

INTERNATIONAL MONETARY FUND
AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

SOCIALIST REPUBLIC OF VIETNAM

**Poverty Reduction Strategy
Joint Staff Advisory Note**

Prepared by the Staff of the International Development Association (IDA)
and the International Monetary Fund (IMF)

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I. INTRODUCTION

1. The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was approved by the Prime Minister of Vietnam on May 21, 2002 and was discussed by the Boards of the IMF and IDA in July 2002. The CPRGS marked an important first attempt to modernize the process and substance of strategic planning in Vietnam and led to experimentation with new approaches and the tackling of sensitive issues. The CPRGS was innovative in its move towards planning for development outcomes, as opposed to the previous focus on inputs (under the form of production or investment targets). The new outcome orientation forced a deeper analysis of the impact of Government policies, involving extensive use of empirical evidence and increased consultation with key stakeholders. It also led to the development of a set of indicators to monitor and evaluate progress, including the localized version of the Millennium Development Goals (MDGs). These Vietnam Development Goals (VDGs) were more ambitious than the MDGs in a number of respects.

2. The CPRGS, though approved by the Prime Minister, was not a traditional part of mainstream planning processes. It coexisted with a five-year Socioeconomic Development Plan (SEDP) 2001-2005, which was discussed by the Party Congress and approved by the National Assembly. However, the process of formulating, implementing and monitoring the progress of the CPRGS has initiated permanent changes in the approaches to socioeconomic planning. Directive 33 was issued by the Prime Minister in September 2004, stating that the SEDP 2006-2010 would be drafted according to the same principles that had governed the preparation of the CPRGS. The staffs congratulate the Government on the concerted efforts made over the last year to reform the mainstream planning process and to incorporate these principles into the preparation of the SEDP 2006-2010. This has resulted in a document that is better linked to budgets and

that is more poverty-focused and results-oriented than previous SEDPs, reflecting best practice as discussed at the regional forum on national plans as poverty reduction strategies. The SEDP 2006-2010 is now being submitted to the Boards of the IMF and IDA for discussion as the Government's second Poverty Reduction Strategy (PRS).

3. The Ministry of Planning and Investment (MPI) was responsible for drafting the SEDP 2006-2010 and leading the consultation activities. The draft SEDP was declassified for the first time ever and the drafting process was characterized by serious efforts to consult with different groups of Vietnamese society on the content of the draft. In addition to internal discussions within Government, MPI organized consultation workshops with local officials, groups of academics, the domestic business sector, international and local non-Governmental Organizations (NGOs), people living with disabilities, overseas Vietnamese, women and women's groups, and donors. In addition, MPI collaborated with local researchers and international NGOs to gather feedback from poor communities in participatory research exercises in 17 sites across the country. The consultations played an important role in shaping the final SEDP 2006-2010 in a number of important respects. As an example, the more mainstreamed approach to poverty reduction, which goes beyond targeted assistance to tackle budget allocation norms and sectoral priorities, is a direct product of the consultation process. Ongoing work preparing a Law on Planning and a manual on planning in a market economy indicates that this move to a more open and consultative planning style will be a permanent change that is reflected in official guidance to planners.

4. The draft SEDP 2006-2010 was discussed by the National Assembly in November 2005. This allowed the incorporation of the views of National Assembly members prior to submission to the Party Congress in April 2006, thereby according the National Assembly more influence over the content of the document than previously. There was also a second round of consultations within Government and with donors and NGOs following the first discussion at the National Assembly. The National Assembly approved the SEDP in June 2006.

5. This note has been written in close consultation with donors active in Vietnam, in particular with the Asian Development Bank (ADB), Japan and the UK Department for International Development (DFID), who are using the analysis in this note as the basis for their country assistance strategies. It provides advice on each of the SEDP's four pillars and on core PRS principles of promoting participation and transparency and of maintaining a strong focus on poverty. It also discusses the orientation towards measuring results.

II. THE SEDP: FOUR PILLARS

6. The SEDP 2006-2010 looks both backwards, to the experience of implementing the previous SEDP, and forwards, to the actions the Government should take over the next five years to reach the goals of the Socioeconomic Development Strategy 2001-2010. These actions fall broadly into four main areas: (a) the promotion of growth and transition to a market economy; (b) reducing poverty and ensuring social inclusion; (c) managing the environment and natural resources in a sustainable manner; and, (d)

building institutions that can support the strategy. Taken together, the Government believes that this plan can pave the way for Vietnam to become a middle-income country by the end of the period. The SEDP is supported by an action plan, which contains a results framework structured around these four pillars.

7. One of the most notable challenges of the coming period will lie in balancing the desire for high growth against the need for more sustainable growth. This, in turn, raises issues of the efficiency of investment and its implications for medium-term debt sustainability, and points to a need for faster market-based reforms to enable the private sector to become a stronger engine of growth. It also suggests a need to design responses to the environmental stresses caused by the growth path, particularly as Vietnam becomes rapidly urbanized. It raises questions of managing the social change that accompanies rapid integration and growth. It also suggests a need for a balanced growth path that brings returns across different regions of the country. In this respect, the staffs welcome the important emphasis given in the SEDP to agriculture as a driver of growth. The staffs also welcome the inclusion of regional growth strategies in the SEDP, but believe these could be better linked with social and poverty objectives.

8. **Links and balance between the elements of the plan** – The SEDP devotes considerable space to growth and changes in the economic structure. The section on poverty remains slightly disjointed. This reflects the underlying assumption that, as in the past decade, growth will continue to lead to the alleviation of poverty. It would be possible to describe an explicit linkage between growth and poverty reduction by including estimates of growth elasticity of poverty. This would strengthen the poverty focus of the plan and would be a helpful feature in future progress reports. Future progress reports could also helpfully link the sections on institutional and regulatory reforms better to the vision for the economy. This would allow documents to provide a clearer analysis of the role of the state during the transition to a socialist-oriented market economy and would ensure coherence between the economic and governance reform agendas.

9. The forward-looking part of the plan links back sporadically to a thorough review of past experience. There are areas in which the review of past performance suggests that past actions and measures have been inadequate to tackle problems, but where the forward-looking part of the document suggests a continuation of past policies. This is particularly true in the examination of ethnic minority poverty and in the analysis of State-owned enterprise (SOE) reform. The staffs would hope that as results orientation takes root, implying substantial “learning by doing”, progress reports will contain deeper analysis of the success and failures of past policies and draw clearer priorities for future public policy from this analysis.

A. Promoting Growth and the Transition to a Market Economy

10. **Macroeconomic policy orientation** – The SEDP 2006-2010 targets continuation of the achievements under the previous Plan, forecasting strong investment-led growth of about 7.5 to 8 percent per year. Attention could have been placed on the confluence of positive global factors that supported the achievements under the previous SEDP, namely strong global demand, low world interest rates and favorable terms of trade. Greater

emphasis could have been placed on the possible tensions between the pursuit of the new SEDP's medium-term objectives and the promotion of higher-quality, sustainable growth in the longer term. While the staffs understand that the authorities intend to view the numerical targets contained in the SEDP as indicative, this is not stated explicitly. It is hoped that progress reports will contain a re-assessment of the feasibility of the SEDP's quantitative targets in light of global and domestic economic developments and, if necessary, adjust these targets, so as to ensure that their pursuit will not undermine sustainable, high-quality growth over the medium term.

11. Regarding the underlying macroeconomic framework and the principal sources of growth, there remains some disconnect between the text and tables of the SEDP. While the text espouses a multi-stakeholder economy, with a rapid growth of the private sector, numerical targets indicate a continued emphasis on infrastructure development, with a key role reserved for the broadly-defined public sector. The possible tensions between the need to complete the transition to a market-based economy and the preservation of the state's leading role in the economy could have been brought out more clearly.

12. **Investing for growth** - The Government anticipates that investment will rise to 40 percent of GDP over coming years (from 37 percent in the previous plan period), with a continued emphasis on the need to build infrastructure for development. The SEDP also expects the labor force to grow by a cumulative 8 million over the next five years (from 7.5 million over the previous five years). A number of measures are expected to be implemented to enhance efficiency in the use of resources, including further orientation of the economy towards the private sector, state-owned commercial bank (SOCB) and SOE reform, and an improvement in the investment climate in general. Despite the rising investment ratio in the context of an increasingly market-oriented economy, the GDP growth rate is expected to remain broadly unchanged relative to the previous plan period. While the implied increase in the incremental capital-output ratio (ICOR) may, to some extent, be a reflection of the large share of investment absorbed by public infrastructure projects, which typically have long gestation periods, it also raises questions about the government's ability to meet its goal of increasing the efficiency of public investment. There is an urgent need to improve decision-making and transparency to manage limited public investment funds effectively and prioritize limited resources. The staffs welcome recent announcements by MPI that they intend to overhaul the project appraisal process and offer support in this work.

13. **Tax reform** – Increased mobilization of domestic revenues will be key to ensure that the ambitious investment target of the SEDP can be partly financed by the budget, without threatening medium-term sustainability. The SEDP notes recent reforms of the VAT, the special consumption tax, and corporate income tax to ensure compliance with international commitments. It also recognizes the challenges posed for fiscal policy by on-going tariff reductions as well as those likely to ensue in the wake of WTO accession. The SEDP seeks to strengthen the role of domestic taxes, and rely less on revenues from crude oil exports and other international trade. During the next five years the share of domestic taxes is projected to rise from around 45 percent to 60 percent. On the policy front, new laws are to be issued on Personal Income Tax and Property Tax; a uniform rate for the VAT is planned; and tax exemptions are to be minimized across the board. A simplification of tax procedures and modernization of tax administration are to support

these policy changes. The staffs encourage the Government to closely coordinate the reforms in tax policy and tax administration to ensure the full benefits of large investments made in upgrading the systems and equipment used by the tax authorities. Staffs also encourage the Government to balance the desire for revenue maximization with efficiency and social equity, as noted in the SEDP. In this regard analytical work to inform the design of the Personal Income and Property Tax Laws could be helpful. The Government's on-going and planned efforts at tax-payer education and fostering a tax-payer service culture assume greater importance as the tax base shifts from SOEs to the private sector.

14. The ambitious investment target also implies a need to strengthen financing mechanisms, with an eye toward protecting medium-term debt sustainability. The intention to raise capital will necessitate efforts to ensure greater transparency in resource mobilization, particularly as provinces and cities start developing their own financing sources for local infrastructure development. The target also poses several institutional and regulatory challenges associated with Government's intention to support the important role of the private sector in meeting this investment goal, particularly in forming partnerships for the provision of infrastructure. Crucially, encouraging private participation in infrastructure will require improving the regulatory regime for BOT projects and pricing of infrastructure services. There is also a particular concern about the balance between competition and regulation in network infrastructure, such as electricity, water supply and telecommunication.

15. As regards the financial implications of the SEDP's development strategy, there are a number of apparent inconsistencies and gaps in the overall framework which could usefully be addressed in future progress reports. The discussion on how to finance the ambitious investment program is incomplete and the SEDP is silent on debt sustainability issues. According to the staffs' joint Debt Sustainability Analysis, under realistic assumptions the financing needs associated with the SEDP would imply a significant but still manageable increase in public debt over the 2006-2011 period. Vietnam should thus remain at low risk of external debt distress during the period covered by the SEDP, provided that external borrowing continues to be guided by the prudence that has characterized government policies over the last few years. However, delays in SOE and SOCB reforms pose risks to this relatively benign outlook. While the SEDP recognizes WTO accession as the country's largest challenge, and puts forth a lengthy list of judicial and regulatory reforms required to pave the way for accession, it does not acknowledge the risk that increasing exposure to global competition might limit some SOEs' ability to meet the SEDP's ambitious investment targets. This points to the important need to accelerate SOE reform, while interpreting SEDP targets flexibly and, if necessary, showing readiness to adapt them as circumstances change.

16. **International economic integration** – Fostering capital accumulation by the business community will require an improved investment climate. The Government has recently completed all the bilateral negotiations for WTO accession. The commitments made imply an ambitious reform agenda. The SEDP sets out many of the policy and legal changes and challenges associated with the implementation of WTO commitments. The Government has established a structure under the Office of Government with the goal of strengthening Government's capacity to deliver on and monitor the many legal changes

and reforms that are required in a very tight timeframe following accession. The analytical work that will be carried out to support this initiative should allow the Government to design and sequence the reforms to maximize their development impact. A multi-donor trust fund is being put in place to support the “Beyond WTO” framework under the Office of the Government.

17. The set up of this empowered coordination mechanism is also important to establish effective mechanisms to support those who might be disadvantaged by WTO accession. With a few exceptions (for example, the likelihood of some groups of rural producers being affected), analytical work has so far been inconclusive about the possible net impact on different groups; the development of information systems that allow swift detection of and response to negative impacts should be a priority. The staffs encourage the Government to make information about policy changes available to the public as soon as possible to allow enterprises and citizens to adjust and take advantage of the opportunities brought about by growing international integration.

18. Economic integration is likely to be facilitated by regional agreements already in place (such as AFTA) and by their possible extension. Further integration will also be supported by cross-border initiatives among countries in the Mekong sub-region, aimed at enhancing the flow of goods and services. Several transport corridors among the countries of the sub-region are due to be completed during the plan period, and single-stop customs procedures are scheduled to be implemented at a number of checkpoints.

19. **Financial sector reform** – The SEDP recognizes that reform in the financial sector has been slow, though actions to accelerate reform are better described in some other documents of the Government. A comprehensive roadmap for banking sector reform was issued in May 2006 (Prime Minister’s Decision 112). The roadmap is focused on two areas which will lead to a fundamental re-writing of the laws governing the State Bank of Vietnam (SBV) and credit institutions. First, the SBV is to be transformed into a modern central bank that is operationally independent and is able to apply international best practices in its monetary policy and banking supervision functions. Second, the banking sector, including the SOCBs, is to be restructured to efficiently provide an expanded range of products and services to more segments of the economy. All SOCBs are to be equitized by 2010. SBV’s responsibility of exercising the state’s ownership rights in the SOCBs is to be eliminated, thereby removing a conflict with its supervisory role.

20. Completing the equitization of SOCBs as scheduled will be a challenging task. Staffs see an important role for foreign strategic investors, who could make important contributions towards improved technical and managerial practices, strengthening the banks’ balance sheet and enhancing their commercial orientation. The staffs encourage the Government to consider undertaking an assessment of Vietnam’s financial system under the Financial Sector Assessment Program (FSAP) as a tool to identify risks and needed reforms in this area.

21. The roadmap for securities market development to 2010 aims at a formal market capitalization of 10-15 percent of GDP with operational and supervisory practices approaching international standards. An important milestone has been the issuance of a Securities Law, which significantly enhances the regulatory framework for publicly held companies and publicly traded securities. However, market infrastructures also have to be

considerably upgraded to cope with the growing market. A Government bond market needs to be developed as the core of the debt market, and the staffs urge the authorities to strengthen the cooperative efforts of the MOF, the State Securities Commission (SSC) and SBV in this regard.

22. **Reform of SOEs** - Despite the important role SOE reform should take in the transition to a market-based economy and the candid recognition of the inadequacies of past actions, the SEDP provides relatively little detail in this regard. At the same time the SEDP takes little credit for recent advances in this area. The State Capital Investment Corporation (SCIC) has been established to absorb the state ownership rights in equitized SOEs from line ministries and provinces, thus consolidating state shareholdings in one institution. The creation of the SCIC opens the prospect of a more efficient and transparent management of state assets, with a clear separation of ownership and regulation functions and reliance on credible performance indicators to allocate capital. The SCIC has a profit orientation with a mandate to maximize returns on state capital. However, managing its portfolio will be a challenging task, and SCIC activities should not be allowed to conflict with policies to divest from commercially viable SOEs and to develop domestic capital markets. To achieve these potentially conflicting objectives, it will be important that SCIC's operations are kept transparent and at arm's length from the operations of other government agencies, embodying modern principles of corporate governance. The governance mechanism should be designed to keep business dealings among equitized SOEs and SOCBs at arm's length, minimizing the risk of related lending. The staffs are prepared to offer support in various aspects of management and operation of SCIC.

23. Another new aspect of SOE reform is the plan to transform eight General Corporations into "economic groups", covering activities such as mining, post and telecommunication, electricity, petroleum, aviation, rubber, textiles and insurance, among others. Economic groups will operate under the holding company model, and all their affiliated enterprises need to be equitized or otherwise restructured. These large economic groups, which will temporarily report directly to the Prime Minister, could potentially become powerful players. The staffs encourage an unambiguous delimitation of responsibilities and liabilities between these groups and the Government, while promoting competition across all sectors. The staffs also advise against the mixing of industry and financial services within each group, which would lead to related lending and could quickly increase the risk of contingent liabilities. Affiliated party transactions and transfer pricing must also be made transparent.

24. **Business development** - The SEDP foresees a growth path that is driven by business development and reduces poverty through the creation of jobs. Despite the Government's stated intention to retain a substantial direct role in industrial production, the changes and reforms set out in the SEDP envisage a greatly expanded role for the private sector and a level playing field for all types of enterprises. Government's efforts to involve the private sector in the design of new laws and regulations have recently drawn praise from the business community. The staffs encourage the Government to continue this consultative approach during the coming period of intense regulatory reform. Important determinants of private sector growth over the coming period will include the effective introduction of the Unified Enterprise Law and the Common

Investment Law, both of which are yet to be substantiated with detailed implementing regulations. There is also a need for the simplification of licensing and registration systems and improvements in access to land and capital in order to create a more conducive environment for small and medium enterprises. Facilitating access to finance involves the development of legislation for secured lending and of systems for registration of collateral. This would be supported by a stronger judiciary system for the enforcement of contracts and the resolution of commercial disputes.

B. Strengthening Social Inclusion

25. **Including the vulnerable** - The SEDP draws attention to a number of groups that sit on the margins of the development process and benefit less from high rates of aggregate growth. These groups include ethnic minorities, people living with disabilities and rural-urban migrants who face difficulties in accessing social and administrative services on grounds of their registration status. The SEDP contains an important commitment to reform the policies on migration, to allow mobile populations to claim their rights to basic services. The SEDP also commits to expanding services for people living with disabilities. The quality of interventions in this area could improve with the introduction of a module on disability within the regular Vietnam Household Living Standards Survey (VHLSS). The staffs encourage the Government to translate the commitment to uphold the rights of migrants into clear actions and propose a collaborative effort in the analysis of the new disability data.

26. **Tackling ethnic minority poverty** - The SEDP has done well in integrating issues related to ethnicity across many sectors. However, the commitments outlined in the SEDP to tackle ethnic minority poverty suggest a continuation of past policies. The persistence of ethnic minority poverty indicates that some of these policies might not be effective: ethnic minorities now constitute 39 percent of the poor, while representing only 14 percent of the population. Progress in tackling ethnic minority poverty and the persistent problems that are well-described in the SEDP will require a rigorous evaluation of the successes and failures of past policies. It will also demand more broad-based and open discussion with a wider range of stakeholders inside and outside Government about possible solutions to ethnic minority poverty. The latter would include much greater involvement of ethnic minorities in local decision-making and more mechanisms for ethnic minorities to provide feedback on the usefulness and quality of services provided to them. The delivery of agricultural extension services, for example, is currently based around the introduction of “models” that are often unsuitable for certain population groups or farming systems.

27. **Gender** – Nearly all available quantitative data shows that gender equity has improved over the past five years. The SEDP has a substantial section detailing areas where further action is necessary to eliminate disadvantage driven by gender. The staffs concur with the SEDP’s assessment of priority areas for future policy action, but suggest that some of the most entrenched gender inequities lie at the household level. This poses particular challenges, because data below the household level that might be used to diagnose persistent problems and propose solutions are lacking. It is also less clear what policy instruments and public measures the Government might use to tackle problems of

rights and empowerment within the household. The staffs believe this is an important area to focus future efforts to tackle inequities.

28. **Delivering basic education** - The SEDP describes progress made in making quality basic services available to all. It highlights the Government's intention to increase the share of the budget spent on education in the future, in the interests both of social inclusion and of growth promotion by improving the quality of tertiary education. This is in line with the recommendations of the Government-led Public Expenditure Review – Integrated Fiduciary Assessment (PER-IFA) and the national plan for Education for All. There are indications from sector monitoring systems and survey data that the increased allocations to education are achieving positive results. Enrollments continue to rise and tracking of the fundamental school quality levels indicates important progress in the poorest parts of the country.

29. **Developing universal systems** - The SEDP envisages universal insurance systems to provide affordable health care by balancing a combination of mandatory and voluntary insurance for those who can afford it with subsidized provision for those who cannot. There are clear challenges of ensuring affordability and sustainability in the development of these systems. In addition, enforcing standards so that service quality varies little between those paying directly and those whose payments are subsidized will be critical to ensuring poorer people have meaningful access to social services. Similar systems could be developed for the provision of social insurance, such as old-age, survivor and disability pensions. The staffs suggest that the passage of the first-ever Law on Social Insurance, in 2006, offers an opportunity to establish a system that is socially inclusive, financially viable and does not distort incentives, while raising considerable institutional challenges.

30. **Targeted assistance to poor communes** – The SEDP describes several recent changes to the design of Program 135, which provides assistance to the poorest communes. These changes arise from a thorough evaluation of past performance and indicate an important commitment by the Committee for Ethnic Minorities (CEM) to make evidence-based corrections to ongoing programs. Notable improvements include the shift in resource allocation, to provide more support to non-infrastructure components (such as improved agricultural extension), and the intention to focus on poorer villages within communes. The staffs would like to emphasize the importance of allocating resources to maintenance and devolving greater control over investment decisions to communes (and even villages). Measures to increase commune and village level participation and capacity in scheme and site selection, technical design and construction supervision, are important as well. The staffs see the need for rigorous monitoring (including financial reporting) and increased effort in promoting public access to information as a key tool in achieving greater transparency and accountability.

31. **Managing social change** – The SEDP makes more limited attempts to analyze some of the complex challenges associated with managing rapid social change. The very fast pace of economic growth is necessarily accompanied by other changes as land switches from agriculture to non-agricultural uses, as citizens move from being farmers to being self- or wage-employed, as they become physically more mobile in pursuit of the new opportunities, and as they get increasingly exposed to information from outside. While the SEDP conveys a strong forward-looking vision for the economy, there is a

more partial and fragmented approach to devising the social policy to support these changes. The staffs anticipate that the plan period may require efforts to modernize the approach to social policy in order to respond to persistent social problems and the new social issues that may emerge alongside rapid growth. This, in turn, implies a need for sound research and open debate regarding potential problem areas (such as migration, compulsory land loss, trends in crime and violence, drug addiction and sex work and human trafficking). Youth issues cut across many of these areas of concern.

32. **HIV/AIDS** – The staffs commend the Government on adjusting the language around drug addiction and sex work. Previously referred to as “social evils”, this plan makes an important step towards de-stigmatizing HIV/AIDS by the use of more neutral language. However, in some areas there might be a need to re-think current policy approaches. An example concerns the way drug-rehabilitation and social protection centers are used and managed. The staffs also welcome the passage of the Law on HIV/AIDS prevention and control which provides a progressive legal framework and a commitment to intensify work on harm reduction. The staffs encourage a consultative approach to the drafting of the implementation guidelines.

C. Managing Natural Resources and Protecting the Environment

33. **Improving Environmental Protection.** The SEDP acknowledges that Vietnam’s urbanization and industrialization have not been environmentally sustainable. Government is actively developing economic and administrative instruments for pollution control, to protect public health and the environment. But the institutional arrangements and regulatory frameworks for their implementation are still incomplete. The SEDP establishes targets for cleaner technology to reduce pollution, enforce waste treatment requirements for industry, and expand the use of environmental standards in the manufacturing sector. The staffs suggest that while the proposed actions of the SEDP in this area are appropriate, greater attention could be paid to further improving the use of Environmental Assessments as tools in improving decisions on investment projects in virtually all sectors.

34. **Natural Resources Management.** The SEDP discusses the slow and uneven progress towards fostering more effective and sustainable use of key natural resources such as land, forests, and water resources. There have been improvements in the legal and administrative arrangements for land titling, including transparency in land transactions at the provincial level. The SEDP calls for increasing forest cover, improving management of water resources, and better controlling the degradation of Vietnam’s rich biodiversity. The staffs suggest that there is also a need to resolve the uncertainties over the institutional mandates for water resources management in order to strengthen integrated river basin planning.

35. **Forestry sector reform** - The forestry sector raises a number of important challenges for the future. Recent analysis suggests that the five million hectare program has been ineffective in striking the balance between forest protection and production on one hand and promoting the livelihoods of forest-dependent households on the other. Reforms underway to restructure the state forestry enterprises (SFEs) and allocate forest

lands to ethnic minority households and communities require careful implementation and monitoring. This is particularly true in the Central Highlands, where Government data indicate that very little forestry land has been allocated to households. Some reports suggest that poorer households are benefiting less from the allocation process as the process has favored households with more resources. This suggests the need for greater transparency and openness as land is transferred from SFEs to local authorities and then to local residents. Assisting households to generate maximum returns from forestry land will also require more intensive and responsive forestry extension work. The staffs suggest that increasing forest cover is an appropriate goal but greater attention could be paid to the quality of forest cover.

D. Promoting Modern Governance

36. Though this is not made explicit in the SEDP, effective implementation of the many regulatory and legal changes proposed over the plan period would require a redefinition of the role of the state in the economy. The SEDP acknowledges that institutional reform has been slow so far, hampered by a lack of clear prioritization, weak implementation mechanisms and inadequate monitoring of results. The SEDP acknowledges the need to build effective institutions to implement the actions envisaged in the plan, but without providing much detail on how this will be achieved. In this respect, the governance pillar of the SEDP's results framework provides a clearer sense of the governance reforms that are foreseen over the coming years. The staffs hope that the annual progress reports will draw closely from this results framework, particularly in assessing progress in governance aspects of the plan.

37. **Fighting corruption** – In the past year, a diagnostic survey on corruption has been completed, a law on anti-corruption has been passed by the National Assembly and the National Assembly itself has taken on a more independent role, characterized by increasingly candid and open discussions. The Government, explicitly recognizing that corruption can undermine investment, growth and social progress, and strongly damage Vietnam's image internationally, has recently made a clear commitment to tackle it and taken measures to investigate alleged corruption in ODA- and Government-funded projects. The staffs believe that these strong statements and legal actions could be soundly supported by the development of an anti-corruption strategy, together with an actionable plan and a clear monitoring framework. This would allow the Government to demonstrate progress over time to the Vietnamese public and to the international community. Development of a clear plan will require better information and stronger analytical work to understand the causes of corruption, its various modalities, and their cost to society.

38. **Strengthening Government systems** - The staffs note that some of the most effective measures to combat corruption will come in the form of measures and actions which are not traditionally labeled as "anti-corruption". As an example, the media has recently played a very active role in bringing corruption cases to the public. The staffs encourage the Government to continue to view the media as an ally in the fight against corruption. In addition, the public financial management reform agenda includes a range of actions to improve transparency and accountability in the allocation and use of public

funds. More stringent requirements for the disclosure of budgets and expenditure, for all units using budget resources right down to the commune level, are among those actions. The staffs also encourage the Government to make the new Law on Procurement fully operational by accelerating the preparation of implementation guidelines and by supporting those institutions responsible for managing and exercising procurement regulations.

39. Donors have a clear need to demonstrate the integrity and impact of ODA. The staffs believe it is important to do this by improving the country's capacity to manage its own resources rather than imposing controls from outside or adding additional layers of bureaucracy. The staffs recognize that there are differences in capacities and risks across sectors and that a nuanced approach is warranted. The staffs welcome and support the Government's intention to streamline administrative processes and to rely more intensively on e-Government and more transparent procurement processes.

40. **Public financial management.** The Government-led PER-IFA presented a series of recommendations to guide reforms in this area. Previous JSANs have reported on the achievements in improving public financial management and this JSAN also notes substantial improvements in Medium-Term Expenditure Frameworks (MTEFs), on the integration of planning and budgeting, as well as on transparency. Strengthening public financial management is an ongoing effort with work continuing on the creation of a single treasury account, the full introduction of GFS-compatible public accounting standards, and the development of modern management information systems. Recently the Government has begun a dialogue with donors on the possible use of the public expenditure financial accountability (PEFA) indicators. The staffs encourage the Government to consider employing the PEFA framework as a tool to monitor progress on reforms in this area.

41. **Legal and judicial reform** – A Legal Systems Development Strategy (LSDS) and a Judicial Reform Strategy (JRS) have recently been approved. The LSDS is a broad-ranging document which seeks to build legal institutions and systems that will ensure the rule of law. The JRS to 2020 is regarded as an important complement to the LSDS. It seeks to improve criminal and civil policy and legislation in line with the transition to a market economy. It aims at decriminalizing judiciary processes, reducing prison sentences considered excessively high, as well as increasing the use of financial penalties and non-custodial measures rather than imprisonment. The categories of officials who have the authority to make decisions on the application of detention measures will be narrowed. The staffs believe there is a need to accelerate the work translating the LSDS into an action plan and to link it more firmly to the work on the JRS. The staffs expect that some of the most difficult challenges in the governance agenda might be associated with judiciary reform, especially in relation to the separation of the prosecution from the management of the courts and the revamping of processes to enhance access to justice.

42. **Public administration reform (PAR)** – During its first period of implementation, the PAR master program contributed to the efficiency and transparency of public administration through the simplification of administrative procedures, the development of one-stop shops, and a greater alignment of public sector pay with the market alternatives. The SEDP notes, however, that implementation of the PAR agenda has been slower than expected and expresses dissatisfaction with piecemeal reform to date. The

staffs agree with this candid assessment. The staffs believe that the second PAR action plan is currently rather vague in nature and lacking in specific objectives and that more intensive reform will require greater clarity of desired changes. The staffs also note that there are a number of innovations taking root that are outside the scope of the PAR master plan, but that will effectively re-define the way in which public agencies will operate. A new decree that insists on citizen feedback on the delivery of public services, for example, will improve social accountability while not formally being part of the PAR agenda.

III. THE SEDP AS A POVERTY REDUCTION STRATEGY

A. Poverty Focus

43. **Data and poverty diagnostics** - The General Statistics Office (GSO) produces high-quality data on poverty every two years using surveys of household consumption (the VHLSS). These data are disaggregated to measure trends in poverty for different population groups, for example, ethnic minorities. They are representative at regional and provincial levels, though with sizeable margins of error in smaller provinces. These data are made available to researchers and Government agencies; they are increasingly being used to produce sound poverty analysis. For example, a local research institute, the Vietnam Academy of Social Science (VASS) is leading a multi-institute team to produce a poverty update using the VHLSS 2004 and other recent research on poverty. Future adoption of this poverty update as an official Government report on poverty would be a very helpful step in bringing high-quality poverty analysis into the official domain.

44. The poverty data from the VHLSS are also being presented in official documents though, as described in previous JSANs, they are not the official poverty data of Government. The VHLSS data are usually presented alongside the official data, which are provided by the Ministry of Labor, Invalids and Social Affairs (MOLISA) based on incomes rather than expenditures, using a poverty line which is not comparable over time. The SEDP uses both sets of data to describe the challenges of reducing poverty, but presents preliminary poverty numbers that had not been corrected for price changes. Using more accurate regional price deflators, the GSO estimates that 19.5 percent of the population was living in poverty in 2004 against the SEDP estimate of 24.1 percent. The staffs recommend that the Government use the production of the progress reports as an opportunity to clarify both the methodology and the institutional responsibilities for the measurement of poverty in Vietnam.

45. Poverty diagnosis remains less robust below the national level. Poverty maps produced using small area estimation techniques are now out of date and current efforts to produce poverty estimates below the provincial level do not routinely produce sufficiently reliable results to be used as a basis for targeting or resource allocation. The staffs expect to be working closely with local research institutes to improve the quality of local level poverty estimates.

46. **Poverty focus of proposed actions** - Some data issues notwithstanding, the SEDP presents a comprehensive analysis of poverty in Vietnam and introduces candid discussions about disadvantaged groups and regions and the challenges presented by the emergence of a growing absolute gap between socioeconomic groups. Importantly, issues of inclusion and poverty reduction are no longer restricted to the discussion of targeted activities providing specific assistance to individuals or communes, but instead are tackled in the sectoral sections of the plan. As a result, there is a consistent approach throughout the SEDP to reducing poverty by including the poorest in economic growth and in reaching disadvantaged groups through the mainstream delivery of public services.

47. **Linking budgets to poverty-focused plans** – To help strengthen expenditure planning, the Government has piloted the development of MTEFs in four sectors and four provinces. The first pilot MTEF reports, covering the education, health, transport, and agriculture and rural development, have been submitted to the Ministry of Finance (MOF). These reports contain scenarios for sectoral spending and its allocation over a period of three years. Estimates for the capital and recurrent sides of the budget have been prepared in an integrated way, with reference to the development goals of the sectors. These MTEFs have been developed within the context of a sustainable medium-term fiscal envelope. While MTEFs have informed the budget submissions of the line ministries they have not been employed as the formal basis for the budget allocation process. The staffs encourage the line ministries and the MOF to align the two processes by utilizing the MTEF scenarios as the basis for budget allocations.

48. The circular guiding the preparation of the 2006 budget took an important step toward linking the Government budget with a medium-term framework. While the submission and approval of the budget by the National Assembly will continue to be done on an annual basis, line ministries and provincial Governments were asked to prepare a budget framework for the period 2006–2008, based on the SEDP. Based on the experience with the pilot MTEFs, the Government has extended the pilot to cover 2007–2009. A further link between planning and budgeting processes results from the introduction of new norms for allocating the recurrent budget expenditures and the finalization of new norms for allocating resources for investment (to be introduced by the end of 2006). These norms incorporate poverty measures into the calculations and should lead to additional resources for poorer parts of the country.

B. Transparency and Participation

49. **Participation in the planning process** - Work in the sectors and in the provinces is guided by ten-year strategies and five-year plans and by provincial five-year plans. Levels of participation and consultation in these planning processes vary across the range of sector and provincial plans. Some line ministries, for example the Ministry of Agriculture and Rural Development (MARD) and the Ministry of Education and Training (MOET), have made particular efforts to engage stakeholders outside Government to develop strong, outcome-focused plans enjoying broad ownership. Other ministries have been less active in their consultations, despite the suggestions in the planning guidelines that planning be more responsive to the needs of various stakeholders.

50. Recent efforts to modernize planning processes at the sub-national level have meant that several provinces have been piloting more open, consultative planning procedures. This is an exercise that MPI remains keen to emulate across all provinces, should donor funding become available to support this important initiative. The preparation of the results framework has involved intensive interaction between MPI, the line ministries and representatives from some provinces to ensure consistency between sector and national monitoring systems.

51. **Law on associations** – The SEDP makes repeated references to the need to engage local NGOs in implementing and monitoring various aspects of the SEDP, particularly in the delivery of services. This echoes the formal acknowledgement in recent legal documents such as the anti-corruption law of the role that civil society can play in improving governance. For local NGOs to play the role that is set out in these documents demands a more supportive legal framework for local associations. The National Assembly has discussed a draft Law on Associations, with the expectation that this will be passed at the November 2006 session. The changes made in preparing the current draft show the Ministry of Home Affairs' (MOHA) willingness to listen and respond to the concerns of local civil society. As the drafting process continues, the staffs encourage MOHA to maintain this open attitude. The staffs suggest that the final draft should provide a legal framework that is enabling rather than controlling, and that permits a wide diversity of local organizations to contribute positively to development.

52. **Budget transparency** - There has been strong progress in budget transparency, and in 2005 the entire State Budget Plan was disclosed for the first time, including an aggregate amount for defense expenditure. The State Budget Law, which became effective in 2004, was a cornerstone in this process. Additional regulations require that details of budgets at all levels of Government be published within a stipulated time period. In 2006, the Government posted detailed final accounts of the 2004 budget on its website, as well as aggregate off-budget expenditures. In 2006, the Government also began presenting on its website estimates of budget revenues and expenditures on a quarterly basis. Time periods are also stipulated for reports on budget execution. The final accounts are made available after audit completion, 18 months after the end of the FY. The State Audit of Vietnam (SAV) has recently been transformed into an independent institution reporting to the National Assembly, rather than to the Government. The results of the most recent audit of the State Budget have been widely reported in the press, including coverage of reported “slush funds” and “secret funds”. Allocation of funds to capital projects that use state budget resources must be based on approved investment plans, and details of the bidding process need to be made publicly available.

C. Results Orientation

53. MPI has dedicated considerable effort and resources to the development of a results framework for the SEDP 2006-2010 that applies sound principles of monitoring and evaluation. There has been a series of workshops and meetings around the country on the development of a results framework, led by senior officials from MPI. A large team from MPI has been training line ministries and provinces and has been working with them to

put together a results framework that is structured logically around a results chain from inputs to outcomes. This achievement builds on the experience of the CPRGS and marks a breakthrough in approaches to mainstream results-based plan monitoring in Vietnam, which traditionally focused on the measurement of inputs and outputs, rather than the change generated in people's lives. This structure also provides a useful summary for readers of how broad objectives are connected to planned activities and outcomes, which is not always easily discerned from the narrative of the plan. The results framework was approved by the Prime Minister along with the action plan in September 2006, following approval of the SEDP by the National Assembly. This allowed time for wide consultation on the results framework across ministries and provinces and this lengthy process has made a significant difference to the quality of the finished framework. It is approved by the Prime Minister and will be submitted to the National Assembly for their information.

54. The results framework is structured around the four pillars of the SEDP and, though not perfect, has notable strengths. First, the framework includes a substantial pillar that refers to measuring progress in the promotion of good governance. This represents important progress, since attempts to measure systematically the results from governance reforms have been weak until now. The governance pillar commits the Government to measuring progress in improving transparency and participation, strengthening decentralization, managing public resources better and reducing corruption. A second strength lies in the explicit acceptance in the framework that much of the information on results will need to be provided or verified through independent surveys, a shift from the previous near-exclusive reliance on administrative systems for measuring and reporting results. Though administrative data remain useful in many respects, this broadening of data sources is likely to improve the accuracy of information.

55. The staffs believe that this results framework has led to tighter links between policies and results. As such, it constitutes a useful tool to guide policymakers in charge of implementing the plan and, if used well, has the potential to enhance monitoring. Effective use of this results framework will require a strengthened team and resources within MPI. This team will need clearly-assigned responsibilities to compile information on each of the indicators and to ensure that they feed into reporting processes. The results framework implies strengthening the link between MPI and the research community and the development of skills within research institutes to conduct policy analysis with high quality survey data. It also requires more discussion between MPI, the provinces and line ministries.

56. There are established systems in place to collect high quality information on poverty (through regular household consumption surveys) and on enterprise development (through enterprise surveys). Survey data are made available to research institutes and Government agencies, though procedures for accessing data are opaque and subject to a time lag. Access to administrative data for analysis is limited, and the lack of clarity in sources and definitions and concerns about accuracy constrain their usefulness for monitoring purposes. More transparent procedures for sharing data would allow for more effective and timely monitoring in Vietnam's rapidly changing environment. Data weaknesses also remain in the areas of public finance, the balance of payments, national accounts, and SOE and SOCB operations.

57. Measurement of some SEDP results will require the introduction of new forms of surveys, with notable challenges lying in the measurements of governance outcomes. For example, monitoring the implementation of efforts to improve grassroots democracy has been piecemeal to date. Changing this, as suggested in the results framework, will require the collection of data on participation in local decision-making from households, not simply from local officials. Effective monitoring will also require the development of new procedures for ensuring that various stakeholders have adequate input into the monitoring process and adopting more participatory techniques to gather qualitative data in areas where quantitative data are inadequate. This has not traditionally been part of SEDP monitoring in the past. Research-oriented NGOs operating in Vietnam (both local and international) are keen to assist with this task and the staffs believe that they could add significant value to the monitoring process.

58. **SEDP reporting arrangements** – MPI prepares an annual report for the national Assembly that describes progress against plan objectives. In the past, this has typically focused on economic performance over the previous year. The staffs hope that it will be possible to use the existing Government reporting procedures as annual progress reports for the PRS. This implies efforts to broaden the scope of the annual reporting process to strengthen the commentary on poverty reduction and social inclusion and to upgrade the quality and presentation of data in the report. It also requires that the results framework be central to the reporting process, giving a clearer sense of the link between policy measures and/or public action and impact. The staffs consider this to be preferable to the preparation of two progress reports – one economic for the National Assembly and a broader one for an external audience.

59. Most external partners have agreed to rely on the SEDP monitoring and evaluation system once it becomes operational.

IV. CONCLUSIONS AND ISSUES FOR DISCUSSION

60. The SEDP is fully embedded in the mainstream planning processes of the Government. It has the full ownership of Government and, as such, the staffs expect that this SEDP will guide decision-making and resource allocation over the next five years. The directions set out in the SEDP are broadly sound and are likely to generate growth and poverty reduction. The SEDP also covers the main PRS principles, incorporating a poverty focus and a results orientation. The preparation process has been open and participatory, representing a significant change in approach to mainstream planning.

61. The SEDP covers a range of policy areas and includes an array of measures in each of them. To guide donor support to Vietnam over the coming years, and to help the Government make the most of its strategy, it is necessary to prioritize policy actions, clarify their sequence and timing, assess their possible cost, and identify ways to monitor and evaluate their impact. The staffs expect that joint donor-Government analytical work over the coming months will address this weakness and that this analysis will result in a framework that donors can use for aligning assistance strategies.

62. The continued rapid economic growth envisaged in the SEDP is underpinned by high rates of investment. Some of the most important recommendations in this JSAN relate to the introduction of measures that protect the efficiency of investment, the transparency of investment decision-making and the sustainability of public debt. Insufficient attention to these issues would result in financing risks and potential contingent liabilities which could put in jeopardy poverty reducing outlays in the period ahead.

63. Though growth will continue to generate poverty reduction, there are some persistent pockets of poverty that growth alone will not tackle. Most notably this includes entrenched poverty among ethnic minorities. Measures to tackle ethnic minority poverty could usefully be reassessed, since the slow rate of progress suggests that past measures have not all been effective. As poverty falls, strong targeting techniques will become increasingly valuable in the fight against persistent poverty. There is a need to ensure that the target programs are well-monitored, and they are adapted when problems emerge. The work that MOF and MPI have undertaken in the past few years to revise the allocation norms for recurrent and capital expenditures demonstrates that important returns lie in improving the poverty focus of public expenditure.

64. The chosen growth path may also generate new vulnerable groups. The development of a land market could result in landlessness among farmers hit by adverse shocks, whereas rapid urbanization may lead to new forms of poverty. Effective actions to tackle these new forms of poverty will require data collection and research into new topics, combined with open debate on the problems and possible solutions. The staffs are particularly concerned that the challenges of rapid migration, urbanization and land conversion be managed in a fair, transparent and well-informed manner.

65. The governance agenda remains profoundly challenging. Reforms are well under way in promoting more transparent and accountable public financial management at all levels of Government. The legal and judicial reform agenda has been less rapid and should be accelerated over the coming period.

66. Corruption, and perceptions of high corruption, represents one of the most significant risks to growth and sustained poverty reduction over the next five years. The Government is fully aware of the threat that corruption poses to the achievement of plan outcomes. Donor support to simplify, strengthen and use improved Government systems will be an important part of the solution. The creation of extra bureaucracy and duplicative systems to protect donor funds could undermine efforts to develop sustainable systems that are accountable to the people of Vietnam.

67. The staffs would like to ask whether the Executive Directors concur with the assessment of the staffs that: (i) the SEDP has incorporated the necessary elements of PRS principles and represents a plan that can deliver both growth and poverty reduction; (ii) despite the comprehensive nature of the plan itself, annual PRS reporting should be done against the SEDP's overall results framework, with the reporting system strengthened, including by unifying the reports prepared for domestic and external audiences; (iii) plan implementation should pay particular attention to issues around the quality and efficiency of investment, tackling the persistent poverty of ethnic minorities and developing strong systems and institutions for transparent management of public

funds and state assets that are accountable to the people of Vietnam; and (iv) given the important role to be played by SOE and SOCB reforms both in ensuring improved investment quality and in protecting debt sustainability, the Government should consider undertaking an assessment of Vietnam's financial system under the Financial Sector Assessment Program (FSAP).