

Vietnam 2010:

Entering the 21st Century

OVERVIEW

Vietnam Development Report 2001

Joint Report of World Bank, Asian Development Bank and UNDP

Consultative Group Meeting for Vietnam,

PREFACE

The Vietnam Development Report 2001 entitled “**Vietnam 2010: Entering the 21st Century**” is a three-volume set consisting of an Overview and two parts. Part I of the Report entitled “**Pillars of Development**” provides a commentary on the emerging draft Ten Year Socio-Economic Development Strategy for 2001-2010. This important document lays out the vision and the strategic directions for Vietnam during the first decade of this new millennium. It is currently in draft form and is undergoing an extensive process of consultation within the Government (at national and local levels) and the society at large. The draft will be presented to donors and discussed at the “Millennial Consultative Group Meeting” in December 2000. Part I of this Report aims to guide these discussions. It has been written by the World Bank in partnership with ADB and the UN System.

Part I of the Report comments on the comprehensive development agenda laid out for the next decade. It starts with a framework for rapid growth and poverty reduction and then examines the strategies required for: (i) enterprise development; (ii) rural development; (iii) human and social development; (iv) infrastructure development; (v) environmental quality; and (vi) good governance. Since the Government is formulating a long-term development agenda, it will need to take a comprehensive approach to development and tackle all these “pillars” of development. Without progress on all fronts, Vietnam will not be able to achieve the economic and social transformation that it desires. A balanced attack across all fronts does not, however, imply that everything needs to be done at once. What is needed to prioritize actions is an identification of the bottlenecks—the hard to solve problems that are impediments to success—and to begin by attacking these first. What is also needed is that the energies of all of Vietnam’s development partners are harnessed so that they are all working together in partnership to make all of Vietnam’s resources—including aid resources—more effective.

Part II of the Report entitled “**Partnerships for Development**” addresses this theme of stronger partnerships to help the Government of Vietnam to attain its vision and implement its strategy. It brings together a series of thematic notes on Vietnam’s development strategy, prepared by the development partnership groups in Vietnam. These notes seek to describe and distil Vietnam’s goals and the steps needed to get there. They also describe how the donor community can help Vietnam in attaining its vision. The work of the development partnerships, and the production of these notes, are indicative of an important new direction in international development cooperation, both in Vietnam and in many other countries. Around the world, there is a recognition that the old ways of working have not produced the results that had been expected. The current time in Vietnam offers international partners the opportunity to actively listen to the Government’s articulation of its long-term development goals and to work together to identify and address the constraints and roadblocks that would prevent the goals being reached.

Acknowledgements

The Vietnam Development Report 2001 on “**Vietnam 2010: Entering the 21st Century**” is the product of partnerships in Vietnam. Part I of the Report entitled “**Pillars of Development**” has been produced by the World Bank, with the Asian Development Bank and United Nations Development Programme. Part II of the Report entitled “**Partnerships for Development**” is based on contributions from the many joint Government-donor-NGO partnership groups that exist in Vietnam, all working together to improve the developmental impact of Vietnam’s resources.

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Vietnam 2010: Entering the 21st century

OVERVIEW

1. Vietnam's Socio-Economic Development Strategy for the first decade of the 21st Century is currently under preparation. The Strategy envisages a Vietnam that:

- has an economy with sustainable and rapid development;
- aspires to be a just and stable society with a high quality of life for all of its people;
- maintains the best of Vietnamese culture and traditions;
- aims to become a socialist market economy, fully integrated into the global economy, and competitive internationally; and
- intends to have the characteristics of an industrialized and knowledge-based society within twenty years.

2. This vision is articulated using specific targets. Among the quality of life targets for 2010 are the following:

- Eradication of hunger and hard-core poverty;
- Universalization of lower secondary education for all;
- Malnutrition rate of children to be reduced from a third to 15-20%;
- Life expectancy to increase from 68 to 70-71 years;
- Access to clean water in urban areas to rise from 65% to 90%;
- Forest coverage to rise from 28% to 43%.

These are to be attained through rapid growth and a change in the structure of the economy to a more modern, industrial and urban one that can create better-paying jobs:

- A doubling of GDP by 2010 to be attained through economic growth of over 7% per annum;
- Investment to be increased to 30% of GDP;
- Exports to grow at more than twice the rate of GDP;
- The share of agriculture in GDP to decline from 25% to 16-17%; industry to increase from 35% to 40-41%; and services to increase from 40% to 42-43%;
- The share of rural employment to decline from about two-thirds to half; and
- The share of urban population to increase from a quarter to a third.

3. These are ambitious goals, but appropriate. While the progress achieved over the past decade has been impressive by almost any standards, Vietnam remains a very poor country

whose huge development potential is as yet largely untapped. While the share of the population in poverty has been cut in half over the past decade, some 30 million people, or around 37 percent of the population are estimated to live in poverty.¹ Currently, around 25 million people accounting for 60 percent of the labor force are unemployed or underemployed. And each year in the coming decade, over one million people will be added to the workforce.

4. This Report explores the steps required to reach Vietnam's development goals over the coming decade. It begins (Chapter 1) with an analysis of the economic framework for equitable growth and poverty reduction for the coming ten year period. It finds that the proposed growth rates, and their linkage to savings and investment rates and to the external accounts are internally coherent, and consistent with what has been achieved in other East Asian countries at similar periods of development. But drawing upon the experience of other countries, it is clear that achieving the goals will require serious policy and institutional change across a broad array of activities.

5. Vietnam's strategy calls for not only a high "*quantity*" of growth, but also a high "*quality*". Experience around the world shows that while growth is essential to reduce poverty, similar growth rates can have very different impacts on poverty reduction. Vietnam's goal is to share the fruits of growth broadly across all segments of the population, and also to avoid the inequities, social exclusion, and environmental degradation that has often accompanied other countries' rapid economic growth. This is a difficult challenges, calling for a comprehensive approach to policy and institutional change. With this in mind, this report is organized around six development "pillars" that will need to be built – and have been identified by the Government – if the goals are to be reached. In the coming decade strong actions will be required by Government, and strong support from Vietnam's development partners, in:

- Creating a Supportive Climate for Enterprise (chapter 2)
- Transforming the Rural Economy (chapter 3)
- Enhancing Human Capacity (chapter 4)
- Providing Efficient Infrastructure Services (chapter 5)
- Improving Environmental Quality (chapter 6)
- Building Modern Governance (chapter 7).

6. In each of these areas, the Report draws upon the experience of other countries to recommend the steps that will be required to reach the targets set out in the strategy. Without progress on all fronts, Vietnam will not be able to achieve the economic and social transformation that it desires. A balanced attack across all fronts does not, however, imply that everything needs to be done at once. What is needed to prioritize actions is an identification of the bottlenecks—the hard to solve problems that are impediments to success—and to attack these first. Vietnam's development partners have an important role to play in helping to make all of Vietnam's resources—including ODA—more effective. This theme of stronger partnerships for Vietnam's development is the topic of Part II of this Report (entitled "Partnerships for Development").

¹ This poverty incidence is measured according to internationally defined measures of poverty, as described in "Vietnam: Attacking Poverty" (1999).

7. Cutting across these development pillars are a number of large -- and difficult -- decisions that Vietnam is struggling with, and which will fundamentally affect Vietnam's development path in the coming decade. Some the most important such decisions are highlighted in Boxes in the Overview:

1. How to benefit from globalization... while managing the costs?
2. An equal opportunity for the private sector... or state dominance of key sectors?
3. What path to a knowledge-based economy?
4. "Growth poles" ...or balanced growth?
5. What role for the State in a "market-oriented socialist economy"?
6. How to allocate scarce public expenditures?

I. THE ECONOMIC FRAMEWORK FOR GROWTH AND POVERTY REDUCTION

8. On the face of it Vietnam's growth targets for the 2001-2010 period appear well within reach. Over the past decade, Vietnam has scored better on most of the aggregate indicators than are targeted in the coming decade (see Table 1). In reality, however, it is likely that continuing the growth rates of the 1990s will be more difficult, for two reasons:

- First, the dramatic supply response following the sequential liberalization of agriculture, small scale services, and foreign investment is no longer available. It needs to be supplemented by an equal liberalization in the manufacturing sector, where the supply response cannot be taken for granted, but will need to be earned through a consistent incentive framework.
- Second, the kinds of policy changes required to promote a new round of growth – discussed in the next section – are technically, politically and socially more difficult than those of the first round of *doi moi*.

Table 1: Macroeconomic goals for 2001–2010 -- and a comparison with the 1990s

<i>Indicator</i>	<i>Target average annual growth rate – 2001-10</i>	<i>Actual average annual growth rate– 1990-00</i>
	%	%
GDP	7-8	7.6
Agriculture	4	4.2
Industry	10	11.2
Services	7	7.2
GDP per capita	5.8	6.0
Export earning growth	14	20.5
Manufactured exports	18.5	28.2
Labor Force	2.4	2.8

Note: All values real growth rates.

Source: Draft Strategy and World Bank Staff estimates.

9. The doubling of the size of Vietnam's economy envisaged over the coming decade, will need to be accompanied by a shift in the structure of the economy. The shift envisaged in the strategy – whereby agriculture continues to decline in importance, while industry becomes the key driver – is consistent with the pattern in other successful East Asian countries at similar stages of development (Figure 1). This shift – whereby workers gradually move out of agriculture into better paying jobs in manufacturing, and thus enabling those staying in agriculture to enjoy higher returns – is essential to further success in rapid poverty reduction. But it also raises important challenges, and introduces potential social and environmental stresses. Other countries that have paid inadequate attention to balanced growth have found that such phases have been accompanied by growing inequalities, and widening urban-rural gaps.

As in other countries, long-term development in Vietnam will entail structural shifts in the economy

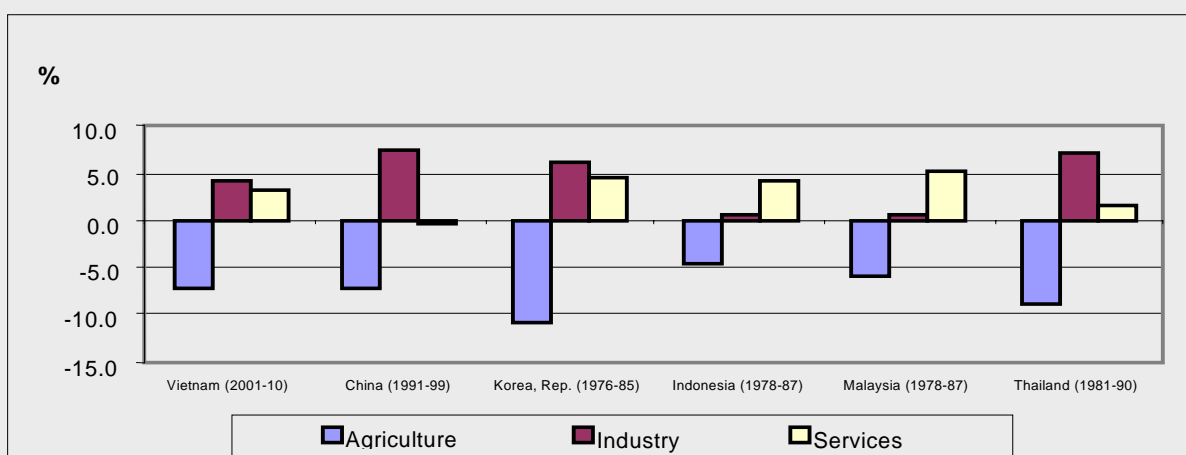


Figure 1: Sectoral GDP Change (percentage point)

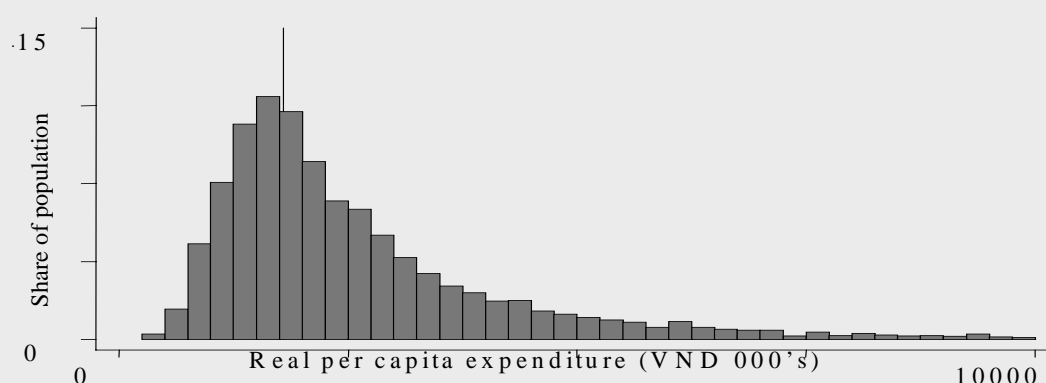
Source: Government of Vietnam and World Bank, SIMA database.

10. This issue is illustrated in Figure 2, which projects poverty reduction under two scenarios. In both scenarios overall economic growth is assumed to be 7 percent per year, but in the first the growth is assumed to be shared equitably across all areas and people. In the second scenario it is assumed that rural GDP rises at the same rate as the growth of agriculture (assumed to be 4 percent per year), while urban GDP grows at roughly the rate of the industrial sector (about 10 percent per year). Under the first scenario the number of people in poverty falls by almost 20 million over the decade, and median expenditures rise by 70 percent, while under the second, the number in poverty falls by only 12 million, (and most of those remain highly vulnerable to shocks that would push them back into poverty), and median expenditures rise only half as much--by only 34 percent. Should Vietnam be successful in achieving 7 percent growth, the actual outcome in terms of poverty reduction is likely to be between these two scenarios. Just where within this range will depend on policies chosen, and will fundamentally affect Vietnam's development trajectory, its social structure and its rural-urban drift for decades to come.

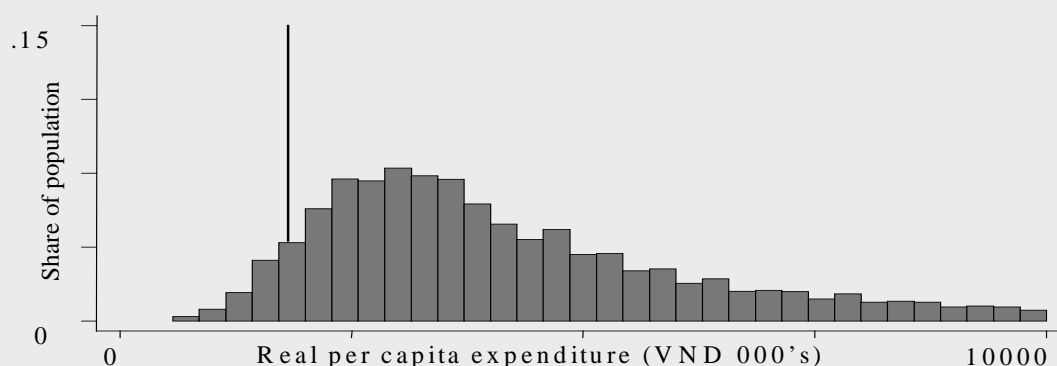
11. For all these reasons the comprehensive approach to development suggested in the Government's strategy document and explored in chapters 2 –7 of this report is so important. In this regard, also, the approach of this report picks up from last year's Vietnam Development

Report, “Attacking Poverty”, which laid out a three-fold imperative for poverty reduction. First, opportunity – access to jobs, credit, land, education etc -- must be provided. Second, measures to ensure equity – in access to services, jobs, and investments – must be implemented. Third, special actions to address vulnerability – to disease, job loss, and natural disaster – should be given priority. Last year’s report ended with a recommendation that these imperatives should be factored into all of the areas now addressed in this year’s report (Figure 3).

In 1998, 37% of the population was under the poverty line



If growth in the next decade is equitable, many will cross the poverty line



With uneven growth, more people remain under or near the poverty line

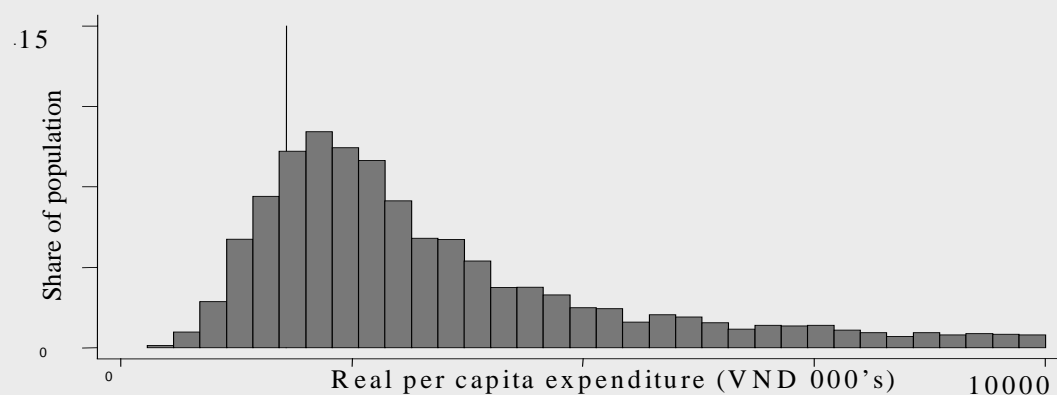


Figure 2: Histogram of per capita expenditures, 1998 and 2010

Figure 3: The Six Pillars of Comprehensive Development

Imperatives of Pro-poor Development		<u>Creating a Supportive Climate for Enterprise</u>	<u>Transforming the Rural Economy</u>	<u>Enhancing Human Capacity</u>	<u>Providing Efficient Infrastructure Services</u>	<u>Improving Environmental Quality</u>	<u>Building Modern Governance</u>
		<ul style="list-style-type: none"> - Trade Policy - Private Sector Development - SOE Reform - Banking Reform 	<ul style="list-style-type: none"> - Agricultural Intensification - Agricultural Diversification - Off-farm Employment - Remote & Upland Area Development 	<ul style="list-style-type: none"> - Education - Knowledge - Health - Population - Targeted Poverty Programs - Safety Nets 	<ul style="list-style-type: none"> - Transport - Energy - Water and Sanitation 	<ul style="list-style-type: none"> - Natural Resource Management (forestry, soil, water) - Industrial Pollution - Bio-diversity Preservation 	<ul style="list-style-type: none"> - Public Administration Reform - Transparency & Accountability - Legal Systems - Participation - Anti-corruption
	Creating Opportunity						
	Ensuring Equity						
	Reducing Vulnerability						

II. CREATING A SUPPORTIVE CLIMATE FOR ENTERPRISE (CHAPTER 2)

12. Vietnam's strategy recognizes that in order to achieve the goals for the coming decade, the rate of investment will need to be raised (from the present 23% to 30%), and the productivity of investment will need to be raised. This raises three difficult challenges:

- How to generate a climate in which investors are willing to take risks and invest;
- How to raise domestic and foreign savings so that the investment can be financed;
- How to tap into knowledge and technology, so that productivity of investment can be increased.

13. Fortunately, there is a set of measures-- integration into the world economy, empowering the private sector, and reforming banking and state-enterprise systems -- that will help address these challenges simultaneously. The Government has decided in principle to move resolutely to adopt these measures in the coming years. What will be necessary to create a strong response from investors and savers will be early indications of credible and effective implementation.

14. **Integration Into the World Economy.** Over the past decade, Vietnam has significantly opened up to international trade and investment. Exports are equivalent to 44% of GDP (compared to an average of 27% for developing countries) and the share of the non-state sector in exporting has risen from near zero at the beginning of the decade to 65% today. Nonetheless, Vietnam's trade regime today remains distorted, with effective rates of protection of over 100% in many industries. While this has encouraged investment in these highly protected industries, it has enabled these industries to stay uncompetitive, and has led to high prices for Vietnamese consumers and businesses. Businesses have to pay higher prices for steel, cement and telecommunications, thus placing them at a serious competitive disadvantage; farmers have to pay 40% more for fertilizers than farmers in other countries (while also being penalized by rice export quotas); and consumers have to pay twice as much for goods such as electric fans and motorcycles than citizens in surrounding countries.

15. Like a growing number of countries, Vietnam recognizes that the process of globalization presents both an opportunity and a challenge (see Box 1). Vietnam's decision to honor its commitments under AFTA and to sign the Bilateral Trade Agreement with the US, will have great gains for Vietnam in terms of exports, investment opportunities, acquisition of technology, and poverty reduction. Indeed, it would be wise to accelerate the implementation of commitments made under AFTA. By agreeing on a specific time-bound program of integration over the coming years, Vietnam is acting smartly. It gives potential investors a clear timeline, and thus facilitating investment preparation; and it gives those industries which may be adversely affected clear notice that they must adapt or downsize. It is vital that actions follow the announced timeline, as slippages will threaten the credibility of the entire transition. The time must be used wisely in the interim to put in place a clear and supportive social safety net for any workers who may need to shift industries, and also to build flexibility in the SOE sector. There is a serious risk, however, of investing heavily in SOEs in the near term in an effort to make them competitive when protection is reduced.

16. In our view, Vietnam's target export growth of 15% per year on average in the 2001-2010 period is attainable if it follows through on its trade policy decisions, and implements the additional measures below.

Box 1**KEY DECISIONS****How to Benefit from Globalization while Managing the Costs?**

The Gains of Globalization. Even while the global population has grown from 1.8 billion to 6 billion over the past century, average income levels have risen six-fold. Average global per capita income today exceeds that of the richest country at the turn of the century. And today's average life expectancy exceeds that of the lead country 100 years ago. "Globalization" -- the worldwide circulation of goods, capital, information, technology and people -- has played a central catalytic role in promoting this increased prosperity. But as the pace of integration has accelerated over the past two decades due to technological innovation and a worldwide movement to embrace freer markets, concerns have grown that the costs of globalization -- in terms of redundancy, loss of sovereignty, and cultural homogenization -- also need to be thoughtfully managed.

Vietnam's Integration program. It is therefore understandable that Vietnam is entering the global economy with both hopes and fears. The Government has laid out its plans to move forward with each of the three central elements of an integration strategy -- freedom of trade, freedom of foreign investment, and opening to global knowledge through information and communications technology (ICT). Failure to move on all three fronts will significantly reduce the benefits to Vietnam and could even add further distortions. Thus, for example, over the past five years the failure to reduce protection while opening to foreign investment has led to a misallocation of FDI, as more than 50% of inflows went to industries with more than 90% effective protection rates. Announced time-bound programs of integration in all three areas provide opportunities to address the social costs of adjustment and can help reduce resource misallocation due to distortions.

Information and Communications Technology. It is in ICT that Vietnam lags furthest behind, and this will prove costly unless addressed quickly. Access to Internet remains highly constrained with only 1 person in 800 enjoying access. Quick progress is possible, as illustrated by China where over the past two years the number of users has risen from 2 million to 20 million. Vietnam's plans to bring Internet access to every secondary school by the end of the upcoming decade is laudable, but probably much too slow. International telephone charges -- among the highest in the world -- must also be brought down sharply if Vietnam is to compete.

Addressing the Costs of Integration. A three-pronged strategy to deal with the costs of integration has been found useful in other countries facing similar challenges. First, phase in changes in a pre-announced manner, thus allowing space for preparation and adjustment. This is Vietnam's current policy. Second, ensure an environment of economic growth and opportunity, thus allowing alternative employment, for those workers needing to change jobs (as Vietnam did very successfully when it downsized its SOEs in the early 1990s). Third, take measures to address specific costs. Vietnam's Social Fund for financing redundancies is an example. Measures to address potential cultural dilution should be promoted -- such as investment in Vietnamese language web sites and the like. Donors should be willing to help finance such measures as part of their support for the *doi moi* program.

17. **Encouraging the Private Sector.** If investment rates are to rise as needed, we estimate that domestic private investment will need to rise from the current low level of around 7% of GDP to 12-15% of GDP for the 2001-2010 period. To date in Vietnam the climate for the private sector has been grudging rather than supportive. Here Vietnam differs markedly from China, where the private sector has been recognized as a key partner in development and poverty reduction. During the 1990s the number of private firms in China increased more than ten-fold (from 100,000 to well over 1 million), while private output and employment grew at average

annual rates of 70% and 40% respectively. There are indications that the climate in Vietnam is also improving. The Enterprise Law, which has substantially simplified business start-up has led to the registration of more than 10,000 additional domestic firms in the first nine months of this year. However, domestic firms still number less than 30,000 and produce well under 10% of GDP. A major recent analysis of the private sector in China finds that changing attitudes -- of officials and bankers -- towards private enterprise, are often even more important than improvements in the legal and regulatory framework.

18. The draft Strategy promises a level playing field for the private sector. This will require three sets of actions:

- A shift in the social and administrative culture from one of reluctance and control towards one of active support and encouragement;
- An introduction of a transparent and predictable regulatory framework, where discretionary actions on the part of officials are minimised;
- Development of a financial system that allocates funds based on risk and expected return, and a clearer legal framework for land use rights and collateral arrangements.

19. **Mobilizing Foreign Direct Investment.** The Government rightly envisages foreign investment playing an important role in bringing investment and technology into Vietnam. During the past decade Vietnam benefited disproportionately from direct investment inflows which were on average equivalent to 5.5% of GDP (compared to an average of 0.9% for all developing countries and 1.1% for China). The Government projects a similar level of inflows for the current decade. This is possible, but not under the present environment. The large inflows of the mid-1990s must not be understood as normal. Vietnam's attractiveness has sunk in recent years as other countries have become more attractive, and the high cost of doing business in Vietnam -- in the form of delays in approvals, perceived capricious shifts in the regulatory environment, corruption, weak access to the Internet, very high telecommunications charges etc -- have become evident. These perceptions can be reversed with strong action, but even so, Vietnam should realistically be aiming at inflows of \$1 billion per year in the near term rather than the \$2 billion envisaged.

20. **Reforming Banks and State-Owned Enterprises.** Vietnam's economic goals remain seriously threatened by a large number of loss-making SOEs, whose inefficiencies are enabled by a banking system that is in turn weakened by them. SOEs still absorb around half of all bank credit, while contributing no significant employment growth. By enjoying preferential access to the state banks they have delayed the introduction of modern banking methods and contributed to a large overhang of non-performing loans (estimated at \$2-4 billion).

21. The Government's announcement to move forward with banking and SOE reform offers hope that this major impediment to development can be addressed. The Government's plan to equitize, divest or close one-third of the 5300 SOEs in the coming three years is an important step, which if implemented firmly can make a very positive contribution. But even more important will be the policies adopted for the remaining SOEs. The parallel recent decision to reform the state banking system -- by separating commercial from "policy" lending, systematically addressing the problem of non-performing loans, and creating incentives for sound banking -- is a central element to the solution in that it will over time prohibit the roll-over

of bad loans. But serious banking reform will take at least five years, and will require a cultural and behavioral shift within the banking profession, as well as strong leadership from the top. In the meantime, it is vital that the SOEs be subjected to greater discipline and transparency. The Government's decision to expose some of the major SOEs to international-standard audits will help. Publishing audited accounts so that policymakers and citizens can know how public assets are being managed will help more.

22. At root there remains an internal contradiction in the draft Strategy with regard to the role of the SOE sector (see Box on Key Decision 2) that will need to be addressed if Vietnam's goals are to be reached. Associated with this is a risk that heavy investment will be channeled to the SOEs in the near term in an effort to prepare them for the competitive environment they will need to face in later years. Such investment needs to be undertaken with great care. Experience in numerous countries suggests that usually rather than preparing domestic enterprises for competition, such actions serve to build up opposition to such competition.

Box 2 KEY DECISIONS

An Equal Opportunity for the Private Sector ... or State Dominance of Key Sectors?

As Vietnam seeks to attract high quality long term investment, it will need to provide greater clarity and consistency of the regulatory and incentive structure than in the past. The draft Ten-year Strategy document seems to provide mixed messages on this point. On the one hand it provides a strong statement that:

"All enterprises, regardless of their ownership structure will be encouraged to enjoy an environment of long-term development, cooperation and equal competition".(p20)

But it also lays out a goal of SOE dominance in many key industries:

"SOEs shall be the leading actors in developing production of important materials and in high-tech industries. [SOEs will be strengthened] to take control of economic groups in petroleum, electricity, coal, airlines, railways, marine transport, telecommunications, mechanics, construction materials.. fertilizers, banking, insurance and auditing."(p 20)

There are two ways in which such statements might be interpreted so as to be consistent with each other:

- First, some sectors could be excluded from "equal competition" and be reserved essentially for SOE dominance. If so, these sectors should be specified clearly as such, so as not to unrealistically raise expectations, and poison Vietnam's reputation as an attractive country for investment. The dangers of this approach are that these industries, by not having to compete, may remain at below international levels of efficiency, and thus prices would remain high and competitiveness diminished. This approach would likely also be inconsistent with WTO accession.

- Second, the strategy may be to restructure and strengthen certain SOEs in key sectors now so that they will be able to compete openly on an equal footing with private investors when these industries are fully opened later in the decade. The dangers here are that large sums of investment funds would be allocated early in the decade in an effort to make these SOEs efficient, thus preventing funds being spent elsewhere. There is also a likelihood that, even with restructuring, many SOEs would still be uncompetitive within an unprotected market.

Some countries have managed to sustain a small number of competitive SOEs in key sectors, but these are the rarity in today's world. The secret to their success is that they are subjected to tough standards of transparency (including publishing audited accounts), independence of management from political interference, and the freedom to be flexible in today's highly competitive marketplace.

III. TRANSFORMING THE RURAL ECONOMY (CHAPTER 3)

23. The coming decade will need to see dramatic changes in rural areas if Vietnam is to achieve its development goals. Raising living standards in rural areas – the home of 75% of the population and 90% of the poor – is perhaps the most difficult challenge facing Vietnam in the coming decade. Already, farm sizes, on average only 0.8 hectare, provide only part time work for most farm families, and the lack of growth of off-farm opportunities has been a major disappointment of the last decade. Like all low income agricultural countries, Vietnam needs to adopt a seemingly paradoxical stance of giving a high priority to raising agricultural productivity while recognizing that success can come only as agriculture declines as an employer of labor. In transforming the rural sector so that it helps rather than hinders the attainment of the development vision, Vietnam faces four rural imperatives:

24. **Intensifying Agricultural Production.** The successful growth of agricultural production (4.9% average annual growth) during the 1990s was largely due to increased labor and capital inputs, which combined accounted for 87% of the growth. Land expansion accounted for 9% of the gains, and technology improvement only 4%. Vietnam's rice yields are still well below China's, offering scope for further gains, but the coming decade will need to see different drivers of growth, with a greater role for technology change and new varieties. This will require more attention to research and dissemination. Vietnam spends only 1.7% of its public agricultural budget on research in comparison with 6% in China and 10% in Malaysia and Thailand. Vietnam has good opportunity to switch public agricultural allocations from production SOEs towards research and extension. Related, it will be necessary to open up supply industries, especially seeds, to full private involvement, if yields are to be increased.

25. **Diversifying Agriculture.** Rice, which accounts for over 60% of agricultural land, will need to decline in relative importance if the goal to double the average agricultural product to \$2000 per hectare is to be reached. Despite an official policy which supports diversification there remain local pressures to produce rice. Huge opportunities exist for higher value added crops if a more supportive climate can be provided. A possible problem with the approach established in the strategy, which sets out production targets for a whole range of products, is that farmers may be encouraged to invest in growing particular crops either through incentives such as additional land or subsidized credit or through lack of alternatives and restrictions on land use. A key question will be: how to encourage diversification without introducing new distortions? An alternative to the more directive approach followed in the recent past would be one which:

- gives farmers as much information (technical and market) as possible in a comprehensible form;
- allows farmers access to credit at positive real interest rates;
- creates a supportive physical infrastructure;
- promotes the growth of agro-industry, particularly the private sector and facilitates access to international markets; and
- allows farmers to make up their own minds about the most appropriate investment for their farms.

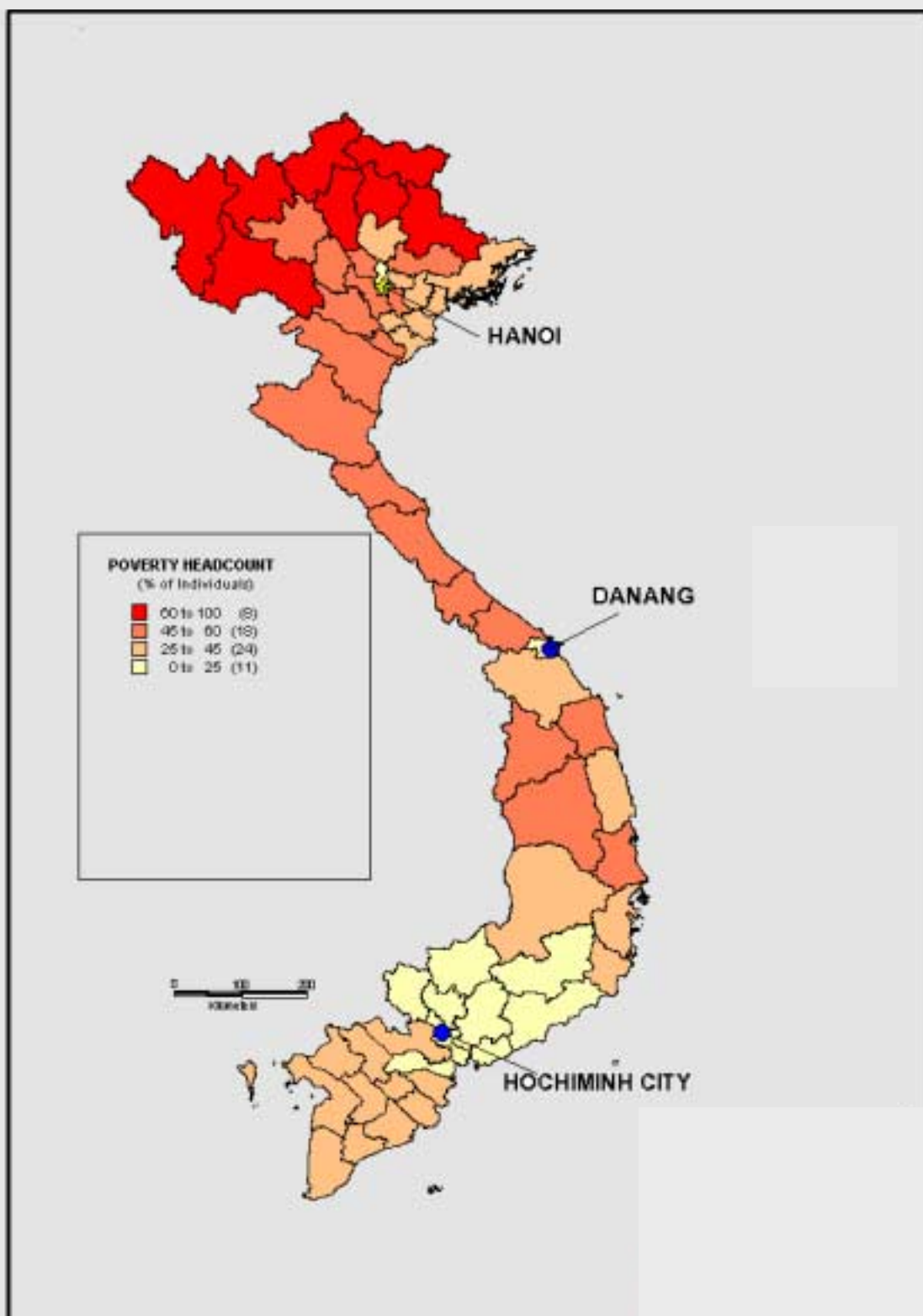
26. **Promoting Off-farm Employment.** In every country that has successfully modernized labor has been drawn out of agriculture into higher value adding industry. Such a transition will be important in Vietnam not only to enable the industrial growth required to drive growth, but also to increase productivity and to enable agricultural wages to rise. If farmers are to enjoy the same real income gains as the population as a whole, the number of workers in agriculture will need to fall significantly over the decade. In order to cater for these workers plus the bulk of the expected increased rural workforce (thus preventing an explosive urbanization) the rural industrial picture in Vietnam will need to change dramatically.

27. Unlike China, Vietnam has little experience of rural industrialization. Promoting the private SMEs that must drive this process requires the same policies as to promote private investment in any areas (see above), but in addition will require increased investment in rural infrastructure, and in rural-urban transport. Provincial and district authorities will be key in ensuring that the reforms undertaken at the national level translate into an enabling environment for enterprise development in rural areas. Information and resources often take time to filter down to the local level and this could mean that reforms for enterprise development happen more quickly in some areas than in others.

28. **Targeting Remote and Upland Areas.** Special attention will be needed for the poorest areas. Rural poverty is widespread but is much more severe in some regions than in others and this is very clearly illustrated on the Vietnam Poverty Map (overleaf). In particular, high rates of poverty persist in upland, ethnic minority areas. In 12 out of 13 of the poorest provinces - those with more than 60% of the population below the poverty line - ethnic minorities represent at least half of the population. This compares with an ethnic minority share in the overall population of 15%. Although ethnic minorities have enjoyed rising expenditures and improved socioeconomic indicators, improvements in their living standards lag well behind those for the majority population.

29. Ethnic minority areas have benefited from targeted programs, but their effectiveness has clearly not been sufficient to address their persistent poverty. The current focus on "sedentarizing" ethnic minority groups could usefully be replaced by much more intensive research into agricultural options for upland farming systems. This would need to be reinforced by extension services, which are responsive to traditional knowledge and farmers' needs and which can disseminate information to non-Vietnamese speakers, and land titling measures that are more in line with ethnic community traditions, practices and systems of land use.

VIETNAM POVERTY MAP



Note: Provisional results from Baulch and Minot (forthcoming).

IV. ENHANCING HUMAN CAPACITY (CHAPTER 4)

30. Almost all indicators of human well-being have improved markedly throughout the 1990s, and Vietnam has generally outperformed countries at similar income levels. For example, its net primary school enrollment rate (92 percent) and its adult literacy rate (94 percent) are amongst the highest in the developing world. Similarly its infant mortality rate (37 per 1,000) and its life expectancy (67 years) are significantly above international norms. As over the coming decade Vietnam seeks to build on this progress it will need to address some significant challenges.

31. **Improving the Quality of Social Services.** The emphasis in the past has been on *quantitative* achievements: getting kids into schools, establishing an extensive health care delivery network, and target-driven reductions in population growth. The emphasis now needs to shift to improve the *quality* of these services and to facilitate people to make well-informed choices. In education, quality at all levels needs improvement. The basic education curriculum needs to be modernized by moving away from a system that emphasises the recall of memorized facts, to a modern, dynamic and flexible knowledge system that encourages creative thinking and is able to make Vietnam the knowledge-based economy that it aspires to be (Box 3). There is also an acute need to raise the quality of health care services, particularly at the commune and district levels. Technical quality of services can be improved through in-service training, supervision, and quality assurance mechanisms. Public health services need to become more client-friendly and adopt a culture of service. In the field of reproductive health, the Government is moving towards better preventive measures, such as counseling and information, education and communication practices, a wider choice of contraceptive methods and the improvement of staff. Improving the quality of education and healthcare will require measures to improve the training and compensation of the service providers.

32. **Ensuring Equitable Access for all Groups.** Despite widespread expansion in the provision of basic social services, gaps exist in the access to these services by groups differentiated by income levels, geographical location, gender and ethnicity. Social indicators are worse for the poor and for those living in upland areas. Ethnic minorities are particularly disadvantaged and vulnerable (Table 2), and gender gaps are widening in some areas. During the transition to a market-economy, some public services that had earlier been provided at local levels—such as public creches—are no longer provided, and the burden on women has increased. The adult malnutrition rate, which was the same for females and males five years ago, is now higher for females (30 percent) than for males (25 percent) – although both remain much too high.

33. During the coming decade, the Government has announced that it will give extra effort to close the gaps between the more disadvantaged groups and the others. In education, specific programs need to be developed to respond to the needs of ethnic minorities, for example through bilingual education, and to lessen the gaps in the quality of education for different regions, income, and gender groups. School feeding programs might be necessary to create incentives for poor children living in upland and remote areas to attend school. Participation of local communities, parents and children in education management and planning is critical to sustained improvements in the sector.

Box 3**KEY DECISIONS****What Path to a Knowledge-Based Economy?**

The 10 year Strategy lays out a vision of Vietnam “step by step moving towards a knowledge-based economy”. It recognizes that in order to do so, it must develop its domestic science and technology, strengthen education and training, and develop high quality human resources to serve the requirements of industrialization and modernization. It aims to harness global knowledge and apply it to the development of all people and all sectors. Yet, at the same time, and somewhat contradictorily, it aims to “focus on some selected important heavy industrial sectors with high technology”. A stated objective is to build up four sectors: information technology, biological technology, new material technology and automation technology. Another stated aim is to build two hi-tech centers in Hanoi and Ho Chi Minh City.

A knowledge based economy is not necessarily the same thing as a high-tech economy. It is about the application of global knowledge to all economic activity, rather than about the development of certain high-tech industries, such as electronic hardware or software. The future prosperity of Vietnam, as of many developing countries, will require a new configuration of skills, abilities, and competencies. This will be caused by the widespread availability and use of information and communication technologies, the speed of scientific and technological advances, and accelerating global competition. Vietnam’s successful integration into the global economy and its sustained success in international competition will depend increasingly on effective combinations of science, technology, and innovation.

There is no single pattern or roadmap for technology acquisition, technology learning and industrialization. The rapid, export-led economic successes of Taiwan and Singapore was based on quite different approaches. The role of Government intervention was vastly different between Hong Kong and South Korea. For all four of these countries, however, there seem to be a number of common characteristics associated with their success which may serve as general guides to a Vietnamese science and technology strategy. These characteristics include the following:

- Their industrialization was based primarily on export-led strategies;
- The key decisions related to technological learning were made by the managers of enterprises;
- It took 20 to 30 years to build all the technological capabilities needed to successfully exploit the innovations derived from domestic in-house research and development. Many technical and engineering skills had to be accumulated in the process. It is possible that this time could be shortened to 10 to 15 years;
- Governments developed an appropriate educational and technological infrastructure, including the provision for widespread literacy, vocational education, development of a cadre of engineers and the training and support of research scientists.

Source: MPI/UNDP/UNIDO (2000).

34. Special attention to the poor is also needed in health care, where formal arrangements fail to protect the poor. The health insurance scheme only partially covers lower income groups, the exemptions system does not work properly, and out-of-pocket payments for the poor remain very large relative to their incomes. The Government’s targeted program of assistance—the Hunger Eradication and Poverty Reduction (HEPR) Program—could play an important role in identifying the poor and providing targeted assistance to meet their needs, if a number of weaknesses are properly addressed. Finally, it is important to improve the effectiveness and efficiency of social

safety nets and disaster management mechanisms in order to better protect vulnerable groups against the negative impact of individual and community risks.

Ethnic minorities have less access to schooling

Table 2: School Enrollment Rates by Ethnicity, 1998

Education Level	Kinh Majority	Ethnic Minorities
Primary	93.3	82.2
Lower Secondary	66.2	36.5
Upper Secondary	31.9	8.1
Post Secondary	10.5	1.4

Source: Attacking Poverty (1999).

35. **Improving the Level and Allocation of Public Expenditures.** Public expenditure levels in basic social services in Vietnam are currently low when compared with other developing countries. Public spending on health has grown rapidly over the past five years, reaching seven percent of the budget in 1998 (about 1.4 percent of GDP), but this remains low by international standards. As a result, households finance 80 percent of total healthcare spending in Vietnam. There may be scope for reallocating public expenditures in health away from curative care—which currently absorbs 70 percent of the health budget—towards preventive care which receives just 15 percent of the budget, but the priority should be to increase the level and efficiency of spending overall.

36. In education, there is also a need to raise public spending and to improve its allocation across regions and provinces. Total education and training expenditure has grown significantly over the past five years, reaching 17 percent of total public spending (about 3.5 percent of GDP). But nearly half of total spending on primary education is financed by households, which implies an undue burden on the poor. There is little scope for the reallocation of public spending across primary, secondary and tertiary services without damaging service delivery. But there is a need to reduce existing regional variations in expenditures and quality of education by reviewing the system of budget transfer norms for allocating education funds to the provinces.

V. PROVIDING EFFICIENT INFRASTRUCTURE SERVICES (CHAPTER 5)

37. Dramatic improvements in infrastructure services during the 1990s have contributed to Vietnam's growth, export performance and poverty reduction. Road freight more than doubled during the 1990s, power production tripled, and access to electricity rose from 47% to 75% of the population. But even so, Vietnam remains seriously under invested in infrastructure in comparison with other low income countries, and without continued strong investment there remains a risk that bottlenecks could choke off growth. Vietnam is also committed to bringing infrastructure to remote and disadvantaged areas, which will incur high costs while bringing high social gains. If the Government is to attain its vision for the infrastructure sector in the coming decade, a four-fold strategy is required.

38. **Prioritize Investments Carefully.** The Government's program for the coming decade rightly envisages some closing of the "infrastructure gap" between Vietnam and its neighbors. This will involve very large investments across the full range of transport, energy, water, sanitation and telecommunications sectors. In energy alone, for example, the plan requires investments of 4-5% of GDP, about twice what its East Asian neighbors spend. Plans for energy and transport combined will require investment of almost 7% of GDP, a level equivalent to the entire public investment program in the past decade. Thus, while many investments will have good returns it is vital that care be given to establishing professional systems for careful cost-benefit analysis (in which economic, social and environmental costs are all taken into account), and that less attractive investments be weeded out early.

39. **Invest in Access for Disadvantaged Areas and Groups.** In addition to being fundamental in promoting national economic growth, infrastructure is a vital ingredient in reducing poverty and promoting balanced growth. Vietnam has an impressive policy for bringing services to all areas of the country, but even so, over the past five years more than half of public expenditures went to the Red River delta and the Southeast, while these areas account for one-third of the population and less than one-fifth of the poor. The choice between investing in "growth poles" and underserved areas is one of the difficult issues being faced by the Government, as in other countries (Box 4).

40. **Diversify the Pattern of Finance.** The pattern of financing, whereby Government resources and ODA financed a large share of infrastructure growth in the 1990s will not suffice in the coming decade. The needs are much too great, and ODA donors are less willing to finance investments when private investment appears available. Two additional sources – private capital and retained earnings – will need to finance more than half of new investments if targets are to be reached. Private investors have demonstrated themselves willing to finance investments in power, telecommunications, public transport, water supply, and even sanitation, but so far virtually no deal has been concluded. Immediate steps can be taken to unlock private investments waiting in the wings. This could be followed by a clear prioritization of projects for private investment, with competitive bidding becoming the norm. Self-financing by utilities also offers great promise filling financing gaps. This will require rational pricing mechanisms, and more disciplined and transparent financial management. The Government should set targets for utilities in power, water, transportation to become commercially creditworthy in the coming few years, together with the key municipalities.

41. **Improve the Management and Sustainability of Investments.** The Government has recognized the considerable scope for efficiency gains from reducing waste and improving performance. In the water sector, decayed distribution networks allow pollutants to seep into the water supply and 30 percent of piped water is lost before it ever reaches customers. Water businesses lose almost 40 percent of their revenues because customers are not billed for the water they use, or because companies fail to collect. Irrigation systems deliver water unreliably due to poor operation which causes users to incur pumping costs or suffer lower yields. Reforms are needed to increase competition between private and public providers of infrastructure services, and the financial and managerial autonomy of public providers needs to be increased to provide incentives for removing these inefficiencies.

Box 4.**KEY DECISIONS****“Growth Poles” ... or Balanced Growth?**

A Dilemma for all countries. Should public expenditures be allocated to where they are expected to have the highest impact on national economic growth? Or to areas which are relatively underserved? This is a difficult decision for any country, but especially so for Vietnam, where the remaining needs are large almost everywhere, and where the costs of bringing services to remote areas is high. Increasingly countries are realizing that while a “growth pole” strategy may be effective in projecting overall economic growth, this growth may not be very effective in reducing poverty.

Vietnam has been a leader in emphasizing access to services for all its citizens, but at the same time has sought to promote “growth poles” in the three most industrialized parts of the country—the Hanoi-Haiphong corridor in the North, Danang in the Center, and Ho Chi Minh City in the South. As a result, these are the areas with the lowest poverty levels in the country (as shown in the Vietnam Poverty Map). In allocating investment resources over the past five years Vietnam gave priority to the growth poles. Thus, the South East, which accounts for 13% of the population and 3% of the poor, received 28% of public investment. The Northern Mountains, on the other hand, which accounts for 18% of the population and 28% of the poor, received 8% of the investment. This pattern is not unusual across countries, but if access targets are to be reached for the coming decade, it will need to be adjusted.

The Imperative of Underserved Areas. Today 70% of the rural population still doesn’t have all-weather road access to markets, and nearly half of rural dwellers still lack electricity. Investments in such basic infrastructure have been found to have high social (and often economic) returns, and the Government’s ambitious plans for the coming decade to redress inequities in access to services are appropriate. The Government’s new “135 program” to allocate funds to the poorest 1715 communes (out of around 10,000 communes nationwide) for small infrastructure investments is particularly notable, and deserves strong donor support.

Meeting the Needs of Growth Poles. At the same time it must be recognized that the bulk of private investment will be undertaken in the limited confines of Vietnam’s three “growth poles”, and that these have large infrastructure needs if the country is to be competitive. Within the growth poles a three-fold strategy is required. First, prioritize investments carefully, based on rates of return. Second, since these investments will benefit the relatively better off citizens in Vietnam, introduce user charges and increasingly fund municipal investments through loans rather than grants. Ho Chi Minh City’s recent decision to introduce waste water charges, and to borrow for large sewerage investments is good practice. Third, seek private funding for infrastructure investments where possible.

VI. IMPROVING ENVIRONMENTAL QUALITY (CHAPTER 6)

42. The rapid pace of change in Vietnam is placing heavy stress on Vietnam's unique natural environment. The coming decade could see a further serious worsening of the environment – with irreversible consequences. Alternatively, with carefully designed policies, firmly implemented, economic growth could be used to enable an *improvement* rather than a destruction of the environment. The Government has recently issued a strong National Environmental Protection Strategy, that recognizes the urgency of the problem and sets out programs for action.

43. In the last 5 decades, natural forest cover has shrunk from 43% to 29% of land area, and the country is facing an acute shortage of arable land. Habitat loss has led to a rise in the number of threatened species. Cities are growing at the rate of 4.5% per year, more than triple the rural population growth rate, placing huge pressures on municipal infrastructure and services and causing problems such as unmanaged landfills, transport-related air pollution, untreated hospital and hazardous waste, and raw sewage flowing in open channels. Sedimentation, and point and non-point sources of pollution are threatening the health of rivers. And over-fishing and destruction of coral reefs and mangroves have reduced the fishing yield. Action is required across the range of “green” (loss of forest cover and forest biodiversity), “blue” (degradation of water resources, loss of wetland habitats and inadequate protection of marine and coastal areas), and “brown” (urban and industrial pollution) environmental areas. Four guiding principles are required:

44. **Creating Incentives for Changing Behavior.** Community empowerment, enforcement of laws and decrees, access to knowledge, and the provision of information and trade opportunities, act as incentives to induce behavioral changes necessary for environmental protection and sustainable resource use. Without such changes in behavior, the downward spiral in environmental trends in Vietnam cannot be reversed. The Government's Five Million Hectare Reforestation Program is a major management initiative to meet forest product needs in a sustainable manner, protect the environment and increase social and economic benefits. In the blue sector, the implementation of the new Law on Water Resources will help improve the management of the country's valuable water resources. In other areas, however, controlling unregulated activities and adopting protective legislation have proven difficult, because there is no clear enforcement responsibility for coastal and marine areas, wetlands and other freshwater bodies. Success in controlling and limiting industrial and urban pollution (the brown agenda) will depend on a credible enforcement and compliance mechanism that not only regulates pollution but also provides incentives to prevent pollution from occurring in the first place.

45. **Involving Communities and Citizens More Fully.** Experience around the world is clear that it is rarely governments that successfully lead on the front lines of environmental protection, but rather local communities, citizens groups and NGOs. The new Government strategy gives greater emphasis to “encouraging public participation”, which can build upon some important and successful ongoing pilot activities, and introduce a new and effective way of doing business. In the past, little attention has been paid to local incentives and capacity building for environmental management. The main reasons cited for this are: limited environmental awareness, few environmental NGOs, and highly centralized environmental planning and management. These constraints will need to be overcome to ensure greater public participation and involvement.

46. **Improving Institutional Effectiveness.** The new Environmental Strategy correctly accords much higher priority to institutional development than earlier plans. The Ministry of Science, Technology and Environment (MOSTE), the National Environment Agency (NEA) and other government agencies with responsibility for environment are working in a weak public administration context that is neither performance-based nor outcome-oriented. Their effectiveness is currently severely limited by small budget allocations, inadequate skills, a lack of mandates at the district level, and perhaps most importantly, a lack of influence with other Ministries and agencies in Vietnam. Existing technical assistance programs have made efforts to build capacity within MOSTE and NEA, but these will need further support to make them more effective in the future. Capacity will also need to be strengthened at local levels to support more decentralized and local efforts at improving the environment. In addition to capacity-building, it will be necessary to streamline and re-organize environmental and natural resources functions as part of its broader efforts to reform the public sector.

47. **Diversifying Sources of Financing for Environmental Programs.** Preliminary estimates indicate that to meet the targets of the Environment Strategy, the Government will need to spend several-fold more than what it currently spends on the environment. Given the competing needs on the budget, however, it is highly unlikely that the full needs can be met from the budget alone. The first need, therefore, is to prioritize the expenditures. Second, the Government should consider a mix of financing instruments to support the implementation of the Strategy, aside from traditional ODA. These would include: increased allocation from revenue budgets in sectoral ministries, widening the use of cost recovery measures, environmental user fees and pollution charges, using environmental funds, accessing GEF resources and also tapping into emerging instruments, such as carbon trading. Finally, increased effectiveness of development aid to the environment -- in line with Government investment priorities -- can be achieved through more effective coordination and partnership.

VII. BUILDING MODERN GOVERNANCE (CHAPTER 7)

48. The Ten-year Strategy recognizes that fundamental to Vietnam's transition will be the development of improved governance structures. Experience from many other countries suggests that delivering the strategic targets will involve an evolution in the role of the state (Box 5), and actions to build a modern governance structure.

49. **Strengthening the Public Service.** Vietnam has already started to reform its public administration into a service which can meet the demands of a more modern, market-oriented economy. But progress has been slow, and further actions are needed urgently. The Public Administration Review (PAR) completed by the Government proposes a number of reforms, beginning with the critical area of civil service reform. It recognizes that substantive and enduring change will require major changes in human resources and in organizational practice and policy. Vietnam not only needs a strong, well-organized public administration system, but also an adequately remunerated service with a personnel policy and grading system capable of effectively implementing these changes. Equally important is that the public service be compact and coherent, with a clear mission, defined goals, and is performance-oriented and accountable. Practices, methods, systems and procedures need to be revised to foster and enhance a new working culture of excellence and of service delivery.

Box 5**KEY DECISIONS****What Role for the State in a “Market-Oriented Socialist Economy”?**

Recent discussions on the draft Development Strategy illustrated the daunting tasks which lie ahead for the state.² These include:

- Managing economic integration;
- Establishing institutions for a market economy;
- Implementing comprehensive reforms of public administration;
- Reforming the organization and operations of the political system;
- Reforming the financial system; and
- Overseeing wide-ranging changes in the health, education and social security systems.

Can the state in Vietnam take on this challenge without shedding some of its existing tasks and while continuing to manage state investments in commercial activities? International experience shows convincingly that successful development is accompanied by adjustments in the role of the State and suggests that a two-part strategy is needed to keep the state effective.³ First, recognize the limited capacity of the public sector, and match the state’s role to its ability to undertake its core tasks. Second, invest in raising the state’s capability by reinvigorating public institutions. Chapter 7 on “Building Modern Governance” covers many of the steps needed to achieve this in Vietnam.

A careful diagnosis of the role of the state in each of the fields of development activity (the “pillars” of this report) will likely reveal areas where the state needs to do more, and areas where it could do less. Below is an example for the agriculture sector.

Table 1: Matching roles and capabilities of the state in the agriculture sector

What the state should do in agriculture	What the state should <i>not</i> do in agriculture
Research and extension	Restrictions on farmers’ decisions
Rural infrastructure	Restriction on domestic agricultural markets
Market information	Restrictions on agricultural trade
Policy analysis	Ownership of state farms, processing facilities and trading enterprises
Regulation and Inspection	Agricultural production targeting
Control of pests and diseases	Veterinary clinical care
Natural resource management	
Broaden participation in policy decisionmaking and project formulation	

Source: Table compiled from ADB, 2000.

² Warner, 2000.

³ The State in a Changing World (WDR 1997)

50. **Creating Transparent and Professional Financial Management Systems.** Substantial progress has been achieved recently with the publication of the State Budget in June 1999, publication of Government Financial Statistics (GFS) in the IMF yearbook, improvements in accounting and auditing standards, and improvements in debt management and ODA management. Yet, these are only the first steps towards making the management of public resources transparent and accountable (Box 6). The Budget coverage is only partial and immediate steps could be taken to publish more detailed information on the public accounts. Reorganizing the Vietnamese Accounting Association would present an opportunity to form a professional body consistent with good international practice. Similarly, a Public Sector Accounting Standards Board should be set up to establish and implement public sector accounting standards. A framework needs to be put in place to ensure that public corporations act in a transparent, accountable manner and provide financial information for public scrutiny.

Box 6.**KEY DECISIONS****How to Allocate Scarce Public Expenditures?**

Vietnam's needs for public spending in the coming decade greatly exceed its capacity, and difficult tradeoffs will need to be made. Lessons from other countries that could help Vietnam in making public expenditure decisions include:

Improve the Flow of Budget Information. Investing in reliable and timely information on budgets and outcomes can have a hugely positive impact on the ability of policymakers to make wise decisions. In Vietnam it is especially important to improve the flow of budgetary information across Government ministries, agencies and provinces, and to expand the scope of what is made public at central, province, district and commune level.

Establish a Clear System for Assessing Costs and Benefits. Well tried techniques exist for assessing economic, social and environmental costs and benefits. While some of these are used in Vietnam, there remains a need to strengthen the current system, and to derive the Government's Public Investment Program (PIP) from strategic targets and explicit cost-benefit analysis. This not only leads to better decisions, but also helps protect against politically motivated projects.

Be Careful not to Under-fund Recurrent Expenditure. Most countries pay insufficient attention to operation and maintenance expenditures, preferring higher-profile new investment. Experience is unanimous that the lack of maintenance leads to much higher costs and lower productivity. Vietnam has also suffered from this problem, and needs to introduce a specific system for linking recurrent spending allocations to earlier investment spending over a multi-year period (PER 2000).

Introduce a Pro-Poor Bias. Most countries spend much more public money on better-off citizens than on the poor. Vietnam's strong emphasis on equitable development would suggest that the opposite should be the case in its budget allocation process. Good progress has been made recently, but in a number of programs the poorer segments of the population and country still receive less than better-off groups. This is due in part to weak information systems. Insisting on a pro-poor bias can help off-set any unintentional anti-poor bias.

Divest Expenditures that Others Can Finance. Where the private sector is willing to finance investments at competitive prices, it makes strong sense to take the opportunity to switch public resources to other needs where public funds are essential. For Vietnam this applies immediately in energy and communications infrastructure, but increasingly also in municipal services.

51. **Developing Legal Systems.** For the last decade, Vietnam has been engaged in building a state ruled by law, as mandated by the 1992 Constitution. Although much has been achieved, officials and development partners agree that in virtually every major sector of the legal system much yet remains to be done. Currently, there is no comprehensive strategy for developing Vietnam's legal system, and legal development has tended to proceed in an ad hoc fashion. While this piecemeal approach has been the way legal development has taken place in most countries, most other countries had the luxury of developing their systems over centuries. Vietnam, in contrast, is keen to integrate quickly into the regional and world economy and to become a modern, industrialized nation by the year 2010. This will require a well-functioning legal system to underpin this transition. A comprehensive legal development strategy needs to be designed so that Vietnam can put in place a complete, coherent and well-functioning legal system in a relatively short time.

52. **Creating a Participative and Responsive Government.** Government strategy documents give high priority to improving peoples' participation, access to information, and awareness of legal rights and obligations. Recent research indicates that poor people in Vietnam are hungry for a two-way flow of information: information from government to them about the nature and timing of policies and programs that affect their lives, and from them to government with a view to influencing some of these policies and programs. Access to such information channels is often felt to be limited to a few "well-connected" participants. More widespread access would lead to a more equitable and inclusive pattern of development.

53. The Government is taking measures to address these shortcomings by implementing the Grassroots Democracy Decree, which offers a crucial and encouraging legal framework for increasing community participation at the local level. The new Law on Science and Technology is also an important step forward in providing a clearer legal framework for the operation of research-oriented associations and NGOs. A supportive legal framework also needs to be provided for associations and NGOs not involved in charity or research, and which are therefore not covered by the existing legal framework. A comprehensive and clear Law on Associations which would offer a supportive environment, balanced with appropriate State oversight functions and accountability mechanisms, is needed. To ensure that women have an equal voice, Vietnam needs to take a gender-sensitive approach to participation and encourage and support more equal participation in public life by women. This is not only right from an equity point of view but, as recent research indicates, will also promote faster development and cleaner business and government (less corruption). This can be achieved through means that ensure equal access to education (especially secondary and higher), equal access to information (including legal literacy), and facilitating greater participation of women in political and other leadership positions, especially at Provincial and lower levels.

54. **Fighting Corruption.** Fighting corruption is an important priority. Vietnam's leaders need to set an excellent example and must continue to show their determination to fight corruption at all levels. While there are individual steps which can help with this, such as minimizing red-tape and reforming procurement, it is important that the reasons behind corrupt behavior are understood and measures taken to address these at the same time. There is much international experience that can assist Vietnam in this task.

VIII. SUPPORT FROM THE INTERNATIONAL COMMUNITY

55. Vietnam is embarking upon a ten-year period that will shape its development for decades to come. If it is successful in reaching the goals it has set itself it will, by the end of the decade, be well on its way to building the base for a modernizing economy. In order to reach its goals, it is choosing to turn to the global economy as a market for its products, and a source of capital, technology and ideas. It is important that the international community support it in its efforts.

56. International trade and investment will be the most important contribution that the international community can bring. As Vietnam opens its own markets and follows market friendly domestic policies, it can expect its own exports to grow – from the current level of \$14 billion towards the goal of \$50 billion by 2010. The international community can support this process by reducing their own trade distortion -- especially non-tariff barriers and domestic subsidies. Foreign investment, likewise, will play a crucial role in introducing technology, management skills and market know-how to Vietnam. Whether the Government's hope of inflows of \$2 billion per year (5.2% of projected GDP) during the next decade is reached will depend on progress in creating a clear and efficient regulatory environment. For its part the international business community needs to demonstrate strong corporate citizenship and positive "externalities" in the form of skills upgrading and technology transfer.

57. ODA needs to play a strong continuing role in the years ahead. During the 1990s, ODA inflows rose from near zero to around 1.3 billion per year. While relatively modest by the standards of other low income countries, these inflows (totaling some \$6 billion for the 1990s as a whole), have played a very constructive financial and technical role across a broad range of activities, while supporting Vietnam's gradual policy and institutional renewal. International NGOs – which in aggregate have invested around \$80 million annually in grant funds for poverty programs -- have also played a highly valuable role, introducing lessons and methods from international experience, especially in poverty reduction programs.

58. Over the past two years the international community has recognized that with the large numbers of donors, programs and projects in Vietnam it was necessary to move towards a new way of doing business, if funds were to have maximum impact on poverty reduction and economic development. This recognition has been part of increased understanding globally as to what makes development cooperation effective. Strands to this thinking are:

- **The importance of a strategic vision:** too often development interventions have been undertaken with inadequate understanding of the broader policy and institutional context. It is essential that ODA supports policy and institutional reform and never substitutes for it;
- **Minimizing gaps, avoiding duplication, and lowering transactions costs:** too often ODA has been less effective than it could have been due to fragmentation and uncoordinated programs. Working as genuine partners can substantially improve overall cost-effectiveness, but requires changed behaviour from us all;
- **The need to focus on outcomes rather than inputs:** traditional measures of ODA success have too often been in the form of disbursements, timelines or completions rather than impacts on the quality of life. Investment in improved monitoring and

evaluation systems, with a focus on on-the-ground impact, is needed to help change mindsets and improve effectiveness.

59. In an effort to address these issues, the Government, donors and NGOs in Vietnam have sought to establish partnerships in key areas and sectors to facilitate discussion, design and implementation of programs. A companion volume to this report (“**Partnerships for Development**”) is a compilation of brief notes prepared by some of these groups. In the spirit of the new approach these notes seek to link the programs supported by the international community to Vietnam’s goals and strategy for the coming decade. Over time it is expected that in some sectors there will be a move on the part of some donors towards a more programmatic approach to ODA support, whereby donors are able to understand and support the Government’s expenditure program in a sector, within the context of clear goals, monitorable outcomes, and institutional and policy change. It is hoped that this overall report will help us move towards this more coherent way of doing business for the benefit of the people of Vietnam.