

# Interim Poverty Reduction Strategy Paper (I-PRSP)\*

## Introduction

Over the past decade, Vietnam recorded many achievements in the course of its economic reform and development process, gradually improved the welfare of its people, and brought about the structural adjustment of its economic sectors and industries in keeping with market signals with the intent of establishing a market economy under state regulation. In this endeavour, the Government of Vietnam has received positive support from the international community.

Nevertheless, Vietnam remains a poor country with low per capita income (its per capita GDP is estimated at about US\$400 in the year 2000). The Government of Vietnam recognises this problem and believes that a strategy to achieve high and sustainable growth will narrow the economic development gap between Vietnam and other countries in the region and the world, generate resources to raise the welfare and living standards of the people, and reduce poverty.

In order to continue promoting a rapid and sustainable rate of economic growth, and implement effectively the policy on hunger eradication and poverty reduction, the Government of Vietnam is in the process of developing the "Socio-Economic Development Strategy for the 2001-2010 Period", the "Hunger Eradication and Poverty Reduction Strategy for the 2001-2010 Period", and the "Socio-Economic Development Plan for the 2001-2005 Period". The Interim Poverty Reduction Strategy Paper makes concrete the Government's policy stance with respect to economic growth, hunger eradication and poverty reduction, in order to guide the donor community's support in this process.

The Interim Poverty Reduction Strategy Paper is formulated by the Government of Vietnam. The Strategy Paper is composed of five parts:

I. Economic Setting, Current Poverty Situation, Achievements and Challenges

II. Growth and Poverty Reduction Objectives

III. Macroeconomic Mechanisms and Policies to Promote Economic Growth and Generate Resources for Poverty Reduction

IV. Sectoral Policies and Measures to Create Opportunities, Decrease Vulnerability, and Provide Safety Net Support for the Poor

V. Schedule for the Formulation of Comprehensive Poverty Reduction Strategy Paper 2001-2010

### **I. Economic Setting, Current Poverty Situation, Achievements and Challenges**

#### **1. Economic Setting**

Over the past decade (1991-2000), the economy of Vietnam maintained a robust average annual growth rate of 7.5%. Projected per capita GDP in the year 2000 is 1.8

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\* The Poverty Reduction Strategy Paper (similar to the previous Policy Framework Paper - PFP) is formulated to serve as the basis for obtaining concessional credit under the IMF Poverty Reduction Growth Facility (PRGF) and the WB Structural Adjustment Credit (SAC).

The preparation of the I-PRSP is closely linked to and consistent with the draft "Socio-Economic Development Strategy for the 2001-2010 Period", "Framework Development Plan for the 2001-2005 Period", and "Hunger Eradication and Poverty Reduction Strategy for the 2001-2010 Period".

times higher than that in 1990. As a result, the Vietnamese people have experienced a considerable improvement in their living standards.

Remarkable achievements have been recorded in agricultural production. Vietnam became self-sufficient in food and transformed into a major food exporter, contributing substantially to socio-economic stabilisation, hunger eradication and poverty reduction. The industry and services sectors also continue to grow at high rates, thus accelerating the economy's structural transformation.

The ratio of domestic savings to GDP in the year 2000 is 2.5 times larger than that in 1990. State revenues account for about 20% of GDP.

Many socio-economic renovation policies and measures have been adopted. The banking and finance system is being reorganised and renovated. A fair, efficient and competitive business environment is being created to stimulate greater investment by individuals and enterprises, both domestic and foreign, and to expand production and business activities.

Total investment, including foreign investment, has risen considerably. Domestic resources have been more effectively mobilised and account for over 60% of total investment.

Trade liberalisation and widened export markets have brought about rapid export growth, and have increased the number of enterprises from all economic sectors participating in export and import activities.

Nevertheless, despite the significant gains of the past decade, Vietnam's economic growth path is not yet on a securely sustainable footing. Since 1997, the regional economic crisis has hurt the Vietnamese economy, and contributed to a slowing of output growth to only 4.8% in 1999. Although a revival of economic growth is anticipated, with GDP reversing the previous declining trend by growing at an estimated 6.7% in the year 2000, it may not be possible to repeat the high economic growth rates of the mid-1990s. The quality of growth is low; the efficiency and competitiveness of the economy is not high, and international trade competitiveness for many sectors and products is weak. The pace of change in production techniques, technologies and management styles is slow.

Policies and measures related to property and capital markets have lagged behind the requirements of renovation, and are still not harmonised. Consequently, the mobilisation, utilisation and management of economic resources have been less than effective. Private domestic savings remain undermobilised, and the economy's productive potential has neither been released nor brought into full play.

## **2. Government Poverty Reduction Directions and Policies**

Even as Vietnam seized independence in 1945, President Ho Chi Minh emphasized that poverty should be considered an "enemy", just as illiteracy and foreign invaders are considered enemies. He therefore defined the nation's mission: strive to enable working people to escape from dire poverty, to be gainfully employed, and to enjoy a prosperous and happy life.

Poverty reduction is one of the key social policies that receive special attention from the Government of Vietnam. The policy is to create favourable conditions for the poor, especially women and children, to access employment opportunities and social services such as education and health care. Along with accelerating economic reforms and renovation, and building momentum for faster economic growth, the Government's line is to encourage people to accumulate wealth through legitimate means alongside with poverty reduction. The Government's line is also to promote economic growth while

realizing the task of hunger eradication and poverty reduction, to bring about social equity, and to prevent the gap between rich and poor from exceeding allowable limits.

The Government of Vietnam is deeply committed to implementing successfully the hunger eradication and poverty reduction programme, particularly in areas that used to be revolutionary bases and are home to the ethnic peoples. The establishment and expansion of the Hunger Eradication and Poverty Alleviation Fund, utilizing various domestic and foreign funds, aims to provide loans to targeted beneficiaries in an efficient manner. The poverty reduction target is to reduce the incidence of poverty to approximately 10% <sup>(\*)</sup> by the year 2000.

Over the past years, the above mentioned viewpoints and policies have been concretized by the Government through specific policies, measures, programs, projects and plans focusing on agricultural and rural development. The Government also contributes to hunger eradication and poverty reduction by adopting policies to support education, health care, culture and information dissemination, rural mountainous transportation system, and power supply system to serve production and livelihood needs, and to raise living standards, especially of people in greatly disadvantaged areas.

To meet effectively the objective of hunger eradication and poverty reduction, the Government approved the National Target Program on Hunger Eradication and Poverty Reduction for the 1998-2000 period (Decision No. 133/1998/QD-TTg) with nine components (infrastructure development support for poor communes; support for especially disadvantaged ethnic groups; sedentarisation and fixed cultivation, and support to move people to new economic zones; guidance to teach the poor business skills; credit support for the poor; health care programme for the poor; education programme for the poor; support to develop and expand industries and trades in poor communes; and training for poverty reduction workers and local government staff in poor communes). Other approved programs include: Program on Socio-economic Development in Especially Disadvantaged Communes in Mountainous, Isolated and Remote Areas (Decision No. 135/1998/QD-TTg); National Target Program on Employment (Decree 120/CP); and the Program 327 (later known as Project on 5 Million Ha Reforestation). These programs demonstrate the Government's commitment to hunger eradication and poverty reduction.

At present, hunger eradication and poverty reduction is regarded as the focal political, social and economic task of the entire Party and people.

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<sup>(\*)</sup> The current Vietnamese poverty line (food poverty line) is defined in terms of monthly per capita income in kind: less than 15 kg for rural mountainous and island regions; less than 20 kg of rice for rural plain and mid-land regions; and less than 25 kg of rice for urban areas.

### 3. Current Poverty Situation

*Vietnam is classified as belonging to the group of poor countries with a relatively high incidence of poverty* <sup>(\*)</sup>. According to the Living Standards Measurement Survey, Vietnam's poverty incidence is 58% in 1992-1993 and exceeds 37% in 1998 based on the poverty line defined by the World Bank (applying Vietnam's food poverty line, the poverty incidence would be 15% in 1998). Applying Vietnam's current criteria for poverty, the poverty rate is about 30% and 13% in 1992-1993 and 1999 respectively, and is estimated at about 11% in the year 2000.

*Poverty is mainly concentrated in rural areas*, particularly in purely farming households. Over 90% of poor households live in rural areas, mainly work in agriculture or have unstable jobs, and have few off-farm employment opportunities. They tend to have a low level of education, limited professional and business skills, poor access to credit, physical infrastructure and social services, and they have difficulty selling their products.

*In urban areas*, although the poverty rate is lower than the national level, most poor people are new immigrants who usually are not registered, are unemployed or have no stable jobs; consequently their income is low and/or irregular. They have many difficulties accessing social services. In addition, the poverty rate is high among the unemployed, underemployed, homeless, and those who fall prey to social evils.

*Poverty has marked regional characteristics*. The poverty rate is high (over 20%) in the mountainous and ethnic minorities areas. The Northern mountainous region, Central Highlands, North Central region and coastal areas are the poorest. As many as 70% of the poor live in three regions, namely Northern mountainous region, the Mekong River Delta, and the North Central region. These areas are characterized by harsh natural conditions, poor natural resources, poor physical and socio-economic infrastructure, or often suffer from natural disasters.

*The gap between the rich and the poor is widening*. According to the survey, the gap between the richest and poorest quintiles increased from 7.3 times in 1996 to 8.9 times in 1999. The gap in living standards between urban and rural areas also remains large.

*Progress in improving the conditions of the poor is painfully slow*, especially with respect to indicators such as access to basic social services. The child malnutrition rate in 1999 is still high at 36.7% with the majority of malnourished children coming from poor families. The population growth rate is very high among poor families (the average number of children per mother in the poorest population quintile is 1.3 times larger than the national average, and more than 1.5 times larger than in the richest quintile), especially in the Northern mountainous and midland areas and the Central Highland (2.5 and 3 times, respectively). The literacy rate in the remote and isolated areas is only about 50%. In rural areas, only about 43% of households have access to safe drinking water and only 20% of households have sanitary toilets.

*The causes of poverty are many*. Hungry and poor households tend to have large numbers of children and few gainfully employed workers. They tend to be headed by

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<sup>(\*)</sup> The existing body of information on poverty in Vietnam is extremely rich compared to many other developing countries. The most detailed and large, nationally representative, data were gathered from the 1992-93 and the 1997-98 Vietnam Living Standards Survey (VLSS) conducted by the General Statistical Office with assistance from the UNDP, SIDA and the World Bank. The surveys covered 4800 and 6000 households respectively with a detailed and comprehensive survey questionnaire in both surveys. This body of information is further augmented by in-depth participatory poverty assessments (PPAs) conducted by the Vietnam-Sweden Mountain Rural Development Program (MRDP), Action Aid Vietnam, Oxfam GB and Save the Children Fund UK.

single women or depend on women to make ends meet. Members of poor households tend to have a low level of education and lack production and business facilities. These poor households are highly vulnerable to seasonal difficulties and unanticipated shocks as well as natural disasters such as flooding. Poor households are likely to fall into vicious debt traps. It should be noted that there is a trend rise in the number of hungry and poor households that have little or no cultivated land, especially in the Mekong River Delta. Households that have little land and practice monoculture tend to have less capacity to generate a stable income. Poor households in remote areas are usually isolated and have very limited access to technical and social infrastructure and information. In addition, there also are non-economic factors such as lack of capacity, of resilience, unwillingness to work, inability to control oneself, making it more difficult for them to escape from poverty.

*Each year, the number of people who need emergency relief due to natural calamities range from 1 to 1.5 million.* On average, the number of households that fall below the poverty line again is large relative to the number of households that just escaped from poverty. This is because a large number of households live barely above the poverty line; consequently they are highly vulnerable to negative shocks such as natural disasters, job loss, sickness, and so on.

## **4. Achievements and Challenges**

### *4.1. Achievements*

Vietnam has recorded significant achievements in poverty reduction over the past years and is considered by the international community to be among the countries with strong performance in poverty reduction.

The percentage of hungry and poor households (using Vietnam's poverty standards) declined considerably, from nearly 30% in the early 1990s to 20% in 1995, and to an estimated 11% in the year 2000. In other words, the number of hungry and poor households has declined by 300,000 per annum for an average annual decline of 2%. The percentage of communes that have no or little basic infrastructure has been gradually declining.

The Government has been successful in implementing policies that give priority to agricultural and rural development, especially in food production, contributing importantly to hunger eradication and poverty reduction, income growth, and to the improvement of living standards in rural areas.

The Government has adopted many mechanisms and policies to create jobs and opportunities to allow people to take the initiative in finding jobs or to be self-employed with help from the State and the community. The National Employment Generation Programme has been implemented with many good results. Employment promotion centres and vocational training, career advising, and training centres established by different sectors and levels and mass associations have been in active operation. Broad-based support for HEPR policies have come from diverse sectors, population strata, mass associations, social organisations and the working people themselves. Many specific activities have been undertaken to help hungry and poor households to overcome their difficulties and to develop their capacity to gradually improve their situation to escape from poverty and stabilise their lives.

On average, employment is created for 1.2 to 1.3 million people per annum. The private, collective and co-operative economic sectors absorb about 90 percent of these new entrants into the labour force. Under considerably difficult economic conditions, and even during the years of slower economic growth, Vietnam adopted stronger social security policies to help stabilize the lives of the poor, especially with respect to hunger eradication, poverty reduction, employment creation, education and training, public health care, care for disabled and homeless children, including policies to stabilise the lives of people in targeted groups.

There has been a marked improvement in living standards in many populated areas, especially in rural areas in the periphery of cities and towns, and areas endowed with favourable natural conditions such as fertile land. Per capita consumption in current prices increased to VND4.3 million in the year 2000 from VND2.6 million in 1995.

Resources for hunger eradication and poverty reduction have increased. Despite budget constraints, the State has financed national programmes for hunger eradication and poverty reduction through Programmes 133 and 135 whose main objective is to develop infrastructure in poor and especially disadvantaged communes. As a result, more than 4000 projects have been implemented in 1,870 especially disadvantaged communes. The amount of credit earmarked for the poor has been rapidly increasing. The Bank for the Poor was established to provide concessional credit the poor. Funds mobilised from communities, domestic organisations and individuals have also increased considerably.

Over the past years, Vietnam's hunger eradication and poverty reduction campaign has received support from many nations, international organisations and non-governmental organisations through various means (experience sharing, provision of technical assistance, and funds). This is a very important factor contributing to faster progress in eradicating hunger and alleviating poverty.

Despite the above-mentioned achievements, we are still not on solid ground in our war against hunger and poverty. Guidance and management in these tasks has been confusing, while coordination between agencies and ministries has been inconsistent.

#### *4.2. Challenges*

The process of opening up and integrating with the global economy creates many difficulties and challenges to the economy of Vietnam because it must deal with fierce competition in international markets while its economy is of low quality and inefficient, and its ability to compete is weak. Moreover, the volatile price of agricultural products in international markets and the increasingly adverse terms of trade between agricultural and manufactured products have a negative impact on the income of farmers, especially low income earners.

The number of unemployed and underemployed people in the country remains large, and the percentage of trained workers in the total workforce is low. The continued high rate of population and labor force growth, while Vietnam's ability to create new jobs and increase labour productivity remains limited, intensifies pressure to solve the employment problem.

The widening gap between urban and rural areas, and among different regions in the country, is a troubling trend (both in terms of access to services and the higher price of services paid by rural people). Harmonious development among different areas and regions is required to achieve high economic growth rates and at the same time generate adequate resources to increase investment and support to greatly disadvantaged areas. To achieve this, an efficient economic structure and a strengthening of the economy's competitiveness is needed. At the same time, Vietnam must complete the bulk of infrastructure development and make adequate investments in focal economic areas, address pressing social problems, and create enough jobs to lower the rate of unemployment, eradicate hunger and reduce poverty.

Domestic resources remain extremely limited, while the investment needs for hunger eradication and poverty reduction are great. Moreover, utilisation of available scarce resources remains limited and inefficient. Although resources for hunger eradication and poverty reduction programmes have been increasing over time, they are still not enough to meet the needs of poor localities. At present, the focal areas for hunger eradication and poverty reduction are highland and isolated regions, which experience great difficulties and suffer from inadequate and obsolete infrastructure. These problems and the higher investment costs make it difficult for these areas to attract private sector investment. This presents a very great challenge to the task of hunger eradication and poverty reduction in the coming period.

Poor people still encounter many difficulties in accessing and benefiting from basic social services. That all citizens can access services and benefit from growth and the fruits of development on an objective and equal basis remains a fragile possibility. Poor people remain highly vulnerable to risks and unexpected shocks such as sickness, natural disasters, harvest losses, loss of family breadwinner, and so on<sup>(\*)</sup>.

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<sup>(\*)</sup> For more details on current poverty situation, refer to "Strategy for Hunger Eradication and Poverty Reduction for the

## II. Growth and Poverty Reduction Objectives

1. *Strive to at least double the country's GDP between 2000 and 2010.* The government's objectives are to bring about significant progress in Vietnam's economic capacity and technological and material foundations; improve markedly the efficiency and competitiveness of Vietnam's products, enterprises and economy; fulfill basic consumption needs, while making available a substantial portion to meet production requirements; and strongly promote exports. In the coming five years (2001-2005), strive to achieve rapid and sustainable economic growth with an average annual GDP growth rate of at least 7%.

2. The Government's macroeconomic objectives are to continue to maintain macroeconomic stability, create a sound international balance of payments position, increase the export growth rate so that it is over twice the GDP growth rate, and increase the level of foreign exchange reserves; control the budget deficit, the rate of inflation and the level of foreign debt so that they remain within a safe range; and gradually raise the ratio of domestic savings to GDP.

3. Bring about a transformation of the country's economic structure in the direction of industrialisation and modernisation. Promote balanced and sustainable economic growth among different regions. Continue to increase food production to ensure national food security, contribute to socio-economic stabilisation, improve the rural people's living standards, eradicate hunger and reduce poverty.

4. Both State and society will increase their investment in infrastructure development, provide loans, support training, especially vocational training, provide information, transfer technology, and assist in product distribution to poor, disadvantaged areas, and to poor and vulnerable people.

Continue to implement the hunger eradication and poverty reduction programme using many methods, such as developing essential infrastructure projects in poor areas and poor communes, upgrading and rehabilitating major transport lines and axes connecting poor areas and poor communes with developed areas in order to stimulate their economic growth and development.

5. The State will create a favourable environment and encourage every citizen to overcome their difficulties, to become rich through legitimate means, and to help the poor. Favourable conditions will be created for mountainous ethnic people who have no cultivated land and lack minimum conditions for production, and for people in areas that suffer from frequent natural disasters (flood, flash floods, land collapse caused by floods, etc.) to resettle and practice fixed cultivation on a voluntary basis in areas with potential for development as defined in relevant master plans.

6. Provide a social allowance in various forms to those who live under especially difficult conditions, are unable to work to earn income, and have no one to support and take care of them. Consolidate on a permanent basis the gains in hunger eradication and poverty reduction.

7. Along with developing infrastructure, great importance must be attached to providing guidance and creating favourable conditions (through agricultural and forestry extension, dissemination of production techniques, etc.) for the population in poor areas and poor communes to strengthen their productive capacity and develop their trades, thereby rapidly increasing their income.

8. Strive to reduce the poverty incidence (based on the new poverty line) to less than 10% by the year 2005<sup>(\*)</sup>. Gradually improve the living standards of households that recently escaped from poverty so that a more permanent reduction of poverty can be achieved and situations where households fall back into poverty can be averted.

### **III. Macro Mechanisms and Policies to Promote Economic Growth and Create Resources for Poverty Alleviation**

#### **1. Create a fair and efficient business environment, promote competition, and strengthen the confidence of enterprises and people so that they will wish to make long-term investments to expand business output**

##### *1.1 Create a Fair and Competitive Business Environment*

The State respects and ensures the right of each citizen and each enterprise to have the freedom to conduct business in accordance with the law; its policy is to fully utilize all available funding sources, and to fully release and strongly expand productive resources. The State will implement swiftly and in a comprehensive manner the major elements of the Enterprise Law and will continue to eliminate unnecessary business licenses; review in order to revise and make additions to legal writings in the Law Code to ensure equal access to public services and investment and business opportunities; ensure equal access for all types of enterprises to capital, credit, land, labour, technology, professions, trades, information, as well as to Government preferential treatment and incentives. Develop and improve the legal framework to ensure a stable investment climate; make public and transparent measures and policies to encourage investment.

Promulgate decrees guiding the implementation of the revised Land Law to facilitate land transfer and lease, and the use of land use rights as collateral for bank loans, or as equity contribution to joint-ventures.

Promulgate specific regulations allowing banks operating in Vietnam to accept land use rights as collateral.

##### *1.2. Continue Reform of the System of State-Owned Enterprises (SOEs)*

Implement SOE reform in accordance with the Government plan; improve the operating efficiency of SOEs; diversify the ownership form of SOEs when the State does not require 100% ownership.

Revise and add to the policy framework in order to create favourable conditions for state-owned enterprises to gain autonomy, and to become accountable and dynamic in their business operations.

Develop mechanisms to strengthen the financial soundness of SOEs and to make public their finances, especially their debt situation and business performance. Establish regulations on the monitoring and supervision of business performance and debts of SOEs, focusing first on large SOEs, to resolve the problem of bad debts of enterprises that operate inefficiently. Identify clearly the criteria to evaluate the efficiency of state owned enterprise business operations. Shift the style of managing state-owned capital from an administrative approach to a state-owned asset management approach. Promulgate the decree on gradual transformation of state-owned enterprises (including

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<sup>(\*)</sup> The new poverty line which will be in effect from 2001 is defined as follows: Households in rural mountainous and island regions with an income of less than VND80 thousand per month or VND960 thousand per annum; in rural plain areas: less than VND100 thousand per month or VND1.2 million per annum; and in urban areas: less than VND150 thousand per month or VND1.8 million per annum.

enterprises founded by socio-political organisations) into sole-proprietor limited liability companies operating under the Enterprise Law.

Develop regulations on the establishment of new SOEs in areas where they are considered necessary and sufficient conditions are met. Reorganise SOEs operating in public utilities; the State adopts general preferential policies towards public utility products and services regardless of which economic sector the enterprise comes from.

Renovate the management mechanism and organisational model of SOEs in agricultural and forestry sectors in the direction of enhancing their role of supporting and assisting the household and co-operative economic sectors, cooperatives and poor people in the areas of production, technology transfer and product distribution.

Renovate the organization of General Corporations following the model of the parent conglomerate and its subsidiaries or the model of General Corporations engaging in multi-sectoral businesses; raise funds from diverse sources; eliminate State subsidies to SOEs. Restructure General Corporations, retaining only the General Corporation model in areas where the State needs the organisational structure of the General Corporation. Establish conglomerates on an experimental basis.

Continue to push strongly the equitisation of SOEs, expand capital market and stock market in order to abolish limits on the size of share holding, adjust the amount of preference shares to provide incentives to excellent managers, and change the present heavily administrative method of enterprise valuation to an auction based valuation method.

Accelerate the implementation of transferring, selling, business subcontracting, leasing, liquidating, and allowing the bankruptcy of small-scale SOEs that are persistent loss-makers, cannot be equitised, and do not need to be held by the State.

Adopt policies to assist workers who are made redundant in the course of SOE reorganisation and transformation of ownership in accordance with the current regime; study and apply mechanisms to encourage workers to leave their jobs voluntarily by providing them with appropriate compensation, and mechanisms to deal with debts owed by enterprises whose form of ownership is transformed during the process of SOE reform.

### *1.3 Create Favourable Conditions Regarding Land, Support Production and Business Activities, and Develop Various Types of Enterprises, Small- and Medium-sized Enterprises, Co-operatives, and Agricultural Farms*

Develop a legal framework and policies to encourage and support small- and medium-sized enterprises. Strengthen the capacity of Government organisations responsible for managing and supporting small- and medium-sized enterprises, and raise the working capacity of organisations responsible for supporting small- and medium-sized enterprises. Develop specific policies, such as: create a positive environment for production and business activities, provide credit support, market information, production technology, and adopt appropriate land policies, etc. in order to provide effective support to enterprises in selected industries, poor areas and communes.

Encourage the development of co-operatives in accordance with the Co-operative Law, and various forms of business co-operation between natural persons and legal persons on the basis of respecting the free will and self-determination of workers, and the democratic, open and efficient activity of cooperatives. Encourage the development of legal consultancies for community-based organisations and facilitate their management of community resources.

Encourage the development and provide long-term protection of the farm economy; create input and output services to support farmers with respect to technology, information, cultivation techniques, crop seeds, animal varieties, and product distribution; create the necessary conditions to enable farmers to invest in developing and expanding their agricultural production and business operations consistent with their ability and resource availability.

Create favourable conditions for households engaging in production and business activities to participate in the market. Develop appropriate management policies for these households, and encourage them to gradually become enterprises.

#### *1.4. Encourage Foreign Investment and Consider Foreign Investment a Long-term Component of Vietnam's Economy*

Implement the revised Law on Foreign Investment in Vietnam. Revise a number of policies to create more favourable conditions to attract foreign investment. Gradually abolish the dual pricing system in which the State determines a different rate of fees applied to services used by foreign-invested enterprises in their business operations. Improve the flexibility and effectiveness of state management over foreign direct investment. Promulgate stipulations on specific responsibilities assumed by the State and by local government agencies in relation to foreign-invested enterprises with respect to land, power and water infrastructure, social security, and so on.

Unify step by step the legal and policy frameworks, and the conditions for business cooperation applied to domestic enterprises and foreign-invested enterprises.

## **2. Maintain Macroeconomic Stability**

### *2.1. Improve Fiscal Policy, Consolidate the Tax System, and Expand the Tax Base to Ensure a Stable Balance between State Revenues and Expenditures.*

Continue to reform the tax policy system along the line of enhancing revenue sources; implement open and transparent principles regarding business activities and tax revenues, harmonise the interest-based relationship between State and society; stimulate production growth and ensure a level playing field between different economic sectors, and between domestic enterprises and foreign-invested ones; promote social equity by gradually reducing the number of tax rates, and applying direct taxes, such as the personal income tax, to replace the income tax imposed on high earners. Honour international tax commitments. Gradually introduce the new method of tax collection in which taxpayers declare and calculate their tax obligations on their own in accordance with the law, and send their tax payment to the Treasury, upholding the principle of voluntariness and self-responsibility of enterprises. Strengthen the task of checking and inspecting the compliance with tax policies, and apply strict punishment to violators.

Maintain a prudent fiscal policy, gradually implement the agreed recommendations in the Public Expenditure Review. Increase expenditures for important socio-economic infrastructure projects, essential social services, especially primary education and basic health care services with an aim to supporting the task of hunger eradication and poverty reduction. Continue to make public the State revenues and expenditures budget in a more scientific and proper manner.

Keep the State budget deficit at a controllable level.

### *2.2. Implement an Appropriate Monetary Policy to Maintain Macroeconomic Stability, Control Inflation, and Support Economic Development*

Introduce an appropriate monetary policy to ensure a stable and sustainable development path; strengthen monetary management using indirect instruments to gradually replace direct instruments. Develop a healthy and competitive banking system during the process of integrating and restructuring step by step the banking system, settling non-performing loans, and strengthening the task of bank inspection and supervision.

*Develop capital and money markets* involving appropriate diverse players including the banking system, non-bank financial institutions, insurance companies, investment funds and investment guarantee funds, and so on, to attract savings from society, and to expand the sources of long-term and medium-term funds. Abolish all forms of subsidies to capital and credit. Continue to develop and promote the operation of the stock market in order to mobilise funds from the population and to create more sources of funds to finance investment in development.

Reform the state-owned commercial banking system, separate policy-based lending operations from the functions of state-owned commercial banks; reorganise the financial structure and improve the performance of these banks to enable them to operate in a fair and competitive environment; and link their management responsibility with their business performance.

Restructure and strengthen joint-stock banks. Close or merge weak banks.

Continue to implement the basic interest rate policy with a view to moving towards interest rate liberalisation. Introduce a flexible exchange rate management system based on market mechanisms under State regulation, and gradually reduce the rate of foreign exchange surrender.

Implement the Vietnamese accounting system with application of international accounting standards in commercial banks, and in the task of bank management and supervision.

Set up the asset management companies (AMC) to resolve debt problems; develop measures to address collateralised overdue loans following market-based rules.

### *2.3. Trade Policy*

Push strongly the process of economic integration; strictly implement the commitments made in the course of the integration process.

Actively prepare for Vietnam's participation in the committed bilateral and multilateral cooperation mechanisms. Each sector and each enterprise should formulate its own strategies and solutions to meet international commitments, raise their competitiveness in domestic and international markets, increase its market share in traditional markets, and find new markets.

Enterprises belonging to different economic sectors are free to operate foreign trade business, including export, import and a number of services, except activities not permitted by law. The Government encourages export activity, especially of key items where Vietnam has a comparative advantage, and offers assistance through the export support fund, the export guarantee fund, and other measures such as providing information, help in finding clients, participation in exhibitions, trade fairs, and so on.

Continue to gradually remove non-tariff barriers and phase out quantitative restrictions (QRs) imposed on imported goods.

Continue to abolish restrictions imposed on rice exporting enterprises and on fertiliser import.

Gradually expand the use of auctions to auction garment export quotas in order to improve market access to exporters (including those from the private sector).

Improve market access for the poor, especially those living in rural, highland and remote areas; stimulate consumption; develop markets or goods trading/exchange centers in poor areas to help integrate the poor with other groups; and make the market more accessible to them by exchanging goods and production experience.

### **3. Mobilise and Use Efficiently Resources for the Poor**

Mobilise diverse resources and create new resources for hunger eradication and poverty alleviation; first and foremost mobilise local resources; combine them with resources from the Government and from external sources.

More investment funds will be allocated from the State budget to finance economic, cultural, and social development in poor areas, and to address critical social issues such as job creation, hunger eradication, poverty reduction; prevention of the spread of social evils, with special attention paid to family planning and community health care. The Government also sets aside credit for the poor under favourable terms.

Mobilise funds from enterprises, people, communities, social organizations, and non-governmental organisations for hunger eradication and poverty reduction activities. At the same time, enhance the role of the Fatherland Front and mass organisations (such as the Women's Union, Farmers' Association, Youth Union, Veterans' Association, and so on) together with other social organisations and non-governmental organisations in poverty alleviation.

The Government of Vietnam calls on and facilitates the provision of support from international organisations (governmental and non-governmental organisations, etc.) to poor households, poor areas, and to create favourable conditions so that the poor can benefit from aid directly provided by international organisations.

Increase investment from the State budget for social development, with special attention given to the interests of the poor, and ensure the implementation of the 20/20 initiative of the Copenhagen Summit Conference for social development.

Improve mechanisms to utilise and allocate funds for hunger eradication and poverty alleviation to achieve the key objectives of public expenditures: to promote growth, to help people who are left behind in the process of economic growth, to offset the adverse impacts of the widening urban-rural income gap, and to promote gender equality through various policies and strategies to develop education and human resources. To ensure the allocation of capital to key sectors affecting strongly and directly the poor, such as investment for agricultural and rural development, spending on agricultural extension services, irrigation, agro-processing activities, education, training and health care support .

Increase the efficiency of capital utilisation in development investment programs, in various national targeted programs, and other programs and projects with hunger eradication and poverty reduction objectives. Strengthen the decentralisation and efficient utilisation of ODA-funded projects.

Integrate and gradually move towards merging targeted programs in the same region. From 2001, integrate the commune cluster centre development program, fixed settlement and cultivation program, and program to support poor ethnic minorities with the program on socio-economic development for especially disadvantaged poor communes in mountainous, remote and isolated areas.

Strengthen the role of localities in allocating resources and implementing projects with hunger eradication and poverty alleviation objectives.

#### **4. Administration Reform**

The overall objective is to establish a transparent, effective, and efficient State administration with a simple organisational structure and to enhance the quality, capability, professional level and education attainment level of government staff and civil servants in order to meet the country's socio-economic development requirements. Administrative reform is carried out in four areas: administrative institutions, organisational structure, building the body of staff and civil servants, and public administration reform.

Identify clearly what the Government must necessarily do, what can be jointly done by the Government, the people, and private organisations, and what should only be done by people and private organisations. The organisational structure of Government apparatus will be reformed along the lines of reducing the number of focal points of Government ministries and agencies and applying the principle in which ministries are responsible for multi-sectoral and multi-field management.

Implement more vigorously the decentralisation of public administration while strengthening the capacity of local administration; enhancing their supervision and monitoring responsibilities; based on this, streamline the organizational structure of local governments at different levels along the lines of reducing the number of focal points.

Simplify as much as possible public administration procedures, business registration procedures; reduce transaction costs for import-export activities, and streamline procedures related to trade and the foreign exchange system.

Improve the efficiency of the administrative apparatus, strengthen the principle of accountability and transparency in the operation of agencies responsible for public and juridical bodies. Ensure transparency in State budget management; intensify the war against corruption.

Clarify government functions and strengthen the management, monitoring and inspection capacity of officials representing government institutions. Implement efficiently the decrees on democratisation at the grass-roots level and in various state agencies and state-owned enterprises.

People should be given adequate information about economic activities, plan targets, and financial resources for development projects and programs in their localities. They have a right to comment on and contribute to the development of these projects and programs, to take part in their implementation, operation, and maintenance, to contribute their labour to these projects and programs, and to express their role as the owners of those projects and programs with a view to increasing their responsibilities in utilising and managing infrastructure projects. A legal framework will be developed to enable communities to maintain and manage resources provided through those projects.

Enhance the two-way information system to disseminate information and collect feedback opinions through such measures as: improving the quality of mass-media channels, disseminating information directly to households, providing direct access to information, using the community's radio and video facilities, and implementing mechanisms to offer incentives to staff with responsibility for information propaganda.

#### **IV. Sectoral Policies and Resolutions to Create Opportunities, Reduce Vulnerability and Support the Poor**

## **1. Create Opportunities for Poor Families**

### *1.1. Invest to develop essential infrastructure for poor communes and areas*

Invest in developing various categories of social infrastructure, with special attention to rural, remote, and isolated areas. Improve the structure of state budget expenditure in these sectors to redirect more resources to poor communes and poor areas.

Renovate the mechanism for investing in and developing infrastructure in poor communes and areas; strive to provide step by step poor and especially disadvantaged communes with basic infrastructure, with a view to creating an enabling environment for the poor to develop their production capacity and to have greater access to basic social services at low cost. Encourage the poor to participate in building these basic infrastructure projects, considering that a means to create jobs for them and improve their incomes. Combine the task of building infrastructure projects with preventive measures to combat floods and other natural disasters.

Attach special importance to the development of rural roads, especially in poor communes and poor areas. Create more opportunities for localities where poor communes and areas are seen to take initiative in managing the development and maintenance of their own rural transport infrastructure.

Strengthen the task of developing master plans for socio-economic development in each area to serve as a basis for developing construction master plans, detailed land use master plans; reorganise the population into populated villages and communities to facilitate the development of social infrastructure.

### *1.2. Increase productivity in agriculture and diversify the rural economy, considering this the primary strategy to create jobs and increase income to eradicate hunger and reduce poverty*

Quickly transform the structure of agricultural production and rural economy; construct specialised commodity production areas taking into consideration the special endowment of each region and locality with respect to climate, land, and labour, and its market demand. Actively reclaim barren land and expand arable land in areas where there is still unused land; reallocate labour and population; and alleviate the impact of natural disasters on production activities.

Reorganise production; encourage the development of household economy or farm economy in the direction of establishing large-scale husbandry to attract labour and create jobs; increase investment in improving breeding animal herds and veterinary services.

In the agricultural sector and rural areas, concentrate the financial resources of programs with hunger eradication and poverty reduction objectives to help the poor shift from agricultural activities (crops, animal husbandry, aquaculture) with low market value to those with high market value, change the traditional production pattern to one of market-oriented commodity production, and apply new production technology to increase the productivity and efficiency of each type of crops and animals. Provide guidance about methods households should adopt to ensure their own food security, taking into account actual food conditions in each locality. Provide guidance and disseminate nutrition information so poor households can take care of their own nutrition needs, given their actual circumstances, and diversify their daily intake using local food and foodstuffs.

Encourage people to take part in developing their own rural infrastructure, especially rural electricity, safe water, schools, health stations, commune cluster centres, markets, etc. and to operate and manage these works by themselves.

Introduce small-scale industries in rural areas; develop processing industries, especially animal feed processing industry; develop meat, milk and other agro-processing establishments. Create more opportunities for the poor to be employed in off-farm activities.

*1.3. Solve the problem of urban poverty, increase the income of the poor in urban areas*

Encourage all economic sectors to invest in expanding production to create more new jobs to provide income for workers, especially poor and vulnerable people in urban areas.

Support and increase opportunities for poor people to work abroad by providing loans to help them to pay up-front expenses such as training and processing costs, and so on.

Create favourable conditions for the poor to provide contract labour either in or outside their area of birth and residence, thereby ensuring that they have income to improve their living standards.

Encourage shop owners and production workshop owners to increase investment to expand their production in order to absorb local labor and create local jobs to provide income for the poor.

Create conditions to enable the poor to obtain employment and earn more income by taking part in infrastructure construction in precinct, district and town centers.

*1.4. Protect the environment* so the poor can maintain healthy lives. Strengthen natural resource management. Combine economic development with protection of the environment linked to the objective of hunger eradication, poverty reduction and improving the people's living environment.

*1.5. Strengthen the ability of the poor, especially women, to access credit*

Create favourable conditions for the poor, especially those living in rural areas, with priority given to women, to borrow with an appropriate interest rate in order to develop production. In the short term, continue to apply a low interest rate policy for the poor, and in the long term, gradually enhance the ability of the poor, especially poor women, to access the formal credit system by simplifying procedures rather than applying preferential credit policies.

Improve the lending cycle, loan conditions, procedures, loan amount and maturity period to ensure that the most favourable conditions can be created for the poor in obtaining credit. In this regard, importance is attached to providing medium-term and long-term loans consistent with the production cycle.

*1.6. Enact policies to invest in training activities, provide guidance and information to help the poor, especially women, learn how to do business and develop production*

Implement job training; improve forms and methods of vocational training to make sure that workers have acquired the requisite vocational skills to enable them to be gainfully employed, thereby improving their lives. Provide training in managing and developing small- and medium-sized enterprises.

Expand the application of scientific advances and the transfer of new production technologies to rural areas; implement extension programs in the agriculture, forestry and fisheries sectors. Apply scientific and technological progress in business and production to increase the productivity of crop cultivation and animal breeding, and to improve the quality of goods produced by the poor, as a means of improving their income.

Provide support to research cost-effective and appropriate technologies that are needed by the poor and meet their requirements; encourage the exchange of experience between researchers and poor farmers to help them increase the productivity of crop cultivation and animal breeding.

Build and expand effective self-help hunger eradication and poverty reduction models to other areas so the poor can gradually develop the capacity to escape poverty and integrate with the greater community.

### *1.7. Stabilise and raise the living standard of ethnic minorities*

Formulate programs to stabilise and increase the living standards of ethnic minorities based on the characteristics of each location. Each locality should prepare a specific plan, in harmony with its particular conditions, to invest in developing productive capacity and step by step to elevate cultural and spiritual conditions for ethnic minorities. Implement well the task of fixed settlement and cultivation, and stabilise the production and livelihood of mountainous and ethnic people in a manner suitable to their customs and practices.

### *1.8. Create favorable conditions for the poor, especially for women and children, to access social, education and health care services*

Concentrate on developing basic education and various forms of informal education, improve the intellectual level of the people, especially those living in poor areas. Consolidate and build on the gains from universalising primary education and eradicating illiteracy to gradually universalising primary education for school children at the correct age level, with special attention given to disadvantaged areas.

Earmark an adequate portion of State budget for basic education; continue to apply the school fees exemption policy for children from poor families; and increase the provision of loans to poor students to cover costs incurred during their study period. Strengthen distance learning through mass media; and improve the teaching program so they can be more useful to the poor.

Expand the lending of textbooks and books for children to school children from ethnic minorities.

Develop preventive health care; prevent the occurrence of big epidemics; actively organise disease prevention campaigns. Concentrate on developing basic health care and community health care; provide adequate health services for the people, especially the poor, to ensure adequate provision of primary health care. Maintain the gains in abolishing infant poliomyelitis and tetanus. Continue to implement extended vaccination in 10 kinds of vaccine for children. Implement appropriate policies to channel financial resources to support health care for the poor.

## **2. Develop social safety nets for the poor and for victims of natural disasters**

*2.1. Add policies on providing emergency and regular support to complete the system of state support for the poor, the disabled and vulnerable groups so that they can create jobs on their own or work for other people on a contract basis, with the aim that they will be able to earn enough to feed themselves, to actively participate in the community and in social activities, and to be able to reap more of the benefits of economic reform.*

*2.2. Establish measures to help the poor improve their participation in the marketplace*

Research simple preservation methods and encourage the production of low cost preservation equipment to help poor people and small household producers conserve their

own agricultural produce so they can sell these products at the most favourable time, with least cost, in a way that best suits their particular economic circumstances.

Provide timely credit to help the poor cope with prolonged market risks (such as declining prices, or products that cannot be sold, etc.) to protect their productive capacity.

The State helps the poor, and small-scale producers, to organise for themselves convenient and simplified forms of co-operative economy that is compatible with the specific conditions of each region, each locality, and each production function. Educate the poor to understand the benefits of economic cooperation and co-operatives so they can create for themselves a suitable and beneficial form of economic cooperation.

*2.3. Establish a priority system to help disadvantaged groups benefit from national targeted programs on social development. Establish a preferential regime for poor and vulnerable people to reduce contributions, fees and costs related to their social transactions and their access to basic social services, and in cultural and educational activities to elevate the people's intellectual level.*

*2.4. Expand the social protection and safety net through different funds. Provide humanitarian support on a regular basis for the poor and hungry, especially for those unable to work and have no one to rely on; organise and carry out the activities of these funds in communities and villages where the poor and vulnerable are concentrated. In that context, special attention should be given to provide assistance in kind (such as rice, foodstuff, clothes and so on) to people in rural and selected urban areas who fall into very difficult circumstances.*

Develop social relief centers in poor areas and in localities that often suffer from shocks in order to nurture those who lose the ability and the opportunity to earn a living. In the immediate future, implement well the specific stipulations of Government Decree No. 07/2000/ND-CP dated March 9, 2000 on the policy to provide social relief in the three-year period from 2001-2003.

*2.5. Develop solutions to effectively address emergency social relief for poor and vulnerable people who are hurt by natural disasters, accidents, and other negative social shocks; improve this policy based on adopting emergency relief measures, including:*

Reform the mechanism to develop and coordinate Emergency Relief Fund.

Help the poor to take preventive measures against and fight effectively natural disasters such as storms, flood, drought, pests, etc. by organising training, and transferring knowledge and practical experiences about managing natural disasters. Provide a share of the needed material support (if necessary) to help them create physical conditions for preventing and overcoming disasters by upgrading the floors in their homes, making floating rafts for temporary living, and building small warehouses to protect their food and foodstuffs from flooding, etc.

Organise and prepare aid facilities to respond rapidly and in a timely fashion to limit the negative effects of natural disasters; provide guidance for the poor so that they can take the initiative to help each other when hit with natural disasters.

Organise assistance to help the poor recover from natural disasters so they can quickly resume normal life and production; for example, provide them with necessary factors of production (such as seeds, trees, livestock, tools for cultivation); solve environmental problems after the natural disaster has struck. Build local medicine storage to cure in time and effectively diseases caused by natural disasters. Build facilities to store food, foodstuffs, and clothes in each community where natural disasters are frequent so

they can be distributed quickly to disaster victims.

*2.6. Expand the participation and enhance the role of domestic social organisations and non-governmental organisations in the process of building and implementing the social safety net*

## **V. SCHEDULE FOR MAKING COMPREHENSIVE POVERTY REDUCTION STRATEGY PAPER FOR THE PERIOD OF 2001-2010**

1. The preparation of the Interim Poverty Reduction Strategy Paper (I-PRSP) under the previous Extended Structural Adjustment Facility (ESAF) to serve as a basis for obtaining a concessional loan under the Poverty Reduction and Growth Facility and Structural Adjustment Credit (PRGF/SAC) began in April 2000, after the Government of Vietnam designated the Ministry of Planning and Investment to be the focal point in preparing the paper in collaboration with concerned ministries and agencies. The I-PRSP is formulated by a group of local experts with assistance from the WB and IMF, and also from UNDP and FAO, and benefits from a wide range of consultations with concerned ministries, agencies, representatives of the donor community, and other participating organisations. Comments and opinions on I-PRSP(\*)<sup>1</sup> have been made by concerned ministries and agencies, scientists, mass-organisations, non-governmental organisations, and the donor community in various consultations on I-PRSP.

2. After the Consultative Group Meeting organised in December 1999, the Government of Vietnam has assigned the Ministry of Labour, Invalids and Social Affairs, and requested the Poverty Reduction Working Group, to use the published research papers to formulate the Comprehensive Poverty Reduction Strategy for the 2001-2010 period. The Ministry of Labour, Invalids and Social Affairs is in the process of finalising the Comprehensive Poverty Reduction Strategy for the 2001-2010 period and has organised a number of consultations to collect comments and opinions from concerned ministries and agencies, localities, and international organisations.

The Draft Comprehensive Poverty Reduction Strategy was presented at the Consultative Group Meeting held in December 2000.

3. Despite of the fact that relatively large amounts of work have been completed, a number of things need to be done and refined to translate the Interim Poverty Reduction Strategy Paper (I-PRSP) into a comprehensive Poverty Reduction Strategy Paper (full PRSP). These works are expected to be completed within the next 12 months. A detailed workplan is under preparation which underscores the importance of the the following issues:

- Continue to update data and information, analyse the linkages between poverty and the factors that have impacts on poverty reduction such as the impact of trade

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<sup>1</sup> During the process of I-PRSP formulation, we received comments, suggestions from national and international organisations, individuals (more than 60 comments was given through 3 international workshops and various national workshops), notably poverty analysis in I-PRSP was mentioned in the study on hunger eradication and poverty reduction done in 1999. This study was done by the government's poverty study group, donors and NGOs who have had guidance and carried out analysis based on data of the survey on 6000 households and on 4 assessments of community in poverty situation with the participation of others 1000 households. The NGOs and representatives of local organisations were invited to participate in these meetings. The group of I-PRSP formulation has actively organised the meetings, especially with the NGOs to discuss on the process and contents of I-PRSP, and provided its email address to them for receiving their written comments. A draft of I-PRSP was circulated to the participants and discussed at the CG meeting in December 2000.

liberalization on the poors and vulnerable groups; and the linkages between resource allocation and poverty outcomes.

- Specify the targets on hunger eradication and poverty reduction for the coming period. Research and develop a system for evaluating and monitoring accurately and regularly the progress in hunger eradication and poverty reduction, including analysis of quantitative and qualitative data. Indicators on outcomes of implementation of poverty reduction strategy will be identified in broad consultation.

- Concretize and implement the policies and measures laid out in the Interim Poverty Reduction Strategy Paper , which links with the implementation of annual socio-economic plan, of the 2001-2005 socio-economic plan, and of the 2001-2010 socio-economic development strategy.

- The Government will assign focal government agency to coordinate with ministries, government agencies, and localities to develop a full Poverty Reduction Strategy Paper (full-PRSP).

4. The Government of Vietnam welcomes a wide involvement of national and international experts, domestic and international organizations, including donors, NGOs, local organizations and community in the development of the full Poverty Reduction Strategy Paper (PRSP). The Government is seeking financial and technical assistance from the donor community to its realisation of the above-mentioned tasks.

## **Appendix 1**

### **Macroeconomic Framework for the Three Year Period 2001-2003**

1. Vietnam's objective in the coming three years is to have a high and sustainable economic growth rate. The aim is to achieve a minimum average annual growth rate of at least 7%.

2. Gradually increase the quality and efficiency of development, and improve the competitiveness of the economy. Focus efforts on developing human capital, education and training, science and technology. Resolve critical issues of employment, basically eradicate hunger and sharply reduce the number of poor households, curb and push back social evils, and stabilise and improve the people's living standards.

3. Increase substantially socio-economic development investment and make adequate investment in focal economic zones, support and invest more in greatly disadvantaged areas, especially remote and isolated areas. Increase the share of investment in GDP to 29-30%.

4. Create all possible favourable conditions for a rapid increase in exports and for attracting foreign capital and technology. It is expected that the value of exports will increase at an average annual rate of 15%-16%, while the value of imports will increase at an average annual rate of 14%.

5. Strengthen the national financial potential and capacity, increase the sources of revenues to ensure a sustainable budget balance. Strive to increase the share of State budget revenue in GDP to 18-19%. Keep State budget deficit under a controllable level (lower than the economic growth rate).

6. Implement a monetary policy with a view to moving towards keeping inflation at appropriate levels. Limit the rise in the consumer price index at around 5% per annum.

Implement a flexible exchange rate policy, apply measures that develop further the inter-bank foreign exchange market.

7. Address effectively pressing social problems. Reduce the annual birth rate by 0.4%-0.5%. The population growth rate in the year 2003 is expected to be about 1.35%. To create jobs for 1.5 million people per year; to increase number of trained labourers to 25% of the total by the year 2003.

Reduce ratio of poor households to 7-8 % based on the current poverty line by the year 2003 (or 11-12% if based on the new poverty line).

By the year 2003, 35% of total domestic demand for medicine is expected to be met by locally produced medicines; reduce child malnutrition rate to 29% in the year 2003.

About 60% of the population have access to safe water by the year 2003.

**Table 1.**

**Vietnam: Medium-Term Macroeconomic Framework, 2001 - 2003**

|  | 1999 | 2000<br>Estimate<br>s | 2001            | 2002      | 2003      |
|--|------|-----------------------|-----------------|-----------|-----------|
|  |      |                       | Projections (1) |           |           |
| <b>Production and Price</b>  |      |                       |                 |           |           |
| - Real GDP (annual percentage change) (2)  |      |                       |                 |           |           |
| Official estimates (3)   | 4.8  | 6.7                   | 7.5(3)          | >7.0      | >7.0      |
| Staff estimates  | 4.2  | 5.5                   | 5.0             | 6.0       | 7.0       |
| - Inflation (end of period, annual percentage change)  | 0.1  | -0.6                  | 5.0             | 4.0       | 3.5       |
|  |      |                       |                 |           |           |
| <b>Current account balance</b> (including official transfers)                                    | 4.5  | 2.1                   | -0.3            | -4.3      | -3.3      |
|  |      |                       |                 |           |           |
| <b>Exports and imports</b> (annual percentage change)  |      |                       |                 |           |           |
| - Exports of goods (4)   | 23.2 | 25.2                  | 7.0-16.0        | 12.0-16.0 | 12.0-16.0 |
| - Imports of goods   | 1.1  | 34.5                  | 11.0            | 19.0      | 11.0      |
|  |      |                       |                 |           |           |
| <b>General government budget</b> (in percent of GDP)   |      |                       |                 |           |           |
| - Total revenue and grants   | 19.8 | 20.4                  | 20.3            | 20.0      | 19.7      |
| - Total expenditure (excluding onlending) (5)  | 20.6 | 22.2                  | 23.1            | 23.0      | 22.8      |
| - Overall fiscal balance (excluding onlending)   | -0.8 | -1.8                  | -2.7(6)         | -3.0      | -3.1      |
|  |      |                       |                 |           |           |
| <b>Gross official reserves</b> (in weeks of next year's imports of goods and nonfactor services) | 8.1  | 8.2                   | 8.3             | 8.9       | 9.3       |

Sources: *Vietnamese authorities, and Fund and Bank staff estimates and projections.*

*1/ Based on projections derived in cooperation with Fund and Bank staff, unless otherwise indicated.*

*2/ Differences between official and staff estimates and projections of real GDP growth reflect alternative methodologies used to estimate GDP and its components on an expenditure basis and recent changes in the external outlook. Under the PRGF-supported program, the Vietnamese authorities will seek technical assistance from the Fund on improving national income accounts.*

*3/ As approved by the National Assembly in October 2000.*

*4/ The bottom - and top-end of the range reflect staff and official projections, respectively.*

*5/ Includes current costs of structural reforms.*

*6/ 2001 budget, which was based on more conservative world oil prices, points to an overall deficit of 3.4 percent of GDP.*

## Appendix 2

### Vietnam: Interim Poverty Reduction Strategy Paper Policy Matrix 2001-2003

| Policy Areas and Objectives  | A. Policies and Measures during 2001-2003  |
|--|--|
| <p><b>A. Macroeconomic and Structural Policies to Promote Economic Growth, 1. Raise Incomes, and Create Opportunities for the Poor</b></p> |  |
| <p><i>I. Create a fair, efficient, and competitive business environment</i></p>  |  |
| <p>1. Create a fair business environment for different forms of enterprises and increase transparency</p>                                  | <p>Remove impediments and create a level playing field for different forms of enterprises through implementation of the Law on Enterprises.</p> <p>Continue removing unnecessary business licences.</p> <p>Create equal conditions for all types of enterprises to access capital, credit, land, technology, profession, information, and current preferential systems of the State.</p> <p>Develop and improve a legal framework to ensure a stable and predictable investment environment and to promote openness, and transparency of measures and policies to encourage greater investment.</p> <p>Amend some policies to create more favourable conditions for attracting foreign investment. To gradually remove the dual pricing system imposed by the State on business activities of foreign-invested enterprises.</p> <p>Unify step by step the legal framework, policy and conditions for business and co-operation between domestic enterprises and foreign-invested enterprises.</p>                  |
| <p>2. Measures to open trade, promote exports and international integration, and strengthen country's competitiveness</p>                  | <p>Promote strongly economic integration, strictly implement commitments in the process of integration.</p> <p>Make active preparations to take part in committed bilateral and multi-lateral co-operation mechanisms. Realise bilateral trade agreement with the United States, paving the way for adhesion to the World Trade Organisation (WTO).</p> <p>Enterprises from different economic sectors are free to do foreign trade, except for activities that are prohibited by the Law, which include certain exports, imports and some kinds of services.</p> <p>Continue removing non-tariff barriers and reduce gradually on the multilateral basis, quantitative restrictions (QRs) imposed on imports. During 2001-2003, phase out QRs imposed on six items (i.e., cement clinker, some remaining kind of steel, paper, construction glass, vegetable oil, and granite tiles and ceramic tiles).</p> <p>From the year 2001, remove QRs imposed on rice exporting enterprises and on fertiliser import.</p> |
|  | <p>Increase gradually activities to organise quota auctions for garment exports to create favourable</p>   |

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|--|--|
|  | <p>conditions for exporters (including those from private sector) to access market.</p> <p>Improve market access for the poor, especially for those living in rural, highland and remote areas</p>   |
| <p><i>II. To generate investment capital and improve investment efficiency</i></p>                 |  |
| <p>1. Reform state-owned enterprises (SOEs) to strengthen their efficiency and competitiveness</p> | <p>Implement a three - year SOE reform program during the 2001-2003 period, with annual targets to improve efficiency and to curtail losses in this sector. Strive to effect equitisation, divestiture, sale, lease and liquidation of around 1800 SOEs.</p> <p>Promulgate a decree on transformation of SOEs (including enterprises founded by political and socio-political organisations) into single owner limited liability companies operating under the Law on Enterprises.</p> <p>Amend Decree No 44/1998/ND-CP on equitisation of SOEs</p> <p>Establish working groups consisting of representatives from Ministry of Finance, State Bank of Vietnam, Ministry of Labour, Invalids and Social Affairs, and Enterprise Renovation and Development Steering Committee to carefully estimate the costs of reforming SOEs and the system of State owned commercial banks, and to determine the sources of funds to cover those costs.</p> <p>Research an incentive mechanism to provide appropriate relief for those who volunteer to give up work during the process of implementing the SOE reform program.</p> <p>Develop and implement, on an experimental basis, the plan to restructure selected general corporations (about three). Improve the efficiency of general corporations.</p> <p>Establish regulations on the monitoring and supervision of business performance and debts of SOEs, first of all large SOEs, in order to resolve the problem of the bad debts of enterprises with inefficient business operations. Develop a quarterly monitoring system for 200 SOEs which have substantial debts.</p> <p>Introduce auditing for a number of large SOEs</p> |
| <p>2. Reform banking sector to mobilise domestic savings and improve financial intermediation.</p> | <p>Develop and implement the plans for restructuring four state-owned commercial banks (SOCBs) in accordance with the overall framework for banking sector reform</p> <p>Amend Decision No 284 to bring loan classification and loan loss provisions in line with international standards, allowing an evaluation of the actual financial status of banks</p> <p>Introduce annual financial auditing for all the SOCBs conducted by independent auditing companies</p> <p>Separate preferential and policy-based credit activities from the State-owned commercial banks, and let them operate in a competitive environment</p> <p>Restructure and strengthen joint-stock banks, close or merge weak banks</p>   |

|  |   |
|--|---|
|  | <p>Promulgate a decree guiding the implementation of the revised Land Law to create favourable conditions for transfer, leasing, and mortgage to borrow loans from banks and to make contribution to joint ventures.</p> <p>Provide concrete guidelines on regulations to allow banks operating in Vietnam to accept land use rights as collateral.</p> |
| <p><i>III. Protect macroeconomic stability by maintaining prudent policies towards external, monetary and state budget areas</i></p> |   |
| 1. Implement appropriate fiscal policies to safeguard medium-term sustainability   | <p>Strengthen tax system, increase tax base along the lines of developing the sources of tax revenue and increasing the efficiency of the tax payment system.</p> <p>Gradually implement the recommendations that are agreed upon in the Public Expenditure Review. Increase expenditures for basic social services and rural infrastructure.</p>       |
| 2. Increase budget transparency to improve information base for decision making and target setting                                   | <p>Improve budgetary revenue and expenditure monitoring system, and increase information flows at all levels.</p> <p>Continue to make public information on annual budgetary revenues and expenditures in a more scientific and proper manner.</p>  |
| 3. Implement prudent monetary policy to control inflation  | <p>Introduce monetary and credit controls with an aim to improving effectiveness of monetary policy monitoring and meeting the targeted objectives.</p> <p>Continue to implement a basic interest rate policy with an aim to move towards liberalising interest rates.</p>  |
| 4. Foreign exchange policies to increase competitiveness, liberalise the current account   | <p>Increase flexibility and transparency of the foreign exchange regime. Develop inter-bank foreign exchange market.</p> <p>Introduce flexible exchange rate management in accordance with market mechanisms under State regulation, and reduce gradually the ratio of foreign exchange surrender.</p>  |
| 5. External debt policies to keep debt service burden at a serviceable level   | <p>Monitor all debts including debts of government, SOEs, and those guaranteed by Government, debts of joint venture companies (including FDI loans) and private sector debts.</p>  |
| 6. Improve macroeconomic statistics  | <p>Introduce a Vietnam page in the IMF's International Financial Statistics (IFS) and strengthen the statistical base.</p>  |
| <p><b>B. Sectoral policies to improve access to resources for the poor, strengthen equity, and reduce vulnerability</b></p>          |   |
| <p><i>IV. To create opportunities for poor families</i></p>  |   |
| 1. Accelerate rural development and increase income of those who work in agriculture sector  | <p>Continue liberalising input market (fertiliser) and output market (rice).</p> <p>Complete the master plan for market demand driven agricultural development to facilitate the transformation of production structure properly and efficiently.</p> <p>Encourage all economic sectors to make investments in agricultural sector, develop</p>         |

|   |   |
|---|---|
|   | <p>household economy, and disseminate farm economy model with an aim to promote agricultural development and diversification.</p> <p>Encourage all economic sectors to take part in developing professions and trades and rural infrastructure, and creating new jobs and off-farm jobs.</p>  |
| 2. Increase environmental protection  | <p>Increase management of natural resources.</p> <p>Solve health care issues relating to environmental pollution.</p>   |
| 3. Address poverty situation in urban areas and increase income for urban poor                        | <p>Create the necessary conditions to enable all members of the urban population to access basic social services.</p> <p>Create measures to help the poor find appropriate jobs in urban areas.</p>   |
| 4. Increase productivity and equity of infrastructure services network and extend them to rural areas | <p>Encourage both private and state sectors to take part in providing basic infrastructure services to ensure the availability of infrastructure in urban and rural areas.</p> <p>Ensure the stable, efficient and equal provision of energy, water and sanitation facilities, and expand the access of rural people to these services</p>  |
| <i>V. To ensure equity</i>  |   |
| 1. Ensure that all social strata can fully take part in economic growth                               | <p>Promote balanced and sustainable economic growth between regions.</p> <p>Promote gender equity, enhancing the participation of women at all levels of leadership.</p> <p>Ensure that ethnic minorities in the mountainous areas benefit from growth. Evaluate and disseminate models to support disadvantaged areas and ethnic minorities, and encourage them to take part in economic development process.</p> <p>Encourage NGOs and socio-political organisations to take part in hunger eradication and poverty reduction.</p> <p>Improve the poor's access to legal support services. Help the poor improve their knowledge of their legal rights and obligations.</p> <p>Increase the two-way information system between local government and poor families.</p> <p>Implement fully the Decree on Democracy at the Grassroots Level, and create an enabling environment for poor households to take part in local economic development plans.</p> |
| 2. Make investment in human resource development and encourage social equity                          | <p>Improve quality, equity, efficiency, and compatibility of the education system.</p> <p>Consolidate and build on the achievements of primary education universalisation and illiteracy eradication, moving towards universalising primary education at exact school ages with special attention given to greatly disadvantaged areas.</p> <p>Earmark an adequate portion of State budget for basic education; continue to apply the school fees exemption policy for children from poor families; and increase the provision of loans to poor students to</p>   |

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|   | <p>cover costs incurred during their study period.</p> <p>Expand the lending of textbooks and books for children to school children from ethnic minorities.</p> <p>Improve quality, equity and efficiency of the health care system: concentrate on developing basic health care and community health care, and providing adequate health care services to ensure adequate provision of primary health care for the people, especially the poor.</p> <p>Maintain the achievements in abolishing infant poliomyelitis and tetanus. Continue to implement extended vaccination in 10 kinds of vaccine for children.</p> <p>Implement appropriate policies to channel financial resources to support health care for the poor.</p> |
| <i>VI. To reduce vulnerability</i>                                  |   |
| 1. Minimise social impacts on the poor in the process of adjustment | Reduce negative impacts on the poor caused by ongoing reforms. Broadly disseminate information on policy changes to facilitate farmers in changing their production and business operations.  |
| 2. Minimise the impacts of natural disasters on the poor            | Develop a set of solutions to effectively address emergency social relief for poor and vulnerable people who are hurt by natural disasters and accidents.   |
| 3. Monitor the poor situation                                       | Collect high quality data from household survey and ensure that this body of information is publicised and used regularly.  |