollution in more capital intensive production systems, while also facilitating adaptation to climate change. Substantial public investment in capacity building, institutional development, extension and farm financing is required for farmers to make a transition to more sustainable agricultural practices.

A particular asset that Viet Nam can use against climate change impacts is its mangrove system. The importance of the protective mangrove buffer zone cannot be overstated. In coastal regions where coastal fringe forests have been cleared, often for aquaculture and infrastructure development, problems of erosion and siltation have arisen, and increased vulnerability to storms, with resulting losses to human life and property. There is a growing urgency in Viet Nam to recognise the importance of conserving and restoring protective mangrove greenbelts to lessen the dangers from future catastrophes, as climate change impacts and rising sea levels will amplify the frequency and intensity of tropical cyclones and storm surges.

Adaptability capability of the mangrove can be improved through management intervention, especially by facilitating regeneration in cleared and new areas. Investment in scientific studies and consistent monitoring ecological changes and sea level rise should provide continuous inputs into the design of interventions.

### ***Disaster Risk Management and Reduction***

Climate change will result in more frequent and intensive disasters with severe consequences for local food security and livelihoods of agriculture-dependent populations in vulnerable areas. At the national and local levels there is a need to improve preparedness and early warning systems, and expand the options available to populations most vulnerable to disasters.

Climate change will have significant implications for disaster risk management in Viet Nam, but all the implications are far from clear – the causal links from changes in climate to changes in occurrence of natural disasters are likely to vary. Further, climate change is happening together with rapid changes in the global economy, communications and social support structures, which generate additional threats and opportunities for climate risk reduction and responses. The complex interactions between these factors need to be better understood to advance the knowledge base on the impacts of climate change on natural disasters. In addition to a rural focus, attention to urban and peri-urban areas is also needed.

Adjustments will need to take into consideration experience with managing present natural disasters which should influence additional investments in risk reduction and preparedness to manage more frequent and intense disasters. It will also require increasing capacities and flexibility to plan for future changes. As climate change acquires an increasingly high profile in the political agenda, it offers an opportunity for disaster risk management to gain the recognition it deserves as a key instrument for protecting development gains and food and livelihood security from natural hazards, to include:

- Mainstreaming risk management in climate-sensitive sectors including agriculture, fisheries, water, infrastructure and health;
- Systemising disaster risk management operations across administrative levels, from local to national;

- Renewing interest in preparedness and contingency planning to manage more frequent and less predictable multiple hazards; and
- Accessing new or additional financial instruments.

Disaster risk management and climate change should be addressed at national level within different policy frameworks such as disaster risk management legislation, national adaptation plans. This involves the responsibility of different ministries (e.g. MONRE, MARD, MPI, MOF) that currently have weak cross-sectoral coordination. To address vulnerability and protect livelihoods from increasing climate risk, climate change adaptation should also be linked and embedded in development plans (Poverty Reduction Strategy, food security strategies) and sectoral strategies (agriculture, forestry, fisheries, health infrastructure).

## 10.6 Finance and Investment to Address Climate Change Impacts

There will be great financial needs to support climate change adaptation as well as GHG emissions mitigation in Viet Nam. There is a need for formulation of investment plans for climate change proofing of infrastructure. Investments would initially focus on the measures to ensure that schools and health facilities remain accessible during and immediately after climate-related disasters.

Funding could come through public (ODA) channels as well as markets. While ODA in the form of grants and concessional loans is falling, ODA for climate change is set to increase. Thus, ODA to Viet Nam in the future will be important for climate change adaptation, while market financing will be critical for GHG emissions mitigation.

ODA for climate change adaptation and mitigation should be coordinated by MPI, MOF, and MONRE. MONRE should be the institutions to assess the financial needs of sectors and geographical areas in coping with, adapting to and mitigating climate change based on the climate change scenarios and other work in the field of environmental protection and management. With support from MOF, a financial mechanism has been developed for the NTP-RCC. The development, implementations and M&E of projects and programmes, however, should be implemented and coordinated by MONRE whose technical supports are available and timely.

The sectoral and provincial actions plans being developed under the NTP-RCC could become the programmatic basis for setting up a climate change trust fund to receive and manage international funds according to nationally appropriate, harmonised rules.

When domestic financial stimulus is applied to handle economic crisis of the kind that started in 2008, spending could prioritize investments in ‘climate proofing’ of small-scale infrastructure. Investment in energy efficient technology, including in the manufacturing sector, is also possible, and would provide both economic and environmental benefits.

Viet Nam should develop financial policy instruments that provide market signals to limit GHG emissions, including carbon taxes, or a domestic carbon cap-and-trade system. These could help raise domestic capital for adaptation investments. Viet Nam should also develop ‘index-based’ insurance, such as crop insurance schemes based on upstream river water levels which would to transfer flood risks of farmers along the Mekong River to international markets. These policy instruments require strengthening of capacities at many levels. Other financing mechanisms Viet Nam could support include:

- *Carbon market-based levies:* adaptation funding can be generated by applying a levy to the Kyoto Protocol’s tradable units generated from the CDM, Joint

Implementation projects (CDM-like but where projects are domiciled in Annex I Parties) or other emissions trading. The 2 percent levy on CDM proceeds to raise funds for the Adaptation Fund is an example of a carbon market-based levy.

- *Charges, levies or taxes* on emissions, or on specific activities (such as air travel), in which funds are raised by charging individuals and companies, based on their responsibility for climate change and/or their capability to pay.
- *Assessed contributions of developed country Parties taking into account, for instance GDP, current emission levels or historical contribution to GHG concentration in the atmosphere*, in the range of 0.5 to 1 percent of GDP. This is also a G77+China's proposal.

Viet Nam has had some experience with loan guarantee funds that improve access to capital and reduce investment risks for companies that invest in energy efficiency, low GHG emissions technology, and renewable energy generation. These schemes should be scaled up.

## 10.7 National Policies and Institutional Capacities

### *The National Target Programme to Respond to Climate Change*

Viet Nam developed a national programme, the NTP-RCC, with activities focused on the period 2009-2015, which was approved in December 2008 by the Prime Minister. The NTP-RCC addresses climate change impacts and the need for adaptation and mitigation. The NTP-RCC examines the need of most sectors and will be the basis to address many climate change challenges, and is the first effort to develop an inter-ministry network of communication and collaboration. A steering committee chaired by the Prime Minister and an Executive Board with membership from several ministries was later established.

One of the most important features of the NTP-RCC is to encourage mainstreaming climate change concerns into the Socio-economic Development Strategy (SEDS 2011-2020) and Socio-economic Development Plan (SEDP 2011-2015), and policies on DRR, coastal zone management, and energy supply and use. Climate Change Action Plans to deal with climate change will be developed by economic sectors and all provinces. The NTP-RCC indicated the urgency of research and planning in the short term, and formulation and implementation of investment plans at later stages, requiring substantial financial and technical assistance. The NTP-RCC will be the foundation for a comprehensive strategy on adaptation and GHG emissions mitigation.

The overall leadership for climate change policy development and implementation of the NTP-RCC is with a steering committee headed by the Prime Minister and an Executive Board, which is made up of representatives from different ministries. A Standing Office in MONRE is tasked with coordination of implementation of the NTP-RCC, but it currently has limited coordination capacities and participation of other ministries is still mixed. Experience with both long-standing and ad hoc coordination for responses to national challenges, such as the Central Committee for Flood and Storm Control (CCFSC), suggests that strong coordination between sectors and effective oversight can happen only if a National Committee is directly supervised by the Prime Minister or a Deputy Prime Minister on a regular basis. It also requires very strong support structures, well resourced with finance and significant numbers of high quality staff possessing a wide range of skills.

Within the Standing Office for the NTP-RCC, active participation of MPI and MOF especially is important because of the expected changes in the nature of ODA to Viet Nam. In the future, multilateral and bilateral donors may pay more attention to climate change in ODA would expect to create new opportunities for international financing of climate change actions. With the eventual successful outcome of climate negotiations Viet Nam will be eligible for ‘new and additional’ grant aid and concessional loans for responding to climate change because it is a country ‘particularly vulnerable to the adverse effects of climate change’.

### ***Mitigation***

Viet Nam contributes negligibly to global emissions and has low energy intensities, although inefficiency in energy use means that it has higher emissions than it should, given its GDP level.

A development priority is to industrialise and growing incomes will increase household electricity consumption. Currently low energy efficiencies can be addressed through appropriate energy pricing policies. Pollution issues in the major cities also provide a sensible basis for taxes on polluting fuel use that will provide some mitigation benefits.

Viet Nam faces the need to substantially expand power generation sector. The incremental cost of doing this using carbon friendly nuclear, renewable and perhaps clean coal technology would be much lower than the cost of providing clean replacement technology in developed countries.

It is important for Viet Nam to specify longer term emission cutback objectives. For example a specific agreement to cut emissions when per capita incomes approach developed country levels (possibly 100 years away) or agreements never to exceed developed country per capita emissions could provide a useful long-term targeting frame.

### ***Climate Proofing and Adaptation***

Climate proofing of existing and future infrastructure investment in the light of emerging climate change impacts in vulnerable areas, such as the Mekong Delta, requires effective partnerships to build institutional capacity. Strengthening of both urban and rural spatial planning capacities and processes and formulation of large scale, detailed integrated master plans are particularly important in light of both climate change effects and the need to create conditions for low carbon economic development.

It is important to formulate both analytical and policy frameworks that identify synergies between responding to climate change and pursuing other national goals. It is particularly important that climate change plans and investment plans, whether related to vulnerability reduction or GHG emissions mitigation, reflect socially differentiated analysis of climate change impacts and adaptation actions and of GHG mitigation opportunities that offer various collateral benefits.

Climate change action plans should respond to disparity due to gender, ethnicity, age, occupation and location, leading to socially differentiated targets and actions. This means that livelihood opportunities for less affluent men and women working in agriculture, animal husbandry, fisheries and aquaculture, and the forestry sector need to be strengthened. Policies should enable women and men to migrate without hindrance. Gendered approaches are also needed, to ensure that responses to climate change–enhanced disasters create opportunities for achieving social goals instead of creating additional causes for inequality.



## ***Capacity Building***

Within various institutions programmes are needed to improve awareness and of climate change, with focus on relevant technical knowledge. Capacity building in many sectors, provinces and line ministries is needed. The NTP-RCC encourages most ministries to mobilise their own resources for this purpose but all are now facing challenges. In most ministries climate change is not yet seen as very important, even though several are now being supported in their action planning on responses to climate change. It is important that awareness is raised further, that technical advice on climate change mainstreaming is provided, and that capacities are built during the early stages of the implementation of the NTP-RCC.

Climate change awareness raising and capacity building are the shared responsibility of different ministries and local authorities. Provinces and lower-level authorities must rapidly develop their awareness and capacity to respond to climate change too. Ministries and universities and training colleges have critical outreach roles in this regard. MONRE officials have visited many localities and organised regional meetings to explain and discuss details of the NTP-RCC and the official climate change and sea level rise scenarios. Planning and action must also involve several mass organisations. This means that coordination and cooperation are critical for success.

## **10.8 International Climate Change Policy Integration and Cooperation**

Climate change impacts and sea-level rise in Viet Nam are direct obstacles to the goals of hunger alleviation and poverty reduction and the sustainable development of the country. To address the problem, Viet Nam must take the initiative in developing, organising, and implementing climate change strategies, policies, and legislation with close cooperation with international community.

After signing and approving the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol (KP) to the Convention, Viet Nam designated MONRE as the focal point for the government's participation in and implementation of the UNFCCC and the KP; establishing a Steering Committee to implement the UNFCCC and the KP; and assigning MONRE to coordinate with related agencies to monitor, update and respond to information about climate change and sea-level rise and enhance cooperation with international organizations on climate change.

In addition, research, development, and assessment of methods and measures to respond to climate had as the focal point the Clean Development Mechanism (CDM), which is one of three KP mechanisms serving sustainable development in Viet Nam. Besides these efforts, the NTP-RCC and the Climate Change Scenarios for Viet Nam have been developed with the lists of climate-related projects that need sponsorship, and support of technology transfer from developed countries.

Viet Nam will derive substantial benefits if major polluting countries mitigate intensively. For this reason an option for Viet Nam is to strongly support mitigation initiatives by all countries. This would inevitably involve some type of mitigation response itself. There might be strong emulation effects if one of the poorest and most climate change-exposed countries implements explicit measures to deal with its own emissions. To achieve an cut in absolute emissions would be not possible for Viet Nam given its high growth ambitions, but attention should be given to feasible options to significantly reduce the growth of emissions,

and being an active participant in climate change negotiations could have considerable benefits to Viet Nam. Viet Nam should design its adaptation and environmental strengthening policies in a visible and attractive program to attract international support.

Active involvement in international negotiations is important for Viet Nam, which stands to lose a lot if enhanced international cooperation on the causes, as well as the effects, of climate change is not agreed upon and implemented quickly. Viet Nam is in a position to help shape international climate policy that would serve its interests and those of similar countries, and play an active and constructive role in international climate diplomacy.

A network of ASEAN countries on climate change could be initiated by Viet Nam through formal and informal dialogues among member countries, donor countries, and international organisations.

MONRE and MARD have technical and human capacities in these areas, but successful climate diplomacy will require more active involvement and strengthening of capacities, especially in other ministries. MONRE in particular can act as the focal point and the initiator in this regard to support other line ministries. MONRE have undertaken several capacity building efforts in climate policy and diplomacy but committed engagement of some key ministries through staff with good foreign language skills and climate change knowledge and a mandate has been limited. Viet Nam negotiations with other countries and the international community should result in the establishment of comprehensive adaptation institutions, and commitments to support Viet Nam in adapting to climate change.

## **10.9 The Role of United Nations' Agencies and Like-Minded Donor Group**

### ***United Nations' Agencies***

On climate change, UNDP has been the most active of the UN agencies in Viet Nam, with several activities to support the Government, notably the formulation of the NTP-RCC, the application of 'global climate models' to Viet Nam, NTP-RCC implementation, the Second National Communication to UNFCCC, and information management and awareness raising. UN agencies could help shape Viet Nam negotiations in UNFCCC, raise national awareness on climate change, including the negotiation issues, implementing Viet Nam treaty obligations on climate change and accessing its rights as a non-Annex 1 country as well as one of the most affected countries by climate change in the world.

Many projects and programmes on climate change, from awareness raising and capacity building to technical transfer have been supported by UN agencies. Further support to create development opportunities in many sectors, regions and communities is needed. Efforts to adapt to and mitigate climate change impacts will require significant changes in the legal framework and policies which will require support.

UN agencies, with their widespread networks and technical expertise, would be well placed to gather important international, government and non-government stakeholders into policy dialogues on climate change. UN agencies could also support capacity building, provide technical advice, and help with implementation and coordination of activities in several sectors. These sectors include: agriculture & fisheries, disaster risk reduction, education, energy, forestry, health, industry, oceans, population and human settlements, transport, and water.

## *Like-Minded Donor Group*

LMDG, as an ad-hoc group, is drawn together by a common commitment to promoting pro-poor growth. The group aims to improve the quality of aid in Viet Nam through the harmonisation of aid management practices, participation in joint activities, promoting the use of Government systems, and introducing new aid instruments that lower transaction costs and improve effectiveness. With regards to climate change adaptation and mitigation in Viet Nam, LMDG is well placed to mobilise financial resources as well as technical assistance. The group could also initiate programs, including incentives, to encourage the private sector, particularly their national investors, to be sensitive to climate change issues.

Jointly with UN agencies, other international organisations and the Government (i.e. MONRE, MARD, and other line ministries) the LMDG could also help establish networks and partnerships between international and governmental, non-governmental organisations and civil society, which could provide the basis for the development of various centres of excellence with strong focus on technology development and transfer, scientific research on climate change, adaptation and mitigation.

## **Conclusions**

The chapter has described the implications of climate change for Viet Nam and reviewed various environmental, economic and social issues. There is inevitably a large amount of uncertainty on the level of vulnerability and future adaptability to climate change. Aware of the potential negative effects of climate change, Viet Nam has decided that attention to climate change adaptation and mitigation should be a national priority.

A number of significant climate change-related strategies have been adopted, most notably the NTP-RCC. As a signatory to the UNFCCC and the KP, Viet Nam enjoys the rights and benefits that developing countries receive under the agreements such as financial support and technology transfer from developed countries through CDM. When implementing CDM, Viet Nam is eligible to receive financial resources to serve environmental protection and sustainable development. Although Viet Nam has no international responsibility to reduce GHG emissions, if it is effective in reducing the growth of GHG emissions through the CDM process and other efforts, Viet Nam will strengthen its positive international reputation.

Efforts to prevent or reduce climate change impacts in Viet Nam face many challenges, including:

- Viet Nam is a developing country, so national resources for responding and adapting to climate change are still limited;
- Reducing GHGs is a challenge for Vietnamese enterprises, especially small and medium enterprises, because they do not have sufficient capacity to apply new technology and adopt energy efficiency methods or clean energy;
- Climate change affects the poor in rural areas more than others, and they are also those with the least resources to cope;
- Management at the local level has not paid appropriate attention to climate change, including responding to it and adapting to its consequences;
- The system of legislation and policy for climate change is developing but it is fragmented and has less effect in practice than is intended.



Along with much effort in identifying the physical vulnerability of the region, projecting the physical impacts in the future, there is also a need to identify social vulnerability further.

An effective climate change program requires a commitment from the government system, international community and the community at all levels, with efforts integrated into national and local climate change action plans. A closely linked network of scientists, policy makers, stakeholders and above all, the vulnerable, in all related sectors should be established. Such a network should first focus on potential hazards, climate and environmental variability and the long-term social and economic effects. After initial work, many other priorities will be identified.

## Chapter 12

# Urban Management

### 12.1 Introduction

Over the last two decades, urbanisation has occurred rapidly. In 1990, there were 500 towns. This number increased to 650 in 2000 and 700 in 2004 (MONRE 2005b). Rice fields and villages have been converted to residential areas. The urban population increases steadily.

Projections suggest that by around 2040 the urban population will exceed the rural population. However, as many commentators argue that official data currently significantly underestimate the size of the urban populations, this may happen much earlier.<sup>145</sup>

The census data suggest that the percentage of urban population has risen from 19.2 percent in 1980, to 24.3 percent in 2000 to 29.3 percent in 2009. Given the low fertility rates, this increase is largely fuelled by immigration, and by the reclassification of urban areas (for example, merging of Hanoi with Ha Tay province and 4 communes from Hoa Binh province). The population of industrial areas is also increasing through immigration, as in Binh Duong, which has the highest imitation rate in the country<sup>146</sup>.

Figure 0.1 shows the urbanisation trend, based on the latest estimates compiled by the UN for 1950-2005,<sup>147</sup> and their projections for following years through to 2050. (The definition of urban areas is places with 4,000 inhabitants or more and meeting certain other criteria.<sup>148</sup>) Table 0.1 which shows the level of urbanisation according to the last three population censuses, broken down by region suggests that there was little rural-urban migration before the 1990s (although policies which tightly limited registration as urban dwellers meant migration was under-estimated). The overall level of urbanisation is expected to be 28.8 percent, and by 2020 it is expected to be around 34.7 percent. However, if informal (unrecorded) elements in the urban areas were included, the total may be some percentage

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<sup>145</sup> “HCMC is the largest city in Viet Nam and is the economic centre of the country. Its official population in 2007 was 6.6 million, a 3.1 percent annual increase from 2002. However, the total population including migrant workers may be as high as 8.7 million. Independent estimates based on enterprise employment, motorcycle registration, and construction permit data also suggest an absolute increase of 400,000-500,000 people in the city a year.” Ho Chi Minh City: The Challenges of Growth, Dapice, Jose A. Gomez-Ibanez, Nguyen Xuan Thanh, Prepared under UNDP – Harvard Policy Dialogue Papers.

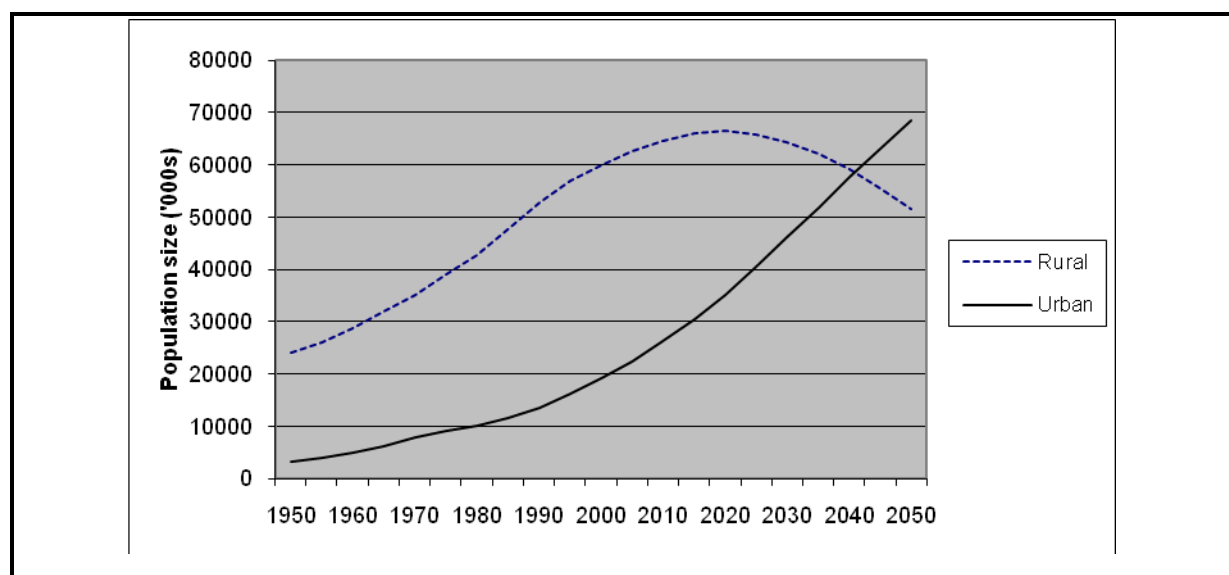
<sup>146</sup> *Central Population and Housing Census Steering Committee*. (2009) 2009 Viet Nam Population and Housing Census of 00.00 Hours 1st April 2009: Implementation and Preliminary Results.

<sup>147</sup> The figures given by the UN for 1980, 1990 and 2000, respectively, differ slightly from the unadjusted GSO census figures.

<sup>148</sup> According to Decree 72/2001/IND-CP issued on October 5<sup>th</sup> 2001, in addition to (i) the population size of 4000 or more, there are additional criteria including (ii) socio-economic functions of the place for the surrounding geographical areas (or the whole country), (iii) proportion of non-agricultural labourers at least 65 percent, (iv) infrastructure limited the possibilities g 70 percent requirements of the official standards for the relevant type of urban area, and (v) “appropriate population density” for this type of urban area. In this Decree, 6 types of urban area are defined, each with its own specific criteria.

points higher so that it seems likely that currently about one third of the population live in urban areas and that by 2010 two fifths of the total population could be urban.

**Figure 0.1. Viet Nam Urban and Rural Population, Estimates and Projections, 1950-2050**



Source: UN Pop. Div. (2008).

**Table 0.1. Share of Urban Population by Region (%)**

	1979	1989	1999
Red River Delta	16.1	16.6	19.6
Northeast	13.5	13.8	17.9
Northwest			12.1
North Central	8.6	9.9	12.6
South Central Coast	20.0	22.7	26.9
Central Highlands	19.6	22.1	17.2
Southeast	54.3	50.0	51.5
MRD	14.5	16.1	17.2
<b>Whole Viet Nam</b>	<b>19.2</b>	<b>19.8</b>	<b>23.7</b>

Source: GSO, various sources, based on census data.

Note: North Mountain and Midland Region was split into Northeast and Northwest Regions after 1989 Census.

The current rate of growth for the urban population is estimated at 3.4 percent per year (compared to 0.4 percent per year for the rural population); projections suggest that the growth rate for urban population will be 2.91 percent per year during 2015-2020, and 0.13 percent per year for rural population). A recent UNFPA study concluded that rapid

urbanisation, especially the growth of large cities, “*is emerging as perhaps the “dominant” population and development issue for 2011-2020*”.<sup>149</sup>

## 12.2 Rural-Urban Migration

A recent UNFPA study analysed the migration process.<sup>150</sup> This section summarises the findings of that report.

The 1999 Census found that in the five years preceding the census date, about 1.6 million persons moved from rural to urban areas.<sup>151</sup> Ho Chi Minh City was the largest recipient with 410,533 in-migrants in 5 years; Hanoi received 114,617 persons during the same period. There were also large migration flows recorded by the Census to the industrial development zones of the Northeast and Southeast regions; and to the agricultural areas of the Central Highlands. The areas most affected by out-migration were in the Northeast and the Red River Delta regions. The Census showed a significant majority of the migrant population were women.

The 2004 Viet Nam Migration Survey (VMS) provided data on the experiences of internal migrants in the country (GSO 2005; GSO&UNFPA 2006a, 2006b, 2006c). The sample of respondents were drawn from Hanoi and Ho Chi Minh City; the Northeast Economic Zone and the Southeast Industrial Zone; and rural areas in the Central Highlands (GSO 2005: 13). Close to 70 percent of the migrants in the survey reported they moved for economic reasons: 41 percent for employment and 30 percent to improve living conditions. This may under-estimate the importance of economic reasons; however, since 13 percent of migrants said they moved for family reasons, while families themselves had moved for economic reasons. As most migrants were working before they migrated, unemployment was not a reason for moving. Migrants from rural areas had on average higher education levels than rural non-migrants; and migrants living in urban areas have education levels similar to other urban residents. Most migrants to cities and industrial zones are young and single. Over 90 percent of rural-urban migrants living in large cities came directly to the cities without moving to smaller towns first (GSO&UNFPA 2006a: 15-16).<sup>152</sup>

## 12.3 Social Consequences of Rapid Urbanisation

According to the Constitution, citizens have the right to reside where they want. However in practice this is not the case as many benefits, subsidies and access to services are still linked to the registration system. Findings from the 2004 VMS reveal the obstacles presented for many migrants as a result of the registration system. Forty-two percent of those surveyed reported difficulties due to not possessing KT1 registration. Of those migrants that

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<sup>149</sup> *Background Paper Prepared for UNFPA-Hanoi: POPULATION AND DEVELOPMENT IN VIET NAM: TOWARDS A NEW STRATEGY, 2011-2020 op.cit.*

<sup>150</sup> *Background Paper Prepared for UNFPA-Hanoi: POPULATION AND DEVELOPMENT IN VIET NAM: TOWARDS A NEW STRATEGY, 2011-2020* Adrian C. Hayes (Team Leader), Nguyen Dinh Cu and Vu Manh Loi Rev. August 2009.

<sup>151</sup> See UNFPA (2007a) for a summary.

<sup>152</sup> It should be noted that the 90 percent figure is likely to be an overestimate because the retrospective life history data collected from migrants in the survey only allowed for the recording of 1 migration event per calendar year; see GSO and UNFPA (2006a: 16).

did not re-register their temporary status in their destination area, 48 percent believed that they had no permission to re-register while 22 percent thought it was not necessary to register and 9 percent did not know how to reregister.

It used to be that migrants needed official permission to move and gain residency in a new area but growing numbers of people moved regardless, which limited their access to some public services.<sup>153</sup> Recently the Government relaxed the regulations so that migrants are now in principle free to move as they wish. The 2004 VMS was conducted before the change in regulations, but even then migrants reported few problems with accessing health services or education for their children.<sup>154</sup> Getting officially registered in their new area could be difficult however and this can have consequences; it is often difficult for migrants to access credit.

The main problem was housing, with migrants having much poorer quality housing than non-migrants, typically renting while the majority of non-migrants own their homes.<sup>155</sup> Migrants are less likely to visit a health provider when sick.<sup>156</sup>

The 2004 VMS findings helped to dispel some common misperceptions. “They have cast doubt on the following ideas: (i) that migration to large cities can be regulated successfully by requiring registration or by otherwise “influencing decisions on migration”; (ii) that investment in rural areas will prevent out-migration; (iii) that spontaneous migrants are self-selected disproportionately from among the poorest, the unemployed, and/or the least-educated; and (iv) that spontaneous migrants do not adjust well to their new surroundings and constitute a “social problem”. The 2004 VMS data support none of these commonly-held ideas. On balance the survey findings point in the opposite directions. These findings need to be confirmed and explored in more detail in further studies.<sup>157 158</sup>

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<sup>153</sup> There are four types of household registration: KT1 (person registered in the district where he/she resides), KT2 (person not registered in the district where he/she resides, but registered in another district of the same province), KT3 (person who has temporary registration for a period of 6 months or more), and KT4 (person who has temporary registration for a period of less than 6 months). For the VMS village/urban blocks were selected with the highest numbers of KT3 and KT4 residents. Because of the way the sample was selected temporary migrants may be over-represented among all migrants; and the non-migrants are more representative of non-migrants who live in areas where migrants live than of non-migrants as a whole. (See GSO 2005: 14-15; and GSO and UNFPA 2006a: 4-5.)

<sup>154</sup> School enrolment for children of migrants is lower than for non-migrants, but this appears related to cost of schooling more than to migration status per se.

<sup>155</sup> This is partly a function of age and the relative youthfulness of migrants compared to non-migrants; the proportion of migrants living in rented accommodation declines rapidly with age (GSO 2005: 31).

<sup>156</sup> Although the differences are not major: “About 74 percent of non-migrants visited to a health centre when last sick compared to 67 percent migrants” (GSO 2005: 117). The 2004 data on health and migration are analyzed in more depth in GSO and UNFPA (2006c).

<sup>157</sup> The 2004 VMS is invaluable for what it tells us about migration in Viet Nam but the survey does have certain limitations which make it difficult to interpret some of the migrant vs. non-migrant differences. First, the sample is not representative of all migrants, and is even less so of all non-migrants. Second, the relatively small sample size makes it difficult to control for age and other factors when comparing for example percent owning their own house or health-seeking behaviour. Third, we need more data on life-time migrants; for example people who migrated to Hanoi or HCMC, or the Central Highlands, more than 5 years ago were not defined as migrants in the 2004 survey. It would also be useful to collect more data on social mobility for both migrants and non-migrants.

The UN report goes on

*“The main internal migration streams are (1) to big cities, (2) to industrial zones, and (3) to rural areas. The Government’s policies affecting migration have since the 1980s attempted in large part to encourage (2) and (3) in order to avoid what are seen as common problems in other developing countries if (1) is allowed to grow too large.*

*However, Government-sponsored migration to rural areas – notably to the Central Highlands – is increasingly a thing of the past. Meanwhile the establishing of industrial development zones – a policy launched in 1995 aimed essentially at rural industrialization – is proving more and more difficult to reconcile with the official ideology of unleashing the potential of market forces. And the Government’s attempts to regulate rural-urban migration though residence registration appears to have failed and has now more or less been abandoned by the Government.*

*In other words, the main factors formerly constraining rural-to-urban migration have either been removed or relaxed. Consequently rural-urban migration – especially spontaneous migration to large cities – is accelerating and appears poised for a major surge during the next 10 years...*

*Fertility levels are higher in rural areas than urban but urban areas will still continue to grow by natural increase as a result of their young population, and urban growth will be further fuelled by continuing in-migration (and by continuing reclassification of rural areas surrounding urban settlements as urban). By far the largest part of the increase in population size at the end of the 10-year period will be manifest in a much larger urban population; increase in rural population will relatively small.*

*The conclusion that can be drawn from these developments is that Government is unlikely to be able (or even attempt) to regulate the flow of migrants to big cities; the challenge will therefore be to leverage the many benefits that migration can provide to development (through remittances, met labour demand, reduction of regional disparities) by ensuring the protection of migrants in the destination areas, and by managing the fast growing urban areas to accommodate the rising urban populations through adequate housing and infrastructure, safe and healthy living environments and access to equal and quality social services”.*

One caveat, however, to the rather positive picture painted by the 2004 migrant survey is that it is unlikely to have adequately covered the floating informal and unregistered migrant population as for example, the youths who live precariously, shoe shiners, post card sellers, and domestic and construction workers, who are the most significant and vulnerable of the migrant.

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<sup>158</sup> Background Paper Prepared for UNFPA-Hanoi: Population And Development In Viet Nam: Towards A New Strategy, 2011-2020.

## 12.4 Implications of the Growth of Large Cities

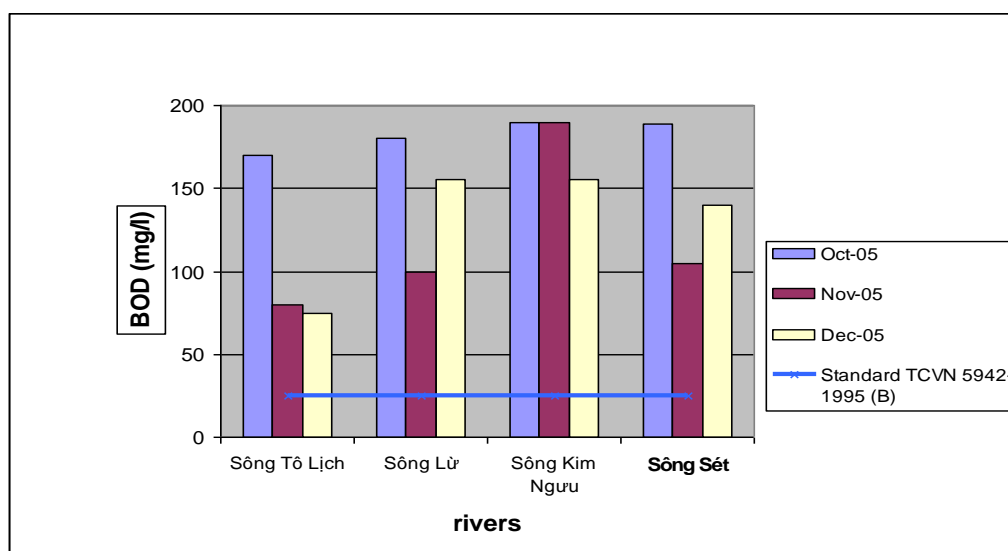
In many ways, Vietnamese cities have been well served given the country's income level. For example, the standard of garbage collection and street cleaning has been quite remarkable, and supply of domestic water and power satisfactory. However, the growth in the sheer size of HCMC and Ha Noi poses great challenges.

This is not only a matter of the large investment requirement to keep pace with the growth of urban populations but also the need to tackle a new set of requirements given the emergence of very large cities. For example, systems of garbage disposal which were acceptable (although far from perfect) are no longer acceptable. A failure to address the management issues of the large conurbations in relation to traffic, waste disposal and provision of basic household services would lead to an unfortunate drop in the quality of urban life and even to serious public health hazards.

### *Water Pollution and Sanitation*

Despite the large populations and hence a large amount of wastewater generated, there are few municipal wastewater treatment facilities. The majority of municipal wastewater is untreated and directly discharged into lakes and rivers. Similarly, the majority of industrial wastewater is untreated before being discharged into the environment. Only 5 percent of industrial wastewater is treated (MONRE 2005b). As a result, surface water in the downstream of rivers running through residential and industrial areas has become increasingly polluted. Pollutants such as TSS, BOD5 and N-NH<sub>4</sub> are all about 1.5 to 3 times higher than permitted levels. Notably, BOD5 in all rivers in Ha Noi is 2-5 times higher than permitted levels (Figure 0.2) and coliform in main canals in Ho Chi Minh City is several times higher than standards (Figure 0.3).

**Figure 0.2. Water Pollution in Rivers in Ha Noi**



Source: MONRE 2005b.

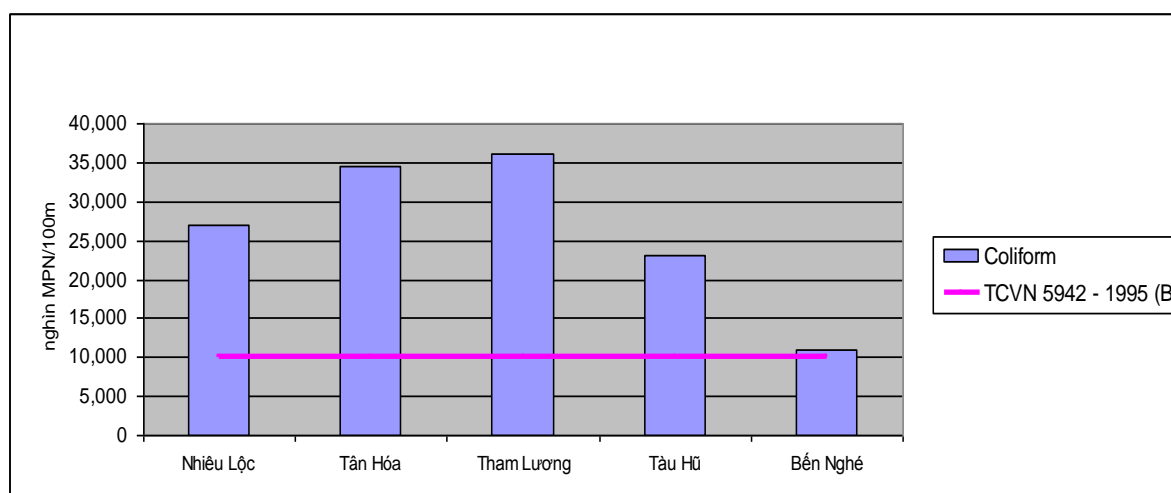
Water pollution is worsened by leaching from open dumps and medical waste. Most of hospitals throughout the country do not have wastewater treatment facilities (MONRE 2006). Each hospital discharges hundreds of cubic meters of untreated wastewater into the

environment a day. The medical wastewater carries germs and bacteria which are threats to public health.

No segregation of waste water exists. As a result, untreated medical wastewater, industrial wastewater and municipal wastewater are combined in municipal sewage systems and then discharged to channels and rivers. On average, there are 3.1 million cubic meters of municipal, industrial and medical wastewater discharged into the environment per day.

While air pollution is mainly an urban environmental problem, water pollution is found in rural areas as well. The main reason for water pollution in rural areas is pesticide and fertiliser residuals (MONRE 2005b). Due to poor cropping practices, pesticides and fertilisers are often over used. Consequently, run-off through crop fields forms considerable non-point source pollution. Water pollution is worsened in industrial villages. Most of the 1,450 industrial villages nationwide do not have wastewater treatment facilities and discharge untreated wastewater directly into the environment.

**Figure 0.3. Water Pollution in Main Channels in Ho Chi Minh City**



Source: MONRE 2005b.

Water pollution has already had a negative health impact. Among environmental health problems, waterborne and sanitation related diseases are an important problem (UNICEF 2007). Due to water pollution and contamination of water supply sources, diarrhoea is one of the leading causes of morbidity nationwide, with some 250,000 hospitalizations a year. Up to 44 percent of Vietnamese children are infected with worms. With 9,400 deaths per year and the Disease-Adjusted Life Year (DALY)<sup>159</sup> of four per 1,000 people per year being attributed to unsafe water and poor sanitation, these problems are the highest risk factors of the environmental burden of diseases (WHO 2007). Between 1999 and 2003, about six million cases of waterborne diseases were registered with the estimated cost of around USD 27 million (WB 2008). However, this only represents the cost of the water

<sup>159</sup> Disease-Adjusted Life Year (DALY) is a commonly used method to measure a health gap. One DALY can be thought of as one lost year of healthy life and the burden of disease as a measure of the gap between current health status and an ideal situation where everyone lives into old age free from disease and disability (WHO 2007).



pollution impact on human health. The cost could be higher if the impact on aquatic resources and irrigation were included.

At present, there is a lack of health impact assessments for development projects in Viet Nam. This shortcoming leads to no action plan for prevention or mitigation of health impacts caused by the development projects when the projects are implemented. It is recommended that Health Impact Assessment (HIA) be included into Environmental Impact Assessment

### ***Solid Waste***

Increased population, income levels and industrialization are increasing solid waste generation. Using an Input-Output model, Triet (2005) estimated that associated with each VND 1 billion GDP was 44.4 tonnes of solid waste. Average municipal solid waste generation rates in urban and rural areas are 1.1 and 0.6 kg per head per day respectively (MONRE 2005b). This means every day, several thousand tonnes of solid waste are generated. Solid waste generation has increased by an estimated 15 percent per year while collection capacity remains limited. Only about 65 percent of solid waste is collected. Open dumping remains a common problem. In addition, waste segregation remains limited. As a result, industrial waste including hazardous waste is often dumped with municipal waste. Furthermore, there are very few sanitary landfills. Among 91 landfills, only 17 landfills are sanitary ones (MONRE 2008).

### ***Air Pollution***

The faster the process of industrialization and urbanisation, the more serious is the problem of air pollution. Dust is the most serious air pollutant in Viet Nam. Results from environmental monitoring stations from 1995 to 2006 show that most urban areas in Viet Nam are polluted by dust, with some centres are polluted at an alarming degree. According to Viet Nam Environment Standards (TCVN) 5937-1995, a permitted standard of a daily average suspended dust concentration is 0.2 mg/m<sup>3</sup> and a permitted standard of an hourly average suspended dust concentration is 0.3 mg/m<sup>3</sup>. However, dust concentrations are often from 1.3 to threefold higher these acceptable levels (Figure 0.4). In most of the monitoring stations, dust pollution has been increasing in recent years. The places with highest levels of dust pollution are residential areas near industrial areas (MONRE 2007). Other pollutants include SO<sub>2</sub>, NO<sub>2</sub> and CO. However, SO<sub>2</sub>, NO<sub>2</sub> and CO pollution is only found in some industrial areas and is not a common air pollution problem yet.

## **12.5 Urban Management Issues**

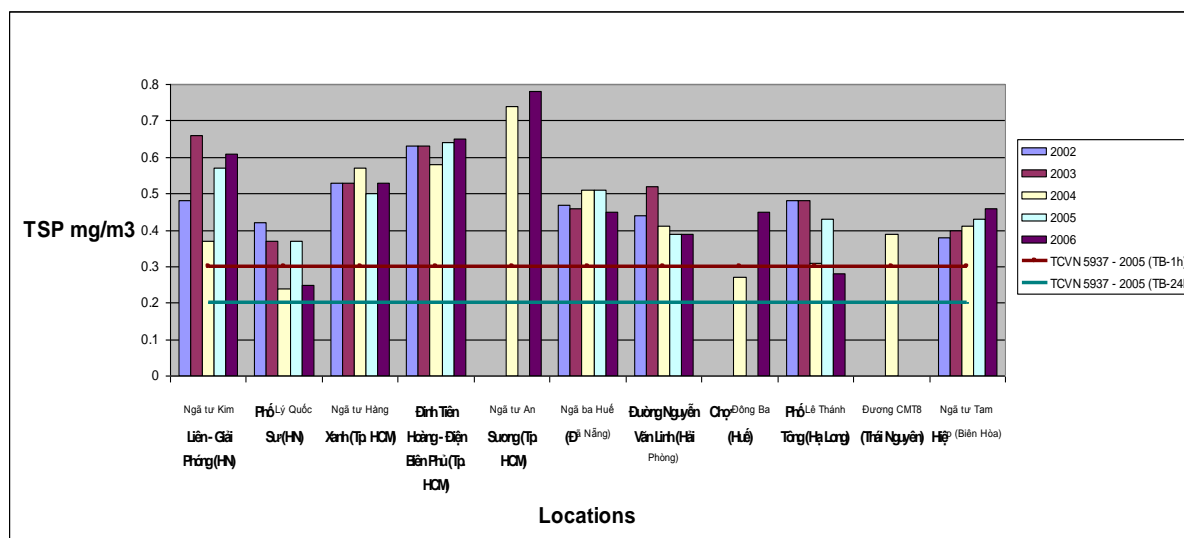
Rapid growth in the large cities has placed great pressure on the urban environment. The recent study by Harvard University concluded the investment in infrastructure is HCMC was falling behind the levels needed to match the needs generated by the rapid growth of the city.<sup>160</sup>

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<sup>160</sup> Ho Chi Minh City: The Challenges Of Growth, David Dapice, Jose A. Gomez-Ibanez, and Nguyen Xuan Thanh Prepared under UNDP – Harvard Policy Dialogue Papers.

In the early 1990's, over a couple of years the dominant means of transport in Hanoi shifted from bicycles to motor bikes (something which had occurred much earlier in HCMC). This increased the traffic flow and for a while alleviated the traffic problem. But as the numbers of motor bikes increased, infrastructure, much of which was built decades ago, proved inadequate to accommodate the rapidly increasing traffic, resulting in increasing traffic jams (MONRE 2007). Now there is a tendency for the number of automobiles to grow rapidly (admittedly from a very low base). If the shifts to automobiles were to accelerate, and the cars were rapidly to become the dominant mode of transport, Vietnamese cities would face the awful conditions and challenges faced by so many large cities, not only in the developing world but even in many wealthy countries. Traffic jams, much slower travel, pollution, and sharp rises in parking costs would become the order of the day.

**Figure 0.4. Dust Concentrations in Urban Areas 2002-06**



Source: MONRE (2007).

There are many other challenges to the urban environment. The area of trees has decreased. Soil has been replaced by concrete. Lakes, which play an important role in storing water in rainy season, and contribute to the aesthetic quality of Vietnamese cities, have been filled up for residential construction. In addition, the upgrading of drainage and storm water systems has not kept up with the rapid urbanisation. As a result, flooding occurs quite commonly in some urban areas in the rainy season. For example, in early November 2008, many parts of Ha Noi suffered from flooded for more than a week. This was because of an unexpectedly high rainfall of 500 mm per day for two days while the capacity of drainage systems in Ha Noi is only 170 mm of rainfall per day. The livelihood of hundreds of thousands of people in Ha Noi was affected. The estimated cost of that one flooding event was estimated at around VND 3,000 billion.

Traffic problems are exacerbated by the poorly planned development of high rise building, which have rapidly transformed the skylines of Viet Nam's cities. The likelihood of HCMC and Ha Noi becoming the sort of unmanageable concrete jungle familiar in many other parts of the world does not present a pretty prospect. The traffic flow has been worsened by the cross-cutting and overlapped activities from different sectors: road construction, telecommunication infrastructure construction and water/sewage system.

As environmental protection has not been integrated into urban planning, many industrial factories are now in the middle of residential areas. For example, Ho Chi Minh City has about 700 factories, of which 500 are located in residential areas. Ha Noi has 300 factories, 200 of which blended with residential areas. The lack of buffer zones between industrial and residential areas results in a great degree of residents' exposure to emission and waste disposal. Local residents suffer from pollution related health problems. This creates great tensions between factory owners and nearby residents. Sanitation conditions in some of the areas have decreased due to overcrowded population.

At the early stages of any urbanisation process, Governments are ill-equipped to handle emerging policy issues as they will beyond previous experience. This is an area in which the donor community can draw on its own experience to provide help.

In Viet Nam, the high pace of urban development has not been accompanied by sufficient forethought by Government. The unrestricted development of high rise buildings and the uncontrolled development of traffic are cases in point. As cities grow, choices which could have been made at little cost at earlier stages of growth become increasingly expensive (e.g. the allocation of space for public purposes such as parks) or difficult to implement because of the emergence of new interests (e.g. the use of private automobiles becomes a virtual civil right and automobile producers become a lobby against any efforts to control automobile use). The result will be a polluted and nasty urban environment of the kind which can be observed in many middle income countries. This should be one of the high priority areas for external assistance.

## **Industrial and Construction Pollution**

The number of industrial zones has rapidly increased over the last decade. In 1995, there were just 12 industrial zones. In 2008, the number of industrial zones reached 223 (MPI 2009).

Old industries, which were built before 1975, pose particular problems, as they have old production technologies. Most of the old industries do not have equipment for treating emissions and effluents. While many newly built factories have waste treatment systems, many of the systems are not operating, or are in operation only when environmental officers come to the factories for inspection. Consequently, a large amount of untreated industrial waste is discharged into the environment every day.

In a market economy pollution management requires active Government intervention, both to ensure that potential negative external costs of industrial activities are taken into account when licensing investments, and to monitor and sanction activities to ensure that firms conform to environmental regulations. However, as discussed in the previous chapter, the law enforcement in Viet Nam is rather weak. As a result, Government intervention to correct these market failures in addressing pollution problems is often found to be ineffective.

An example of poor urban planning and enforcement is that in old living quarters in downtown areas plans have been approved for investors to build skyscrapers for residences, shopping malls and offices. This has placed a serious burden on infrastructure, as the infrastructure cannot accommodate such a sudden increase in the number of inhabitants and associated activities. As a result, traffic jams have become more serious. Schools and hospitals have suffered from overcapacity problems. Overloaded sewage drainages and lack of parking spaces also become more serious.

Another example is that for many new residential areas, it is in principle required that sufficient space is to be allocated for public facilities such as parks, schools and playgrounds. However, as it is more profitable to use this space for building houses, some investors have performed rent seeking behaviour to overcome the requirement. As a result, the problem of infrastructure overcapacity has occurred (Nguyen Trang An 2009). To address this problem, in December 2009, the Government issued a directive on ceasing the construction of high rise building in downtown areas. Although there has been debate on whether the decision was appropriate or not, this is a positive sign that the Government is now aware of the urban management issues (Phuc Vinh 2010).

## References

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