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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED CREDIT

IN THE AMOUNT OF SDR 99.3MILLION
(US\$150.0 MILLION EQUIVALENT)

TO

THE SOCIALIST REPUBLIC OF VIETNAM

FOR A

NINTH POVERTY REDUCTION SUPPORT CREDIT

May 25, 2010

Poverty Reduction and Economic Management Department
Vietnam Country Management Unit
East Asia and Pacific Region

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VIETNAM - GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

Exchange Rate Effective as of April 6, 2010

Currency Unit = Vietnamese Dong

US\$1.00 = 18,544

ABBREVIATIONS AND ACRONYMS

ASEAN	Association of South East Asian Nations	SAV	State Audit of Vietnam
CFAA	Country Financial Accountability Assessment	SBV	State Bank of Vietnam
CPAR	Country Procurement Assessment Review	SDR	Special Drawing Rights
CPRGS	Comprehensive Poverty Reduction and Growth Strategy	SEDP	Socio-Economic Development Plan
CPS	Country Partnership Strategy	SFE	State Forestry Enterprise
DA	Deposit Account	SME	Small and Medium Enterprise
DPL	Development Policy Lending	SOCB	State-Owned Commercial Bank
FDI	Foreign Direct Investment	SOE	State-Owned Enterprise
GDP	Gross Domestic Product	SSC	State Securities Commission
GSO	General Statistics Office	VASS	Vietnam Academy of Social Sciences
HCMC	Ho Chi Minh City	VDR	Vietnam Development Report
IBRD	International Bank for Reconstruction and Development	VHLSS	Vietnam Household Living Standards Survey
ICR	Implementation Completion Report	VSS	Vietnam Social Security
IDA	International Development Association	WTO	World Trade Organization
IEG	Independent Evaluation Group		
IFC	International Finance Corporation		
ILSSA	Institute of Labor, Science and Social Affairs		
IMF	International Monetary Fund		
IPSAS	International Public Sector Accounting Standards		
LDP	Letter of Development Policy		
LUC	Land-Use Certificate		
MARD	Ministry of Agriculture and Rural Development		
MDG	Millennium Development Goals		
MOET	Ministry of Education and Training		
MOF	Ministry of Finance		
MOH	Ministry of Health		
MOIT	Ministry of Industry and Trade		
MOJ	Ministry of Justice		
MOLISA	Ministry of Labor, War Invalids, and Social Affairs		
MONRE	Ministry of Natural Resources and Environment		
MPI	Ministry of Planning and Investment		
NGO	Non-Governmental Organization		
NTP	National Targeted Program		
PER-IFA	Public Expenditure Review - Integrated Fiduciary Assessment		
PPP	Public-Private Partnership		
PRSC	Poverty Reduction Support Credit		
QEA	Quality at Entry Assessment		
ROC	Regional Operations Committee		

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SOCIALIST REPUBLIC OF VIETNAM

NINTH POVERTY REDUCTION SUPPORT CREDIT (PRSC 9)

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CREDIT AND PROGRAM SUMMARY

VIETNAM

NINTH POVERTY REDUCTION SUPPORT CREDIT (PRSC 9)

Borrower	The Socialist Republic of Vietnam
Implementing Agency	The State Bank of Vietnam
Financing Data	SDR 99.3 million (US\$150.0 million equivalent). Standard IDA terms for blend countries: 35 year maturity with a 10-year grace period.
Operation Type	A Ninth Poverty Reduction Support Credit (PRSC 9), as the fourth operation in a cycle aimed at implementing Vietnam's Socio-Economic Development Plan (SEDP) 2006-2010, approved in June 2006.
Main Policy Areas	<p>The present operation provides continuing support to Vietnam's reform program. The current cycle of PRSCs is a vehicle for the World Bank, and the international partner community more broadly, to support a country that is emerging from the effects of the global financial crisis and has a track record of economic growth and poverty reduction. It also recognizes the government's efforts to pursue and deepen reforms.</p> <p>The proposed operation comprises policy actions in areas such as state-owned enterprise reform, financial sector reform, public financial management, the social sectors, natural resources management, public administration and legal development. This comprehensive program, with the same broad coverage as the SEDP 2006-2010, provides the foundation for sustained growth, social inclusion, environmental sustainability and improved governance.</p> <p>The preparation of the proposed operation, like previous operations in this cycle, has helped improve the content of strategically important policy actions, to ensure the timeliness of their adoption, and to monitor the impact of the overall program on broader development outcomes. This support is all the more important given that this could be the last cycle of general budget support operations on concessional terms, hence providing an exceptional window for high-level policy access in a country that is not aid-dependent.</p>
Key Outcome Indicators	Outcome indicators were identified at the beginning of this PRSC cycle, together with targets for 2011, in the Program Document for PRSC 6 approved by the Board in June 2007. The indicators cover the four pillars of the program (economic, social, environmental and institutional). A mid-term evaluation of progress towards attaining the objectives was completed during the preparation of this operation.
Program Development Objectives and Contribution to CAS	The Country Partnership Strategy (CPS) submitted to the Board in January 2007 concluded that the SEDP of the government incorporated the necessary poverty reduction principles, was broadly sound and was a plan that could both deliver growth and reduce poverty. The CPS defines the

	<p>PRSC as one of the modalities to support the implementation of SEDP. The Program Document for PRSC 6 charts the second cycle of PRSC operations (PRSCs 6-10). The CPS allocates US\$ 150 million to each of the PRSCs in this cycle. In practice, the amount for PRSC 6 was US\$ 175 million, PRSC 7 was US\$150 million, and PRSC 8 was US\$ 350 million, approved under the Fast Track Facility in 2009. The PRSC 8 amount was increased in response to the government’s request to support the fiscal stimulus package. The CPS Progress Report was prepared and presented to the Board in December 2009.</p>
<p>Risks and Risk Mitigation</p>	<p>The risk of macroeconomic turbulence, especially those related to balance of payments and debt sustainability, continues to exist. If the authorities do not succeed in convincing the market of their determination to pursue macroeconomic stability, inflation pressure may continue, and along with it, the downward pressure on the dong. On the other hand, if the market becomes exuberant about Vietnam’s potential, it could reignite large capital inflows causing the economy to overheat again. The authorities are aware of the risks and are monitoring developments in the economy. The Bank is engaged with the government in on-going discussion on both informal and formal basis, jointly with the IMF. An ongoing technical assistance project helps strengthen capacity for managing public finance and debt. The dialogue carried out through PRSC series seeks to enhance the quality and effectiveness of financial sector regulation and supervision, and to enhance information disclosure.</p> <p>Probably a higher risk is that the pace of reforms will slow because of the leadership’s preoccupation with maintaining macroeconomic stability and with the Party Congress in 2011, a major political event in the country. The aim of this operation is to keep the momentum for the medium-term reform agenda. State sector reform is tackled from several different angles to this effect, including the recommendation to ensure transparency and competition when the state equitizes its assets, and separating the exercising of state ownership rights from the regulator function. Reforms in advancing gender equality, including female participation in elected bodies were also pursued in this operation.</p> <p>The longer term risk is that Vietnam will fail to address governance issues in a systematic and fundamental way. Accountability, especially downwards, access to information, checks and balances are challenges for all countries at varying levels, and Vietnam needs to continue decisively down the path on which it has embarked. As the Vietnam Development Report 2010 <i>Modern Institutions</i> has shown, improving governance requires increasing transparency at various levels. This area receives special attention in the proposed operation, including actions to improve transparency in public administration, informing the public of court judgments, and strengthening the audits of government operations.</p>
<p>Operation ID</p>	<p>P111182</p>

**IDA PROGRAM DOCUMENT FOR A
PROPOSED NINTH POVERTY REDUCTION SUPPORT CREDIT
TO THE SOCIALIST REPUBLIC OF VIETNAM**

I. INTRODUCTION

1. Emerging from massive poverty at the launching of *Doi Moi* in 1986, Vietnam is now on the verge of becoming a middle-income country. There was a noticeable acceleration, starting around 2001, in the government's drive towards relying on market mechanisms, building a multi-stakeholder economy and further integrating with the region and the world. Over these years, comprehensive economic reforms have led to rapid economic growth and remarkable progress on poverty reduction and other development outcomes. The share of the population living below the poverty line fell by nearly half; from 28.9 percent in 2002 to only 14.5 percent by 2008. Many of the remaining poor are from disadvantaged groups (e.g. ethnic minorities) or live in more isolated regions. Attaining middle-income status is seen as more than a threshold level of GDP per capita, but as a way to emphasize the need for a set of modern institutions. It entails further financial deepening to support capital mobilization, the regulation of access to and pricing of infrastructure services, the gradual development of modern social insurance, more effective tools for environmental protection, legal and judiciary reforms, and the effective governance, among others. The Socio-Economic Development Plan (SEDP) 2006-2010¹ approved in June 2006, articulates this vision.

2. The proposed credit is the fourth in a five-year cycle aimed at supporting the implementation of the SEDP. This cycle follows the first one of five operations (PRSCs 1-5). Poverty Reduction Support Credits are well-suited to address the challenges mentioned above. The cross-cutting nature of the policy dialogue they support strengthens coordination among line ministries and government agencies. Their emphasis on a selected number of policy actions facilitates an in-depth discussion of their content. The annual programming is demanding, but provides the government with predictability for planning purposes, and also helps maintain the reform momentum.

3. The PRSCs are designed to be forward-looking. The negotiation of each PRSC operation includes an agreement on a list of policy measures that will, in principle, be supported by the following operation. These policy measures, or "triggers," are based on the SEDP 2006-2010 as well as other key documents and strategies, and are considered to have strategic importance to attain the SEDP objectives. The ten or so triggers included in each operation are not conditions. It is understood that some triggers may not be fully met while others may be exceeded. In addition to the "triggers," the policy dialogue conducted under PRSCs addresses a broader set of issues, articulated as "benchmarks." These benchmarks are reported for the purpose of conveying the scope of the reforms being implemented, and are not conditions.

4. The two PRSC cycles have served as a platform for aid coordination. The PRSCs 6-8 had 10-11 co-financiers and more development partners participating in policy dialogue areas where they have comparative advantage. The proposed operation is expected to have 9 co-financiers; some of the co-financiers have started to phase out their aid program, as Vietnam moves out of the low-income country status; some donors experienced changes in policy orientations in their capitals. A single policy matrix is used by all participating partners. Indeed, the relatively large number of benchmarks is justified by the committed participation in the PRSC process of close to two dozen government ministries and agencies and more than a dozen development partners.

¹ *Kế hoạch Phát triển Kinh tế - Xã hội 5 năm 2006-2010* (Socio-Economic Development Plan 2006-2010), attachment to Government Resolution No. 25/2006/NQ-CP, dated October 9, 2006.

5. As this PRSC cycle draws close to the end, the Government of Vietnam and development partners have approached the World Bank to discuss possible successor operations to PRSC. The form of such operations is still under discussion, but one possibility is an overarching instrument, which is focused on macroeconomic and a few cross-cutting issues, accompanied with more in-depth sectoral development policy operations, which would drill down to second generation reforms. A preparatory study is currently underway for this purpose. The World Bank is committed to providing assistance in a broad spectrum of areas, including social sectors, even as the country joins the ranks of middle-income countries. Studies of other countries' experiences and in-depth analysis of debt management and sustainability are currently conducted jointly with the government so as to find the best partnership strategy for the country for the coming years.

II. COUNTRY CONTEXT

RECENT ECONOMIC TRENDS

6. *Global crisis and its effects.* The 2008-09 global financial crisis led to a slowdown of economic growth in Vietnam. International commodity prices declined in the third quarter of 2008, export orders for garments and other main industrial products collapsed in the fourth quarter, and a slowdown in manufacturing became noticeable. The impact was acute in the first quarter of 2009, when GDP increased only by 3.1 percent compared with the same period in 2008, more than 4 percentage points below the historic trend.

7. The global financial crisis was the latest in a series of major external shocks. In late 2007 and early 2008, in the aftermath of its accession to the World Trade Organization (WTO), Vietnam was confronted with massive capital inflows. Attempts to sterilize them were inadequate to prevent a boom in banking credit, an acceleration of inflation, a ballooning trade deficit and asset price bubbles. The bubbles were amplified by sizeable infrastructure investments by central and provincial governments. The investment decisions of large state-owned enterprises (SOEs) and "Economic Groups,"² which took advantage of their access to finance to diversify into booming sectors, contributed to fanning the flames. The impact of overheating was further aggravated by the surge in the international prices of food and energy in early 2008.

8. *Government responses.* The government responded to the overheating with a stabilization package. In March 2008, it adopted the "eight groups of measures" to bring inflation down and reduce the trade deficit. This package combined the tightening of banking credit, enhanced supervision of vulnerable banks, postponement of non-urgent public investment projects, modest cuts in recurrent government expenditures, and temporary interventions in international trade. The (unofficial) crawling peg of the dong to the US dollar was not abandoned, but the floatation band was broadened.

² "Economic Groups" are groups of enterprises each with distinct legal status, which are bound together through mutual investments, capital contribution, merger, acquisition, reorganization or other forms of affiliation; share common long-term economic interests, technology, market and/or business services; and constitute a consolidated business entity in which the enterprises are organized into two or more levels, as parent companies and subsidiaries, as set forth in the Enterprise Law of 2005 and Decree 139 of September 5, 2007.

TABLE 1: KEY ECONOMIC INDICATORS

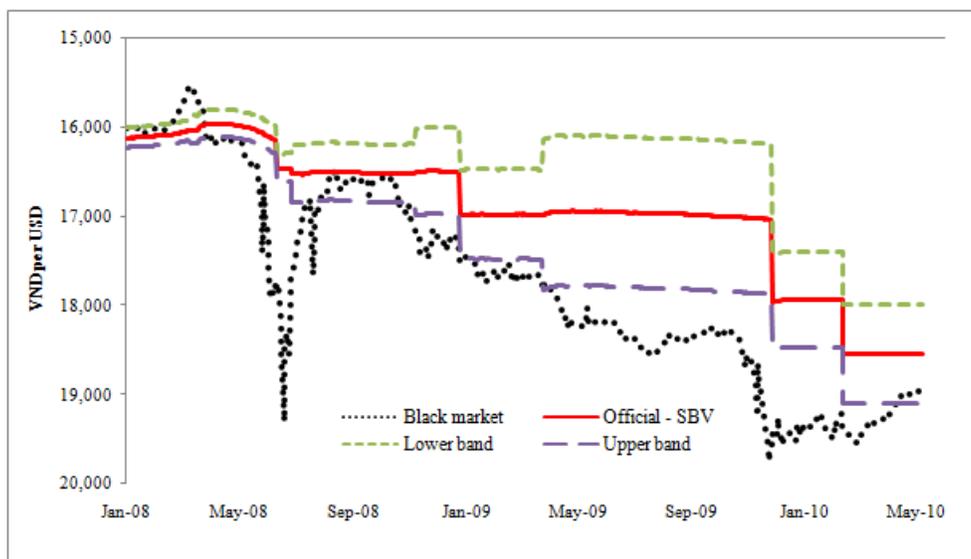
	2007	2008	2009 e/	2010 f/	2011 f/	2012 f/	2013 f/
Output, Employment and Prices							
GDP (% change previous year)	8.5	6.2	5.3	6.5	7.0	7.5	7.5
Industrial production index (% change, previous year)	16.7	13.9	7.6	12.5	14.5	15.0	15.0
Unemployment rate (% , urban areas)	4.6	4.7	4.6	4.0	3.5	3.5	3.5
Consumer price index (% change, period-end)	12.6	19.9	6.5	9.9	7.5	6.5	6.0
Fiscal Balance (in percent of GDP)							
Official fiscal balance	-0.7	-1.2	-5.1	-1.7	-0.9	-0.3	-0.1
Overall fiscal balance (including off-budget items)	-1.9	-3.7	-8.9	-5.9	-4.8	-4.1	-3.8
Foreign Trade, BOP and External Debt							
Trade balance (BOP definition, US\$ million)	-10.4	-12.8	-8.3	-9.8	-10.3	-10.4	-10.6
Exports of goods, (US\$ billion, fob)	48.6	62.7	57.1	65.7	77.0	90.5	106.3
Exports of goods (% change, previous year)	21.9	29.1	-8.9	15.0	17.3	17.5	17.5
Imports of goods, (US\$ billion, fob)	58.9	75.5	65.4	75.5	87.3	100.9	116.9
Imports of goods (% change, previous year)	38.3	28.1	-13.3	15.4	15.6	15.6	15.9
Current account balance (US\$ billion)	-7.0	-10.8	-7.4	-9.4	-9.5	-9.2	-8.9
Current account balance (in percent GDP)	-9.8	-11.9	-8.0	-9.1	-8.1	-7.0	-6.0
Foreign direct investment (BOP net inflows, US\$ billion)	6.6	9.1	6.9	7.6	7.9	8.5	9.2
Total external debt (US\$ billion)	23.0	27.9	32.1	38.9	44.1	50.6	57.2
Total external debt (in percent of GDP)	32.4	30.9	34.4	37.6	37.9	38.5	38.6
Debt service ratio (% exports of goods & services)	6.2	16.4	12.7	13.1	13.4	13.5	13.8
Financial Markets							
Credit to the economy (% change, period-end)	53.9	25.4	37.7	25.0	25.0	23.0	20.0
Short-term interest rate (3-M deposits, period-end)	7.8	8.1	10.7	---	---	---	---
Stock market - VN index (Jul 2000 =100)	927	316	494.8	---	---	---	---

Source: General Statistics Office, State Bank of Vietnam, IMF and World Bank. e = estimate, p = projections.

9. In the fall of 2008, when the policy response was beginning to work, the government had to change gear from stabilization to stimulus, as the effects of the global financial crisis on Vietnam became evident. In November 2008, the “five groups of measures” aimed at supporting economic activities were announced. This time, the package included cuts and deferrals in payments of corporate and personal income tax as well as in value-added tax for small and medium enterprises. It also included a small program of cash transfers to poor households for the occasion of the Lunar New Year. Other measures followed in February 2009, including a short-term interest rate subsidy scheme for working capital, which was *de facto* used to re-finance enterprise debts contracted on very onerous

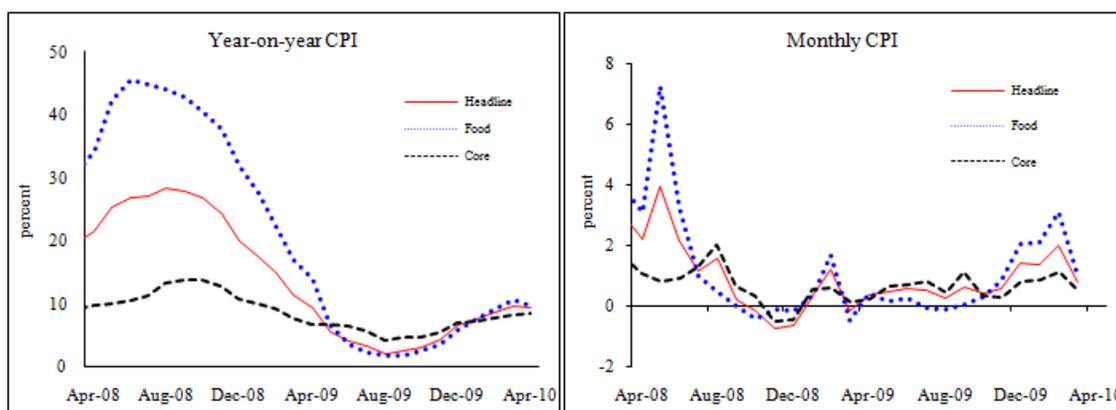
terms during the stabilization period. This scheme turned out to be instrumental in keeping credit flowing to the economy, and prevented financial distress in the corporate sector.

FIGURE 1: RECENT MOVEMENTS OF DONG



Source: SBV and World Bank.

FIGURE 2: INFLATION DOWN TO SINGLE DIGITS



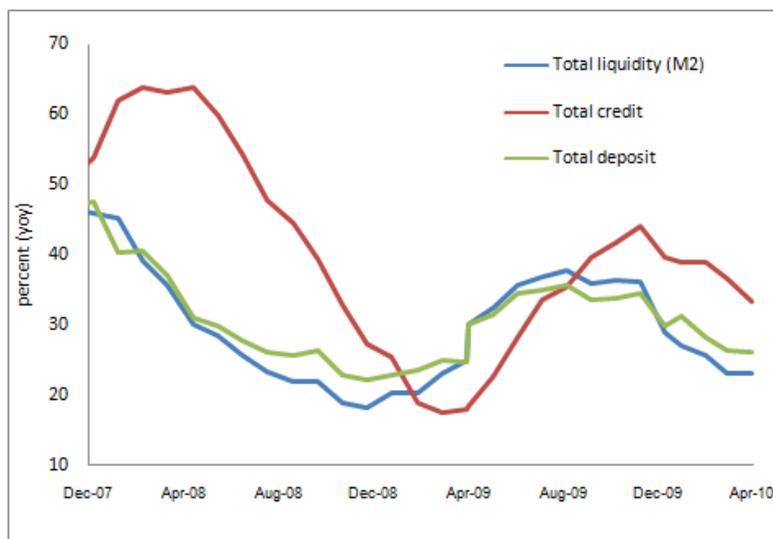
Source: GSO.

10. *Inflation*, which peaked around the summer of 2008, had been declining steadily until the summer of 2009. In the second half of 2009, however, the trends reversed (Figure 2) as the expansionary monetary policy during the stimulus period has led to rapid credit growth, which reached 39.6 percent at end 2009 (Figure 3), above the target of 30 percent for 2009. Inflationary pressures were one of the reasons for which market participants shifted their portfolio from dong-based to foreign currency-based assets. Towards the end of 2009, the government shifted gears once again to balance the stimulus and macroeconomic stability objectives.

11. Since November 2009, the base rate was raised from 7 to 8 percent, the dong was devalued twice by a total of approximately 9 percent, and the floatation band was narrowed from ± 5 percent to ± 3 percent. The interest rate subsidy scheme for working capital was terminated in December 2009 as originally planned, further contributing to monetary policy tightening. The cap on lending rates in dong for medium to long term borrowing was *de facto* removed, allowing flexible interest rates to

allocate resources better and to entice households to shift some of their assets from dollar-based to dong-based assets, contributing to a smoother operation of the foreign exchange market.

FIGURE 3: KEY MONETARY AGGREGATES
(YOY CHANGE IN PERCENT)



Source: SBV.

12. *Economic Performance.* For 2009, GDP growth was respectable 5.3 percent, helped in part by the stimulus package. Growth in the last quarter of 2009 was particularly strong, reaching 6.9 percent (year on year). Construction and services, two sectors buoyed by domestic demand, led the recovery, while agriculture and manufacturing sectors still grew below the historic trend. The first has been affected by unfavorable weather conditions in 2009 while the second was hit very hard by the effects of the global financial crisis in the developed countries.

13. *Government Budget.* The government's overall fiscal deficit is estimated to have been 8.9 percent of GDP in 2009, substantially above those of previous years, as the stimulus package came on top of an already expansionary budget plan. In addition to the measures adopted to stimulate economic activities, the fall in oil prices and the slowdown in economic activities have resulted in a decline in the government revenue. This decline was partially offset in the second half of 2009, as both international commodity prices and domestic economic activities became more buoyant.

14. *External sector.* The external balance held up reasonably well during 2009 despite the global crisis. Vietnamese exports declined by 8.9 percent in 2009 from 2008. The decline was less than in most other developing countries, but made 2009 the first year with negative export growth since the beginning of Vietnam's economic reforms in 1987. The decline would have been larger if the sizeable gold exports of early 2009 were not included. An even more dramatic decline in imports, by 13.3 percent, succeeded in reducing the trade deficit. Despite the faster recovery of imports than exports in the last months of 2009, and the decline in remittances from abroad, the current account deficit decreased to 8.0 percent of GDP in 2009, down from 11.9 percent in 2008. FDI inflows are down, but Official Development Assistance (ODA) increased in 2009, resulting in an estimated capital account surplus of around 11.5 percent of GDP in 2009.

15. Even though the capital account surplus was sufficient to cover the current account deficit, international reserves appeared to have declined in 2009, reversing the recent trend of slow accumulation. The increasing demand for foreign exchange by importers and the market expectations of dong devaluation led to a shortage of foreign exchange, which was particularly severe in May-July 2009, and again in November. Economic Groups were among the entities holding on to their foreign

currency earnings. The uncertainty regarding the level of international reserves also encouraged a precautionary demand for and hoarding of gold and hard currency. These developments resulted in depreciation pressures on the exchange rate, with the dong trading at the weaker end of the floatation band for an extended period, and the spread between interbank and parallel exchange rates widening to between 3 and more than 10 percent at various times (Figure 1).

TABLE 2: GOVERNMENT BUDGETARY OPERATIONS
(PER CENT OF GDP)

	2007	2008	2009 e/	2010 f/	2011 f/	2012 f/	2013 f/
Total revenue and grants	28.7	28.1	26.7	26.9	28.1	28.6	28.4
Revenue (excluding grants)	28.1	27.6	26.3	26.7	27.8	28.3	28.1
Tax revenue	23.5	24.2	22.3	22.8	23.9	24.3	24.2
Oil revenues	6.9	6.0	3.6	3.6	3.8	3.7	3.5
Non-oil tax revenues	16.6	18.2	18.7	19.2	20.1	20.7	20.7
Non-tax and capital revenues	4.7	3.4	4.0	3.9	3.9	4.0	3.9
Grants	0.5	0.5	0.4	0.3	0.3	0.3	0.3
Official expenditure	29.4	29.2	31.7	28.6	29.0	28.9	28.4
Current	20.3	20.1	20.9	21.7	21.9	21.8	21.5
Development	9.1	9.2	10.9	7.0	7.1	7.1	6.9
Official fiscal balance	-0.7	-1.2	-5.1	-1.7	-0.9	-0.3	-0.1
Other expenditures	1.2	2.5	3.9	4.2	3.9	3.8	3.7
Off-budget expenditure	1.5	1.8	2.8	2.4	2.4	2.4	2.3
ODA onlending	-0.3	0.7	0.5	1.4	1.5	1.4	1.4
Interest rate subsidy cost			0.6	0.4			
Total expenditure	30.6	31.7	35.6	32.9	32.9	32.7	32.1
Overall fiscal balance	-1.9	-3.7	-8.9	-5.9	-4.8	-4.1	-3.8
Financing	1.6	2.9	8.7	5.9	4.8	4.1	3.8
Foreign (net)	1.6	1.7	3.6	3.3	3.7	3.4	2.8
Domestic (net)	0.1	1.2	5.1	2.6	1.1	0.7	0.9

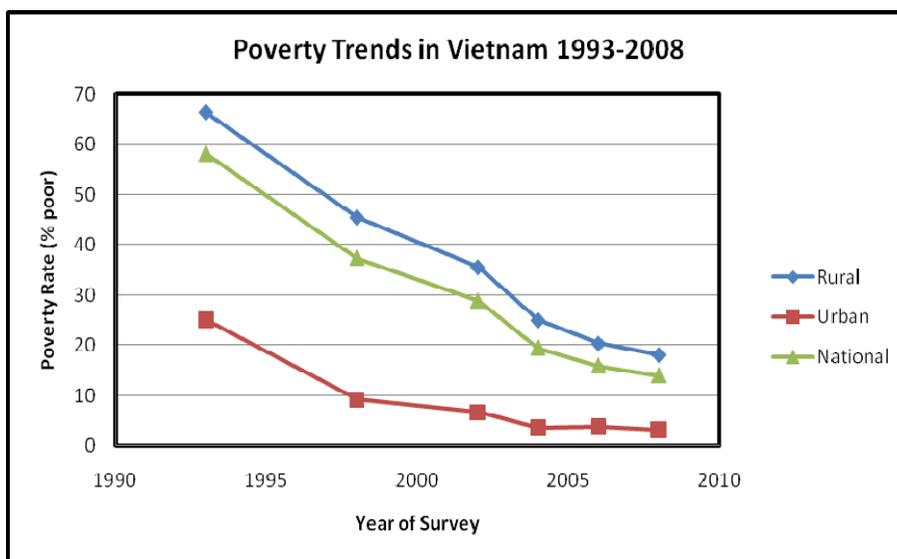
Source: Ministry of Finance (MOF), IMF and World Bank staff estimates.

16. *The Banking Sector.* The banking sector was adversely affected by the succession of asset price bubbles, monetary tightening and growth slowdown. The real estate bubble of end-2007 and its subsequent bursting in early 2008 made it difficult for several commercial banks to recover their loans; the rapid disinflation in late 2008, at a time when interest rates were still very high, substantially increased the debt service burden faced by enterprises because of the rapid rise in real interest rates. During the stabilization phase of late 2007-early 2008, the SBV upgraded its supervision efforts, and in parallel, raised minimum capital requirements. By the end of 2008 all commercial banks, including the nine small joint stock banks that seemed most vulnerable, had met the new requirements. This process continues, with the minimum charter capital set at 3 trillion dong (about \$150 million at today's exchange rate) by end 2010. All banks need to submit plans on how they will meet this target no later than June 2010. Banks which fail to meet this requirement will be forced to merge with other larger banks, or will have their business licenses revoked.

17. The fraction of bad debt (calculated based on days in arrears) for the banking sector was on the rise until mid-2009 (generally a few percentage points), but has started to decline more recently. Non Performing Loans (NPLs), calculated using international standards based on borrower risks, would be at a much higher level (2-3 times higher), but are not known with certainty. In the absence of the interest subsidy scheme, rapidly changing inflation and interest rates combined with weak orders due to the global financial crisis would have resulted in an even more substantial deterioration of bank portfolios. The increase in bad loans came after an overall improvement in the quality of lending as a result of several years of efforts by the State-owned Commercial Banks (SOCBs) to clean their portfolios in preparation for equitization. The recent reversal of this trend of increasing bad loans suggests that the gradual recovery of economic activities is helping enterprises cope with their financial obligations.

18. *Poverty Reduction.* Poverty has fallen rapidly in Vietnam, from 58.1 percent of the population in 1993, to 28.9 percent in 2002, and only 14.5 percent by 2008, the last year for which comparable poverty estimates are available.³ (Figure 4) Inequality remains low, although poverty has become increasingly concentrated in rural areas and among certain social groups (*viz.* ethnic minority populations). There are growing concerns about poverty and living conditions in Vietnam’s cities and peri-urban areas due to high rates of urban population growth (including a heavy influx of migrant workers), excess demand for urban services, and a continuing rise in the cost of living. Urban poverty is back on the development agenda. Regional differentials also continue to be important. Poverty levels vary substantially across regions. Poverty headcounts are highest in the mountainous and more isolated Northwest region, as well as in the North East and the Central Highlands. All regions have witnessed progress in recent years (Figure 5) although disparities remain.

FIGURE 4: POVERTY TRENDS IN VIETNAM



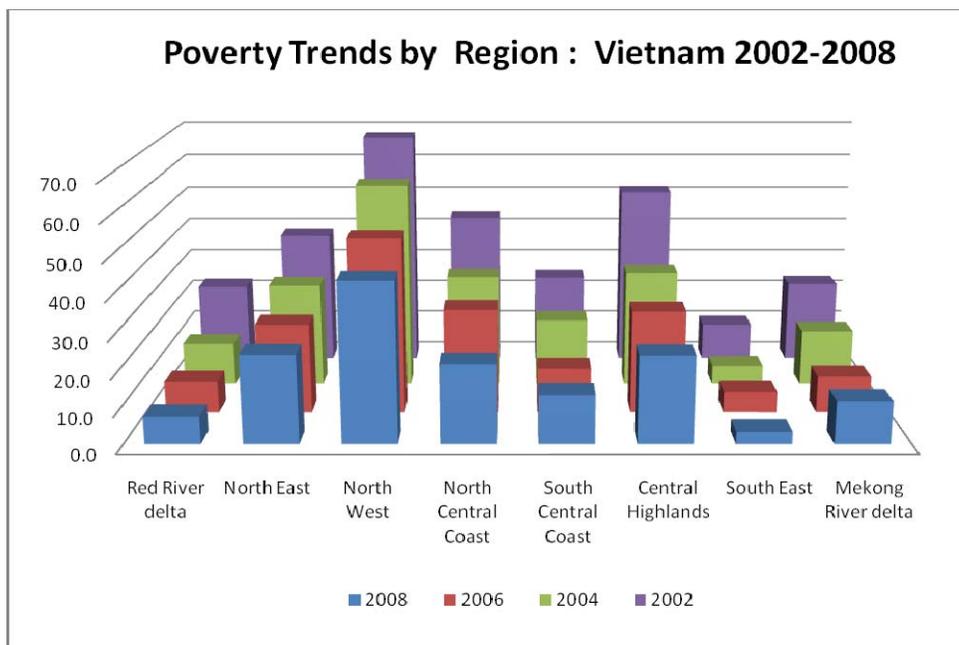
Source: GSO, VHLSS and World Bank.

19. Progress at reducing poverty has been more difficult in the last several years. Inflation rose rapidly throughout the first half of 2008, with food prices reaching a peak by mid-year before stabilization measures were put in place. The construction sector was hard-hit by the credit squeeze in

³ Poverty data are based on the Vietnam Living Standards Surveys (VLSS) of 1993 and 1998, and on the Vietnam Household Living Standards Survey (VHLSS) carried out by Government Statistics Office (GSO) in 2002, 2004, 2006, and 2008.

the middle of 2008 and agriculture suffered a series of shocks. The most recent poverty estimates for Vietnam reflect the situation in 2008 but not more recent impacts of the global financial crisis. Although the 2008 VHLSS shows continued progress at reducing poverty, it was at a somewhat slower rate than earlier periods: the poverty headcount fell by around 1 percentage point each year between 2006 and 2008, compared to 2-3 percentage points a year in earlier periods (VHLSS 2002, 2004, 2006).

FIGURE 5: REGIONAL DIMENSIONS OF POVERTY



Source: GSO, VHLSS and World Bank.

MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

20. The outlook for 2010 is challenging. The stimulus program, while succeeding in encouraging economic activities, has also contributed to increased external vulnerability during 2009. Expansionary monetary and fiscal policies contributed to the return of a large current account deficit, although smaller than that in 2008. Critical macroeconomic information such as the real size of the stimulus package and international reserves were not made clear in a timely manner, which added to uncertainty and exacerbated the foreign exchange shortage by inducing preemptive hard currency hoarding. As the world economy recovers, the government has adopted tighter monetary and fiscal policies commensurate with the available financing. The government also needs to redouble its efforts in communicating and demonstrating its determination to pursue macroeconomic stability to the public in general, and market participants in particular, in order to avoid the situation where inadequate information breeds anxiety.

21. *External Sector.* The Balance of Payments will continue to be a challenge for the authorities in 2010. The trade deficit has been on a widening trend again since mid-2009. While medium to long term capital inflows are expected to cover the current account deficit, it is also important to reverse the apparent trend of declining international reserves. Devaluations and administrative efforts undertaken by the authorities since December 2009 to ease the excess demand for foreign currency and gold, such as instructing SOEs to render foreign currency holdings into the banking system, and tightening supervision of gold trading, it is necessary to address the underlying causes of the excess demand for foreign exchange. In this respect, the recent decision to allow negotiated interest rates for dong-

denominated medium and long-term loans was an important step in easing the foreign exchange market pressure. The parallel exchange market rate is now within the official trading band, and the dong appreciated by 0.28 percent in April. While the market interest rates prevailing today may be too high to be conducive to nurturing the economic recovery, the authorities need to tread carefully among the competing objectives of economic growth and stability. If the market sentiment swings in the other direction and capital inflows accelerate, adequate sterilization will become necessary, as will stepped up monitoring and management of systemic risks arising from short-term inflows and exposure to exchange rate risks.

22. *Inflation.* The inflationary pressure appears to be subsiding. The effects of devaluation, the 6.8 percent increase on average of the price of electricity in March 2010, and the 12.3 percent increase in minimum wage and civil service salaries wages, effective May 1, 2010 have all worked their way through, and in April the consumer price index recorded the lowest monthly growth since the beginning of the year..

23. *Government Budget.* The budget plan for 2010, which translates into a projected overall fiscal deficit of 5.9 percent, entails a substantial contraction compared to 2009, but still expansionary compared to previous years. The government is expected to reduce the deficit to pre-crisis levels by 2013 (Table 2). The deficit is expected to be financed with a combination of bond issuance, including the proceeds of a sovereign bond offering of \$1 billion completed early 2010, and increased ODA. At the Consultative Group meeting held in December 2009, development partners pledged over \$8 billion (including both loans and grants), a sharp increase from \$5 billion in the previous year. Even with the caveat that the pledged figures do not directly translate into disbursements within the calendar year, the ODA funds are expected to help finance the budget deficit. In the past, the government has not monetized unfunded expenditure, preferring to adjust capital spending (including on-lending to lower levels of government) when financing fell short of expectations.

24. *Debt.* Vietnam's debt is likely to stay sustainable if the current economic recovery continues and the authorities revert to the fiscal deficit of 3-4 percent in the next three years as expected. Preliminary results of the debt sustainability analysis currently underway indicate that the public sector debt was estimated to be 49 percent of GDP at the end of 2009, two-thirds of which (31 percent of GDP) was owed to external creditors. Under the baseline scenario, this ratio was projected to increase to just above 50 percent of GDP in the second half of this decade before starting to decline again in the next decade. The large fiscal deficits in 2009 and 2010 do not affect the overall debt sustainability significantly, as long as the government reverts to the pre-crisis levels of deficit in a few years.

25. Even with the recent borrowings on less concessional terms, nearly two-thirds of Vietnam's debt is contracted on highly concessional terms. The ratio of debt service to exports is projected to remain at or below 5 percent until 2013. The stress tests for the current exercise are not yet completed, but the basic picture has not changed from the previous exercise conducted in 2009. The two main risks to debt sustainability are likely to continue to be a one-time nominal depreciation of the dong of 30 percent and an increase in debt-creating flows by 10 percentage points of GDP. Both scenarios are unlikely.

26. The largest source of uncertainty and hence, unquantifiable risk comes from implicit obligations that are not captured under public and publicly-guaranteed debt statistics. Contingent liabilities might arise from off-budget statutory funds such as health insurance fund, large SOEs, or the banking sector. However, a clear definition and a reliable estimate of such liabilities are not available, which limits the government's ability to manage associated risks.

III. THE GOVERNMENT'S PROGRAM AND PARTICIPATORY PROCESSES

27. The Socio-Economic Development Plan (SEDP) 2006-2010 emphasizes development outcomes and the policy reforms needed to achieve them, unlike previous five-year plans, which focused on quantitative targets. It relies on data analysis rather than administrative reporting to substantiate its diagnostics and recommendations. It also led to the adoption of a framework to monitor progress towards realizing development outcomes. The process through which the SEDP was prepared was more encompassing than in the past. Extensive consultations were held, going beyond the boundaries of government, and involving businesses, grassroots communities, overseas Vietnamese and development partners (Box 1).

28. In the SEDP, the government sets out intended actions that fall broadly into four main pillars: (a) the promotion of growth and transition to a market economy; (b) reducing poverty and ensuring social inclusion; (c) managing the environment and natural resources in a sustainable manner; and (d) building institutions that can support the strategy. The first three pillars are explicitly listed in the SEDP, whereas the fourth one is introduced in the monitoring and evaluation framework as the foundation to make progress on the other three.

29. Development partners have chosen to align their efforts behind the SEDP a testimony to the strong ownership of the reform program by the government of Vietnam. The alignment also reflects satisfaction with the process through which the SEDP was prepared. At the same time, development partners recognize that some of the reforms will be challenging. The SEDP represents a sustainable development strategy only if macroeconomic management remains prudent. Moreover, the list of policy reforms considered by the SEDP is remarkably broad, which necessitates prioritization and sequencing. There is consensus that supporting the reform agenda of Vietnam does not entail favoring one of the SEDP pillars over others. But it requires being selective within each of the pillars, and paying attention to the content of the most important measures. This is seen as a critically important time for engagement by the international community. Vietnam's ability to sustain its remarkable growth trajectory over decades to come, and eventually become an industrialized country, may be determined during the next few years. The reforms associated with sustaining growth beyond middle-income status are more complex than those needed to graduate from a low income country. Active engagement should contribute to improving the content and coherence of such reforms.

Box 1. Participatory Process for the Government's Socio-Economic Development Plan 2006-2010

The SEDP 2006-2010, a milestone in the modernization of planning in Vietnam, presented an outline of policy measures needed for Vietnam to advance to middle-income status by the end of the decade and marked a clear break with past five-year plans. Previously, all national plans were prepared directly from the top down approach and on the socialist premise that the government was in full control over the delivery of goods and services with a long list of wishful production targets, with consultation processes which involved only government agencies, and with self-reporting instead of any genuine assessment of results. In contrast, the SEDP 2006-2010 set the framework for government action and resource allocation which is much more focused on attaining development outcomes. The SEDP framework was widely consulted with stakeholders outside government, from grassroots communities to the overseas Vietnamese. Also, for the first time, the SEDP – as the government's primary planning document -- was used as a basis for guiding and allocating ODA.

The preparation SEDP 2006-2010 was built on the experience with the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). Several initiatives were undertaken since the late 1990s to support modern planning processes. In June 2001, given the shortcomings of both traditional five-year plans and targeted poverty reduction programs, the Minister of Planning and Investment (MPI) was given the responsibility to produce a broader document, addressing poverty issues in a comprehensive way. The content of this document represented an important step toward genuine analysis and assessment. Instead of relying on administrative records, the document combined high-quality quantitative and qualitative data into the discussion. This led to a better coverage of sensitive issues, i.e., the challenge of addressing ethnic minority poverty and the problems

faced by urban migrants in accessing basic services. The document shifted from the description of inputs and the setting of targets towards the statement of development objectives. As part of this process, the Millennium Development Goals (MDGs) were localized. There were also efforts to connect policy actions and resource allocation, with a rudimentary “costing” exercise for the VDGs. CPRGS, which provided the foundation for the first series of PRSC operations in Vietnam, was approved in May 2002, covering a three-year period.

The process leading to the preparation of the SEDP 2006-2010 had important strengths. There was a serious effort to collect inputs from different groups of the Vietnamese society. In addition to internal discussions within government, consultation workshops were held with local officials, groups of academics, the domestic business sector, international and local non-governmental organizations (NGOs), people living with disabilities (PWD), overseas Vietnamese, women and women’s groups, and donors. A series of participatory research exercises involving local experts and international NGOs also helped to gather feedback from poor communities in 17 sites across the country. The draft SEDP was declassified for the first time ever. It was discussed by the National Assembly (NA) in November 2005, a departure from previous practice of deferring its discussion after the Party Congress. This innovation gave representatives more inputs into the content of the document than in previous planning cycles. There was also a second round of consultations within government and with donors and NGOs following the first discussion at the NA.

With the support of the NGO Resource Center, civil society organizations participated actively in the organization of consultations for the preparation of SEDP. NGOs were also actively involved in the analytical work underlying this series of credits, with their contribution focusing on infrastructure (especially in the relation to the needs of PWD), the social sectors and legal development. Substantive inputs were provided on the interpretation of the key development issues in each area, the identification of the main strengths and weaknesses of the government’s strategy to address those issues, the prioritization of policy actions within the SEDP framework, and the selection of the most appropriate outcome indicators to measure progress in each area.

A well-functioning mechanism has also been in place in Vietnam to conduct consultations with business associations and the private sector. Prior to both the year-end Consultative Group (CG) meeting between government and donors and the informal mid-year CG meeting, the Vietnam Business Forum (VBF) gathers to discuss the issues of concern to a range of chambers and associations representing the interests of enterprises. The discussion is organized around topics such as investment promotion, transparency, tax, labor, and land. In each of these areas, a list of main concerns is assembled, and the focus is on assessing progress towards solving them. Many of those concerns are addressed through policy actions supported by the PRSC process.

30. In addition to the ten-year Socio-Economic Development Strategy 2001-2010 and the five-year SEDP 2001-2006, other important policy developments have influenced the reform agenda. By mid-2003, the government decided to aim for a rapid accession to the WTO. In late 2003, a new anti-corruption strategy started to emerge, with the emphasis shifting from punitive measures to increased transparency and the strengthening of the systems through which the government operates. The new comprehensive anti-corruption strategy was adopted in May 2009, setting out preventive, demand-side solutions and monitoring mechanisms. The year 2004 saw the coming into effect of the new Budget Law, which makes the National Assembly and People’s Councils at all levels responsible for resource appropriations. A reform road map was adopted in 2006 to prepare the banking sector for liberalization in compliance with Vietnam’s WTO commitments. The roadmap included revisions of the SBV Law and Credit Institution Law, as well as preparation of Bank Supervision Law and Deposit Insurance Law.

IV. BANK SUPPORT TO THE GOVERNMENT’S PROGRAM

LINK TO CPS

31. The CPS submitted in January 2007 concluded that the SEDP had incorporated the necessary poverty reduction principles, was broadly sound and was a plan that could both deliver growth and reduce poverty. The CPS defined the PRSC as one of the modalities to support the implementation of SEDP. The Program Document for PRSC 6, submitted to the Board in June 2007, charted the second cycle of PRSC operations (PRSCs 6-10). The CPS allocated US\$150 million to each of the PRSCs in the second cycle. In practice, however, the amount for PRSC 6 was increased to US\$175 million. PRSC 7 was presented to the Board in June 2008 for the amount of US\$150 million. The amount for PRSC 8 was increased to \$350 million using the Fast Track Facility, in order to respond to the government's request to help finance the stimulus package. The amount of credit the CPS allocates to PRSC 9 is also US\$150 million.

COLLABORATION WITH THE IMF AND OTHER DONORS

32. The International Monetary Fund has not had a program in Vietnam since the Poverty Reduction and Growth Facility expired in April 2004. However, the IMF remains fully committed to continuing an effective partnership with the government of Vietnam. It maintains a regular policy dialogue through Article IV consultations, interim staff visits, and its resident representative office in Hanoi, and seeks to build capacity through training activities for the officials in Vietnam and abroad. It supplements this dialogue with technical assistance (TA) in areas of its expertise. The IMF and the World Bank continue to collaborate closely in Vietnam to ensure harmonized dialogue with the government of Vietnam.

33. The PRSC operations serve as an aid harmonization device, supported by a large number of development partners. The PRSCs have been co-financed by bilateral and multilateral agencies, either through grants or parallel lending (Table 3). More importantly, the process saw a transition in the role of co-financiers, from providers of finance to partners engaged in the preparation of the operations and the policy dialogue with the government. This dialogue is organized by policy areas, in which development partners engage selectively, based on their interests and technical capacity on the ground. The PRSC framework also serves as a coordination device for TA provided by development partners, and the TA in turn provides valuable inputs to the policy dialogue.

34. The volume of resources mobilized so far is significant. About US\$2.4 billion have been committed in budget support over the first eight PRSC operations. Of this amount, some US\$2.2 billion have already been disbursed, with the rest to follow before June 2010 (Table 4). Over the ten PRSC operations, some US\$3 billion could be channeled to Vietnam. However, when compared with the national budget, the PRSC operations amount to less than 2 percent of public expenditures, which means that Vietnam is not aid-dependent, and chooses to engage in dialogue with the donors for the knowledge and expertise brought to the table. This fact raises the bar for the policy dialogue, giving prominence to its analytical underpinnings.

TABLE 3: DEVELOPMENT PARTNERS CO-FINANCING PRSC OPERATIONS

Donor	PRSC 1	PRSC2	PRSC 3	PRSC 4	PRSC 5	PRSC 6	PRSC 7	PRSC 8	PRSC 9 (e)
ADB			6.4	15.0	15.0	15.0	20.0	100.0	25.0
AusAID ¹					7.7	14.3	11.5		
CIDA (Canada)			5.8	7.0	3.4	9.2	4.9	4.5	tba
Denmark	9.7	3.3	13.5	10.0	10.6	12.0	11.1	11.1	10.7
DfID (UK) ¹	19.7	17.3	36.0	34.9	39.3	39.6	36.4	31.8	tba
EC			19.9	10.3	12.4	30.9	20.7	18.2	23.0
Ireland				1.7	3.9	11.0	11.9	1.4	
KfW (Germany)					7.8	8.8	9.6		
Japan			18.6	20.8	21.5	30.0	70.0 ²		tba
Netherlands	13.4	10.0	16.0	17.6	31.0	17.6	9.6		
New Zealand							2.0	1.0	tba
SIDA (Sweden)	1.9								
Spain				2.6	3.9	7.3	11.9	7.0	8.1
Switzerland ¹								3.7	tba

Notes: Figures are in US\$ million.

¹ The financing for the PRSC Secretariat are provided by DFID (PRSCs 4-5), Switzerland (PRSCs 5-6), World Bank (PRSC6), AusAID (PRSC 7), and CIDA (PRSC 8).

² In addition, Japan also contributed a parallel-finance in the amount of Japanese Yen 47.9 billion to support the government's stimulus efforts.

TABLE 4: RESOURCES MOBILIZED THROUGH PRSC OPERATIONS

Operation	Committed (US\$ million)			Year	Disbursed (US\$ million)	
	World Bank	Co-financiers	Total		World Bank	Co-financiers
PRSC 1 (I)	150	22	172	2001	150	0
PRSC 1 (II)	100	23	123	2002	100	22
PRSC 2	100	31	131	2003	100	23
PRSC 3	100	116	216	2004	100	67
PRSC 4	100	120	220	2005	100	80
PRSC 5	100	156	256	2006	100	113
PRSC 6	175	196	371	2007	175	159
PRSC 7	150	155	305	2008	150	230
PRSC 8	350	253	503	2009	350	240 (e)
PRSC 9 (e)	150	TBD	285	2010 (p)	150	TBD

Note: (e): estimates; (p): projections.

Source: World Bank staff.

RELATIONSHIP TO OTHER BANK OPERATIONS

35. The CPS is organized around the four pillars of the SEDP, with the policy dialogue to help implement Vietnamese reform program. The PRSCs are the apex of policy dialogue, while sector development policy operations (DPOs) delve deeper into sector-specific dialogue. High-level actions

fall under PRSC, and more detailed ones are treated under sectoral DPOs. A program comprising investment lending, analytical work, and technical assistance supports implementation at the sectoral level. There is a strong complementarity between the different components of this program. The overall direction of the policy dialogue is informed by the analytical work. Concrete policy measures are often made possible by preparatory TA work. Investment credits also provide an opportunity to pilot new initiatives and approaches, which are then scaled up through the policy dialogue. The reforms supported by the latter, in turn, enhance the effectiveness of sectoral investments.

36. Eight PRSC operations have supported the implementation of Vietnam's reform agenda so far. PRSC 1, a two-tranche credit, was approved by the Board in June 2001. Its focus was mainly on the structural reform agenda. The second tranche of PRSC 1 was released in December 2002. PRSC 2, a one-tranche operation like all its successors, was approved in June 2003. This operation was aligned with the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) of the Government, which made it possible to broaden considerably the range of reforms supported. In addition to the mainly structural aspects covered by PRSC 1, this second credit included various policy actions aimed at keeping development inclusive and building modern governance. PRSCs 3 to 5 were approved in June 2004, 2005 and 2006 respectively and had a broad sectoral coverage. The sixth PRSC, approved in 2007, launched the second series in the program. The seventh and eighth PRSCs were approved in June 2008 and June 2009 respectively. The operations in this second cycle added natural resource management and the environment to the program.

37. When there is a need for a more focused sector policy dialogue, sector DPOs complement the PRSCs, as is the case with Program 135 Phase 2 Support (Cr 4580-VN), Higher Education Development Policy Program (Cr 4604-VN), Public Investment Reform DPL (Loan Number 7838-VN), and Power Sector Development Policy Operation (P115874). Some of the policy issues that were originally included on the reform agenda at the beginning of this PRSC cycle are transferred to sectoral DPOs once a strategic policy decision has been made. For example, Program 135 Phase 2 aims at community development in poor districts, whose habitants tend to be predominantly ethnic minorities. This program is focused on reducing poverty at grassroots level, whereas PRSCs seek strategic policy reforms that would have broader but perhaps more indirect impacts on poverty reduction. Similarly, the separation of power transmission and generation assets and the regrouping of transmission assets under a single National Power Transmission Corporation had been accomplished under previous PRSCs, as had been the adoption of a pricing system for electricity from renewable energy. Follow-up issues are now being addressed through the Power Sector DPOs. The First and Second Higher Education Projects (Cr 4606-VN and P079665). The first sectoral DPL operation complements the PRSC series by delivering a more comprehensive set of higher education reforms than can be delivered through the multi-sectoral PRSC instrument, notably in the areas of governance, financing, quality assurance and public financial management.

38. Several of the ongoing or pipeline investment projects and AAA products are particularly complementary to the PRSCs. In the financial sector, Financial Sector Modernization and Information Management System Project (P088759) is focused on SBV capacity building. AAA work is supporting SBV in revising regulations on loan-loss classification and provisioning and prudential ratios (P117058) as well as working with MOF in looking options for making operations of policy banks more effective (P118933). The program is also leveraged through IDF grants supporting Development of Legal Foundation for Vietnam's Banking System (P104484) and Strengthening Accounting Capacity of SOCBs (P104702) work hand-in-hand with the PRSCs' efforts to modernize the central bank, increase disclosures of relevant financial information, and contribute to the development of the financial sector in general.

39. In the education sector, the Bank's lending operations and non-lending activities complement the PRSC's focus on fundamental education strategy and policies in the areas of quality, equity and accountability. Investment lending supports the development and implementation of standards-based approaches to education delivery, especially to disadvantaged groups of children (Primary Teacher

Development Project (P051838)), Primary Education for Disadvantaged Children Project (P044803) and School Education Quality Assurance Project (P091747)) and the exercise of autonomy (combined with accountability) at higher levels of the education sector (First and Second Higher Education Projects (Cr 4606-VN and P079665)). The first sectoral DPL operation complements the PRSC series by delivering a more comprehensive set of higher education reforms than can be delivered through the multi-sectoral PRSC instrument, notably in the areas of governance, financing, quality assurance and public financial management.

40. The lending program has been complemented with IBRD resources starting in FY2010 after the Progress Report of the Country Partnership Strategy was approved by the Board of Executive Directors in December 2009. The financing priorities for IDA and IBRD include energy, transport, tertiary education, financial, water, urban, and health sectors. One IBRD-IDA blend and one IBRD operations have been approved so far. These are the Power Sector Development Policy Operation (P115874) and the Public Investment Reform DPL (Loan Number 7838-VN), as noted earlier.

LESSONS LEARNED

41. One of the lessons learned from the previous operations is the need to have a comprehensive approach to economic reform for several reasons. First, there are linkages between policy actions across sectors, so that a piecemeal approach would end up being less effective. For instance, improving the delivery of social services requires an appropriate balancing of government finances, in addition to the understanding from the demand-side. Good public financial management is an essential ingredient to improved results in health and education sectors. Another example is the inter-linkages between the anti-corruption dialogue and improving business environment. As different ministries and agencies are in charge of these agenda, PRSC's overarching framework is useful in addressing the underlying issues holistically.

42. Second, there are differences in the readiness of the leadership to embrace reforms in different areas, with the window of opportunities difficult to predict. As a result, it is useful to accumulate various technical building blocks necessary across the entire policy spectrum, so that ambitious reforms can be supported without delay whenever the opportunity arises.

43. Finally, the PRSCs serve as a framework for the interaction between the government and the donor community. When coordinating the numerous donors with different interests and agenda, excessive selectivity has proven impractical. In addition, it could also represent a lost opportunity, as the large number of partners translates into a wider range of technical expertise than when IDA is acting alone. Hence, the policy action matrix tends to contain large number of items at the beginning of each operation. The policy action matrix narrows down somewhat over the course of preparing the operations, as the dialogue evolves and the readiness of the government counterparts becomes clearer.

ANALYTICAL UNDERPINNINGS

44. The Vietnam Development Report (VDR) 2007, entitled *Aiming High*, provides the main underpinnings for the current PRSC series. The preparation of this report was built on the analytical work done over the first PRSC cycle, on structural reforms (as summarized in the VDR 2006, on Business), institutional modernization (VDR 2005, on Governance) and on social inclusion (VDR 2004, on Poverty). The process was led by the World Bank with a large number of development partners participating, several of them contributing extensive written inputs. Participants included the co-financiers of the first PRSC series as well as other development partners not formally involved in direct budget support, including the United Nations agencies and international non-governmental organizations. A Reviewing Committee of recognized Vietnamese experts and policy-makers advised on each of the policy areas and on the overall thrust of the report.

45. A new series of VDRs goes more in depth into each of the four pillars of the SEDP 2006-2010. The first volume in this series, the VDR 2008 on Social Protection, examines the challenges

remaining in relation to poverty alleviation, with a focus on the plight of ethnic minorities. While representing only 14 percent of the Vietnamese population, ethnic minorities account for a large share of the poor. Even though their poverty rates have been declining steadily in recent years, the gap with the Kinh majority has not narrowed, and some ethnic groups remain especially deprived. The VDR 2008 also analyzes the structural shifts affecting the Vietnamese society, resulting from the demographic transition and rural-to-urban migration, and the change in the nature of the shocks experienced by Vietnamese households, from greater exposure to international fluctuations to the growing importance of communicable diseases. These shifts and shocks have important implications for the design of public policies and programs, supporting the development of more institutional social protection mechanisms and the transition to a risk-based approach and demand-side financing in the case of the health sector.

46. The VDR 2009, *Capital Matters*, focuses on constraints to the mobilization of resources for accumulation and on the efficiency of investments by both the public and the private sector. Some of those constraints are common to many developing countries, whereas others are more specific to the transition from planned to market economy. The report reviews the operation of the main channels used to mobilize resources for investment in Vietnam, including tax revenues, bond issuance, equity, and ODA. In the case of public investments, it identifies weaknesses in the selection, appraisal and implementation of projects. Some of those weaknesses result from the different speed at which decentralization, public financial management and environmental policies have progressed in recent years. Special attention is devoted to state capital, and the potential risks created by weak corporate governance in SOEs, conflicts of interest in the Government between ownership and regulation, and the ability of large groups of SOEs to control financial institutions, thus undoing previous efforts to harden the budget constraint.

47. The policy dialogue in the energy sector is informed by extensive analytical work over the past ten years. Recent analytical work includes support for the preparation and passing of the Electricity Law (2004) and the Roadmap for Reform of the Electricity Sector (2006), Electricity Licenses (2006 and 2007), Conceptual Design of Competitive Generation Market (2008) and Framework for Thermal BOT Tenders (ongoing), Development of Market Rules for the Competitive Generation Market (ongoing), Grid Code and Distribution Code and Metering Code (ongoing). Work on restructuring of the electricity sector includes Restructuring the Power Transmission Business (2005), Equitization of the Power Sector (2006), a policy note on Restructuring for the Competitive Generation Market (2008). Pricing studies include on the Bulk Power, Distribution Margin, and Retail Tariff Design study (2005), Retail Tariff Methodology (2008), Tariff Calculation Model (ongoing), and Transmission Pricing Methodology (ongoing). The Bank has also reviewed energy plans and planning processes, particularly Power Master Development Plan No.6 (2006) and the Gas Master Plan for Southern Vietnam (2008). In addition, Vietnam Gas Sector Development Framework was completed in 2010.

48. Gender issues have been studied from various angles. Recent analytical work informing the policy dialogue include Women Retirement Age Increase Gender Equity Dimension (2008), a study funded by the World Bank and authored by the Institute of Labor, Science and Social Affairs (ILSSA)⁴, and Socio-Economic Impacts of WTO Accession on Rural Women (2009) authored by ILSSA, UNIFEM, and AUSAID.

49. Forest and forest land management by communities and farmers in Vietnam have been a subject of many studies. These studies include *A Brief History of Forest Policy Work from the Field* (2002) by PROFOR Vietnam,⁵ *Review of Policy and Implementation Framework for Decree 200*

⁴ ILSSA is a research institute associated with MOLISA.

⁵ PROFOR is a multi-donor partnership housed now in the World Bank (ESSD), but was in UNDP when the study was done in Vietnam. Website is <http://www.profor.info>.

(2005) prepared by Forest Sector Support Program framework. This review was conducted for the purpose of identifying and developing the main strategic issues that are critical for understanding the impact of State Forestry Enterprise reform and its future direction. The *Vietnam Land Policy Stocktaking Study* (2008) assessed the progress, consolidated lessons learned, identified knowledge gaps, and defined areas where future work and policy dialogue could be usefully targeted. The report finds that land issues are implicated in a variety of ways in Vietnam's ongoing and accelerating economic and social transformation. The nature of rights to land, and the extent to which they are perceived as secure and accessible, play key roles in shaping economic options and livelihood strategies across all sectors of society. Land use policies and practices greatly influence the availability of and access to land and the prospects for sustainable management of natural resources and the environment. Land as a source of revenue is gaining increasing prominence in thinking about public and private finances at all levels. A study titled *Policy Note on Improving Land Acquisition and Voluntary Land Conversion in Vietnam* (P114036) was also conducted by the World Bank in 2009, focusing on reforming compensation procedures for land acquisition.

50. Review and Analysis of the Pollution Impacts from Vietnamese Manufacturing Sectors (2008) informs the policy dialogue on pollution control, although the proposed operation does not specifically address the manufacturing sectors. The study was prepared by the World Bank team in partnership with International Center for Environmental Management as well as the Ministry of Industry and Trade (MOIT) and MONRE. An additional World Bank study on pollution issues in industrial estates of the Dong Nai and Nhue-Day river basins is being completed at this time, as well as a review of industrial development and environmental management (both are expected to be published in early 2010).

51. The *Water Sector Review* (2008), prepared for the Office of the National Water Resources Council on behalf of the Government of Vietnam, funded by the Asian Development Bank (ADB), informs the water sector dialogue. The coverage of the study includes the current status of water resources and water-related environments, water supply and sanitation, flooding and natural hazards, irrigation, aquaculture and fisheries, river basin management.

52. The VDR 2011 on managing the natural resources in a sustainable way, the final report in the cycle of five, is now under preparation, and is expected to be completed in December 2010.

53. The VDR 2010, *Modern Institutions*, explores the devolution of power from the central government apparatus to various institutions, including local governments, service delivery units, legal and judiciary systems and institutions of oversight, the latter including entities as varied as the National Assembly, mass media and official bodies investigative bodies. It analyses the mechanism of accountability for these institutions. The focus of the report is the outcomes perceived by citizens and private sector. It also profiles the governance module added to the 2008 Vietnam Household Living Standards Survey (VHLSS). Several of the central themes of the VDR relate directly to the current operation, especially the problem of access to information of all sorts, including basic government documents, judicial decisions, etc. The need to strengthen the merit-orientation of the civil service was highlighted, as was the imperative to strengthen the fight against corruption.

54. A Public Expenditure Review/ Integrated Fiduciary Assessment (PER-IFA) and a Country Fiduciary Accountability Assessment (CFAA) were carried out in 2005 and 2007, respectively. While noting the progress made, they pointed out areas that are in need of further improvements. These include the process of budget development, accessibility of financial information, and accounting and auditing framework. These recommendations form the basis for policy dialogue conducted through the PRSC series.

V. THE PROPOSED OPERATION

OPERATION DESCRIPTION

55. The proposed operation is important in keeping the momentum for the reforms set out in SEDP, as the minds of the leadership are likely to be occupied with macroeconomic management to mitigate the aftershocks of the global financial crisis and with the upcoming Party Congress, a major political event of the country. It is also the last year of the current Socio-economic Development Plan and SEDP when much strategic thinking about the future takes place along with the preparation for the new 10 year strategy and the five year plan. The PRSC represents a well-established mechanism to provide a coordinated technical advice from development partners. In addition, as the leadership prepares for the Party Congress in 2011, this and the next PRSC operations provide a framework to start thinking about the partnership modality beyond the current PRSC cycle.

56. The medium-term policy matrix was developed at the beginning of this PRSC cycle (Annex 2). The development outcomes were also selected at the same time (Annex 3). The policy actions included in the matrix are based on the SEDP 2006-2010 and other strategic documents and analytical work. Some of the policy actions are adjusted as new issues arise, new studies become available, or the original plan becomes no longer applicable. The policy reforms to be discussed in each PRSC are chosen every year through a process involving sector teams at the World Bank and participating development partners. Each year, the matrix starts from nearly 200 initial proposals in September to about 50 policy actions for the official discussion with the government.

57. Each year, the policy matrix contains two types of policy actions. The first type is “triggers,” which are deemed to be more strategic, because of their potential impact on development outcomes over time. These actions are selected during the previous PRSC operation, and are reported in the minutes of the negotiations (PRSC 8 in this case, see Table 5). The “triggers” represent a collective understanding of what measures need to be taken to address immediate concerns (for example, revising regulations to better assess commercial banks’ portfolio risks), and which medium-term structural reforms should be tackled as priority (for example, strengthening competition, merit-orientation, and transparency in public administration).

58. In addition to the triggers, the policy matrix also contains additional reform actions undertaken by the government. This broader set of actions, or “benchmarks,” does not represent the use of conditionality. It reflects the breadth and scope of the reforms being undertaken by the Government of Vietnam, and is a way to engage in the substances of the reforms. By providing a more comprehensive picture of developments in each policy area, this matrix allows a better understanding of the progress being made in each of the four pillars of the reform program.

59. The technical meetings are coordinated by the PRSC Coordination Unit at the SBV. The Coordination Unit reports to the Steering Committee for the PRSC process, which is chaired by the first Deputy Prime Minister. The Coordination Unit identifies the relevant line ministry or government agency for each of the proposed policy actions. The technical meetings with those ministries and agencies provide an opportunity to go into the specifics of each action, to comment on draft policy documents, and to agree on a time frame for their completion. As a result of these technical meetings, some measures are deemed completed, some may be consolidated, and others may be postponed to the next operations. Pending issues regarding policy actions which are considered of strategic importance (either in terms of content or timing) can be raised to the attention of the Steering Committee.

POLICY AREAS

60. The PRSCs 6-10 address four pillars of the SEDP, namely business development, social inclusion, natural resource management, and modern governance, in a balanced way. The 11 triggers chosen for the preparation of PRSC 9 are evenly distributed across the four pillars.

61. Out of the 11 triggers, six were achieved fully. These are the regulations on commercial banks, national targeted program for rural water supply and sanitation, conservation of water, internal audit decree, civil service management, and procurement. Three triggers, education, state sector reform, and health, are assessed to have been achieved partially. The education trigger has been delayed, but cost estimates for full-day schooling have been produced, and consultations with stakeholders have been initiated. The consultation process is expected to take a few months to complete. The decree on improving corporate governance of State-owned Economic Groups was issued, and the Law on Examination and Treatment was adopted. These two were a step in the right direction, but left many issues to be addressed through the subsequent or lower-level legal documents to be issued in the future. Two triggers, gender and access to information, were not met. The establishment of gender equality indicators could not be completed in time, but is expected to be done by the end of the year. The draft Law on Access to Information was not submitted to the National Assembly as planned. Ministry of Justice attributed the delay to the government's deeming it necessary to do more preparatory work to ensure swift implementation of the Law once it goes into effect. Not enough information is available to ascertain that the delay is purely technical or if the sensitivity of the issue made the leadership prefer to wait until after the Party Congress in 2011 to move ahead. This issue will continue to be pursued in several ways, including high level dialogue and preparatory work for implementation at technical level. More generally, the reforms which were not achieved fully during this operation will be followed up in the next operation.

62. The fact that not all triggers are on track is a reflection of 2009-2010 being difficult years. It also reflects how ambitious these programs are: PRSC triggers are aimed high enough so that they are challenging. The expectation has always been that not all triggers will be met fully, while others might be exceeded. The performance under PRSC 9 is roughly comparable to PRSCs 7 and 8: PRSC 8 had 11 triggers of which 7 were fully met, two were partially met, and two were missed; PRSC 7 had 14 triggers, with 8 met, 5 partially met, and one missed. There were no triggers in PRSC 6, which was the first operation in the cycle. In the first cycle, all 15 triggers were met in PRSC 5, whereas performance was mixed under PRSC 4 (3 out of 15 triggers partially met) and PRSC 3 (1 out of 14 triggers was not met and 2 were partially met). There were no explicit triggers in PRSC 2.

63. The task team's assessment is that the setbacks are delays rather than a waning of commitment to reforms. Some are due to weak technical capacity and others are due to underestimation of the time it takes for a political consensus to emerge. Annual processing of PRSCs, which affords predictability, works as a constraint for some triggers, as not all important reforms fit neatly in the PRSC cycle. Of the four triggers in PRSC 8 which were less than fully met, the social protection trigger "approve a strategic plan to ensure prudential and effective investment of social security funds" has made progress since then. The strategic plan was submitted to the Prime Minister in July 2010, who instructed the Vietnam Social Security agency (VSS) to ensure that the plan was compatible with the Social Security Law in effect, and to implement the plan after the revisions and approval by the governing board of VSS. The World Bank is providing further technical support to VSS through the Social Security Modernization Project (P106624), under preparation. The health trigger "adopt standards for certification of health care practitioners and classification of private hospitals" was followed up in PRSC 9, and the legal framework for adopting the standards of certification of health care practitioners was put in place. The education trigger "formulate education development strategy to 2020 focusing on equity of learning outcomes and relevance of contents" will be completed when the strategy is adopted with the new SEDP. The anti-corruption trigger, "prepare a revised Press Law to encourage accurate, objective and responsible reporting on corruption," is still waiting for the political consensus to emerge. The task team intends to continue working with the authorities achieving as much progress as possible on all PRSC 9 triggers in the coming months and beyond. That PRSCs are a programmatic operation affords the flexibility of pursuing the reforms that take multiple years to complete.

64. The policy areas are discussed briefly below by pillars.

Pillar I: Business development

65. **The Recipient has issued regulations on state-owned economic groups for better corporate governance and setting limits for cross share holding.** Better corporate governance of large SOEs (Economic Groups and General Corporations 90 and 91), improving how the state ownership for those enterprises is exercised, and strengthening market discipline in running these entities are critical elements in state sector reforms. How these reforms are handled is increasingly important as Vietnam joins the ranks of middle-income countries, and seeks to complete the transition to market-economy with socialist orientation. The state sector reforms have not advanced swiftly, partly because the issues are complex and there are competing thoughts and examples from around the world on how best to use SOEs and large conglomerates to achieve the goal of rapid economic growth. The slow pace also reflects a struggle among the vested interests on the one hand, and the natural tendency for the government wishing to avoid mistakes on high-stakes policy changes on the other. In addition, transferring the responsibility of exercising the ownership rights away from the State agencies requires non State entities and persons receiving this responsibility to have the necessary capacity to perform the duties adequately. While on-the-job training arguably provides the best form of capacity strengthening, the government's uneasiness in entrusting the exercise of ownership rights in some of the highly technically specialized areas is understandable. Consequently, steps have been taken both forward and backward in the state sector reform area. The recent appointment of a current SBV employee as the main representative exercising the State-ownership rights to the boards of Vietcombank and Vietinbank,⁶ the two recently equitized banks, is a worrying development. On the other hand, Ministry of Finance has confirmed that separation of the regulator function and exercise of the state-ownership rights, and ensuring transparency and competition in the sale of state assets are the principle guiding its efforts in state sector reform. Major policy decisions are unlikely before the Party Congress in 2011, but the government issued a Resolution (No. 10/NQ-CP dated February 23, 2010) assigning the research institute of the Ministry of Planning and Investment to conduct studies on improving corporate governance of SOEs and on separation of the regulator and ownership. Some of the concerns are addressed by this prior condition and other policy reforms achieved during this operation, and the remaining issues will be followed up in the next operation.

66. **The Recipient has finalized regulations to better assess commercial banks' portfolio risks, enhance public disclosure, and strengthen supervision.** Even though the banking sector came through the two crises without major problems, improving how the portfolio risks are assessed remains an urgently-needed reform. Not having relevant information to assess the health of banks and the banking sector is an obstacle for investors and analysts alike, and can lead to unfounded speculation that is detrimental to the sector and the economy as a whole. The State Bank of Vietnam (SBV) has been strengthening its supervision function, and it intends to move the focus further towards risk management from compliance monitoring. Capacity strengthening at both the SBV and commercial banks would be needed to accomplish this shift. The three legal documents, the draft Law on Credit Institutions submitted to the National Assembly for adoption, the Circular 13 dated May 20, 2010 and revised Decision 493 awaiting issuance, represent an important step in strengthening the banking sector of the country.

67. In addition to the two prior conditions discussed above, policy reforms were made in increasing competition and efficiency of the pharmaceutical sector, separation of the exercise of the ownership rights from the regulatory function in the unequitized SOEs, improved competition and transparency in the sale of state capital in equitization process, facilitating bank mergers and restructuring, improving regulations on securities to foster development of domestic capital market, improving disclosure of audited financial information of public companies, improving disclosure requirements of audited financial information of public companies, and strengthening legal framework

⁶ Appointment of a SBV employee to the Board of Vietinbank is not confirmed yet.

and institutional capacity of the National Transportation Safety Committee. A medium-term strategy for Vietnam Development Bank was also developed.

TABLE 5: PRIOR ACTIONS UNDER PRSC 9

Area	Trigger
Pillar I: Business development	
State sector reform	The Recipient has issued regulations on state-owned economic groups for better corporate governance and setting limits for cross share holding
Financial sector reform	The Recipient has finalized regulations to better assess commercial banks' portfolio risks, enhance public disclosure, and strengthen supervision
Pillar II: Social inclusion	
Education	The Recipient has produced cost estimates and initiated public consultation on full-day schooling for primary education
Health	The Recipient has adopted a law establishing a framework for national standards and a unified licensing system for all health care practitioners
Pillar III: Natural resources	
Land and forests	The Recipient has developed a proposal to continue the current NTP for rural water supply and sanitation, which focuses on promotion of rural sanitation and addresses personal hygiene
Environment	The Recipient has issued technical guidelines for efficient use of water resources to complement the irrigation services fee waiver policy
Pillar IV: Modern governance	
Public Financial Management	The Recipient has formulated a regulation for internal audit development and implementation and defining organizational responsibilities
Public administration reform	The Recipient has issued regulation and developed pilot schemes to strengthen competition, merit orientation, and transparency in the recruitment, appointment, and promotion of civil servants
Fighting corruption	The Recipient has (a) carried out annual procurement compliance and performance audits of projects funded by state budget; (b) made public the findings of selected audits; (c) adopted a pilot procurement code of ethics for participants; and (d) launched an open access electronic bidding system

Pillar II: Social inclusion

68. **The Recipient has produced cost estimates and initiated public consultation on full-day schooling for primary education.** For primary education, almost universal enrollment is already attained. One of the most pressing and compelling issues remaining in Vietnam is quality, and full-day schooling is an important component to enhance quality. Full-day schooling is currently a source of inequality, as only the children of families who can afford the additional fees receives it. The government is committed to addressing this inequality, and producing sound cost estimates is a prerequisite to ensure adequate preparation for rolling out the program nation-wide. As part of the cost of implementing full-day schooling is likely to fall on parents, at least in initial years, public consultations are critically important for the success. By sending an official letter to stakeholders, Ministry of Education and Training has initiated this process. It plans to follow up in the coming months to ensure wide consultations, including in remote areas of the country.

69. **The Recipient has adopted a law establishing a framework for national standards and a unified licensing system for all health care practitioners.** The Law on Examination and Treatment, which was adopted in 2009, stipulates the national standards shall be adopted and licensing system is to be unified to strengthen the technical quality of health practitioners, and thus, to ensure the quality of health service delivery. The Law stipulates decentralized administration of the licensing system which will make it a challenge to implement it in a unified manner. Ministry of Health (MOH) plans to issue implementing regulations to ensure that the licensing system is unified. This issue will be followed up in the next operation.

70. In addition to the two prior actions discussed above, policy reforms made on conducting student learning assessment surveys, treatment on waste and water discharged by health care facilities, disclosure of financial and operational information regarding the health insurance fund, and updating the official poverty line to reflect current conditions. During the period of this operation, necessary apparatus was put in place to implement the Law on anti-domestic violence. Advancing gender-equality agenda was pursued during the policy dialogue, and while some of the proposed actions, such as adopting measures to increase women representation in representative bodies, were not completed fully during the timeframe of this operation, substantive progress was made, and many are expected to be completed in the coming months.

Pillar III: Natural resources

71. **The Recipient has developed a proposal to continue the current NTP for rural water supply and sanitation, which focuses on promotion of rural sanitation and addresses personal hygiene.** Water supply and sanitation is the area where Vietnam may miss the Millennium Development Goals (MDGs). In order to maintain the reform momentum in this area, the government has developed a proposal for a successor to the Rural Water Supply and Sanitation (RWSS) National Targeted Program II, which is scheduled to be completed in 2010. The proposal focuses on promotion of rural sanitation and addresses personal hygiene. MARD is considering scaling up the use of the Output Based Approach piloted in the Vietnam Rural Water Supply Project.

72. **The Recipient has issued technical guidelines for efficient use of water resources to complement the irrigation services fee waiver policy.** A regulation (Decree 115/2008/ND-CP) was issued in 2008 to provide financial relief to poor farmers through a policy of irrigation services fee waiver. There was a concern, however, that this policy might reduce farmers' perception of the economic value of irrigation water and water services and diminish incentives to conserve water. A situation of water scarcity already exists in some crucial river basins, and irrigation is the largest user of water resources. Therefore, guidelines for water use efficiency is an important complement to Decree 115, where poor farmers are not unduly burdened by irrigation service fees but still are obliged to follow the guidelines to ensure efficient use of scarce water resources.

73. In addition to the two prior actions discussed above, policy reforms were achieved on initiating transparent nation-wide surveys for urban sanitation and collection of national environmental data.

Pillar IV: Modern governance

74. **The Recipient has formulated a regulation for internal audit development and implementation and defining organizational responsibilities.** Progress in internal audit was cited as one of the most urgent priorities in the latest CFAA jointly prepared by the government and development partners. This issue becomes even more important if the government intends to decentralize further to the local levels. The legal framework for internal audit did not provide clear definition of the concept, scope and nature of internal auditing and its role in the internal control framework of the government. Without legal clarity, agencies were hesitant to establish and operate an internal audit function. There was also a need to review the responsibilities for directing internal auditing in the public sector between MOF and the State Audit of Vietnam (SAV). In compliance with the current regulations in place, SAV has led the preparation of an internal audit decree, but the separation of organizational responsibilities between SAV as an external auditor and the administration, which is tasked to carry out internal audit, is stipulated in the prepared decree. It is expected that the decree will provide enough clarity and guidance to the administrations to implement internal audits.

75. **The Recipient has issued regulation and developed pilot schemes to strengthen competition, merit orientation, and transparency in the recruitment, appointment, and promotion of civil servants.** The Law on Civil Servants, adopted by the National Assembly in November 2008, is a major step towards improving the quality of civil service. However, as the Law spells out only the broad principles, the details were left to the subordinate legal documents guiding implementation. The government has now issued one of the main implementation decrees and prepared pilot schemes to test new human resource policies. Together, these step represent a major step in the direction of enhancing competition, merit-orientation, and transparency in the recruitment, appointment, and promotion of civil servants.

76. **The Recipient has (a) carried out annual procurement compliance and performance audits of projects funded by state budget; (b) made public the findings of selected audits; (c) adopted a pilot procurement code of ethics for participants; and (d) launched an open access electronic bidding system.** With the adoption of the Law on Procurement in April 2006, the legal framework was already in place for good procurement practices, an important element in preventing corruption. The government has not only carried out annual procurement compliance and performance audits of project funded by state budget, but started to put findings in the public domain, which represents a breakthrough in increasing transparency and accountability in government's procurement functions. The government has also embarked on insisting on code of ethics among participants to procurement as well as on electronic bidding system, which are expected to help increase efficiency, transparency, fairness, and accountability in procurement. These steps in turn are expected to foster public confidence in governmental institutions.

77. In addition to the three prior conditions discussed above, policy reforms were achieved on strengthening urban planning and urban infrastructure management, strengthening the legal framework for taxing the use of non-agricultural land and capital gains, increasing systematic and widely-accessible publication of court judgments, developing legal framework for consumer protection, developing an enabling legal framework to protect and reward witnesses and whistle-blowers, and improving the reporting system for income and asset declaration.

Triggers for PRSC 10

78. During the negotiation of the proposed credit, an agreement was reached on a list of measures that will in principle be supported by PRSC 10. These measures are grounded in the SEDP and other strategic documents, are deemed strategically important, to make economic sense, feasible in the timeframe for PRSC 10, and possible to monitor. The list builds on the progress made over the current PRSC cycle, and also is designed to follow-up on the areas where there was an agreement that further work was necessary. They should not be interpreted as conditions, but as a guide to frame the policy dialogue during the next 12 months. Progress towards meeting these triggers will be assessed in the second half of 2010 in order to launch the formal preparation of the next and final operation in the cycle.

79. **Develop a time-bound plan to separate the exercising of the state-ownership rights from regulatory function in Economic Groups and large General Corporations.** This trigger follows up on the prior condition and other policy reforms achieved during the preparation of this operation. The government's determination to continue moving the SOE reform agenda forward is expressed in Resolution 10/NQ-CP dated February 23, 2010, which assigns MPI to conduct a study and develop a time-bound plan by July 2011 on the issue of separating the exercising of the state-ownership rights from regulatory function in Economic Groups and large General Corporations. It is expected that MPI will have produced a near-final version of the draft plan by May 2011 to meet the deadline of July 2011 stipulated in Resolution 10.

80. **Enhance public disclosure and communication of SBV policies and banking sector statistics.** Though there is an improving trend, SBV provides limited statistics on its operations. There is also limited banking sector statistics available publicly. A central bank is considered transparent when it provides at all times sufficient information for the public to understand the policy regime, to check whether the bank's actions match the regime and to pass judgment on its performance. Vietnam does not currently meet the IMF data dissemination standards for presentation and release of central bank data relating to coverage, periodicity, timeliness of data and access by the public. Greater transparency and availability of information would allow decisions to be better informed, while better accountability imposes firmer discipline on decision-makers. Together, they can contribute to higher-quality decisions in central banks. SBV is preparing a circular to improve public disclosure, which is expected to include the scope of information to be disclosed on its policies and banking sector statistics, and the focal agencies for disclosure.

81. **Formulate a roadmap to improve corporate and government bond markets to foster financial and economic growth.** Bond market strategy is a component of Financial Market Supervision and Bond Market Development plan. The economic crisis has led to increased demand to improve the government and corporate bond markets to help finance economic growth. Vietnamese policy-makers in general, and the SBV in particular, are more aware that developing the bond market offers an opportunity to provide alternative funding sources to ease banking liquidity pressures, reduce the impact of external shocks, and improve access to capital for the private sector and reducing financing shortage in key development sectors such as infrastructure and housing.

82. **Approve a Gas Master Plan to 2015 with visions to 2025, including a time-bound instruction to MOIT to prepare a Gas Market Reform Roadmap for consideration by the Prime Minister.** According to Vietnam Gas Sector Development Framework (2009), Vietnam needs to increase electricity supply to meet its rapidly growing demand. It is highly advisable to move to clean sources of energy in doing so. There is also a need for a market for gas to be in place when the next phase of sector reform (a wholesale generation market) is due to be completed in 2014. Getting an early start on the preparation of the Gas Market Reform Roadmap is a strategic move to set in motion the necessary reforms.

83. **Institutionalize regular nationwide assessments and participation in international assessment programs of student learning outcomes.** Improved testing and assessment are required to monitor and evaluate curriculum reform. There is much public interest in more transparent and

reliable testing and accreditation. There is also increased attention both by public and the government to students' learning, in addition to enrolment and completion, as a means to assess effectiveness and efficiency of the education system, especially in the light of Vietnam becoming a middle-income country. Alignment of national learning outcomes data with international would be helpful, as would increased focus on appropriate methodologies, transparency and coherent linkages between policy development initiatives in multiple sub-sectors. Better assessments of learning outcomes would improve efficiencies and return on sector investment can be anticipated from improvements in integration of academic, vocational and professional accreditation.

84. **Ensure the national licensing system of health professionals is unified.** Ministry of Health plans to formulate decrees guiding the implementation of the Law on Examination and Treatment. Having a regulatory mechanism in place the MOH will reinforce the unity of the licensing system across the country, limit the opportunities for corruption, and thus make the roll-out of the Law more efficient and effective. Issuance of decrees is planned for the end of 2010. It is understood that unified system means existence of single set of clear standards; standardized handling of complaints of professional misconduct, inspections and disciplinary actions thereof; unified registry of licensed health professionals and license revocations; centralized mechanism to enforce compliance with the law and regulations.

85. **Issue a set of national gender development indicators and criteria for sex-disaggregation in the national statistics.** This trigger is designed to follow up on the dialogue carried out in the current operation under “establish indicators, identify gaps, and adopt a plan to address them in monitoring of gender equality in priority areas,” which was not completed during the time frame of this operation. The delay is technical in nature, and was caused by the fact that information on gender is scattered across many types of statistical instruments and administrative data systems in Vietnam. An inventory study of available gender-related data which also identifies gaps and areas of concern was commissioned by the World Bank in 2009. The study also provided information on how these data align with current international gender indices. General Statistics Office (GSO) has included several gender equality indicators in its new set of national indicators under the expanded National Statistical Indicator System, which is awaiting approval. Resolution 57 (dated December 1, 2009) on the Action Plan to implement the Party’s Resolution 11(dated April 27, 2007) mandated MPI to work with MOLISA to develop and issue a set of national indicators to monitor gender equality outcomes. The indicators are expected to be broader and more detailed than those collected in the national statistics system. MPI in turn has assigned GSO to complete this work by December 2010.

86. **Issue technical guidelines for application of SEA in the process of socio-economic development planning.** The Law on Environmental Protection (2005) stipulates the requirement of conducting SEA for strategic policies, programs and plans. One of the guiding regulations issued to implement the Law, Decree 04/2008/ND-CP, contains provision for obligatory application of SEA in the development of socio-economic Master Plans. Although the SEA concept and requirement have been introduced in the government legislation for some time, systematic application to the planning processes remains a challenge. The major constraint for the application of SEA at present is the lack of technical guidelines and regulation on financing mechanism. Despite the regulation to allocate 3 percent of the total budget for developing or revising socio-economic Master Plan, it remains unclear how to use these funds. As the new cycle for socio-economic Master Plans will begin in 2011, the adoption of specific SEA technical guidelines for this process would help ensure environmental sustainability in Vietnam’s economic development planning.

TABLE 6: TRIGGERS FOR PRSC 10

Area	Policy action
Pillar I: Business Development	

State sector reform	Develop a time-bound plan to separate the exercising of the state-ownership rights from regulatory function in Economic Groups and large General Corporations
Financial sector reform	Enhance public disclosure and communication of SBV policies and banking sector statistics
Private sector development	Formulate a roadmap to improve corporate and government bond markets to foster financial and economic growth
Infrastructure	Approve a Gas Master Plan to 2015 with visions to 2025, including a time-bound instruction to MOIT to prepare a Gas Market Reform Roadmap for consideration by the Prime Minister
Pillar II: Social Inclusion	
Education	Institutionalize regular nationwide assessments and participation in international assessment programs of student learning outcomes
Health	Ensure the national licensing system of health professionals is unified
Gender	Issue a set of national gender development indicators and criteria for sex-disaggregation in the national statistics
Pillar III: Natural Resources Management	
Environment	Issue technical guidelines for application of SEA in the process of socio-economic development planning
Pillar IV: Modern Governance	
Public financial management	Enhance the management of transport infrastructure assets through decentralization and adoption of financial mechanisms for investment, operation and maintenance
Public administration reform	Issue PAR Master Plan for 2011-2020 and accompanying results-oriented M&E system
Fighting corruption	Develop framework for monitoring progress on the implementation and results of efforts to combat corruption

87. **Enhance the management of transport infrastructure assets through decentralization and adoption of financial mechanisms for investment, operation and maintenance.** Regulations on management of transport infrastructure assets are of strategic importance, as transport infrastructure is a critical input to socio-economic development of Vietnam. The regulation is expected to cover a wide range of policies related to infrastructure, from budget allocation, investment, management, to maintenance. Main objectives include further decentralization of management responsibilities from central to local levels, improved fund mobilization for investment in infrastructure, and improved financial mechanisms guiding rational utilization, fee collection and maintenance of transport infrastructure assets, which allows recovery of both capital and maintenance costs in transport projects.

88. **Issue PAR Master Plan for 2011-2020 and accompanying results-oriented M&E system.** This trigger follows up on the dialogue conducted under the current operation on the comprehensive and analytical review of the implementation of the Public Administration Reform Master Program 2001-2010. The next stage of reform on public administration reform would be based on the lessons learnt from the previous phase and with clear and focused objectives. In order to enhance efficiency of the public administration, the Master Plan would include results-oriented mechanisms to monitor performance of the public sector at different administrative levels. The review mentioned above is expected to be completed by October 2010 and the new Master Plan to be developed by the end of 2010. The accompanying monitoring and evaluation system is a new element to be introduced. There

are available (e.g. VHLSS Governance Module, Provincial Competitiveness Index) and planned surveys which could inform the results-oriented M&E system.

89. **Develop framework for monitoring progress on the implementation and results of efforts to combat corruption.** The government's Anti-corruption strategy tasks the Government Inspectorate with developing a system of indicators to track corruption and anti-corruption by December 2010, and to develop jointly with MPI and Vietnam Chamber of Commerce and Industry annual citizen and enterprise surveys on unofficial payments, which should inform the "results" part of the monitoring framework.

Box 2. Good Practice Principles for Conditionality

Stakeholder consultations were held in February 2009 in Hanoi in the context of world-wide review of DPL evaluations, conducted by OPCS.

Ownership. There is general agreement across the stakeholder groups that the PRSC series have been firmly rooted in the government's own reform agenda, as expressed first through the CPRGS and then the SEDP. In both the donor and NGO consultations, participants mentioned that this was "best practice."

Harmonization. Alignment to the CPRGS and the SEDP helped development partners work more coherently in support of government outcomes. There was general acknowledgement that the PRSC operation was a complex one, bringing together multiple ministries and donors. Government participants were particularly appreciative of donor efforts to coordinate assistance around the SEDP and PRSC. There was still concern over the current framework for accountability, i.e. , the PRSC framework being similar, but not identical, to the SEDP monitoring framework. There were views that donors should resist the temptation to use independent monitoring mechanisms. Inputs from NGOs emphasized how accountability works in practice, outlining the need to engage alternative and independent viewpoints. Donors also emphasized how harmonization could be improved, suggesting a more structured approach to engagement in the PRSC process. This would enable "newcomers" to the process (which grows annually in terms of number of participants) to understand better their roles and obligations.

Customization. The general sense was of that the process had become increasingly tailored to the country priorities. The need to balance the wish to promote desirable reforms and the respect for the country's priorities, perhaps described as "the art of the possible," was recognized. A repetitive theme refers to building the analytical capacity within the Government, so that the Government, rather than development partners, can lead the process of determining which actions should be prioritized in the agreements. Currently the prioritization and sequencing of actions and triggers was undertaken more by donors than by the Government, although the Government owns the broad agenda from which the PRSC operations are derived.

Criticality. The size of the policy matrices is relatively large, but is slowly being reduced, balancing criticality with an active policy dialogue across the reform agenda. A multi-sector, multi-agency, multi-donor operation is likely to need a spread of "benchmarks" in order to keep the operation inclusive and motivating for all participants. While this number of benchmarks is higher than in other countries, it is justifiable in Vietnam, as the Bank and all co-financiers use the same policy matrix to decide on their level of support, thereby providing a single harmonized platform for the policy dialogue and disbursements.

Transparency and predictability. Both predictability and transparency had increased over recent years. The PRSC process has led to disbursements to the budget on an annual basis, thus meeting the objective of aligning aid to domestic budget cycles. Since PRSC 2, commitments were made in June of each year, which is the time when the preparation of the budget starts. The budget is approved by the National Assembly towards November, for the following calendar year. The submission to the National Assembly already factors in the amount of resources expected from PRSCs. Although the World Bank inputs were predictable, there was less predictability over the timing and level of co-financier resources that would be available. Not all donors were able to commit to financing beyond the current years and as levels of co-financing increase, this adds an element of uncertainty into the operation.

VI. OPERATION IMPLEMENTATION

POVERTY AND SOCIAL IMPACTS

90. The reforms supported by the PRSC series have led to a fundamental transformation of the Vietnamese economy, including increasing reliance on market mechanisms and growing integration into the world economy. Vietnam's rapid economic growth is a testimony to the soundness of the program. This rapid transformation, however, has had large social impacts: greater economic fluctuations from increased integration with world markets, potential financial instability due to exposure to capital flows, growing inequality as agglomeration effects play out and the economic hubs of the country sail ahead, and possible vulnerabilities as market mechanisms develop throughout the social sectors. The PRSC operations address these concerns through various measures such as strengthening and extending the coverage of the pension programs and health insurance, taking measures to improve the stability of the banking sector, and improving the monitoring of capital flows, and developing policies to mitigate potential adverse effects of integration.

91. There are winners and losers in any reform process and the reforms supported by this series of PRSCs seek to maximize the number of families and individuals who participate in Vietnam's economic transformation. The country's rapid rate of poverty reduction bears witness to their success. The reforms supported by each PRSC are assessed carefully to ensure they do not adversely affect poor and vulnerable groups. In cases where the reform program affects identifiable groups, the PRSC supports measures to offset adverse impacts. In the case of PRSC9, revision of the Labor Code and consumer protection law, monitoring implementation of the gender equality law, developing a unified licensing system for health care professionals, and reforms in the pharmaceutical sector are examples of strengthened protection of the population at large. Actions such as the revision of the poverty line, better targeted poverty-reduction programs, and enhanced allocation of forest lands to the communities are examples of measures addressing the poor specifically. Supporting full day schooling for primary education promotes equality in education outcomes; children from better off households often receive private tutoring to supplement the limited supply of public education services. The governance reform agenda would also benefit the poor, as they suffer disproportionately from corruption and inadequate public services.

92. Assessing the wider social impacts of a transformation of this magnitude is challenging. Good tools exist to assess the consequences of trade liberalization, an important component in earlier phases of the PRSC cycle. However, a retrospective assessment of the studies conducted at the time concludes that they were not able to foresee the actual consequences. In a similar vein, more recent attempts to identify *ex ante* winners and losers from the WTO accession have proven inconclusive. The WTO accession matters because it brings competition in services, raises standards or increases financial openness, and none of this can be easily captured with the tools at disposal. A review of a dozen studies based on computable general equilibrium models and almost as many sectoral studies (reported in VDR 2006 Doing Business) shows that few results are robust across the studies, suggesting a high sensitivity to the methodology and assumptions used. To fill this gap, increasing emphasis has been put on monitoring and evaluation in all areas of the program (linked to the M&E framework in the SEDP) and the team recently completed a broader review of social protection issues (VDR 2007 Social Protection).

93. The Social Protection VDR updates Vietnam's poverty assessment. It identifies the main shifts and shocks being faced by the Vietnamese economy through a period of fundamental transformation, rather than dealing with potentially adverse impacts on a policy-by-policy basis. Identifying the right policy responses is also challenging. In many other parts of the world, cash transfers (conditional or otherwise) are seen as a clean tool to achieve compensation and enforce the

Pareto principle. However, Vietnam makes limited use of cash transfers. This is partly due to implementation issues: handing over cash is fraught with fiduciary risk, as shown by a recent attempt to make one-time payments (the Lunar New Year bonuses) to poor households so as to offset the economic downturn. There have been numerous reports of misuse of these funds and there is little evidence that Lunar New Year bonuses have helped to offset the emerging consequences of the recent economic downturn. More generally, there is a concern about the dependence created by cash transfers, and a vision that resources should be better used by promoting the participation of the poor and near-poor in universal programs, or increasing spending on local infrastructure and services in poorer regions of the country. In terms of the former, households classified as “poor” according to criteria developed by MOLISA are eligible for social services that would otherwise have a cost (e.g., exemption of school fees, payment of health insurance premium, and access to credit without collateral). Community development programs like P-135 and the recently initiated 61 Poor Districts Program are examples of the latter.

ENVIRONMENTAL ASPECTS

94. The proposed operation is likely to have positive effects on the environment, forests, and other natural resources. As required under Operations Policy 8.60, the task team determined if there are significant effects on the country’s environment, forests, and other natural resources. “Significant effects” are defined as “environmental changes of sufficient magnitude, duration, and intensity as to have non-negligible effects on the natural resource base and on human welfare.”⁷

95. There are a number of policy actions that are included precisely with the objective of generating a significant positive environmental impact. Others, while not being strictly environmental, are also expected to result in positive environmental externalities. A number of policy actions raised at least theoretical possibility of negative environmental impacts, and needed to be analyzed carefully. The following Table 7 provides summary information on these triggers and policy actions, the intended positive impacts, an analysis of possible negative impacts, and an analysis of status (likelihood of achievement and actions being taken or to be taken to enhance likelihood of a significant impact or to mitigate negative impacts). Triggers are in bold. Policy actions that do not have any environmental implications are not included in the table. The table also includes triggers that are proposed for PRSC 10.

96. Many potential environmental implications of growing investment programs in Vietnam are most suitably addressed through the strengthening of national capacity in environmental impact assessment. Under the World Bank’s parallel DPL on Public Investment Reform, the Government has engaged to carry out a number of regulatory reforms and capacity building initiatives in the areas of environmental impact assessment (EIA) and strategic environmental assessment (SEA).

TABLE 7: ASSESSMENT OF ENVIRONMENTAL IMPACTS

Policy Action	Intended or Likely Impacts	Status & Actions being Taken
Develop a plan to continue the current National Targeted Program for rural	Should have a positive impact on water quality in rural areas.	Plan is in draft

⁷ World Bank Toolkit “Assessing the Environmental, Forest, and other Natural Resource Aspects of Development Policy Lending” (World Bank, 2008).

Policy Action	Intended or Likely Impacts	Status & Actions being Taken
water supply and sanitation, which focuses on promotion of rural sanitation and addresses personal hygiene (trigger)		
Issue guidelines for efficient use of water resources to accompany the irrigation services fee waiver policy (trigger)	Should have a positive impact as the purpose of water resource guidelines is, in part, to better incorporate environmental considerations into water resources management plans and practices.	A circular and technical guidelines were issued to this effect
Adopt action plan and guidelines for treatment on waste and water discharged by hospitals, revising healthcare cost standard to secure appropriate budget for the treatment	Should have positive impacts by reducing water pollution levels.	The action plan and guidelines were prepared by MOH, and are pending approval. In addition, the World Bank is current preparing with MOH a Health Wastes Management Project.
Introduce a regular and transparent nation-wide monitoring system for urban sanitation to deliver information on status and development of the sector	No impact in the short run. Should have a positive impact in the long run if done correctly by promoting transparency and availability of information key to monitoring environmental water quality.	The first nation-wide survey has been sent to all provinces, and Ministry of Construction has started to receive responses.
Issue regulations on national environmental data collection, and collect the data	Should have a positive impact in the near future and in the long run. Availability and adequate management of environmental information underlies all environmental initiatives.	A guideline was issued to implement the Decree on environmental data collection
Establish a legal framework for strengthening urban planning and urban infrastructure management	Should have a positive impact given that one of the objectives of modernizing urban planning is to better incorporate environmental considerations into the planning process.	The Law on Urban Planning was adopted, and guiding decrees were also issued.

IMPLEMENTATION, MONITORING AND EVALUATION

97. The PRSC operations have been included in a number of evaluations of budget support operations, policy lending, and application of good principles in conditionality. A Quality at Entry Assessment (QEA) for the first PRSC cycle was conducted shortly after the approval of PRSC 2. The QEA rated the proposed series as highly satisfactory in terms of its strategic relevance and approach and to its poverty reduction and social inclusion aspects. All other dimensions were considered satisfactory. A review of Implementation Completion Reports (ICRs) by the Independent Evaluation Group (IEG) reached similar conclusions. Based on the relevance and achievements under most objectives, the overall outcome of the first PRSC cycle was rated satisfactory. Another assessment was conducted after PRSC 4, as a part of a broader evaluation of general budget support, commissioned by 24 donors and conducted by the University of Birmingham in seven countries. This assessment showcased Vietnam as a successful example of government-donor collaboration, with strong impact on policies. The assessment for Vietnam was updated after PRSC 5 by the same research team, by then working in a consulting firm (Mokoro). This update was financed by the World Bank as an input for the preparation of the current PRSC cycle. The updated assessment concluded that PRSCs were effective at supporting policy reforms, at linking policy and budgets, at

strengthening financial management, and at helping harmonization. The inclusiveness of process was highly valued. At the same time, PRSC operations were judged less effective at supporting policy breakthroughs and at helping policy implementation. Two more evaluations are ongoing at present, both at global level. One of them is by IEG, and its findings will soon be submitted to the Board. The other is conducted by the World Bank in preparation for the mid-term review of IDA 15. In this context, consultations with major stakeholders were conducted in Hanoi in February 2009.

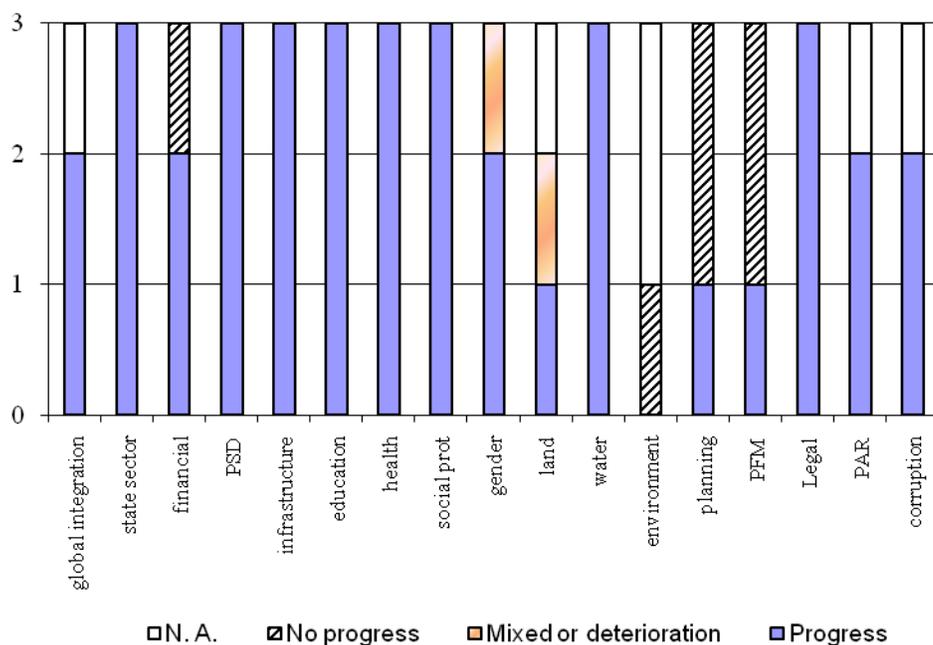
98. Progress in the implementation of the reform agenda in the PRSCs 6-10 is monitored through a set of development indicators, as described in the Program Document for the sixth Poverty Reduction Support Credit (2007). The indicators were chosen based on the monitoring framework for the Socio-Economic Development Plan (SEDP), but they are fewer in number. In the case of governance, the set of indicators goes beyond the SEDP monitoring framework. This was an area where the experience in monitoring was limited, and the use of enterprise and household surveys, as opposed to administrative self-reporting, was not yet common. At the beginning of this PRSC cycle, it was deemed impractical to monitor the progress towards development outcomes on an annual basis because collecting and processing survey data take time, and policy reforms are unlikely to yield outcomes immediately. The Board of Executive Directors approved that the assessments be done twice during this PRSC cycle, towards the middle of the cycle and at the end of it.

99. A midterm review of the progress towards development outcomes was conducted during the preparation of this operation. Detailed analyses and the indicators are presented in Annex 3. The progress towards achieving the development outcomes is summarized in the Figure 4.

100. Poverty Reduction Support Credits are designed to be holistic. Evaluating the impact of socio-economic policies is always difficult, because policies are not implemented in a vacuum, and there are many other factors at play. It is not easy to assess which part of the change in a broad development indicator is due to a specific policy as the channels through which outcomes can be produced are diverse, and causes and effects do not always have a linear one-to-one relationship. Any convincing analysis requires a credible counterfactual to appraise what would have happened in the absence of the policy being evaluated, but such a study is outside the scope of the PRSC operations in Vietnam. Therefore, the mid-term review focuses on the progress made in attaining the targets based on the indicators defined at the outset of this SEDP and PRSC cycle.

101. Overall, progress has been made towards achieving the development outcomes. Among the 45 indicators for which updated figures are available, 37 have made strides towards achieving the targets, 11 of which have already attained the goals (Figure 4). Whether the targets have been achieved or not depends on how ambitious the targets were and the nature of the indicators. Some indicators tend to make linear progress while others might have a J curve or a step-function. Therefore, the fact that they are already achieved should not be a reason for complacency, nor should slow progress be deplored without examining the reasons. Even with these caveats, the fact that progress is made in over 80 percent of the diverse areas covered under the program is credit to the Vietnamese government. It has managed to achieve these results despite the often-cited weakness in capacity, slow decision-making process, and two economic crises in the intervening years. According to these indicators, the progress was particularly solid in the areas of state sector reform, private sector development, infrastructure, education, social protection, water and sanitation, and legal development.

FIGURE 6: SUMMARY OF PROGRESS TOWARDS DEVELOPMENT OUTCOMES



102. The results of policy dialogue, measured as the share of outcome indicators making progress, are noticeably better for the business environment and social inclusion pillars than for the natural resources and modern governance pillars. It could be due to the choice of policy reforms pursued in the dialogue, strength and weaknesses of ministries and agencies in charge of the specific sectors, the selection of indicators, the speed at which outcomes could be expected to improve in different areas, natural comparative advantage of the PRSC as an instrument, effectiveness of the dialogue in a particular domain, among other things.

103. If the goal of PRSC series is to achieve as many targets for the outcome indicators as possible, the emphasis should shift towards the last two pillars. If the goal of the policy dialogue is to specialize in the most effective areas, the future policy dialogue should be held in areas under the business development and social inclusion pillars.

104. Any lesson would remain tentative, because the attribution problem cannot be solved and credible counterfactuals do not exist. Whatever the merits and shortcomings of the PRSCs, it is clear that the first three PRSCs in this cycle have accompanied progress in diverse areas. The lesson for development partners may be that even though the progress seems slow at times, it is unmistakably there when observed in a 4-5 year horizon. However, it is sobering that none of the indicators for environment is making progress, and this may be one area that calls for attention and concerted efforts in the future operations.

FIDUCIARY ASPECTS

105. **Fiduciary arrangements.** The fiduciary risks of the current public financial management systems, (budgeting, accounting, reporting and auditing) are assessed as moderate. Since the IMF does not currently have a program in Vietnam, it is not possible to rely on its assessment of the control environment of the SBV. However, the enactment of the Audit Law in 2005 helps address the issues related to audit and accounting arrangements. The Audit Law has established the State Audit of Vietnam (SAV) as an independent institution reporting to the National Assembly with the Auditor General being appointed and dismissed by the National Assembly. Audit reports were made public for the first time in 2006. The SBV is subject to auditing by SAV on an annual basis.

106. Deposit account (DA). To address fiduciary risks in the foreign exchange control environment, the Borrower will open and maintain a dedicated DA in US dollars for the Borrower's use once the Credit is approved by the Board. The DA will form part of the country's official foreign reserves. An equivalent amount will be credited to an account of the government available to finance budgeted expenditures. If after deposit in the DA, the proceeds of the Credit or any part thereof are used for ineligible purposes, as defined in the Financing Agreement, IDA will request the Borrower to refund the amount directly to IDA. Amounts refunded to IDA shall be cancelled.

107. Through SBV, the Borrower will report the exact sum received into the DA, ensure that all withdrawals are for "eligible" expenditures, indicate to IDA details of the Treasury account to which the Vietnamese dong equivalent of the Credit proceeds will be credited, and submit a report on receipts and disbursements for the DA. The Government will, if considered necessary by IDA, allow an independent external audit of the dedicated foreign currency DA. These processes and controls are intended to provide assurance that IDA funds have arrived at their intended destination to be used for their intended purposes, and are subject to the Borrower's rules and regulations.

DISBURSEMENT AND AUDITING

108. **Disbursement, reporting and auditing arrangements.** The Credit will follow IDA disbursement procedures for development policy lending operations, and the Credit proceeds will be disbursed in compliance with the stipulated release conditions. Various measures have been taken to ensure that the overall fiduciary policies and institutions are adequate to proceed with support from IDA and other development partners. Analytical underpinnings for the operation include the 2002 Country Procurement Assessment Review (CPAR), the 2005 PER-IFA and the CFAA (2007). Disbursement will not be linked to any specific purchases and no procurement requirements will have to be satisfied.

RISKS AND RISK MITIGATION

109. The risk of macroeconomic turbulence, especially those related to balance of payments and debt sustainability, continues to exist. If the authorities do not manage to convince the market of its determination to pursue macroeconomic stability, inflation pressure may continue, and along with it, the downward pressure on the dong. On the other hand, if the market becomes exuberant about Vietnam's potential, it could reignite large capital inflows causing the economy to overheat again. The authorities are aware of the risks and are monitoring developments in the economy. The Bank is engaged with the government in on-going discussion on both informal and formal basis, jointly with the IMF. An ongoing technical assistance project helps strengthen capacity for managing public finance and debt. The dialogue carried out through PRSC series seeks to enhance the quality and effectiveness of supervising capital flows, and improve communication and information made available to public.

110. Probably a higher risk is that the pace of reforms would slow because of the leadership's preoccupation with maintaining macroeconomic stability and with the Party Congress in 2011, a major political event in the country. The aim of this operation is to keep the momentum for the medium-term reform agenda. State sector reform is tackled from several different angles to this effect, including the recommendation to ensure transparency and competition when the state equitizes its assets, and separating the exercising of state ownership rights from the regulator function. Reforms in advancing gender equality, including female participation in elected bodies were also pursued in this operation.

111. The longer term risk is that Vietnam fails to address the governance issue in a systematic and fundamental way. Accountability, especially downwards, access to information, checks and balances are challenges for all countries at varying levels, and Vietnam needs to continue decisively down the path on which it has embarked. As the Vietnam Development Report 2010 *Modern Institutions* has

shown, improving governance requires increasing transparency at various levels. This area receives special attention in the proposed operation, including actions to improve transparency in public administration, informing the public of court judgments, and strengthening the audits of government operations.

112. Vietnam is now at a crossroads. The authorities have managed to weather the external shocks with increasing skillfulness, and have delivered impressive poverty reduction results. However, as the country approaches and reaches the middle-income status, there will be fewer easy reforms, and less external support in the form of concessional financing. It is time for the authorities and the development partners to prepare the medium-term engagement plan, and brace for more complex and difficult challenges. The World Bank is prepared to accompany the authorities in this transition through an array of complementary programs and projects, while ensuring that its overall partnership strategy remains well coordinated within the Bank and with other development partners. The remaining two operations in this PRSC cycle are very important for the country to enter the new phase with a strong momentum for reform.

ANNEX 1: LETTER OF DEVELOPMENT POLICY



STATE BANK OF VIETNAM

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Hanoi, May 18, 2010

To: Mr. Robert B. Zoellick
President
The World Bank
Washington, DC

Dear Mr. Zoellick,

Starting in 2001, the World Bank and the donor community have supported the economic renovation program of Vietnam through a series of eight Poverty Reduction Support Credits (PRSCs).

During this period, our economy grew at an annual rate in excess of 7 percent in real terms despite the intervening global financial crisis. The fraction of the population living below the poverty line, which stood at 28.9 percent in 2002, had declined to only 14.5 percent by 2008, with the trend continuing. This period has also seen considerable progress in social indicators, with Vietnam now being on a solid track to attain or exceed most of the Millennium Development Goals. Substantial advancement was made in the areas of business development, public administration reform and the strengthening of governance more broadly.

As you may know, our country was just emerging from a major domestic macroeconomic turbulence in 2008, when the global financial crisis broke out. The stabilization effort undertaken to counter the domestic turbulence had made our economy more resilient, allowing us to navigate this global crisis better than other countries in the region. Our economy experienced a slowdown, but still registered a growth rate of 5.3 percent in 2009, whereas inflation declined to 6.8 percent from 19.5 percent in the previous year. As we are on track to achieve higher growth rate in 2010, we are scaling down or phasing out most of the stimulus policies. We began to reduce the fiscal deficit so as to ensure debt sustainability while making sure that poverty reduction continues. We remain however vigilant of any developments that can lead to economic instability, and are upgrading our capacity to conduct effective macroeconomic policies.

We are also determined to carry on the reform process that we launched with *Doi Moi*. Building on the success of this process, Vietnam's Socio-economic Development Plan (SEDP) for 2006-2010 was approved by the National Assembly on June 29, 2006. In December 2006, the SEDP was presented to the Board of Executive Directors of the World Bank. The preparation for a new 10 year Socio-economic Development Strategy and the 5 year Socio-economic Development Plan to guide the country from 2011 onwards is underway. The new strategy and SEDP are expected to incorporate the past lessons and reflect the country's determination of rapid and inclusive growth.

The SEDP aims to sustain rapid economic growth so that Vietnam can move into middle-income status by 2010 and lay the foundations to become an industrialized country by 2020. The current PRSC cycle, starting with PRSC 6, aims to support the implementation of the SEDP.

The SEDP affirms that rapid growth should go hand in hand with improved sustainability, and increased resilience of the economy. Importance is attached to the quality of growth, which should be linked with poverty reduction, cultural development, comprehensive human development, exercise of democracy and social equity. The SEDP also aims to narrow the development gaps among regions, step by step, while preserving and improving the environment. We would like to draw your attention to the Chapter IV of the SEDP which provides the Development Orientation of various sectors over the period 2006-2010.

Overall, the objectives, tasks and solutions of the SEDP can be mapped on to three pillars, namely, business development, natural resources and the environment, and social development. Progress in these three pillars requires the modernization of institutions and state management, which can be seen as a fourth, underlying pillar.

Chapter IV of the SEDP highlights the goals, tasks, and solutions for achieving agricultural growth, industrial modernization, and service sector growth. Chapter VII identifies the roles of various stakeholders in business development. We aim to create favorable conditions for the development of the private sector without limiting its scales, fields or regions. Chapter IV.B details the goals, tasks, and solutions for the social sectors, while Chapter IV.C identifies goals and policies for the sustainable development of natural resources and protection of the environment.

In order to achieve the objectives of economic growth, business development, environmental sustainability and social equity we need to improve the institutional framework of the socialist-oriented market economy

in a comprehensive manner. The measures to this effect are especially highlighted in Chapter IX. The chapter emphasizes legal reforms for supporting a market economy, the importance of improving the quality of public administration, and strengthening the fight against corruption.

The government's resolution No. 3/2007/NQ-CP identifies the tasks of various ministries and agencies for implementing the SEDP and the state budget during this year. This resolution affirms our commitment to successfully achieving the targets identified in the SEDP.

The tasks listed in this resolution are closely aligned with the policy actions and triggers identified in the first three operations in this series (PRSCs 6-8) and in the proposed credit. Jointly with the next and last operation in the series, the proposed credit effectively supports the implementation of the reform agenda outlined in the SEDP. The proposed credit also contributes to harmonization, in the spirit of the Hanoi Core Statement on Aid Effectiveness. Our government appreciates the technical inputs provided through this process, as well as the resources to implement policy reforms and the reduced transaction costs in conducting the policy dialogue with the donor community.

Our government therefore requests the Association's assistance through this ninth PRSC, in recognition for the progress made in the implementation of our development strategy and at the time of fiscal difficulty. We recognize that many challenges lie ahead, but we are confident that we will be able to overcome them. We also recognize that the international environment is more uncertain at present and priority needs to be given to economic stability. We hope that we can count on the support of the Association to address these challenges and difficulties and make progress in the implementation of our reform program.

We look forward to your continued support.

Yours sincerely, ²²



Nguyen Van Giau
Governor

ANNEX 2: PRSC 6-10 POLICY MATRIX

Area	PRSCs 6-8	PRSC 9	PRSC 10 and beyond
Pillar I: Business Environment			
Global integration	<ul style="list-style-type: none"> • Grant trading and distribution rights to all foreign firms in line with international commitments • Issue regulations to guide the intellectual property law with adequate enforcement mechanisms • Establish consultation and information gathering mechanisms to identify the social and environmental impacts of WTO accession • Harmonize agricultural health and food safety regulatory tools with international standards in line with the SPS agreement • Tackle the infringement of copyrights and trademarks on a commercial scale in line with TRIP Agreement • Set up M&E framework for the implementation of government policies post-WTO accession • Make commercial scale infringements of patent, trademark rights and rights of design a crime 	<ul style="list-style-type: none"> • Improve competition and efficiency of the pharmaceutical sector through prevention of unfair commercial use of trial data 	<ul style="list-style-type: none"> • Reconcile food security objectives with flexibility in production and commercialization of rice • Incorporate the monitoring of social and environmental impacts of integration into policy processes for the implementation of WTO commitments • Complete legal framework for enabling improved provision of logistics services including multi-modal transport
State sector reform	<ul style="list-style-type: none"> • Further restrict list of sectors where 100-percent state ownership is to be retained • Use share auctions as the main mechanism for equitization, and allow foreign strategic investors • Classify all SOEs according to performance and publish the results • The State Capital Investment Corporation (SCIC) to begin receiving state ownership rights in equitized SOEs from ministries and provinces. • Assess scope and nature of lending and other transactions among affiliated parties in Economic Groups and General Corporations • Strengthen financial management of SOEs and their investments in other entities, defining the level of such investments 	<ul style="list-style-type: none"> • The Recipient has issued regulations on state-owned economic groups for better corporate governance and setting limits for cross share holding • Separate the exercise of ownership rights from the regulatory function in unequitized SOEs • Ensure competition and transparency in the sale of state capital in equitization process 	<ul style="list-style-type: none"> • Develop a time-bound plan to separate the exercising of the state-ownership rights from regulatory function in Economic Groups and large General Corporations • SCIC to disclose report on financial operations including those of companies in its portfolio

Area	PRSCs 6-8	PRSC 9	PRSC 10 and beyond
	<ul style="list-style-type: none"> • Transfer state ownership rights in equitized SOCBs and selected General Corporations to SCIC 		
Financial sector reform	<ul style="list-style-type: none"> • Require public disclosure of financial statements of SOCBs in line with internationally accepted standards • Increase equity stake allowed to foreign strategic investors in commercial banks • Approve equitization plans allowing participation of strategic investors for two SOCBs and complete the equitization of one of them • Issue a road map to enhance bank supervision, including off-site supervision and risk-management tools • Enhance the role of the banks' boards of directors and introduce fit-and-proper tests in line with international best practices • Prepare revised law on State Bank of Vietnam focusing its mandate on and enhancing its autonomy in regard to monetary policy and financial sector stability • Improve monitoring of foreign indirect investment by strengthening prudential rules and supervision for custodians and brokers • Adopt a contingency plan to address potential adverse effects stemming from the global financial crisis on banking sector • Complete equitization of one SOCB, and make progress in soliciting participation of strategic investors 	<ul style="list-style-type: none"> • The Recipient has finalized regulations to better assess commercial banks' portfolio risks, enhance public disclosure, and strengthen supervision • Develop a medium-term strategy for Vietnam Development Bank • Revise regulation to facilitate bank resolution and restructuring • Improve regulations on securities to foster development of domestic capital market 	<ul style="list-style-type: none"> • Enhance public disclosure and communication of SBV policies and banking sector statistics • Conduct portfolio review of VDB with view to assessing and better managing risks • Strengthen regulatory framework for VDB for assessment of asset quality and require disclosure of financial statements • Strengthen SBV's credit information center and facilitate development of private credit bureau • Transform HCMC Securities Trading Center into a stock exchange in line with IOSCO principles • Revise legal framework to make the State Securities Commission (SSC) an operationally independent body
Private sector development	<ul style="list-style-type: none"> • Introduce investment climate monitoring tool as part of annual enterprise survey • Reduce processing times and rationalize fee structure for business registration • Clarify authority on investment certificates and conditional sectors, and standardize related 	<ul style="list-style-type: none"> • Improve disclosure requirements of audited financial information of public companies • Adopt regulation on disclosure of financial risks in the financial 	<ul style="list-style-type: none"> • Formulate a roadmap to improve corporate and government bond markets to foster financial and economic growth • Submit new Labor Code to the National

Area	PRSCs 6-8	PRSC 9	PRSC 10 and beyond
	<p>documentation</p> <ul style="list-style-type: none"> • Issue guidelines to foreign investors transitioning to new Investment and Enterprise laws • Establish consultative mechanism to streamline licenses and oversee implementation of new investment-enterprise regime • Establish single-window mechanism for businesses to cover registration, tax, and seal formalities in selected provinces • Simplify enterprise registration including by unifying tax and business identification numbers and streamlining seal carving procedures • Rationalize incentives related to Enterprise Income Tax and simplify tax procedures for household businesses • Raise the cap on shareholdings by single foreign investors in unlisted companies • Issue regulation on agricultural extension in disadvantaged areas to promote poverty reduction • Promote SME development through revising regulations, formulating an action plan for supporting industries, and improving coordination among responsible ministries • Establish national business registry with unique number for business, tax, statistics, and seal agencies 	<p>statements of enterprises and banks</p>	<ul style="list-style-type: none"> • Assembly which contains guiding principles for labor dispute resolution and strengthening workers rights • Improve state oversight of aggregate exposure to exchange rate risks and maturity mismatch in private non-guaranteed debt incurred by enterprises and banks • Develop vehicle interoperability across borders and speed up customs clearance procedures • Strengthen regulatory framework for non-bank credit activities such as factoring and leasing services • Adopt guidelines to govern the operations of the Vietnam Competition Council • Enhance access of people with disabilities (PWDs) to micro credit and training in operating small businesses • Establish a legal framework and institutions to promote supporting industries
Infrastructure	<ul style="list-style-type: none"> • Decentralize investment ownership to better integrate capital and recurrent budgets in the road transport sector • Clarify contract specifications, investor qualifications and treatment of unsolicited proposals for BOT projects • Adopt wastewater charges based on cost recovery, with provisions to protect the poor • Adopt market-based pricing systems to 	<ul style="list-style-type: none"> • Strengthen legal framework and institutional capacity of the National Transport Safety Committee (NTSC) 	<ul style="list-style-type: none"> • Approve a Gas Master Plan to 2015 with visions to 2025, including a time-bound instruction to MOIT to prepare a Gas Market Reform Roadmap for consideration by the Prime Minister • Improve targeting of subsidies to enable better access of the poor to infrastructure services • Improve policy framework and procedure

Area	PRSCs 6-8	PRSC 9	PRSC 10 and beyond
	<p>estimate the costs of state-funded civil engineering investments</p> <ul style="list-style-type: none"> • Separate power transmission and generation assets and regroup transmission assets under a single National Power Transmission Corporation • Introduce modern principles of transparency and corporate governance in provincial infrastructure funds • Reduce traffic fatalities through strengthened enforcement and improved education programs • Facilitate access to driver training and testing and provide financial support to purchase special vehicles for people living with disabilities • Adopt a pricing system for electricity from renewable energy and provide incentives for government procurement of energy-efficient equipment • Revise the road law to improve traffic safety through inter alia better standards and strengthened supervision of commercial vehicle operators 		<p>for gas pricing</p> <ul style="list-style-type: none"> • Develop legal framework for sound operation of road maintenance • Develop vehicle interoperability across borders and speed up customs clearance procedures
Pillar II: Social inclusion			
Education	<ul style="list-style-type: none"> • Extend performance standards for primary teachers nationwide, including evidence-based assessments • Adopt transparent criteria to decide on university admission quotas on a pilot basis • Revise tuition fees at secondary and tertiary levels, better reflecting market conditions, and enhance policies to protect the poor • Issue roadmap for education information system to strengthen education management • Formulate education development strategy to 2020 focusing on equity of learning outcomes and relevance of contents 	<ul style="list-style-type: none"> • The Recipient has produced cost estimates and initiated public consultation on full-day schooling for primary education • Issue an action plan for conducting assessment for primary and secondary education for 2010 	<ul style="list-style-type: none"> • Institutionalize regular nationwide assessments and participation in international assessment programs of student learning outcomes • Develop a strategic action plan including clear functions, roles and responsibilities of MOET and existing resources to achieve a sustainable integrated education information system (EMIS) to strengthen education management • Support greater involvement of parents and communities in educational system assessments • Reprioritize budgetary resources towards

Area	PRSCs 6-8	PRSC 9	PRSC 10 and beyond
			non-salary expenditures including school construction <ul style="list-style-type: none"> • Facilitate establishment of empowered Boards with academic and business participation to increase autonomy of universities
Health	<ul style="list-style-type: none"> • Adopt HIV/AIDS law and prepare action plans to scale up harm reduction, fight stigma and discrimination • Improve budgetary balance between health infrastructure, human resources, subsidies and preventive care • Submit health insurance law which better pools risks and allows improved incentives in payment to service providers • Increase the health insurance premium paid on behalf of the poor and partially subsidize the near-poor • Regulate safe treatment of solid waste discharge by hospitals in line with international practices • Enhance treatment of medical waste discharged by hospitals at both central and local levels 	<ul style="list-style-type: none"> • The Recipient has adopted a law establishing a framework for national standards and a unified licensing system for all health care practitioners • Develop action plan and guidelines for treatment on waste and water discharged by health care facilities, revising healthcare cost standard to secure appropriate budget for the treatment 	<ul style="list-style-type: none"> • Ensure the national licensing system of health professionals is unified • Increased health insurance's utilization rate by the poor to 30 percent of the poor • Increase public expenditure on recurrent costs of HIV prevention and treatment program • Increased proportion of deliveries at commune health stations • Allocate resources to conduct early disability detection tests and improve availability of disability aids • Operate VSS as wholesale purchaser of health care packages and foster competition between providers • Develop policy and framework for monitoring the performance of healthcare providers

Area	PRSCs 6-8	PRSC 9	PRSC 10 and beyond
Social protection	<ul style="list-style-type: none"> • Adopt Social Insurance Law making the system financially viable and extending its coverage • Introduce voluntary pension program for farmers and informal sector, allowing for support for the poor to participate in the program • Adjust safety net for redundant SOE workers to cover state-owned plantations and farms • Prepare a strategic plan to ensure prudential and effective investment of social security funds 	<ul style="list-style-type: none"> • Update official poverty line(s) to reflect current conditions, agree on a methodology to update lines on a regular basis to reflect changes in the cost of living 	<ul style="list-style-type: none"> • Increase participation of the poor in voluntary pension program, with provisions for subsidies funded from the national budget or other sources • Conduct nationally representative survey for reliable data on economic activity, work conditions, earnings, labor relations • Pilot index-based flood insurance to address risks associated with natural disasters • Bring pensions closer to actuarial benchmark, narrowing gender-related gaps among others • Introduce single social security number for all targeted benefits and social insurance programs
Gender	<ul style="list-style-type: none"> • Unify legal framework to address gender disparities and increase women’s participation in decision making • Determine institutional responsibilities for the implementation of the Gender Equality Law and monitoring gender quality • Create legal framework for domestic violence prevention and control • Operationalize the Anti-Domestic Violence Law by adopting action plan and issuing guiding regulation • Issue regulation to assign institutional responsibilities and allocate budget for implementing measures in ensuring gender equality 	<ul style="list-style-type: none"> • Inter-ministerial circulars to be issued for implementing domestic violence law by key responsible agencies, including establishment of reporting system, supporting services to victims and clear measures for behavior change in place 	<ul style="list-style-type: none"> • Issue a set of national gender development indicators and criteria for sex-disaggregation in the national statistics • Adopt measures to promote women to senior decision-making positions • Bring pensions closer to actuarial benchmark, narrowing gender-related gaps among others
Pillar III: Natural Resources			
Land and forests	<ul style="list-style-type: none"> • Issue strategy to strengthen linkages between protective and economic functions of forests, and promote local ownership • Clarify resettlement and compensation process in 		<ul style="list-style-type: none"> • Establish criteria and time bound plan to assess the quality of forest resources nationwide • Extend duration of land use certificates and

Area	PRSCs 6-8	PRSC 9	PRSC 10 and beyond
	<p>cases without land-use certificates, and mechanisms for handling complaints</p> <ul style="list-style-type: none"> • Issue guidelines for forest development based on participatory land-use planning and independent monitoring • Transfer SFE land to local authorities for reallocation to households, ethnic minority groups and private enterprises with focus on poor areas 		<p>harmonize building ownership</p> <ul style="list-style-type: none"> • Use public auctions when the state leases or allocate land, except for agricultural land to poor farmers • Fulfill the preconditions for participation in climate-related financing mechanisms such as REDD • Issue guidelines on bottom-up land use planning and zoning with proactive roles for local communities and private sector • Adopt a rural development strategy for improved competitiveness, higher living standards and the sustainable management of natural resources • Increase transparency of land conversion, acquisition, resettlement, valuation and compensation
Water and sanitation	<ul style="list-style-type: none"> • Allocate institutional responsibilities for integrated river basin management • Adopt natural disaster mitigation strategy with attention to non-structural measures and guidelines for provincial and ministerial action plans • Issue regulations to ensure financial sustainability of irrigation services and provide financial relief for poor farmers • Allocate institutional responsibilities to develop a unified national sanitation strategy • Adopt a national action plan for information, education and communication for personal hygiene, safe water and environment sanitation 	<ul style="list-style-type: none"> • The Recipient has developed a proposal to continue the current NTP for rural water supply and sanitation, which focuses on promotion of rural sanitation and addresses personal hygiene • Introduce a regular and transparent nation-wide monitoring system for urban sanitation to deliver information on state and development of the sector 	<ul style="list-style-type: none"> • Issue regulation to follow co-management practices of fishery resources at provincial level • Adopt regulation to promote participation of private sector and non-state stakeholders in rural water supply and sanitation • Revise Water Resources Law covering all activities that exploit water or impact on its quality • Establish river basin organizations and sharing plans for nine priority basins with competing interests and water conflicts • Adopt national strategy for Integrated Coastal Zones with links to river basin management plans • Develop economic tools for water resources management
Environment	<ul style="list-style-type: none"> • Mandate public consultation on environmental impact assessments commune level with public feedback incorporated in report to relevant 	<ul style="list-style-type: none"> • The Recipient has issued technical guidelines for efficient use of water resources to 	<ul style="list-style-type: none"> • Issue technical guidelines for application of SEA in the process of socio-economic development planning

Area	PRSCs 6-8	PRSC 9	PRSC 10 and beyond
	<ul style="list-style-type: none"> authorities • Strengthen incentives for solid waste management using economic instruments • Approve national target program on adaptation to climate change and allocate institutional responsibilities for its implementation • Adopt regulations for performance contracts for sewerage and drainage at local levels • Adopt legal framework for biodiversity protection to clearly delineate and better administer protected areas, and to improve community consultation process 	<ul style="list-style-type: none"> complement the irrigation services fee waiver policy • Issue regulations on national environmental data collection, and collect the data 	<ul style="list-style-type: none"> • Strengthen regulation against pollution through increased penalties for non-compliance and suspension of extreme violators • Reduce transaction costs to facilitate access to carbon finance under clean development mechanism of the Kyoto Protocol
Pillar IV: Modern governance			
Planning processes	<ul style="list-style-type: none"> • Allocate state capital expenditure transparently, using criteria like population, poverty and ethnicity • Adopt regulations for master and regional plans specifying issues, process, agency responsibility, and require disclosure • Establish criteria for selecting public investment projects and mechanisms to monitor their financing and implementation • Establish list of indicators, data sources and reporting mechanism for monitoring of SEDP 	<ul style="list-style-type: none"> • Establish a legal framework for strengthening urban planning and urban infrastructure management 	<ul style="list-style-type: none"> • Focus planning on public goods and regulation, with consultation, results orientation and costing • Integrate sectoral policies and national targeted programs at the commune level emphasizing participation at all stages
Public financial management	<ul style="list-style-type: none"> • Disclose results of audits conducted by the SAV and its annual audit plan • Publish report on budget execution for current year and budget plan for forthcoming year, on an annual basis • Issue regulations for periodic disclosure of external public debt and its composition • Implement regulation to guide the establishment and issuance of benchmark government bonds • Consolidate administration procedures for all taxes 	<ul style="list-style-type: none"> • The Recipient has formulated a regulation for internal audit development and implementation and defining organizational responsibilities • Strengthen the legal framework for taxing the use of non-agricultural land and the capital gains to increase efficiency and equity, and dissuade speculation 	<ul style="list-style-type: none"> • Enhance the management of transport infrastructure assets through decentralization and adoption of financial mechanisms for investment, operation and maintenance • Conduct assessment of public financial management performance employing the PEFA framework • Prepare for the institutionalization of the Medium-Term Expenditure Framework (MTEF) through the revised State Budget

Area	PRSCs 6-8	PRSC 9	PRSC 10 and beyond
	<p>into a single law, modernizing assessment and enforcement methods</p> <ul style="list-style-type: none"> • Issue regulations on content and timing of disclosure of SAV reports, including audit reports of individual entities • Revise the investment laws to improve efficiency in state capital expenditures and strengthen the management of public investment projects • Conduct mid-term review of the SEDP and strengthen result-based approach in M&E framework for planning • Formulate public debt management law consolidating the management of domestic and external debt • Conduct public financial management reforms including commitment accounting, vendor management and new chart of accounts • Adopt procedures for annual audit plan ensuring sufficient frequency and adequate provincial coverage 		<p>Law</p> <ul style="list-style-type: none"> • Strengthen monitoring and evaluation system of local governments, so that the decentralization process does not lead to chaos • Extend publication of disaggregated within-year budget execution to agencies and by province • Issue regulations on content and publication schedule of end-year financial statements for the state budget • Issue public sector financial reporting standards in line with international standards • Implement the Treasury and Budget Management Information System (TABMIS) nation-wide
Legal development	<ul style="list-style-type: none"> • Establish separate legal, judicial, economic, and budget committees to strengthen the National Assembly’s supervisory role • Simplify and broaden access to legal aid for marginalized and vulnerable groups • Adopt policies to encourage the participation of non-state establishments in the delivery of public services • Create a facilitating legal framework for the establishment and operation of economic collaborative groups and social and charity funds • Enhance the responsibility of enterprises vis-à-vis consumers and strengthen the handling of consumer complaints • Establish the National Bar Association, with 	<ul style="list-style-type: none"> • Increase the systematic and widely accessible publication of court judgments, beginning with Supreme People’s Court cassation • Develop effective legal framework on consumer protection 	<ul style="list-style-type: none"> • Enhance access to information by the public and specify the mechanisms • Revise the legal framework to facilitate establishment and operation of associations • Transform Supreme Peoples’ Procuracy into an institution with public prosecution functions only • Permit appointment of specialized judges or experts to assist tribunals to more promptly resolve complex legal issues • Permit greater access to media to cover court proceedings

Area	PRSCs 6-8	PRSC 9	PRSC 10 and beyond
	<p>governing documents and structures approved by the community of lawyers</p> <ul style="list-style-type: none"> • Simplify the procedures, strengthen the management, and improve the monitoring and complaints system of civil judgments execution 		
Public administration reform	<ul style="list-style-type: none"> • Extend One-Stop-Shop (OSS) to all ministries and agencies and introduce inter-linked OSS to further simplify administrative procedures • Adopt principles of competition, merit-orientation and transparency in the recruitment, appointment, promotion and dismissal of civil servants • Dissociate civil service pay structure from minimum wage setting widening the range of minimum wages • Formulate common standards for IT applications and e-government interfaces at central and provincial levels • Develop indicators for monitoring and evaluating the implementation of PAR and provision of public administrative services 	<ul style="list-style-type: none"> • The Recipient has issued regulation and developed pilot schemes to strengthen competition, merit orientation, and transparency in the recruitment, appointment, and promotion of civil servants 	<ul style="list-style-type: none"> • Issue PAR Master Plan for 2011-2020 and accompanying results-oriented M&E system • Conduct user feedback surveys to assess quality of public service delivery in education and health services • Extend adoption of ISO standards to simplify procedures and improve quality of administrative agencies • Continue to align civil service pay to market alternatives, accounting for better pensions in the state sector
Fighting corruption	<ul style="list-style-type: none"> • Operationalize Steering Committee against corruption with power to suspend high level officials if suspected • Disclose results of investigations against corruption for cases overseen by the Government Inspectorate • Establish legal framework to protect and reward whistle blowing on corrupt activities • Implement asset declaration requirement in regard to senior officials and their immediate families, with penalties for non-compliance • Introduce mandatory rotation for sensitive government positions and payment of government salaries through bank accounts • Issue a comprehensive anti-corruption strategy, setting out preventive, demand-side, and sector- 	<ul style="list-style-type: none"> • The Recipient has (a) carried out annual procurement compliance and performance audits of projects funded by state budget; (b) made public the findings of selected audits; (c) adopted a pilot procurement code of ethics for participants; and (d) launched an open access electronic bidding system • Develop an enabling legal framework to protect and reward witnesses and whistle-blowers • Improve reporting system to strengthen implementation of asset 	<ul style="list-style-type: none"> • Develop framework for monitoring progress on the implementation and results of efforts to combat corruption • Prepare a revised Press Law to encourage accurate, objective and responsible reporting on corruption • Introduce the fight against corruption as a subject in schools, universities and civil servants' training courses • Disclose report on mechanisms to increase public awareness and involvement in the fight against corruption • Disclose report on review of laws in areas considered vulnerable to corruption, highlighting loopholes

Area	PRSCs 6-8	PRSC 9	PRSC 10 and beyond
	specific solutions, and monitoring mechanisms	declaration	

* Boldface indicates prior actions.

ANNEX 3. MONITORING PROGRESS TOWARDS DEVELOPMENT OUTCOMES

I. INTRODUCTION

1. The framework for measuring the progress in the implementation of the reform agenda supported by Poverty Reduction Support Credit (PRSC) 6-10 was determined during the preparation of PRSC6 in 2007, and is described in Vietnam Development Report (2007) titled *Aiming High*. Section 2 of this report (pp14-28) describes in detail how the monitoring framework was prepared, what should be measured, strengths and weaknesses of the proposed framework, and the availability (or lack thereof) of data. The PRSC series is designed to support implementation of the reform agenda of the Socioeconomic Development Plan (SEDP) 2006-2010, and as such, its monitoring framework is adapted from that for SEDP 2006-2010. During the adaptation process, the number of the indicators was reduced, and emphasis was placed on *measurable* indicators of *outcomes*.

2. Evaluating the impact of socio-economic policies is always difficult, because policies are not implemented in a vacuum, and there are many other factors at play. It is not easy to assess which part of the change in a broad development indicator is due to a specific policy. Any convincing response requires a credible counterfactual to appraise what would have happened in the absence of the policy being evaluated.

3. Even though this problem cannot be overcome, monitoring indicators were identified in order to gauge the general progress in the reform agenda, which is considered to be correlated to the overall effectiveness of the policy dialogue. Conceptually, the desired outcome, such as healthier citizens, are mapped to *policy variables* (inputs), which are under direct government control, such as a decision to subsidize the health insurance fees for the poor. Between inputs and outcomes, there are “outputs,” for example, an increased access to health care services, which are immediate consequences of implementing a particular policy.

4. In this example, even if there is a consensus that the Vietnamese citizens in general are healthier in 2010 than they were in 2006, and the government did introduce a policy of subsidizing the health insurance premium for the poor, the attribution problem is not solved. First, there is a measurement problem of how to determine whether the Vietnamese in general are healthier. They may be healthier in some respects (longer life expectancy, for example) but not in others (incidence of lung cancer, for example).

5. Second, even if a general measure of health can be agreed upon, the causality between the policy instrument (health insurance subsidy) and the outcome/output cannot be proven. The Vietnamese maybe healthier because they have more affordable access to health care facility or the country enjoyed milder climate during the last 5 years. Even the relationship between inputs and outputs is tenuous, as the increased visits to health clinics can be attributed to easier access thanks to the affordable health insurance or to a higher incidence of sickness in the population due to an epidemic.

6. Third, even if it can somehow be established that the health insurance subsidy was a useful policy, it does not prove that it was the best policy for the given cost (for example, additional training of doctors, financed through the funds used for the subsidy scheme, may have

led to higher incidence of health). In addition, it may only have been useful because there was a breakthrough in public financial management, which allowed additional funds to be allocated to subsidizing the health insurance for the poor.

7. On the other hand, even if the implemented policies were exactly right, they may fail to bring about the desired outcomes due to external reasons, such as natural disasters or a new virus. It may also take more than a few years for a particular policy to achieve the intended outcomes, and the progress in intervening years rarely comes in steady, monotonic improvements.

8. In-depth analyses of counterfactuals from similar countries (after controlling for country-specific characteristics) which did not implement similar policies or implemented different sets of policies are outside the scope of this review report.

9. Imperfect though it is, the evaluation frameworks selected for SEDP and PRSCs 6-10 are an improvement over their predecessors, which focused heavily on quantitative output target (for example, how many tons of rice to be produced). They recognize the outcomes as the targets of the policies, and represent an attempt to link these targets with the policies being implemented.

10. While bearing in mind the limitations described above, this report does mainly three things: it describes the outcome indicators, reports the progress made in achieving these outcomes, present the policies that could have contributed to bringing about the outcomes, and lessons that could be used for future operations, PRSC10 and beyond.

II. DESCRIPTION OF THE OUTCOME INDICATORS

11. There are four pillars in the SEDP and PRSCs, business environment, social inclusion, natural resource management, and modern governance. Each pillar has several areas, 17 in total. Three development outcome indicators were selected in each of these areas, resulting in 51 indicators.

12. The selection criteria were that the indicators summarize the progress in a particular area, that they are measurable, that they are (likely to be) available for the baseline year and periodically thereafter, and that a target value for 2011 is available in some strategic document. It was not easy to find such indicators, and in retrospect, not all of them were well-suited for the purpose.

13. In addition, not all of them were well-defined, and the availability turned out to be a problem for some of them. At the time of writing, 6 indicators are still missing out of 51. These indicators are (i) client satisfaction with customs, (ii) child malnutrition rate; (iii) the quality of surface water; (iv) quality of air, expenditure; (v) user satisfaction with government services; and (vi) households having suffered from corruption.

14. The indicators concerning satisfaction of government services and corruption, (i), (v) and (vi), are survey-based qualitative measures, which present special challenge in evaluating outcomes overtime, even if identical questions are asked to respondents selected using the same sampling technique. As is discussed in detail in VDR 2010 *Modern Institutions*, the surveys found evidence for both improving services and declining satisfaction, implying that enterprises and households are becoming more demanding over time. Further complicating the problem is that the surveys do not always ask the same

questions or use the same sampling techniques, so even when similar survey results are available, direct comparisons over time is not possible.

15. For child malnutrition rate, the metric of “malnutrition” was changed in 2007, rendering 2005 and 2008 results incompatible. If the figures are taken at face value, the rates went up, although this is almost certainly not the case. A research project is underway at National Institute of Nutrition to manipulate the earlier data, so that the break in the time-series can be overcome.

16. The two environmental indicators, on surface water and air, were not defined at the beginning of the PRSC cycle. Subsequently, it was determined that for air quality indicator, using continuous monitoring data from two major cities, Hanoi and Ho Chi Minh City of total particular suspension (TSP) will give a broad overview of the air quality in urban areas across long enough time-series. The efforts to collect the historic and current data are underway. What the target value should be has not been identified in strategic documents. It proved more difficult to determine what might constitute a good broad indicator for surface water quality. Scientists from the government and development partners suggested that Biological Oxygen Demand (BOD) from major rivers as a candidate. Availability of such data across long enough time-series is being investigated. Unavailability of these two indicators is unfortunate, as anecdotal evidence seems to suggest deterioration in these areas, and policy changes would be necessary to reverse such trends, if true.

Table A3.1. Monitoring progress towards development outcomes

Area	Indicator	Definition	Production	Baseline (year)	Most recent (year)	Target*
Pillar I: Business development						
Global integration	1. Export orientation	Merchandise exports as a proportion of GDP	GSO	61% (2005)	73.5% (2008)	65%
	2. International alignment of standards	Proportion of technical product standards in line with international ones	STAMEQ (MOST)	25% (2005)	34% (2008)	35%
	3. Client satisfaction with customs	Proportion of importers and exporters claiming they are satisfied with customs services	Clients survey by Vietnam Institute of Economics	33.9% (2005)	Mid-term figures not available ¹	55% (2013)
State sector reform	4. Number of SOEs	Number of enterprises with 100% state ownership	NSCERD	2100 (2006)	1546 (2008)	500
	5. State capital in SOEs transferred to SCIC	Fraction of state capital in SOEs transferred to SCIC by line ministries, provinces and general corporations	NSCERD and SCIC	None (2006)	40.2% ² (2008)	50%
	6. SOEs with poor performance	Number of SOEs classified in the bottom "C" tier of performance as a share of total SOEs according to Decision 224/06.	MOF	15.6% (2005)	8.0% ³ (2007)	8%
Financial sector reform	7. Quality of loan portfolio	Required provisioning for possible non performance in all outstanding credit	SBV	6-9%	2.8% (Sept 2008)	Less than 5%
	8. Stock market capitalization	Ratio of stock market capital to GDP	SSC	22.8% (2006)	36.7% (2009)	30%
	9. Share of strategic investors' ownership in SOCBs	Total equity held by strategic, non-government shareholders in SOCBs, in percentage of total SOCB capital	SBV	None	0% (end 2008)	20%

Private sector development	10. Employment in private enterprises	Number of paid employees in non-state enterprises, excluding collective enterprises	GSO (Annual Enterprise Survey)	4.0 million (2005)	4.8 million (2006)	7 million
	11. Private enterprises away from the growth centers ⁴	Number of registered private enterprises in operation outside the South East Region, Danang, and Red River Delta	GSO	33.5 thousand (2005)	52.5 thousand (2008)	70 thousand
	12. Private domestic investment	As a proportion of total investment	GSO	30% (2001-2005)	41.3% (2008)	35.3%
Infrastructure	13. Enterprises' satisfaction with infrastructure	Proportion of enterprises citing infrastructure as either a major or severe constraint for conducting business	World Bank's Enterprise Surveys 2005 and 2009, panel firms	Transport: 27% Electricity: 19% (2005)	Transport: 10% Electricity: 13% (2009)	5%
	14. Poor communes with basic infrastructure	Fraction of 1,700 poorest communes in Program 135-2 with schools, clinics and electricity	Program 135 monitoring system (CEM)	Schools: 78.2% Clinics: 82% Electricity: 67% (2007)	Schools: 80% Clinics: 98% Electricity: 85% (2008)	Schools: 100% Clinics: 100% Electricity: 80%
	15. People living in inadequate housing in urban area ⁵	Fraction of the population living (i) in temporary houses (ii) without access to clean drinking water, and (iii) without access to adequate latrine	GSO (VHLSS)	temp house 8.9% water 11.0% latrine 10.4% (2004)	temp house 5.2%, water 11%, latrine 3.8% (2008)**	0% for all three by 2020
Pillar II: Social inclusion						
Education	16. Children with disabilities attending school	Proportion of children with a functional disability attending primary school	GSO (VHLSS 2006) and MOET (district level audit 2007-8 school year) ⁶	56.7% (2006)	63.1% (2007-8)	65% by 2015, 70% by 2020
	17. Learning outcomes in primary school	Proportion of Grade 5 students below functional reading level	Learning outcome surveys done in 2001, 2007, and 2010	11% (2001)	9.7% (2007)	10% by 2020
	18. Universities meeting international	Proportion of universities that has been independently evaluated	MOET	None	28.6% (40/140 universities) (2008)	100

	quality standards					
Health	19. Child malnutrition rate	Proportion of children stunted (low height for age) or underweight (low weight for age).	National Institute of Nutrition (NIN) Nutrition survey conducted every two years. Standards were adjusted in 2007	Stunting: 29% Underweight: 25% (2005)	Stunting 32.6% (new metric) ⁷ Underweight 19.9% (2008)	Stunting: Below 25% Underweight : Below 20%
	20. Poor people with free health insurance	Proportion of people below the new national poverty line who have been provided with free health insurance	GSO (VHLSS)	49% (Kinh/Chinese) 78% (ethnic minorities) (2006)	38% (Kinh/Chinese) 64% (ethnic minorities) (2008)**	100%
	21. Use of modern health care facilities by the poor	Average annualized contacts with hospitals for the poorest quintile	GSO (VHLSS)	0.15 (2004)	0.23 (2008)**	0.3
Social protection	22. Poverty among the population at large	Proportion of people below the new Vietnam poverty line	GSO (VHLSS)	20% (2004)	14% (2008)**	10%
	23. Poverty among ethnic minorities	Proportion of ethnic minorities below the new Vietnam poverty line	GSO (VHLSS)	61% (2004)	49.7% (2008)**	40%
	24. Contributors towards old-age pensions	Includes both the compulsory and the voluntary schemes. In percent of the labor force	VSS, GSO, Social Insurance Department (MOLISA)	16% (2006)	20% (2008)	30%
Gender	25. Leadership positions held by women	Proportion of female delegates at the National Assembly. In percentage of total	MOHA	27% (2006)	25.8% (2007)	33% ⁸
	26. Asset ownership among women	Proportion of land use certificates held in the name of both spouses or a female person	GSO (VHLSS)	30% (2004)	35% (2008)**	45%

	27. Wage employment among women	Percentage of wage employment in all jobs held by women aged 18-64 in the past 12 months	GSO (VHLSS) /MOLISA (labor force survey)	17.9% (2004)	30% (2008)**	25%
Pillar III: Natural resources						
Land and forests	28. Client satisfaction with urban land administration offices	Percentage of users highly satisfied with government services; Percent of users highly dissatisfied or dissatisfied ⁹	Citizens Report Cards (2004) VHLSS Governance Module (2008)	Highly satisfied: 23% Highly dissatisfied or dissatisfied: 19% (2004)	Highly satisfied: 1% Highly dissatisfied or dissatisfied: 23% (2008)	30%
	29. Forest land allocated to local communities	Proportion of forest land allocated to local people and communities, for all of Vietnam and the Central Highlands	MONRE	All of Vietnam: 27% Central Highlands: 2% (2005)	All of Vietnam: 29% ¹⁰ Central Highlands: 3% (2008)	All of Vietnam: 30% Central Highlands: 15%
	30. Forest quality	Proportion of land area under forest with a closed canopy, multi-story-age profile and species diversity, abundance and distribution	FIPI of MARD (possible with additional remote sensing data)	4.2% (2005)	3.8% ¹¹ (2008)	10%
Water	31. Population with access to improved or clean water	Includes urban and rural population. Includes all improved water sources excluding all hand dug wells	GSO (VHLSS)	Urban: 82% Rural: 48% (2004)	Urban: 89% Rural: 60% (2008)**	Urban: 95% Rural: 75%
	32. Population with hygienic sanitation.	Population with access to properly designed and installed sanitation.	GSO (VHLSS)	32% (2004)	38% (2006)	75%
	33. River basins with inter-provincial management	Number of river basins with inter-provincial water allocation procedures established and operational	MONRE	3 (2006)	4 (2008)	4

Environment	34. Quality of surface water	Quality of surface water in key areas as measured by Vietnam Environmental Agency (VEA) monitoring systems	VEA collects information about surface water quality at monitoring stations nation wide	Work in progress	Adequate indicator not available ¹²	
	35. Quality of air	Quality of air in key areas as measured by Vietnam Environmental Agency (VEA) monitoring systems	VEA collects information about air quality at monitoring stations nation wide	Work in progress	Work in progress ¹³	To be determined
	36. Protection of bio-diverse wetlands	Number of wetlands of international importance (26 by Ramsar criteria) included in the protected area system	MARD	2 (2006)	2 (2008)	7
Pillar IV: Modern governance						
Planning processes	37. Provincial screening of public investment	Number of provinces that have issued guidelines for screening public investment projects at the pre-appraisal stage, including sound cost benefit analysis	MPI	None (2006)	None (2008)	30
	38. Adoption of integrated regional planning	Number of regions with a cross-sectoral master plan, integrating urbanization, large-scale infrastructure and environmental concerns	MPI	None (2006)	None (2008)	2
	39. Provinces adopting modern planning principles	Proportion of provinces using a participatory approach to planning in the preparation of their annual plans and adopt a results-based monitoring approach	MPI	3 (2006)	10 (2007)	30
Public financial management	40. Extent of unreported public expenditure	Number of statutory funds that are not reported in the budget, budget execution reports or annual financial statements, and the share of 5 main centrally-controlled statutory budget relative to the reported budget. ¹⁴	MOF based on PEFA assessment	19 funds, 12.8% (2006)	19 funds, 13.5% (2007)	To be determined

	41. Public agencies with internal auditing functions	Number of sector ministries and provinces that have established an internal audit function and started to publish auditing reports	MOF	None (2006)	None (2008)	4
	42. Public debt and public guarantees	Ratio of public debt to GDP, inclusive of publicly guaranteed debt at all levels of government	MOF	43.5% (2006)	44% (2008)	lower than 55%
Legal development	43. Consultation in the law-making process	Percentage of draft laws and ordinances posted in the National Assembly website for comments.	Office of National Assembly	0 (2006)	100% of laws 87.5% of ordinances (2008)	100%
	44. Number of civil society organizations legally registered	Number of civil society organizations registered under Decree 88 and the Law on Associations at national and provincial levels	MOHA and PPCs.	350 national and 2500 provincial (2006)	400 national and 6000 provincial (2008) ¹⁵	700 national and 5000 provincial
	45. Fraction of civil judgments enforced	Number of civil judgments enforced in percentage of all those subject to enforcement	MOJ (Department of Civil Judgment enforcement)	45% ¹⁶ (2006)	51% (2008)	50%
Public administration reform	46. Provinces with e-government interfaces	Percentage of provinces with an online guidance and services for businesses	OCG State Administrative management computerization	72 and 2% (2006)	80 and 13% (2008)	100 and 30%

	47. User satisfaction with government services	Percentage of users highly satisfied with government services; Percent of users highly dissatisfied or dissatisfied.	MOHA/GSO Pilot report card survey (2004) GSO (Governance module attached to VHLSS 2008) ¹⁷	Highly satisfied: Primary education 33%; Secondary education 24%; Health 32%. Highly dissatisfied or dissatisfied: Primary education 0%; Secondary education 2%; Health 7% (2004)	Highly satisfied: Primary education 5%; Secondary education 3%; Health 3%. Highly dissatisfied or dissatisfied: Primary education 4%; Secondary education 2%; Health 9% (2008)	50%
	48. Provincial departments with one stop shop model	Proportion of provincial departments that have adopted the one stop shop model	MOHA	67% (2006)	82% ¹⁸ (March 2009)	80%
Fighting corruption	49. Households having suffered from corruption	Fraction of households who say they pay bribes when dealing with vulnerable government agencies as specified in the diagnostic study on corruption	Diagnostic study on corruption Table 2.4 (2005) GSO (Governance module attached to VHLSS 2008)	50.8% (2005)	Adequate indicator not available ¹⁹	35%
	50. Enterprises having suffered from corruption ²⁰	Fraction of enterprises saying that firms in its industry sometimes make unofficial payments; Average percent of sales paid in unofficial payments	World Bank Enterprise Surveys 2005 and 2009, panel firms	Percent saying similar firms sometimes make unofficial payments: 39% Average percent of sales: 0.6% (2005)	Percent saying similar firms sometimes make unofficial payments: 22% Average percent of sales: 0.7% (2009)	45%

	51. Proportion of entrepreneurs that see corruption as a binding constraint to business	Fraction of enterprises who say corruption is a major or very severe obstacle; Fraction of enterprises who say corruption is no obstacle.	World Bank Enterprise Surveys 2005 and 2009, panel firms ²¹	Major or very severe obstacle=16% (2005); No obstacle=40% (2005)	Major or very severe obstacle=5% (2009); No obstacle=74% (2009)	5%
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* Target value is for 2011 unless otherwise specified.

** World Bank estimates (preliminary). Small adjustments are expected.

ENDNOTES

1. Preparations for a new survey have started, to be completed in 2011.
2. Share of capital that was owned by the State in 2006 (excluding Economic Groups and General Corporations -- there was no decision to equitize these) transferred to SCIC (measuring the flow, not what is owned by SCIC, as SCIC divests and makes its own investments too).
3. Figures for 2006 and 2007 are approximate, as the total number of GCs is not reported.
4. Growth centers are defined as Red River Delta, Da Nang and South East. Quang Ninh is not included in RRD. The number of registered enterprises is a census until 2008. After 2009, GSO uses a 20% sample survey for firms (fewer than 10 workers) and census for larger firms.
5. Changed the definition from "fraction of population living in houses not meeting government standards" to "Fraction of the population living (i) in temporary houses (ii) without access to clean drinking water, and (iii) without access to adequate latrine" as we could not reconstruct the baseline figure of 25% which was in the original matrix from VHLSS 2006. In the VHLSS questionnaire, (i) is straight forward; (ii) sum of three categories: "other well (non filtered)," "rain water," "river, lake, or pond (surface water)"; (iii) sum of two categories 'directly over water' and 'other.'
6. Defined as "age-appropriate children living with disability attending primary or lower secondary school" (from the district FSQI audit). This is not directly comparable with the base line data, which is based 2006 VHLSS. The 2006 VHLSS has primary enrollment of disabled children as 56.7% using a high threshold for disability that drops children with more mild functional difficulties. If those children are included, the enrollment rate is 68.7%. Total number of disabled children -- using lower threshold is 63, using higher threshold is 40. But those are raw observations, while the percentages are created using weights.
7. Metric was changed in 2007. Following up to see if the baseline year can be calculated using the new metric.
8. No change until the elections (every 5 years). Thirty-three percent of candidates were women. By May 2011, new candidate list is expected to be available. The target for 2011 is from the National Strategy (5 year National Plan has a lower target of 30%)
9. The CRCs of 2004 were carried out in certain cities and for certain services, with sampling targeting poor and migrant areas of the cities. The VHLSS Governance Module of 2008 covered the same cities and similar services, but for a random sample of households. Due to differences in sampling, comparisons are highly tentative. Wording of the questions was similar but not identical. 2004: "(F42) How do you rate your overall satisfaction with the land/house registration services? Very satisfied 1, Somewhat satisfied 2, Undecided if satisfied or not 3, Somewhat dissatisfied 4, Very dissatisfied 5." 2008: "(M91c4_1) In general, which is your level of satisfaction with the following services? (Issuance of land use right and house ownership right certificates) Very low 1, Low 2, Neither high nor low 3, High 4, Very high 5, Don't know 9" The numbers presented represent the simple average across 4 cities/provinces (Hai Phong, Nam Dinh, Da Nang, and TP-HCM). See "Note on Monitoring Indicators" for details.
10. Forest area is expanding, so the share is calculated using 2005 forestry area as the denominator for all years. Source: <http://www.kiemlam.org.vn>, MARD, Decision 1267 Decision 1267/QD-BNN-KL. The area allocated in central highlands is an expert estimate.
11. Expert estimates. Official figures are not yet available.
12. At the workshop with CEM VEA held on 11/19/2009, convening government and donor scientists, it was agreed that there is no one single indicator that can summarize the overall quality of surface water. Any one indicator would be more misleading than useful.
13. Workshop with CEM VEA held on 11/19/2009. CEM to produce data on Total Suspension Particles.
14. Agreed with MOF that the so-called "off-budget" items should not be included in this indicator, but only the "unreported statutory funds (defined in CFAA)" should be counted. Of 19 such funds, only 8 are centrally controlled. MOF said 2 funds dominate everything else (social security and health insurance). MOF provided some information about 5 statutory funds for 2006 and 2007 (filed separately). Some doubt about whether statutory funds are the only unreported expenditures.
15. MOHA updates the numbers every two years. Next update expected in 2010.
16. Redefined as "judgments completely enforced of those subject to enforcement" to keep the figures comparable across time.
17. The CRCs of 2004 were carried out in certain cities and for certain services, with sampling targeting poor and migrant areas of the cities. The VHLSS Governance Module of 2008 covered the same cities and similar services, but for a random sample of households. Due to differences in sampling, comparisons are highly tentative. Wording of the questions was similar but not identical. Differences in sampling make these very tentative comparisons. In addition, it should be noted that the baseline was extremely positive.

18. This figure is from March 2009 (993 out of 1213), while the previous years are from January 2007 and January 2008, respectively. There was a difficulty arising from Hanoi and Ha Tay merging in early 2009.
19. Cannot be determined as indicators differ over time. However, VHLSS Governance Module asks if respondents think corruption is getting better, worse, or no change. Among users of services: Primary education: 27% said improving, 9% said worsening. Central health: 24% said improving, 22% said worsening. Police: 24% said improving, 16% said worsening. Courts: 23% said improving, 17% said worsening. In every case, most respondents said no change.
20. The WB Enterprise Surveys of 2005 and 2009 has similar, but not identical, questions on the percentage of sales paid in bribes. 2005: "We've heard that establishments are sometimes required to make gifts or informal payments to public officials to "get things done" with regard to customs, taxes, licenses, regulations, services etc. a. Does this occur for establishments in your industry (not necessarily yours)? __ q65a__ 1 =Yes; 2=No (If NO, go to 66). b. On average, over a year, what percent of annual sales value would such expenses cost a typical establishment in your sector? q65b (% of sales)" 2009: "It is said that establishments are sometimes required to make gifts or informal payments to public officials to "get things done" with regard to customs, taxes, licenses, regulations, services etc. On average, what percentage of total annual sales, or estimated total annual value, does establishments likes this one pay in informal payments or gifts to public officials for this purpose?"
21. Response categories were identical. Questions were very similar. 2005: "Please tell us if any of the following issues are a problem for the operation and growth of your business. If an issue poses a problem, please judge its severity as an obstacle on a four-point scale where: 0 = No obstacle 1 = Minor obstacle 2 = Moderate obstacle 3 = Major obstacle 4 = Very Severe Obstacle". 2009: "As I list some factors that can affect the current operations of a business, please look at this card and tell me if you think that each factor is No Obstacle, a Minor Obstacle, a Moderate Obstacle, a Major Obstacle, or a Very Severe Obstacle to the current operations of this establishment." Samples are identical since the responses of panel firms are reported. N=239.

III. PROGRESS

17. Overall progress towards achieving the development outcomes has been notable. Among the 45 indicators for which updated figures are available, 37 have made strides towards achieving the targets, 11 of which have already attained the goals. These 11 are: (1) export orientation; (2) SOE performance; (3) quality of loan portfolio in the banking sector; (4) stock market capitalization; (5) private domestic investment; (6) learning outcomes in primary school; (7) wage employment among women; (8) river basins with inter-provincial management; (9) share of debt in GDP; (10) fraction of civil judgments enforced; and (11) provincial departments with one-stop shop model. Of the 9 indicators that have still ways to achieving the targets, there is no quantifiable progress in six: (i) share of strategic investors' ownership in SOCBs; (ii) protection of biodiversity; (iii) provincial screening of public investment; (iv) adoption of integrated regional planning; (v) extent of unreported public expenditure; and (vi) public agencies with internal auditing functions. Two indicators are showing mixed results or deterioration: (a) share of female delegates in the National Assembly; and (b) forest quality.

18. Whether the targets set out at the beginning have already been achieved or not obviously depends on how ambitious the targets were and the nature of the indicators. For example, some indicators tend to make linear progress while others might follow a J curve or step-function. Therefore, the fact that they are already achieved should not be a reason for complacency, nor should slow progress be deplored without examining the reasons.

19. Even with these caveats, that over 80 percent of the indicators in diverse areas covered under the program are on track is good progress, and the Vietnamese government should be commended for it. It has managed to achieve these results despite the often-cited weakness in capacity, slow decision-making process, and two economic crises in the intervening years. According to these indicators, the progress was particularly solid in the areas of state sector reform, private sector development, infrastructure, education, social protection, water and sanitation, and legal development.

20. The two deteriorating indicators are not necessarily a cause for concern. That the share of female delegates in the National Assembly declined from 27 percent in 2006 to 26 percent in 2007 is not a welcome trend, but the magnitude of decrease is hardly alarming. The female candidates represented 33% of the total in 2007. The share of female delegates will not change until the next elections, expected in 2011. The decline in the "proportion of land area under forest with a closed canopy, multi-story-age profile and species diversity, abundance and distribution," that is, the decline in the land area which is natural forest, is certainly not a good news. However, this indicator is expected to have a very long lag time, as natural forests do not grow in a few years. Perhaps more of an immediate concern is that official figure for this indicator is not readily available, and that the authorities do not appear to be implementing policies that would reverse the trend. Even though this indicator is probably not very well-adapted to measuring the effectiveness of the policy reforms achieved through PRSCs, it would still be worthwhile to pursue dialogue in the PRSC framework to reverse this trend of natural forestry losses.

21. Out of the six indicators not showing progress, three are moving in the right direction, but tend to have lumpy outcomes: these are the share of strategic investors' ownership in SOCBs, extent of unreported public expenditure; and public agencies with internal auditing functions. Discussions between the two equitized SOCBs, Vietcombank and Vietinbank, with potential strategic investors had been interrupted because of the crises, but have resumed and are expected to yield results in coming months. There is information that the discussions at Vietinbank are particularly advanced. Reforms to incorporate all state expenditures into the reporting system are underway. The revised State Budget Law, a proposed trigger for PRSC10 is expected to contribute further to this effort. A decree on internal audit is under preparation, supported by a trigger in this operation. Public agencies will develop internal auditing functions when this decree goes into effect.

22. As for the remaining three indicators, whether they were indicators well-suited to measure the effectiveness of PRSC policy dialogue is questionable. The number of wetlands of international importance (measured by Ramsar criteria) is not something that can be expected to change rapidly as a result of policy reforms. The other two indicators, provincial screening of public investment and adoption of integrated regional screening, measure progress at sub-national levels. While central government does exert certain amount of control on sub-national governments, decentralized structure of the government makes it unlikely that policy changes taken at the central level will translate rapidly into outcomes at sub-national levels.

IV. ATTRIBUTION

23. The problems of attribution are summarized in the introduction section. In this section, the policy reforms that seem logically contributed to the outcomes are presented below, with bold face indicating triggers.

Table A3.2. Policy reforms attributed to the indicators

Indicators	Policy reforms
Pillar I Business Development	
<p>1. GLOBAL INTEGRATION</p> <ul style="list-style-type: none"> • Merchandise exports as a proportion of GDP • Proportion of technical product standards in line with international ones • Proportion of importers and exporters claiming they are satisfied with customs services 	<ul style="list-style-type: none"> • Harmonize agricultural health and food safety regulatory tools with international standards in line with the SPS agreement • Improve competition and efficiency of the pharmaceutical sector through prevention of unfair commercial use of trial data and opening the market to imports
<p>2. STATE SECTOR REFORM</p> <ul style="list-style-type: none"> • Number of enterprises with 100% state ownership • Fraction of state capital in SOEs transferred to SCIC by line ministries, provinces and general corporations • Number of SOEs classified in the bottom “C” tier of performance as a share of total SOEs according to Decision 224/06 	<ul style="list-style-type: none"> • Use share auctions as the main mechanism for equitization, and allow foreign strategic investors • Ensure competition and transparency in the sale of state capital in equitization process • Assess scope and nature of lending and other transactions among affiliated parties in Economic Groups and General Corporations • Strengthen financial management of SOEs and their investments in other entities, defining the level of such investments • Adopt regulation on State-owned Economic Groups for better corporate governance, exercising of the state-ownership rights, and supervision • Classify all SOEs according to performance and publish the results • Further restrict list of sectors where 100-percent state ownership is to be retained • The State Capital Investment Corporation (SCIC) to begin receiving state ownership rights in equitized SOEs from ministries and provinces. • Transfer state ownership rights in equitized SOCBs and selected General Corporations to SCIC • Transfer exercise of the ownership rights in unequitized SOEs from ministries and provinces • Adopt Social Insurance Law making the system financially viable and extending its coverage • Adjust safety net for redundant SOE workers to cover state-owned plantations and farms

	<ul style="list-style-type: none"> • Clarify criteria for forest land allocation to individuals and communities • Prepare a revised Securities Law and submit to the Government • Improve disclosure of audited financial information of public companies through increased compliance with registry requirements
<p>3. FINANCIAL SECTOR REFORM</p> <ul style="list-style-type: none"> • Required provisioning for possible non performance in all outstanding credit • Ratio of stock market capital to GDP • Total equity held by strategic, non-government shareholders in SOCBs, in percentage of total SOCB capital 	<ul style="list-style-type: none"> • Require public disclosure of financial statements of SOCBs in line with internationally accepted standards • Issue a road map to enhance bank supervision, including off-site supervision and risk-management tools • Enhance the role of the banks' boards of directors and introduce fit-and-proper tests in line with international best practices • Prepare revised law on State Bank of Vietnam focusing its mandate on and enhancing its autonomy in regard to monetary policy and financial sector stability • Adopt a contingency plan to address potential adverse effects stemming from the global financial crisis on banking sector • Revise regulation to facilitate bank resolution and restructuring • Revise regulations to better assess commercial banks' portfolio risks, enhance public disclosure, and strengthen supervision • Increase equity stake allowed to foreign strategic investors in commercial banks • Approve equitization plans allowing participation of strategic investors for two SOCBs and complete the equitization of one of them • Complete equitization of one SOCB, and make progress in soliciting participation of strategic investors • Improve monitoring of foreign indirect investment by strengthening prudential rules and supervision for custodians and brokers • Prepare a revised Securities Law and submit to the Government • Set up M&E framework for the implementation of government policies post-WTO accession • Use share auctions as the main mechanism for equitization, and allow foreign strategic investors • Ensure competition and transparency in the sale of state capital in equitization process
<p>4. PRIVATE SECTOR DEVELOPMENT</p> <ul style="list-style-type: none"> • Number of paid employees in non-state enterprises, excluding collective enterprises • Number of registered private enterprises in operation outside the South East Region, Da Nang, and Red River Delta • Private domestic investment as a proportion of total investment 	<ul style="list-style-type: none"> • Introduce investment climate monitoring tool as part of annual enterprise survey • Reduce processing times and rationalize fee structure for business registration • Clarify authority on investment certificates and conditional sectors, and standardize related documentation • Establish consultative mechanism to streamline licenses and oversee implementation of new investment-enterprise regime • Rationalize incentives related to Enterprise Income Tax and simplify tax procedures for household businesses • Raise the cap on shareholdings by single foreign investors in unlisted companies • Issue guidelines to foreign investors transitioning to new Investment and Enterprise laws • Establish national business registry with unique number for business, tax, statistics, and seal agencies • Simplify enterprise registration including by unifying tax and business identification numbers and streamlining seal carving procedures • Establish single-window mechanism for businesses to cover registration, tax, and seal formalities in selected provinces

	<ul style="list-style-type: none"> • Issue regulation on agricultural extension in disadvantaged areas to promote poverty reduction • Promote SME development through revising regulations, formulating an action plan for supporting industries, and improving coordination among responsible ministries • Submit new Labor Code to the National Assembly which contains guiding principles for labor dispute resolution and strengthening workers rights • Improve disclosure of audited financial information of public companies through increased compliance with registry requirements • Revise accounting standards and financial disclosure requirements to reveal exposure to exchange rate risk in enterprises and banks
<p>5. INFRASTRUCTURE</p> <ul style="list-style-type: none"> • Proportion of enterprises citing infrastructure as either a major or severe constraint for conducting business • Fraction of 1,700 poorest communes in Program 135-2 with schools, clinics and electricity • Fraction of the population living (i) in temporary houses (ii) without access to clean drinking water, and (iii) without access to adequate latrine 	<ul style="list-style-type: none"> • Decentralize investment ownership to better integrate capital and recurrent budgets in the road transport sector • Clarify contract specifications, investor qualifications and treatment of unsolicited proposals for BOT projects • Adopt wastewater charges based on cost recovery, with provisions to protect the poor • Adopt market-based pricing systems to estimate the costs of state-funded civil engineering investments • Separate power transmission and generation assets and regroup transmission assets under a single National Power Transmission Corporation • Introduce modern principles of transparency and corporate governance in provincial infrastructure funds • Reduce traffic fatalities through strengthened enforcement and improved education programs • Facilitate access to driver training and testing and provide financial support to purchase special vehicles for people living with disabilities • Adopt a pricing system for electricity from renewable energy and provide incentives for government procurement of energy-efficient equipment • Revise the road law to improve traffic safety through inter alia better standards and strengthened supervision of commercial vehicle operators • Prepare a roadmap for gas market reform
Pillar II Social Inclusion	
<p>6. EDUCATION</p> <ul style="list-style-type: none"> • Proportion of children with a functional disability attending primary school • Proportion of Grade 5 students below functional reading level • Proportion of universities that has been independently evaluated 	<ul style="list-style-type: none"> • Extend performance standards for primary teachers nationwide, including evidence-based assessments • Adopt transparent criteria to decide on university admission quotas on a pilot basis • Revise tuition fees at secondary and tertiary levels, better reflecting market conditions, and enhance policies to protect the poor • Issue roadmap for education information system to strengthen education management • Formulate education development strategy to 2020 focusing on equity of learning outcomes and relevance of contents • Produce cost estimates and conduct public consultation on full-day schooling for primary education • Issue regulations setting out a plan for regular national sample-based student learning assessment surveys
<p>7. HEALTH</p> <ul style="list-style-type: none"> • Proportion of children stunted (low height for age) or underweight 	<ul style="list-style-type: none"> • Adopt HIV/AIDS law and prepare action plans to scale up harm reduction, fight stigma and discrimination

<ul style="list-style-type: none"> (low weight for age) • Proportion of people below the new national poverty line who have been provided with free health insurance • Average annualized contacts with hospitals for the poorest quintile 	<ul style="list-style-type: none"> • Improve budgetary balance between health infrastructure, human resources, subsidies and preventive care • Submit health insurance law which better pools risks and allows improved incentives in payment to service providers • Increase the health insurance premium paid on behalf of the poor and partially subsidize the near-poor • Regulate safe treatment of solid waste discharge by hospitals in line with international practices • Enhance treatment of medical waste discharged by hospitals at both central and local levels • Adopt national standards and establish a unified licensing system for health care practitioners • Adopt action plan and guidelines for treatment on waste and water discharged by hospitals, revising healthcare cost standard to secure appropriate budget for the treatment • Publish a summary report of health insurance revenues and expenditures, and key coverage and utilization performance indicators
<p>8. SOCIAL PROTECTION</p> <ul style="list-style-type: none"> • Proportion of people below the new Vietnam poverty line • Proportion of ethnic minorities below the new Vietnam poverty line • Contributors towards old-age pensions including both the compulsory and the voluntary schemes (as a share of the labor force) 	<ul style="list-style-type: none"> • Adopt Social Insurance Law making the system financially viable and extending its coverage • Adjust safety net for redundant SOE workers to cover state-owned plantations and farms • Introduce voluntary pension program for farmers and informal sector, allowing for support for the poor to participate in the program • Prepare a strategic plan to ensure prudent and effective investment of social security funds • Introduce single social security number for all targeted benefits and social insurance programs • Update official poverty line(s) to reflect current conditions, agree on a methodology to update lines on a regular basis to reflect changes in the cost of living • Improve the targeting and coverage of NTPs designed to reduce poverty
<p>9. GENDER</p> <ul style="list-style-type: none"> • Proportion of female delegates at the National Assembly (as a share of total) • Proportion of land use certificates held in the name of both spouses or a female person • Percentage of wage employment in all jobs held by women aged 18-64 in the past 12 months 	<ul style="list-style-type: none"> • Unify legal framework to address gender disparities and increase women's participation in decision making • Determine institutional responsibilities for the implementation of the Gender Equality Law and monitoring gender quality • Create legal framework for domestic violence prevention and control • Operationalize the Anti-Domestic Violence Law by adopting action plan and issuing guiding regulation • Issue regulation to assign institutional responsibilities and allocate budget for implementing measures in ensuring gender equality • Establish indicators, identify gaps, and adopt a plan to address them in monitoring of gender equality in priority areas • Adopt measures to increase women representation in administrative agencies and representative bodies • Issue regulations to implement domestic violence law by key responsible agencies
Pillar III Natural Resources management	
<p>10. LAND AND FORESTS</p> <ul style="list-style-type: none"> • Percentage of users 	<ul style="list-style-type: none"> • Issue strategy to strengthen linkages between protective and economic functions

<p>highly satisfied with government services; Percent of users highly dissatisfied or dissatisfied</p> <ul style="list-style-type: none"> • Proportion of forest land allocated to local people and communities, for all of Vietnam and the Central Highlands • Proportion of land area under forest with a closed canopy, multi-story-age profile and species diversity, abundance and distribution 	<p>of forests, and promote local ownership</p> <ul style="list-style-type: none"> • Clarify resettlement and compensation process in cases without land-use certificates, and mechanisms for handling complaints • Issue guidelines for forest development based on participatory land-use planning and independent monitoring • Transfer SFE land to local authorities for reallocation to households, ethnic minority groups and private enterprises with focus on poor areas • Clarify criteria for forest land allocation to individuals and communities • Adopt a National Strategy for Food Security based on economic incentives
<p>11. WATER AND SANITATION</p> <ul style="list-style-type: none"> • Population with access to improved or clean water for both urban and rural population. Includes all improved water sources excluding all hand dug wells • Population with access to properly designed and installed sanitation • Number of river basins with inter-provincial water allocation procedures established and operational 	<ul style="list-style-type: none"> • Allocate institutional responsibilities for integrated river basin management • Adopt natural disaster mitigation strategy with attention to non-structural measures and guidelines for provincial and ministerial action plans • Issue regulations to ensure financial sustainability of irrigation services and provide financial relief for poor farmers • Allocate institutional responsibilities to develop a unified national sanitation strategy • Adopt a national action plan for information, education and communication for personal hygiene, safe water and environment sanitation • Develop a plan to continue the current NTP for rural water supply and sanitation, which focuses on promotion of rural sanitation and addresses personal hygiene
<p>12. ENVIRONMENT</p> <ul style="list-style-type: none"> • Quality of surface water in key areas as measured by Vietnam Environmental Agency monitoring systems • Quality of air in key areas as measured by Vietnam Environmental Agency monitoring systems • Number of wetlands of international importance (26 by Ramsar criteria) included in the protected area system 	<ul style="list-style-type: none"> • Mandate public consultation on environmental impact assessments commune level with public feedback incorporated in report to relevant authorities • Strengthen incentives for solid waste management using economic instruments • Approve national target program on adaptation to climate change and allocate institutional responsibilities for its implementation • Adopt regulations for performance contracts for sewerage and drainage at local levels • Adopt legal framework for biodiversity protection to clearly delineate and better administer protected areas, and to improve community consultation process • Issue guidelines for efficient use of water resources to accompany the irrigation services fee waiver policy • Issue regulations on national environmental data collection, and collect the data
<p>Pillar IV Governance</p>	

<p>13. PLANNING PROCESS</p> <ul style="list-style-type: none"> • Number of provinces that have issued guidelines for screening public investment projects at the pre-appraisal stage, including sound cost benefit analysis • Number of regions with a cross-sectoral master plan, integrating urbanization, large-scale infrastructure and environmental concerns • Proportion of provinces using a participatory approach to planning in the preparation of their annual plans and adopt a results-based monitoring approach 	<ul style="list-style-type: none"> • Allocate state capital expenditure transparently, using criteria like population, poverty and ethnicity • Adopt regulations for master and regional plans specifying issues, process, agency responsibility, and require disclosure • Establish criteria for selecting public investment projects and mechanisms to monitor their financing and implementation • Establish list of indicators, data sources and reporting mechanism for monitoring of SEDP • Establish a legal framework for strengthening urban planning and urban infrastructure management
<p>14. PFM</p> <ul style="list-style-type: none"> • Number of statutory funds that are not reported in the budget, budget execution reports or annual financial statements, and the share of 5 main centrally-controlled statutory budget relative to the reported budget • Number of sector ministries and provinces that have established an internal audit function and started to publish auditing reports • Ratio of public debt to GDP, inclusive of publicly guaranteed debt at all levels of government 	<ul style="list-style-type: none"> • Disclose results of audits conducted by the SAV and its annual audit plan • Publish report on budget execution for current year and budget plan for forthcoming year, on an annual basis • Issue regulations for periodic disclosure of external public debt and its composition • Implement regulation to guide the establishment and issuance of benchmark government bonds • Consolidate administration procedures for all taxes into a single law, modernizing assessment and enforcement methods • Issue regulations on content and timing of disclosure of SAV reports, including audit reports of individual entities • Revise the investment laws to improve efficiency in state capital expenditures and strengthen the management of public investment projects • Conduct mid-term review of the SEDP and strengthen result-based approach in M&E framework for planning • Formulate public debt management law consolidating the management of domestic and external debt • Conduct public financial management reforms including commitment accounting, vendor management and new chart of accounts • Adopt procedures for annual audit plan ensuring sufficient frequency and adequate provincial coverage • Formulate regulation for internal audit development and implementation, defining organizational responsibilities • Unify the legal framework for property tax, including capital-gains tax, to increase efficiency and equity, dissuade speculation, and make government revenues more stable • Adopt the cash basis IPSAS for public accounting and pilot government financial

	reporting
<p>15. LEGAL DEVELOPMENT</p> <ul style="list-style-type: none"> Percentage of draft laws and ordinances posted in the National Assembly website for comments Number of civil society organizations registered under Decree 88 and the Law on Associations at national and provincial levels Number of civil judgments enforced in percentage of all those subject to enforcement 	<ul style="list-style-type: none"> Establish separate legal, judicial, economic, and budget committees to strengthen the National Assembly’s supervisory role Simplify and broaden access to legal aid for marginalized and vulnerable groups Adopt policies to encourage the participation of non-state establishments in the delivery of public services Create a facilitating legal framework for the establishment and operation of economic collaborative groups and social and charity funds Enhance the responsibility of enterprises vis-à-vis consumers and strengthen the handling of consumer complaints Establish the National Bar Association, with governing documents and structures approved by the community of lawyers Simplify the procedures, strengthen the management, and improve the monitoring and complaints system of civil judgments execution Enhance access to information by the public and specify the mechanisms Develop effective legal framework in terms of consumer protection
<p>16. PAR</p> <ul style="list-style-type: none"> Percentage of provinces with an online guidance and services for businesses Percentage of users highly satisfied with government services; Percent of users highly dissatisfied or dissatisfied Proportion of provincial departments that have adopted the one stop shop model 	<ul style="list-style-type: none"> Extend One-Stop-Shop (OSS) to all ministries and agencies and introduce inter-linked OSS to further simplify administrative procedures Adopt principles of competition, merit-orientation and transparency in the recruitment, appointment, promotion and dismissal of civil servants Dissociate civil service pay structure from minimum wage setting widening the range of minimum wages Formulate common standards for IT applications and e-government interfaces at central and provincial levels Develop indicators for monitoring and evaluating the implementation of PAR and provision of public administrative services Issue regulations and approve pilot schemes to strengthen competition, merit-orientation, and transparency in the recruitment, appointment, and promotion of civil servants Publish online database with all existing administrative procedures including applicable users' fees, and conduct broad consultation with citizens and enterprises to simplify them Strengthen oversight role of People's Inspection Boards and Community Investment Supervision Boards
<p>17. FIGHTING CORRUPTION</p> <ul style="list-style-type: none"> Fraction of households who say they pay bribes when dealing with vulnerable government agencies as specified in the diagnostic study on corruption Fraction of enterprises saying that firms in its industry sometimes make unofficial payments; Average 	<ul style="list-style-type: none"> Operationalize Steering Committee against corruption with power to suspend high level officials if suspected Disclose results of investigations against corruption for cases overseen by the Government Inspectorate Establish legal framework to protect and reward whistle blowing on corrupt activities Implement asset declaration requirement in regard to senior officials and their immediate families, with penalties for non-compliance Introduce mandatory rotation for sensitive government positions and payment of government salaries through bank accounts Issue a comprehensive anti-corruption strategy, setting out preventive, demand-side, and sector-specific solutions, and monitoring mechanisms Carry out annual procurement compliance and performance audits and make

<p>percent of sales paid in unofficial payments</p> <ul style="list-style-type: none"> • Fraction of enterprises who say corruption is a major or very severe obstacle; Fraction of enterprises who say corruption is no obstacle 	<p>public the findings, adopt a procurement code of ethics for participants, and launch an open access electronic bidding system</p> <ul style="list-style-type: none"> • Establish an enabling legal framework to protect and reward witnesses.
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V. LESSONS AND CONCLUSION

24. The results of policy dialogue, measured as the share of outcome indicators that are deemed to be making progress, are noticeably better for the business environment and social inclusion pillars than for the natural resources and modern governance pillars. They could be due to the choice of policy reforms pursued in the dialogue, strength and weaknesses of ministries and agencies in charge of specific sectors, the selection of indicators, the speed at which outcomes could be expected to improve in different areas, natural comparative advantage of the PRSC as an instrument, effectiveness of the dialogue in a particular domain, among other things.

25. If the goal of PRSC series is to achieve as many targets for the outcome indicators as possible, the emphasis should shift towards the last two pillars. If the goal of policy dialogue is to specialize in the most effective areas, the future policy dialogue should be held in business development and social inclusion pillars.

26. Any lesson regarding effectiveness of the policy dialogue as measured by the progress towards achieving the indicators would remain tentative, because the attribution problem cannot be solved and credible counterfactuals do not exist, as discussed at the outset. Whatever the merits and shortcomings of the PRSCs, it is clear that the first three PRSCs in this cycle have accompanied progress in diverse areas. The credits are due to the authorities who executed the policy reforms. The lesson for development partners may be that even though the progress seems slow at times, it is there when observed in a 3-5 year horizon. However, it is sobering that none of the indicators for environment is making progress, and this may be one area that calls for attention and concerted efforts in the future operations.

27. Another type of lesson is how to choose the indicators. In retrospect, some of the indicators were not very adapted to measuring the impact of the policy dialogue held under the PRSC framework. These include the indicators with time-frame mismatch, such as the area of natural forest. Another such example is the areas where no policy breakthrough was needed, such as the share of merchandise exports to GDP. Finally, there are indicators for which data do not exist or do not exist on a consistent basis. What was intended to be measured could have been appropriate, but if the baseline and updated data and target value are available on a consistent basis, it is not possible to measure any progress. This group included quality of air and surface water, as well as the indicators based on qualitative surveys. Ideally, indicators should not be changed in mid-program, so efforts to avoid such problems at the beginning would have been useful, as would an early taking stock, say after the first year of the program, of availability of data, so that the indicators might be adjusted earlier rather than later in the 5 year program cycle.

ANNEX 4: SUPPORTING DOCUMENTATION FOR PRIOR AND POLICY ACTIONS UNDER PRSC 9

Pillar I: Business development		
Area	Benchmark	Supporting Documentation
Global integration	<ul style="list-style-type: none"> Improve competition and efficiency of the pharmaceutical sector through prevention of unfair commercial use of trial data 	<ul style="list-style-type: none"> MOH Circular 05/2010/BYT dated March 1, 2010 guiding data security of drug registration records.
State sector reform	<ul style="list-style-type: none"> The Recipient has issued regulations on state-owned economic groups for better corporate governance and setting limits for cross share holding 	<ul style="list-style-type: none"> Decree 101/2009/ND-CP dated October 5, 2009 on piloting the establishment, organization, operation, and management of state-owned economic groups (EGs). MOF Circular 242/2009/TT-BTC dated December 30, 2009, banning subsidiaries to invest in state-run mother companies, or in other subsidiaries under the same mother company.
	<ul style="list-style-type: none"> Separate the exercise of ownership rights from the regulatory function in unequitized SOEs 	<ul style="list-style-type: none"> Decree 25/2010/ND-CP dated March 19, 2010, on transformation of SOEs into 1 member – LLCs, which institutionalize the separation the regulator and the entity that exercises the ownership rights in independent SOEs. MOF’s confirmation that this separation will be the guiding principles in formulating regulations which MOF is assigned within its mandate.
	<ul style="list-style-type: none"> Ensure competition and transparency in the sale of state capital in equitization process 	<ul style="list-style-type: none"> MOF Circular 242/2009/TT-BTC dated December 30, 2009, revising the modality and allowing flexibility in selling methods (on which could be equitization), and stressing the principle of public disclosure and transparency in the process. MOF’s confirmation that the principle of ensuring competition and transparency incorporated in circular 242 will be retained while drafting regulations on equitization and sale of state capital.
Financial sector reform	<ul style="list-style-type: none"> The Recipient has finalized regulations to better assess commercial banks’ portfolio risks, enhance public disclosure, and strengthen supervision 	<ul style="list-style-type: none"> Draft revised Law on Credit Institutions submitted to the National Assembly for adoption in May 2010 session. Drafted revised Decision 493/2005/QD-NHNN dated April 22, 2005 on loan classification and provisioning, which is in final stage, awaiting written comments from the Ministry of Finance, and expected to be issued by end June 2010. SBV Circular 13/2010/TT-NHNN dated May 20, 2010 on prudential ratios.

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ANNEX 4: SUPPORTING DOCUMENTATION FOR PRIOR AND POLICY ACTIONS UNDER PRSC9 (CONT.)

Pillar I: Business development		
Area	Benchmark	Supporting Documentation
Financial sector reform (cont.)	<ul style="list-style-type: none"> Develop a medium-term strategy for Vietnam Development Bank (VDB) 	<ul style="list-style-type: none"> Draft medium-term strategy for Vietnam Development Bank (VDB)
	<ul style="list-style-type: none"> Revise regulation to facilitate bank mergers and restructuring 	<ul style="list-style-type: none"> SBV Circular 04/2010/TT-NHNN dated February 11, 2010 on Mergers and Acquisitions of credit institutions. Decree No. 05/2010/ND-CP dated January 18, 2010, applying the Law on Bankruptcy to financial institutions
	<ul style="list-style-type: none"> Improve regulations on securities to foster development of domestic capital market 	<ul style="list-style-type: none"> Draft Securities Law with improved provisions and is expected to be submitted to the National Assembly for discussion in November 2010
Private sector development	<ul style="list-style-type: none"> Improve disclosure requirements of audited financial information of public companies 	<ul style="list-style-type: none"> MOF Circular 09/2010/TT-BTC dated January 15, 2010, requiring public companies to disclose, with clearly defined deadlines, their financial statements every year through SSC website and newspapers
	<ul style="list-style-type: none"> Adopt regulation on disclosure of financial risks in the financial statements of enterprises and banks 	<ul style="list-style-type: none"> MOF Circular 210/2009/TT-BTC dated November 6, 2009, guiding the application of IFRS 7 and IAS 32 in enterprises.
Infrastructure	<ul style="list-style-type: none"> Strengthen legal framework and institutional capacity of the National Transport Safety Committee (NTSC) 	<ul style="list-style-type: none"> PM Decision 35/2010/QD-TTg dated April 8, 2010, strengthening NTSC's role, and adding the Committee's members including Vice Minister of OOG, and specifying funding mechanisms.

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ANNEX 4: SUPPORTING DOCUMENTATION FOR PRIOR AND POLICY ACTIONS UNDER PRSC9 (CONT.)

Pillar II: Social Inclusion		
Area	Benchmark	Documentation
Education	<ul style="list-style-type: none"> The Recipient has produced cost estimates and initiated public consultation on full-day schooling for primary education 	<ul style="list-style-type: none"> Draft of cost estimates from MOET, Draft Forming Cost Estimation and Seeking Public Consultation on Full-Day Schooling in Primary Education Level (Cost estimation for full day schooling in primary education level) MOET Official Letter No. 2602/BGDĐT-KHTC dated 12 May 2010 on obtaining comments and inputs on the cost estimates for full-day schooling. MOET Official Letter No. 1539/BGDDT-KHTC, dated March 29, 2010, on the list of members of working groups on the production of cost estimates for FDS.
	<ul style="list-style-type: none"> Issue an action plan for conducting assessment for primary and secondary education for 2010 	<ul style="list-style-type: none"> MOET Official Letter No. 244/KH-BGDDT dated 18 May 2010, adopting MOET action plan for conducting assessment for primary and secondary education for 2010.
Health	<ul style="list-style-type: none"> The Recipient has adopted a law establishing a framework for national standards and a unified licensing system for all health care practitioners 	<ul style="list-style-type: none"> The Law on Examination and Treatment No. 40/2009/QH12, dated 23 November 2009, which will come into effect in January 2011.
	<ul style="list-style-type: none"> Develop action plan and guidelines for treatment on waste and water discharged by health care facilities, revising healthcare cost standard to secure appropriate budget for the treatment 	<ul style="list-style-type: none"> MOH Decision 1873/QĐ-BYT dated May 28, 2009 regarding the Plan on environmental protection in health care sector in the 2009-2015 period and the attached plan. The draft plan on medical solid waste treatment The draft plan on medical liquid waste treatment Draft Decree on operational and financial mechanism for public healthcare facilities
Social protection	<ul style="list-style-type: none"> Update official poverty line(s) to reflect current conditions, agree on a methodology to update poverty lines on a regular basis, and improve the way the poor household list is compiled and used 	
Gender	<ul style="list-style-type: none"> Inter-ministerial circulars to be issued for implementing domestic violence law by key responsible agencies, including the establishment of reporting system, supporting services to 	<ul style="list-style-type: none"> MOLISA Circular 07/2009/TT-BLDTBXH dated March 30, 2009 on receiving domestic violence victims at social establishments. Circular 16/2009/TT-BYT dated September 22, 2009 of the Ministry of Health on receiving and taking care

Pillar II: Social Inclusion		
Area	Benchmark	Documentation
	victims and clear measures for behavior change in place	<p>of domestic violence victims at health care facilities.</p> <ul style="list-style-type: none"> • Circular 02/2010/TT-BVHTTDL dated March 16, 2010 on registry and dismissal of counseling providers on anti-domestic violence.

Pillar III: Natural Resources		
Area	Benchmark	Documentation
Water and Sanitation	<ul style="list-style-type: none"> • The Recipient has developed a proposal to continue the current National Targeted Program for rural water supply and sanitation, which focuses on promotion of rural sanitation and addresses personal hygiene 	<ul style="list-style-type: none"> • Draft for post-NTP-2 program (programme for rural water supply and sanitation with focus on promotion of sanitation and personal hygiene (2011-2015)), which is expected to be finalized by June 2010. • PM Decision 131/2009/QD-TTg dated November 2, 2009 on some policies for increased investment and management and exploitation of rural water supply facilities. • Decree No.69/2008/ND-CP dated May 30, 2008 on policies to encourage the socialization of the activities in the field of education, vocational training, health, culture, sports, environment.
	<ul style="list-style-type: none"> • Introduce a regular and transparent nation-wide monitoring system for urban sanitation to deliver information on state and development of the sector 	<ul style="list-style-type: none"> • MOC Official Letter No.2842/BXD-HTKT dated 30 December 2009 regarding the development of a database system on drainage and solid waste management in urban areas.
The environment	<ul style="list-style-type: none"> • The Recipient has issued technical guidelines for efficient use of water resources to complement the irrigation services fee waiver policy 	<ul style="list-style-type: none"> • MARD Circular 65/2009/TT-BNNPTNT dated October 12, 2009 guiding operation of decentralized management and exploitation of irrigation works • MARD Decision 2891/QD-BNN-TL dated October 12, 2009 guiding on how to define technical and economic norms in the management, exploitation, and protection of irrigation works. • MARD Technical guideline No.137/TL-KH on water saving irrigation dated March 12, 2010 .
	<ul style="list-style-type: none"> • Issue regulations on national environmental data collection, including pollution statistics, and collect the data 	<ul style="list-style-type: none"> • MONRE Circular No. 07 /2009/TT-BTNMT dated July 10, 2009 on stipulating a number of articles of the Government's Decree No. 102/2008/ND-CP dated September 15, 2008 on collecting, managing, exploiting, and using natural resources and environmental data

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ANNEX 4: SUPPORTING DOCUMENTATION FOR PRIOR AND POLICY ACTIONS UNDER PRSC9 (CONT.)

Pillar IV: Modern Governance		
Area	Benchmark	Documentation
Planning processes	<ul style="list-style-type: none"> Establish a legal framework for strengthening urban planning and urban infrastructure management 	<ul style="list-style-type: none"> Government Decree 39/2010/ND-CP dated April 7, 2010 on managing urban underground construction space. Government Decree 38/2010/ND-CP dated April 7, 2010 on managing urban space, architecture & landscape. Government Decree 37/2010/ND-CP dated April 7, 2010 on developing, appraising, approving & managing urban plans. Draft Comprehensive Strategy on Solid Waste Management.
Public financial management	<ul style="list-style-type: none"> The Recipient has formulated a regulation for development and implementation of internal audit of public sector agencies and defining organizational responsibilities 	<ul style="list-style-type: none"> The draft Decree on organization and operation of internal state audit, which will be submitted to the government in May 2010. SAV's draft proposal to the government to be sent in accompany with the draft decree. SAV's report on the outcomes of the consultation workshop with central ministries, departments and local agencies on the draft decree SAV Official Letter No. 382/KTNN-CD dated April 22, 2010 on the plan to finalize the decree by September 2010. SAV Official Letter No. 448/KTNN-CD dated May 10, 2010, confirming the status of the decree and plans for coming study tours and hiring international consultants, with aim to finalize the decree and submit it to the government by September 2010.
	<ul style="list-style-type: none"> Strengthen the legal framework for taxing the use of non-agricultural land and the capital gains to increase efficiency and equity, and dissuade speculation 	<ul style="list-style-type: none"> The Draft Law on Land Tax, which was submitted for passage by the National Assembly in its May 2010 session. MOF Circular 161/2009/TT-BTC dated August 12, 2009, guiding the taxation of capital gains.

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ANNEX 4: SUPPORTING DOCUMENTATION FOR PRIOR AND POLICY ACTIONS UNDER PRSC9 (CONT.)

Pillar IV: Modern Governance		
Area	Benchmark	Documentation
Legal development	<ul style="list-style-type: none"> Increase the systematic and widely accessible publication of court judgments, beginning with Supreme People's Court cassation 	<ul style="list-style-type: none"> The Chief Justice's Decision 1356/QĐ-TCCB dated August 21, 2009, appointing an Editorial Board whose functions include the selection and publication of judgments on the SPC website (for cassation judgments of the Judicial Council up to 2006). Decision 1355/QĐ-TCCB dated August 21, 2009, on the establishment of SPC's Information Portal. SPC's Portal launched on April 22, 2010, publishing judgments of the Economic Court and the cassation judgments of the Judicial Council (from 2007), on which new judgments will be published on a monthly basis.
	<ul style="list-style-type: none"> Develop effective legal framework on consumer protection 	<ul style="list-style-type: none"> Draft of Vietnam Consumer Protection Law, submitted to the government in mid 2010 with expected passage by the NA in 2010 end, including key improved provisions regarding complaint submission, settlement and handling mechanism; sample contracts; guarantee; definition of the role of administrative agency; responsibilities of enterprises; awareness raising for consumers; and a possible upgrading of VCA to a higher level.
Public administration reform	<ul style="list-style-type: none"> The Recipient has issued regulation and developed pilot schemes to strengthen competition, merit orientation, and transparency in the recruitment, appointment, and promotion of civil servants 	<ul style="list-style-type: none"> Decree 24/2010/ND-CP dated March 15, 2010 on recruitment, utilization and management of civil servants Drafts of three pilot schemes to strengthen competition, merit orientation, and transparency in the recruitment, appointment, and promotion of civil servants, with expected date of adoption of end of September 2010.
Fighting corruption	<ul style="list-style-type: none"> The Recipient has (a) carried out annual procurement compliance and performance audits of projects funded by state budget; (b) made public findings of selected audits; (c) adopted a pilot procurement code of ethics for participants; and (d) launched an open access electronic bidding system 	<ul style="list-style-type: none"> PPA's Report dated November 5, 2009 on its annual report procurement audit activities for 2009. Procurement Review Article dated March 24, 2010 publicizing the findings of procurement audit of 5 projects of Bac Giang province. MPI Decision 4730/BKH-QLDT dated June 30, 2009 adopting the code of ethics for agents involved in JICA projects. OOG Official Letter No. 6059/VPCP-KTN dated September 3, 2009 to pilot e-procurement in selected areas.

Pillar IV: Modern Governance		
Area	Benchmark	Documentation
Fighting corruption (cont.)	<ul style="list-style-type: none"> Develop an enabling legal framework to protect and reward witnesses and whistle-blowers 	<ul style="list-style-type: none"> The drafting of the Law on Denunciation is the responsibility of the GI and the deadline for submission to the National Assembly is October 2010. Draft PM Decisions on rewarding whistle-blowers of corrupt behaviors, which is in final stages of preparation and expectedly to be submitted to the Prime Minister's Office by end June 2010. Draft PM Decision on protection of whistle-blowers of corrupt behaviors, which is in final stages of preparation and expectedly to be submitted to the Prime Minister's Office by end June 2010.
	<ul style="list-style-type: none"> Improve reporting system to strengthen implementation of asset declaration 	<ul style="list-style-type: none"> GI Circular 01/2010/TT-TTCP dated January 22, 2010 to amend Circular 2442/2007/TT-TTCP of the Government Inspectorate dated November 13, 2007, guiding the implementation of Decree No. 37/2007/ND-CP of the government dated March 9, 2007 on income and asset declaration.

Note: Boldface indicates Prior Actions included in the Financing Agreement for the operation.

ANNEX 5: PUBLIC FINANCIAL MANAGEMENT IN VIETNAM

Recent Developments and the Way Ahead

1. This operation provides general budget support to the Vietnamese Government and will be executed through the Government's public financial management (PFM) systems. This annex summarizes the current state of these systems and the ongoing reforms with the aim of assessing the attendant fiduciary risks with respect to the proceeds of this development policy operation.

2. Public financial management reform is one of the four focus areas of the Government's Public Administration Reform Master Program for the period 2001-2010. Other focus areas are organizational restructuring, pay and employment reform and institutional development. The PFM reforms have seven priorities: budget management, revenue management, debt management, SOE fiscal risk management, financial market supervision and government bond market development, public asset management, and price management.

3. Over the past decade, Vietnam has made strides in establishing a sound public financial management system. With the adoption of the first organic budget law in 1996 and its revision in 2002, a legal framework for public resource management has been put in place. A centralized treasury system has been set up with branches extending from the center to all provinces and districts to provide basic essential financial services to all government agencies. Steady progress has been achieved in making the budget more predictable and pro-poor, and the budgeting process more transparent and participatory. Substantial efforts have also been made in recent years to improve transparency in the use of public resources through disclosure of information on detailed government spending as well as expenditure policies, regulations and procedures.

4. **Public debt management** has improved both in terms of legal framework and institutional arrangements. The Debt Management Department was established in May 2009 with the role of a modern debt management office under the MOF. Although not all of the tasks relating to public debt management have been consolidated to this Department, the organizational structure of the department is similar to the debt management office according to international practices, with 6 divisions functioning as front office, one division performing the middle office functions, and one division performing the back office functions. Meanwhile, the first-ever Law on public debt management was approved by the National Assembly in June 2009 and came into effect in 2010. The Law introduced substantial reforms in managing and monitoring comprehensively public debt and government commitments (including domestic sub-national debts and on-lending), and addressing many weaknesses in the public debt management in Vietnam. Special attention was paid to strengthening risk management and developing forward-looking debt management strategy and program.

5. The country's public financial management system has a range of **internal oversight mechanisms**. In the past, the focus was on inspection rather than systematic review to provide regular and timely feedback to the management on the use of public resources. Internal auditing is an important element of a sound public financial management system, which helps increase effectiveness, efficiency and financial control. This issue becomes even more important if the government intends to decentralize further to the local levels. Under the timeframe of this operation, the legal framework for the organization and operation of internal audit is being developed. Although implementation will be challenging, this has been a very encouraging step towards establishing a sound internal audit system in Vietnam in the coming years.

6. There is still a number of **off-budget-balance expenditures**, i.e., expenditures not counted in the calculation of the budget deficit. These include government bonds issued to finance infrastructure projects and education facilities, recapitalization of entities such as the Vietnam Development Bank or the Vietnam Social Policy Bank, and borrowings by sub-national governments and their affiliated entities such as local development funds. However, these so-called off-budget expenditures in Vietnam can be considered on-budget in several respects. They are included in the budget that is reviewed and approved by the National Assembly, and their execution was done through the Treasury and subject to the same disclosures and scrutiny as standard budget expenditures. There are attempts under the ongoing revision of the State Budget Law to adjust budget structure and coverage to be more in line with the international norms.

7. **Contingent liabilities** might be arising from these “off-budget-balance expenditures” and other implicit sources. A systemic definition and a reliable estimate of such contingent liabilities are not available, which limits the government’s ability to management of such risks properly. More broadly, as Vietnam is reaching middle-income status, it will need to engage more long-term finance from both domestic and external sources. Under the recently improved debt management, initial attention from the government on risk management and monitoring of contingent liabilities has been observed.

8. The **composition of public expenditure** remains skewed in favor of capital expenditure. The processes for prioritizing expenditures remain ineffective. Budgeting is done separately for capital spending and for recurrent spending, by the Ministry/Department of Planning and Investment and by the Ministry/Departments of Finance, respectively. The expenditure is planned annually without reference to medium-term resource constraints due to the absence of a longer-term framework. The ongoing revision of the State Budget Law introduces Medium-Term Fiscal and Expenditure Framework, to be mainstreamed in the annual budget cycle. There are also initial discussions on reforming budget planning toward output- and program-based budget elaboration.

9. The shortcomings in Vietnam’s PFM **information systems**, which made it difficult to monitor a fully-consolidated budget as well as the fiscal position, are being addressed progressively. The Treasury and Budgetary Management Information System (TABMIS) has been developed since 2007, piloted in 2009, and recently rolled-out in central ministries and provincial and district treasury and financial agencies. It is expected that the system will become fully operational in 2012 upon its nationwide roll-out. TABMIS will provide the capability to record and control commitments, improve cash flow management and arrears management, and strengthen expenditure management and controls. There are initial staged plans for TABMIS consolidation and expansion, in both terms of both functionality and coverage, towards the Integrated/Government Financial Management Information System (IFMIS).

10. There are also shortcomings in Vietnam’s and **public accounting regulations**. In the past, the lack of common accounting structures, and system of integrated, electronic data recording necessitated laborious manual consolidation and manipulation of the data from multiple satellite databases, which resulted in financial reporting that is neither timely nor accurate. These deficiencies contribute to the poor flow of budgetary information between government ministries, provinces and the public. Public sector accounting standards are still lacking, existing government accounting regimes are incomplete, and accounting practices have yet to be aligned with international standards. In parallel with TABMIS project, a unified Treasury and Budgetary Chart of Accounts have been developed. This has provided consistency of classification of revenues and expenditures in budgeting, accounting and reporting with expenditures classified on an administrative, economic and functional basis. For future TABMIS expansion, development of a unified and uniform chart of accounts for the public sector (including the Spending Units) is now envisaged. A staged roadmap for adoption of the International Public Sector Accounting Standards (IPSAS) is also being considered.

11. **Independent scrutiny** of PFM has increased, with external oversight of budgetary affairs by the National Assembly and the recently independent State Audit of Vietnam (SAV). The functional committees and deputies of the National Assembly, and the local People's Committees have been given greater prominence in examining, decision-making and oversight of the state budget. There is steady expansion of external audit coverage and quality and legislative oversight. Encouragingly, the SAV audit report was made public for the first time in 2006, and regularly since, triggering serious debates on the usage of state budgets. However, the capacity of these institutions, especially the SAV, is limiting the coverage and scope of audits. It is difficult for the SAV to manage the increasing workload including compulsory audit for 100% of SOEs, and to consider the move towards performance audit.

12. There are significant weaknesses in **revenue administration**. Customs are still considered low productivity, inconsistent and vulnerable to corruption. The Customs administration will need to change significantly, shifting its mindset from a culture of domestic protection and control of all transactions to one that facilitates foreign trade and promotes private sector development. The tax administration is also characterized by low compliance and vulnerability towards corruption. Five areas of tax administration have been identified as in need of special attention: (1) the fragmentation of the legal framework related to tax administration; (2) the absence of effective coordination and information-sharing between the tax administration and other government agencies; (3) taxpayers' lack of knowledge about the tax laws and compliance procedures; (4) inadequate professional skills and training of tax administration; and (5) information technology system which is lagging behind the requirements of a modern tax administration. In addition, tax laws and policies will need further reforms to broaden the tax base, and to reduce the number of rates and exemptions. Reforms in the management of revenue are progressing with clearer allocation rules and decentralized responsibilities; however classification of revenue in line with international standards needs to be introduced and enhanced consultation on revenue targets is needed to improve the quality of revenue budgets.

13. Financial market supervision has been fragmented and **government bond market** is still underdeveloped. At present, many agencies participate in financial market supervision, leading to overlapping responsibilities and ineffective management and supervision. There is a need to consolidate market supervision function into a single agency and to separate state management and supervision functions. Vietnam's government bond market is still small scale, low liquidity, and the maturity structure is skewed toward short-term. The number of market participants is relatively small and supporting infrastructure, such as depository, clearing and information systems, is yet to be developed. Therefore, considerable efforts are required to develop a full-fledged government bond market and coordinate it with development of related markets such as capital, security and real estate. A bond market development roadmap is being prepared towards these visions.

14. The Government's PFM reform program highlights that state assets budget resources and human resources need to be managed in an integrated way for efficient and effective service delivery, and reforms are being gradually introduced. The legal framework and market principles in **asset management** were recently adopted under the Law on State Asset Management. The requirements for management reporting systems are being defined, but reform in this area has been slow. Initially, attention is needed for developing consistent and comprehensive asset accounting and asset management policies in line with international standards and practices. Further study needs to be carried out to determine the most appropriate solutions to address the government's accounting and asset management requirements.

15. Within the MOF, there is still a lack of experienced, technically-qualified and experienced managerial staff to meet the reform challenges of the Ministry. The MOF is moving towards developing a **human resource management system** which is synchronized, fair and transparent. Financial management capacity

constraints is a cross-cutting issue across sectors and sub-national government and support is needed to implement decentralized PFM reforms.

16. Vietnam has increased its level of **fiscal transparency**. Budget plans and budget execution accounts are being made available publicly, and there is increasing compliance with reporting regulations. However there is still room for improvement, particularly in relation to consistency in quality of reports and their timeliness. To enhance the quality of financial reporting, consistency between budget and accounting classifications needs to be maintained. The number of budget execution reports needs to be rationalized. Content and presentation of financial information needs to be improved in line with existing government regulations in the publicly available budget execution reports to make them more informative. The Government should start producing and issuing annual financial statements in line with international practices. Financial reporting of the government as a whole should include cash and asset information. The State annual accounts and financial statements need to be issued faster than the current 18 months after year end to enhance their relevance.

17. Good progress has been made in establishing legislation and the environment for greater **financial accountability and transparency of financial information**. Regulations on financial disclosures of the State Budget Law, Accounting Law and State Audit Law have been issued increasing the scope and range of required disclosures by entities at all levels of government. Information is being made available on public accessible websites. However, implementation remains the challenge. To further increase transparency, the content of budget documentation and the final accounts could be enhanced by including analysis, explanations and information in line with international practices. Disclosure of financial information, particularly spending at unit level should be actively monitored to ensure compliance with the enhanced disclosure requirements. Published financial reports should be timely, and a calendar for disclosures issued publicly.

18. Progress and impact of the PFM reforms and development initiatives are difficult to measure as there has been no official **monitoring framework**, and baseline performance measures have yet to be established. The Public Expenditure and Financial Accountability (PEFA) Measurement Framework provides a recognized measurement of the performance of the public financial management of government. Similarly, the Debt Management Performance Assessment (DeMPA), adapted from the PEFA framework, but is focused on debt management issues, would provide a baseline assessment of debt management capacity. Although the Government has agreed in principle to introducing these measurement frameworks through self-assessment process, no decision on timeframe and firm commitment of resources have been made.

19. At the policy level, the series of Poverty Reduction Support Credits (PRSCs) and the recent Public Investment Reform Loan, have been nurturing constant policy dialogue on the strategic elements of a broad and cross-cutting reform agenda including PFM modernization. Meanwhile, these operations have been strengthening coordination among line ministries and government agencies, and triggering chances to reach endorsement on reforms at the highest decision-making level. At the technical level, there are currently three active Bank-funded projects in PFM area, namely the Public Finance Management Reform, Customs Modernization and Tax Administration Modernization projects. In addition, there are two Multi-donor Trust Funds (MTDF) established to tackle one of the main bottlenecks in the implementation of reform in Vietnam -- limited government capacity -- which mainly finances the needs of technical assistance and capacity building activities, and analytical and diagnostic work laid out in the government strategy.

20. In addition, a series of AAA works have been undertaken to provide sound analytical underpinnings to the implementation of the Government-led PFM reform program. These include the joint IMF-World Bank study of 1999 "Towards Fiscal Transparency"; the joint 2000 Government-donor Public Expenditure

Review; the 2001 Country Financial Accountability Assessment; the 2002 Country Procurement Assessment Report, and mostly recently are the joint government-donor 2004 Public Expenditure Review and Integrated Fiduciary Assessment (PER-IFA) and the 2007 Country Financial Accountability Assessment (CFAA). The CFAA 2007 proposes a set of recommendations to help the government design and continue implementing reforms and capacity building programs to modernize and strengthen public financial management and enhance transparency and accountability arrangements in support of sound economic management and improved governance

21. **There is strong ownership in the Vietnam government of the PFM reform agenda.** The government actively engages with donors and demonstrates a strong commitment to PFM reform in Vietnam. The “Single Document” issued in 2007 articulates the government’s strategy for mobilizing both national and international resources to advance reform in PFM. Support to the implementation of reforms is coordinated through the PFM partnership group which overarches the activities of government, donors, and working groups, meeting half yearly to discuss progress.

Conclusion

22. Financial management and accountability systems of the Government have steadily improved, and progress made has mitigated the risks associated with direct budget support. But there is not yet full compliance with the new laws and regulations, and new PFM systems (such as TABMIS) and associated reforms are still being prepared and await effective implementation. Although the public accounting system and financial management arrangements are well documented and regulated, financial management risks arise from gaps and overlaps in the systems, and in particular, from weaknesses in implementation and compliance gaps.

23. The quality and extent of independent audit oversight remains low given the financial audit programs of SAV do not as yet accord with international standards and the development of an effective internal audit function is only at an embryonic stage in Vietnam. As assessment of the SBV internal controls is not available as, although the SBV has been subject to audit by SAV, the results of these audits are not made public and there is currently no IMF program in Vietnam to draw upon.

24. The overall financial management risk to properly use, control and report funds is assessed as moderate, in line with the outcomes of the most recent CFAA. Additional fiduciary arrangements are proposed, including a dedicated foreign exchange account and the Bank retaining the right to subject this account to audit.

ANNEX 6: FUND RELATIONS NOTE

Vietnam—Assessment Letter for the World Bank¹

March 5, 2010

1. **Vietnam has so far managed to weather the global crisis relatively well.** After a sharp slowdown in the first quarter, economic activity picked up in the remaining quarters, and real GDP growth ended 2009 at 5¼ percent, supported by an aggressive stimulus program including monetary policy easing and a sizable fiscal package.
2. **However, the stimulative policies and emphasis on growth resulted in imbalances and heightened macroeconomic risks.** Through end-2009, private credit grew 38 percent, the trade deficit expanded to 9 percent of GDP, and the fiscal deficit widened to 9 percent of GDP. Inflation began to rise in late 2009 and reached 8½ percent in February 2010. As a result, the dong came under strong depreciation pressure during the year. Despite significant intervention by the State Bank of Vietnam (SBV), the dong remained at the weaker end of the official band throughout the year and, by the fourth quarter, parallel market rates dropped to the level of more than 10 percent outside the band. Gross reserves are estimated to have fallen by around US\$9 billion to US\$14 billion (about two months of imports) at end-2009.
3. **Against this background, the authorities shifted their policy priorities to stability toward the end of 2009.** In late November, the government announced a number of measures, including a rise in policy rates by 100 basis points, devaluation of the official central exchange rate by 5½ percent, and elimination of the interest subsidy scheme for short-term loans at end-2009. While these measures helped calm the market, private trading within the band remained very limited and parallel rates stayed outside the band. On February 10, the SBV announced a further devaluation of the dong by 3.4 percent. The authorities have also taken welcome steps to increase the flexibility of lending rates.
4. **A planned tightening of fiscal policy would support the process.** Staff projects that the overall fiscal deficit (including off-budget expenditure and net lending) for 2010 could decline to 6½ percent of GDP, provided any revenue overperformance relative to the conservative budget projections is saved. Such a deficit reduction, especially if communicated clearly, would not only help boost fiscal policy credibility, but also support monetary management. A robust framework for financing Vietnam's public infrastructure needs, with contributions from equitization and public-private partnerships, will be crucial to assuring the soundness of public finances over the medium term.
5. **Safeguarding banking sector stability remains crucial.** Vietnamese banks have so far experienced limited direct effects from the global crisis. Further enhancing the SBV's bank regulation and supervision capacity will be important for minimizing banking vulnerabilities. In this context, the SBV's interest in participating in a Financial Sector Assessment Program (FSAP) is welcome.
6. **The short-term outlook depends on whether the authorities can convince the market by tangible and preemptive actions of their determination to pursue macroeconomic stability.** With the world economy beginning to show signs of recovery, the growth outlook for Vietnam is reasonably good. Staff projects GDP growth of 6 percent for 2010, provided that firm and timely policy measures to contain inflation and restore confidence in the dong are taken. Realizing Vietnam's good potential to sustain robust medium-term growth will also hinge on the government's commitment to implementing sound macroeconomic policies and to sustaining the momentum of reforms in its next five-year development plan.

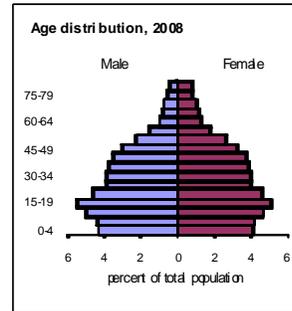
¹ The 2008 Article IV consultation was concluded on March 16, 2009. Staff has visited Vietnam periodically since then, most recently in early February 2010. The next Article IV consultation is scheduled for May 2010.

ANNEX 7: COUNTRY AT A GLANCE

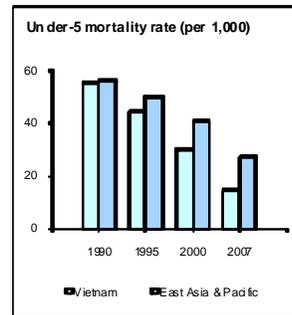
Vietnam at a glance

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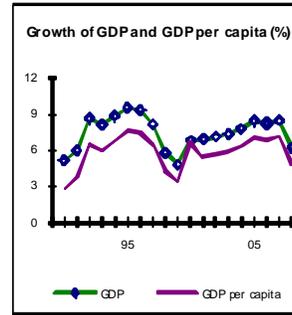
Key Development Indicators	Vietnam	East	Low
		Asia & Pacific	income
(2008)			
Population, mid-year (millions)	86.2	1,931	973
Surface area (thous and sq. km)	329	16,299	19,310
Population growth (%)	12	0.8	2.1
Urban population (% of total population)	28	44	29
GNI (Atlas method, US\$ billions)	76.8	5,080	510
GNI per capita (Atlas method, US\$)	890	2,631	524
GNI per capita (PPP, international \$)	2,700	5,399	1,407
GDP growth (%)	6.2	8.0	6.4
GDP per capita growth (%)	4.9	7.2	4.2



(most recent estimate, 2003–2008)			
Poverty headcount ratio at \$1.25 a day (PPP, %)	21	17	-
Poverty headcount ratio at \$2.00 a day (PPP, %)	48	39	-
Life expectancy at birth (years)	74	72	59
Infant mortality (per 1,000 live births)	13	22	78
Child malnutrition (% of children under 5)	20	13	28
Adult literacy, male (% of ages 15 and older)	-	96	72
Adult literacy, female (% of ages 15 and older)	-	90	55
Gross primary enrollment, male (% of age group)	-	112	102
Gross primary enrollment, female (% of age group)	-	110	95
Access to an improved water source (% of population)	92	87	67
Access to improved sanitation facilities (% of population)	65	66	38



Net Aid Flows	1980	1990	2000	2008 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	277	181	1,681	2,497
<i>Top 3 donors (in 2007):</i>				
Japan	4	1	924	640
France	15	12	53	154
Germany	0	16	33	98
Aid (% of GNI)	-	3.0	5.5	3.8
Aid per capita (US\$)	5	3	22	29



Long-Term Economic Trends				
Consumer prices (annual % change)	-	36.4	-17	7.3
GDP implicit deflator (annual % change)	-	42.1	3.4	21.7
Exchange rate (annual average, local per US\$)	0.6	6,482.8	14,167.8	16,302.3
Terms of trade index (2000 = 100)	-	-	100	114

	1980–90	1990–2000	2000–08
<i>(average annual growth %)</i>			
Population, mid-year (millions)	53.7	66.2	77.6
GDP (US\$ millions)	-	6,472	31,173
		<i>(% of GDP)</i>	
Agriculture	-	38.7	24.5
Industry	-	22.7	36.7
Manufacturing	-	12.3	18.6
Services	-	38.6	38.7
Household final consumption expenditure	-	84.3	66.4
General government final consumption expenditure	-	12.3	6.4
Gross capital formation	-	12.6	29.6
Exports of goods and services	-	36.0	55.0
Imports of goods and services	-	45.3	57.5
Gross savings	-	-2.3	3.13
		2.1	1.6
		4.6	7.9
		2.8	4.3
		4.4	11.9
		1.9	11.2
		7.1	7.5
		-	5.1
		-	3.2
		-	19.8
		-	19.2
		-	19.5
		-	12.1
		-	14.4

Note: Figures in italics are for years other than those specified. 2008 data are preliminary. - indicates data are not available. a. Aid data are for 2007.

Balance of Payments and Trade **2000** **2008***(US\$ millions)*

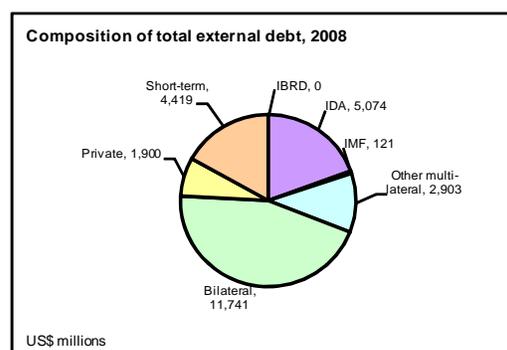
Total merchandise exports (fob)	14,483	62,685
Total merchandise imports (cif)	15,637	80,713
Net trade in goods and services	-173	-13,617
Current account balance	1,108	-10,705
as a % of GDP	3.6	-118
Workers' remittances and compensation of employees (receipts)	2,000	7,200
Reserves, including gold	3,030	21,578

Central Government Finance*(% of GDP)*

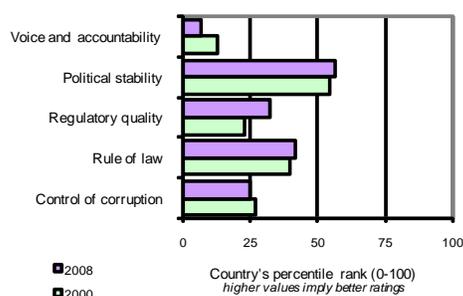
Current revenue (including grants)	20.4	26.0
Tax revenue	..	..
Current expenditure	15.9	20.2
Overall surplus/deficit	-2.0	-11
Highest marginal tax rate (%)		
Individual	50	40
Corporate	32	28

External Debt and Resource Flows*(US\$ millions)*

Total debt outstanding and disbursed	12,825	26,158
Total debt service	1,310	1,344
Debt relief (HIPC, MDR)	-	-
Total debt (% of GDP)	41.1	28.9
Total debt service (% of exports)	7.5	19
Foreign direct investment (net inflows)	1,298	9,579
Portfolio equity (net inflows)	0	-578

**Private Sector Development** **2000** **2008**

Time required to start a business (days)	-	50
Cost to start a business (% of GNI per capita)	-	16.8
Time required to register property (days)	-	57
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2008
Access to/cost of financing	..	40.5
Access to land	..	25.9
Stock market capitalization (% of GDP)	..	10.6
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2008

Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure **2000** **2008**

Paved roads (% of total)	25.1	..
Fixed line and mobile phone subscribers (per 100 people)	4	61
High technology exports (% of manufactured exports)	110	6.2

Environment

Agricultural land (% of land area)	28	31
Forest area (% of land area)	37.7	41.7
Nationally protected areas (% of land area)	..	5.2
Freshwater resources per capita (cu. meters)	4,597	4,304
Freshwater withdrawal (billion cubic meters)	714	..
CO2 emissions per capita (mt)	0.69	12
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	3.3	3.7
Energy use per capita (kg of oil equivalent)	479	621

World Bank Group portfolio **2000** **2008***(US\$ millions)*

IBRD		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	1,113	5,074
Disbursements	174	592
Total debt service	9	75
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	223	144
Disbursements for IFC own account	107	144
Portfolio sales, prepayments and repayments for IFC own account	18	20
MIGA		
Gross exposure	46	103
New guarantees	10	0

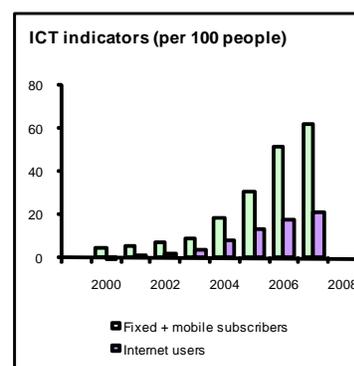
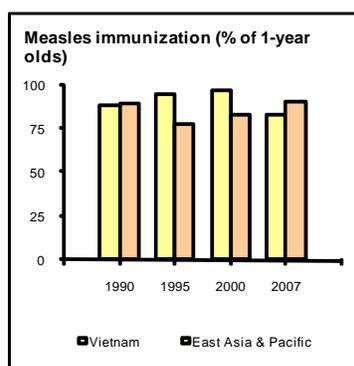
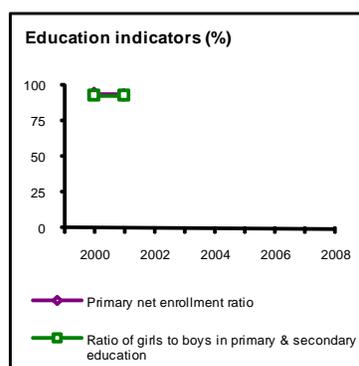
Note: Figures in italics are for years other than those specified. 2008 data are preliminary.
.. indicates data are not available. - indicates observation is not applicable.

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Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Vietnam			
	1990	1995	2000	2008
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$125 a day (PPP, % of population)	..	63.7	40.1	21.5
Poverty headcount ratio at national poverty line (% of population)	..	..	28.9	..
Share of income or consumption to the poorest quintile (%)	..	7.8	7.5	7.1
Prevalence of malnutrition (% of children under 5)	..	36.9	26.7	20.2
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	90	..	95	..
Primary completion rate (% of relevant age group)	..	..	96	..
Secondary school enrollment (gross, %)	35	42	65	..
Youth literacy rate (% of people ages 15-24)	94	..	94	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	93	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	50	48	46
Proportion of seats held by women in national parliament (%)	18	19	26	26
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	56	45	30	15
Infant mortality rate (per 1,000 live births)	40	33	23	13
Measles immunization (proportion of one-year olds immunized, %)	88	95	97	83
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	150
Births attended by skilled health staff (% of total)	..	77	68	88
Contraceptive prevalence (% of women ages 15-49)	53	65	74	76
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.3	0.5
Incidence of tuberculosis (per 100,000 people)	202	193	183	171
Tuberculosis cases detected under DOTS (%)	..	30	82	82
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	52	64	77	92
Access to improved sanitation facilities (% of population)	29	40	51	65
Forest area (% of total land area)	28.8	32.4	37.7	41.7
Nationally protected areas (% of total land area)	..	..	..	5.2
CO2 emissions (metric tons per capita)	0.3	0.4	0.7	1.2
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	2.5	2.9	3.3	3.7
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	0.1	1.1	3.3	33.5
Mobile phone subscribers (per 100 people)	0.0	0.0	1.0	81.2
Internet users (per 100 people)	0.0	0.0	0.3	21.0
Personal computers (per 100 people)	0.0	0.1	0.8	9.6



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

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ANNEX 8: MAP

