

## **Vietnam: Poverty Reduction Strategy Paper—Annual Progress Report**

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THE STEERING COMMITTEE OF COMPREHENSIVE POVERTY  
REDUCTION AND GROWTH STRATEGY (CPRGS)

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THE CPRGS INTER-MINISTERIAL WORKING GROUP

# VIET NAM

## **GROWTH AND REDUCTION OF POVERTY**

ANNUAL PROGRESS REPORT OF 2004 - 2005

HANOI, NOVEMBER 2005

## FOREWORD

Over recent years, Viet Nam has adopted effective policies and measures to accelerate its economic growth rate and to reduce poverty, considering the continuous economic reform, and trying to achieve goals and targets, which are set in the Five year Socio-economic Development Plan 2001-2005. With great efforts of line ministries and agencies as well as all level authorities, and with the effective and valuable supports of international donors and organizations, Viet Nam has gained encouraging and notable achievements, in both terms of economic growth and poverty reduction. Economic growth rate still remains at high speed and is stable. Economy's effectiveness and competitiveness also experiences advancing steps. Social sectors are also having positive changes. Sectors of training and education, science and technology, health care, culture, etc. continue the development momentum. Remarkable results have been seen in poverty reduction, poverty incidence reduces sharply, and people life has been improved step by step, etc.

The above-mentioned achievements are resulted from the reform policies, which are undertaken in every sector, and they prove that Viet Nam determines its direction of development with detail steps and an appropriate roadmap to integrate in global economy.

However, in the years to come, Viet Nam will have to experience more difficult challenges, which are: economy is in small size, economic development is not fully sustained, competitiveness and effectiveness is still low, etc. Some social sectors still have emerging issues that need to be solved, etc. In order to overcome the foreseen challenges, Viet Nam has to push up its reform process in economic and social development, to maximize its resources for economic growth, and to improve its effectiveness and competitiveness, etc. Its also needs further cooperation and assistance from international donor community and organizations that help Viet Nam quickly move out the under-development and low income situation.

The annual report, named "Viet Nam, economic growth and poverty reduction" of 2004-2005 is another routine report of the process (2 exports of 2002-2003, and 2003-2004 were made) and shows deeper analyses and evaluation of Viet Nam's economic and poverty reduction achievements that are made in the implementation of the Comprehensive Poverty Reduction and Growth Strategy. I hope the report will be a valuable reference for all organizations, individuals, donors, international organizations about Viet Nam's performance and become a good basis for further supports to Viet Nam during the next 5 year period, 2006-2010

**Minister  
Of Planning and Investment**



**Vo Hong Phuc**

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## PREFACE

Recently, besides taking strong measures in order to accomplish the Five-Year Socio-Economic Development Plan (2001-2005), Vietnam has implemented many uniform mechanisms and policies to promote economic growth, hunger eradication and poverty reduction, which are set by the Comprehensive Poverty Reduction and Growth Strategy.

Thanks to the efforts deployed by the sectors and different levels of authority, as well as the effective assistance of the donor community and international organizations, during the past five years, Vietnam has achieved encouraging results on economic growth. Significant funding has been mobilized for economic growth and poverty reduction. The total social investment compared to the GDP was 37.5%/year. Given that funds mobilization for economic development was carried out successfully, the economic growth has been steady during the last five years (2001-2005), with an average annual growth of 7.5%. The industrial sector continues to grow, the production structure and the quality of production has improved significantly. The value of the industry sector increased at an approximate average of 15.7%/year. Although the agricultural sector has undergone many difficulties due to the poor weather conditions and the climate, etc. the annual growth of the agricultural production continues to attain 5.45% and the production structure has changed remarkably. The service sector has developed, providing good services to the production sector and the life of the population. The effectiveness of the services sector has been improved, and the average growth rate of this sector is approximately 6.9%/year. Export increases strongly, with an annual increase of the volume of export of 17%, the export market continues to be maintained and expanded...

Along with the achievements in the economic sector, the country has also attained considerable results on the social field. The training and education sector continues to develop on a sustainable manner; the scale of education has been enlarged while the quality of education has been enhanced. The medical and public health care services have recorded significant improvements, the medical network has been reinforced and developed in order to better respond to the needs of the population. The hunger eradication and poverty reduction activities has achieved encouraging results, the ratio of poor households has been reduced remarkably, from 37.4% in 1998 down to 24.1% in 2004 (by the international criteria). The infrastructure of the poor regions and poor communes has been improved and the living condition of the population has been ameliorated...

The socio-economic achievements of Vietnam during the past period are the results of the reform process, with the substantial reforms undertaken in all areas of the socio-economic life. The socialist-oriented market economy mechanism has been progressively established.

The in-depth economic reform policies in each sector and each area have been completed step by step. Many new mechanisms and policies have been promulgated in order to create an appropriate legal framework so that to promote economic growth, realize the social objectives and protect the environment.

Nevertheless, Vietnam still has to face many difficulties and challenges. Vietnam continues to be a low-income country, with a narrow-scope economy, an underdeveloped technology level, high cost of production and low competitiveness. The reform of the structure of the economy remains slow and the socialist-oriented market economy mechanism is still to be finalized...

There are many remaining issues in certain social sectors. The quality of the education and training is degrading; scientific and technological researches have not been able to respond to development requirements. The revenues and the living conditions of the population are still poor, especially in the rural and natural-disaster areas; social problems remain widespread; the number of traffic accidents is still high; the social security in certain areas is not yet stabilized; and the administrative reform is being implemented slowly... These deficiencies have had considerable impacts on the realization of socio-economic development objectives in general, and in particular, on the objectives of the Comprehensive Poverty Reduction and Growth Strategy.

Vietnam is currently doing its best to implement the Socio-Economic Development Strategy for the period 2001-2010 in order to bring the country out of the under-developed situation; improve the people's material, cultural and spiritual life; complete substantially the establishment of the socialist-oriented market economy mechanism; lay the foundations so that Vietnam becomes an industrialized and modernized country by 2020.

In order to attain the above objectives, Vietnam should continue its economic reform, mobilize at most the financial resources for the socio-economic development, and take efficient measures to improve the competitiveness of the economy... In addition, Vietnam needs a stronger support from the donor community and international organizations.

The annual report will touch upon and analyse, update in a comprehensive manner the realization of objectives set forth in the Comprehensive Poverty Reduction and Growth Strategy during the two years 2004-2005, and will evaluate the three years of implementation of this Strategy (2003-2005).

The report will be composed of four main parts:

*Part I.* Evaluate the economic growth and poverty reduction during the period 2004-2005 and overall evaluation for the period 2003-2005

This Part will evaluate and provide an overall analysis of the achievements on the economic development, hunger eradication and poverty reduction during 2004-2005, and assess the three-year

implementation of the Comprehensive Poverty Reduction and Growth Strategy. It will also analyse the factors of the economic growth on the areas: industrial production, agricultural, forestry and fishery production, services, and import-export activities. It will also mention the achievements on the social area, as well as hunger eradication and poverty reduction.

*Part II.* Accelerate the implementation of policies aiming at promoting growth and reducing poverty for the period 2004-2005

This Part will focus on analysing the impacts of macro-policies on the improvement of the business environment, the creation of the equality amongst the enterprises and the different levels of the population. It will also analyse the impacts of policies that aim to stabilize the macro-economy and to mobilize the development resources. In the same time, this Part will evaluate the implementation of large-scale infrastructure development policies, social development and poverty reduction policies. It will also assess the process of administration reform and the realization of the democracy rules at the grass-root level...

*Part III.* The process of implementing the Comprehensive Poverty Reduction and Growth Strategy

This Part will describe the activities, the contents and the results of the process of implementation of the Comprehensive Poverty Reduction and Growth Strategy in different sectors and levels, particularly at the grassroots level. It will also highlight the difficulties and challenges and the basic advantages of the country in the process of realizing the objectives of growth, hunger elimination and poverty reduction. In the same time, this Part will provide some recommendations for the implementation of this Strategy in the years to come.

*Part IV.* The challenges, solutions for growth and poverty reduction for the period 2006-2010 and the implementation schedule

This Part will emphasize the advantages and disadvantages in the socio-economic development process in general, and particularly, in the realization of the hunger elimination and poverty reduction targets in the next five years. Certain objectives, tasks and policies need to be studied and implemented. This Part will also highlight the needs to mainstream the hunger elimination and poverty reduction objectives as well as the needs of monitoring and evaluation of plan implementation and task arrangement among line ministries and agencies.

The Chief of the Inter-Ministerial Working Group on CPRGS has elaborated and is responsible for the content of this Report. The editing team includes: Mr. Nguyen Buu Quyen (Director, MPI), Ms. Dinh Thi Chinh (Department of National Economic Issues - MPI), Ms. Pham Lan Huong (Deputy Head - CIEM). Comments and contribution made by: Mr. Nguyen Hai Huu (Director of Social Protection Department - MOLISA), Mr.

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We welcome all comments and suggestions that would help us to prepare better reports in the years to come. Your comments and suggestions can be sent to our address: The CPRGS Working Group, No. 2 Hoang Van Thu, Ha Noi or to our email: cprgs@mpi.gov.vn.

**Head of  
The CPRGS Inter-Ministerial Working  
Group**



Dr. Cao Viet Sinh

## **PART I**

# **EVALUATION ON GROWTH AND POVERTY REDUCTION OF 2004-2005 AND OVERALL EVALUATION FOR THE PERIOD 2003-2005**

### 1- Overview

#### 1.1- The national and international context in 2005

2005 is the last year in the implementation of the Five-Year Social Economic Development Plan (2001-2005) of Vietnam in the early new century. This is also the year that has a key role in the implementation of the country's development objectives that have been set forth in this five-year Plan.

In 2005, the national and international context has experienced positive development, creating therefore many opportunities for development, as well as many difficulties and challenges.

First and foremost, the capacity and level of production of many economic sectors has increased significantly; the economic structure has changed for the better, contributing to bring out the competitive advantages of each sector and each region; the quality of growth has improved; and the Vietnamese economy is adjusting progressively to the international market.

Vietnam has been viewed by the world as a country with a political stability and a safe destination for foreign investors. The Vietnam's ability on goods exchange, on import-export activities as well as on attracting foreign investment has been ameliorated.

The policies and regulations stipulated during the past time have been implemented in real life, and have put forth their positive impacts, contributing to the mobilization of resources for total social investment, especially, of those from the domestic resources which allow the country to take a proactive approach in allocating these resources to concrete investment objectives, particularly, investment in the construction of infrastructure, and accelerating the economic structural adjustment.

Nonetheless, the remaining difficulties and challenges are enormous. Complex developments in the international political context has engendered significant difficulties for the international economic exchanges and the attraction of foreign investment...With regards to the domestic context, the structure of production of each sector and each area has not been able to keep pace with the quick fluctuations of the demand in the domestic and international markets. In addition, the regional and world's competition is increasingly putting pressure on the Vietnamese economy while its competitiveness is still too low.

Adding to these difficulties are the unusual changes of the weather and the climate. In the first months of 2005, drought has taken place on a large scale, especially in the Central Highlands and Central South regions, creating difficulties for agricultural production and the people's life in these regions, as well as a high risk of forest fires. Avian influenza has also re-emerged on a pretty large scale and its development is getting more and more complex. In addition, the lack of power, the increase of the petroleum price and other important raw materials have had negative impacts on the production and business efficiency as well as on the competitiveness of Vietnamese products.

There are many pressing remaining issues in the social area. The people's life in many areas, especially in remote and isolated areas and areas prone to natural disasters is still very difficult and there still exist serious social plagues.

In this context, Vietnam has pursued persistently its policy "Doi moi", has implemented proactively and creatively its plans, and has continued to put forth its achievements. The country has also overcome many difficulties and challenges, continues to maintain a high economic growth rate, and has registered positive development on the social, diplomatic, national defense and security areas...

The ministries, sectors and local entities all have put forward their creativity and motives of development; have mobilized additional resources in order to overcome the challenges and attain the objectives and targets that have been set forth.

#### 1.2- The essential achievements in the economic growth and hunger elimination and poverty reduction on 2005

The socio-economic situation in 2005 has allowed to country to continue to maintain a rapid and sustainable development, production and business activities have been improved; the hunger elimination and

poverty reduction activities have achieved encouraging results, and the people's life has been ameliorated remarkably.

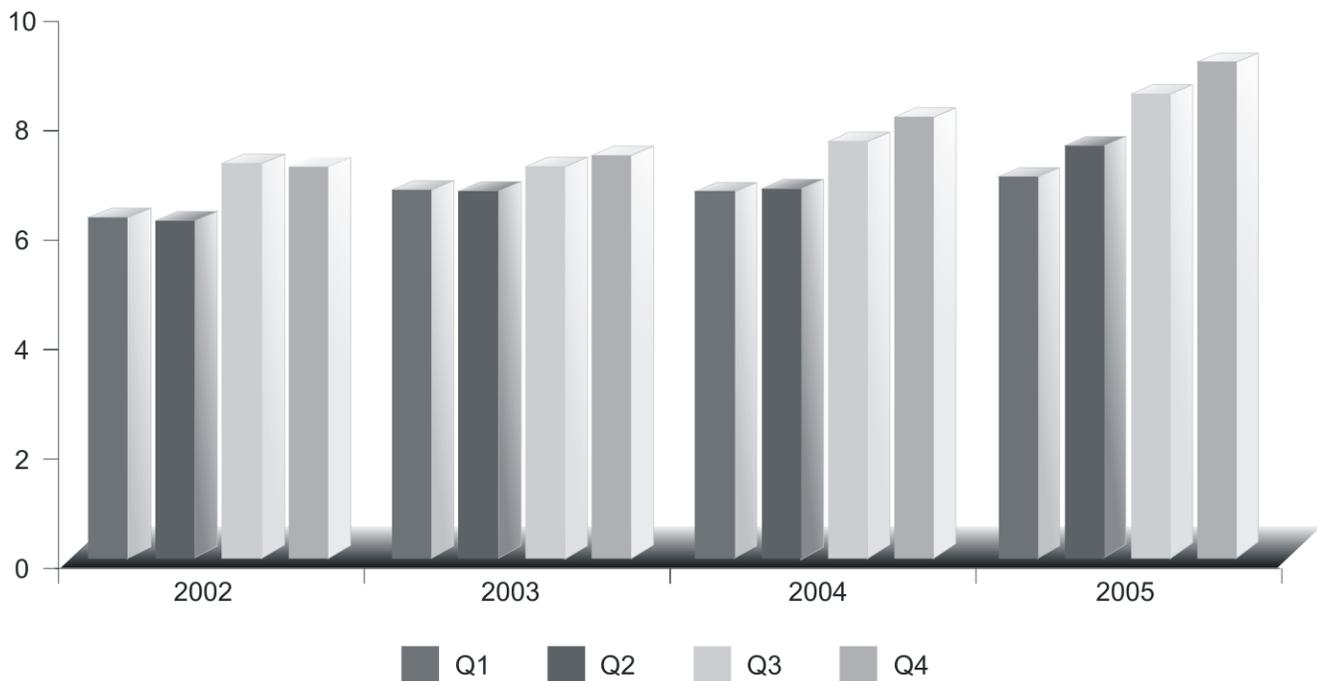
### 1.2.1- The biggest achievements in terms of economic development in 2005

First of all, maintain a high economic growth rate:

Overall, the socio-economic situation of Vietnam in 2005 has allowed the country to maintain a high and sustainable growth capacity; certain production and business activities have been improved; the hunger elimination and poverty reduction activities have achieved encouraging results, and the people's life has been ameliorated remarkably.

GDP in the first quarter has increased to 7.31%, and increased respectively to 7.87% and 9.9% in the second and third quarter. It is expected that in the fourth quarter of 2005, it will increase to over 8.9%. The expected economic growth rate for the whole year is approximately 8.4%, representing an increase of 0.6% compared to that of 2004 (Graph 1).

**Graph 1: GDP GROWTH IN 2005 (%)**



Source: MPI

These are the most significant achievements:

- The agricultural production continues to experience significant development in terms of the structure of production and products. The growth rate of the total value of production of the agricultural, forestry and fishery sector reaches 5.2% per year, surpassing the set targets, in which the growth rate of the agricultural, forestry and fishery sectors is respectively 4.1%, 1.1% and 10.4%. The average growth rate of the value-added of these three sectors is approximately 4.1% per year (while the set target is 3.8%).
- The industrial production has maintained its high growth rate. The output of the industrial sector increased about 16.5%, representing an increase of 0.5% compared to the set target, in which, the output of public enterprises increased about 10.5%; that of private enterprises increased 23.5% and that of foreign investment enterprises increased about 16%. The value-added of the industrial and construction sector increased by 10.7% per year (the set target is 10.5-11%).
- Positive development has taken place in the service sector, allowing this sector to better respond to the needs of the production sector, the business community and the people's life. The value-added of the service sector increased 8.4%, surpassing 0.2% compared to the set target. Certain service sectors such as commerce, transportation, post and telecommunication, tourism, catering and hotel business have developed strongly, particularly, services with high value-added such as banking and insurance have developed rapidly.

Secondly, the macro-economy is stabilized. The essential balances in the economy have been adjusted accordingly in order to maintain the growth potential:

The ratio between savings and consumption has been ameliorated; the total savings account of 2005 compared to 2004 has increased above 7%, in which the consumption per capita increased approximately 6%/year. The people's life therefore has been ameliorated significantly. The savings and accumulative account continues to experience a strong growth, and therefore, the source of investment for development has increased.

The national finance and public finance has been ameliorated considerably, the rate of budget mobilization represents approximately 25% of the GDP. The total amount of investment funds mobilized that

have been put in use has augmented. The ratio of investment funds mobilized in the GDP is up to 38.2%. In 2005, the total sources of investment utilized in the economy surpassed 10% of the set target; in which the domestic source of investment has been better mobilized, representing more than 70% of the total sources of investment.

Thirdly, import-export activities have progressed remarkably, the export volume continues to augment at a high rate. The total volume of export attains about 31.8 billion USD, the average export volume is above 2.6 billion USD per month, the growth rate of exports is more than 20%, surpassing 4% compared to the set plan; the value of exports per capita in 2005 is more than 380 USD. The export markets have been expanded. The value of imports in 2005 reached approximately 37.3 billion USD, representing an increase of 16.7% compared to 2004, in which FDI enterprises imported 13.4 billion USD, which represents 35.9% of the total import volume and an increase of 20.9% compared to 2004.

**Table 1: GDP growth and exports (%)**

Targets	Planned targets in 2005	Estimated realization in 2005
Economic targets :		
(1) GDP Growth rate	8.5	8.4
<i>In which:</i>		
- Agricultural, forestry and fishery sector	3.8	4.1
- Industrial and construction sector	11	10.7
- Services sector	8.2	8.4
(2) Export value growth rate	16	20

Source: MPI

### **1.2.2- The significant results in hunger elimination and poverty reduction, and other social activities in 2005**

The government has focused on guiding the implementation of the many measures, establishing many mechanisms and promulgated concrete policies to develop different social aspects, as well as has concentrated on overcoming the consequences of natural disasters,

droughts... in order to normalize the people's life and production, resolve certain pressing social issues and implement effectively hunger elimination and poverty reduction programs... Encourage human development and resolve pressing social issues are the targets and the basic components of the Vietnam's Socio-Economic Development Plan.

*The most significant achievements are:*

- The education and training sector has developed positively at all levels and all sub-sectors of education. The primary education system continues to develop. The policy of universalizing the lower secondary education system is being implemented actively. By the end of 2005, it is expected that 31 provinces will fulfil the criteria of universalizing the lower secondary education. The quality of the curriculum has been improved and therefore, the quality of education has been gradually increased. The structure of the education sector has been adjusted accordingly to respond to the repartition of the human resources needed for the socio-economic development of the country. The material infrastructure of the education sector has been ameliorated annually. In 2003, investment for the education sector represented 16% of the total investments from the State budget; and this figure has increased to 18% in 2005.
- As regards to the science and technological sector, this sector has focused on appliance researches in order to respond to the economic structural adjustment, the reduction of the production costs, the increase of the product quality and the competitiveness of the economy. Many research results have been introduced in daily life. The science and technology potential has been improved. The level of knowledge of the human resource has also been ameliorated progressively.
- As regards to the labor and employment sector, the government has established many mechanisms and policies such as: the Labor Code (amended); the Tax Revenue Law (amended); Policy encouraging enterprises to recruit labors (including FDI enterprises); policies on vocational training; policies on the linkage between job creation and the implementation of socio-economic programs; policies encouraging the development of traditional craft villages; policies

to eradicate hunger and reduce poverty by creating employment; policies on the adjustment of investment and credit mechanisms; policies with regards to displacement of labor that has been made redundant due the restructuring of State-owned enterprises; policies on labor export promotion... In 2005, 1.6 million jobs have been created, in which, about 82 hundred thousand people work for the agricultural, forestry and fishery sector, while 38 hundred thousand work for the industrial and construction sector and 40 hundred thousand work for the services and commerce sectors.

- Hunger elimination and poverty reduction programs have achieved encouraging results. It has created the opportunities for the poor people to have access to basic social services, conducted good media campaigns contributing to raise the awareness of the population, creating more jobs and increasing the revenue as well as ameliorating the people's life. The sectors and local entities have implemented efficiently hunger eradication and poverty reduction measures, for example: providing credit programs with preferential conditions so that poor households can develop their production and increase their incomes; mainstreaming the target set forth in the National Socio-Economic Development Plan with the local objectives; mobilizing the participation of the population in hunger eradication and poverty reduction programs; implementing policies aiming at allocating lands to the poor so that they will reclaim the soil, develop terraced fields, and mobilizing the people to move to the new economic zones; implementing health and education assistance policies, and well as policies aiming at assisting the poor; establishing funds to provide medical services to the poor and to provide education assistance to poor students. By the end of 2005, the rate of poor households, taking as a basis the old poverty line, has been reduced to 7%.
- The medical and public health care services have been ameliorated, the local medical network has been enhanced and improved; Most of communes and districts in the country have a medical station, and a reserve of drugs which is essential for providing health care services to the population. This sector is also committed to overcome the consequences of natural disasters and preventing the outbreak of epidermis after flood and hurricane seasons. The sector

has also implemented effectively the National Health Care Program. As a result, more than 90% of children under 1 year old have been vaccinated with the complete 6 categories of vaccines; and the rate of contracting as well as the children mortality rate associated with these 6 diseases have decreased remarkably. The health care network has been expanded; traditional medicines and traditional health care methods have been enhanced and developed. Private health care centers have developed rapidly. The management, production and supply medicines and medical equipment have progressed.

- As regard to the family planning and population programs, and programs aiming at caring and protecting children and mothers, the results are also encouraging. Together with the deployment of efforts to achieve the objective of reducing consistently the birth rate, especially in areas where the birth rate remains high, these programs have initiated to implement pilot models and take exemplary measures to improve the quality of the population.

The government has also created an inter-ministerial mechanism to resolve many children related issues, such as: vagabond children, the abuse of children, children delinquency, children using drugs, children having HIV/AIDS. Children's health has been continuously improved. The rate of under-nourished children under 5 years old has been reduced from 34% in 2000 to 25% in 2005.

**Table 2. The realization of social targets in 2005**

Targets	Unit	Plan in 2005	Estimated realization in 2005
Social targets:			
(1) Annual new job creation	Million persons	1.6	1.6
(2) The rate of poor households (set against the old poverty line)	%	7	7
(3) Reduction of the birth rate	%	0.04	0.04
(4) The rate of people living in the rural areas that have access to clean water	%	62	62

(5) The rate of under-nourished children under 5 years old	%	25	25
(6) Number of provinces that have universalized the lower secondary education	Province	31	31
(7) The rate of communes that have clinics	%	100	100
(8) The rate of communes that have doctors	%	65	65.4
(9) The number of hospital bed per hundred thousand people	%	24.7	24.7

Source: MPI

- Many activities have been carried out in the area of cultural and communication as well as physical education and sports, contributing to promote economic activities and stabilizing the social life. The movement of fortifying the solidarity of all the population to build up the cultural life at the local level (cultural villages, cultural districts, cultural communes...) has been accelerated in order to create a civilized way of living and a discipline society. The cultural, communication, radio and television activities have been oriented to the isolated and remote areas and areas where the ethnic minorities are living with difficulties. New social values and new personalities are being established, creating the momentum for a sustainable socio-economic development. Further attention is being paid to the cultural factor in the process of developing the economic, the society and the environment. Sport activities have been taken place actively and widespread in all over the country.
- The fight against social plagues has also been intensified. The movement of creating communes and districts "clean" from social evils is being expanded. Many localities have taken strong measures to prevent the trafficking, transportation and utilization of drugs, as well as to cure drug users. The forms of curing drug users and surveying drug users after being cured are more and more diversified. The Ministry of Labor, Invalids and Social Issues had organized activities to consolidate the experiences of effective drug user curing centers, for example the center that applies the 3 phase model (community-working field-community). From these

experiences and the popularization of these models, the rate of drug users re-using drugs has dropped significantly.

### 1.3- Evaluation of the achievements on terms of economic development and hunger eradication, poverty reduction during the period 2003-2005

During the last three years (2003-2005) of the implementation of the first Five-Year Socio-Economic Development Plan of the new century, the Vietnamese economy has recorded important achievements in terms of the growth rate, the quality and the effectiveness of the socio-economic development. The structure of the economy has changed remarkably, more development resources have been mobilized from domestic economic components, and many comparative advantages of each sector and each region in the country have been optimized. The society has developed in all aspects. The people's life in many regions has been improved, thus, contributing to creating new engine of growth for a rapid and sustainable economic development. The political situation and social security have been maintained stable.

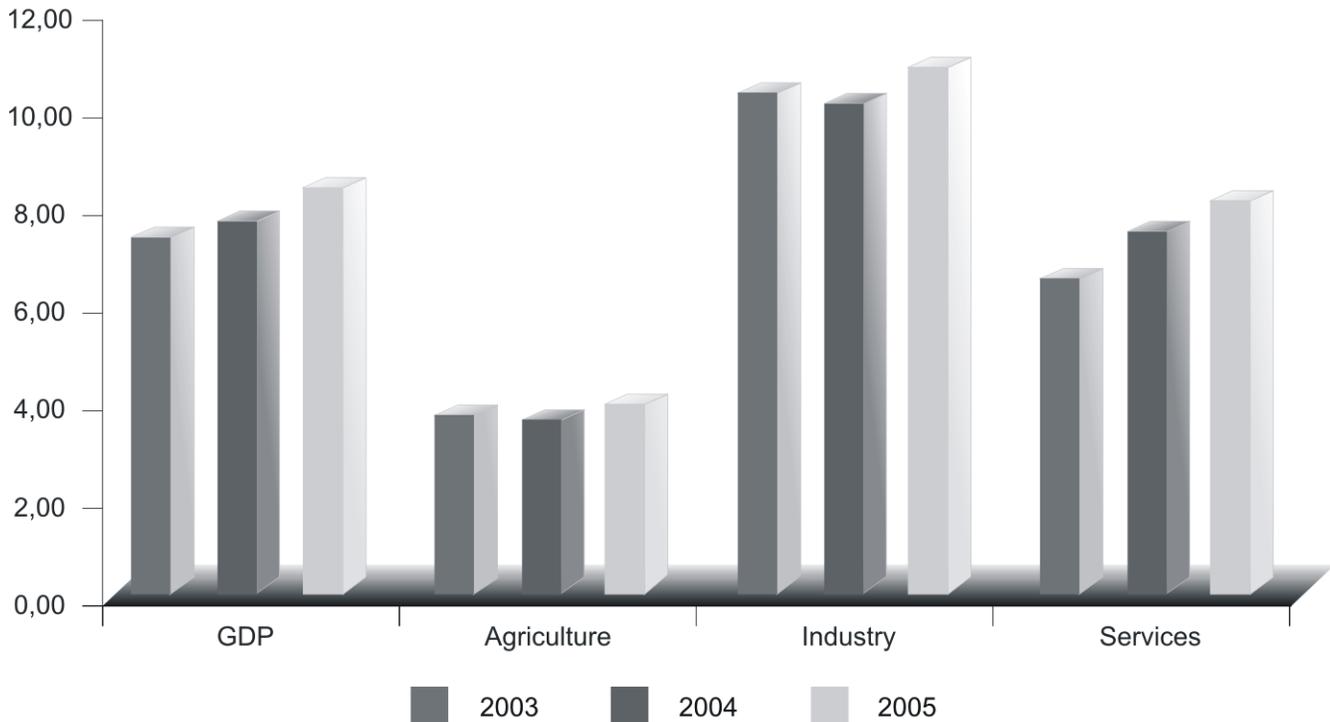
#### **1.3.1- The most significant achievements in terms of economic growth during these three years (2003-2005)**

First of all, the economy has developed positively. The growth rate of the year that follows is always higher than that of the preceding year. The quality of growth and the competitiveness of the economy have been progressively ameliorated.

During the past three years, Vietnam's economy continues to develop at a fairly high rate and in a sustainable manner. The three-year average GDP growth rate is 7.8%, and the respective growth rate of each year 2003, 2004 and 2005 was 7.34%, 7.8% and about 8.4%. This has contributed to increase the annual average economic growth rate for the period 2001-2005 to 7.5% (Graph 2).

Areas that should be highlighted are:

Significant adjustments with regards to the structure of production and products have been carried out in the agricultural sector, and therefore, creating new development opportunities for the whole sector. The value of agricultural, forestry and fishery products during the three years 2003-2005 increased by an average of 5.5% per year. The rural economic structure has been diversified. The revenues of the farmers in many regions have been ameliorated.

**Graph 2:** GDP GROWTH RATE FOR THE PERIOD 2003-2005 (%)

Source: MPI

Clear development have take place in the industrial sector, in particular, in the structural adjustment of the production and technological renovations towards modernizing the sector. Certain pioneer and high technology industrial sectors have been established, laying the foundations for the country's modernization and industrialization. The production is more market driven, thus, products are sold well in the market. The value of the industrial production increased significantly, with an average growth rate during the last three years (2003-2005) of 16.4% compared to the target of 13% set forth in the Five-Year Plan 2001-2005.

Positive developments have also been seen in the services sector. The services sector has been more responsive to the demands of production, businesses and people's life. During 2003-2005, the value of the services sector increased at an average of about 8.1%.

Secondly, the structure of the economy has been adjusted towards the country's modernization and industrialization, allowing each sector and each region to utilize at most its advantages, and to exploit and

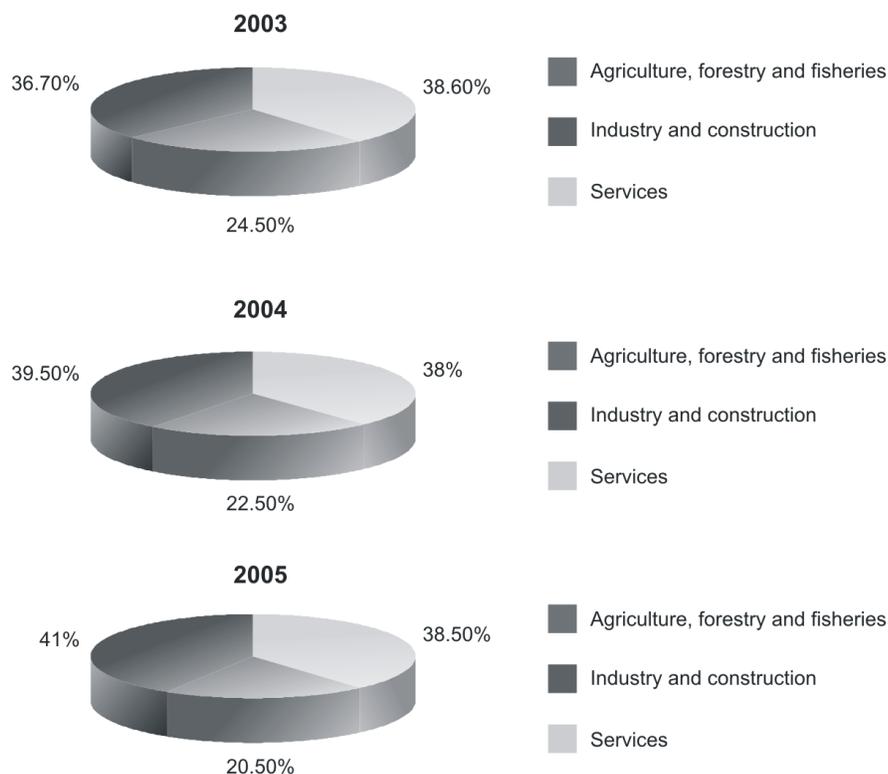
mobilize all economic components as well as all communities to take part in the socio-economic development, for a common goal.

The structure of the manufacture and service sectors has been changed to make it better and more efficient, contributing to promote economic development. The part of the agricultural contribution in the GDP has decreased from 24.5% in 2000 to 22.5% in 2003 and to about 20.7% in 2005; while the industrial sector contribution has increased from 36.7% in 2000 to 39.5% in 2003 and to 40.8% in 2005. The contribution of the services sector to the GDP remains stable at 38.3%.

The role of regional economies has been emphasized. The mechanisms encouraging regional economic structural adjustments have brought about encouraging results. The contribution of each region to the national growth has been improved. The three key economic regions have initially showed off their potentials and advantages, and have developed rapidly, contributing about 55.8% of the national GDP value. Economic regions with difficulties are developing progressively and thanks to the continuous assistance of the whole country, they are achieving encouraging results. The socio-economic life has changed positively.

The structure of the economic components has also evolved. Each economic component has played its role. The State-owned sector continues to be renovated and restructured according to the guidance of the Resolution No. 3 of the Central Committee, and continues to play an active role in the production and business activities, and contributing about 38% of the GDP in 2005 (Graph 3).

**Graph 4: THE ECONOMIC STRUCTURE IN THE PERIOD 2003-2005 (%)**



Third, the country's financial capacity and public finance have been improved. Together with the economic development, the annual average rate of funding mobilization to the State budget reaches approximately more than 24% of the GDP, making that the current budget is always higher than that of the preceding year. The annual rate of State budget revenue increase is higher than the total of the economic growth rate and the rate of price increase. Given the increase of the budget revenues, budget expenditures have also been improved, especially expenditures on development investment; non-productive activities; and cultural, education, health care, hunger elimination and poverty reduction programs.

Forth, the competitiveness of the economy at three levels: national, enterprises and products have been improved largely.

At the national level, during the latest years, the competitiveness of the economy has increased because the country has been able to maintain the macro-economy stability and optimize the advantages of each region and sector, as well as ensure the political and social stability, the security and discipline in the social life<sup>(\*)</sup>.

At the enterprise level, the competitiveness has been improved given that the material and technical infrastructure, as well as the socio-economic infrastructure have been enhanced. In the same time, many enterprises have invested in order to renew their production procedures, change their regulations, restructure their production and improve their management efficiency. Many others have also applied management standards, such as ISO 9000, SA 8000, etc...

At the product and service level, Vietnamese enterprises have done many efforts and focused on taking measures aiming at cutting down the production costs and the management expenses per unit. They have also strived to ameliorate the design of products; promote marketing

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<sup>(\*)</sup> In 2003, the World Economic Forum has ranked Vietnam's economic growth competitiveness 60 amongst 102 countries, placing the country above 42 other countries, including the Philippines (66), Russia (70), Indonesia (72), etc...If taking as reference the updated information with regard to the group of 80 countries mentioned in the 2002 Report, then in 2003, Vietnam was ranked 56, thus, being upgraded 6 ranks, and placing itself above 24 countries. Although Vietnam's competitiveness is lower than that of China, China's competitiveness ranking has been downgraded 4 ranks (falling from 38 to 42 amongst the group of 80 countries).

activities; elaborate brand-building and brand-protection strategies... These measures have contributed to lengthen the list of Vietnamese products that are highly competitive in the world's market.

Fifth, the ability of utilizing the mobilized investment resources has been improved. The rate of mobilization of investment resources in the GDP increased from 35.5% in 2001 to 37.8% in 2003 and to 38.2% in 2005. According the initial calculations, the total investment utilized in the past three years, calculated in terms of the price in 2000 was approximately 642.2 thousand billion VND, accounting for 67% of the total realized investment in the past five years, in which, investment resources from the State budget, from the total social investment and State credit resources, from State-owned enterprises, from the population, from FDI and other sources account respective for 22.5%, 13.3%, 18.3%, 26.6 %, 16.6% and 2.7%. The domestic resources have been better exploited, representing over 70% of the total investment (which accounts for 24-25% of the GDP), and creating more favorable conditions for investing in targeted programs, such as developing the agricultural and rural sectors, hunger eradication and poverty reduction, enhancing the quality of the human resource, developing science and technology, and particularly investing in the infrastructure.

Sixth, foreign economic relations have been developed, and this was translated in the enhancement and expansion of the transaction market, the exchange of goods, capital and technologies.

The international relations have been expanded and Vietnam's international commitments have been well implemented. Vietnam's relations with international financial organizations have also been developed. Vietnam has become a safe and attractive destination for foreign investors. During the past three years, Vietnam has concluded many multilateral and bilateral agreements, creating therefore new development in terms foreign economic relations.

Many efforts have been put on import-export activities. The total export value during the last three years attained USD 78.5 billion, making up 70.8% of the total export value during the last five years.

This is a significant achievement because it has contributed to surpass the export objectives that have been set forth in the Five-year Plan 2001-2005. The export value per capita in 2005 reached approximately 380 USD; the total import value for 3 years reached about 94.5 billion USD, accounting for 72% of the targeted import value of the Five-year plan, in which, FDI enterprises imported 33.3 billion USD.

Significant results have also been obtained as regard to the ODA mobilization. The total amount of ODA committed for 5 years was 14.7 billion USD, in which the amount cumulated during the last three years (2003-2005) was 9.47 billion USD. The value of ODA that has been made official was about 11 billion USD, and the estimated amount of ODA disbursed was about 7.8 billion USD, of which about USD 4.7 billion in 3 year 2003-2005. Many ODA programs and projects have been completed and put in use. During the past five years (2001-2005), the whole country has attracted more than 18.1 billion USD of FDI in registered projects, surpassing about 20% of the set target. The total FDI realized during the past five years was about 13.6 billion USD.

**Table 3: Economic development targets for the three years 2003-2005**

No	Development targets	Unit	2003	2004	2005
1	Economic growth	%	7.34	7.8	8.4
	<i>In which:</i>				
	- Agriculture, forestry and fishery	%	3.6	4.4	4.1
	- Industry and construction	%	10.5	10.2	10.7
	- Services	%	6.5	7.3	8.4
2	Economic structure				
	- Agriculture, forestry and fishery	%	5.5	5.8	5.2
	- Industry and construction	%	16.8	16.0	16.5
	- Services	%	7.4	8.2	8.7

### 3 Imports-Exports

- Total export value	Million USD	20,149	26,500	31,800
- Total import value	Million USD	25,256	32,000	37,300

Source: MPI

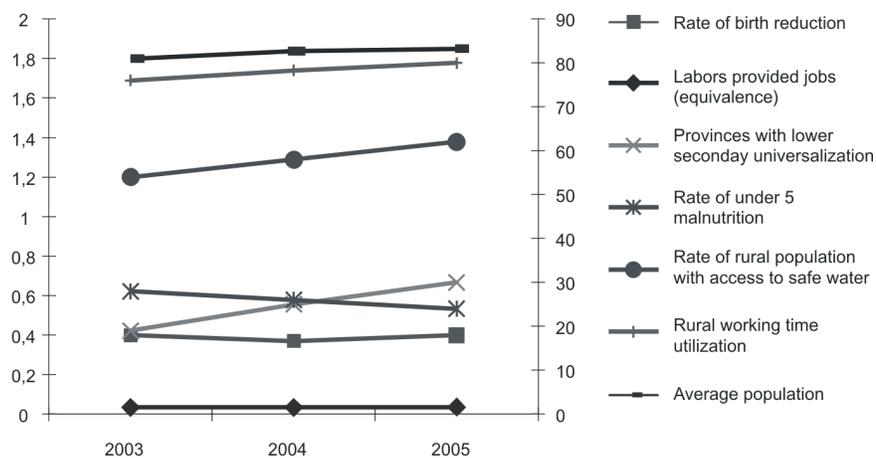
#### 1.3.2- The significant achievements in terms of hunger elimination, poverty reduction and social development during the last three years 2003-2005

Together with the achievements in the economic area, during the past three years, the cultural, social, educational and health care sectors have also recorded significant results, extensively and intensively. The cultural and spiritual life of the population has been clearly improved, particularly in the hunger eradication and poverty reduction field, job creation has also been encouraging (Graph 4).

The significant achievements on the social development areas:

First, positive development has taken place in the education and training sector. The basic, under-graduated education and vocational training continues to develop. The universalization of the lower secondary education is being implemented actively. The material infrastructure of this sector has also been ameliorated, and the investment funds for the education and vocational training is increasing on a yearly basis. The scale of universities, colleges, professional secondary schools and vocational centers continues to expand at a high rate. The quality of the human resource has been improved. The system of teachers' schools continues to be expanded. Investment for education and training sector is increasingly developing and the infrastructure is being ameliorated progressively.

Graph 4: SOCIAL TARGETS FOR THE THREE YEAR PERIOD 2003-2005



Source: MPI

New development has been seen in the area of science and technology, the scale and effectiveness of science and technology activities has been improved, and these in turn, have contributed effectively and significantly to the socio-economic development causes and to the renovation process of the country. The domestic potential and level of science and technology has developed remarkably. Many appliance-science researches have been carried out, thus contributing to restructuring the technology and heightening the technological level of the country's production and services. The State budget reserved for science and technology development has been increased, especially, the technology transfer amongst the enterprises have been promoted, thus, increasing the competitiveness of Vietnamese enterprises.

Secondly, the employment and job issues become the key preoccupation of all sectors, levels and attract the attention of each household and of the whole society. During the past three years (2003-2005), the number of employments that have been created was 4.7 millions. The average job creation was more than 1.5 million per year. The private sector continues to be the leader in terms of employment, attracting about 91% of the total work force and representing 90% of new jobs created in the whole economy. The structure of employment is evolving in a positive direction, hand in hand with the economic structure adjustment towards a modernized and industrialized economy, and a highly efficient production and business operations. The labor market is developing progressively. During the past five years, more than 200 employment services centers and nearly a 1000 job consulting organizations within the enterprises have been created, which has contributed to rise the number of laborers working under a labor relationship from 20.6% in 2001 to nearly 25% in 2004. The percentage of utilized working hours in the agricultural sector increased from 74.3% in 2001 to 80% in 2005. The unemployment rate in the urban area was reduced from 6.3% in 2001 to 5.5% in 2005.

Third, hunger eradication and poverty reduction activities continues to progress in the last three years. The poor have had access to credit sources to develop their production and generate more income. The infrastructure in poor regions and communes has been improved, making it possible for the poor to benefit basic social services. To date, 56% of communes have been equipped with 8 essential infrastructures as regulated; 70% of communes have 5 essential infrastructures; 100% of communes of 30/49 provinces have auto-routes leading to the central

area of the commune. 143 groups of communes have been basically completed and putting in use, with many essential infrastructure...

Thanks to effective measures, the number of poor households has been reduced significantly. In 2001, Vietnam's poverty rate was 17.5%, but in 2005 this number was reduced to 7% (as by the National poverty line of 2001-2005). The average rate of reduction of the poverty incidence was 2-2.5% per year, which is equivalent to 300-310 thousand households, surpassing the set target, which is 10%.

Fourth, the medical and population health care system is being ameliorated. The local health care network has been enhanced and upgraded. Many dangerous epidemics have been contained. Medical services are more and more diversified. New technologies are being studied and applied. The supply of medicines and medical equipments has been improved. Medical insurance has been introduced and progressively showing off its advantages. People in most of the regions and areas have been benefiting from a better health care system. The State has balanced its budget in order to implement the policy of providing free health care services to the poor and to children under 6 years old. The average longevity is 71.3. The rate of malnourished children has been reduced to 25% in 2005. The infant mortality rate and maternal mortality rate have been improved considerably. Traditional medicines and health care methods have been enhanced and developed, in the same time with the development of private health care centers. These have contributed to improving the quality of health care services in Vietnam.

Fifth, cultural and information activities continues to be developed, diversified and put forth national traditional values, as well as restore diverse cultural heritages. Attention has been paid to the preservation of traditional cultural values of Vietnamese ethnic minorities so that to create the diversification of the Vietnam's cultural heritages.

#### 1.4- Remaining problems and weaknesses

Although Vietnam recorded encouraging achievements in its economic development, has resolved social issues such as hunger elimination, poverty reduction, job creation, education, health care services and has improved its people's life, there are still many remaining issues and weaknesses to be resolved, such as the quality of growth is still

poor, the macro-balances of the economy is still restraint, which has limited its ability to restructure the economy. The scale of the economy is modest, its competitiveness is low, the economic structural adjustment is being carried out slowly with a low quality; embezzlement and wasteful use of public funds are common, especially in the construction and investment areas. The market evolves slowly. Certain markets are being established non-uniformly, and the market has not yet become the driving factor for production. In different sectors, from education and training, health care to cultural and social activities, there are still pressing issues, and the environment is still heavily polluted.

## 2- Economic growth in the main sectors and areas

### 2.1- The agricultural production and rural economic development

New development, closely attached to three objectives: strongly developing the agricultural production, diversifying the rural economy and increasing the income and ameliorating the people's life, has taken place in the agriculture and rural sector.

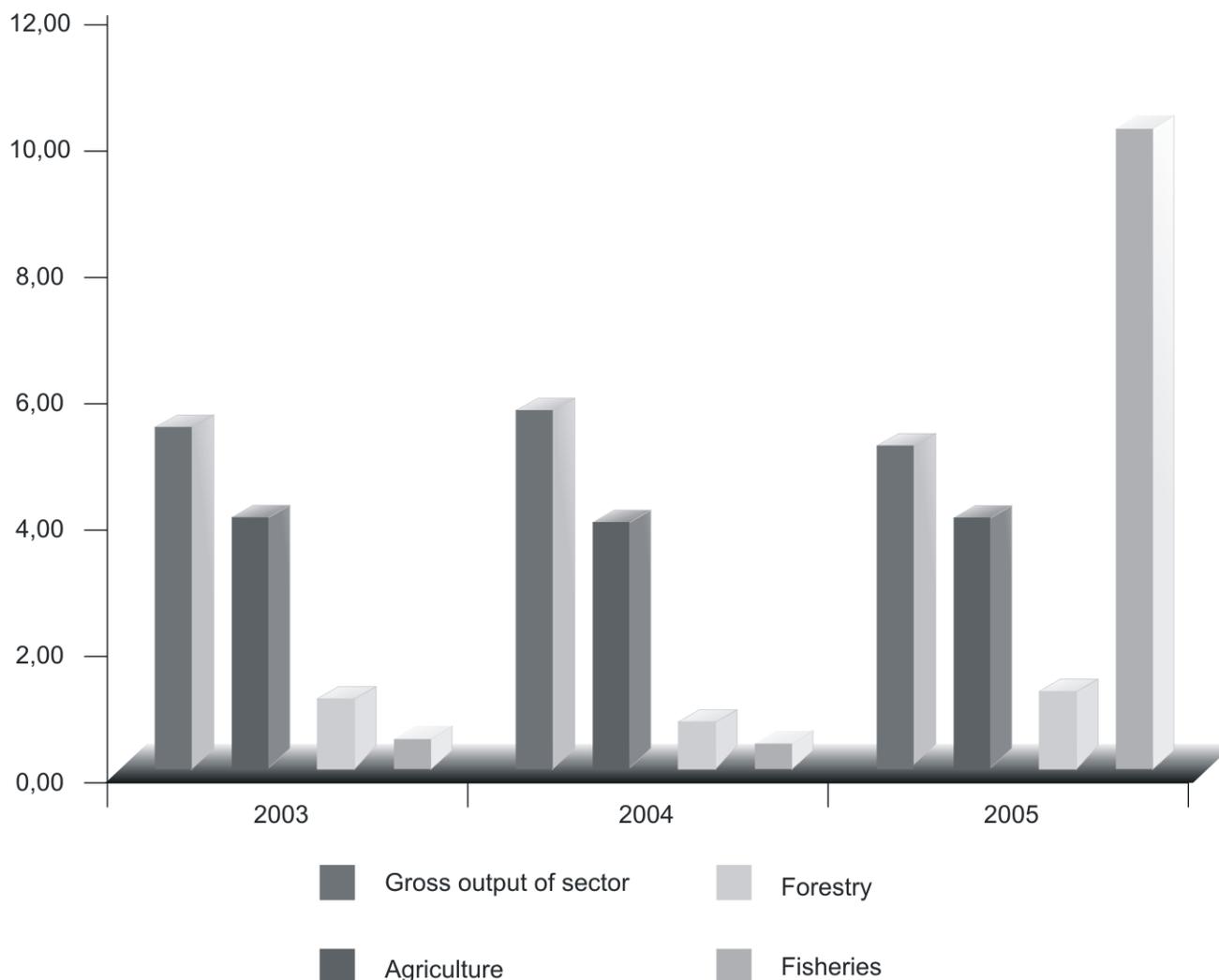
The agricultural sector has had enormous changes in terms of its production and product structure, switching from the cultivation of low value plants and animals to high value plants and animals; from products for which the supply is higher than the demand to products that have a larger and more stable consumption market. The local entities have actively updated, reviewed, adjusted their planning and restructured their production, converting part of their land area from the production of low productivity rice to the cultivation of aqua products and industrial plants. The cultivation of industrial plants is mainly located in the Central Highlands and South East regions. The Northern mountainous area is restructuring its land utilization and the species of plant cultivated. In recent year, local entities have adjusted their planning of material zones, i.e. the cultivation of sugar cane, cotton, tea, rubber and plants that serve the paper production... so that to link these material zones with the construction of industrial processing zones, contributing therefore to create job and increase local people's income.

These changes have created new development opportunities for the agricultural, forestry and fishery production. The value of the agricultural, forestry and fishery production in 2005 has increased

5.2% per year, in which the increase for agriculture, forestry and fishery is respectively 4.1%, 1.1% and 10.4%. Overlooking the three year period 2003-2005, the agricultural production has increased continuously. In 2003, the value of the agricultural production increased 5.5%, in which the increase of the agriculture, forestry and fishery sector is respectively 4.5%, 1.1% and 10.7%. In 2004, these figures are respectively 4.3%, 0.9% and 13.1% (Graph 5).

The cultivation sector has made progress in switching to the production of market-driven products, ameliorating the quality and the value of products. The majority of cultivation products have been sold well and increasingly over the years, these include: maize, rubber, tea, cashew nuts, pepper, bean...

**Graph 5: THE GROWTH OF THE VALUE OF THE AGRICULTURAL PRODUCTION 2003-2005 (%)**



As for food stuffs, the ratio between the land area and the productivity of high quality rice has increased over the years. Food productivity in 2005 reached over 40 million tones, contributing to ensure national food security, food reserve and exporting approximately 4.5 million tones of rice.

The breeding sector recorded considerable development, and has adopted the model of concentrated animal farms, especially pig rearing and beef breeding has become common in certain local entities. The breeding value in the last three years 2003-2005 increased at an average of over 7.4%, and the value of the breeding sector represented approximately 20.2% of the value of net agricultural value.

The forestry sector has realized its afforestation and has accelerated the protection of forest as well as elaborated concrete plans for the allocation of land and forest to households, individuals and ethnic minority communities in Central Highlands. In 2005, 200 thousand hectares of forest has been cultivated, contributing the raise the area of land covered by forests to 37.8%.

The fishery sector has developed comprehensively both in terms of the fishery catching and fishery cultivation. The value of the fishery sector continues to grow at a strong rate and to contribute over 21% to the total value of the agricultural, forestry and fishery sector. The fishery productivity reached nearly 3.3 million tones, representing an increase of 7.2% compared to 2004, in which, the catching productivity reached 1.94 million tones, and the cultivation productivity reached 1.36 million tones.

The rural economy has developed towards diversification. The share of industry in the rural economy has increased to 0.6%, while the share of services increased by 4 percentage points; the share of pure agricultural, forestry and fishery activities decreased 10 percentage points. The farming model has been duplicated and has been adjusted to the characteristics of each region, especially in midland regions that has advantages on breeding and industrial cultivation. Many traditional craft villages have been restored and developed, attracting the local workforce and the seasonal agricultural workforce. Programs aiming at assisting the infrastructure development of craft villages, building rural markets, and developing infrastructure for small and medium industrial zones have been enable thanks to the funding mobilized from households and individuals resources, thus contributing to the restructuring of the rural economy, increasing the purchase power of

the population and to hunger elimination and poverty reduction in the rural areas.

The infrastructure in the rural area has been ameliorated. Until the end of 2005, over 94.3% of communes has power; 60% of communes has a post and cultural center; most of the communes has a medical clinic and primary school; 84.5% of communes has a lower secondary school; 94.5% of communes has traffic roads leading to the center of the commune and groups of communes; the percentage of the rural population that has access to clean water is 62%...

The income of the rural population in many regions has increased due to the increase of the volume of goods and the augmentation of the price of many products. The income structure of the rural population has changed, especially incomes from industrial production, small scale industry in the rural areas accounted for 8%, and incomes from other rural services accounted for 12%...

*However, the rural area of Vietnam is facing many important difficulties:*

First of all, the agriculture sector still relies on the traditional and outdated method of cultivation; modern methods of cultivation have not been introduced on a large scale; the productivity of plants and animals as well as the quality of agricultural products is still low and depends largely on the climate and the weather. Pure agricultural activities continue to account for 60% of the total rural economic structure, in which, cultivation represents nearly 80% of the total agricultural value, and breeding represents only over 20%. The working time in the rural areas has been utilized only about 80%, and the productivity is still low. Certain agricultural products are difficult to sale.

Secondly, restructuring programs on the agricultural production and rural areas toward modernization and industrialization is being implemented slowly, the implementation process is still carried out on a voluntary and disperse manner, which does not ensure sustainability. The production costs in the agricultural sector are still high. The percentage of high technology and environmental friendly agricultural products remains very modest. The people's life in certain regions, particularly remote, isolated and disaster-prone regions... has not been ameliorated.

Thirdly, although the rural infrastructure has been improved, it has not been able to meet the demand of the industrialization and modernization of the agricultural and rural sector. Employment in the rural areas continues to be a burning issue. The environmental pollution, particularly water pollution in craft villages is yet to be resolved. The model of production by orders has not yet been applied on a large scale, and the supply chain is still not well organized.

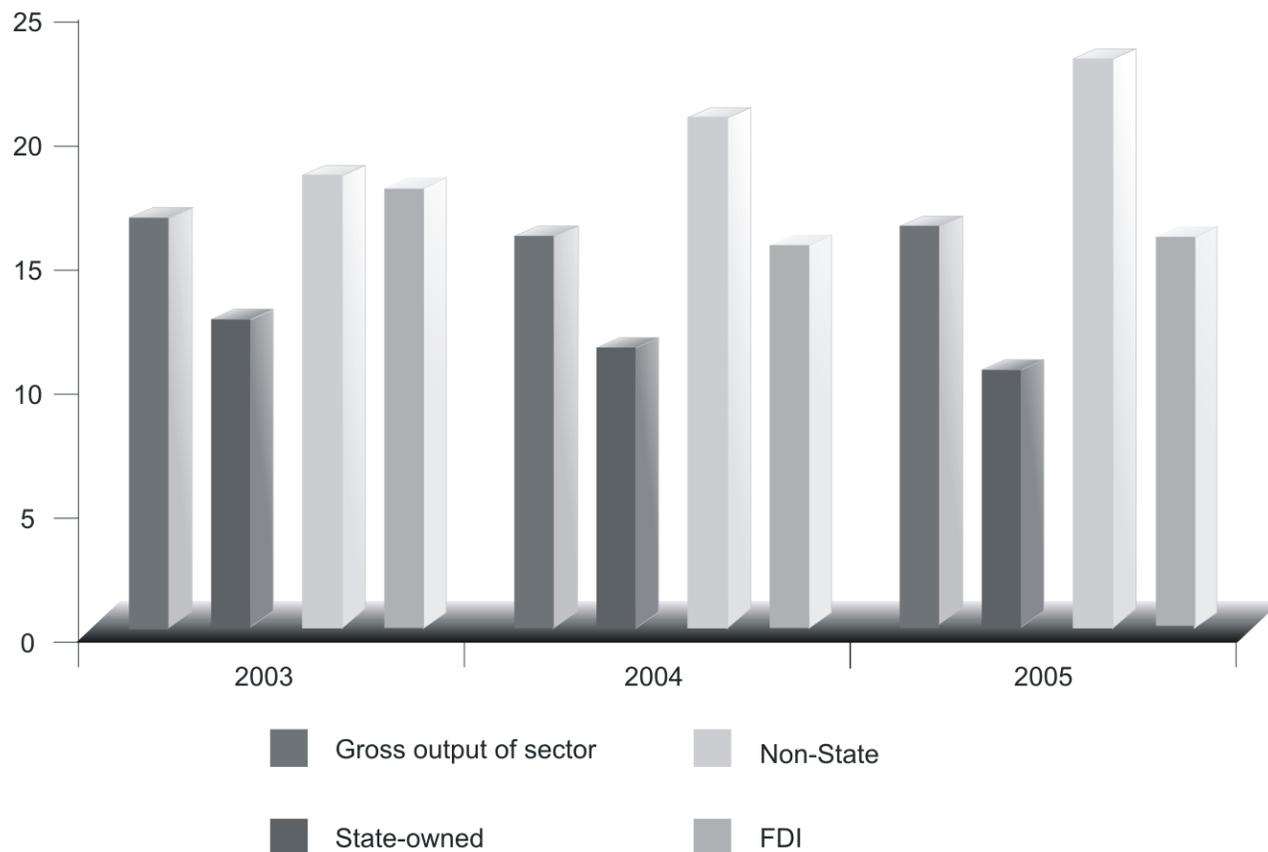
## 2.2- Industrial production

Net development has been seen in the restructuring of the industrial production, transforming this sector in the direction of modernization and technology renovation, as well as of establishing competitive industries, high tech industries, laying the initial foundations for the modernization and industrialization process (Graph 6).

The value of the industrial production has increased 16.5% in 2005. The volume of production of essential products augmented remarkably and is well sale in the domestic and foreign markets, for example: coal, cement, construction steel, manufactured industrial products, industrial export products and consumption products, particularly mechanic products such as diesel motors, power motors, transformers, transport boats, tourist cars, technology chains use in the manufacturing of complete products...The export value of industrial goods represents an average of 75% of the total export value, in which, light industrial goods and small-scale industrial goods account for more than 40%.

The industrial production of different economic components has risen rapidly. In 2005, the value of industrial production of State-owned enterprises increased 10.5%, accounting for 40.1% of the total value of production of the industrial sector. Thanks to the implementation of the Enterprise Law, the private sector developed rapidly, from 18.7% in 2004 to 23.5% in 2005. The growth rate of FDI enterprises was 16%. The participation of all economic components in the industrial production has contributed to diversify both the scale of production, the level of technology, and the category and quality of products, making the industrial sector to better respond to the needs of the population.

**Graph 6: THE GROWTH OF THE VALUE OF INDUSTRIAL PRODUCTION DURING 2003-2005 (%)**



Source: MPI

The structure of industrial production has been transformed. The manufacturing production has been reorganized together with the planning of new material areas, particularly food and agricultural processing industries, raw materials and component production industries. The value of the processing industry increased rapidly, accounting for 82% of the total industrial production value. The power, gas, water production and mining industry play key roles and have positive impacts on the socio-economic activities by accounting for 17% of the total value of production of the sector.

Provinces that have an important industrial value continue to develop rapidly, such as: Ha Noi, Ho Chi Minh City, Hai Phong, Quang

Ninh, Vinh Phuc, Da Nang, Khanh Hoa, Dong Nai, Binh Duong, Ba Ria-Vung Tau...

To date, more than 110 industrial and processing zones have been established all over the country, attracting the investment of many enterprises in the production and the operations of businesses, among these, many enterprises have applied modern technologies. The three key economic regions contributed over 70% of the total value-added of the country's industry.

*However, there are many remaining issues and weaknesses in the industrial sector as follows:*

- Although the rate of growth of the industrial production is high, the quality and the effectiveness of this sector is still restraint. The value of industrial production in 2005 increased 16.5%/year, and during the three year period 2003-2005, the average growth rate was 16.4%. Nevertheless, the value-added of the whole sector increased only by 10%. This reflects the fact that the intermediate costs in industrial production is too high, particularly the production of manufacturing goods such as: apparels, leather and shoes, exported woods... which have a high production value but have to bear a high cost of production due to imported raw materials. The domestic value of these products is low.

- On the other hand, the technology level of the industrial production is low, and most equipment and machineries are outdated compared to other countries in the region. This has contributed to raise the production costs. The percentage of modern technologies applied in industrial production is very modest.

- The quality of the human resource in the industrial sector is low, particularly, in industries that require high-skill labors. In addition, the productivity is low compared to other countries in the region. The cost of production of many goods is still high, while the quality is to be ameliorated. These have weakened the competitiveness of Vietnamese industrial goods in the domestic and regional markets.

### 2.3- Services sector

Positive transformation has taken place in the services sector in the direction of better responding to the demand of production and business, as well as to the needs of the population. Certain services

sectors have grown rapidly, such as commerce, transportation, post and telecommunication, tourism, catering and hotel services. In particular, high value-added services sectors such as banking and insurance have experience leapfrog growth. (Table 4)

The added value of the services sector in 2005 increased 8.4% in 2005. This is a significant increase compared to the previous years, and it is an encouraging sign in the utilization of the potential of the tourist sector to promote the country's socio-economic development. The domestic market has become more dynamic in the past few years. The volume of goods and services exchanged has increased remarkably.

The commerce services developed actively, attracting the participation of all economic components and ensuring a smooth exchange of goods and materials in the domestic market, responding to the demand of production and the consumption needs of the population. The total volume of exchange of retailed goods in 2005 increased 20.7% (in 2003 this figure was 10.5%, and in 2004 it has increased to 18,2%). The business models are more and more diversified, and the business network has been expanded in the urban, rural and mountainous areas. Electronic commerce begins to develop. The commercial cooperatives are transformed progressively into conglomerates. The private sector develops quickly, contributing to the purchase and the consumption of agricultural goods, particularly in the rural areas...

**Table 4: The development of the services sector**

Targets	Unit	2003	2004	2005
Growth rate of the added value of the whole sector	%	6.5	7.3	8.4
Growth rate of total retailed goods	%	10.5	18.2	20.7
Total number of international tourists	Thousand people	2,429	2,928	3,200
Total number of domestic tourists	Thousand people	13,000	13,600	15,000
Growth rate of the volume of goods in transaction	%	8.1	10.3	10.6
Growth rate of the volume of passengers	%	11.2	11.1	11.4
Number of fixed phone lines per 100 inhabitants	Phone line	9.0	12.6	17.0

Number of communes with telephone lines	%	93.5	98.0	100.0
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Source: MPI

The tourism sector developed strongly, increasing both in terms of the number of tourists and revenues. The number of international tourists coming to Vietnam in 2005 reached 3.2 millions, increasing more than 9% compared to 2004. The number of domestic tourists attained more than 15 millions, representing an increase of 10.3%. The revenues generated from the tourist sector increased strongly, contributing to the creation of new employments, hunger elimination and poverty reduction, and to the restructuring of the economy. The total social revenues from the tourist sector increased more than 15%.

The passenger and goods transportation services has ameliorated rapidly with the participation of all economic components, and has responded to the needs of transportation of the population as well as to the demand of goods and materials transportation. The quality of transportation services has been improved. The volume of goods transported in 2005 increased about 10.6% per year, and the volume of passengers increased 11.4% per year. As for maritime services, the volume of transhipped goods increased about 16%.

The development of post and telecommunication services has been rapid and the quality of services has been improved. The telecommunication network, the domestic and international telecommunication and internet services as well as the maritime information and communication network continues to see strong growth. Many modern modes of communication that meet international standards have been established to meet growing domestic demand for information and the trading services. In 2005, 3.86 million new handsets have been sold, bringing the total number of handsets in the country to nearly 14.2 million (in which, the number of cell phones accounted for 50.6%), increasing 37.5% compared to 2004. All communes in the country can be connected by telephones from the Central to local entities and vice-versa. The teledensity reached 17 telephones per 100 inhabitants. The total revenue of this sector increased an average of 17.7% per year.

Services such as financial, insurance, banking, accountant and consultancy, legal, information technology, medical care, technical services, education and training, sport services... have developed

strongly. The mobilization of funding, giving credits and payments, continue to grow. Programs aiming at restructuring commercial banking, strengthening the financial situation and minimizing bad debts have achieved initial encouraging results. The market for insurance services has been established with the participation of enterprises from different domestic and foreign economic components. The value-added of the banking services increased about 9.3% in 2005.

*However, there are the following remaining issues and difficulties in the services sector:*

First and foremost, the development of the services sector is still slow, and it has not been able to fully take advantages of the potential capacity in the services sector to develop, especially services that assist the production and trading activities, high value-added services and other diverse services that meet the needs of people's life. The contribution of the services sector to the GDP is maintained at above 38% in many years.

On the other hand, there are still rooms for improvement in terms of the quality of services, and the services is not yet attractive to the customers. The cost and fee of services are still inappropriate, and are often higher than that of countries in the region. For example, the cost of maritime services, the cost of goods transportation; the warehouse costs, the telecommunication costs...This situation has undermined the competitiveness of the services sector. In addition, the urban infrastructure is still under-developed and the bottleneck situation during rush hours is still a frequent phenomenon in big cities. Although high value-added services such as financial services, monetary services, and real state services...has developed rapidly in recent years, but the progress are still slow. Transportation accidents have been reduced but still remain an urgent problem and more effective measures are needed to resolve it.

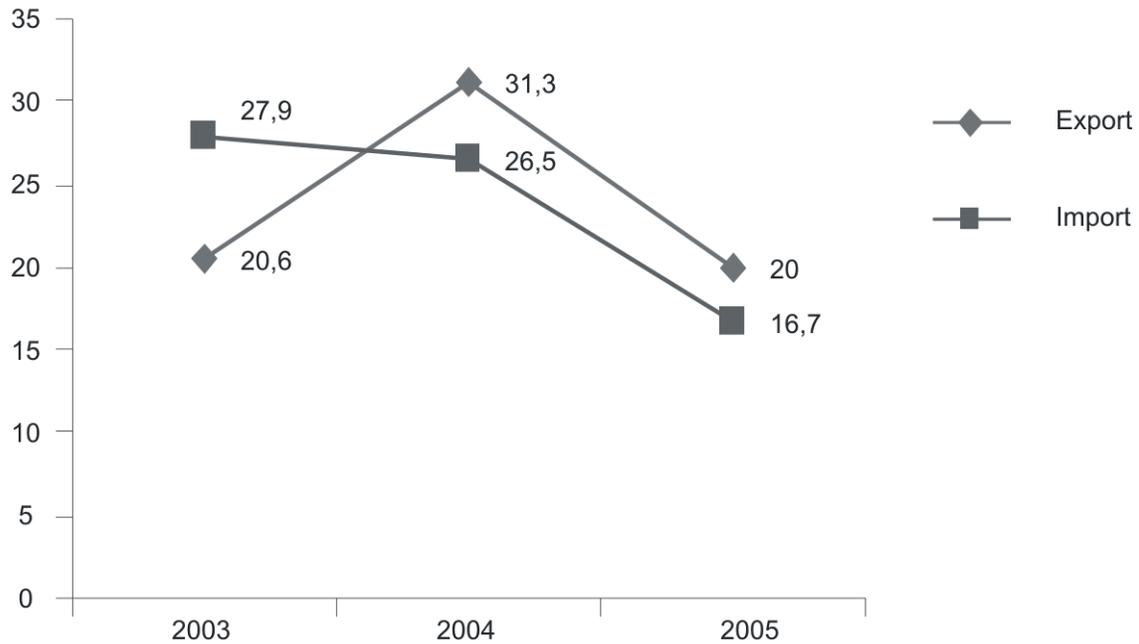
#### 2.4- Import-export

Overcoming many difficulties related to technical barriers, market access, and the competitiveness in terms of price and quality of products... Vietnam's import-export activities continue to develop strongly. The growth rate in 2004 was 31.5% and that of 2005 was 20%.

The total value of import-export for the three years 2003-2005 reached 78.45 billion USD, representing 70% of the five-year plan. The

average rhythm of growth of export during the three year period was about 24% per year, in which, FDI enterprises (excluding crude oil) exported 25.8 billion USD, if the export of crude oil is included, the total value of export would be 43.2 billion USD. The average export value per capita was approximately 380 USD. (Graph 7)

**Graph 7: THE GROWTH RATE OF IMPORT-EXPORT VALUE**



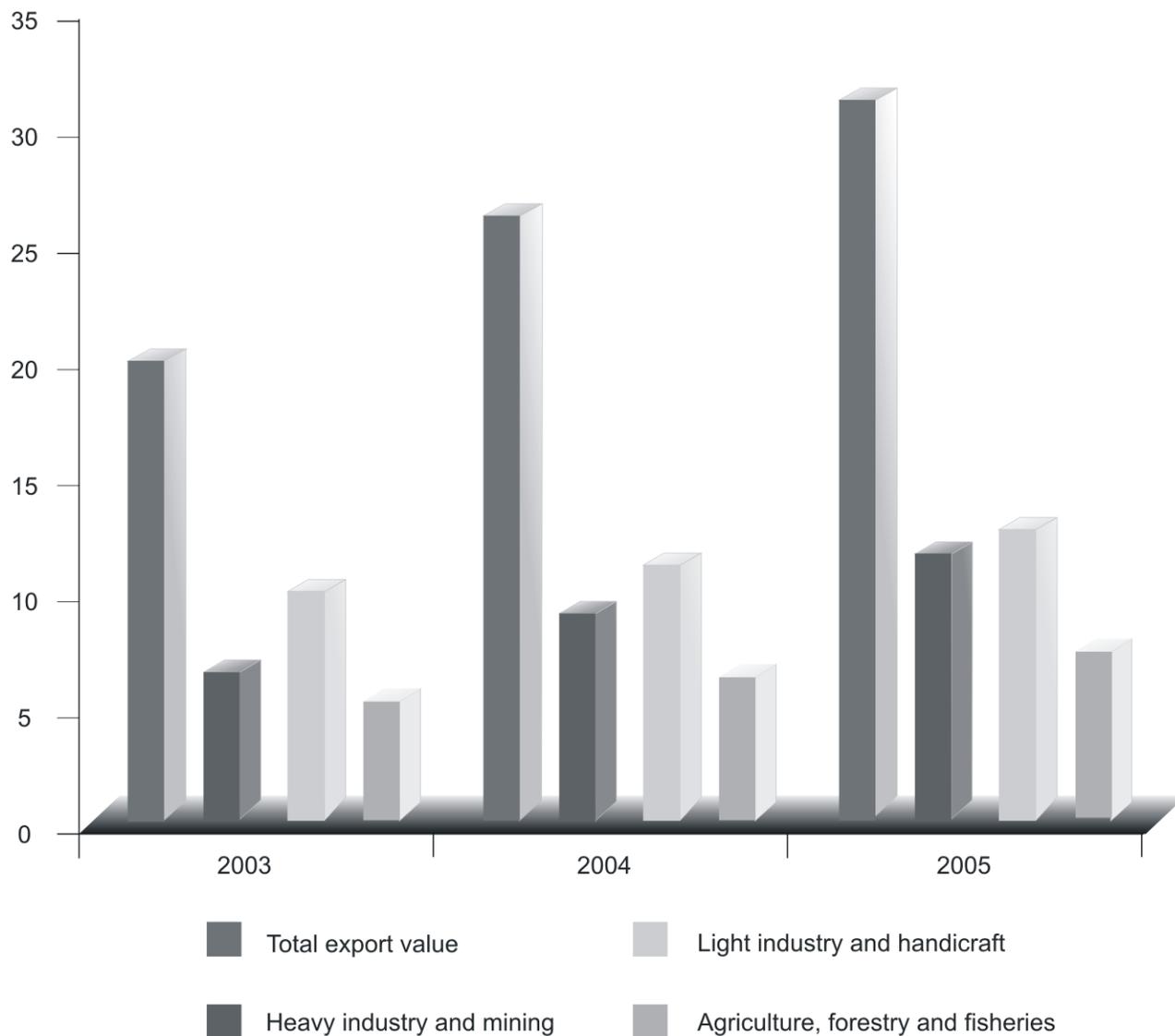
Source: MPI

The main export products such as coffee, rubber, cashew nuts, pepper, aqua-products, fruits and vegetables, apparels, footwear, coal, electronics and electronic components... have increased considerably.

The contribution of the export value of agricultural, forestry and fishery products tends to reduce from 25.1% in 2003 to 23.4% in 2004 and respectively to 23% in 2005. This reduction is caused essentially by the price fluctuation in the world's market. The export value of industrial goods (including heavy and light industrial goods, as well as small-scale industrial goods) has increased respectively from 74.9% in 2003, to 76.6% in 2004 and 77% in 2005.

Until 2005, other than apparel and crude oil that are the two products for which the export values have exceeded over 5 billion USD, there are five other products which export values have exceeded 1 billion USD. These are: aquaculture, footwear, electronics, wood products and rice. Vietnam continues to be the world's second largest exporter of rice and coffee, the world's largest exporter of pepper, and the world's third largest exporter of cashew nuts... (Graph 8).

**Graph 8: EXPORT BY COMMODITY GROUPS (BILLION USD)**



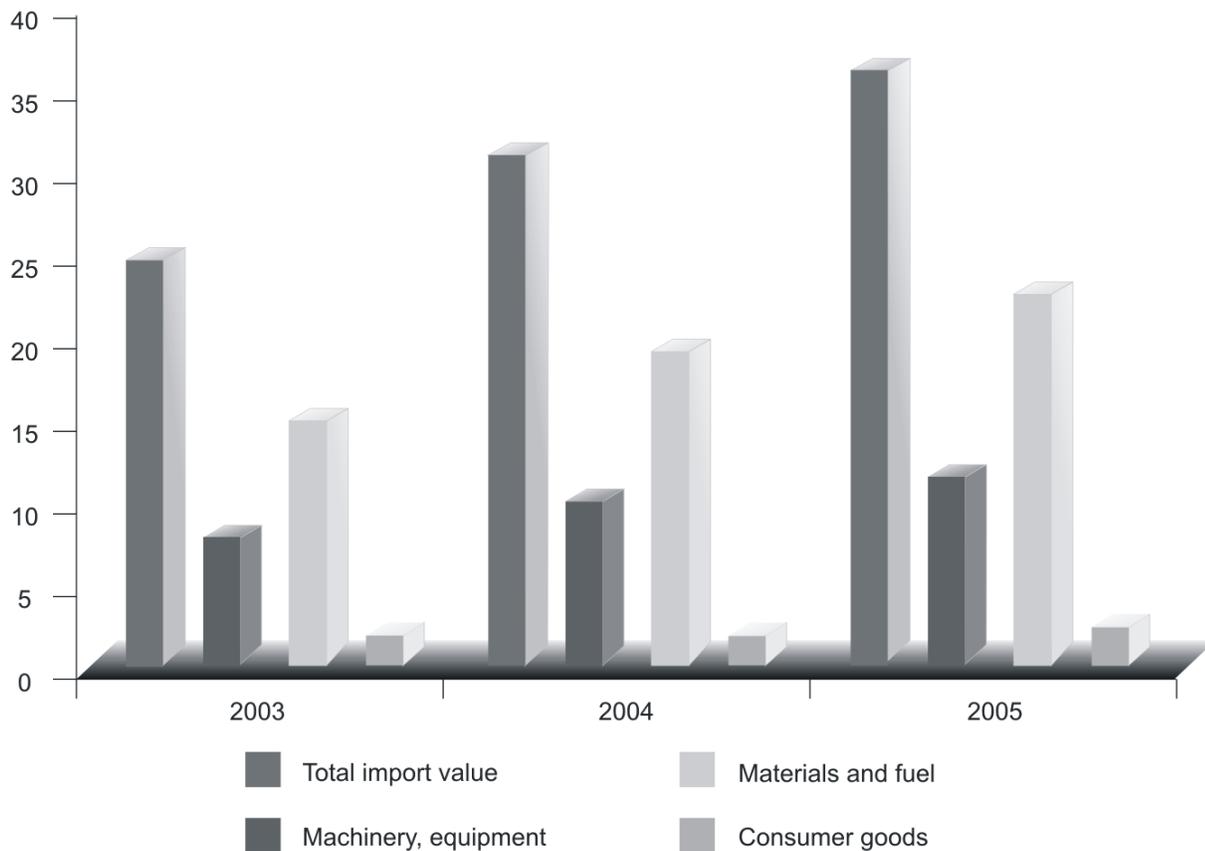
Source: MPI

Although Vietnam import-export markets has been affected by the instability of the world's situation, large markets such as Japan, China, the Republic of Korea, EU... continue to be stable. Vietnam's exports to American countries, particularly the United States, have grown very rapidly.

The total import value in 2005 reached more than 37.3 billion USD, increasing 16.7% compared to 2004. The import value of the three years 2003-2005 is estimated to 94.5 billion USD, accounting for 80% of the total import value of the five-year plan 2001-2005, in which, imports of FDI enterprises was approximately 33.3 billion USD, representing 34.7% of the import value during the last three years. The growth rate of the import value tends to decrease, with the respective growth rate in 2003, 2004 and 2005 as follows: 27.8%, 26.5% and 16.7%.

The import structure has not experienced many fluctuations. Import of machineries, equipment as well as accessories accounts for 31-32% of the total import value during the last three years; while raw materials and fuels represents 61-62%; and consumption goods represents 6% (Graph 9).

**Graph 9: IMPORT BY COMMODITY GROUPS (BILLION USD)**



Import surplus during this three year period 2003-2005 reached approximately 16.3 billion USD, representing 20.8% of the total import value of the three-year period.

*However, import-export businesses are still facing many difficulties:*

Vietnam products are facing a harsh competition in the world's market together with the increasing number of trade disputes and complex technical barriers. Besides, the competitiveness of Vietnamese products has been restraint due to the limitation in terms of suppliers, the manufacturing process and the quality of products. Certain markets do not even accept Vietnamese products.

The structure of import goods has changed slowly, and the export rate of raw materials remains high. Most exports are manufactured goods, such as apparels, footwear, electronics and computer components... therefore, the majority of the raw materials are being imported, and this in turn, has reduced the value-added of exports. The scale of exports is still small, and export value per capita is low compared to countries in the region.

On the other hand, the country's export growth is not stable and depends largely on the price fluctuation on the world's market. Export goods with a value higher than 1 billion USD are rare, and the export-oriented industries need further investment. Export goods are produced at a small scale, and the restoration and re-organization of traditional handicraft product manufacturing centers are carried out slowly.

### 3- Achievements on the social areas, on hunger elimination and poverty reduction

#### 3.1- Hunger elimination and poverty reduction activities

The country's poverty incidence (measured against the national poverty line of 2001-2005) reduced from 17% in 2000 to 8.3% in 2004 and to 7% in 2005; most remarkably, all regions have reduced their poverty incidence. Vietnam has achieved its target of hunger elimination and poverty reduction for the period 2001-2005 one year earlier than that set in the plan. Until the end of 2004, out of 64 provinces and cities of Vietnam, 2 provinces does not longer have poor households; 18 provinces have a poverty incidence ranking from

3-5%; 24 provinces have a poverty incidence of 5-10%, 3 provinces have a poverty incidence from 15-20%, and 2 provinces have a poverty incidence of above 20%.

Vietnam has also completed the targets set in the Millennium Development Goals (MDG) on poverty reduction 10 years ahead, which consists of reducing the number of poor households from 58.1% in 1993 to 24.1% (measured against the international poverty line) in 2004, and therefore, it has been praised by the international community as one of the countries that have the highest rate of poverty reduction and that have implemented successfully a pro-poor economic development model, which has helped the poor to benefit from the socio-economic achievements. In 2005, the average income of the 20% poorest households has been multiplied by 1.5 times compared to 2001. The average expenditure of this group has increased 8-9% during the period 2002-2005.

Although the gap between rich and poor is widening, the widening rate during the period 2002-2004 is lower than that of the 1993-2002 period. This is the result of the fact that poorer regions have a higher poverty reduction rate compared to the richer regions. However, the poverty reduction rate in 2005 has slowed down and has reduced only 1.3 percentage points compared to that of 2004, which was 2.7 percentage points.

**Table 5: Vietnam's poverty incidence during the 2000-2005 period  
(measured against the national poverty line of 2001-2005)**

	Percentage of poor households in 2000 (%)	Number of poor households in 2004 (household)	Percentage of poor households in 2004 (%)	Percentage of poor households in 2005 (%) *
1. North Eastern	22.35	179,872	10.36	8.0
2. North West	33.96	81,986	14.88	12.0
3. Red River Delta	9.76	289,647	6.13	5.15

4. Northern Central	25.64	302,431	13.23	10.50
5. Southern Central Coast	22.34	164,289	9.56	8.0
6. Central Highlands	24.90	111,508	13.03	11.0
7. Southern East	8.88	58,222	2.25	1.70
8. Mekong Delta	14.18	228,047	7.40	6.78
<b>National</b>	<b>17.18</b>	<b>1,416,002</b>	<b>8.30</b>	<b>7.0</b>

Source: Ministry of Labor, Invalids and Social Affairs

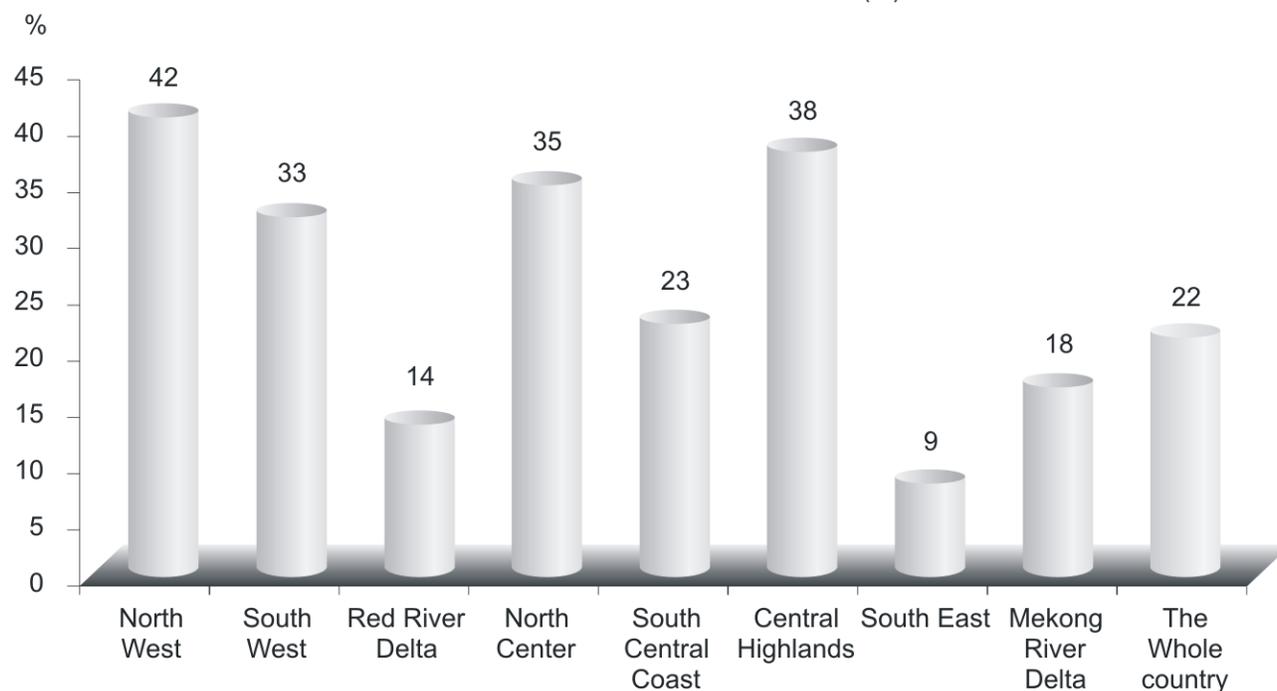
Remarks: The 2005 data are provided by reports of provinces in August 2005.

According to the new poverty line<sup>(\*)</sup>, by the end of 2005, the whole country has approximately 3.9 million poor households, representing 22% of the total national poor households (Graph 8). Regions that have the highest rate of poor households are North Western and Central Highlands (38%), and the region having the lowest rate of poor households is the South East region (9%) (Graph 10).

### 3.2- Resolving the employment issue

During the five years 2001-2005, 7.5 million jobs have been created. The number of employment of the year that follows is always higher than that of the previous year. The average growth rate of job creation is 4.4% per year. The national target is to create 1.7 million jobs, to export approximately 290 thousand labours and experts, which represents 2.3 times higher than that of 2000. Every year, the repatriation funds of the exported workforce reached 1.5 billion USD, and this is an important source of foreign currency for the country. Particularly in the two years 2004 and 2005, 3.1 million jobs have been generated, largely exceeding the targeted national plan, which are 600 jobs and exporting about 140 thousand workforce.

<sup>(\*)</sup> The new poverty line has been set by the Prime Minister in the Resolution 170/2005/QĐ-TTg issued on July 8<sup>th</sup>, 2005.

**Graph 10: THE RATE OF POOR HOUSEHOLDS BY REGIONS ACCORDING TO THE NEW POVERTY LINE OF 2005 (%)**

Source: Ministry of Labor, Invalids and Social Issues

**Table 6: The realization of employment creation targets in the 2000-2004 period**

Targets	Unit	2000	2001	2002	2003	2004
Total number of employment per year	Million psne	36.2	37.6	38.7	41.1	42.3
Total number of employment out of the State-owned sector	Million psne	32.3	33.6	34.9	35.0	-
Total new jobs created per year	Million psne	1.2	1.4	1.6	1.5	1.5
Percentage of trained labours/total number of employment	%	15.4	16.8	18.7	21.2	25.5
Percentage of working hours utilized out of the total number of people in the	%	74.2	74.3	75.4	77.5	78.3

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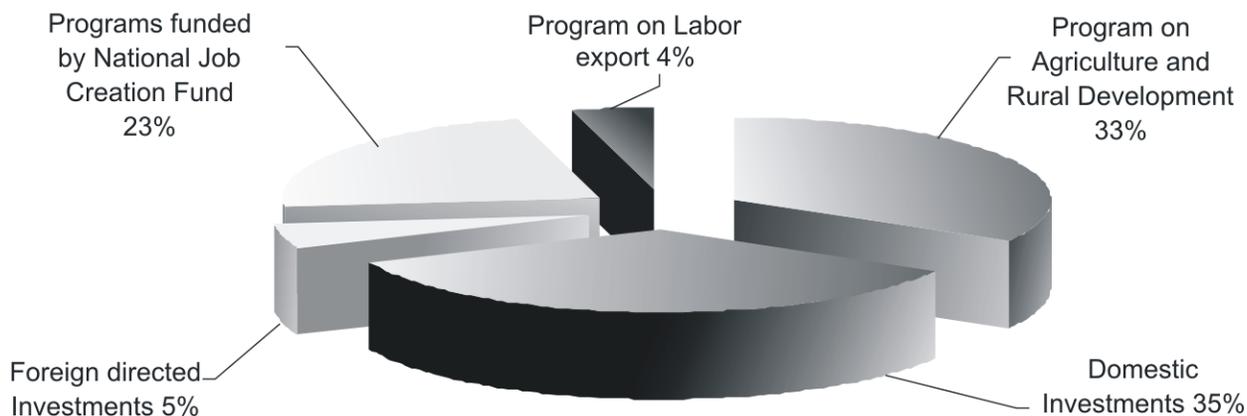
working age in the rural area						
Percentage of unemployed labour in the working age in the rural area	%	6.42	6.28	6.01	5.78	5.60

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Source: Ministry of Labor, Invalids and Social Affairs

In 2004 alone, the number of employed workforce was 1.6 million persons (increased by 2.6 compared to 2004) in which most of the employments have been generated from socio-economic development programs. Domestic investment and the agricultural and rural development programs are the two sectors that have created most of the new jobs in this year. Each program has created approximately 1/3 of the total new employments created (Graph 11).

**Graph 11: THE EMPLOYED WORKFORCE IN 2004**  
(% COMPARED TO THE TOTAL EMPLOYMENT CREATED)



Source: Ministry of Labor, Invalids and Social Issues

The trained labour continues to grow, from an average of 15.4% in 2000 to 22% in 2005. The rate of utilized working hours in the rural area has been improved significantly, increasing from 74.2% in 2000 to 80% in 2005. The region that has the highest rate of utilized working hours is the Eastern South region (over 80%), on contrary, Northern Central region has the lowest rate of utilized working hours (76%). The unemployment rate in the urban area has been reduced to 5.5%.

The structure of labour has changed slowly; nevertheless, its results are positive. In 2004, out of the 42.4 million workforce that are employed at a nationwide level, there is 58.6% that works mainly in the agricultural, forestry and fishery sector; 17.4% works mainly for the industrial and construction sector; and 24% works mainly for the services sector. At the nationwide level, there is 10.3% of the population that works for the state economic sector, 88.2% works for the private sector, and 1.5% works for the FDI sector. In 2005, the proportion of the workforce in the agricultural sector is only 57%, in the industrial and construction sector this figure has increased to 18%, and that of the services sector is respectively 25%. The labour market has witnessed progressive developments. The proportion of employees working under a labour contract is about 25%. The labour relation has been improved, and most State-owned enterprises and FDI enterprises have applied the mechanism of signing labour contracts and collective labour convention. The working conditions, working safety and working hygiene have been ameliorated.

The current salary policy has been substantially implemented. This policy aims at monetizing the salary, defining the salary on the basis of the workforce value. In addition, the salary relation has been enlarged; the minimum salary level has been adjusted according to the economic growth rate and the supply - demand of labour. The salary and the income of the workforce are now attached to the productivity and effectiveness of production and business activities. The salary reform has gone hand in hand with the adjustment of the social security policies. These changes have contributed to stabilize the life of thousand insurers that are now retreated and ensure social equity.

Vocational training has received a particular attention and had recorded strong development. According to the plan, by June 2005, 236 vocational training schools have been established (increasing 94 schools compared to 2000); 404 training centers and 839 establishments provide training services. The country has basically overcome the situation of non-existent of vocational training schools in different cities and provinces. During the 2001-2005 period, 5326 million people have received vocational training courses, contributing the raise the number of trained labour to 25% in 2005.

### 3.3- Education and training

In the 2004-2005 school year, the number of educational and training establishments at all levels has increased, particularly the number of non-public establishments have developed rapidly. The category of non-public high school witnessed the strongest increase (55.4%),

representing 29.3% of the total number of high schools. Areas with extreme difficulties and areas where kindergarten has not been developed are now opening new establishments. At the moment, there are approximately 10.100 kindergartens, and all communes have a kindergarten. The number of non-public kindergartens grows quickly. The education sector is now converting certain public education establishments in cities and districts into private establishments, and vice-versa, converting a number of private education establishments in districts of extreme difficulties into public establishment.

**Table 7: The kindergarten enrolment rate of children distributed by regions in the 2004-2005 school year (%)**

No .	Region	Kindergarten enrolment rate	
		Day nursery	Kindergarten
	<b>Nationwide</b>	<b>16.0</b>	<b>62.6</b>
1	Red River Delta	36.8	82.5
2	North Eastern	17.1	67.1
3	North Western	13.2	61.9
4	Northern Central	17.2	72.5
5	Southern Central Coast	8.8	58.5
6	Central Highlands	5.4	52.9
7	South Eastern	12.6	62.6
8	Mekong Delta	5.3	49.5

Source: Department of Kindergarten, Ministry of Education and training

The number of pupils in different levels of education is increasing, except those in the primary education. During the 2004-2005 school year, the number of children attending kindergarten nationwide is about 2.6 millions, in which the rate of children under 3 year old attending classes account for 16% of the total number of children in that range of age. The ratio of children from 3-6 year old enrolled in classes is 62.6%. However, this enrolment rate is not equal between the regions. The region with the highest enrolment rate is the Red River Delta, while the Mekong Delta and Central Highlands are the two regions with the lowest enrolment rate ( Table 7).

In the 2004-2005 school year, there are 17.25 million of children nationwide attend elementary education, in which 7.77 millions attend primary education, 6.67 millions attend lower secondary education; and

2.8 millions attend higher secondary education. Compared to the 1998-1999 school year, the number of pupils in primary school has decreased and stabilized due to the universalization of the primary education and the reduction of the birth rate (the average reduction rate is 3.7% per year). In the 2003-2004 school year, the rate of children attending school at the right age reached 94.43%, the rate of pupils graduating from primary school was 99.82%. The number of pupils enrolled in lower secondary school has increased in recent years, with an average of 3.7% per year. In the 2003-2004 school year, the rate of children attending school at the right age reached 76.9% compared to the 2000-2001 school year. The number of pupils enrolled in higher secondary education increased strongly in 1998-2004 (at an average of 11.6% per year) (Table 8).

**Table 8: The number of pupils enrolled in elementary education per region in the 2004 - 2005 school year (pupils) and the growth rate during 1998-2004 (%)**

	Number of pupils in the period of 2003-2005			The annual average growth rate during 1998-2004		
	Primary education	Lower secondary education	Higher secondary education	Lower secondary edu.	Higher secondary edu.	
<b>Nationwide</b>	<b>17,246,299</b>	<b>7,773,484</b>	<b>6,670,714</b>	<b>2,802,101</b>	<b>3.7</b>	<b>11.6</b>
Red River Delta	3,465,616	1,383,042	1,413,872	668,702	2.5	9.9
North Eastern	2,100,980	909,998	830,901	360,081	-0.2	6.7
North Western	577,023	304,655	200,929	71,439	8.8	22.0
Northern Central	2,594,359	1,068,544	1,078,057	447,758	4.2	16.2
Southern Central Coast	1,593,873	707,362	633,700	252,811	5.6	10.4
Central Highlands	1,224,644	641,113	422,958	160,573	23.1	41.9
South Eastern	2,496,531	1,188,369	911,637	396,525	1.8	8.0

Mekong Delta	3,193,273	1,570,401	1,178,660	444,212	4.5	13.2
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Source: Department of Planning and Finance, Ministry of Education and training

**Table 9: The rate of school enrolment at the right age in the primary education during 1993-2003 (%)**

Year	Primary education	Lower secondary education	Higher secondary education
1993	86.7	30.1	7.2
1998	91.0	61.7	72.1
2002	90.1	72.1	41.8
2003	94.4	76.9	

Source: Vietnam Development Report; General Reports of Donors to Vietnam, Hanoi, 23/12/2003

**Table 10: Literacy rate among population above the age of 10 (%)**

Year	Overall	Men	Women
1993	86.6	93.6	82.4
1998	89.5	93.6	85.6
2002	92.1	95.1	89.3

Source: Survey on people 's living standards from 1992-1993; 1997-1998 and 2001-2002. The General Statistic Office, 2004

The rate of enrolment at the right age increased uniformly in all levels of education, contributing to the realization of the universalization of primary education at the right age and the universalization of lower secondary education (Table 11).

The rate of enrolment in elementary school increased from 86% in 1999 to 91% in 2003, the rate of dropping school has reduced from 12% to 3%, the rate failing to pass the class decreased from 9% to below 5%, and the rate of completing the elementary schools increased from 47% to 75%. In addition, the lower secondary education has experienced positive developments. The rate of graduating primary education and entering lower secondary education has increased from 78% to 88%, and the majority of children have complete the 9 years of elementary school.

The enrolment in long-term vocational schools has an average increase of 12% per year. If figures from all vocational centers, regular educational centers, community-based educational centers, vocational courses, universities, colleges and high schools with vocational training are to be included, the number of students receiving vocational training in the 2003-2004 school year has reached 2 million. The enrolment in industrial high schools has also witnessed a sharp increase in recent years with 194,268 new recruits in the 2003-2004 school years, representing a 290% increase as compared with that of the 1998-1999 school year. The number of university students has seen a remarkable increase with the ratio of students per 10,000 people rising from 118 in the year 2000 to 128 in 2002 and 134 in 2004.

Figures collected from surveys on people 's living standards and households have shown that although Vietnam has a high and still rising literacy rate (See Table 6), there is still a big gap between men and women, especially women from ethnic minorities. According to figures collected from the 2002 Survey on people's living standards and households, the literacy rate among women under the age of 40 throughout the country was 94%. However, women from ethnic minorities had a much lower literacy rate of 75%.

The gap in terms of educational opportunities between different regions and ethnic groups is being closed. In line with the Government 's ethnic minority policy and commendable efforts made by the ethnic groups themselves, encouraging achievements have been seen in promoting education among people from ethnic minorities. The system of ethnic boarding schools and community-based semi-boarding schools in all provinces is increasingly developed. There have been 11 central-level ethnic boarding schools, 44 province-level ones, 295 district-level ones and around 500 community-based semi-boarding schools in 25 provinces. All communes have primary and secondary schools at the grassroots level. In the 2003-2004 school year, pupils from ethnic minorities accounted for 15% of the total number of primary school pupils, with 17.7% at the primary level, 13.3% at the secondary level, and 8.6% at the high school level respectively.

The gap in educational opportunities between urban and rural areas in Vietnam is being narrowed. This great achievement is attributed to wise investment and sound policies adopted in this field. The results of the survey conducted on 2004 living standards have indicated that

the literacy rate in Vietnam's rural area increased by 6.2% in 1998, which was greater than that of the urban area (2.2%).

### 3.4- Healthcare and public healthcare services

Many striking achievements have been recorded in the field of public healthcare. The healthcare network, especially at the grassroots level, has been increasingly consolidated and developed. 100% of communes and wards have had healthcare practitioners, with over 93% of the healthcare stations having midwives or paediatrician nurses. By the end of 2004, over 65% of healthcare stations have had doctors, over 79% of villages and hamlets had healthcare practitioners and most of communes and wards throughout the country been able to build healthcare stations. Healthcare stations have gradually been equipped with basic facilities and medicines in service of healthcare for the local populace. Healthcare services have been properly conducted at the grassroots level including mountainous, far-flung and off-shore areas. Each year, the commune- and ward-level healthcare network provides examination and treatment for 60 million patients, of whom 2.5 million are in-patients, making it possible for the district-level healthcare network to ensure that over 60% of patients throughout the country receive examination and treatment.

Thanks to investments in the upgrade of healthcare facilities, further progress has been made. The healthcare service providing system has been expanded with the number of patients receiving healthcare services increasing steadily. Healthcare services have become increasingly diversified; many new technologies in diagnosing and treating diseases such as heart operation, camera operation, viscera transplant and tube insemination have been successfully applied and disseminated in our country.

The traditional medicine and healthcare system have been further consolidated and developed with 70% of central-level provinces and cities having traditional medicine hospitals and nearly 50% of hospitals and general hospitals having traditional medicine faculties or sections. Traditional medicine has played a significant part in the treatment of many conventional and chronic diseases with low expenditures affordable for poor people and those living in rural and mountainous areas.

Active and dramatic steps have been taken in disease and epidemic prevention. Many lethal epidemics such as bubonic, cholera and malaria have been brought under control or eradicated. Especially, the SARS epidemic in 2002 and human-infected H5N1 avian flu epidemic in 2004 and 2005 have been successfully brought under control. Many other precaution measures in HIV/AIDS prevention, environmental purification and food hygiene have also been taken, yielding initial fruitful results.

In addition, the healthcare service has taken preventive measures against non-infectious diseases, which are becoming more and more prevalent in our country such as heart diseases, diabetics, cancer, mental diseases and traffic accident-related injuries.

The implementation of the national healthcare program has been highly productive. Over 90% of babies under one year old are vaccinated with 6 basic vaccines. The infection and death rate caused by diseases preventable by vaccination among children has dropped sharply. In 2004, the number of patients infected with diarrhoea dropped by 77%; the number of people infected with and killed by typhoid has gradually decreased from 16,000-30,000 cases and 9,000-23,000 deaths respectively in 2001 to 3,425 cases and no death respectively in 2003; the number of patients infected with liver infection virus dropped by 22% as compared to that of 2001; the number of patients infected with brain virus infection increased by 45% but the death tolls decreased by 4 cases as compared to that of 2003. From 2004 to date, there has been no infection or death caused by bubonic epidemic. By 2004, the cases of brain virus infection stood at 2,380 with a death toll of 121, increasing 22.7% and 6.1% respectively as compared to 2003. As such, in the long term, brain virus infection has to a certain extent been brought under control.

In spite of efforts made in the detection, prevention and treatment of HIV/AIDS and HIV/AIDS-related tuberculosis, the number of HIV infected patients nationwide in September 2005 stood at over 99,700 of which 16,300 have developed AIDS and 9,300 already killed. The number of newly infected tuberculosis patients in the community from 2000 to 2005 also reached 100,000.

The management, production and provision of medicines and medical equipments have seen remarkable progresses. The pharmaceutical service has been further developed, making it possible to provide enough basic

and high-quality medicines for people. Domestically produced medicines have accounted for over 40% of the total value of medicine nationwide. Especially in 2004, in line with instructions given by the Government, the Ministry of Public Healthcare and relevant Ministries and institutions have coordinated their actions to stabilize the price of medicines. To date, the price of medicines in the market is by and large stable, properly meeting the demands of patients.

With the above said achievements, people from most of regions and areas have received better healthcare services. The quality of healthcare service and people 's health have been increasingly improved (See Table 12), reaching a higher level than that of other countries with similar income per capita, thereby considerably raising Vietnam 's Human Development Index (HDI).

**Table 11: The realization of healthcare targets**

No	Targets	Realizations in 2004	Estimation in 2005
1	Average longevity (age)	71.3	70.0
2	The infant mortality rate < 1 year old (%)	18.0	30.0
3	The infant mortality rate < 5 year old (%)	32.8	37.0
4	Rate of newly born weighed < 2500 gr (%)	7.0	<7
5	Rate of malnourished children < 5 year old (%)	26.6	25
6	Rate of malnourished children < 5 year old (%)	85	80
7	Maternal mortality rate (above 100.000)	93.3	>95
8	Rate of complete vaccination (%)	65.4	>65
9	Rate of complete vaccination (%)	93.1	100
10	Rate of complete vaccination (%)	93.3	100
11	Rate of communes that have a doctor (%)	5.88	7
	Rate of communes that have maternity clinic (%)		
	Rate of communes that have a medical staff		
	Rate of doctor per 10.000 inhabitants		

Source: MPI

### 3.5- Family planning, population and children care

There has been a lot of progress in the activities of family planning, population, child and maternal care. Such a progress is expressed through the implementation of the reproductive health strategy and related programs such as essential obstetrical care, safe motherhood, child malnutrition prevention and control, and integrated medical examination and treatment for children.

From October 2000 by the end of 2004, the strategy on promoting the provision of reproductive health and family planning services to difficult and disadvantaged areas has been implemented in 28,530 communes in the far and remote mountainous areas, islands, flood-prone and densely populated areas where the birth rate is notably high in the 64 provinces and cities. The focus of the strategy has been placed on providing 3 service packages, including family planning, safe motherhood, and prevention of reproductive tract infections. The strategy has actually made impacts to 13.8 million of women at reproductive ages and more than 544,722 pregnant women. In 2005, the strategy was implemented in 7,647 communes in 58 provinces and cities.

To meet the sector's management demand, the management information for and on population and family planning activities has been gradually completed. Fundamental information (including changes of the population, performance of family planning activities, and family and children care) on each member of the families is recorded and updated regularly by the population and family planning facilitators in the communes, districts and wards.

A number of demonstration models to improve the population's quality has been being introduced, e.g. the model on pre-marriage medical examination and counselling; the model on community-level improvements of population's quality; and the model providing information, population, reproductive health and family planning services for teenagers and adolescents in 28 provinces and cities (covering 126 communes).

The population issue has also been integrated with sustainable family development by tools of credit, savings and familial economic status development. In 2001, the project was only taken on trial in 4 provinces, but one year later, 2005, it was expanded to 64

provinces/cities all over the country. So far, 4,147 groups have been established, in which the members help each other to implement the family planning/reproductive health policies and increase the income level (for more than 100,000 households) in 828 communes in 167 districts/towns nationwide.

Active measures on population, reproductive health and family planning have brought encouraging results. From 1989 until now, the birth rate has been quickly decreased; in 2004 each woman at the reproductive age has 2.2 children on the average (decreased from 3.8 children in the past) and this number is going down to the replacement birth rate of 2.1. The population growth rate has been decreased from 1.53% in 2000 to 1.44% in 2004 and is estimated to be 1.37% in 2005.

The number of obstetrical complications has been reduced by 52% after 10 years. The maternal mortality rate was reduced from 1% in 1998 to 0.85% in 2004. The under-one mortality rate was also reduced very fast from 26% in 2001 to 18% in 2004; and is estimated to be reduced to less than 18% in 2005, which is beyond the planned target of 30% for the year 2005. The under-five mortality rate was decreased from 42% in 2000 to 32.8% in 2004; and is expected to reduce to 30% in 2005, lower than the target of the action plan (36% in 2005). The malnutrition ratio of under-five children (calculated on the basis of their weights) has been reduced from 31.9% in 2001 to 26.6% in 2004, and is estimated to be reduced to less than 25%. The ratio of underweight newborn babies (less than 2500 g) was reduced from 8% (in 2000) to 6.5% (in 2003), satisfying the program's target of 7% in 2005.

The incidence of goitre among 8 to 12 year old children was reduced from 23% in 1996 to less than 6% in 2004, and is expected to be less than 5% by the end of 2005.

### 3.6- Natural resources, environment and sustainable development

From 2000 until now, the forestland area in the country has been continuously increasing thanks to afforestation support policies and the program of "Greening unused lands and bare hills". The forest cover has been increased from 37.1% in 2001 to 37.8% in 2005. Natural preservation and biodiversity protection have had distinctive progress; national parks and wildlife reserves have been developed strongly and fast in terms of the number and the area, accounting for about 8% of the total land area and satisfying the essential requirements for keeping biodiversity. Many of 126 natural reserves have been recognized

as the world's natural heritage or international biosphere reserves and ASEAN's natural heritage.

There are more people having better access to clean water supplies and environmental sanitation conditions. At present, Vietnam has more than 700,000 water supply facilities, including over 4.6 thousand of concentrated water supply systems. The coverage of rural water supplies in 2003 was only 54%, and increased to 62% in 2005. In 2003, about 5 million of rural households (41% of the total number) had hygienic latrines/toilets. In 2005, i.e. 10 years in advance, the rural areas of Vietnam have already met the MDG targeted for the year 2015 in relation to doubling the number of people having access to clean water supplies.

Collection and treatment of solid wastes have seen a lot of considerable improvements, at the average rate of about 65%, which continues to increase now. Waste treatment solutions are being further improved but wastes are still considered a danger to the environment. However, waste recycling is still being done spontaneously by private units and not yet very popular.

### 3.7- Cultural, information and sports activities

The cultural, information and sports activities have been developed in a diversified manner and contributed much to mobilizing the whole community to participate in the socio-economic development cause, improve the cultural life of the people and increase the efficiency of educational efforts regarding political and ideological issues, as well as law education, combat against social evils and other negative factors; wake up and develop the tradition of humanity and mutual help in case of misfortunes.

Ideology, morality and lifestyle are the key areas that have important developments. Many traditional cultural values have been highly appreciated and promoted. A lot of practical initiatives to remind of the tradition, the revolution and resistance wars, and to memorize the national heroes and celebrities have been widely launched. The active and volunteer participation of the people in cultural activities, especially the campaign on "The whole society unite for developing a cultural life", has caused positive changes in development of the grassroots cultural life. The ratio of cultural households has been considerably increased from 60% in 2003 to 80% in 2005.

Activities of literary and artistic creation have been strongly and inclusively supported by favourable conditions and brought positive influences on the social life. Conservation and development of cultural heritages have gained major achievements. Attention has been paid to research, collection and appreciation of physical and non-physical cultural values of the ethnic minorities in Vietnam. Some typical heritages have been recognized as the world's heritages, which help to enhance our position in the international arena in terms of cultural values. The cultural factor has been integrated, for the first time, in the socio-economic development cause.

The programs on developing grassroots-level culture and expanding the serviced area of the broadcasting and television system have shown good results. By 2005, the number of published books had reached 4.2 per capita, that of newspapers reached 8.4 per capita per year. About 90% of the households have access to the central television, and 95% of the households have access to the national broadcasting radio, according to the targets of the 9th Party Congress.

Sports activities continue the trend of massive and extensive development, with the first focus placed on investment in and development of some high potential and well-performed subjects. The physical facilities for the sector have been notably strengthened and developed. The campaign of physical education and fitness development is strongly developing in the localities, schools and the armed forces. Good progress has been seen in the well-performed sports, especially in terms of improvements of the athletes and promotion of the new sports in order to enhance the gains and achievements of our athletes in the national and international sports events.

### 3.8- Socio-economic development for poor and ethnic minority areas

The implementation of socio-economic development and poverty reduction policies in the mountainous and ethnic minorities areas in the recent years has gained notable results, expressed in different aspects of the political and socio-economic life.

More than 25,000 infrastructure facilities have been built and 498 communal clusters have been developed in the extremely disadvantaged communes under Program 135, of which more than 20,000 essential structures and 200 communal clusters have been put into operations. By this time, about 95% of the extremely disadvantaged communes have had autoroutes connected to the communal centres and nearly 50% of the

communes have markets in place and communal clusters. More than 95% of the communes have semi-permanent schools; 84.5% of them have secondary schools providing opportunities for 90 - 95% of children at schooling ages. 91% of the communes have achieved the standards of universal primary education. The commune/hamlet medical network is quickly developed with most of the communes being provided with health care stations, equipment and facilities; essential and popular medicines and drugs are also available in the sufficient amount. The ethnic minorities have been provided with initial health care services, dangerous diseases have been controlled and stamped out, especially HIV/AIDS prevention and control activities are informed even to the grassroots level. 88% of the communes have electricity, 75% have post offices, more than 60% have broadcasting stations. 18 newspapers and magazines are provided free of charge to the extremely disadvantaged communes, which has been a great support to improve the accessibility of the people to social services and contribute to the improved spiritual life of the ethnic minorities in the far and remote areas.

An important system of infrastructure has been built under development policy-based programs - this is a considerable physical factor causing changes to the appearance of the rural areas, contributing to increase of income, poverty reduction and creation of a pre-condition for moving towards industrialization and modernization in the mountainous and ethnic minorities regions. By integrating policies, programs and projects, the life of the ethnic minorities, especially the communes under Program 135, has been gradually stabilized and even enjoyed strongly positive shifts. Production has started moving towards the commodity-oriented and diversified model, the poverty rate has also been reduced.

Many localities have efficiently used accessible loans and credits to help the people find out appropriate livelihoods and develop production. The ethnic minorities households have used preferential loans in production; as a result, they could improve their income level and living standards, and step-by-step came out of poverty; many households have even become rich and wealthy. By this time, in the extremely disadvantaged communes, the rate of poor households has quickly reduced from 50-60% to 23.1%; on the average, the poverty rate is reduced by more than 5% every year (even 7-9% in some areas). In the

ethnic minorities areas, in general there are not any more households suffering from chronic hunger; more than 50% of the communes under Program 135 have achieved the poverty rate of less than 25%. Poverty reduction was especially successful in some extremely disadvantaged communes, shown in the clear evidence that the poverty rate was reduced to less than 15% in 2004. These localities are namely Tuyen Quang, Lang Son, Hai Phong, Ba Ria - Vung Tau, Lam Dong, Binh Phuoc, Tay Ninh, Long An, An Giang, Kien Giang, etc.

Together with other programs and policies, Program 135 is one of the important policies having big impacts on improvements of the living standards, educational/knowledge level, qualification of grassroots-level staff in the ethnic minority areas. The Program has contributed much to strengthening and completing the grassroots-level political system, maintaining the national security, and strengthening the solidarity between different groups of minorities in the country, and increasing the ethnic minorities' belief in the policies and guiding strategies of the Communist Party and the Government.

### 3.9- Development of large scale infrastructure

In 2005, the Government gave instructions and guidance to take many actions for implementing the development investment plan with focuses on large scale infrastructure. In implementing the Resolution 36/2004/QH11 dated 3 December 2004 by the National Assembly regarding investment and capital construction financed by the state budget, the Government took the year 2005 as the year for 'improving investment efficiency, preventing losses and wastes, spread-out investment, and outstanding debts in investment and capital construction'. The Prime Minister has directed the Ministries, sectors and localities to quickly resolve difficulties in land acquisition, resettlement and disbursement in order to accelerate the construction progress, especially that of key and important structures.

With continuous improvements of capital mobilization policies and investment and construction management mechanism, the amount of investment capital has increased very fast, allowing a large amount of capital available for focusing investment in some key infrastructure in various sectors, localities and fields of activities. Investment for developing large scale infrastructure has helped to strongly shift the productive structure to higher efficiency and full use of regional,

sectoral and product advantages, which in turn increases the competitiveness of the economy; the agricultural production and rural economy have also been re-structured. The rural technical infrastructure (including transport, telecommunications, irrigation/drainage, and electric industry) has been gradually improved and created favourable conditions for tourism development, environmental protection and natural disaster mitigation.

In 2005, *investment for transport, post and telecommunications* reached 12.4% of the gross social investment. Especially focus was placed on construction of the national highway system, life-line roads, and rural roads, particularly in the mountainous areas, the border lands and the Central Highlands. A number of major road sections on the national highway route were already complete, and some other large projects were commenced and called for focused investment.

*For the agricultural, forestry, fishery and water resources sectors*, investment in 2005 accounted for 13.8% of the gross social investment. Investment activities were also directed to trigger the structural shift of agricultural production and rural economy. Investment for water resources was focusing on flood control programs, in particular, the Mekong River Delta water resources projects, the ones in the central regions, the Red river basin water resources development projects, and reservoirs in the Central Highlands.

*Investment for social infrastructure* in 2005 reached 27.4% of the gross social investment, of which:

*In the education and training sector*, investment was concentrated on the leading universities, regional universities, and vocational high schools. Investment for this sector made up 4.3% of the gross social investment in 2005.

*In the field of science and technology*, the focus of investment was placed on construction of physical and technical facilities for science and technology agencies, as well as development of technical infrastructure for information technology and hi-tech zones. Out of these investment activities, intensive investment for laboratories was a high priority, aiming at development of key laboratories and internet technical facilities. Many important scientific and technological programs initiated by the Government were implemented, including the national seeds program, and 4 technical - economic programs regarding

biotechnology, information technology, materials technology and automation technology.

The results of investment for development helped to increase the capacity of various sectors in 2005, namely as follow: the electricity supplies increased by 1,075 MW; coal - by 0.8 million tons/year, rolled steel - 600,000 tons; cement - 3.2 million tons; irrigation capacity - 150,000 ha; drainage capacity - 60,000 ha; salinity intrusion capacity - 10,000 ha; new forest plantations - 200,000 ha; construction and/or rehabilitation of national roads - 2484 km; construction and/or rehabilitation of rural roads - 26,191 km; road bridges - 9,500 m; rehabilitation of railroads - 150 km; construction of a 480 m long quay; clearance through harbours - 6.5 million tons/year.

However, there are still some outstanding problems in investment for large scale infrastructure development:

The transport facilities are not yet complete. The road system through cities/towns and focal economic zones is not yet satisfactory to the economic development needs. The system of sea ports, railroads and airlines facilities is unsatisfactory, the transportation capacity is poor, storage capacity and information facilities are inadequate, the service cost is high, etc.

The irrigation systems fail to serve agricultural production in an effective way; reservoirs in the central region, the Central Highlands and the mountainous areas are incomplete; the quality of the structures is sub-standard, with low efficiency and lack of consistence between the main structures and the approach canal. Water resources facilities mainly focus on irrigation and drainage for rice, rather than industrial crops, aquaculture and salt production. The sea dyke system has not been strengthened enough to fight against major and big storms.

Electric infrastructure does not meet the requirements of economic growth, especially at the time when there is a high demand of electricity use. The structure of the electric sector is not reasonable, and some thermo-electric facilities are not complete in accordance with the schedule.

Investment and management of infrastructure for post, telecommunication and information technology (IT) still rely on the administrative boundaries and is not yet effective enough. The mechanism of using the shared infrastructure for IT is not paid attention to by enterprises;

investment to develop infrastructure for post and telecommunications of the new enterprises is not relevant to the development level of services.

The water supply system is insufficient, especially in the rural areas. Most of water treatment equipment has become old and backward, leading to the sub-standard water quality. The water distribution system is not consistent with the possibility of expanding water sources. The domestic waste treatment system, especially from urban areas and hospitals, is not satisfactory, causing impacts on the environment, the quality of life and public health.

Social infrastructure, particularly for education, training, health care, is inadequate in terms of the area for use, and is incomplete in terms of equipment and facilities. The social and public health care system is still very weak, especially at the grassroots level. The number of patient beds, equipment and facilities are insufficient, and fail to meet the quality requirements.

The above mentioned problems are caused by unreasonable mechanisms and policies for orienting and attracting investment sources for infrastructure development; also caused by unconcentrated and spread-out allocations of funding sources which leads to the lack of investment for large scale structures as a dynamic driving force for socio-economic development process. Furthermore, investment sources for large scale infrastructure development are not yet used effectively, especially those financed by the state budget. Infrastructure planning is not timely updated, revised and adjusted; and lacks of strategic views. Also, the quality of planning is still rather low and therefore, planning is not yet a strong basis for formulation of public investment programs.

## **PART II**

### **THE IMPLEMENTATION OF INCENTIVE POLICIES TO PROMOTE GROWTH AND POVERTY REDUCTION IN 2004-2005**

#### **1- Perfecting the business environment, creating the equality for businesses and classes of population**

The political stability throughout the "Doi moi" (renovation) period was a firm basis for the establishment of economic mechanisms, which promote the cause of industrialization and modernization of the country. In the past 5 years (2001-2005), especially in the past 3 years, Vietnam has focused on amending, supplementing and issuing new mechanisms, policies and laws as well as on renovating the guidance of implementation in order to ensure that every economic entities are equal and fairly treated in business.

##### **1.1- Improving the production, business and investment environment in order to provide development incentives to all economic components**

The process of perfecting the business and investment environment; implementing policies and mechanisms to encourage the participation of all economic components into the cause of development of the country; together with the renovation and improvement of the role and the management effectiveness of the State apparatus have created the driving force for the economy to grow faster and in a more effective manner, which in turn, has contributed to improve the quality of growth and people's life.

In the State economic sector, the Government has focused on directing relevant authorities to study and formulate a new management mechanism for State-owned enterprises, based on the Third Resolution of the Party's Central Committee. The Government has also amended the Law on State Enterprises, which has clearly defined the right of representing the ownership of the State capital and property in the State enterprises. It has also ensured the right to be self-decisive in manufacturing and trading activities. In the same time, it stipulated the separation of the State ownership from the enterprises' rights to

manufacture and trade, abolished regulations on governing administrative levels; converting part of State enterprises into limited-liability or joint-stock companies.

With regards to the collective economic sector, the Government has issued new management mechanisms to encourage this sector to develop under the spirit of the Fifth Resolution of the Party's Central Committee, creating therefore, a favorable legal framework for the process of transforming old-fashion cooperatives into new models. It has also supplemented appropriate regulations to provide incentives to develop new forms of cooperatives, which include the natural person and the legal entity. It encouraged the joint-venture model, and the cooperation between cooperatives and State and private enterprises. Policies aiming at training and educating cooperative staffs have also been implemented.

With regards to the individual and private businesses, the policies and mechanisms that have been issued aimed at providing incentives for accelerating the development of the private sector. The right for freedom of conducting businesses as regulated by the law of each citizen, each individual, each person, and each model of enterprise has been implemented consistently in order to maximize the use of inner-forces, to develop the working force, ensure equal opportunities and choices for every economic component in accessing capital, land, labor force, technology in the manufacturing, trading and import-export activities. Circulars providing guidance to activate the positive aspects of the Law on Enterprises have been issued.

The foreign invested economic sector has been encouraged to develop as an integral part of Vietnam's economy. The government issued policies and mechanisms encouraging foreign organizations and individuals as well as the overseas Vietnamese to invest into Vietnam, especially in the manufacturing of export-oriented and high-technology products. These have created a legal framework to encourage outward investments in order to make the best use of the country's comparative advantages.

Moreover, in the cultural and social fields, the Government established new mechanisms to socialize the areas of education, healthcare, culture, sports in the direction of decentralizing, self-decisive, self-responsible; some public service activities have been

undertaken by the society and non-governmental organizations in compliance with the State's standards and regulations.

#### 1.2- Perfecting the legal framework on macro-management

The Government instructed the ministries and agencies to carry out and provide guidance on the implementation through the formulation of under-law legal documents which supplement laws adopted by the National Assembly, such as the Law on Budget, Law on Construction, Law on Competition, Law on amending and supplementing the Law on Land... and other policies and mechanisms that have direct impacts on the consistent implementation of the socialist-oriented and multi-sectoral economic policy, while creating the favourable conditions for businesses and citizens to invest in and develop manufacturing and trading activities.

The Law on Competition has brought about first new regulations on some sensitive issues of the market economy.

The amended Law on Land use has actively contributed to the improvement of the investment environment in Vietnam. The most progressive change of this law is that it has handed over the right to land use to organizations in general and to enterprises in particular, instead of renting the land.

The amended Law on export-import has brought strong changes in the mechanism of import-export tax collection, in which enterprises are allowed to declare and pay import-export taxes by themselves and are self-responsible for their taxpaying.

At the same time, in the Eighth Session of the Eleventh National Assembly, the Government has submitted the Law on Investment which was drafted by combining the Law on Domestic Investment and the Law on the Encouragement of Foreign Investment; the Law on Enterprises which was drafted based on the Law on State Enterprises and the Law on Enterprises, the Law on Bidding; the Law on Anti-Corruption, the Law on Savings and Waste Prevention.

These are meaningful draft Laws that have important impacts on the creation of a favourable and equal business and investment environment. The basic content of each draft law has shown the Government's determination to stabilize the macro environment and to increase the ability of mobilizing all the resources for economic development.

1.3- The different types of market are being established

Measures aiming at developing the capital market and reforming the banking system have, at the very first steps, made the financial and banking systems more transparent and healthy, allowing the improvement of the effectiveness and competitiveness of Vietnam's banking system. The non-banking financial mechanisms such as the financial, insurance, financial leasing companies and investment funds... continue to develop.

The issuance of the Law on Labour has lay the foundations for the establishment of the labour market; regulations on social security have been amended and supplemented; a widespread network of job services has been established; new forms of transaction have been introduced in the labour market.

Many progresses have been done in the establishment of the real estate market; many legal documents, Resolutions and Decisions have been issued. The National Assembly has adopted and issued the amended Law on Land use; the Government has instructed the formulation of the documents which provide guidance on the implementation of this law in order to re-establish the rules in land use management, especially rules and restrictions on the shifting of the land use purpose...

The science and technology market has been formed at the very first stage through services, manufacturing and supply of software on technology transfer to manufacturing, trading, legal and management consulting entities. The scientific and technological research centers and scientists have cooperated closely with manufacturing entities, received more research orders, and therefore created a demand-supply relation on the market in certain science and technology activities.

1.4- The restructuring and reform of State-owned enterprises

Continue to implement the General Plan on the restructuring and reform of State-owned enterprises approved by the Prime Minister, in 2005, 730 enterprises will be classified and more than 600 enterprises will be equitized. The classification result helps reduce the number of small-scale, unprofitable enterprises in the areas and sectors in which the State does not need to hold 100% of capital; contributing to restructuring State-owned enterprises from a unfocused situation to a better oriented status, concentrating in areas and sectors that are vital to the economy.

Implementing the Prime Minister's Decision number 155/2004/QĐ-TTg dated of 24 August 2004 on the classification criteria and listing of State enterprises, the member-companies which are independent financially under General State Companies, the related Ministries and agencies, local authorities and State corporations have focused on building the Supplementary Project on the classification and reform of State enterprises to be submitted to the Prime Minister for consideration. According to projects, which have been additionally approved, 900 enterprises would be restructured, of which 600 enterprises would be equitized. These enterprises will be restructured mainly in 2006.

The equitization of the State enterprises under the Decree number 187/2004/NĐ-CP issued on 16 November 2005, has improved the transparency and openness by assessing the value of enterprises and conducting auction sales of enterprises' shares through professional organizations; creating favourable conditions for direct investors to have direct access to shares; for its part, equitized enterprises are able to mobilize capital, renovate their management style, promote the development of the capital and stock-exchange market, surmount the self-contained equitization status in enterprises, prevent the leaking of State properties. The auction of stocks at intermediate financial entities and Centers of stock exchange has attracted a great attention of the investment community. The total revenue that the State has been able to collect through this process has increased progressively from 1.5 to 2% compared to the starting price, in particular cases, the share value has increased by five folds.

In implementing the pilot policies on the equitization of certain State-owned enterprises, the Prime Minister has decided to ratify the Plan on Equitization of Vietnam Electronics and Informatics Corporation (Ministry of Industry), Vietnam Construction Export-Import Corporation (Ministry of Construction), Trade and Construction Corporation (Ministry of Transportation), Agricultural Material Corporation (Ministry of Agriculture and Rural Development). These corporations are equitizing most of their member enterprises and the mother companies will be equitized in 2005. The Prime Minister has also authorized to conduct a pilot project on the equitization of Vietnam Foreign Commercial Bank and is instructing the Bank of Mekong Delta Housing Development Bank to elaborate the Equitization Plan.

With regard to the application of experimental model of Mother Company and their subsidiaries, the Prime Minister has allowed 52 large-scale State-owned corporations and companies to apply this model. As of October 2005, 47 State-owned corporations and companies' plans have been approved to transfer their operation following the model of mother-company and subsidiary companies. This change with multi-owned enterprises' structure helps to accelerate the process of re-organizing and renovating State-owned enterprises. At the same time, the Prime Minister has approved Plans to experiment the establishment of Vietnam Telecommunication and Post Corporation and Vietnam Coal Corporation, and many other corporations on Oil, Electricity, Cement and Garment. The Prime Minister has also ratified regulations on the organization and operation of Vietnam Shipping Corporation, which experiments the model of the Board of Management hiring an Executive Director.

## 2- Maintaining the stability of the macro-economic environment

### 2.1- Reforming the public finance sector

The system of finance - budget management's policy during the past time has been improved step-by-step, aiming at stabilizing the macro-economy, accelerate the socio-economic development, transforming the economic structure, creating mechanism to encourage the establishment of key economic regions, prioritizing the increase of investment on mountainous areas, Central Highland, areas with difficult conditions, bringing equality to the budget allocation process, eradicating hunger and reducing poverty.

2004 is the first year in the implementation of the State Budget Law (amended) and the system of legal documents with many important changes in terms of state budget management, with the view of strengthening the effectiveness of the management, utilization of the budget and property; increasing the capital accumulation in order to realize the country's industrialization and modernization cause; meeting the demands on socio-economic development, gradually improving people's life. Implement a consistent and centralized management of the State budget, ensuring the right of decision-making of the National Assembly, and a uniform management of the State on the State's budget, ensuring the pivotal role of the central budget; and strengthening the decentralized management between central and local budget in the way of increasing the sources of revenue for local budget in order to provide

incentives so that local entities will be more pro-active in balancing its budget.

Implementing administrative reforms on planning, executing, accounting and balancing the budget. The focus of the budget administrative reform this time is to carry out new budget expenditure procedure, with the main content that is to eliminate the quota distribution from financial agencies - this is to simplify administrative procedures, increasing the authority and the responsibility of agencies utilizing the State budget; at the same time, monitoring more closely the expenditures; contributing to strengthen the rules and discipline in the management and utilization of the budget.

Continuing to accelerate the implementation of new mechanism and mode of financial management that the state administrative agencies, and giving more authority to public agencies and administrative State agencies. This has contributed to the renovation of the operation and budget and financial management mechanisms of administrative agencies, encouraging the socialization of capital mobilization, management and utilization in order to increase the effectiveness of the public administrative sector... The renovation of budget allocation of the Prime Minister's Decision No 139/2003/QĐ - TTg on July 11, 2003 on the estimated allocation of 2004 budget has created a clearness, transparency and openness in the allocation of budget resources, ensuring the creation of mechanisms to encourage drive-force regions, at the same time, implementing policies giving preferences to the development of mountainous areas and areas with difficult conditions,...contributing to eradicate hunger, reduce poverty, and bring about social equality.

Along with the renovation of budget management's policy, bringing more clarification, transparency, democracy in state budget's management, the Decision No 192/2004/QĐ-TTg on November 16, 2004 promulgated regulations on financial disclosure in order to create favorable conditions for public inspecting and supervising on state agencies in the process of utilizing the State budget.

Also in 2004, several amended or supplementary tax laws came into force, including Law on Value Added Tax, Special Consumption Tax (Excises), Enterprise Income Tax, Ordinance on Personal Income Tax for

high-income earners..., aimed at creating a favorable, equitable, clear and transparent investment and business environment, facilitating enterprises' accumulation to further expand their business, production and improve their competitiveness, encouraging export; actively participating in international integration; providing adequate encouragement to promote business-production expansion, improving revenue and ensuring resources for the socio-economic development and poverty alleviation goals... New developments have been seen such as: reducing the number of Value added tax rates from 4 to 3 rates (0%, 5% and 10%), eliminating the high rate of 20%; dropping the corporate income tax from 32% to 28%, removing tax on overseas profit transfer; reducing import tax rates, eliminating the minimum price regulation in calculating import tax as determined in the integration roadmap; further adjusting involved fees to reduce production cost... At the same time, tax base has been further expanded; the number of beneficiaries of tax exemption, preference has been reduced, which help gradually establish an equitable, consistent tax system and eliminate discrimination between economic sectors in accordance with the international integration trend.

#### **Government management of debts**

To ensure the national financial security, it is needed to manage strictly and effectively Government and National debts, control Budget deficit at the level below 5% of the GDP (below 3% of the GDP according to international practices), settle timely and fully all due domestic or foreign debts. It would be safe if the Government's debts surplus is maintained at approximately 36% of the GDP at the end of 2005 (including Government bonds and education bonds), national debts surplus of about 32% of the GDP (of which, all Government foreign debts are of preferential interest rate (ODA). This would guarantee the national financial security for the time being and in the middle-term.

To ensure that debts would not affect the national financial security and would not have negative impacts on the macro-economy, it is indispensable to manage and evaluate debt risks along with controlling and using efficiently new loan sources. Aiming at reforming the management of Government and national debts, the Ministry of Finance, in coordination with concerned ministries, has studied to adjust or supplement clauses on foreign debt management in highlighting

the principle of consistent debt management, division of work and responsibility to guarantee a strict debt management in accordance with international practices.

## 2.2- Mobilizing resources for economic growth and poverty alleviation

Over the past years, the investment and business environment has been continuously improved in Vietnam. Vietnam has been encouraging and attracting domestic and foreign investors. Improvements in investment environment have been seen in both infrastructure and legal system, policy and management mechanism.

Breakthroughs and clearness of Corporate Law continues to be considered as primary important factors, directly affecting the investment environment. Positive impacts of Corporate Law have helped promote the development of non-public sector and form a new development ground in a sustainable direction.

In 2005, the National Assembly has passed a series of laws relating to improving the investment environment. The Government has modified toward a more positive direction several management regulations for enterprises in export processing zones, adjusted working regulations, personal income tax; promulgated Directive No 13/CT-TTg dated April 8, 2005 on several measures to attract Foreign Direct Investment; issued the Decision on delegating more responsibility to provincial/city People's Committee in providing license for FDI projects and managing them. Administrative procedures in investment have been reformed, as seen through the speeding up in the examination of projects, implementing, clearing and compensating land. In addition, a master plan has been set up and publicized together with business conditions for conditional business fields, which enables the population to supervise state agencies. The Government has also studied and publicly issued the list of forbidden, restricted or conditional goods and services; fastened the application of the unique price policy and measures to reduce investment cost, improve enterprises' efficiency. Involved ministries have dealt with a number of specific issues to minimize difficulties for investors and carried out significant steps in promoting investment. For instance, the personal income tax for foreigners has declined to 40%, the level of taxed income risen to above 5 millions.

For foreign investment, the Government has been committed to and implemented measures to improve the investment environment, especially on mechanism, policy, as well as minimized difficulties that investors met in doing business in Vietnam, eliminated conditional and time-limited protectionism for domestic production fields that need to develop and are capable to compete; gradually opened market as committed in the economic integration roadmap. The Government has also checked, adjusted the sector planning in combination with the location planning, which enables foreign investors to favourably take part in different fields. All economic sectors, including foreign investors, have been encouraged to invest in infrastructure, particularly transportation, seaport, electricity and water supply, construction of hospital, school, entertainment and urban centres.

### 2.3- Monetary policy and measures to control inflation

#### **Monetary policy**

Over the recent years, our monetary targets have always followed closely domestic and international developments. The monetary policy has been operated carefully and flexibly in highlighting the macro stability, inflation control, giving priority to economic growth, making maximum efforts to mobilize capital, providing loans to key projects, small and medium projects and micro credit projects in rural areas.

The use of monetary policy tools has been based on developments in market demand and supply and a comprehensive, flexible and timely coordination between different tools. Market knowledge has become the major tool in running the monetary policy that helps regulate in time serviceable loans of credit organizations. Reallocation of loans and rediscount has continued to be improved, thus providing signals and establishing a framework of interest rates that orients market interest rates, harmonizes interest rate and exchange rates to stabilize mobilized and loan interest rates of the economy. The management of interest rates and foreign currencies has been flexible and swift, therefore, helped stabilize foreign currency market, encourage export and increase foreign currency reserves. Compulsory reserves have also complied with developments in domestic and international markets and well coordinated with other monetary tools to regulate in time the serviceable capital source of commercial banks and effectively control inflation.

Further improve the legal environment for monetary market activities. Develop a secondary market to improve the mobility of monetary tools, facilitate the participation of market members.

In signalling a stable interest rate, it has continued to regulate flexibly other tools, such as: increasing compulsory reserves for below 12 month deposits in Vietnamese dong and foreign currencies, at the same time, changing the mode of interest payment for compulsory reserves in Vietnamese dongs.

The flexible operation of interest rate complying with market supply and demand has facilitated import, export activities. Developments in inter-banking average exchange rate of VND/USA have basically associated with changes of USD in market. Maintaining a stable exchange rate has strongly affected local people and investors' psychology reduced the transfer of Vietnamese dongs into foreign currencies.

The management of foreign currencies continues to be improved, thus creating a legal framework for international business and investment. Foreign currency market has also known new and basic changes, particularly in expanding the scale, scope and management measures for foreign currency business that further comply with international practices, therefore facilitate business activities of commercial banks, and helping gradually build a competitive exchange stock.

Activities in open market continue to play a harmonizing role and meet the need in serviceable capital for credit organizations. To support short-term capital to banks, along with opening market, State Bank has reallocated loans to public commercial loans, joint-stock commercial banks and joint-venture banks.

### **Inflation and measures to control inflation**

In 2004 and 2005, consumer price index increased dramatically (9.5% in 2004 and 8% is estimated in 2005). It is evaluated that the sharp rise in CPI originates in several majors reasons: impacts of the rise prices of oil and other essential materials in the world market and of natural disasters and diseases in domestic context, the outbreak of avian flu when the Lunar New Year is coming, that has caused a food shortage and dramatic rise of food price. Regarding to the rise of food price in particular, it is caused by not only the rise of input prices

but also the rise of export prices, which consequently cause the domestic price going up.

The rise in price has laid many impacts on socio-economic development and people's life. On one hand, the rise in food price has contributed to improving farmers' income. On the other hand, it has significantly affected the life of certain urban population, caused difficulties for enterprises in following business strategy, therefore to certain extent, affecting budget revenue and monetary policy.

To deal with the sharp rise in CPI early last year, the Government has directed involved Ministries and agencies to stabilize the price. In March 2004, the State Bank adjusted monetary targets in a more careful manner to stabilize the currency, interest rate, exchange rate, which has contributed to controlling inflation, promoting the economic growth. In the middle of 2004, the State Bank decided to double compulsory reserves for deposits in commercial banks, aimed at reducing payment excess in the banking system. At the same time, the basic interest rate and other oriented interest rates remained constant. This constituted a careful solution as a higher level of compulsory reserves would indirectly limit the growth rate of credit in the banking system for economic growth. In addition, providing information in public media about the reasons of the price rise and Government measures to stabilize price have had psychological impacts, helped reduce pressure on inflation rate.

The world's economy continues to witness complex developments in 2005. The gas price has remained at high price, the interest rate of USD continued to rise while there have been natural disasters. In the country, it has been emerging a series of factors causing the rise in CPI, that include the increased consumption demand during the New Year; the Government's decision on the increase in electricity, gas price, salary; the return of avian flu outbreak, serious draught in some localities.... These factors have led to a rise in market price, affecting significantly the monetary policy management.

In order to control currency as required by targets, in 2005, the State Bank had to increase several major interest rates such as: basic interest rate of Vietnamese dong, interest rate of loan reallocation, discount interest rate, therefore the mobilized interest rates and loan interest rates in VND and USD of credit organizations have also risen.

At the same time, in an effort to restrict the rise of market price, control inflation, stabilize the macro-economy and promote economic growth, State Bank has requested commercial banks to use comprehensively measures to improve credit quality, develop credit at a level suitable to capital mobilizing capability and risk mitigating capability, improve management capability and the efficiency of loan use, etc.

#### 2.4- Trade policies

Together with Vietnam's further integration into the international economic and trade system, the previous two years have witnessed the efforts and the achievements of the country in the reform and completion of trade and economic mechanisms and policies.

A series of problems of great importance and having long-term impacts on Vietnam's trade development have been regulated and legalized in different text laws, Resolution, Laws, Decrees, Circulars of State management agencies at different levels, such as: the amended Trade Law and Decrees stipulating concretely the implementation of this Law; the Law on Competition and Decrees stipulating the implementation of this Law; the Antidumping Law and its related Decrees; the Decree on measures punishing the violation of the Competition Law; Decree on Multi-level Sales; Prime Minister Decision on the granting of import licensing; Prime Minister Decision on the management of import-export after 2005...

The Government has issued many policies aiming at providing financial assistance to export activities, including: VAT exemption for export goods and the manufacturing of export goods; preferential credit programs to assist exports; the establishment of Export Assistance Credit Fund; the implementation of key national trade promotion programs; national brand building programs; policies to provide bonus to enterprises that have surpassed their export quotas and bonus to export achievements...These policies and measures have contributed to encourage at most domestic businesses nationwide to participate in export activities and contribute to promote export in the past year.

In 2004 and 2005, Vietnam continues to undergo new transformation in the management and operating of import-export activities. The main developments are:

- Elaborate, issue and organize the implementation of the Decision 26/QD-TTg dated of December 17<sup>th</sup>, 2003 of the Prime Minister on the approval of the Plan on the development of the goods export market for the 2004-2005 period; the Directive on export promotion of wood products; and the implementation of measures to prevent import surplus...
- Negotiate with the EU to increase the quota for textile and apparels in 2004; Provide guidance for enterprises on the export of textile and apparels products to the EU and the United States markets; Adjust the quota fee for textile and apparel export to the United States market... Stipulate the Decision on the Regulations of the Certificate of Origin sample D, according to Vietnam's commitments in CEPT/AFTA, and the Regulation on the monitoring and management of export textile and apparel products.
- Allocate the tariff rate quota for goods that are submitted to tariff rate quota; Issue the Decision on the List of consumption goods to determine the deadline for the payment of import duties; Implement Decisions on the issuance of permits for temporary import and re-export for certain goods (wood products, bicycle...) in order to prevent illegal transshipment.
- Study and elaborate regulations on the trans-border trading of goods; on the management of imported intermediate goods for the production of petroleum; on the provision of licenses for temporary import and re-export of certain products; on 5 year tariff exemption on imported raw materials for FDI enterprises; and on the guidance for the implementation of tariff rate quota.

With regard to the domestic market, during 2004-2005, besides continuing to closely monitoring to ensure a smooth and stable flow of goods, the government has also make efforts to perfect its policies with the view of developing domestic trade, i.e. implementing the Directive 13/2004/CT-TTg dated of March 31, 2004 on certain measures to development the domestic market; Directive 23/2004/CT-TTg dated of June 16, 2004 on the strengthening of measures to save gas and petroleum; Decision 311/2003/QD-TTg dated of March 20, 2003 on the ratification of the Plan on the organization of domestic markets and on the development of rural trade from now to 2010; Decision 559/QD-TTg dated of May 31, 2004 on the ratification of the Plan on the development of markets to 2010; Decree on measures to punish administrative violations in the trade area... The government has also studied, elaborated and implemented different plans

aiming at developing domestic trade, invest in the development of the market system, fight against goods trafficking, counterfeit goods and trade frauds, keeping the balance of the supply and demand of essential consumption goods in order to meet the demand of production and domestic consumption.

Vietnam's international trade and economic integration process during three years 2003-2005 continues to evolve rapidly and has achieved encouraging results. Vietnam has conducted 11 meetings with the WTO Working Party on Vietnam's accession to the World Trade Organization (WTO) and has concluded bilateral negotiations with 20 WTO members. In 2004, Vietnam has concluded bilateral negotiations with the EU, Cuba, Chile, Argentina, Brazil and Singapore. In 2005, it continued to accelerate the negotiation process with WTO members that have requested bilateral negotiations. Until October 2005, there only remains 6 WTO members with which Vietnam needs to conclude its bilateral, namely the United States, Australia, New Zealand, the Honduras, the Dominican Republic and Mexico. Vietnam's WTO accession negotiation is entering its final stage and the country has basically complete the process of providing clarifications to WTO members on Vietnam's legal system and policies related to trade in goods, trade in services, investment, intellectual property rights, etc...The playing field for investors will be more equal as Vietnam becomes a WTO member.

The Government of Vietnam has implemented actively its commitments in ASEAN, according to the CEPT/AFTA Agreement, as well as implemented its tariff reduction schedule as regulated in the Agreement. The country has also accelerated the implementation of measures to fasten the integration process in 11 areas of priorities of ASEAN, at the same time, it has taken part in many other important cooperative mechanisms within the ASEAN framework.

In the context of cooperation of APEC, ASEM,...Vietnam continues to play its active role in the activities of these forums. Vietnam's initiatives and contributions in the APEC and ASEM framework has opened new perspectives of cooperation towards strengthening cooperation on trade and investment, financial services, transportation and energy as well as supporting the multilateral trading system.

### 3- Policies for large-scale infrastructure development

#### 3.1- The construction planning of large-scale infrastructure development

Being aware of the vital role that large-scale infrastructure plays on economic growth, hunger elimination and poverty eradication, through its direct and indirect impacts, the country has attached a great importance to the planning and the elaboration of strategies developing infrastructure such as transportation infrastructure, power grids, irrigation systems...To date, the Prime Minister has ratified the Strategy on the Development of the transportation sector to 2020; the Plan for development of roads, railways, air transportations, maritime transportation and sea ports. The detailed planning, which will serve as the basis for the development of the five-year plan and annual plan, is being elaborated by each sector, and each sector will select and develop their projects according to the overall sectoral plan.

The authority agencies are reviewing and completing the procedures for the Development Plan of roads leading to border areas, and the corridor along the Vietnam-China border and Loc Tan; the Development Plan for air transportation to 2020; the Plan of the establishment of a safe road traffic corridor; the Plan for the construction of the corridor at the Vietnam-China border; the Plan for the sustainable development of the transportation system in Phu Quoc Island; the detailed Plan on the construction of the international transshipment sea port complex Van Phong to 2010 and orientation for 2020; and the Plan for transportation systems in key economic zones.

The country is also accelerating the implementation of the Plan for the construction of the railways linking Thai Nguyen-Tuyen Quang-Yen Bai; the railways Plan connecting Dieu Tri-Quy Nhon; the Plan on the water transportation system in the Northern Delta to 2010 and development orientation to 2020; the detailed Plan for the domestic waterway system in the Southern region to 2010 and development orientation to 2020; the Plan on the construction of the sea port system in three key economic zones; the Comprehensive Plan on construction of airports; the Plan on the construction of large sea ports in the Mekong Delta region; the Plan on the development of waterway transportation in the Mekong Delta region; the Plan on the development of the transportation system in the Central midland and Northern mountainous areas to 2020, as well as other plans.

### 3.2- Policies aiming at encouraging and mobilizing resources for the development of large-scale infrastructure projects

To implement the policy of accelerating the development of large-scale infrastructure projects, many policies have been implemented to mobilize more resources for development investment on infrastructure. In terms of ODA attraction, the Ministry of Planning and Investment is elaborating the Plan for the attraction and the utilization of ODA. At the same time, it is developing the list of important programs and projects to call on the ODA resources on a sectoral and regional basis, from now to 2020.

The current development resources are still restraint. The annual State budget for the transportation sector as well as other infrastructure sectors is only sufficient to provide counterpart funds for ODA projects. Therefore, there is no available resource for the funding of important domestic infrastructure development projects. Facing these difficulties, the Prime Minister has directed the government to borrow from next year budget reserved for infrastructure development the necessary funding for investing in 67 projects listed in this category, with a total amount of investment of 6200 billion VND for the 2001-2005 period<sup>(\*)</sup>.

On the mobilization of funding from other economic components, the Prime Minister has issued the Decree 77/CP on June 18, 1997 on regulations related to the BOT form of investment, and is applicable to domestic investment; and the Decree 62/1999/ND-CP on July 31, 2000 of the Government on the investment mechanism related to Built-Operated-Transferred, Built-Transferred-Operated, and Built-Transferred, applicable to foreign investment in Vietnam.

In order to follow the guidance of the Prime Minister on the mobilization of resources for infrastructure development in the BOT form, both in the domestic and foreign markets, so that to mobilize more funding and ease the tension on the State budget, the Ministry of Transportation has invested in the construction of 22 projects with a total investment of 54000 billion VND. To date, four projects have been completed, with a total investment of 1677 billion VND, of which, the total amount of investment of BOT enterprises is 1507 billion VND, accounting for 90% of the total contracted fund. Four other projects are being implemented with a total investment of 2012 billion VND, of

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<sup>(\*)</sup> This decision was ratified in the text 411/CP-CN of the Prime Minister on May 16, 2001. The Law on State Budget in 2002 also allows this kind of actions.

which BOT enterprises investments are 1733 billion VND, accounting for 86% of the total funding.

In order to mobilize more resources for large scale infrastructure development, the State has directed the mobilization of unutilized funding in the population to invest in transportation and irrigation projects through the issuance of Government bonds. The Prime Minister has issued the Decision 182/2003/QĐ-TTg on 5/9/2003 which ratified the investment for 38 projects with a total amount of investment of 71640 billion VND, in which, the contribution of the State budget is 7832 billion VND, and the remaining 63064 billion VND is mobilized through Government bonds. Due to the fluctuations of the price of construction materials, the cost of displacement of the population to free the land and other newly emerging costs, it is expected that the Government will have to issue bonds at an equivalent value of 110.000 billion VND<sup>(1)</sup> in order to meet the need of investment of infrastructure projects. The completion of projects that have utilized Government's funding through bonds will contribute to the development of the economy in remote, isolated areas, ensure the national security and defense, create the opportunity for people's in disadvantageous regions to have access to healthcare services, education services and to the nationwide market and help them to promptly overcome the hunger and poverty situation.

To create this leapfrog development in the attraction of foreign investments, particularly in socio-economic infrastructure projects such as transportation works, sea ports, power and water supply, healthcare services, schools, entertainment areas and urban areas, the Prime Minister has issued the Directive 13/2005/CT-TTg on 8/4/2005 on measures aiming at attracting more foreign direct investment into Vietnam.

### 3.3- Environmental and social policies in large-scale infrastructure projects

Recognizing the increasing importance of environmental impacts on the development strategy, construction planning, plans, programs and socio-economic development projects in general and infrastructure projects in particularly, in the 2004-2005 period, Vietnam's Government

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<sup>(1)</sup> In which, funding for transportation projects represents 76035 billion VND, irrigation projects 22080 billion VND and displacement costs for other projects 8085 billion VND.

has already approved and implemented a number of legal regulations addressing these issues.

The Resolution 41-NQ/TW dated of November 15<sup>th</sup>, 2004 of the Politburo on environmental protection in the accelerating industrialization and modernization period is the guideline document for environmental problems in 2005 and in the years to follow. Immediately after the issuance of this Resolution, the Government issued the Action Plan to implement the Resolution 41<sup>(2)</sup>. The Ministry of Planning and Investment was given the task to coordinate with the Ministry of Natural Resources and Environment to draft a decree regulating environment protection in each of the following stages: establishment, reprisal, approval and implementation of the strategy, construction planning, plans, programs and socio-economic development projects. The regulations on large-scale infrastructure projects on the environmental protection will include:

- Assure an appropriate capital contribution in order to implement the requirements on environmental protection as required in the total investment fund of the project; properly carry out the evaluation of the impacts of the programs and projects on the environment;

- Establish and apply environmental criteria in the entire sustainable development goals of Vietnam;

- Review and adjust the national, sectoral and provincial projects that have not yet meet the requirements of environmental protection and sustainable development;

- Increase the role and responsibility of the environmental governmental management agencies, other agencies, associations and the population;

The assessment of environmental impacts and environmental protection is a problem throughout all legal regulations on development projects in many sectors. The Decree 16/2005/ND-CP on management of construction investment projects set out the analysis, assessment of the projects on the ecological environment, the measures of fire and explosion prevention, fire and explosion protection and the security requirements. These are all required measures as part of the Report on an investment construction project.

The Ministry of Natural Resources and Environment is in charge of the reprisal and approval of the report on environmental impacts of

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<sup>(2)</sup> This Action Plan was issued together with the Decision 34/2005/QĐ - TTg, 22/2/2005.

large-scale infrastructure projects according to the Decree 143 of the Government<sup>(1)</sup>. It is also the responsibility of the Ministry of Natural Resources and Environment to submit to the Government for reviewing the environment protection aspects of the important National Projects decided by the National Assembly.

Assessing the environmental and social impacts of large-scale infrastructure construction projects such as transportation, electricity is considered as the most important step in the evaluation of the project. The environment impacts need to be watched during the whole process of preparation of the project to the implementation of the project and considering this as a complete and strict circle. If the project is implemented without submitting the report on the environment impacts of the projects for approval, the establishment of investors and related entities will be punished and pay an fee which ranges from 1 to 2 million VND. If the project does not ensure to meet the requirements and criteria on the environmental and social impacts, the project will not be approved and therefore, not implemented.

More concretely, the Law on Power approved in 2004 has regulated that the documents related to the request of issuance of the license, amending and supplementing the operative license in the power sector should also include a Report on the environmental impacts of the project, that has been approved by a authorized governmental agency. Power generating units have the obligation to implement regulations and laws on environmental protection in power generating activities.

The Development Plan of the transportation sector of Vietnam to 2020<sup>(2)</sup> has regulated that the infrastructure system should be diversified in order to meet the demands of passengers, to ensure discipline and urban transportation safety, as well as to protect the environment. It also stipulated that in the process of constructing and utilizing the transportation system, studies, researches and analysis on the environmental impacts of these systems should be carried out. Measures aiming at minimizing environmental impacts of transportation systems that are under construction or are being put in use should also be studied and proposed. It also regulated that mechanism to protect the environment in the transportation sector should be studied.

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<sup>(1)</sup> According to the Decree 143/ND-CP, dated 12 July 2004 on amendment and supplement of Article 14, Decree 175/CP dated 18 October 1994 on guidance to implement Law of Environmental protection.

<sup>(2)</sup> Approved by the Decision 206/2004/QĐ-TTg dated 10 December 2004.

One of the deficiencies in the environmental protection policies of Vietnam is that the report on the social and environmental impacts of a project is considered as only one component of the project documentation, and therefore, investors tend to neglect it and pay due attention to this matter.

As regard to social problems that are posed for the people's living in regions impacted by the projects, the State has policies to provide appropriately compensations to households when their properties are being destroyed or removed for the purpose of implementing the project. They will receive compensation in forms of money, housing or land. The properties for which they have right to claim for compensation are: house, architectural works, plants, animals and other properties according to the principle of ensuring that the living conditions of these people after their displacement will be at least equivalent to that that they have enjoyed before the incidence. The State also has the responsibility to provide training assistance to agricultural workforces that were obliged to switch their jobs due to the re-collection of agricultural land. These workforces will also have priorities in the new job selection process.

The displacement programs have been implemented accordingly to the law and under the guidance of the State. The subjects of displacement have enjoyed the benefit of infrastructure projects.

Safe traffic measures should be taken and ensured when implementing infrastructure projects; ensuring safety for traffic projects without disturbing daily public life or traffic jams. For hydro power plants, temporary roads should be built to avoid floods and to ensure smooth traffic surrounding the areas.

#### 3.4- Management mechanism for large scale infrastructure projects

Management mechanism for investment in large scale infrastructure projects in general and the management mechanism of infrastructure investment projects in particular are being renovated to meet the demands on the improvement of the effectiveness of investments, limiting the dispersion of investment and the wasteful use of investment funding. At the same time, it focused on the improvement of the capacity and responsibility in investment management of ministries, sectors and local agencies. The Law on Construction was issued on 6/11/2003 and which entered into force on the 1/7/2004 is the most

comprehensive text law on the management mechanism of infrastructure projects, and regulated all the stages of the construction activity, including the management of investment projects on infrastructure. During 2004-2005, a series of under law texts have been issued providing guidance on the implementation of the Law on Construction, e.g. Decree 209/2004/ND-CP on 16/12/2004 on the quality management of construction projects; Decree 46/2005/ND-CP on 6/4/1005 on the organization and the operation of construction inspection.

Facing the situation that the inefficiency of projects on infrastructure development, particularly those that utilize the State funding such as transportation, power, hydroelectric...has not been much improved, the State has issued regulations requiring the implementation of measures to effectively restore the discipline and rules-based environment in the infrastructure construction sector. These measures include:

a) Define concrete procedures and enforcement mechanism on the inspection, control and monitoring of the source of investment on basic infrastructure from the State in each stage of the project implementation and in each sector. Legal regulations should be more transparent and publicized. Projects, works and principles of investment, as well as the process of reviewing, ratifying the project, studies on field, design to the bidding process, evaluating and disbursing... should be transparent. The results of inspection, control should be made transparent as well as the punishment measures should be announced publicly.

b) A mechanism to highlight the responsibility of individuals and punishment measures with regard to the level of responsibility of each individual in each stage of investment should be established. The responsibility of the individual that has approved the project and the investment should be defined clearly in order to point out the responsibility and the faults committed (if any) so that to apply the appropriate punishment measure. Punishment measures can be in form of administrative measures, penal and compensation. It is needed to eliminate the situation where the responsibility and failures are attributed to the collectivity as it has been in case in the past time. It is necessary to eliminate from the public apparatus the officials, staffs and civil servants whose moral values are not adequate,

irresponsible and have a limited capacity, creating difficulties for the management of infrastructure investment projects.

c) Investment plans and planning should be reviewed, adjusted, supplement or re-elaborated to attach the planning to the objectives of the Socio-Economic Development Strategy, the restructuring of the economy, to ensure the cohesion between the sectors and regions. The decentralization and delimitation of responsibilities and rights of each Ministry, amongst the Ministries, between the Ministry and provinces and cities should be clarified. A concrete schedule should be elaborated to apply models and mechanism that help eliminate the vicious circle in infrastructure investment projects.

d) Conduct comprehensive review and evaluation of the current legal framework on investment in infrastructure development so that to amend, supplement, and issue new regulations on a timely manner, contributing to create a more uniform and higher quality legal framework.

e) In 2005, the Government continues to guide the inspections of works and projects, for which the public and the constituency has pointed out negative aspects.

f) From now until the end of 2006, the government will have concrete plan and measures to resolve completely debts related to infrastructure investment projects, and will report on an annual basis to the National Assembly.

The National Assembly also requested legal agencies to set concrete plans and implement their responsibility in preventing, detecting and strictly punish organizations, individuals that violate the laws on infrastructure investment, no matter who are those organizations and individuals. 2005 has been named the year for "Improving the efficiency of investment, fighting against the embezzlement, wasteful and dispersed use of investment sources, and fighting against the debts in infrastructure investment projects".

In its plenum by the end of 2005, the National Assembly will consider and it is expected that it will approve legal documents on the management of investments of large-scale infrastructure projects, such as: Law on Auction Sale, Investment Law, Law on Savings and Law on Anti-corruption.

### 3.5- Policies on the restoration and preservation of infrastructure works

In recent years, the State has concentrated a large part of its funding for infrastructure development. In the five-year plan 2001-2005, the State will invest 126 thousand billion VND for the transportation and telecommunication sectors alone, which represents an average increase of 20% per year. In the meanwhile, although the funding for restoration and preservation of infrastructure projects has increased significantly, from 592 billion VND in 2002 to 946 billion VND in 2004, it represents only half (45.9%) of the needs for restoration and preservation of infrastructure projects. The alarming fact is that, if funding for these activities remains as it is now, in the next 10 years, the road system will be severely degraded, and as a consequence, 34% of the system will be severely damaged, of which 55% have a high traffic density. The percentage of good road will be reduced to 10%<sup>(\*)</sup>. Furthermore, the lack of funding for the restoration and preservation of infrastructure projects, according to the set schedule, will make it more difficult to repair and upgrade these projects later on.

In the irrigation sector, the funding for the restoration and preservation also responds to 60% of the real needs. As a consequence, although the designed capacity of irrigation projects can meet 80% of the needs of arable land, the real arable land area benefiting from irrigation projects account for only 50-60% of the designed capacity of these projects. Part of this situation is the result of the lack of funding for preservation and restoration.

The difficulties in terms of budgets and other difficulties such as the restraint State budget have made that due attention have not been paid to the restoration and preservation activities. In order to ensure the quality of infrastructure projects and assure their practicability so that to minimize the intermediate production costs for other economic sectors, it is necessary to elaborate an effective management mechanism to allocate funding more efficiently.

In the coming time, to better carry out preservation and restoration activities in infrastructure projects, Vietnam is considering taking the following measures:

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<sup>(\*)</sup> According to the Vietnam 2004 Report on the management of public funding for economic growth and poverty reduction of the Government of Vietnam and the World Bank (2005).

- Increase funding for preservation and restoration activities through increasing the current expenditure;
- Calculate in a right and complete manner all the sources of incomes from fees and costs related to infrastructure projects, especially transportation, irrigation and public utility projects, in order to increase the budget income, and in turn, increase funding for preservation and restoration activities. Poor households and communes will be exempted from paying fees related to these projects, and enterprises responsible for the operation of these projects will receive compensation from the State budget. However, the quality of services should be ameliorated once the fees are collected.
- Calculate in a right and complete manner the necessary costs for carrying out preservation and restoration activities, and incorporating these costs in the production costs as well as strictly follow the restoration schedule. The cost for preservation and restoration activities should be incorporated in the operational cost of the project.
- Funding plan for preservation and restoration activities, as well as investment plan for infrastructure projects should be established.
- Elaborate a mechanism to mobilize non-budget sources to fund preservation and restoration activities.

#### 4- Social and poverty reduction policies

##### 4.1- National target programs and general poverty reduction programs

Key policies of the national target program on poverty reduction in 2001-2005 are divided into two main groups:

a) Indirect supportive policies to poor households and poor communes in health care, education, social safety, agricultural land tax exemption, housing, working equipment and production land.

b) Direct poverty reduction supportive policies include:

- Sub-group 1: general poverty reduction projects, including those providing credit to poor households for production and business; business-orientation and agriculture-fishery-forestry extension projects, projects to build models in poverty reduction in areas of particular geographical characteristics (i.e. coastal areas, mountainous areas, border areas, sea islands, and isolated areas in the Mekong Delta).

- Sub-group 2: poverty reduction projects for communes not entitled to Program 135, including those building vital infrastructure (e.g. small-scale irrigation works, school, health stations, road, electricity, water facilities, market); supporting production; training poverty reduction staff and general staff; re-location and economic development projects, and settlement projects in poor communes.

Below are the results of direct poverty reduction supportive policies in 2001-2005 that aim to facilitate the poor's access to production services in order to raise income and reduce poverty.

*Concessionary credit for poor households:* By 31 December 2005, it is estimated that about 3.2 million households have been given loans by the Bank of Social Policies, with the average credit of 3.6 million VND per household, rising from 2.2 million VND in 2001. In five years (2001-2005), the total amount of credit for poor households and other entitlement people has grown rapidly by 20% per year on average. By 30 September 2005, the total credit given by the Bank of social policies to poor households and other entitlement people was 16,590 billion VND, fulfilling 100.8% of the projected target and representing an increase of 2,285 billion VND compared to the amount at 31 December 2004. 81% of this credit amount, or 13,375 billion VND, was given to poor households, which means an increase of 1,766 billion VND compared to 31 December 2004, and equals to 106.3% of the projected target for 2005. The remaining credit was to create jobs, which totals at 2,418 billion VND, representing an increase by 159 billion VND compared to 31 December 2004 and equivalent to 104.2% of the projected target for 2005.

It is estimated that about 75% of poor households, or 15.8% of households nationwide, are given loans. Implementing concessionary credit policy, the State has subsidized 1,782 billion VND to cover the gap between the two interest rates. Most poor households have used the loan effectively and returned the loan on time to the Bank; the proportion of overdue debt was low (4%). The credit policy has had important effects on poverty reduction - more than half of the owing households acknowledged that the loan has helped raise income and reduce poverty. Many of them have escaped poverty, bought more production means, for example ox, cows, horses, etc.

*Production land:* Implementing supportive policy in production land, provinces have provided funds and production land for landless ethnic

people and other poor households to guarantee food security in Northwest provinces; provided 5,139 ha of land for 10,455 households in the Central Highlands. Besides, Dong Thap, Tra Vinh and Soc Trang provinces have provided loans to 4,325 households to help them buy back mortgaged, transferred or sold land. Consequently, a number of poor people have had land for production, thus increasing their income and improving their life.

*Agriculture, forestry and fishery extension work for the poor:* business orientation and transfer of production skills and production experience to the poor are important ways to sustain the success of poverty reduction. Provinces have focused on building and replicating models in new plants and animals and protection techniques. Over 50 thousand training courses on technique transfer and 6 thousand demonstration models in new, high-productivity plants and animals have been organized for over 2 million poor people. In addition, within these projects, 65 training classes have been held for more than 2 thousand staffs and farmers in poor communes. Consequently, poor farmers' knowledge on production is enhanced, thus increasing the effectiveness of their production.

*Production support and business development:* In five years, 103 models in agro-forestry processing and preservation and business development have been built in 37 provinces, in which there were 52 models in farm production processing and preservation, 44 in handicrafts, 4 in salt production and 3 in mechanical engineering. 106 classes were held for 9,000 farmers in small-scale farm product processing and preservation; funds to organize these classes are from both the poverty reduction budget (68 billion VND) and other agricultural projects, which totals at 280 billion VND. These models have generated stable livelihood and average income of 250,000 VND/person/month. Skilled craft people can earn from 550 to 700 thousand VND/person/month. These people's living standards are largely improved.

*Building poverty reduction models:* to work out suitable poverty reduction solution for each area, different poverty reduction models have been built in 83 communes in 20 provinces, with the participation of 40,000 households, of which 55% are poor ones; 64 communes have built linkage model between business and material providing poor households. Models are also built in 19 communes of particular geographical characteristics in 3 ecological zones (mountainous, ethnic

minority area in Lai Chau, area of severe flood in Dong Thap and a coastal area in Thanh Hoa). The total funding reached 170 billion VND, of which 9%, or 20 billion VND, came from the central State budget, and the rest are business small-scale infrastructure loans given to households and communes to develop material areas. Income of project households increased by 16-19% annually; 19-20% project households escaped poverty. Area of material plants (cotton, tea, tobacco, sugar cane) in project communes increased by 9-11% on average.

*Infrastructure supportive projects:* in the past years, the total fund of 776 billion VND that came from the projects, local authority's budget and the community have been invested to build over 1 thousand basic infrastructure works (small-scale irrigation works, road, water, electricity stations, schools, commune markets) for 997 poor communes, in which community fund accounted for nearly 200 billion VND. However, this has fulfilled only less than 40% of poor communes' need for basic infrastructure in the 5-year plan. At present, 172 poor communes still lack 4-5 basic infrastructure works on average and 157 communes in coastal areas and sea islands remain in extreme difficulties. Under Prime Minister's Decision number 257/2003/QD-TTg in 2005, the State has allocated fund for infrastructure investment in 157 communes in extreme difficulties in coastal areas and sea islands, with the grant of 500 million VND per commune.

*Settlement in poor communes:* Over 200 projects have been implemented to guarantee settlement and stabilization for 90,000 households, with the total investment fund of 480 billion VND. In these projects, 5,300 ha of forest trees have been planted, 454,375 ha are protected, 7,090 ha of fruit trees planted; 7,760 ha reclaimed; 752 kilometers of road upgraded, 39 rural roads, 310 kilometers of canal lines of total 40 canal works, 100 sluices and bridges, 106 water-pumping stations and small-scale irrigation dams, 20 water provision systems and 823 water wells, 104 schools and health stations and 8 electricity stations have been built. Thanks to these works, over 50,000 thousands have had better access to production and social services right in their areas.

*Stabilization and economic development projects for migrants:* To rearrange labour and population properly, 311 billion VND has been spent to relocate 106,000 households comprising of 631,000 people, in which intra-province relocated people accounted for 90%. Nearly 300 new economic area projects have been implemented, of which 20 big projects in key zones, managed by Ministry of National Defence, have reclaimed

40,000 ha of land, build 300 kilometers of road, nearly 1,000 irrigation works, with the total fund of about 1,500 billion VND. Life and production of nearly 60,000 migrant households' are stabilized in key areas such as Northwest and the Central Highlands.

*Housing support for the poor:* housing support for poor households are paid special attention and considered as an important issue in improving the quality of people's life. By December 2004, 293,137 poor households nationwide have been assisted in housing, in which 83,551 houses were repaired and 209,568 were reconstructed with the total fund of 1,198 billion VND. Estimatedly, by the end of 2005, 350,000 houses nationwide will have been repaired and reconstructed. By June 2005, 7 provinces (Ha Tinh, Tuyen Quang, Hai Duong, Hai Phong, Bac Ninh, Ha Noi and Hung Yen) have declared replacement of almost all slumps. This is just initial result of effective policies above mentioned.

#### 4.2- Supportive policies to the poor in remote, isolated and ethnic minority areas

To realise the poverty reduction cause throughout the country in general and in mountainous and ethnic minority areas in particular, in addition to the national, generally applied policies, national target programs and national poverty reduction programs, special policies are applied to mountainous and ethnic minority to accelerate socio-economic development. The systems of policies for mountainous and ethnic minority have been developed rather comprehensively in political, economic, cultural and social terms and have always been adjusted and supplemented to reflect demands of each development stage.

Series of supportive policies towards the poor in mountainous and ethnic minority areas include the Social and Economic Development Programme for Communes in Extreme Difficulties in Ethnic and Mountainous Areas (SEDEMA), the Social and Economic Development Program for 6 Northern border provinces in extreme difficulties; the Central Highlands program; the Socio-Economic Development Strategy in Viet Nam-China border area; the housing and land policies for Central Highland people; Decision 174/2004/QD-TTg on grant investment in 2005 in mountainous districts in Central Highland-bordering provinces, in the west of the former zone IV and Northern mountainous area; a number of supportive policies in production land, housing land, housing and water for ethnic people in difficulties. The Government has also given

supports to the poor in remote and isolated areas in such policies as price subsidy and other education, healthcare and culture policies.

*Infrastructure development in remote and isolated areas:* the Government pays special attention to and has mobilized many resources in this work. Infrastructure development has been done in combination with these programs, policies and projects: Program 135, regional economic and social development programs, rural transport and electricity program, and clean water and environmental hygiene program, among which, Program 135 is given the most credit. By now, almost all major infrastructures in the mountainous and ethnic areas has been built and upgraded. Inter-commune, inter-district and inter-province transport systems have been built, key irrigation works put in place, power grid improved and expanded, and more schools, health stations and cultural houses built. With such, basic premises for socio-economic development in rural and mountainous areas towards industrialization and modernization have been put in place.

Together with infrastructure supportive programs, production supportive programs for ethnic areas have been effectively implemented for many years now and have accelerated poverty reduction in mountainous and ethnic areas. The Government has promulgated many supportive policies in production and housing land for people of ethnic minorities, such as the settlement policies, forest allocation, land allocation and reclamation policies, especially production land supportive policies for ethnic minority people in the Central Highlands and land re-acquisition for Khmer people in the Mekong River Delta. Within their existing land areas, provinces have made planning and balanced re-arrangement to allocate land to landless people, have reviewed and re-acquired the land that have not been used or ineffectively used by state-owned forest farms and reallocate it to landless households. The beneficiary people of ethnic minorities are encouraged and place trust in the Party and State's policies.

Through branches of state banks and credit projects and models, the State has implemented concessionary credit policies to mountainous and ethnic areas, providing loans from the Bank of social policies for production development and poverty reduction.

Price subsidy policy reflects the interest of the Party and State for ethnics in mountainous, remote and isolated areas and other areas in extreme difficulties. This policy provides subsidies to the price

and transport expenditure of plants, fertilizers and other essential goods such as iodine salt, and petroleum. These policies have facilitated fundamental changes in agricultural production, reduced difficulties for people in remote and isolated areas, encouraged the development of market-oriented commodity, increased income and raised the quality of life and reduce poverty in areas of ethnicities in a sustained way.

Supportive policies to ethnic minority household in extreme difficulties have been implemented since 2001. Accordingly, funds have been given directly to ethnic minority households in extreme difficulties to buy plants and animals; cover the expenditure for immediate needs such as food, blankets and mosquito nets, clothes and production equipment. These policies have gained practical results and helped alleviate hunger and reduce poverty, assisting people of ethnic minorities to overcome difficulties and benefit from the shared development of the whole nation. People's trust in the Party and the State is consequently strengthened. After 4 years (2001-2005), these policies have covered 140,000 households of ethnicities in 42 provinces in mountainous and ethnic areas have.

The Party and the State pay special attention to education in the mountainous and ethnic areas. Many preferential education policies have been promulgated, including those encouraging teachers to work in areas in extreme difficulties and remote, isolated areas; preferential policies in scholarship for pupils of ethnic minorities; grant in paper, notebooks and textbooks for students; policies on boarding and semi-boarding secondary schools for ethnic pupils, nomination policies for colleges, universities and high schools, and policies to teach ethnic languages.

In terms of healthcare, many preferential policies for mountainous and ethnic areas such as policies on reduction and exemption of hospital fee for people of ethnicities have been implemented under Decree 95/ND-CP, Decision 139/2002/QĐ-TTg on diagnosis and treatment of poor patients.

In culture, preferential policies for mountainous and ethnic areas include building grass-root cultural institutions, preserving ethnic cultural identities, supporting to provide better communication and information outreach and providing free of charge some newspapers and magazines to people of ethnicities. These policies have met the need

for cultural entertainment of ethnic people. Communication and cultural activities are promoted. Radio and television coverage have been done to most areas. Radio programmes in ethnic languages have been increased in both quality and quantity; attention is being paid to building grass-root cultural institutions. More progress is made in the broad movement on building a new cultural life at grassroots level, with many backwards customs being gradually dropped.

The State has taken many policies on training, complementing and using staff from ethnic minorities and provided incentives to encourage people to work in remote, isolated areas and areas in extreme difficulties, as well as rotation policy for civil servants. Provinces have paid due attention to personnel planning and training staff members of ethnic minorities. So far, the number of officers of ethnic minorities has considerably increased at all levels. Officers' quality, qualification level and expertise have gradually been improved, thus meeting the demands in local economic and social development.

The above-mentioned policies have created a legal corridor for poverty reduction and socio-economic development, making significant progress towards the goals of equality and bridging the disparity in development among ethnicities and areas. As a result, economy has been further developed, economic structure shifted to the right direction, poverty rate rapidly reduced, people's cultural and material life remarkably improved, national security and defence strengthened and the mass national solidarity consolidated.

#### 4.3- Education and training policies

In two years from 2004 to 2005, the Government continues to implement the national target education program in order to achieve the goals set in the 2001-2010 education development Strategy, the Millennium Goals, the National Action Plan on Education for All, the Comprehensive Poverty Reduction and Growth Strategy. Those education goals are as follows:

Increase the quality and the suitability of education for all

Strengthen the results of the universalization of the primary education, completing the universalization of primary and secondary education by 2010.

Create opportunities for life-long education for all citizens

Mobilize full participation of the community for the sake of education

Manage and utilize effectively resources for education

To this end, the education and training sector has taken activities to renew state management in education and training, with focus being given to reforming education management mechanisms; implement effectively the teaching and studying of curricular in new textbooks; shift from scale development to in-depth development in education. Consequently education opportunities and quality have been increased, especially in provinces in mountainous and ethnic areas, which have contributed to economic growth and poverty reduction.

The Government has issued many policies and created favourable conditions for poor and ethnic students, especially those in areas in difficulties such as policies on school-fee reduction and exemption, credit for studying, scholarship for poor students and lending textbooks. Thanks to these policies, more and more poor children have access to higher education, and the gap in the access to education between different income groups has remarkably narrowed.

The proportion of State budget for education has increased over the years. In the 2000-2003 period alone, state budget for education increased by 21.3% annually, whereas the annual growth rate of the overall state budget was only 14.8%. 2005 State budget for education accounts for 18% of total state budget expenditure, reflect the Party and State's keen interests in education. Besides the state budget allocation to the National Target Program, ODA funds were also channelled to the Target-based Support Program from the World Bank, Belgium, SIDA, EC, DFID and NZAID to assist Viet Nam's efforts in realizing the targets within the framework of Education for All (EFA).

The education policies, when applied, have brought about very positive changes in this area. In recent years, the team of lecturers/teachers has been strengthened and witnessed significant progress in terms of the quality, quantity and structure of education. In the school-year 2003-2004, total number of teachers and lecturers nationwide was 911,000, representing an increase of 23% from the 1997-1998 school year. There has been a rise in the number of teachers at all levels and areas, especially in nursery and secondary schools. The rate of qualifying and over-qualifying teachers increased remarkably, with 87% at elementary level, 91.2% at secondary level, 95.4% at high

schools, 71% at vocational schools, 86.3% at career high schools and 45% at universities and colleges.

Infrastructure and facilities in secondary and high schools are largely improved. The number of classrooms in 2003-2004 increased by 40,649 compared to 2000-2001, in which the rate of 4<sup>th</sup> category and concrete classrooms rose from 84% to 89.3%. Building national standard schools at nursery and secondary levels has taken effects in standardization and modernization of school, thus increasing the number of students that can go to school twice a day. Schooling equipment and facilities are being supplemented and upgraded.

*Education support to the poor:* Further attention is being paid by local education sector to provide support to poor children in education and training in various ways. Annually, over 3 million poor and ethnic students are given exemption and reduction in school-fee and other compulsory fees; 2.5 million ethnic poor pupils receive textbooks and notebooks worth over 100 billion VND totally. The rate of children attending school at the schooling age has increased by 11%. Among households benefiting from school-fee exemption or reduction, the growth in schooling rate reached 16.5%. This shows the effectiveness of supportive policies in education, with the average reduction of 25% in school-fee for poor children compared to others.

#### 4.4- Healthcare policies

In recent years, the health care sector has implemented a number of important policies in order to strengthen grass-root healthcare network, apply national standards in commune healthcare and provide free diagnosis and treatment to the poor and children under 6.

*Implementing Instruction 06/TW-CT dated of 22 January 2002 on the strengthening and completing grass-root healthcare network.*

This instruction has been made known to all and implemented at all levels. The awareness of local Party members and State carders' on the role of grass-root healthcare has been gradually raised. Most communes and districts nationwide have set up their Healthcare Board.

The implementation of the Instruction 06 has gained positive results. The number of local health station having doctor(s) has increased significantly, reaching 65.4% in 2004. By the end of 2004, 93% of health stations have midwives or obstetrical/ paediatric

physicians; over 40% of nurses have high-school or higher qualifications; and 93.3% of villages have health workers.

*Implementing National standards in commune healthcare*

In unofficial estimate, by September 2005, 30% health station reached the standard<sup>(\*)</sup>, mainly in the lowlands. According to survey results, as many as 75% of communes in ethnic areas with religion practitioners do not meet the standard in traditional medicine; 65% of communes do not meet the standard in infrastructure and facilities; 50% do not meet the standard in finance for their health stations.

*Implementation of Decision 139/2002/QĐ-TTg on diagnosis and treatment of poor patients*

Decision 139 is welcomed by people and authorities at all levels, since it reflects the care of the Party and State to the poor. Decision 139 has generated fundamental changes in healthcare for the poor. It can be said that for the first time, all groups of poor people can directly benefit from health support of the State. Compared to the pre-Decision 139 period, the number of beneficiaries has increased three-folds.

After two years' implementing Decision 139, the number of beneficiaries in 2004 was 13,183,328 people, reducing by nearly 1.2 million compared to 2003. This is an encouraging sign given that more and more people have escaped poverty. It constitutes therefore, an important indicator of success of the Poverty Reduction program. In 2001-2004, 14 million poor patients were given free diagnosis and treatment. The total fund for treatment for poor patients in three years, i.e. 2003-2005, reached 2,304 billion VND, with 717.6 billion VND in 2004, 65.7% of which was disbursed in the same year. Areas that have high expenditure rate are Southeast of the Mekong Delta (86.8%), the Red River delta (74.3%) and the Central Highlands (72.6%). Other areas reached only 60%. The times of out-hospital diagnosis as well as of in-hospital treatment of a poor patient in public healthcare units have increased two-folds compared to 2003. Conditions to meet the

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<sup>(\*)</sup> National Standards in Commune healthcare was issued together with decision 370/2002/QĐ-BYT dated 7 February 2002 on the unutilisation of medicine, including 10 sub-standards: socialization of people's health care and protection and of communication on health protection; hygiene and prevention of diseases; diagnosis, treatment of diseases and rehabilitation; traditional medicine; children healthcare; reproductive healthcare; infrastructure and facilities; human resources and policies; planning and finance for health stations, and essential and safe, proper medicines.

poor's demand on healthcare and provide them with healthcare services have been considerably improved compared to previous years; consequently over 80% of poor people in rural and mountainous areas are diagnosed and treated in their own communes/provinces.

However, there are some difficulties and weaknesses in implementing Decision 139, due to slow progress in identifying beneficiaries and in issuing health insurance cards. Many weaknesses remain in management, statistics and reporting of the Fund. In addition, assistance to the poor and free migrants bears financial burden on local authorities. According to a national health survey, only 8.9% commune health stations refund treatment expenditure to patients with health insurance cards. Diagnosis and treatment quality at commune level is still limited. Refunding for treatment of poor patients at national hospital is slow. All of these barriers have limited the number of poor people that really benefit from this type of service.

Diagnosis and treatment for patients with health insurance cards are slow. Healthcare service system is inadequate, especially in areas of difficulties, where many people entitled to Decision 139 live.

Communication on the Fund of Diagnosis and Treatment for Poor Patients has been done, but with limited effects. Insurance cards are sometimes given to the wrong people. The problems mentioned above show that the Decision 139 on Diagnosis and Treatment for poor patient somehow has not yet been as effective as expected.

#### 4.5- Social welfare system for disadvantaged and vulnerable groups

The social welfare system is being expanded now. To date, about 10 million people are participating in the social insurance system. Social welfare and supports to assist disadvantaged target groups stabilize their life, integrate into the community and develop themselves have had strong progress in the recent years, which are shown through 2 following aspects:

First, the coverage of the social welfare and support system has become wider, providing larger accessibility of the target groups to the social services and support policies. This year, 2004, about 260,000 social target groups receive monthly allowance from the state and free public health care services; thousands of disabled people, orphans, lonely elderly people and those of over 90 years old without pension and social allowance are entitled to free health care and examination

services. They are also supported to receive literacy education or vocational training to find an appropriate job and integrate into the community's life. Emergency aids have assisted to gain initiative, especially in terms of the mechanism for reserves and mobilization of resources, for post-disaster recovery and support to thousands of people losing their home and suffering from temporary food shortage, helping them to quickly stabilize their life and production.

Second, the level of policy impact on physical and spiritual life of the social target groups is becoming higher, and the government has also adjusted the level of social allowance and support, and created a mechanism for the social targets to access to social services in a more convenient and fair manner.

Assistance to the people credited with making contribution to the country and the beneficiary people of social welfare is maintained and expanded. The campaign to repay accredited people for their favour and show gratefulness to benefactors continues to be promoted. Charity activities and support to the people in the flood prone areas, the lonely elderly and victims of the Agent Orange (dioxin), etc. are being widely applied in the community, and involving all the individuals and organizations. Many other campaigns, such as the one on construction of houses of gratitude for war invalids or martyr's families, the one on opening savings accounts for disadvantaged households entitled to social welfare, the one on making contributions to the Fund of Gratefulness to benefactors, or contribution to the Charity Fund, etc., are also very widely launched in the country.

#### 4.6- Environmental policies

The objectives are: reasonable exploitation and effective use of natural resources (including land, water, minerals, environment, etc.) to meet the economic growth demands, poverty reduction and sustainable development of the country. They also call for ensuring harmony between, on the one hand, the population growth, urbanization and socio-economic development with on the other hand, environmental protection, so that all the people can enjoy the improved quality of life and can live in a healthy, green - clean and beautiful environment.

The policies also provide for further investigations and assessments to establish database on natural resources, current environmental

conditions on land, on the continental shelf and at sea, as well as the database on other resources of the country. The database will be used to serve purposes of planning, socio-economic development plan, security and national defence, and environmental and ecological protection.

Measures are taken to limit the level of pollution increase, and deal with seriously polluted areas or places of environmental degradation; increase the ability of disaster prevention and consequence mitigation in case of natural disasters and unfriendly-to-environment climatic changes; and improve the capacity of emergency preparedness and effective response to environmental pollution and natural disasters.

Actions were taken to resolve environmental pollution situation in industrial zones, trade villages, and cities; improve rural environmental sanitation in densely populated rural areas; and control pollution in the large urban areas

There were a lot of efforts to use natural resources and environment in the river basins in a rational, effective and sustainable manner; ensure ecological balance, natural conservation and biodiversity; as well as raise up the awareness on environment, and focus on pollution prevention and environmental improvement measures.

To achieve these targets, some detail policy documents have been promulgated, such as Decision 07/2005/QĐ-BTNMT dated 20 September 2005 on compulsory application of Vietnam standard TCVN 7440:2005 - the standard of waste management in thermo power production; Decision 249/2005/QĐ-TTg dated 10 October 2005 of the Prime Minister on Roadmap to apply the standards of air exhaled by vehicles; Decree 149/2004/NĐ-CP dated 24 July 2004 on granting licenses of water exploitation, exploration and use, and waste water.

In particular, Ministry of Training and Education issued the Circular 2/2005/CT/ BDG&DT dated 31 January 2005 on Strengthening public education for environmental protection. The Vietnam Trade Union and Ministry of Natural Resources and Environment also issued a joint-agreement 01/2004/NQLT-TLD-BTNMT dated 15 November 2004 on the Cooperation to protect the environment and facilitate sustainable development.

The Government has approved in principles 36 programs, plans, and projects that are priority to implement the National Strategy on Environmental Protection.

Recently, a policy on fee imposed on producing waster water was adopted and has been put into effects. Hundred billions of VND is estimated to be collected from cities, joint-venture companies, production units in coal mining industry and from others. Along with this fee policy, Vietnam is considering to issue other policies and will use effectively the fund that is raised from these policies.

The "socialization" progress has been made in environmental protection through the legal system. Many policies and measures have been adopted in order to facilitate all economic entities to participate in these activities.

Many places with environmental pollution have been addressed. Pollution in industrial parks, urban areas, and craft-villages is also attended and measured are being researched.

## 5- Administrative reforms and development of a modern administration system

### 5.1- Administrative reforms

#### **5.1.1- Institutional reforms**

In the two years 2004-2005, formulation and issuance of legal documents within the Government's authorities have been uninterruptedly renovated, contributing to improvements and refinements of the national institutional system. Some new important laws were promulgated and/or revised to develop a complete legal framework for the socialism-oriented market economy. These laws particularly include the Competition Law, Bankruptcy Law, Construction Law, Electricity Law, Unified Enterprise Law, and Common Investment Law.

The Law on Issuance of Legal documents by the People's Councils and People's Committees was approved by the National Assembly in 2004 and created a legal framework for the local authorities' efforts of issuing legal documents. The Law helped to eliminate the uncontrolled issuance of legal documents at the local levels. On this basis, the local authorities of different levels have also strengthened their institutional reforms, and issued various legal documents within their competence to enforce institutions set up by the central government and to customize the enforcement in accordance with the local specific

conditions. A special note should be given to the institutions and legal documents that the provinces and localities are specifically interested in, to call for investment, establish industrial zones and conduct land acquisition and resettlement, support the development of economic sectors, realize decentralization and empower provincial departments and district level authorities to work in many fields of activities.

More efforts have been made to establish and improve institutions on the relationship between the government and the people, especially the requirements of community consultation before making decisions on important policies and orientations; implementation of the people's monitoring of state agencies' operations; dealing with violations to the law that the state agencies and employees convicted when performing their duties; definition of level of competence and responsibilities of administrative agencies in resolving claims, etc. Special attention is given to the legal documents on grassroots level democracy, the Law on Claims and Denouncement, the one-stop shop mechanism, budgetary and financial disclosure, procurement, inspections by the people, etc. The implementation of these institutions has contributed to development and enhancement of the socialist jurisdictional state, and created favourable conditions for the people to involve in and monitor operations of the authorities and government's staff and officers.

Actions were taken to continue reviews and systemization of the legal documents in each field and area, and repeal the invalid or overlapped laws and regulations.

Reforms of administrative procedures in linkage with implementation of the one-stop shop mechanism have been strongly conducted in the first stage, and have achieved the initial positive results. This is one of the areas that the Government focuses its guidance and directions on, during the reform process. Administrative procedures in most areas and localities, especially those directly relating to the people and enterprises such as land use, construction, birth/marriage/death records, residence registration, customs, taxes, treasury, and import/export have all been reviewed once or more, revised and/or repealed or substituted by new procedures designed to be simpler, causing less troubles and reducing elapsed time for the people.

Specifically in early 2005, the Prime Minister issued a decision on establishment of an inter-ministerial task force (and similar ones established by some provinces), which would be responsible for resolving troubles and suggestions by enterprises regarding administrative procedures. Through its operations, the Task Force have made practical proposals to the Prime Minister and the ministries for resolving the issues..

The year 2005 has observed really strong efforts of the local authorities at different levels to implement the one-stop shop mechanism at all the 3 levels - province, district and commune. 63 out of 64 provinces under the direct control of the central government (except Dien Bien province) has already introduced the one-stop shop mechanism as a compulsory requirement for 4 provincial departments - Department of Labour, Invalids and Social Affairs (DOLISA), Department of Natural Resources and Environment (DONRE), Department of Planning and Investment (DPI) and Department of Construction (DOC); for other departments and services, the rate of applying the one-stop shop mechanism has achieved 47.6%. At the district level, 98% of the agencies and units have introduced this mechanism and this rate at the communal level is 64.9%.

The new order and discipline have been defined in fees and charges collection and management. Transparency and disclosure are required to make clear the regulations on fee collection principles, rate of fees and charges, and regime of fees and charges collection, management and use. In the last 5 years, 140 types of fees and charges imposed by the central government and 203 other types of fees and charges once imposed by the local governments were cancelled.

#### **5.1.2- Organizational reforms of the state administrative apparatus**

Continued to take measures for organizational reforms of the state administrative apparatus. By the end of 2005, the functions, tasks and organizational structure of the central ministries and sectors had been adjusted and clarified. The current apparatus has basically overcome the past overlaps in terms of functions and tasks, ensuring the principle "one task goes to one specific implementing agency". Some types of works that were expected to be done by the Government or the Prime Minister in the past now have been assigned to the central ministries/sectors, even to the local authorities under the decentralization mechanism.

Another result of the equivalent importance is the initial separation of activities by the state administrative agencies from those by the state non-profitable providers of public services. Such a separation has been done through a range of organizational, personnel and public financial institutions. This is a very meaningful point in the context that the administrative apparatus in Vietnam still consists of many state non-profitable providers of public services under the control of central ministries and local authorities, which were not made clear in the past management mechanism. The organizational structure of the local professional agencies have also been renovated and re-arranged to suit the sectoral organizational structure at the central level and the local specific conditions.

### **5.1.3- Development of the state employees and staff**

There have been some initial and positive achievements in development of the state employees, officers and staff. Management of the state employees has been continuously reformed towards a clearer division of responsibility and stronger decentralization. A quite clear division of responsibility, competence and authority has been seen in terms of administrative staff management within the Government, the ministries and the local authorities. The authority and responsibilities in appointing staff, commending or applying disciplinary measures to the staff have also been clearly identified for the use of heads of the administrative agencies and non-profitable public service providers. The authority and accountability of the heads and leaders have been considerably increased to fit the existing mechanisms of autonomy and self-accountability within the non-profitable public service providers.

The content of the staff training program has been preliminary renovated to be in line with the targeted trainees. The training activities are now focusing on implementation of the staff training and capacity strengthening program for the period 2001-2005 as approved by the Prime Minister. The total number of government's employees and officers receiving training and capacity strengthening over the past 5 years has reached about 2.51 million people, including 407,000 people having been trained on political theory, 894,000 people trained on state management knowledge, 1.08 million people trained on professional and specialized subjects, 37,000 people trained on foreign languages, and 96,000 others trained on IT skills. Notably, after the vote for the People's Councils at different levels for the term 2004-2009, nearly

292,000 members of the People's Councils at different levels were trained on operational skills and knowledge in the year 2004 alone.

The policy on social insurance and salary has had initial reforms and contributed to stabilization of the governmental employees' life. The proposal on salary policy reforms has been adjusted in terms of the roadmap and implementation steps, compared with the original objective for the year 2005 which only referred to "basic reforms of the government's staff salary".

#### **5.1.4- Reforms of public finance**

The program on public finance reforms has gained real achievements in renovating the decentralization mechanism for budgetary and financial management. After nearly 2 years of implementing the revised State Budget Law, there have been considerable renovations on budget decentralization towards higher autonomy, higher competence and accountability of the ministries, sectors and local authorities in budget and financial management. Especially the rights and responsibility of making local budget decisions by the provincial People's Council have been assured.

Budget management continued to be renovated, budget revenues continued to increase and be collected timely. Allocation of investment capital and budget ceiling for the agencies and organizations receiving financial support from the Government have been renovated as well, created the autonomy for the agencies when using the fund, and reduced unnecessary procedures for both the funding agency and beneficiary agencies.

The regulation on financial disclosure issued along with Decision No. 192 dated 16 November 2004 by the Prime Minister has been widely applied, assisted in developing the ownership of the government's employees, labour collectives and the people in reviewing and monitoring the use and management of the capital and the state assets, as well as the mobilization and utilization of the people's contributions according to the law; timely detecting and preventing any violations to the financial management regime; and ensuring the effective use of the state budget, economical practice and waste prevention.

The financial mechanism for different organizational structures in the state administrative system has also been initially renovated and

shown positive results, especially in implementing the mechanisms of fixed employee's number and fixed budget for administrative costs as well as the reformed financial mechanism for the state non-productive but revenue-earning agencies. After more than 4 years of pilot implementation of the mechanism, 53 out of 64 provinces and cities directly controlled by the central government and 3 ministries have done pilot activities; of which the local provinces have applied these mechanisms to 682 administrative agencies, equivalent to 36% of the total number of administrative agencies in the whole province; MOLISA, MOT and MOF are now piloting the same mechanisms in more than 160 of their administrative agencies.

Pilot implementation of the above mentioned mechanism has indicated some encouraging results. The piloted agencies have been given the right of autonomy and self-accountability in arranging their organizational structure, implementing economical practices and increasing the working efficiency and effectiveness. The mechanism also creates conditions for all the employees to participate in monitoring the implementation of the proposal-based revenue mechanism, promoting the economical and effective use of funds through establishment of internal revenue-expenditure regulations, and establishing the standard cost norms for the agency. The income level of the staff has been increased by a step. Through different measures of savings, the income level has been increased by about 130,000 VND/person/month on the average, compared with the salary rate before application of the mechanism.

Concerning the financial mechanism for the state non-productive but revenue-earning agencies: by the end of 2004, 37 out of 43 ministries and central agencies and 52 out of 64 provinces and cities directly controlled by the central government had given the right of financial autonomy to more than 5,900 state non-productive revenue-earning agencies, accounting for 43% of the total number of agencies. Of which, the ministries and central agencies gave the right of autonomy to more than 530 units, accounting for more than 78%; and the local authorities gave the right of autonomy to approx. 5,400 units, accounting for more than 40%. After more than 3 years of implementing Decree 10, many positive results have been gained. The financial autonomy in the state non-productive revenue-making agencies has been strengthened, ensuring effective and economical expenditures based on the internal cost norms and regulations established by the agencies themselves. The regulation

on transparency and disclosure in management and utilization of public financial resources has been better implemented. Better performance was seen in the implementation of the regulation on transparency and disclosure in public finance management and utilization. This created conditions to increase the income level for the labourers (by 10 to 15% on the average during the recent time).

#### 5.2- Implementation of the regulation on grassroots level democracy

Seven years of implementing the regulation on grassroots level democracy have proved the soundness and reasonableness of this regulation, which has gained popularity and satisfied the people's desire. In order to further expand this positive regulation, Announcement No. 159-TB/TW dated 15 November 2004 was made to summarize the 6-year implementation results of the Directive No. 30-CT/TW, and provide further instructions on continuing improving and implementing the grassroots level democracy regulation in the coming time. It is also requested that the grassroots level democracy regulation introduced to all units of 3 forms (including the units at the commune and ward levels, administrative agencies and state-owned enterprises) should be further implemented and even expanded to the remaining forms of grassroots level units.

In implementing Announcement No. 159, during the recent time, the Ministries, sectors and socio-political organizations have actively guided and implemented activities relating to their agencies and units. The Ministry of Home Affairs is now developing a pilot project on direct vote for chairmen of commune-level People's Committees; the Vietnam's Fatherland Front is drafting a Decree on its participation in monitoring the party's members at their residence; the Vietnam's Labour General Confederation is taking lead in drafting a Decree on implementing the grassroots level democracy regulation within limited companies and shareholding companies; the Ministry of Health is formulating the draft Decree on implementing the grassroots level democracy regulation within public hospitals; the Ministry of Education and Training is formulating the draft Decree on implementing the grassroots level democracy regulation within public universities; and the Vietnam's Institute of Social Sciences is formulating the draft Decree on implementing the grassroots level democracy regulation within the research institutes.

At the local levels, the Announcement No. 59 has also been put in place in a serious manner through such activities as review and improvements the Steering Committees, and review of the local regulations and procedures in order to achieve a higher and stronger efficiency in implementing the grassroots level democracy regulation.

The implementation of the grassroots level democracy regulation in the recent time has incorporated the motto "Informed to people, consulted with people, done by people, supervised by people" into different aspects of the economic, political, cultural and social life at the grassroots levels. Many localities all over the country have implemented well the requirements of information disclosure among the people, letting them know about the types of works specified in the Grassroots level Democracy Regulation, in terms of the state law and policies, legal documents of the high-ranking state agencies, the local socio-economic development situation, land use planning, poverty reduction projects and programs, rate of contributions to different funds according to the resolution of the provincial People's Council, and different types of tax in the province.

The local authorities have applied a lot of diversified and creative forms of information disclosure, such as using the mass media, posting announcements at the office of the People's Council, People's Committee, or at the administrative centres of wards, districts and towns, or through community meetings at wards, villages and hamlets. In some places, people can also be provided with information through mobile cinema groups or from review meetings of the Communal People's Council, Communal People's Committee, the Fatherland Front and mass organizations.

Thanks to good implementation of the Grassroots level Democracy Regulation, the people now have opportunities to discuss construction works; the construction activities therefore can be done quickly and smoothly, bringing practical effects to the local socio-economic developments and improving the people's living standards. Land acquisition, compensation and resettlement are especially sensitive and difficult issues as they have direct relations to the rights and interests of the people. However, thanks to consultations with the community and public and democratic discussions with the people, many localities such as Danang, Ho Chi Minh city and Binh Duong could resolve these issues well.

In case there is an issue that needs the community consultations before the communal People's Council and Committee make decision on, such as draft socio-economic development plan, economic structure shifting, land use plan, mobilization of the people's contributions, etc., the local authorities would usually post these information and draft documents at the office of the People's Committee or send them to villages and hamlets to collect the people's comments. With comments and opinions from the community, the projects and programs appear to be more complete and more suitable for the actual conditions, which can attract the people's inputs and contributions and on the other hand, give them the opportunity of understanding and paying attention to socio-economic and welfare issues in their region.

By this time, most of wards, districts and communes have established the People's Inspectorate in accordance with the regulation, which have shown initial encouraging performance. The communal authorities implement quite well the tasks specified in the Regulation in terms of the people's right of supervision and monitoring, such as: operations of the communal People's Council and Committee; performance of the communal People's Council members, of the communal People's Committee staff; implementation of preferential policies or those on support to war invalids, martyr's families and accredited people; implementation of the social insurance policy and social aids policy. Claims and denouncements by the citizens have been resolved in a more timely manner, which helps to limit requirements of lengthy and cumbersome procedures, and ensures objective, precise and right solutions to the claims. Results of inspection and review of communal staff-related cases, and conclusions on suspect negative and corruptive cases are made public to the people, even in terms of disciplinary measures and/or punishment.

Investigations show that the Grassroots level Democracy Regulation has brought good impacts on the issues that the people are encouraged to discuss and directly involve in decision making (98.9%), or the issues that need to be consulted with the people before the responsible authorities make decision (97.9%). However, the investigations also show that the people's right of supervision and inspection is the task that the performance achieves the lowest level of efficiency (94.1%).

The implementation of the Grassroots level Democracy Regulation has assisted to develop the people's ownership at the grassroots levels, creating a more democratic and open atmosphere in the society and strengthening the people's belief in the social regime. The people's role

is being strongly enhanced through their contribution to formulation of local socio-economic development programs and plans. In addition to direct expansion of the democracy principle, promotion of the people's ownership by the form of representative democracy has also been a focal point to the Communist Party's executive committees, the authorities, the Fatherland Front and mass organizations at different levels.

Most of towns, districts, wards and communes all over the country have well maintained and strengthened activities of the people's self-control groups which are in charge of keeping social order and security, and activities of the people's reconciliation groups. Actually the task of reconciliation to resolve conflicts among the people has been done very well, created mutual understanding, the spirit of "mutual affection and mutual love" and the spirit of "helping each other" in the wards, villages and hamlets. The policy of expanding the block of the whole people's unity has been seriously implemented and contributed to preventing conspiracies driving a wedge between the people, stabilizing the political status and ensuring the social safety at the local levels.

The Grassroots level Democracy Regulation has also made a positive contribution to strengthening the local political system, improving the staff quality, and renovating the working style of the local staff towards higher democracy and disclosure.

The working style and communication skills used by the communal staff when working with the people have also been reformed, becoming closer to the people, giving more attention to listen to and receive opinions and feedback by the people, minimizing cases of red tape, authoritarian behaviour and violations to the law and the people's right of ownership.

### **PART III**

## **CPRGS IMPLEMENTATION PROCESS OF 2004-2005**

The CPRGS has been implemented for three years with encouraging results. Effectively supported by donors and international organizations, the Inter-ministerial Working Group has been coordinating with line ministries and agencies and localities to organize empirical activities for CPRGS implementation. Many goals and tasks of CPRGS are still being realized. These include raising awareness and building capacity to link these goals and tasks with socio-economic development programs of agencies at various levels, organizing consultation for socio-economic development programs, and establishing a regime for plan implementation supervision and assessment.

#### **1- Activities for building capacity of agencies, levels and localities for CPRGS implementation**

(1) Importance is attached to raising the awareness of agencies, levels and localities. Given the support of donors, the MPI has published and widely circulated the Strategy among line ministries, agencies and localities. During seminars and training courses on guidance of building socio-economic development plans in combination with the goals of poverty reduction and growth, key contents of the Strategy and its implementation are also presented so as to raise the awareness of employees at various levels in intertwining the Strategy with socio-economic development plans.

(2) Many ministries and agencies have held workshops on methods of building socio-economic development plans in combination with the CPRGS goals. These workshops have focused on the following major themes:

- Introducing new approaches in building socio-economic development plans intertwined with the goals of poverty reduction and growth; methods and tools in building strategic plans, planning on the basis of results and planning with participation... Instructions on the selection of impacts, methods for supervision and assessment of plan implementation through indicators...

- Building the framework of plans including identifying priorities, development orientation and indicators for plan supervision and assessment. Introducing key contents of the plan, emphasizing the close combination between growth and poverty reduction. Plan consultation...

(3) Continuing to support localities in CPRGS implementation.

The MPI, in coordination with the CPRGS Inter-ministerial Working Group and donors, has assisted localities to build capacity for socio-economic development planning and intertwining it with the goals of growth and poverty reduction by organizing seminars and training courses to instruct how to intertwine CPRGS goals with local socio-economic development plans.

These assistances have helped localities collect, process and analyse information for the building of local socio-economic development plans, build capacity at provincial level, enhance capacity for employees of provincial departments, agencies and offices in planning such as coordinating in the organization of training courses and seminars, improve the skills of building the five-year socio-economic development plans of 2006-2010 in combination with growth and poverty reduction, build a mechanism for supervision and assessment, building a system of supervision and assessment standards and methods of information collection and processing.

In particular, renovating the procedures in planning with extended participants in building, implementing and supervising socio-economic plans. Supported by donors, several provinces have collected opinion of the public on the contents of the local five-year socio-economic development plans of 2006-2010. This is a welcomed method of planning that has generated unity in implementation.

At present, many localities are working closely with donors to further implement such work as finalizing the 2006-2010 five-year socio-economic development plans in localities with special attention paid to public consultation on local socio-economic development plans, and building a system of plan supervision and assessment.

(4) Organizing training courses on intertwining CPRGS with local socio-economic development plans

Over the past years, aided by central agencies and donors, several localities have organized training courses on various specialized

themes to help build the 2006-2010 five year plans. The designing of these training courses have been done with great care in order to make them fit with specific participants. Some localities have introduced two training courses at the same time, one is for leaders of various departments, agencies and offices and the other is for specialists working in those departments, agencies and offices. The training courses would focus on the following:

- Enhance the awareness of employees and people on the CPRGS contents through an overview of the building process, key contents and implementation process.
- Introduce general matters on principles, procedures, methods and contents of the building of annual and five-year social-economic development plans, and the relationship between CPRGS and the local social-economic development plans. Provide instructions on intertwining the CPRGS contents with the local social-economic development plans; model system of building local plans and reporting on their implementation.
- Provide instructions on the method of planning with participation and planning on the basis of results; necessary tools for assessment and analysis in the planning process.
- Build plans in combination with financial resources. Introduce a number of principles and criteria in resource allocation for the goals of growth and poverty reduction, analyse and assess existing local resources; assess the suitability of budget plan and local development goals; solutions to mobilizing resources for local socio-economic developments.
- Introduce contents, scope and methods for calculating targets and socio-economic indicators in planning and methods of data collecting. The work of monitoring, supervising and assessing plan implementation...
- Based on local specific conditions, participants discussed and highlighted difficulties and outstanding problems as well as solutions to overcoming them in their respective locality in the process of planning socio-economic development in combination with growth and poverty reduction. Analyse and clarify the linkage between Public Investment Programs and CPRGS to build appropriate mechanisms and criteria to ensure the success of Public Investment

Programs, i.e. achieving the goals of sustainable development and poverty reduction.

(5) Pilot planning at selective locations

Following the organization of some training courses, some localities have carried out some pilot planning in the new methods at some selective locations. The aim of these pilot planning in the new methods at district, commune and village levels is to introduce and practice the method and skills of planning in combination with CPRGS for those working in planning sector in communes and villages to apply planning tools such as identifying priorities through comparing pairs, using issue trees, target trees and SWOT analysis matrix...) and then apply it to building 2006-2010 socio-economic development plans in the locality. The contents of the training steps focused on the following issues:

- Introduce the goals and significance of planning work in the new methods in combination with CPRGS and implementation methods.
  - Introduce planning tools and practice skills of using planning tools at district, commune and village levels.
  - Introduce a system of targets and standard forms used at district, commune and village levels.
  - Introduce steps in planning at district, commune and village levels
- 2- Complete the draft of the 2006-2010 five year socio-economic development plan with CPRGS goals and tasks intertwined
- Renovations in procedures, methods and contents of building the 2006-2010 five year socio-economic development plan as instructed by Directive #33/2004/CT-TTg of the Prime Minister that have been realized include: more contents of the Strategy goals and tasks added to the 2006-2010 five year socio-economic development plan, especially in the fields of society and poverty reduction, namely stabilizing and raising the living standards of ethnic minority people; activities concerning religions and freedom of beliefs; gender equality, raising women position and protecting children's rights; youth development, developing the network of social security to assist the disadvantaged and the poor...

- Organize consultation to collect public opinion on the 2006-2010 five year socio-economic development plans. The MPI in coordination with concerned ministries and agencies has organized consultation for opinion on the contents of the 2006-2010 five year socio-economic development plan.

The format is to send documents to concerned ministries and agencies to ask for comments; organize seminars in various regions, 4 seminars were held in Hanoi, Ho Chi Minh city and Da Nang to collect opinions of managers, scientists and think-tanks; public consultations were also conducted through NGOs in Gia Lai, Ninh Thuan, Cao Bang, Quang Tri, Ben Tre and Ninh Binh. Most notably, on September 7-8 a consultation meeting was held with participation of the donors. Besides, many local and international NGOs also held workshops for opinions on the contents of the plan. These include: VCCI (held one for the business circle), Vietnam Economic Science Association (held one for economists), a Seminar on gender consultation for the five- year plan of 2006-2010 organized by MPI, National Committee for Women's Progress, the World Bank, ADB and the National Institute for Social Sciences and Humanities).

Participants welcomed the renewal of planning methods, particularly the organization of public consultation at Ministries, agencies and localities through seminars. All opinions expressed were in agreement with the structure and the content of the socio-economic development plan drafted by the MPI. They also recommended the following:

There should be real renewal in thinking and perspective to adapt to integration.

Various levels and agencies should take more initiative in developing society and economy.

More attention should be paid to the work of monitoring, supervising and assessing plan implementation.

More thorough analysis of different regions is needed to identify priorities and development orientations in each region and locality.

On the basis of reality analysis, specific solutions should be recommended along the line of the roadmap so as to address outstanding issues and achieve the goals outlined in the five-year plan.

After publicizing the new poverty line, MOLISA should work with concerned agencies and localities to re-assess the poverty situation in the localities accordingly.

Pilot application of the medium term public expenditure framework: Ministry of Finance has cooperated with relating ministries and agencies to prepare pilot MTEFs in following ministries: Ministry of Training and Education, Ministry of Health, Ministry of Transportation and Communication, and in provinces: Ha Noi, Phu Tho, Binh Duong and Vinh Long.

3- Continue to complete the manual of instructions on building socio-economic plans, taking into account growth and poverty reduction

Assisted and aided by donors and experts, the MPI has completed a draft manual of instructions on intertwining CPRGS targets and tasks with local socio-economic development plan.

The aim of the manual is to introduce new methods, tools, targets and indicators which are being applied in the planning of many countries in the world and at the same time provide the uniform understanding of national, industrial and local plans in a market economy.

In order to collect opinion of ministries and agencies concerned, a seminar was organized on November 14, 2005 to get initial opinions on the manual.

All participants at the seminar emphasized the need for such a manual in the new circumstances. However, they stressed that it is necessary to clarify the scope and extent of the levels that would be using the instruction manual.

The manual should be written in a simple and comprehensible style so that people at all levels can understand and use it.

Practical contents should be selected and should go hand in hand with a roadmap for implementation of the manual instructions.

4- Build a mechanism to supervise and assess the implementation of the 2006-2010 five year socio-economic development plans and the 2006 plan with intertwined CPRGS goals and tasks

Together with the renovation and raised quality of planning, the work of supervising and assessing on the basis of results has become an important tool for policy making, planning, supervising and assessing do have impact on sustainable and effective socio-economic development.

The work of supervising and assessing includes: improving legal environment for statistic activities, enhancing capacity of those organizations in charge of supervision and assessment, raising the efficiency of mechanism for supervision and assessment, building basic data for MDGs and Vietnam Development Goals.

In implementing the Statistic Law, the statistics office has cooperated with Ministries and agencies to build a regime of national standards and submit it to the Prime Minister Office. This will become legal foundation for the supervision and assessment of plan implementation.

In order to constantly improve the quality of supervision and assessment, statistic methods such as standard regime, calculation methods and statistic standards are being actively supplemented and completed. MOLISA, in coordination with GSO, has built a method for poverty line determination to serve the work of supervision and assessment of poverty reduction, submitted it to the Prime Minister Office and got it approved. This document helps assess poverty rate in the entire nation and compare it to other countries in the region and the world.

A system of mechanisms for supervision and assessment is being implemented. The supervision mechanism is applied to the process of building plan targets and realizing plans. State offices and agencies are responsible for provide regular reports on the result of the implementation of socio-economic development targets and poverty reduction for the sake of governance and management.

Supervision and assessment by NGOs, Institutes of Science Research, Universities and the people have been promoted, helping make the regime of supervision more objective and complete.

The MPI is coordinating with GSO and other concerned ministries and agencies to formulate a framework of supervision and assessment of the 2006-2010 five-year plan and 2006 plan, focusing mainly on the following contents: enhancing capacity of functional organizations and agencies in supervision and assessment; forming a legal corridor for

the work of supervision and assessment; and developing monitoring and evaluation indicators.

Increase the quantity and quality of information sources for the work of supervision and assessment. Renovate methods of information collection towards the diversification of channels for supplementation, reference and comparison by collecting information from surveys, reports by ministries, agencies and localities and even from households...

Implement Decision by the Government on community supervision, bring into full play the role of supervising plan implementation and selecting schemes of local resource allocation proposed by people-elected agencies, government bodies, NGOs and the people.

#### 5- Difficulties and challenges in implementing the CPRGS

There have been difficulties and challenges in implementing the CPRGS, namely:

(1) *In terms of awareness*: Even though the awareness of the CPRGS contents has been raised among ministries and agencies at various levels, there still exists a big gap between the acknowledgement and the requirements for implementing them at all ministries, agencies and localities and accomplishing tasks determined by the Strategy. This means that more publicity activities should be carried out to raise even higher the awareness of leaders and planners to intertwine the CPRGS goals with socio-economic development plans of their own ministries, agencies and localities.

(2) *Capacity of employees implementing the Strategy*: The contingent of employees to implement the Strategy have failed to meet the requirements both quantitatively and qualitatively, especially at the local levels, i.e. provinces, districts and communes... The incompetence of many employees has negatively affected the implementation of the Strategy, particularly the process of intertwining it with the local socio-economic development plans.

(3) Support by central agencies to local authorities in the effort to intertwine the CPRGS goals with local socio-economic development plans has not been well regulated. No specific programs have been built to support localities in their implementation.

(4) Ministries, agencies and localities have not demonstrated dynamics in the implementation but await support from the central level

and donors. The intertwining process at local level was therefore negatively affected.

## 6- Recommendations for the future

In order to implement the goals of the Strategy, more efforts should be focused on the following activities:

*(1) Enhance the coordination among ministries, agencies and localities in formulating their socio-economic development plans with integration of CPRGS.*

The close coordination among ministries, agencies and localities will facilitate the implementation of policies in a synchronized manner

Build appropriate mechanisms for localities to effectively carry out the work of supervision and assessment.

*(2) Enhance capacity of agencies and levels in building and implementing socio-economic development plans in combination with growth and poverty reduction, especially at local levels.*

Continue to organize training courses on specialized professional knowledge in order to provide detailed instructions to planners working in key local Departments and Divisions in intertwining CPRGS with the provincial development plans.

The contents of capacity building for planning and implementing socio-economic development programs include:

First, capacity to collect and analyse information;

Second, capacity to forecast in planning;

Third, capacity to govern plan implementation, and

Fourth, capacity to assess and supervise plan implementation.

*(3) Expand the process of public consultation on socio-economic development plans at agencies at various levels.*

Public consultation is one of the fundamental contents of renovation procedures and methods to build plans.

*(4) Carry out the work of supervision and assessment for plan implementation*

The work of supervision and assessment for plan implementation is an important stage in building plans. Parallel with plan completion, we should maintain the work of building mechanisms, targets and indicators to supervise and assess plan implementation. The GSO will coordinate

with ministries; agencies and localities to build and formulate a system of supervision and assessment of socio-economic development plan implementation.

*(5) Continue to intertwine the CPRGS goals with socio-economic development plans.*

To accelerate the intertwining process in all localities, close guidance should be provided by various levels and agencies, especially by the Steering Committee on CPRGS implementation.

*(6) Complete the manual of instructions on building socio-economic plans, combining it with growth and poverty reduction, making in a foundation for ministries and agencies to continue building the five-year and annual socio-economic plans combined with the goal of growth and poverty reduction*

*(7) Take measures to mobilize at the maximal extent all resources to implement the goals and tasks of the Strategy.*

To accomplish the goals and tasks of the Strategy, the need for resources remains huge whereas the existing domestic resources are limited. Thus, there should be more measures to mobilize at the maximal extent all domestic resources, especially those lying hidden within the people. At the same time, further actions should also be taken to mobilize more external resources for the accomplishment of growth and poverty reduction goals.

## **PART IV**

### **CHALLENGES AND SOLUTIONS TO GROWTH AND POVERTY REDUCTION FOR 2006-2010 AND THE IMPLEMENTATION**

#### 1- Challenges in economic growth and poverty reduction

Vietnam is implementing Socio-Economic Development Strategy for 2001-2010. GDP will double that of 2000 in 2010. From now on to 2010, Vietnam strives to get out of poverty, underdevelopment and the statehood of a low-income developing country; raise GDP per capita from 640 currently to 950-1000 USD in 2010; improve significantly the material, cultural and spiritual life; record important steps towards sustainable development; establish foundation for acceleration of modernization and industrialization; preserve political stability, social order and security; firmly preserve independence, sovereignty, territorial integrity and national security; enhance Vietnam's position on the world arena.

Vietnam is confronted with major challenges in economic growth and poverty reduction on its development and integration process into the world economy.

#### 1.1- Challenges in economic growth

Despite significant achievements over the past years, Vietnam is confronted with the risk of lagging behind other countries in the region and the world. Comparative data for 2004-2005 revealed that Vietnam's BCI competitiveness ranks 79/103 countries. Limited production results in GDP accounting for only 0.1% of the world output. Vietnam is among the low-income countries; population income and consumption are inadequate to create a springboard for production and market development; financial and monetary systems are inadequate. Sectoral and regional production structure fails to adapt to domestic and international market evolution. Technology, production organization and corporate administration show low innovation.

Socio economic infrastructure fails to meet the development demand. Technological level and technology transfer capacity remain weak, lagging behind regional countries.

In 5 years to come, Vietnam will implement commitments signed with other countries and international organizations. More opportunities will be available for development coupled with greater challenges, particularly for a less developing country like Vietnam. Implementation roadmaps of commitments in AFTA, WTO and other international agreements will exert pressure on Vietnamese enterprises. Meanwhile, Vietnamese enterprises' competitiveness remains weak.

As forecast, financial, monetary and price markets will witness complicated evolutions and exert negative impact on Vietnam's development if no effective solutions are in place. Fiercer competition for direct and indirect investment is imminent. Global issues of diseases, environmental pollution, scarce input materials, rich-poor gap will become more severe, posing strong and multi direction impact on socio-economic development and effectiveness.

#### 1.2- Challenges in poverty reduction and social issues

Despite significant achievements in poverty reduction and dealing with social issues, many difficulties and challenges lie ahead. Poverty reduction is unsustainable. Many households are still poor and the risk of falling back into poverty remains high due to exposure to diseases like H5N1, crop failure, investment loss, dropped agro product price, natural disasters, unstable employment. Rich poor gap is widening between regions and population groups. Poverty rate in rural, mountainous and midland areas (North-eastern, North-western, the Highlands and Central northern regions) and among ethnic minorities stand high. Income gap between urban and rural areas, economic zones, the rich and the poor are on increase. Poverty reduction rate is slowing down. Poverty-urbanization and migration relationship need timely and appropriate solutions. The poor have limited access to assistance policies.

A segment of the poor and poor communes are relying on the State assistance, not actively striving to escape poverty. Some localities limit poverty rate lower than factual figures, which results in some poor households having no access to CPRGD policies, causing misunderstanding of the State policy. Poverty reduction program fails to cover all poor households due to low poverty line and lack of government resource. In addition, definition of poor households is not correct in some localities. As a result, some poor households are not accessible to the program policies and projects. The structure of

capital allocation for projects and localities is not coherent and transparent. Some mechanisms and policies are not appropriate for the poor and poor communes. Inadequate implementation at grassroots level also reduces the program effectiveness.

Management and implementation are uneven among localities both in urban and rural areas. Poverty reduction staffs are inadequate in terms of quantity and capacity since the communal staff hold several positions and are not well trained. Program monitoring and assessment are not systematically and synchronously implemented. Monitoring and assessment index has not been unified.

Differences remain in opportunities to have access to and in quality of education. Educating cost remain high compared to population income, particularly for the poor and the children of poor families. Enrolment and completion rate is low among children in remote, mountainous areas and children from low-income and less privileged families. In addition, education quality is a matter of concern. Training programs and methods, the teaching staff quality and facilities do not meet requirements. Financial resource for education is insufficient.

Weaknesses remain in public health care. Health service has not been innovated to meet the increasing demand. There are difficulties in providing health service to the poor, mountainous and remote areas, ethnic minorities. Preventive health care is inadequate. Environmental hygiene and food safety are not fully under control. Health insurance, hospital fees and health examination and treatment for are poor have not been adequately done. Resource mobilization for Health Examination and Treatment Fund for the Poor remain low. Exposure to HIV/AIDS is high. Infection rate is on increasing, particularly among the young. A risk of outbreak of avian flu is high. Management of private health and pharmaceutical service is inadequate. There are weaknesses in management, distribution and use of medicine.

Environmental issues are of great concern. Over-exploitation and squandering of natural resources are polluting and degrading the environment and ecosystems. Rapid urbanization results in overexploitation of underground water, surface water and air pollution, solid waste abundance. Environmental protection capacity and effect do not meet the sustainable development requirements. Environmental management at regional, inter-regional and inter-sectoral levels are

not available. State environment administration is at central, sectoral and provincial, not yet at district and commune level.

Low human resource quality does not meet the industrialization demand. Mechanisms and policies are not in place to raise labor quality. Population distribution is inappropriate; migration is completed and uncontrollable. Birth rate is increasing. More children need protection from drugs, HIV/AIDS, sex abuses, illegal activities, injury accidents, etc.

Cultural and information management does not meet social and market demand. Information quality and quantity are limited and unattractive; public opinion orientation and information dissemination are inadequate. Fine Vietnamese traditions are threatened. Cultural and information development in less privileged areas fail to meet requirements.

The fight against bad habits and moral degrading fails to have synchronous measures and is not effective. Organized crimes and corruption are on the rise. Drug addition and prostitution are witnessing complicated evolution.

Public sport and physical activities are uneven and of low quality, particularly in rural, remote and ethnic minority areas. Weaknesses remain in training and moral education for athletes. Facilities and staff for public sports are inadequate, School sports are limited. Negative activities in sports competition have not been prevented yet.

## 2- Goals and targets of socio-economic development and poverty reduction in the coming period

### 2.1- Overall goals

The draft of the 5 year socio-economic development plan, 2006-2010 set the following overall objective:

*Accelerating economic growth and obtaining major improvements in economic efficiency and sustainability in order to **escape from underdevelopment**. Improving people's material, cultural and spiritual standards. Establishing foundations for intensifying industrialization and modernization and promoting the development of the intellectual economy. Maintaining political stability and social order and security. Strengthening national independence, sovereignty and security. Enhancing Vietnam's status in the region and in the international arena.*

### 2.2- Main targets

*Firstly*, liberating and promoting production forces, capitalizing on all potential and resources in order to achieve breakthroughs in infrastructure upgrading and economic structure shifting, improving economic efficiency and competitiveness, and accelerating economic growth in order to **raise Vietnam's current status as a low-income, developing country.**<sup>(\*)</sup>

*Secondly*, further undertaking market reforms and adopting market rules. Establishing all forms of markets in comprehensive manner and promoting institutional building of the socialist-oriented market economy in Vietnam.

*Thirdly*, intensifying international economic integration and promoting foreign economic relations in combination with enhancing economic self-reliance.

*Fourthly*, encouraging research and technology innovation, improving training and education, and enhancing the quality of human resource in order to meet the requirements of industrialization, modernization and development of the intellectual economy.

*Fifthly*, making progress in terms of culture, intellectuality, morality and life style. Improving people's health conditions. Protecting the environment.

*Sixthly*, making progress in the areas of social evolution and equality, job creation, well-being, poverty reduction, social security and fighting against social vices.

*Seventhly*, promoting democracy and national solidarity. Enhancing the efficiency of the socialist state under the rule of law. Making progress in administrative reform. Preventing red tape, corruption and dissipation.

*Eighthly*, strengthening national defence and security, ensuring social and political stability, expanding diplomatic relations, and maintaining the peaceful and stable environment for national construction and protection.

### 3- Policies on economic development and poverty reduction in the 2006-2010 period

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<sup>(\*)</sup> According to some projections, the level of low-income country criterion in 2010 can rise to 900 USD per capita, meanwhile Vietnam can achieve the status of middle-income country with GDP per capita of 1,050-1,100 USD.

To achieve the above goals, the following policies on economic development and poverty reduction will be implemented in the coming period:

### 3.1- Economic policies

*Firstly*, strengthening economic democratization and improving the multi-sectoral market mechanism. Creating favorable conditions for business and investment activities of all citizens and enterprises. Adopting a common legal framework to ensure equality among all forms of enterprises and production belonging to all domestic and foreign economic sectors.

Intensifying the restructure and enhancing the efficiency of state-owned enterprises (SOE) in order to maintain their key role in main economic sectors as well as in economic development. Adopting market rules in SOEs equitization. Promoting the establishment and diversifying ownership of conglomerations and big corporations while maintaining the prevalence of state ownership. Implementing proper measures to reform inefficient SOEs. Abolishing monopoly through mechanisms on monitoring and regulation of monopolistic enterprises.

Continuing the process of reforming the collective sector. Establishing new forms of cooperatives to promote the development and attractiveness of the collective sector. Intensifying the diversification of ownership within the collective sector (including ownership of legal entities, individuals and collectives). Encouraging different types of enterprises within the collective sector and establishment of cooperative unions. Applying the business autonomy mechanism and encouraging fair competition among co-operatives.

Promoting the development of private enterprises. Encouraging private investments by abolishing restraints on scale, sector, and location. Abolishing all discriminations against the private sector and honoring efficient private enterprises. Encouraging the establishment of large-scale private enterprises and corporations.

Promoting business organizations jointly owned by the state, private and foreign sectors. Diversifying investment forms and mechanisms to further induce domestic and foreign capital into in key economic sectors.

Further improving polices on foreign direct investment (FDI) through the adoption of a Common Law on Investment. Recognizing the FDI sector

as an important component of the socialist market-oriented economy in Vietnam and creating a level playing field for FDI and domestic enterprises.

*Secondly*, promoting the comprehensive development of market elements and forms to meet the requirements of market economy establishment and international economic integration.

Developing the commodity and service markets through the implementation of the Competition Law so as to ensure fair competition. Furthering trade and investment liberalization in accordance with bilateral and multilateral commitments and international customs. Promoting the service market with priority given to high-quality and high value-added services.

Intensifying financial market development through the improvement of organization, scale, management, and monitoring in order to safeguard the interests of all investors. Promoting the process of financial international integration. Developing the stock market into a main channel to attract investments. Strengthening the monetary market through the improvement of short-term capital transactions and trading of valued papers.

Promoting the property market development by facilitating land-use rights transactions and realizing the potential of land resource. Establishing the market-price mechanism for properties and abolishing price discriminations.

Promoting the labor market development by improving the legal framework, facilitating the interrelation between labor demand and supply, diversifying job transactions, and ensuring people's rights to select jobs and place of habitation. Adopting the labor contract system to safeguard the interests of both employers and employee.

Promoting the technology market development to facilitate transactions of technological products. Promoting linkage between research and application through the adoption of contract system for enterprises and research bases. Establishing venture funds to encourage research and development of new technologies. Promoting supporting services in the areas of intellectual property, consultation as well as trading, evaluation, and transfer of technology. Establishing intermediary agencies and promoting technology transactions as well as technology market and incubators.

*Thirdly,* adopting the positive financial and monetary policies. Implementing comprehensive measures on mobilizing domestic and foreign financial resources for development. Capitalizing on financial tools and forms of investment. Strengthening state mechanism on credit and valued papers circulation. Improving the tax policy and reform and promoting consultation services on taxation. Implementing the tariff reduction schedule as required by the process of international economic integration. Improving resource allocation for key economic sectors. Encouraging private and foreign investments in national development projects. Preventing dissipation and loss of financial resources. Improving policies and mechanisms on financial and public property management. Strengthening the role of the National Assembly and people's councils of all levels in allocation and monitoring of state budget. Renovating the method and process of drafting state budget in order to give more priorities to medium-term planning. Strengthening financial international cooperation and integration.

Reforming the monetary policy. Adopting market rules in the formulation of monetary policy and encouraging the application of international standards in banking activities. Promoting non-cash payment and transactions via the banking system. Gradually enhancing the convertibility of the Vietnamese currency. Maintaining market-based interest rate and abolishing restraints on interest rate for foreign currencies. Maintaining the flexible management of market-based foreign exchange and allowing greater fluctuation in accordance with financial market opening and monitoring capacity of the State Bank. Promoting the development of credit institutions. Reforming the commercial bank system by strengthening the key role of commercial state banks while ensuring autonomy of and fair competition for all commercial banks.

*Fourthly,* improving the quality of planning in order to meet the requirements of socio-economic management. Encouraging scientific assumptions, long-term vision, transparency as well as people's participation and monitoring. Improving the quality of economic forecasting and research to meet the demand of sustainable development. Strengthening state management on planning.

Further reforming the process of plan formulation and approval in order to ensure efficient management. Intensifying the democratization process in plan formulation and implementation. Mobilizing people's participation in formulating long-term plans on socio-economic

development and environmental protection. Ensuring the linkage between planning and market development and international economic integration. Giving priority to establishing quality indicators on socio-economic development in plan formulation. Intensifying the monitoring and implementation of plans. Constructing the law on planning.

*Fifthly*, strengthening administrative reform, focusing on renovating state management and enhancing the quality of civil servants.

Defining the scale and content of state's economic management. Adjusting the functions of the government and central agencies with priority given to institutional building. Re-organizing the government organization by reducing the number of focal points and adjusting the functions of governmental ministries towards formulating policies and standards and monitoring law enforcement in accordance with their mandate. Abolishing ownership of ministries and people's committees on SOEs. Separating state administration and management of public services.

Readjusting policies on decentralization towards enhancing the authorities and responsibilities of local governments. Promoting linkage among the division and allocation of responsibilities, finance, organization and personnel. Clearly defining the authorities of local government in decision-making and compliance with the central government. At the same time, intensifying the monitoring mechanism on leaders and heads of administrative agencies at all levels.

Reducing the number of focal points and strengthening the role of local agencies in instruction, monitoring and surveillance in accordance with adjustments undertaken at central level. Considering to narrowing the scale and scope of functions and authorities of people's councils at precinct level in urban area and district level in the rural area.

Readjusting the organization of central agencies by reducing the number of deputy heads, abolishing intermediary levels, applying the contract system for services departments and promoting work allocation and surveillance.

Strengthening autonomy of public utility enterprises in terms of operation, organization, personnel and finance. Applying the principle of openness, democracy and people serving for state agencies and civil servants. Modernizing and streamlining state administration. Encouraging participation in various forms of people's organizations and NGOs in state and social management and reversing the trend of officializing popular organizations.

Conducting surveys on civil servants for the purpose of planning and training and management of civil servants. Constructing the quality standards system to serve as basis for evaluating civil servants. Improving the recruitment system and regulations on evaluating and rewarding civil servants to enhance the efficiency of state management. Reforming the nomination process to encourage talents. Further reforming the salary system to meet the requirements of administrative reform.

Amending mechanisms on work allocation. Enhancing local governments' authorities and responsibilities in civil servant management. Promoting linkage between the allocation of personnel, duties and finance.

Implementing the principle of openness in public service activities, particularly those directly affecting citizen's interests as well as in the areas of finance and expenditures in order to ensure the efficiency of state management.

### 3.2- Poverty reduction policies

The national targeted program on poverty reduction is being prepared with the objectives of contributing to reduce the poverty incidence from 22% in 2005 to 10-11% in 2010, as of the new poverty line. (Approximately 50% of poor households in equivalence); of improving life condition of poor families, and narrowing the income gaps among different groups, especially between urban and rural areas, low land areas and mountainous areas, and rich people and poor people.

*To achieve the above goals, the program proposes 3 sets of solutions:*

*Firstly, assisting poor people in getting access to production services through projects and policies on: (i) Providing incentive credits for poor people; (ii) Providing land for ethnic minority groups; (iii) Promoting the development of agriculture, forestry and fishery and production of poor people; (iv) Upgrading infrastructure in extremely poor communes in coastal areas (extremely poor communes in mountainous areas are supported under Program 135); (v) Providing job training for poor people; (vi) Establishing community development funds for poor communes and; (vii) Diffusing the efficient poverty reduction model.*

*Secondly, assisting poor people in getting access to social services through projects and policies on: (i) Providing health care service;*

(ii) Providing education service and; (iii) Providing housing and water service.

*Thirdly*, enhancing the quality of civil servants and raising awareness of the whole community and of poor people in particular through activities and projects on: (i) Enhancing the quality of staff undertaking poverty reduction and legal assistance for poor people; (ii) Intensifying information diffusion on poverty reduction and; (iii) Strengthening monitoring and evaluation.

Allocating more resources to poor communes in mountainous areas with high poverty rates based on the number of poor people and poverty index. Facilitating people's participation in the program in order to ensure democracy, openness and transparency. Providing direct state support for poor people in terms of education, job training (through exemption or in-cash subsidies) and health care (through provision of medical insurance cards). Allowing people and communes escaping from poverty to further receive assistance in terms of incentive credits, health care, and job training in the following two years. Maintaining investment assistance in the following year for communes in coastal area escaping from extreme poverty at the rate of 50% of annual investment support in order to upgrade infrastructure. Providing subsidies of for enterprises providing job training for and recruiting poor people at equal rate to state subsidies for poor people undertaking job training

Intensifying decentralization, particularly giving more authorities to communal agencies in implementation of the program. Strengthening monitoring and evaluation by establishing quality index system at all levels. Strengthening monitoring and evaluation of local governments in combination with monitoring and evaluation of line ministries and agencies, the National Assembly, people's councils, consulting agencies as well as of the whole community.

#### 4- Implementation arrangements for growth and poverty reduction policies in the period 2006-2010

##### 4.1- Monitoring and evaluation (M&E) of growth and poverty policies

Monitoring the plan implementation and the MDGs is becoming a more and more urgent requirement of the management system and the people benefited from socio-economic development and poverty reduction. Along with renovation and quality improvement of planning activities, output-based M&E has become an important tool so that the policy-makers,

planners and managers can keep close track of the implementation process and assess the impacts on the economic development towards effectiveness and sustainability.

M&E arrangements are being improved in terms of: (1) enhanced legal environment for statistical works; (2) increased capacity of institutions and organizations in charge of M&E; (3) improved effectiveness of M&E mechanisms; (4) establishment of database for MDGs and VDGs.

#### **4.1.1- Enhanced legal environment for statistical works**

The statistical sector will take actions to introduce and enforce the Statistical Law and the Decree 40/2004/ND-CP regarding detailed provisions and instructions on implementation of some provisions in the Statistical Law, as well as legal document formulation for the statistical sector.

The national statistical indicator system, as an important tool in the statistical works that directly facilitate M&E works, has been established by the statistical sector, as the leading agency, in coordination with other ministries and sectors; and it is expected to be submitted to and approved by the Prime Minister in 2005. It then will create a strong legal basis for the M&E activities in the years to come.

Aiming at uninterruptedly improved quality of M&E, various statistical methods, such as indicator system, calculation method, statistical standards, have been regularly reviewed and improved. In particular, the poverty line used for developing 2006 - 2010 plan and for conducting poverty reduction M&E has been defined as a result of joint working by MOLISA and GSO, and has been approved by the Prime Minister, creating conditions for a nationwide consistent poverty assessment, which can be compared with the situation in other countries and in the world.

#### **4.1.2- Increased capacity of M&E institutions**

Along with improvements of the concentrated statistical system, a lot of documents were issued to specify functions and tasks of agencies under the General Statistical Office (GSO), and provincial Statistical Offices. According to the Statistical Law, the statistical offices of the ministries and sectors are now being improved in terms of the

organizational structure to ensure monitoring the progress of implementing objectives and targets within the control of the ministries and sectors.

The information source for M&E has been enhanced in both quantity and quality, especially the surveys of households living standards have been continuously improved and contributed more to the M&E of the progress of implementing national poverty reduction targets.

#### **4.1.3- System of M&E mechanisms**

The currently applicable system has proved its objectiveness, transparency, openness and community orientation that are suitable for the political institutions. The monitoring system in line with the Constitution (in terms of the rights and mandate of democratic institutions) is being strengthened and bringing about practical effects. This monitoring mechanism is also applied to the process of formulating planning objectives as well as to the process of plan implementation. According to the prevailing regulations, the state and authorized agencies will have to make periodical progress reports on the implementation of the socio-economic development and poverty reduction objectives selected by elective agencies and institutions at all levels.

The M&E system of the governmental agencies, including GSO, plays the role of collecting and consolidating information and assessing the implementation progress of the objectives. In periodical review meetings on monthly, quarterly and annual basis of the Government or provincial/municipal People's Councils, statistical report on implementation status of socio-economic indicators is one of the major and official documents to be used for management and governance.

M&E done by NGOs, research institutes, universities and the public will be strengthened, making the M&E system in general become more objective and comprehensive.

#### **4.1.4- Establishment of database for MDGs and VDGs**

MDGs indicators and VDGs indicators are the bases for M&E of the MDGs and VDGs implementation.

VDD 1990-2003 provides information on 48 MDGs indicators and 35 VDGs indicators from 1990 to 2003 of Vietnam, including concepts, definitions of each indicator, calculation method, classification, data source, etc. and numeral information of the indicators.

VDD 1990-2003 is stored in VietInfo 4.0 database, which is a version of DevInfo 4.0 customized and completed by UNICEF and GSO with such utilities as being user-friendly, connectable to Microsoft Office and therefore, easy to be presented in many diversified forms, e.g. maps, charts, graphs, tables. VietInfo 4.0 is a very useful tool for macro-level management and for professional specialized information that GSO in cooperation with other ministries and sectors will develop in the coming years.

GSO is responsible for management, maintenance, update and making public of the VietInfo 4.0 database management system, based on the assistance from the consulting group of the UN agencies. VietInfo 4.0 and VDD 1990-2003 was publicized in early 2005 and GSO will make it available to anyone who is interested in using it.

#### 4.2- Implementation arrangements

Management and implementation arrangements for growth and poverty reduction policies in the period 2006-2010 will be done on the basis of multidisciplinary coordination. The central ministries and sectors will be mainly responsible for orienting activities, formulating policies, projects and criteria for identification of support targets, resolving difficulties that the provinces and local agencies encounter by creating more favourable mechanism, recommending to the Government so that the local provinces are provided with more resources for implementing the objectives, and last but not least, monitoring and evaluating the activities controlled by the ministries or sectors. The relationship between the ministries and sectors can be called the "horizontal relationship" in order to implement the objectives and targets of the program. In particular, division of responsibilities is as follow:

##### a) Ministry of Planning and Investment (MPI)

Take the lead and coordinate with the Ministry of Finance for formulating plans of mobilizing domestic and external resources to ensure socio-economic development objectives (resources should include

ODA, FDI, and other economic sectors); and make balanced the two factors of accumulation - consumption, as well as balance the investment for development.

Coordinate with relevant ministries to study, establish and consolidate balances: national financial balance (including state budget balance); international payment balance; import - export balance; and labour - employment balance.

Provide instructions on how to formulate, and consolidate, 5 year socio-economic development plans for the period 2006-2010.

Push up and review the formulation process of 5 year socio-economic development plans 2006 - 2010 in other ministries, sectors, provinces and cities directly controlled by the central government.

Prepare a consolidated 5 year socio-economic development plan 2006 - 2010 of the whole country and submit to the Government, the Party's leading agencies and the State.

b) Ministry of Finance (MOF): take the lead in coordinating with MPI and other concerned ministries to study and establish balances, such as national financial balance, state budget balance, central - local budgets balance; and formulate plans to mobilize resources to the state budget; make up the government's and the national debt plans.

c) GSO: coordinate with the MPI and other concerned agencies to define the system of planned indicators and calculated indicators, especially those reflecting quality, as an instruction and guidance for other ministries, sectors and provinces to formulate their 5-year plans.

d) Ministries/sectors, state-owned general companies:

Coordinate with the MPI, and formulate own 5-year plans and major, important balances for the area in charge.

Ministries and agencies managing national target programs, Program 135, the Poverty Reduction and Employment Program, 5 million ha afforestation Project and other large projects should take the lead, and coordinate with MPI, MOF to work with other concerned ministries, sectors and local provinces for assessing the implementation status and effectiveness of these programs and projects; and, at the same time, study and make recommendations to the Government on the needs of project

continuation and expansion, and mechanism for implementing these national target programs for the next 5 years.

e) People's Committees of provinces and cities directly controlled by the central government

Provide instructions, organize and direct DPI and DOF to work closely with other departments and services to formulate 5-year socio-economic development plans.

**Appendix**  
**SOME MAJOR INDICATORS ON ECONOMIC GROWTH AND POVERTY**  
**REDUCTION, PERIOD 2004 - 2005**

ID	Indicator	Unit	2004	Estimated 2005
<b>A</b>	<b>ECONOMIC INDICATOR</b>			
<b>1</b>	<b>Economic growth</b>	%	7.8	8.4
	<i>Of which:</i>			
	- Agriculture, forestry, fishery	%	4.4	4.1
	- Industry	%	10.2	10.7
	- Services	%	7.3	8.4
<b>2</b>	<b>Rate of increase of production value</b>			
	- Agriculture, forestry, fishery	%	5.8	5.2
	- Industry	%	16.0	16.5
<b>3</b>	<b>Economic structure</b>			
	- Agriculture, forestry, fishery	%	21.8	20.7
	- Industry	%	40.1	40.8
	- Services	%	38.1	38.5
<b>4</b>	<b>Labour structure</b>			
	- Agriculture, forestry, fishery	%	58.6	57.1
	- Industry	%	17.4	17.9
	- Services	%	24.0	25.0
<b>5</b>	<b>Import - export</b>			
	- Total export turnover	Bil. USD	26.5	31.8
	- Rate of increase of export	%	31.5	20.0
	- Total import turnover	Bil. USD	32.0	37.3
	- Rate of increase of import	%	26.5	16.7
<b>B</b>	<b>SOCIAL AND POVERTY REDUCTION INDICATOR</b>			
<b>1</b>	<b>Objective 1: Reduced poverty rate</b>			
	- By 2010 reduce by 2/5 the poverty rate according to international standard, compared with year 2000 (32% in 2001 to about 20% in 2010).	%	24.1	
	- By 2010, reduce by 3/4 the food poverty rate, compared to year 2000	%	7.8	
	- By 2005, reduce by 2/5 the poverty rate and by 2010, reduce by 3/5 the poverty rate compared to year 2000 according to the (old) standard of the NTP on Poverty Reduction and Employment (from 17.2% in 2000 to about 5% in	%	8.3	7

	2010).			
	- Number of households out of poverty	Thousand families	300	

(Cont.)

ID	Indicator	Unit	2004	Estimated 2005
<b>2</b>	<b>Objective 2: Universal education and improved educational quality</b>			
	- Increase the rate of admission to primary schools among children of the right age to 97% in 2005 and 99% in 2010.	%	94.4 (2003-2004)	
	- Increase the rate of admission to secondary schools among children of the right age to 80% in 2005 and to 90% in 2010.	%	76.9 (2003-2004)	
	- Strive to eliminate illiteracy for 95% of illiterate women below 40 years old in 2005 and for 100% of them in 2010.	%		
	- Number of provinces achieving universal secondary education	Province	25	31
	- Number of kindergarten's pupils	Thousand children	2,500	2,600
	- Number of primary school students	Thousand students	7,800	7,500
	- Number of secondary school students	"	6,700	6,600
	- Number of tertiary school students	"	2,750	3,000
	- New students in universities and colleges	"	320	346
	- New students in professional high schools	"	250	267
	- New technical workers	"	1,153	1,181
	- Post graduates	"	14.5	15.6
	- Retrained staff	"	44	54
<b>3</b>	<b>Objective 3: Gender equity and enhanced position for women and assured rights for girls</b>			
	- Increase the number of female delegates in elective agencies of all levels	%	23	
	- By 2005, list the names of both husband and wife in the land use right certificate	%		
<b>4</b>	<b>Objective 4: Reduced birth rate, mortality rate and malnutrition rate in children</b>			

	- Reduce the under-one mortality rate to 30% by 2005 and 25% by 2010	%	18	18
	- Reduce the under-five mortality rate to 36% by 2005 and 32% by 2010	%	32.8	30
	- Reduce the under-five malnutrition rate to 25% by 2005 and 20% by 2010	%	26.6	25
	- Decrease of birth rate	%	0.37	0.40
	- Average population	Mil. people	82.0	83.2
	- Population growth rate	%	1.44	1.37
	- Proportion of communes with health care stations	%	99	100

(Cont.)

ID	Indicator	Unit	2004	Estimated 2005
	- Proportion of commune level health care stations with medical doctors	%	65.4	65.4
	- Total number of patient beds	Thousand beds	200	205
	- Ratio of patient beds/10,000 people	Bed	23.0	24.7
<b>5</b>	<b>Objective 5: Maternal reproductive health</b>			
	- Reduce the maternal mortality rate to 80/100,000 live births by 2005 and to 70/100,000 by 2010, with special focus to disadvantaged areas	1/100,000	85	80
<b>6</b>	<b>Objective 6: Prevention and control of HIV/AIDS, malaria and other diseases</b>			
	- Control the HIV/AIDS infection rate by 2005 and by 2010, reduce by half the incidence rate of increase (cumulative figure)	People	90,400	99,700 (September)
<b>7</b>	<b>Objective 7: Ensured environmental sustainability</b>			
	- Increase the forest cover from 33% in 1999 to 38% in 2005 and 43% in 2010	%	37.0	37.8
	- By 2010, ensure that there is no more slums in urban areas and no more temporary houses in rural areas	%		25
	- By 2010, strive to collect and safely transport 100% of solid and	%		65

	sanitary wastes to disposal areas			
	- Ensure accessibility to clean water for 60% of rural population and 80% of urban population in 2005 and for 85% of rural population in 2010	%	58	62
	- Water and air pollution is controlled within the national standards in 2005	%		
<b>8</b>	<b>Objective 8: Ensure essential infrastructure for the poor people, communes and communities</b>			
	- Rehabilitate, upgrade, expand and/or construct new essential infrastructure (such as small irrigation structures, schools, communal health care stations, transport roads, lighting system, domestic water supplies, post office, communal cultural houses, communal meeting halls, markets...); ensure that by 2005, 80% of poor communes and by 2010, 100% of them have essential infrastructure			
	+ Number of communes having autoroutes connecting to the commune's centre (Communal People's Committee's office)	%		94.5
	+ Proportion of poor communes having sufficient classrooms for primary education and kindergartens	%		
	+ Proportion of extremely disadvantaged communes having communal/ intercommunal markets	%		50
	- By 2005, expand the national electricity network to the centre of 900 poor communes, and ensure that 90% of the poor communes having electricity	%		94.3

(Cont.)

ID	Indicator	Unit	2004	Estimated 2005
	- Proportion of poor communes and districts/wards having hygienic domestic water supply system	%		
<b>9</b>	<b>Objective 9: Job creation</b>			
	- Create jobs for about 1.4 to 1.5 million people /year	Mil. People	1.56	1.6
	- Rate of working time use in rural areas	%	78.3	80
	- Reduce the proportion of	%	5.6	5.5

	unemployed workers in urban areas to about 5.4% of the people at working age by 2005, and to less than 5% by 2010			
<b>10</b>	<b>Objective 10: Development of information culture, improvement of the people's spiritual life, and preservation of ethnic minorities' culture</b>			
	- By 2005, ensure that 95% of households having accessibility to the service of Radio the Voice of Vietnam	%	94	95
	- By 2005, ensure that more than 95% of the households having accessibility to the service of Television of Vietnam	%	88	90
	- Maintain and develop the ability of reading and writing in ethnic languages (literacy rate of ethnic people aged from 15 to 24)	%		
	- Number of fixed telephone sets per 100 people	Set	12.6	17.1
	- Proportion of communes having telephone	%	98	100
	- Number of historical relics maintained and restored	Relic	320	330
<b>11</b>	<b>Objective 11: Reduced vulnerability and developed social welfare system to support disadvantaged and poor people</b>			
	- 40% of average income level of the poorest consumer group compared with the consumption level of the same group in 2000; 90% by 2010.	%		

## Major socio-economic development indicators

### 1. Some major indicators

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
<b>A</b>	<b>ECONOMIC INDICATORS</b>						
<b>1</b>	<b>Economic growth</b>	%	6.9	7.08	7.34	7.8	8.4
	<i>Of which:</i>						
	- Agriculture, forestry, fishery	%	3.0	4.2	3.6	4.4	4.1
	- Industry	%	10.4	9.5	10.5	10.2	10.7
	- Services	%	6.1	6.5	6.5	7.3	8.4
<b>2</b>	<b>Rate of increase of production value</b>						
	- Agriculture, forestry, fishery	%	4.7	6.5	5.5	5.8	5.2
	- Industry	%	14.6	14.8	16.8	16.0	16.5
<b>3</b>	<b>Economic structure</b>						
	- Agriculture, forestry, fishery	%	23.2	23.0	22.5	21.8	20.7
	- Industry	%	38.1	38.5	39.5	40.1	40.8
	- Services	%	38.6	38.5	38.0	38.1	38.5
<b>4</b>	<b>Import - export</b>						
	- Total export turnover	US\$ mil.	15,029	16,706	20,149	26,500	31,800
	- Rate of increase of export	%	3.8	11.2	20.6	31.5	20
	- Total import turnover	US\$ mil.	16,218	19,745	25,227	32,000	37,300
	- Rate of increase of import	%	3.7	21.7	27.8	26.5	16.7
<b>B</b>	<b>SOCIAL INDICATORS</b>						
	- Average population	Mil.	78.68	79.72	80.9	82.0	83.2
	- Decrease of birth rate	%	0.46	0.42	0.4	0.37	0.4
	- Population growth rate	%	1.35	1.32	1.47	1.44	1.37
	- Number of provinces achieving universal secondary education	Province		12	19	25	31
	- Number of unemployed labourers finding jobs (converted)	Mil. people	1.40	1.42	1.52	1.56	1.6

	- Proportion of poor households (old standards)	%	17.5	14.5	11.0	8.3	7.0
	- Proportion of under-five malnourished children	%	31.9	30.1	28.4	26.6	25.0
	- Proportion of rural residents without access to clean water supplies	%	48	52	54	58	62

## 2. Balance of gross domestic products, accumulation and consumption

ID	Indicator	Unit	2001	2002	2003	2004	Est. impl. 2005
<b>1</b>	<b>Sources</b>	1,000 bil. VND	<b>755.1</b>	<b>867.7</b>	<b>1030.1</b>	<b>1250.9</b>	<b>1463.4</b>
	- GDP at the current price	"	481.3	535.8	613.4	715.3	838.5
	- Import	"	273.8	332.0	416.7	535.6	624.9
<b>2</b>	<b>Uses</b>						
	- Consumption	1,000 bil. VND	342.6	382.1	445.2	509.0	587.8
	<i>Of which: consumption by individuals</i>	"	<i>312.1</i>	<i>348.8</i>	<i>406.5</i>	<i>464.7</i>	<i>534.3</i>
	- Accumulation	"	150.0	178.0	217.4	258.0	322.9
	- Export	"	262.8	304.3	365.4	481.7	551.8
<b>3</b>	<b>Accumulation - consumption structure</b>						
	- Consumption	%	69.5	68.2	67.2	66.4	64.5
	- Accumulation	%	30.5	31.8	32.8	33.6	35.5
<b>4</b>	<b>In relations with GDP</b>						
	- Consumption	%	71.2	71.3	72.6	71.2	70.1
	- Accumulation	%	31.2	33.2	35.4	36.1	38.5
	- Savings	%	28.8	28.7	27.4	28.8	29.9

## 3. State budget revenue - expenditure balance

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
<b>A</b>	<b>Total revenue to state budget</b>	Bil. VND	<b>103,888</b>	<b>121,715</b>	<b>142,210</b>	<b>180,397</b>	<b>210,400</b>

	Rate of increase of revenue	%	14.48	17.16	16.84	26.85	16.63
1	Domestic revenue (excluding rude oil)	Bil. VND	52,626	61,375	74,333	96,464	115,000
	% of total	%	50.7	50.4	52.3	53.5	54.7
2	Revenue from rude oil	Bil. VND	26,281	26,510	32,077	46,721	55,500
	% of total	%	25,3	21,8	22,6	25,9	26,4
3	Other revenues	Bil. VND	24,981	33,830	35,800	37,212	39,900
	% of total	%	24.0	27.8	25.2	20.6	19.0
<b>B</b>	<b>Total expenditure from state budget</b>	Bil. VND	<b>129,773</b>	<b>148,208</b>	<b>176,322</b>	<b>209,024</b>	<b>258,470</b>
	Rate of increase of expenditure	%	16.41	14.21	18.97	18.55	23.7
1	Expenditure for development investment	Bil. VND	40,236	45,218	51,003	62,874	74,000
	% of total	%	31.0	30.5	28.9	30.1	28.6

(Cont.)

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
2	Recurrent costs	Bil. VND	71,562	78,039	95,489	116,346	132,395
	% of total	%	55.1	52.7	54.2	55.7	51.2
3	Expenditure for debt repayment, and aids	Bil. VND	14,943	19,823	24,760	29,404	34,775
	% of total	%	11.5	13.4	14.0	14.1	13.5
<b>C</b>	<b>Overspending from state budget</b>	Bil. VND	<b>23,553</b>	<b>25,598</b>	<b>29,670</b>	<b>34,750</b>	<b>40,750</b>
	% GDP	%	4.89	4.77	4.84	4.87	4.86

#### 4. Agriculture, forestry and fishery

ID	Indicator	Unit	2001	2002	2003	2004	Est. impl. 2005
1.	Rate of increase of production value	%	4.7	6.5	5.5	5.8	5.2
	<i>Of which:</i>						
	- Agriculture	%	2.6	6.2	4.5	4.3	4.1
	- Forestry	%	1.9	1.6	1.1	0.9	1.1

	- Fishery	%	16.4	8.8	10.9	13.0	10.4
<b>2.</b>	<b>Major products</b>						
	- Grain food crops	Million tons	34.3	37.0	37.7	39.5	40.0
	<i>Of which: + paddy</i>	Million tons	32.1	34.4	34.6	35.7	36.3
	+ maize	Million tons	2.2	2.5	3.14	3.83	3.7
	- Coffee	Thou. tons	840.6	700	794	836	860
	- Rubber	Thou. tons	313	298	364	419	455
	- Live meat of various types	Thou. tons	1.970	2.146	2.327	2.505	2.850
	- Concentrated afforestation	Thousand ha	191	190	181	184	200
	- Forest cover	%	34.1	35.2	36.1	37.0	37.8
	- Fishery and marine outputs	Thou. tons	2435	2650	2860	3140	3300
	- Area of aquaculture	Thousand ha	755	800	870	1050	1050
	- Irrigated area	Million ha	7.4	8.0	8.2	8.3	8.4

## 5. Industry

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
1	Rate of increase of production value	%	14.6	14.8	16.8	16.0	16.5
<b>2</b>	<b>Major products</b>						
	- Generated electricity	Bil. Kwh	30.6	35.8	40.8	46	52.4
	- Commercial electricity	Bil. Kwh	25.8	30.2	34.9	39.5	45.8
	- Exploited rude oil (including gases)	Mil. tons	18.6	18.9	20.6	26.3	25.2
	<i>Of which: rude oil</i>	Mil tons	16.8	16.8	17.7	20.5	18.5
	- Coal	Mil. Tons	12.9	16.3	19.6	26.3	30.5

- Rolled steel	Mil. Tons	1.9	2.4	2.8	2.9	3.3
- Chemical fertilizers (N, P, etc.)	Thousand tons	1070	1162	1305	1754	2250
- Cement	Mil. Tons	15.4	20.4	23.3	25.3	29
- Cloth	Mil. Metres	402	455	476	518	482
- Paper	Thousand tons	434	482	589	781	850
- Sugar	Kg/person	13.6	13.8	16.6	17.0	17.0
- Beer	Mil. Litres	817	899	1100	1160	1250
- Canned milk	Litre/person	6.4	6.8	8.0	8.5	9.0

## 6. Services

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
1	Rate of increase of total goods retail and revenue from services	%	11.3	14.5	10.5	18.2	20.7
2	Rate of increase of volume of transported goods	%	8.4	7.9	8.4	9.0	9.2
3	Rate of increase of volume of circulated goods	%	9.5	13.3	8.1	10.3	10.6
4	Rate of increase of number of transported passengers	%	5.7	6.0	29.6	7.2	7.8
5	Rate of increase of number of circulated passengers	%	10.2	8.3	11.2	11.1	11.4
6	Number of telephone set per 100 people	Set	5.5	6.9	9.0	12.6	17.1
7	Proportion of communes having access to telephone service	%	90.0	92.05	93.5	98.0	100.0
8	Number of visits by foreign tourists	Thousand	2,330	2,628	2,429	2,928	3,200
9	Number of visits by domestic tourists	Thousand	11,700	12,500	13,000	13,600	15,000

## 7. Import - export

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
<b>A</b>	<b>Export of goods</b>						
<b>1</b>	<b>Total export turnover</b>	Bil. USD	<b>15.0</b>	<b>16.7</b>	<b>20.15</b>	<b>26.5</b>	<b>31.8</b>
	<i>Rate of increase</i>	%	3.8	11.2	20.6	31.5	20.0
	<i>Of which:</i>						
	- Foreign invested enterprises (excluding rude oil)	Bil. USD	3.7	4.6	6.3	8.8	10.7
	- Foreign invested enterprises (including rude oil)	Bil. USD	6.8	7.9	10.2	14.5	18.5
	<b>Divided into:</b>						
	- Products of heavy industries and minerals	Bil. USD	5.2	5.3	6.5	9.0	11.7
	% of total export	%	34.9	31.7	32.2	34.0	36.8
	- Products of light, small and handicraft industries	Bil. USD	5.4	6.8	8.6	11.3	12.8
	% of total export	%	35.7	40.6	42.7	42.6	40.3
	- Agro-forestry and fishery products	Bil. USD	4.4	4.6	5.1	6.2	7.3
	% of total export	%	29.4	27.6	25.1	23.4	23.0
<b>2</b>	<b>Major lines of goods</b>						
	- Rice	Mil. Tons	3.7	3.2	3.8	4.1	4.5
	- Coffee	Thou. tons	931	722	749	975	850
	- Rubber	Thou. tons	308	455	432	513	520
	- Power lines and cables	Mil. USD	181	188	292	389	500
	- Tea	Thou. tons	68	75	59	99	80
	- Vegetable and fruits	Mil. USD	344	221	151	179	230
	- Cashew nut	Mil. USD	152	210	277	436	534
	- Black pepper	Mil. USD	91	110	105	153	131
	- Fishery products	Mil. USD	1816	2036	2200	2401	2650
	- Textile products	Mil. USD	1975	2732	3609	4386	4800
	- Footwear	Mil. USD	1587	1875	2261	2692	3000

	- Electronic goods spare parts	Mil. USD	709	605	855	1075	1400
	- Rude oil	Mil. tons	16.7	16.9	17.1	19.5	18.8
	- Fossil coal	Mil. tons	4.3	6.0	7.3	11.6	14.0
	- Wood products	Mil. USD	324.0	431.0	567.0	956.0	1.450

(Cont.)

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
<b>B</b>	<b>Import of goods</b>						
<b>1</b>	<b>Total import turnover</b>	Bil. USD	<b>16.2</b>	<b>19.7</b>	<b>25.2</b>	<b>32.0</b>	<b>37.3</b>
	<i>Rate of increase</i>	%	3.7	21.7	27.8	26.5	16.7
	<i>Of which: foreign invested enterprises</i>	Bil. USD	5.0	6.6	8.8	11.1	13.4
	<b>Divided into</b>						
	- Machinery, equipment and spare parts	Bil. USD	4.9	5.9	8.2	10.3	11.9
	<i>% of total import</i>	%	30,5	29,8	32,4	32,2	31,9
	- Raw materials and fuels	Bil. USD	10,0	12,3	15,4	19,7	23,0
	<i>% of total import</i>	%	61,5	62,4	61,2	61,5	61,7
	- Consumer goods	Bil. USD	1.3	1.6	1.6	2.0	2.4
	<i>% of total import</i>	%	7.9	7.9	6.4	6.3	6.4
<b>2</b>	<b>Major lines of goods</b>						
	- Petroleum	Mil. tons	9.1	10.0	10.0	11.1	12.3
	- Finished steel products	Mil. tons	2.1	2.7	2.7	2.9	3.4
	- Steel foils	Mil. tons	1.8	2.2	1.8	2.3	2.3
	- Cotton wool/cotton yarn of various types	Thou. tons	324	360	308	352	390
	- Car as a whole unit	Thou. units	28.3	29.4	20.8	22.6	18.5
	- Electronic and computer spare parts	Mil. USD	710	701	975	1.342	1.700
	- Medicine	Mil. USD	329	350	374	410	500

## 8. Education and training

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
1.	Number of kindergarteners	Thou. children	2,120	2,144	2,175	2,500	2,600

2.	Number of primary school pupils	Thou. pupils	9,311	8,841	8,350	7,800	7,500
3.	Number of secondary school students	Thou. students	6,253	6,498	6,538	6,700	6,600
4.	Number of tertiary school students	Thou. students	2,333	2,459	2,616	2,750	3,000
5.	New students in universities and colleges	Thou. students	250	282	300	320	346
6.	New students in professional high schools	Thou. students	148	166	194	250	267
7.	New students for vocational schools	Thou. students	887.3	1,005	1,074	1,153	1,181
8.	New post-graduate trainees	Thou. students	5.9	8.8	11.5	14.5	15.6
9.	Retrained staff	Thou. people	30	30	36	44	54
10.	Number of provinces achieving universal secondary education	Province			19	25	31

### 9. Labour, culture, health care and social activities

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
<b>A</b>	<b>Population</b>						
	Average population	Mil. people	78.68	79.72	80.90	82.03	83.16
	<i>Of which: rural population</i>	Mil. people	59	59.7	60.3	60.6	60.9
	Ratio: rural population / total population	%	75	74.3	74.7	73.9	73.2
<b>B</b>	<b>Labour</b>						
1	Number of working labourers in the economy	Mil. people	37.6	38.7	41.1	42.4	43.7
	Labour structure						
	- Agriculture, forestry and fishery	%	67.2	66.1	61.3	58.6	57.1
	- Industry and construction	%	12.6	12.9	15.7	17.4	17.9
	- Services	%	20.2	21	23	24	25
2	Proportion of trained labourers	%	16.8	18.7	21.2	22.5	25
3	Urban unemployment rate	%	6.3	6.0	5.8	5.6	5.5
4	Rate of using working	%	74.3	75.4	76.5	78.3	80

	time in rural areas						
5	Proportion of poor households	%	17.5	14.5	11.0	8.3	7
<b>C</b>	<b>Culture</b>						
1	Total number of published books	Mil. copies	270	280	290	332	350
	<i>Of which: common textbooks</i>	Mil. copies	155	165	198	198	200
2	Total published newspapers and magazines	Mil. copies	650	650	655	680	700
	<i>Of which: - Nhan Dan newspapers</i>	Mil. copies	110	120	140	140	150
3	Number of programming hours provided by the Radio Voice of Vietnam	Thou. hrs	46	47	49	49	49
4	Number of broadcasting hours provided by the Radio Voice of Vietnam	Thou. hrs	258	323	325	326	332
5	Proportion of households having access to services of the Radio Voice of Vietnam	%	92	93	93	94	95
6	Number of programming hours by Television of Vietnam	Thou. hrs	24.3	25.2	37.1	48.5	91.5
7	Number of broadcasting hours by Television of Vietnam	Thou. hrs	271.1	310	368	390	540
8	Proportion of households having access to Television of Vietnam	%	82	84	86	88	90
9	Number of feature films produced on orders	Film	11	12	13	14	15

(Cont.)

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
<b>D</b>	<b>Social and health care</b>						
1	Under-one mortality rate	‰	35	26	21	18	18
2	Under-five mortality rate	‰	42	35	33	32.8	30
3	Under-five malnutrition rate	%	32	30.1	28.4	26.6	25
4	Proportion of communes having health care	%	97.0	97.3	99	99	100

	stations						
5	Proportion of communal health care stations having medical doctors	%	56.1	>60	61	65.4	65.4
6	Total number of patient beds	Thou. beds	185.8	190	195	200	205
7	Number of patient beds per 10,000 thousand people	Patient bed	23.7	23.9	24.1	23.0	24.7

**10. Total social development investment capital, by sources (Current price)**

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
	Total	Thou. bil. VND	170.5	199.1	231.6	275	320
	% GDP	%	35.4	37.2	37.8	38.4	38.2
1	Investment capital from state budget	Thou. Bil. VND	45.6	49.6	55.5	69.1	74.0
	% of total	%	26.7	24.9	24.0	25.1	23.1
2	Investment credit	Thou. Bil. VND	28.7	31.9	29	30.0	30.0
	% of total	%	16.8	16.0	12.5	10.9	9.4
3	Investment by state owned enterprises	Thou. Bil. VND	27.7	31	31.6	39.7	50.0
	% of total	%	16.2	15.6	13.6	14.4	15.6
4	Investment by private sector and the public	Thou. Bil. VND	38.5	52.1	68.7	82.0	105.0
	% of total	%	22.6	26.2	29.7	29.8	32.8
5	FDI	Thou. Bil. VND	30	34.5	37.8	44.2	47.0
	% of total	%	17.6	17.3	16.3	16.1	14.7
6	Other sources	Thou. Bil. VND			9	10.0	14.0
	% of total	%			3.9	3.6	4.4

**11. Total social development investment capital for period 2001-2005, by economic sectors (Current price)**

ID		Unit	2001	2002	2003	2004	Est. 2005
	<b>Total</b>	Thou. bil. VND	170.5	199.1	231.6	275.0	320.0
<b>I</b>	<b>Economic sectors</b>	Thou. bil. VND	119.5	139.4	161.9	192.2	224.0
	<i>% of total</i>	%	70.1	70.0	69.9	69.9	70.0
1	Agriculture, forestry and fishery	Thou. bil. VND	23.2	27.1	31.3	36.6	44.2
	<i>% of total</i>	%	13.6	13.6	13.5	13.3	13.6
2	Industry and construction	Thou. bil. VND	75.4	88.2	102.8	122.7	140.0
	<i>% of total</i>	%	44.2	44.3	44.4	44.6	44.2
3	Transport, transportation, post services	Thou. bil. VND	21.0	24.1	27.8	33.0	39.8
	<i>% of total</i>	%	12.3	12.1	12.0	12.0	12.2
<b>II</b>	<b>Social areas</b>	Thou. bil. VND	45.0	53.0	62.3	74.5	87.7
	<i>% of total</i>	%	26.4	26.6	26.9	27.1	27.4
1	Housing, public utilities, water supply, services	Thou. bil. VND	22.5	26.1	30.6	36.3	42.1
	<i>% of total</i>	%	13.2	13.1	13.2	13.2	13.2
2	Science, technology, basic/environmental investigations and surveys	Thou. bil. VND	2.2	2.6	3.2	3.9	4.2
	<i>% of total</i>	%	1.3	1.3	1.4	1.4	1.3
3	Education and training	Thou. bil. VND	6.6	8.0	9.5	11.6	13.8
	<i>% of total</i>	%	3.9	4.0	4.1	4.2	4.3
4	Social and health care	Thou. bil. VND	3.6	4.4	5.3	6.6	8.0
	<i>% of total</i>	%	2.1	2.2	2.3	2.4	2.5

5	Culture, information and sports	Thou. bil. VND	3.9	4.6	5.1	6.1	7.4
	% of total	%	2.3	2.3	2.2	2.2	2.3
6	State governance, national defence and security	Thou. bil. VND	6.1	7.4	8.6	10.2	12.2
	% of total	%	3.6	3.7	3.7	3.7	3.8
<b>III</b>	<b>Other sectors</b>	<b>Thou. bil. VND</b>	<b>6.0</b>	<b>6.8</b>	<b>7.4</b>	<b>8.2</b>	<b>8.3</b>
	% of total	%	3.5	3.4	3.2	3.0	2.6

## 12. Added capacities in economic sectors, period 2001-2005

ID	Indicator	Unit	Added capacity
<b>A</b>	<b>Economic sectors</b>		
<b>1</b>	<b>Agriculture</b>		
	Irrigation/drainage		
	- Irrigation and bulk water supply	Thousand ha	300
	- Drainage	Thousand ha	146
	- Salinity intrusion prevention	Thousand ha	226
	Forestry		
	- New plantations	Thousand ha	949
<b>2</b>	<b>Industry</b>		
	Electric sector (installed capacity)	MW	4863
	- Hydropower	MW	720
	- Thermo power (coal)	MW	800
	- Thermo power (gases)	MW	3343
	- Diesel	MW	
	Coal sector		
	- Exploited clean coal	Mil. tons	15.4
	Chemical fertilizers		
	- Urea	Mil. tons	760
	- NPK	Mil. tons	1300
	Rude oil	Mil. tons	2.2
	Gases	Bil. m3	5.1
	(Rolled) steel	Thousand tons	2390
	Cement	Mil. tons	10.1

<b>3</b>	<b>Transport and transportation</b>		
	Road transport		
	- National roads	Km	4575
	- Local roads (new construction, rehabilitation)	Km	65,004
	- Road bridge	M	
	Railroads		
	- Length of upgraded railroads	Km	380
	Navigation		
	- Clearance capacity of ports	Thousand tons	17,200
	Sea transport		
	- Clearance capacity of sea ports	Thousand tons	23,400

(Cont.)

ID	Indicator	Unit	Added capacity
	Airways		
	- Clearance capacity	Mil. passengers / year	8
<b>4</b>	<b>Trade and tourism</b>		
	- Number of hotel rooms	Room	26,488
<b>B</b>	<b>Social areas</b>		
	- Tap water capacity per 24 hours	Mil. m <sup>3</sup>	1.8
	- Volume of treated waste water	Thousand m <sup>3</sup>	
	- Number of research staff	Thousand people	
	- Number of medical doctors	Thousand people	10
	- Export of computer software	Mil. USD	200
	- Number of vocational schools	School	94

### 13. Implementation status of state-owned enterprises (soes) re-organization

ID	Indicator	2001	2002	2003	2004	Est. 2005
1	Enterprises privatized	205	164	532	753	600
2	Enterprises handed-over	18	34	51	24	12
3	Enterprises sold	16	17	24	19	18
4	Enterprises merged	85	83	154	68	30

5	Enterprises amalgamated	34	44	48	7	10
6	Enterprises dissolved	22	27	50	35	25
7	Enterprises going bankrupt		2	4	12	12
8	Enterprises transformed to 1-member limited companies			14	41	55
9	New establishments		37	18	12	12

**14. Summary of business registration status in non-state owned enterprises**

ID	Indicator	Unit	2001	2002	2003	2004	Est. 2005
	<b>Total number of newly registered enterprises</b>	Enterprise	19,773	21,523	27,751	36,795	38,144
	<b>Total registered capital</b>	Bil. VND	25,610	38,422	57,965	75,125	96,756
1	Private enterprises						
	- Number	Enterprise	7,100	6,532	7,813	10,283	8,443
	- % of total	%	35.9	30.3	28.2	27.9	22.1
2	Limited companies						
	- Number	Company	11,121	12,627	15,781	19,943	21,622
	% of total	%	56.2	58.7	56.9	54.2	56.7
3	Shareholding companies						
	- Number	Company	1550	2305	4058	6438	7840
	- % of total	%	7.8	10.7	14.6	17.5	20.6
4	Partnership						
	- Number	Company	2	0	1	7	9
	- % of total	%	0.01		0.004	0.02	0.02
5	1-member limited companies						
	- Number	Company	0	59	98	124	230
	- % of total	%		0.27	0.35	0.34	0.60

**15. Major indicators of foreign invested enterprises, period 2001 - 2005**

Indicator	Unit	2001	2002	2003	2004	Est. 2005
1. Implemented investment capital						
- Value	Mil. USD	2,460	2,591	2,651	2,851	3,100

- Rate of increase	%	1.0	5.3	2.3	7.5	8.7
2. Revenue						
- Value	Mil. USD	10,05	12,527	16,000	18,000	20,000
- Rate of increase	%	4.0	20.4	27.7	12.5	11.1
3. Export						
- Value (excluding rude oil)	Mil. USD	3,673	4,602	6,340	8,816	10,800
- Rate of increase	%	11.0	25.3	37.8	39.1	22.5
4. Import						
- Value	Mil. USD	4,984	6,619	8,815	11,085	13,700
- Rate of increase	%	15.0	32.8	33.2	25.8	23.6
5. Contributions to state budget						
- Value	Mil. USD	373	459	628	800	1130
- Rate of increase	%	15.0	23.1	36.8	27.4	41.3
6. Use of labour (at the end of reporting term)						
- Number of labourer	Thou. people	450	590	686	759	860
- Rate of increase	%	19.0	31.1	16.3	10.6	13.3
7. Registered capital						
- Value	Mil. USD	3,258	2,805	3,128	4,222	4,700
- Rate of increase	%	23.0	-13.90	11.5	35.0	11.3

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