Vietnam

Economic Monitor

Spring 2002

The World Bank in Vietnam

Table of Contents

INTRODUCTION[1]

Overall, the economic outlook for Vietnam continues to improve. The adoption and implementation of a phased program of specific reform measures in early 2001 – in trade policy, private sector development, banking, state-enterprises (SOEs) and public expenditure management – and the Government's announcement of a master-plan on Public Administration Reform and Legal System Development has improved business sentiment and put Vietnam on a healthier medium-term growth trajectory. The recent Party Plenum provided the strongest political endorsement yet for the development of the private sector. Domestic private investors have already expressed higher confidence in the economy by increasing their investments significantly. A renewal of foreign investor interest is also apparent. The recent rise in ratings of Vietnam by various foreign rating agencies confirm a significantly improved perception abroad.

However, the worst global recession in nearly 40 years has depressed Vietnam's export growth and real GDP growth in 2001 and in the first quarter of 2002. This has reduced the pace of poverty-reduction too. There will be a modest recovery in the remaining three-quarters of this year, due mainly to buoyant domestic private consumption and investment. But not until 2003 and beyond, will Vietnam's growth rate reap the full benefits of implementing reforms, when world recovery will be in full swing.

Vietnam's determination to continue removing impediments to faster growth and poverty-reduction, while waiting for world recovery to take hold, is appropriate and timely. The challenge is to continue implementing these reforms expeditiously to sustain investor confidence and promote faster growth and in poverty-reduction.

This *Monitor* assesses economic performance in 2001 and the first quarter of 2002 and takes stock of the implementation of structural reforms in the last six months. Annex 1 shows the various policy reform measures implemented each year since 1998, including 2002. Annex 2 shows technical assistance and analytical and advisory work that is done in support of reforms in various areas.

[1] The **Vietnam Economic Monitor**, issued by the World Bank in Vietnam twice a year (spring and autumn), reports on recent economic performance (part I), and progress on the Government's reform agenda (part II). This Spring 2002 edition covers economic performance for 2001 and the first quarter of 2002. It has been prepared by Theo Larsen and Viet Dinh Tuan with inputs from Duc Pham Minh and Minh Nguyen under the overall supervision of Kazi M. Matin.

In 2001 Vietnam's economy grew by 4.8 percent in real terms[2]-- slower than in 2000. It is expected to recover to 5.2 percent in 2002. The external environment had worsened sharply in 2001, especially after September 11th and continues to pose a downside risk this year. The fall-off in exports in the fourth quarter of 2001 and substantial negative growth in the first three months of 2002 limits the extent of recovery in GDP growth and thus to the number of people that can be lifted out of poverty in 2002. Only relatively buoyant domestic demand and increasing confidence among domestic and foreign investors will maintain the modest recovery.

External difficulties and opportunities

The deceleration in world GDP growth in 2001 was the sharpest in the last 40 years except for the first oil crisis in 1974. This slowdown coincided with an unprecedented 14 percentage point deceleration in world trade, from 13 percent growth in 2000 to a 1 percent contraction in 2001.

Table 1: GDP Growth in Selected Countries, year-on-year change in percent

	2000	2001	2002 forecast
World	**3.9**	**1.2**	**1.3**
High Income Countries	**3.5**	**0.8**	**0.8**
United States	4.1	1.1	1.7
Japan	2.2	-0.8	-1.5
Euro Area	3.5	1.4	1.1
East Asia 5	**7.0**	**2.4**	**3.5**
Indonesia	4.8	2.9	3.5
Korea	8.8	2.3	4.0
Malaysia	8.3	0.4	2.8
Philippines	4.0	1.7	3.0
Thailand	4.4	1.2	2.2
Singapore	9.9	-3.8	2.5
China	8.0	7.4	7.0
Vietnam	**5.5**	**4.8**	**5.2**

Source: *World Bank (2002)*

[2] This estimate of GDP growth is lower than that of the Government due to different methodologies, but the overall direction is the same.

Vietnam's economy was adversely affected by these developments due to its openness, with exports accounting for half of GDP. Several important trading partners, such as Korea, Taiwan (China), Singapore, and Malaysia experienced sharp economic declines last year (see table 1). These countries are highly reliant on hi-tech exports to the US, which slowed sharply in 2001 and at the same time are important sources of foreign investment to Vietnam and destinations for its exports. Japan and Europe are also important for both investment and exports.

At the same time, Vietnam suffered a second blow due to its dependence on commodity exports, with prices for rice, coffee and pepper at historical lows.

In the fourth quarter of 2001 and early 2002, Vietnam experienced a very large decline in external demand for its exports with the growth rate in export-weighted import demand from trading partners falling from 16 percent in 2000 to only 0.5 percent in 2001. However, external demand for Vietnamese exports are projected to increase in 2002, with recovery taking hold in the US and in the region. Leading indicators suggest that industrial country production and import demand will strengthen over 2002.

Industrial Sector Leads Growth

The industrial and construction sectors were the main contributors to growth in 2001, with an estimated real expansion of 7.2 percent. This trend looks set to continue in 2002, as the first quarter of this year recorded growth of 14 percent. Non-state domestic industrial production grew the fastest at 20 percent in 2001; in the first quarter of 2002, industrial output grew by 21 percent, thus repeating the rapid expansion of the previous two years. The state and foreign-invested sectors experienced more modest, but still vigorous, growth rates of around 12 percent respectively.

Together the non-state domestic and the foreign invested sector now produce almost 60 percent of industrial output.

The service sector maintained its real growth rate of just over 4 percent in 2001.

Agricultural Growth Slows

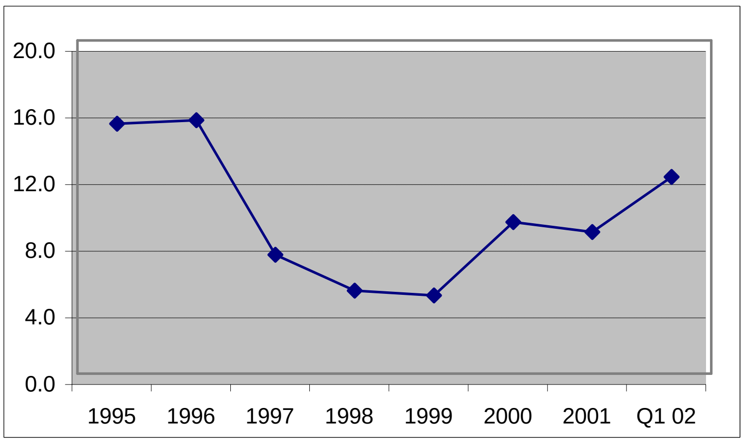
Real growth in agricultural GDP was somewhat lower in 2001 than in 2000, with an expansion of roughly 2.5 percent in 2001. The sector comprises farming, forestry, and fisheries. Of these, fisheries saw the most significant growth, but only accounts for 12 percent of the sector's GDP. Farming, which accounts for 4/5 of agricultural GDP, showed close to no growth in 2001; rice output actually declined by 600,000 tons in 2001.

This is the first time in a decade that rice production has not increased. The decrease in rice production is attributable to a 2.4 percent reduction in the land area under rice cultivation, as lower yield areas are increasingly being shifted from rice into aquaculture and other crops. However, rice production still accounts for around 65 percent of crop farming in Vietnam. So despite higher output of cash crops, such as coffee (5.5 percent volume growth), tea (18 percent volume growth), and cashews (4 percent volume growth) these increases have not been sufficient to offset the decline in rice production.

Domestic Drivers of Growth

Domestic demand has been the main driver of GDP growth in 2001 and the first quarter of 2002. Private consumption remains buoyant. Growth in retail sales flattened in 2001, remaining above the rate in 1997. But the first quarter of 2002 shows a significant rise in retail sales growth.

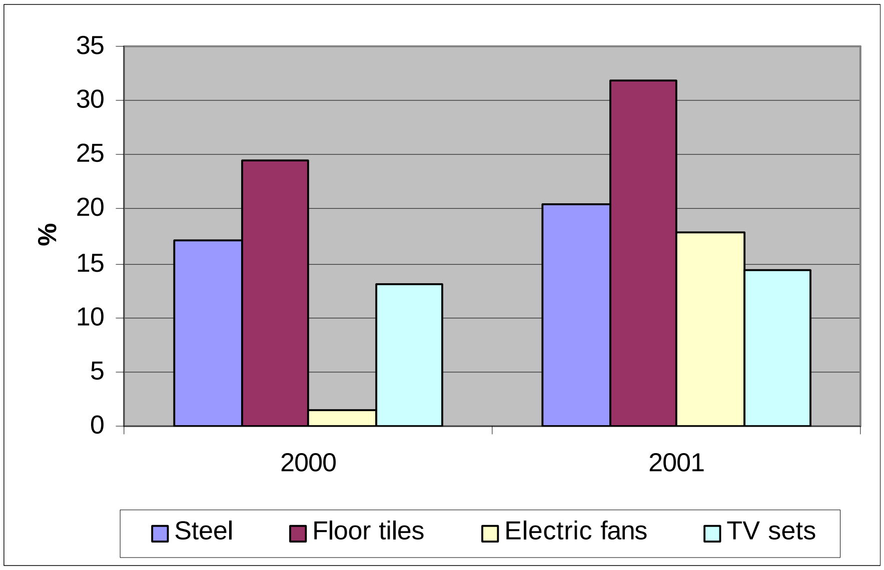
Figure 1: Retail sales growth, y-o-y percentage change



Source: *General Statistical Office*

Available information on production and sale of selected consumer goods and consumer durables confirm a rise in consumption. The number of produced cars, televisions, electric fans and floor tiles continued to show vigorous growth in 2001 (see figure 2).

Figure 2: Production of selected consumer goods and consumer durables, y-o-y percentage change



Source: *General Statistical Office*

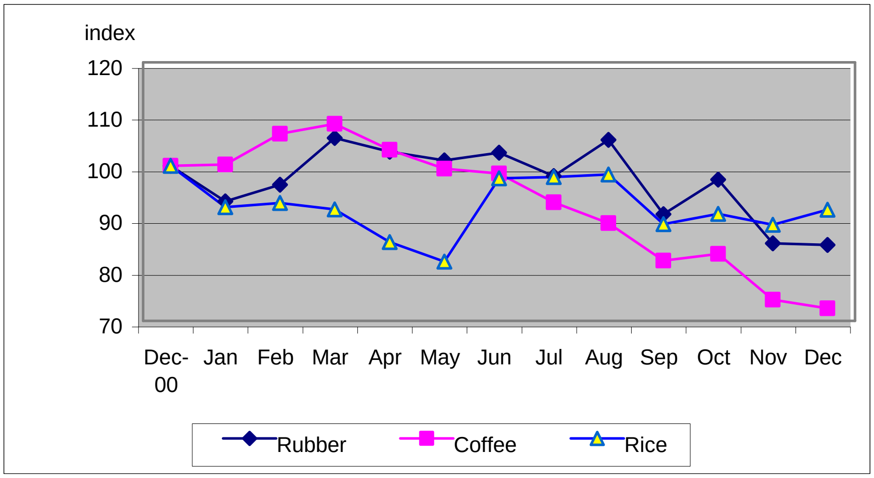
Sales of domestically produced vehicles rose by 40 percent in 2001, according to the Vietnam Automotive Manufacturing Association. This was supported by increased imports of cars and trucks in 2001 relative to 2000. Rising consumer affluence and increasing demand from new businesses are decisive factors behind this increase. As a further indication of resilient domestic activity, electricity production is reported to have increased by 13 percent in 2000 and 15 percent in 2001, bringing annual power production to 31 trillion kWh.

In addition to increasing imports of cars, motorbikes, and other consumer durables, materials for the expanding construction industry, such as steel and construction glass, were imported in increasing volumes in 2001. This also reflects the removal of QRs on these products in 2001. Growth in imported investment goods such as machinery, equipment and spare parts leveled off in 2001. Production inputs to the heavily export oriented garment and footwear industries, such as cotton, synthetic fibers and leather expanded at a slower rate in 2001 compared to 2000. Oil imports grew by 2.5 percent in volume terms over 2001, compared to 19 percent the year before. These developments are commensurable with the lower, but still sound growth rate in real GDP in 2001.

Confidence about 2002-income levels is generally strong in urban areas. According to a survey published in the weekly Saigon Marketing in early January, 73 percent of respondents in HCM City expect better business and production prospects in 2002 compared to 2001, 25 percent think it will stay the same; in Hanoi the numbers were a bit less upbeat with the corresponding rates of 55 and 39 percent.

While this optimism and general confidence is heartening and holds good omens for continued growth, 74 percent of the population live in rural areas where GDP growth has been low in 2001. Rural incomes have come under pressure with falling commodity prices in world markets. The rural economy has lost because of reduced inflow of resources. From 1999 to 2001, receipts from rice exports alone are estimated to have been reduced by US$ 220 million due to this price deterioration. The actual loss to rural areas was greater since urban consumers also paid lower prices, and other commodity prices also fell sharply in 2001.

Figure 3: Price Indexes for Selected Commodities, 2001
(Dec 2000 = 100)



Source: *General Statistical Office*

Investment

More than 21,000 new enterprises registered in 2001 up from 14,000 in 2000; capital formation of these new enterprises roughly doubled over the period from an increase of VND 13 trillion in 2000 to an increase of VND 26,5 trillion in 2001 (i.e. 6 percent of GDP).

The state budget contributed around VND 36 trillion (8 percent of GDP) to total investments in 2001. This represents an increase of 23 percent from the VND 30 trillion state investments in 2000.

Foreign direct investments are estimated at around US$ 1 billion in 2001, up from around 800 million in 2000. Enquiries among foreign business associations in Vietnam suggest that over 2001, and especially in the 4th quarter of 2001, foreign companies have shown increasing interest in Vietnam as an investment location. Political stability and the potential for exports to the US under the BTA (which became effective in December), are the most cited reasons for the renewed interest among foreign investors.[3] Also, according to Vietnam's National Administration of Tourism more than 440,000 people entered

[3] A recent poll among 44 foreign invested enterprises in HCM City showed that all but one expected business to improve in 2002. 91 percent of respondents referred to political stability as an asset for Vietnam.

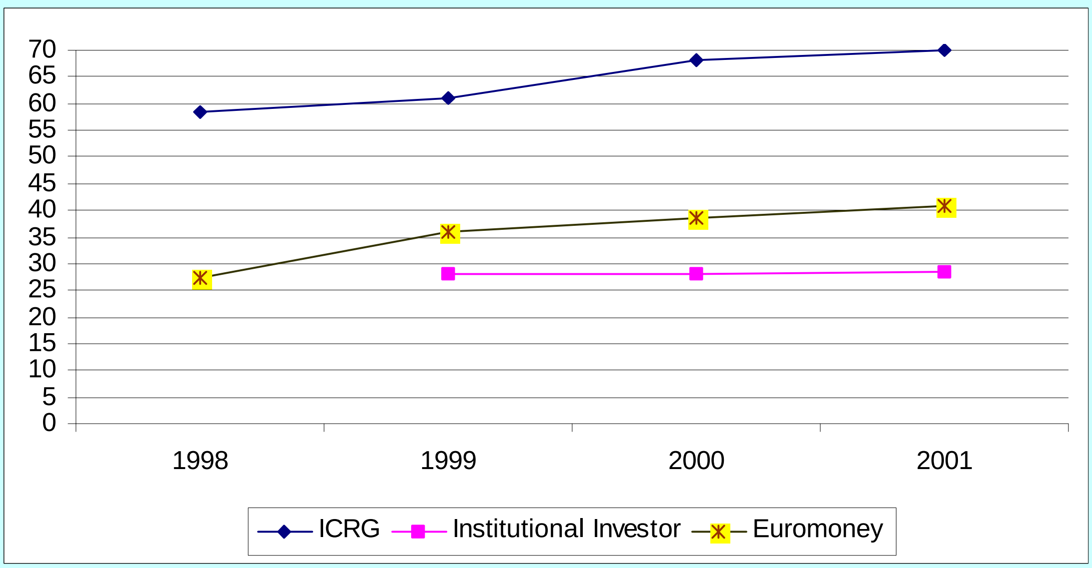
Vietnam to "explore business opportunities" in 2001. This is a 17 percent increase compared to the previous year. FDI is expected to continue to strengthen over 2002, to reach approximately US$ 1.2 billion. FDI inflows from 3 ongoing foreign investment projects in the energy sector will assure Vietnam of around US$ 800 million a year in 2002-2003 period.

Box 1: Improved risk ratings

Vietnam's risk ratings have improved steadily over the last four years. The most important event has in this relation been the 1999 Paris Club rescheduling of Vietnam's debt to the Russian Federation, lowering Vietnam's debt burden and debts service ratio. Other positive developments include progress on the economic reform process, political stability, and last year's signing of the BTA with the US.

The **International Country Risk Guide** is a monthly publication that monitors and rates political, financial, and economic risk. Each country is rated on a scale of zero to 100, with 100 representing the lowest risk.
Institutional Investor magazine publishes country credit ratings based on information provided by leading international banks, money management firms and economists. The scale is zero to 100, with 100 representing the least risk of default.
Euromoney Publications rate countries' creditworthiness based on nine factors, including access to finance, political risk, economic performance, and debt indicators. 100 is the best risk and zero the worst risk.

Figure 4: Improved Risks Rating



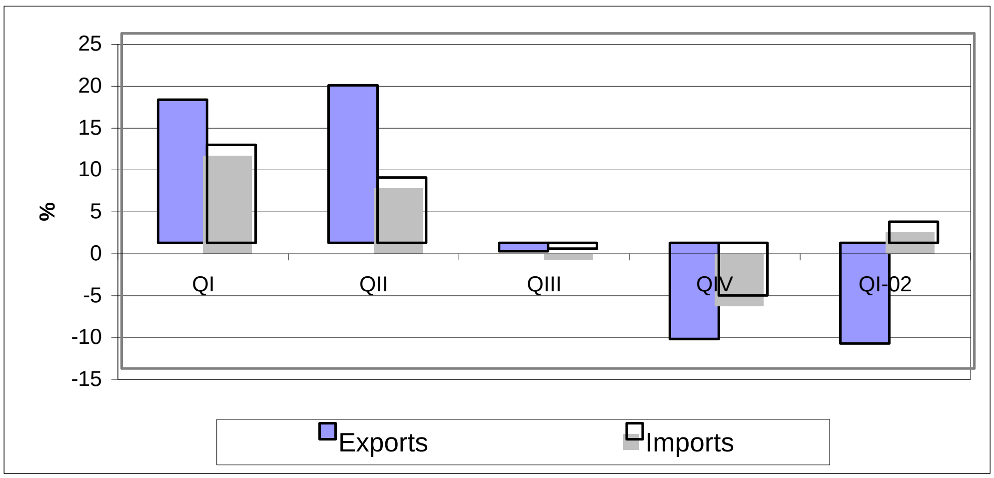
Moody's Investors Service is a global credit analysis and financial opinion firm. It provides the international investment community with consistent ratings of the risk of lending to governments. The ability to meet senior financial obligations is rated from Aaa (offering exceptional financial security) to C (usually in default, with potential recovery values low). Modifiers 1–3 are applied to ratings from Aa to B, with 1 indicating a high ranking in the rating category; the rating is further qualified by either "negative, stable or positive outlook".
In 1999 Moody's upgraded Vietnam from B1 to Ba3, and in 2001 the outlook was upgraded from "negative" to "stable".

Several smaller scale foreign investors in production and manufacturing made commitments in Vietnam last year. In addition the tourism industry, trade development, and the education sector have been favored by foreign investors. New foreign investments stem both from companies that are increasing their capacity as well as from newly established enterprises, some of which are relocations to Vietnam from other countries in the region. Japan, Taiwan, the UK, the Netherlands and Singapore were the top investors in Vietnam in 2001, accounting for around 44 percent of disbursed investments.

Weakness in external demand -- 2001 and first quarter 2002

Like other countries in the region, Vietnam's exports slowed sharply in the second half of 2001. Export growth rates climbed in the first two quarters of 2001 and then fell by 1 percentage point in the third quarter and by 12 percentage points in the fourth quarter (see figure 5). Overall, export growth was a mere 4.0 percent in 2001, compared to 25 percent the year before. This was mainly because oil prices fell by 13 percent in 2001.

Figure 5: Quarterly Change in Exports and Imports, year-on-year



Source: *General Department of Customs*

Growth of non-oil exports was also halved relative to 2000, as world demand fell precipitously. Exports of seafood and garments grew more slowly and value of agricultural exports continued to fall.

Table 2: Export performance: growth in percent, year-on-year

	2001 Value	Growth in %		
Exports	US$ bn, est.	2000	2001	Q1 2002
Total export earnings	15.03	**25.2**	**4.0**	**-12.0**
Crude oil	3.1	**67.5**	**-10.8**	**-25.5**
Non-oil	11.9	**16.1**	**8.7**	**-8.0**
Agricultural products	1.9	-9.9	-5.1	-39.1
Seafoods	1.8	55.5	20.2	-5.1
Mining products	0.1	2.7	3.1	53.2
Garment	2.0	8.3	4.4	1.4
Footwear	1.6	5.2	6.5	8.6
Electronics & computers	0.6	33.8	-23.9	-42.2
Handicraft & fine arts	0.2	40.8	-0.7	9.0
Other	3.8	30.8	23.3	0.5

Source: *General Statistical Office and Staff estimates*

Overall export growth in the first quarter of 2002 was running at negative 12 percent. Oil and non-oil exports plummeted even as agricultural commodity prices were finally firming on the back of supply uncertainties and expectations of higher demand in the latter half of this year. Non-oil exports are expected to recover modestly in the remaining three quarters with total export earnings growing at the low rate of 5 percent in 2002.

While export growth to Japan fell from a robust 46 percent in 2000, to a reduction of 4 percent in 2001, exports to the United States remained strong in 2001. It expanded at a robust 45 percent annually comprising mainly crude oil, seafood, and footwear.

Though exports of garments and footwear to China increased significantly in 2001, Vietnam's total exports to China fell by 7 percent due to the lower dollar value of oil exports.

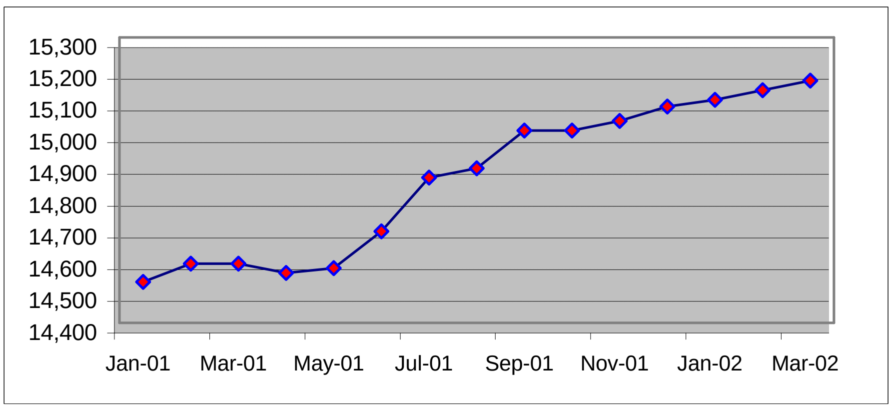
Weaker dong

Lower oil prices in 2001 and slower growth in non-oil exports combined with a continued high dollar value of imports, reflecting strong domestic demand, means that the trade deficit in 2001 stands at around US$ 1 billion -- equivalent to about 3 percent of GDP.

Partly as a result of this the Vietnamese dong lost 3.9 percent of its value against the US dollar in 2001. This rate of depreciation is slightly higher than the 3.5 percent that was recorded in 2000. Though the widening trade deficit, and the authorities concern with price competitiveness, explain some of the accelerated decline of the dong, other factors may be at play as well. One of the main dynamics could be the recent rise in the price of gold in Vietnam following September 11th. According to the World Gold Council, gold demand in Vietnam rose to a new high of 73 tons in 2001, up from the 60 tons the previous year. Gold is used for larger transactions such as in the real estate market, which has been buoyant in 2001. Households also continue to favor gold as a savings vehicle. Due to restrictions on gold imports and resilient demand, the price of gold in Vietnam is at times higher than in world markets. This price differential induces smuggling of gold into Vietnam, which in turn increases demand for dollars to pay for the gold, effectively contributing to the relative depreciation of the dong.

Nominal interest rates on time deposits favor dong savings over dollars. However, real interest rates -- corrected for inflation and currency depreciation -- back dollar deposits. In the first three months of 2002 the dong weakened by about 130 dong to the dollar, representing an annualized rate of depreciation of about 2.9 percent. Over the past four weeks the dong has lost an average of 16 dong per week, implying an annualized depreciation rate of over 5 percent.

Figure 6: VND/USD, 2001 (average)



Source: *General Statistical Office*

Japan-Vietnam trade is denominated in dollars. The Japanese yen has weakened to a three year low, since the Japanese Government signaled its willingness to allow a weaker currency. This has caused an appreciation of around 11 percent of the dong vis-à-vis the yen as measured in relative cross-rates with the dollar between January 2001 and January 2002. Japanese businesses source production inputs and buy certain foods from Vietnam, which have now become more expensive. This could potentially push the dong lower still. However, the weaker yen lowers both Vietnam's import bill from Japan (the second highest) and the external liabilities, with around a ¼ of Vietnam's long-term external debt denominated in yen, reflecting concessional ODA loans.

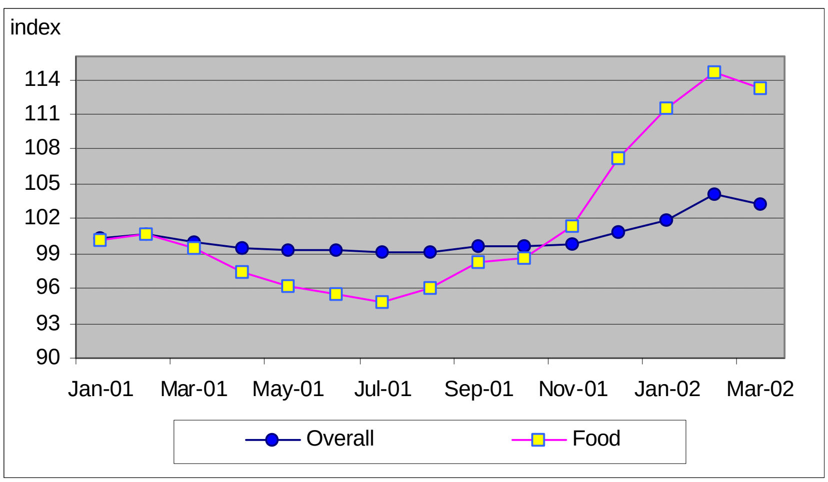
Inflation

After being subdued at near zero or even slightly negative levels for the past few years, signs of inflationary pressures surfaced in 2001. Given enduring domestic demand, a weakening currency, and lenient monetary policies, this would be expected. In 2001, State Bank of Vietnam adopted a more restrained credit policy. Last year, credit growth to the economy was around 20 percent -- a robust rate -- but substantially slower than in 2000. Much of this credit has taken the form of directed lending to enable commodity traders to stockpile rice and coffee in wait for prices to recover in world markets, effectively taking pressure off domestic prices.

Prices increased by 0.8 percent in 2001 compared to a fall of – 0.6 percent the year before. In December 2001 the CPI increased by 1 percent, compared to only 0.1 percent in December 2000. In January 2002, this rate accelerated to 1.1 percent, and in March it reached 3.4 percent – the highest rate in three years. The rise in inflation in late 2001 and early 2002 is driven by increasing food prices. Prices of food and foodstuffs increased 7.1 percent over March 2001 and 4.8 percent since the beginning of 2002.

Food (essentially rice) accounts for 47 percent of the goods basket that makes up the CPI. Changes in rice prices therefore translate into corresponding movements in the CPI. Low rice inventories have pushed prices up by around 30 percent in early 2002. The coming rice crop will be decisive in determining the direction of prices for the coming months. Core inflation, as measured by removing food from the index, has shown very little upwards pressure in 2001.

Figure 7: Price index: general and food prices in 2001 (Dec 2000 = 100)



Source: *General Statistical Office*

Fiscal Policies

The overall budget deficit for 2001 was around 3.3 percent of GDP, excluding on-lending. The deficit widens to 4.4 percent if on-lending is included.

Table 3. Fiscal Summary, 1999-2002

hare of GDP (%)	1999	2000	2001 Est.	2002 Plan
Total revenues & grants	**19.6**	**20.4**	**20.6**	**19.5**
Tax revenues	14.4	14.7	15.2	15
Non-tax revenues	3.9	5.2	5.0	4.1
Grants	0.6	0.5	0.4	0.4
Total expenditures	**21.2**	**23.2**	**23.8**	**22.3**
Current expenditures Excluding. Interests	13.2	15	15.2	13.4
Social sector expenditures	6.4	6.9	7.5	8.0
Capital expenditures (exc. on-lending)	6.7	6.7	7.8	7.2
Interest (paid)	0.6	0.8	0.9	1.2
On lending	1.8	2.2	1.1	1.8
Overall Balance (exc. On lending)	**-0.8**	**-2.8**	**-3.3**	**-2.8**

Source: *Ministry of Finance and Staff estimates*

Revenue continued to hover around 20.5 percent of GDP in 2001. Economic recovery together with enhanced tax collection efforts at the provincial level contributed to the revenue performance. Falling oil prices kept overall revenue at the same level as 2000. Revenue is projected to decline next year.

Capital expenditures increased by 0.6 percentage points over 2000, and current expenditures by 0.2 points. Capital expenditures were essentially directed at rehabilitation of infrastructure damaged by floods. Wage and salary expenditures rose by 11 percent, thereby squeezing other current expenditures, mainly operations and maintenance expenditures.

PART II. STRUCTURAL REFORMS

Vietnam has not only continued to implement the reform agenda it adopted in early 2001 in trade, private sector, banking, state enterprises and public expenditure management, but also developed reform programs in public administration and legal system development. Implementation of the program of reform actions supported with financial assistance by the IMF, the World Bank and donors like the UK, Netherlands, Denmark and Sweden has been good, except for slippages in SOE reform.

Integrating into the World Economy

Progress in liberalizing the import regime has been faster than envisaged. Instead of removing QRs from the two items (clinker and paper) that were scheduled this year, the Government removed QRs from seven items (i.e. paper, clinker, construction white glass, remaining steel products, vegetable oil, granite and ceramic tiles, and cement). Under the AFTA program of tariff reduction, the government announced changes in tariff lines and reduction in tariffs effective from January 2001. More than 700 items were transferred from the Temporary Exclusion List (TEL) to the Inclusion List (IL).

The Government has, for the first time, announced plans for the management of imports and exports of goods for a five-year period, instead of an annual plan importing more stability to the regime.

Improving the Climate for Private Enterprise

Several actions were taken in 2001 to improve the climate for private enterprise and investment. Access to land and credit has been facilitated by decentralizing allocation of land, aligning compensation with the true value of land and creating the appropriate infrastructure for mortgaging land. When the National Register Agency for Secured Transaction under the Ministry of Justice, which is to conduct, record and register all transactions and to maintain a database, becomes operational it will be possible to implement mortgages for the first time.

Box 2: Outcome of Party Plenum on Private Sector Development

- Recognized the private sector as an important contributor to job creation, income generation, and budget revenues, to help maintain political and social stability;
- Allowed party members, who own private businesses, to retain their membership of the Communist party, thereby providing a strong endorsement of private business.
- Called on the leaders of the country to take the lead in encouraging and praising private businessmen and businesses for their positive contributions to the socio-economic development, so as to improve the image and perceptions of the private sector;
- Proposed various changes to make it easier to do private business: (i) amend the Enterprise Law and withdrawal of irrelevant legal provisions so as to eliminate remaining discriminatory treatment of the private sector; (ii) review and remove unnecessary and burdensome licenses and certificates, which harass enterprises in their operations
- Amend laws and regulations, to distinguish clearly between civil and criminal violations, thereby avoiding the prevalent criminalization of commercial decisions and disputes of enterprises' and banks;
- Reconfirmed private enterprises right to mortgage their land use rights for bank loans or to use the land use rights as their contribution to the capital of joint ventures formed between domestic and foreign enterprises;
- Instructed expeditious issuing of certificates of residence land use rights and residence ownership and land-titles. While waiting for the necessary amendments and supplements in the Land Law and relevant regulations, this instruction can be used to implement on a pilot basis.
- Simplify lending procedures, including the provision of guarantees and consultancy services for the private sector, as well as removal of interest-rate ceiling on dong-loans by banks;
- Recommended amendment of existing accounting system so as to encourage private enterprises to use auditing services and to disclose financial accounts, annually.

SMEs' access to credit has also been improved through the liberalization of interest rates that occurred in 2001. In June interest rate caps on currency loans were removed, and the margins above the base lending rates that can be applied to loans seem to have improved access to credit.

The Government has identified 29 additional sub-sectors where business licensing restrictions need to be removed or modified and the process for removal has been initiated.

Box 3: The Emerging Private Sector

Employment in the formal private sector more than doubled between 1996 and 2000. This new corporate sector created more than thee times as many jobs as the SOEs and almost twice as many as the informal household sector.

Domestic private companies now account for eight percent of GDP and two to three percent of employment in Vietnam. This compares to the SOEs that make up 30 percent of GDP and five percent of employment.

The robust growth in the number of new enterprise registrations over the past 2 years continues and is likely to speed up growth in private sector activities in the next few years. The private sector already contributed 15 percent to industrial growth between 1995 and 2000, and 43 percent of export growth in the past two years. Increased private sector activity in labor-intensive and export oriented industries is a good portent that Vietnam's economy and its workers will continue to benefit from trade liberalization and further integration into the global economy.

The gap between North and South has steadily decreased in recent years, but it remains large. Also, the gap between rural and urban private sector development is increasing. Vietnam may be able to address this by drawing on China's success in rural industrialization.

Source: *Steer & Taussig (2001)*

More than 36,000 private SMEs have registered since January 2000, compared to 6000 SMEs registered in the two years before 2000. This brings the total formation of enterprises to 70,000. These firms had a total registered capital equivalent to US$2 billion, or 6 percent of GDP. Estimates suggest that close to one million people are employed in this private corporate sector in Vietnam. This is about half as many as in the SOEs. In addition to these 70,000 corporate sector enterprises comes approximately 2 million households that are engaged in business operations, and 4,000 non-agricultural co-operatives.

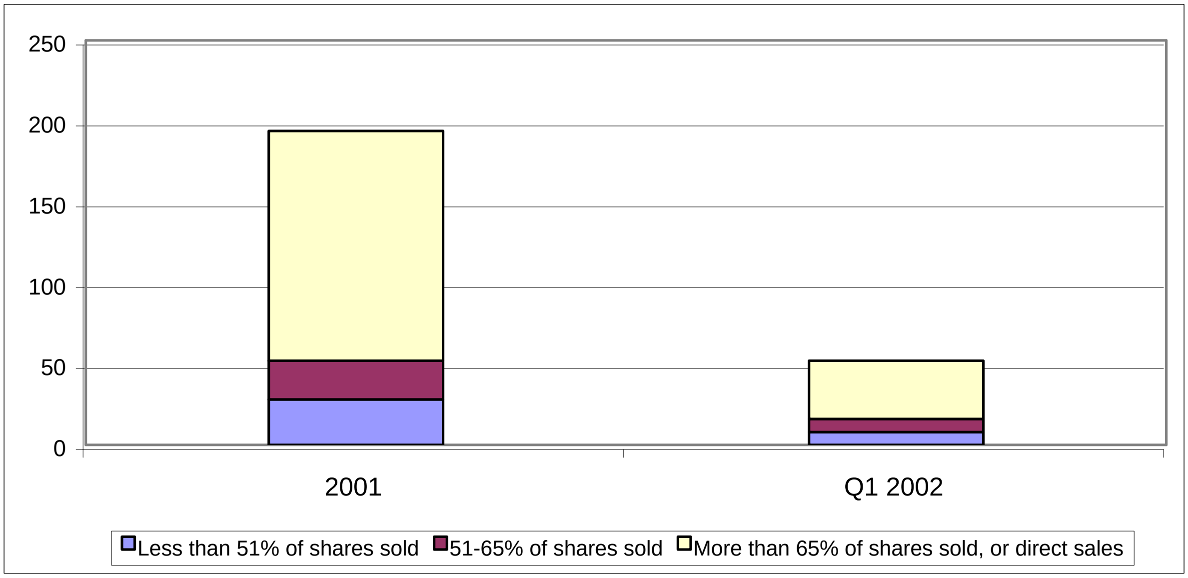
Nearly 70 percent of the newly registered SMEs are new entities, implying significant new investment; the remaining 30 percent have transformed themselves from informal household enterprises to formal SMEs which suggest that confidence in the formal system has improved.

Reforming State-Owned Enterprises

The climate for SOE reform has improved significantly in the last six months, even if actual implementation of SOE reform lags. This is largely due to the strong endorsement by the Party Plenum in August – September 2001 and subsequent Prime Minister's decision to implement the Plenum resolution. This decision issued in November 2001 covers more actions than were envisaged in early 2002.

The implementation of equitization slowed last year. Since the beginning of 2001, 246 enterprises have completed equitization of which 178 SOEs have sold more than 65% of its shares to non-state shareholders.

Figure 8: Number of Completed Equitizations



Source: *National Steering Committee for Enterprise Reform and Development & Ministry of Planning and Investment*

There are another 70 SOEs where valuation has been completed and decision to convert/register under the Enterprise Law issued; their equitizations are expected to be completed before June 2002.

Strengthening the Banking System

In general the State Bank of Vietnam has set out to grant commercial banks more autonomy in 2002 by adopting the view that 'what is not explicitly forbidden is allowed' in relation to lending operations. This is the first step towards a fundamentally new way of regulating the banking industry.

The Government has adopted a comprehensive banking reform program focused on the restructuring of banks and on improvements in the regulatory and supervisory framework. In the short-term, the reforms will ensure the stability of the banking system, and in the medium-to-long term it will promote better mobilization of domestic resources and improve allocation of those resources to commercially viable activities.

The restructuring of non-state joint-stock banks (JSBs) has picked up momentum after a delayed start. As of February 2002, 13 JSBs had been closed or merged, reducing their number to 39 from 52. Several JSBs are also being rehabilitated with private shareholders providing additional capital.

Implementation of detailed restructuring plans developed by Vietcombank (VCB), Incombank (ICB), Vietnam Bank for Agriculture and Rural Development (VBARD), and the Bank for Investment and Development (BIDV) are underway. The State Bank of Vietnam (SBV) has issued the decision that would govern the phased and conditional recapitalization of the SOCBs. Several SOCBS have established credit committees and others are in the process of establishing them. Financial audits of large SOCBs by international auditors using International Accounting Standards have been completed for VBARD and BIDV, the other two are expected to be completed by May 2002.

The new rules for classifying non-performing loans (NPLs) consistent with international standards, have been issued. The recognition of all NPLs using new rules is expected to be completed this year while the provisioning is expected to be phased.

Public Expenditure Management

Following the first joint Government-donor Public Expenditure Review in 2000 (PER-200), the Government has adopted a comprehensive program to strengthen public expenditure management with a views of improving comprehensiveness, consistency and transparency of budgetary information as well as equity and efficiency of public spending. Good progress is being made by the Government in implementation of the reform program. Actions to expand public's access to budgetary data are being taken. Central ministries and local governments have begun to disclose more detailed budgetary data in accordance with the revised fiscal transparency regulations. The Ministry of Finance posted for the first time on its website (www.mof.gov.vn) 2000 final accounts as well as the 2002 plan of the state budget. Detailed sectoral breakdown of budgetary outturns for 1996-2000 is now available on the same website. Detailed data were also published in a book form for wider circulation.

To further streamline the budget process to provide greater autonomy to spending units and encourage more efficient use of public resources, a decision was made on expanding Ho Chi Minh City pilot on block grant budgeting to administrative agencies in others provinces and central agencies as well as applying this approach to service delivery agencies nation-wide. So far about 20 provinces and one sector ministry have registered to participate in the pilot. Specific policies to support the poor in two poorest regions in Vietnam-the Northern Mountainous and Central Highlands-to have better access to education and health care were issued. And funding to cover the costs of these new policies have been fully incorporated in the 2002 budget allocation.

Work on developing draft revised budget law, on modifying the cash transfer system to provinces and making inventory of "off-budget" accounts is in advanced stages and is expected to be completed by June. Preparation of a project to integrate budget reform with a budget management information system is underway. This will help to overcome the problems with timely availability of budgetary information and consistency of that information thereby permitting greater accountability.

Formulating a Legal Reform Strategy

Vietnam's legal sector strategy has been driven by fundamental goals to move from a centrally planned to a market economy, achieve rapid and sustained economic development, and build a rule of law state.

The CG meeting in December 2000 recommended that a comprehensive needs assessment be undertaken in order to formulate a long-term strategy for the development of Vietnam's legal system. A Legal Needs Assessment (LNA) is now being finalized by key State Legal Agencies under an Inter-Agency Steering Committee chaired by the Minister of Justice. The LNA is receiving assistance from a consortium of key international and bilateral donors in the legal field including the World Bank, ADB, UNDP, Sida, DANIDA, France, JICA and AusAid.

The main areas in need of reform include: (i) The legal framework of laws, regulations, and treaties; (ii) The law and treaty making process; (iii) Legal institutions to enforce and implement laws such as courts, other dispute settlement tribunals, law enforcement and legal aid agencies, prosecutors, lawyers, bar associations, public registers for land and building rights, and secured transactions; (iv) Legal education and training of lawyers, judges and other legal professionals; (v) Legal information systems to improve transparency and educate the public about the law.

The final draft of the LNA was discussed at a conference of Vietnamese state legal agencies and donors in April 2002. The final report will be submitted to the Prime Minister and the President in May 2002. The strategy for the development of Vietnam's legal system, based on the LNA, will be submitted to the Prime Minister and the President in September this year and is expected to be approved by the National Assembly before the end of 2002.

ANNEX 1 : Reform actions 1998 – March 2002

Box 4: Integrating into the World Economy, 1998 – March 2002

Government actions include:

1998

- Lowering the maximum import tariff to 50 percent (exceptions remain for six groups) and reducing the number of tariff-rates to 15;
- Liberalizing trading rights of domestic firms by allowing them to export and import goods directly, without a license, though residual restrictions remain for importers;
- Allowing private firms to import fertilizer;

1999

- Allocating rice export quotas to non-state firms for the first time (by listing 5 private firms and 4 joint-ventures among the 47 authorized primary rice exporters Decision 273/1999/QD-TTg, December, 24, 1999) and allowing foreign firms to buy rice directly from farmers for export purposes;
- Auctioning 20 percent of garment export quotas;
- Encouraging trading activities by reducing the foreign exchange surrender requirement from 80 percent to 50 percent of foreign exchange earnings (Decision 180/1999/QD-NHNN1, August 30, 1999);

2000

- Removing quantitative import restrictions on 8 out of remaining 19 groups of products i.e. including fertilizer, liquid soda, ceramic goods, plastic packaging, DOP plasticizer, ceramic sanitary ware, electric fans, and bicycle (Decision 242/1999/QD-TTg, December 30, 1999, effective April 1, 2000);
- Signing the bilateral trade agreement with the US in July paving the way for MFN access of Vietnamese exports to the US market, gradual opening up of Vietnam's economy, for goods and services as well as investments;
- Approving a roadmap for AFTA tariff reduction during 2001-2006 wherein most tariff lines will lines will have their tariff reduced to 20% by early 2003 and to 5% by early 2006;

2001

- Enhancing the scope for long-term planning among traders by drawing up export and import plans for the period 2001-2005, instead of the hitherto one year schemes (Decision 46/2001, April 4, 2001);
- Removing QRs multilaterally on all tariff lines of the following groups of products: liquor, clinker, paper, floor tiles, construction glass, some types of steel, and vegetable oil. (Decision 46/2001 dated April 4, 2001);
- Reducing the foreign exchange surrender requirement from 50 to 40 percent (Decision 61/2001/QD-TTg, April 25, 2001);
- Abolishing the quota allocation for rice exports and fertilizer imports (Decision 46/2001/QD-TTg April 4, 2001);
- Moving 713 tariff lines from the Temporary Exclusion List (TEL) to the Inclusion List (IL) (Decree 28/2001/ND-CP)
- Permitting all legal entities (companies and individuals) to export most goods without having to acquire a special license by revising the implementing decree of the Trade law (Decree 44/2001/ND-CP, August 2, 2001);
- Establishing an export support credit sourced from the State Development Assistance Fund, aiming to support enterprises, economic organizations and individuals to promote exports (Decision 133/2001QD-TTg, September 10, 2001);
- Reducing the number of items that FIEs have to export from 24 to 14, including such items as tiles, ceramics, footwear, electric fans, plastic products, and common paints (Decision No. 718/2001/QD-BKH);
- Permitting FIEs to engage in exports of coffee, minerals, certain wood products, and certain textiles and garments (Circular 26/2001/TT-BTM, December 2001);

2002

- Detailing a list of goods and tax rates for implementing the Agreement on the Common Effect Preferential Tariffs (CEPT) Scheme of ASEAN countries for the year 2002. Based on the schedule, 481 items were moved in to Inclusion list with tariff lower than 20%. To date there are 5558 lines in the Inclusion List, 770 in the Temporary Exclusion List, 53 in the Sentitive Agricultural List and 139 in General Exclusion List (Decree 21/2002/ND-CP, February 2002)
- A Government negotiation team has started working sessions on WTO accession in Geneva (April 2002)

Box 5: Improving the Climate for Enterprise, 1998 – March 2002

Government actions include

1998

- Issuing a new Decree on foreign investment providing additional incentives to foreign investors;
- Initiating the private sector donor dialogue under the auspices of the Consultative Group of donors in order to better understand the constraints faced by the private sector, especially foreign investors;
- Amending the Law on Promotion of Domestic Investment, allowing domestic and foreign organizations, and individuals, to buy shares or to contribute capital to domestic enterprises, including equitized SOEs, and provided additional incentives for new domestic investment;

1999

- Approving the Enterprise Law and issuing decrees to implement it, eliminating a number of discretionary restrictions on the establishment of private business (May 99);
- Providing regulations on secured transactions (Decree 165/1999/ND-CP), enabling mortgages of land-use rights and houses, and collateralized lending on the back of assets ranging from materials, machines, and production equipment to bonds, shares, and property rights;
- Providing regulations on the organization and operation of a Development Support Fund (Decree 50/1999/ND-CP on July 8, 1999). The Fund is a point of access for medium and long term development finance for private and public enterprises;
- Revising the Land Law to convert, transfer, lease, provide as collateral and capital contribution of land use-rights to banks or to joint-ventures;

2000

- Implementing the Enterprise Law effectively by revoking unnecessary business licensing restrictions in 145 industries, trades and services, and easing private entry;
- Revising the Foreign Investment Law to create more favorable conditions for foreign investors. Improving access to foreign exchange, allowing mortgaging of land by foreign bank branches in Vietnam, permitting automatic registration for export-oriented foreign investment, and making provisions for the Government to issue guarantees for large infrastructure projects;
- Amending the 1993 Law on Petroleum making the investment and regulatory environment for foreign investment in the oil and gas sector more attractive;
- Establishing the first stock exchange center in Ho Chi Minh City, which is dealing in treasury bonds and shares of listed companies.

2001

- Increasing openness and information by establishing an Enterprise Information Center under MPI on enterprises registered under the Enterprise Law (Decision 75/2000/QD-BKH of Feb 28, 2001);
- Approving two BOT projects in the energy sector: Phu My 2.2 power plant with EdF led consortitium of TEPCO and GEC (US$ 400 million) and Phu My 3 combined cycle power project with BP (US$450 million), thereby creating precedents for more BOTs in infrastructure (Jan, 2001);
- Providing detailed guidelines and listing all necessary documentations for foreign invested enterprises to mortgage land-use rights and assets attached thereto to Vietnamese credit institutions and joint-venture banks (Inter-Circular 772 NHNN/TCDC, May 2001);
- Allowing overseas Vietnamese to hold land-use rights, and decentralizing control and monitoring of land-use rights to enhance the functioning of the real estate market (June 2001);

- Phasing out the dual pricing policy for overseas Vietnamese in aviation fares, electricity, and visa fees (Decision 114/2001/QD-TTg, July 31, 2001);
- Unifying train fares for foreigners, overseas Vietnamese, and Vietnamese nationals as of January 2002 (Decision 114/2001/QD-TTg, July 31, 2001);
- Amending Decree 17 dated March 24, 1999 to improve transparency and legalize the real estate market, by providing official regulations for sale, lease, mortgage and transfer of land-use-rights (Decree 79/2001/ND-CP, November 2001);
- Giving overseas Vietnamese the right to own and dispose of property in Vietnam, provided they have invested in, or otherwise contributed to the economy, or have been invited by the Government to take up residence and work in Vietnam (Decree No. 81/2001/ND-CP effective November 20, 2001);
- Recognizing the importance of SMEs by updating the decree to support the development and continued growth of these enterprises by specifying regulations and support mechanisms (Decree 90/2001/ND-CP, November 2001).

2002

- Amending the constitution of Vietnam to provide the private sector status equal to that of the state sector;
- Introducing a Website (www.business.gov.vn) - the first ever e-government site in Vietnam - on business registration, providing information on procedures for registration and providing downloadable application forms (January 11,2002);
- Proposing to eliminate 16 business licenses in the following sectors: transport, trade, healthcare, telecommunications, industry, environment, and culture; and modify 13 current licenses into conditions to be fulfilled in the following sectors: internet provision, advertisement, culture, healthcare and medicine (the decision is pending prime ministerial approval);
- Setting-up the website: "Investment Information and Opportunities in Vietnam" (www.khoahoc.vnn.vn/mpi_website) under MPI in partnership with MIGA, to provide timely and clear information to domestic and foreign investors. The site also includes an online investment application facility (January 2002);
- Permitting foreign portfolio investors to remit dividends from investments in the domestic securities markets (Document 74/CV-Q1.NH, March 2002)

Box 6: Reforming State-Owned Enterprises, 1998 – March 2002

Government actions include

1998

- Issuing Decree 44 to simplify the process of equitization and allow limited foreign shareholding in equitized SOEs;
- Issuing Directive 20 to adopt a wider menu of reform options for SOEs, e.g. outright sale, transfer to employees competitive bidding, for purchasing SOEs on SOE shares, leases, management contract etc.;
- Announcing annual targets for equitizations for 1998 – 2000;
- Equitizing 52 SOEs;

1999

- Completing classification of SOEs into three groups: profitable, temporary loss-makers and permanent loss-makers;
- Issuing decree and regulations for outright sale, transfer to employees, and lease of small SOEs, without requiring conversion of SOEs into joint-stock companies as required for equitization;
- Selecting 100 large troubled SOEs for independent diagnostic audits (i.e. operational reviews);
- Equitizing 151 SOEs;

2000

- Selecting three general corporations (Seaprodex, Vinatex, and Vinacafe) for developing specific action restructuring plans and completing preliminary consultancy work;
- Expanding authority of provinces to decide on divestiture of SOEs with capital up to five billion VND instead of 1 billion permitted before;
- Establishing an Assistance Fund for Restructuring and Equitizing SOEs to finance severance payments, early pension payments and retraining for redundant workers -- minimizing the negative social impact of SOE reforms on workers;
- Adopting a comprehensive five-year SOE-reform plan with annual target for the first three years.
- Equitizing 185 SOEs;

2001

- Establishing a quarterly monitoring system for 200 large highly-indebted SOEs, and revising a decision to clarify reporting requirements and introducing sanctions against late reporting;
- Issuing government's instruction for a moratorium on establishing new SOEs by local People Committees and line ministries until further notice (Official Dispatch 574/CP of June 25, 2001);
- Establishing the Financial Investment Company under the Enterprise Law, to represent the interests of the State as owner and co-owner of SOEs and issuing decree 63 on transforming SOEs into one-member limited liability companies are steps towards disentangling the complex ties between Government and SOEs (October 2001);
- Equitized a total of 194 SOEs.

2002

- Allowing managers of equitizing enterprises to purchase shares in excess of the number of shares subscribed by employees, requiring 30 days public notice prior to announcement of equitization, and clarifying potential conflicts between the SOE Law and the Enterprise Law (Decree expected to be issued by May 2002);
- Issuing Decree 41/2002/ND-CP, April 2002 on the policies towards employees made redundant because of SOE reform

Box 7: Strengthening the Banking System, 1998 – March 2002

Government actions include

1998

- Establishing a Bank Restructuring Committee and initiating restructuring of non-state Joint-Stock Banks (JSBs) in HCM City;
- Issuing regulations for intervening in troubled banks including conditions for "Special Control Regime" of the central banks;

1999

- Completing SBV's financial assessment of all JSBs and independent audits of 4 large SOCBs by international auditors and developing preliminary restructuring plans for all JSBs;
- Closing and merging 4 JSBs in HCM City;
- Issuing prudential regulations for banking operations, financial ratios for safe operation of credit institutions; authority of banking inspectors; deposit insurance and collateral;

2000

- Issuing new regulations for operations of banks in respect of calculating provisions against their non-performing loans on a quarterly basis (Decision 488);
- Assigning full responsibility and accountability for all aspects of the credit cycle to banks; requiring loan officers in commercial banks to check not only the capacity of the borrower to repay a loan but also to check the feasibility and viability of the project that is to be financed (Decision 284, August 2000);
- Allowing lending on an unsecured basis to state owned enterprises and foreign invested enterprises (Decision 266, August 2000);
- Replacing fully administered interest rates on dollar and dong loans by a more flexible interest-rate system under which the dollar rate is anchored in SIBOR, while the dong rate is allowed to vary around a SBV base rate subject to a ceiling rate (Decision 241 to 244, August 2000);
- Issuing regulations for the organization of SBV's supervision of the banking sector -- the State Bank Inspectorate (Decision 270, August 2000);
- Supplementing the existing legislation for foreign banks with detailed provisions concerning the organization and operations of state owned banks and JSBs, broadening the range of non-core activities (Decree 49, September 2000);
- Clarifying provisions for registering secured transactions (Circular 10, September 2000);

Box 7: Strengthening the Banking System, 1998 – March 2002 (cont'd)

2001

- Providing guidelines for the realization, either through sale or seizure of secured property, for recovery of debts by credit institutions (Joint Circular 03/2001, April 23, 2001);
- Simplifying procedures governing deferred L/Cs, by cutting the number of requirements from six to two -- effective June 10, 2001;
- Adopting a detailed restructuring plan for the four large SOCBs including annual milestones (i.e. actions and targets) that need to be achieved to obtain phased re-capitalization funds from Government;
- Broadening the scope for financial leasing and improving regulations to create a more attractive operating environment for domestic and foreign leasing companies (Decree 16/2001/ND-CP, May 17,2001);
- Freeing interest rates on foreign currency lending by banks in Vietnam and off-shore banks (Decision 718/2001/QD-NHNN, May 29, 2001, and Decision 980/2001/QD-NHNN, August 1, 2001);
- Issuing guidelines for the implementation of the Ordinance on Commercial Paper from 1999, including on the form and language of, and conditions for guaranteeing and pledging commercial paper, and the respective obligations of the different parties to such commercial transactions (Decree 32/2001/ND-CP, July 5, 2001);
- Increasing autonomy of commercial banks by allowing them to set up internal systems for clearing payment transactions without State Bank involvement, but with State Bank permission (Decree 64, September 20, 2001)
- Providing a framework for cross-border payment transactions, recognizing, for the first time, that international practices can be used to govern cross-border transactions if Vietnamese law does not require otherwise (Decree 64 and its implementing decision, September 20 2001)
- Allowing all joint-venture and foreign banks operating in Vietnam to take collateral in the form of land from local clients, i.e. in the form of land use rights and land certificates (Decree 79/2001/ND-CP, effective November 16, 2001) ;
- Allowing joint-venture banks to receive hard-currency deposits from Vietnamese clients (Decision 1380/2000/QD-NHNN, effective November 20, 2001);

2002

- Establishing a National Register Agency for Secured Transaction under the Ministry of Justice to facilitate transactions by credit institutions and entitling third parties to access information related to secured transactions. The registry opened for business March, 12 2002;
- Enhancing the process for resolution of bad loans by allowing domestic commercial banks and credit organizations to sell collateral backing loans directly in the market at market determined prices instead of going through state-owned agencies (Directive 01/2002/CT-NHNN, January 2002);
- Bringing banking regulations closer to international accounting norms, by stating that should customers fail to repay an installment the entire loan can be accelerated and classified as overdue, and giving banks more discretion in setting interest rates on overdue debt (Decision 1627/2001/QD-NHNN, effective February 1, 2002);
- Permitting banks to make decisions on the terms of any given loan, including domestic banks' lending to foreign borrowers in Vietnam, such as maturity and interest rate, and generally devise new forms of lending provided they are not forbidden by law, including, for the first time, the possibility of overdraft lending (Decision 1627/2001/QD-NHNN, effective February 1, 2002);

Box 8: Managing Public Resources Better, 1998 – March 2002

Government actions include:

1998

- Publishing 1997 final accounts and the 1999 budget plan by the General Statistical Office, in the form of a freely available booklet;
- Providing fiscal information to international organizations and donors in a GFS-consistent format as well as to all relevant Government agencies (Decision 225 and 1581);

1999

- Improving fiscal management by requiring improved accounting of foreign grants and clarification of roles in management of external debt and in debt monitoring (Decree 90 in 1998 and Circular 22 in 1999);
- Clarifying processes for managing fees, charges and revenues raised and spent by spending agencies;

2000

- Completing and publishing the Public Expenditure Review – Managing Public Resources Better.
- Issuing a regulation (MOF's Circular 118/2000/TT-BTC) on commune budget management and a simplified budget classification to provide a framework for improved accounting, reporting and management of budget commune and other financial activities at commune level
- Starting a pilot of block grant budgeting for administrative agencies in Ho Chi Minh City to permit more autonomy to pilot agency and encourage efficient use of resources and appropriate re-allocation where needed.

2001

- Developing a detailed public expenditure management improvement action plan with a timetable for next three years.
- Establishing an inter-agency working group to coordinate implementation of PER-2000 recommendations.
- Completing provincial PERs for Hochiminh City and Quang Binh.
- Issuing a revised regulations (PM's Decision 182/2001/QD-TTg) on fiscal transparency to allow more budgetary information to be made public and to enforce implementation by lower level of government.
- Initiating pilot development of MTEF for education sector.
- Adopting a decision (PM's Decision 192/QD-TTg) to expand Ho Chi Minh City's block grant budgeting pilot to other provinces and central agencies.
- Passing an amendment to the Constitution to provide a full autonomy to Provincial People's Council to approve and allocate its budget.

2002

- Posting, for the first time, budgetary information on MOF's Website.
- Issuing a Decree (Government's Decree 10/2002/ND-CP) on new financial management mechanism for public service delivery agencies to provide greater degree of autonomy, flexibility and certainty to these agencies in managing their financial resources.

Annex 2. Economic Work Funded by the World Bank and by Other Donors
(recently completed, ongoing and planned)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
1. Integrating with the World Economy			
The Government of Vietnam is committed to integration with the region and the world. Over the next three-to-eight years this process will be dominated by implementation of Vietnam's commitments under AFTA and the USBTA, as well as removal of QRs multilaterally and expansion of private participation in exports.	• Implement the US Bilateral Trade Agreement (USBTA) • Implement the approved annual road map for tariff – reductions under AFTA • Implement removal of QRs multilaterally by early 2003 • Prepare for WTO accession	• Study on likely impact of USBTA on Vietnam's exports (completed in 1999 with WB funding) • Study on impact of AFTA on Vietnam's imports and exports (completed in 1999 with WB funding) • Trade Reform in Vietnam (with IMF) • The effect of Chinese WTO membership on Vietnam's exports – in VDR 2002 • Study on impact of planned trade liberalization on the poor (ongoing, with AusAID)	• International commercial law training program (AusAID) • Assistance on formulation implementation of USBTA (USAID) • Long term vision and strategy for integration (UNDP/UNIDO) • Multilateral trade policy assistance for WTO accession (EU) • Capacity building for WTO accession and policy advice (Switzerland) • TA in enforcement of Intellectual Property Rights as set forth in international treaties. (Switzerland) • Capacity building for MOT (FINNIDA) • Policy advice to PM's Research Group on External Economic Relations (SIDA)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
			• Trade assistance program (New Zealand) • Stocktaking of Vietnam's external commitments on trade policy and needed actions by different Government agencies (UNDP)
a. Promoting Exports Though most quantitative restrictions and restrictions on trading rights for exports have been liberalized, there is need to open up exports further for the private firms. Also there is a need to ensure that exporters of labor-intensive manufactures and processed agricultural products have access to imported inputs at world prices and to supports of various kinds.	• Allow more private participation in rice and garment exports by liberalizing quotas • Ensure that customs is supportive of exporters e.g. access to imported inputs at world market prices, ease of shipment, etc	• Review of Vietnam's export performance in 1999 and beyond (for Mid-term CG 2000) • Study on ways of improving the auction of garment export quotas (planned) • Study on export policy and performance to develop a more detailed export strategy for achieving the export targets (ongoing with AusAID)	• Assistance to the Government on export promotion for specific products (UNDP/ITC) • Web site on Vietnam's economic integration (SIDA)
b. Liberalizing Imports Moving towards a tariff-based import regime and opening up the services sector – more transparent and more accessible to all importers – with domestic prices reflecting world market prices.	• Continue removing QRs multilaterally	• Study on Non-Tariff Import barriers in Vietnam, with case studies of cement, steel, plastics etc (completed in 1999 with AusAID) Studies on: • Impact of planned trade liberalization on key SOE sub-sectors (planned) • Petroleum price &	• Awareness campaigns aimed at provincial leaders and SOE managers (SIDA)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
		marketing – (ongoing – June 01) • Sugar sector's trade and non-trade policies (with AusAID,) – Report presented in February 02.	
c. Modernizing Customs Comprehensive changes in customs procedures are required.	• Announce a program for computerization of all 142 custom points		• Assistance to upgrade Customs operation (USA) • Support for modernizing Customs (UNDP)
2. Strengthening the Banking System			
To make the banking system more transparent and accountable and to improve financial intermediation, the Government has adopted a four - track banking reform program, as shown in the key benchmarks.	• Improve legal, regulatory and supervisory framework, and level the playing field for all banks • Restructure joint-stock banks (JSBs) • Restructure State Owned Commercial Banks (SOCBs) • Build capacity and develop human resources in banking	• Advisory services and training materials for SBV (with European ASEM)	• Help SBV prepare long term strategy for the financial sector (ADB) • Support to SBV (GTZ, Germany) • Support to SBV (New Zealand) • Support for training of central bankers (Switzerland)
a. Improving legal, regulatory and supervisory environment Inadequate legal framework for creditor rights, poor regulatory and supervisory framework and weak accounting system have not encouraged prudent and modern banking. There is need to bring banks up to international standards.	• Adopts IAS in commercial banking, including revision of decision 284 to move loan classification and loan loss provisioning toward IAS standards • Implement CAMEL procedures and policies for risk based banking supervision • Start training programs for SBV staff to enhance	• Support to reform of the banking system regulations (with European ASEM) • Support for improving banking supervision by drafting manuals for on-site inspection (with Japan PHRD) and for improving organization (with European ASEM) • Support to expand regulations,	• Support for banking inspection system (GTZ, Germany) • Support for strengthening banking supervision (planned by SIDA and Austria)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
	supervisory skills	especially on loan classification and provisioning (with ASEM)	
b. Restructuring Joint-Stock Banks (JSBs) Restructuring seeks to ensure that remaining JSBs have larger capital, lower NPLs, better management and improved financial health and are in compliance with existing regulations. There are currently 39 JSBs (10 percent of bank liabilities) after closure of 13 JSBs. Weak capital bases, related-lending, and high levels of NPLs make them highly vulnerable.	• Close 9 JSBs that do not comply with regulations, especially chartered capital requirements • Restructure JSB-sector to reduce the number of JSBs significantly and assess compliance of all JSBs with existing regulations • Ensure level playing field for all banks and promote growth of a sound non-state JSB sector	• Financial assessments & audits of 10 large JSBs (with European ASEM) • Review of the actual closure and merger process for JSBs (with European ASEM) • MIS for monitoring progress in restructuring and improvements in health of JSBs (with ASEM)	
c. Restructuring State Owned Commercial Banks(SOCBs) To move SOCBs away from policy lending to commercial lending and to make management of banks accountable for the performance of their loans. For this purpose, each SOCB will finalize restructuring plans with annual milestones (relating to the key benchmarks) that have to be met, to make SOCBs operate on a commercial basis and to allow their phased re-capitalization over 3 years. The four large SOCBs account for 70-80% of the banking system assets and have only recently begun to move away from predominant policy-lending.	• Complete IAS audits for four SOCBs for 2000, and annually thereafter, to ensure that performance is transparent to all levels of managers and provisioning follows international standards • Phase out policy lending from SOCBs and use explicit MOF guarantees for such lending in the transition. • Establish SOCB-owned AMCs for collateralized bad loans and LWU for non-collateralized loans and develop & achieve debt recovery targets	• Support to the development of restructuring plans for SOCBs (with ASEM and Japanese PHRD) • Develop a MIS for monitoring progress on achievement of annual milestones and receipt of re-capitalization funds cited in individual SOCB restructuring plans (June 01) • Support to ICBV for establishing various systems indicated in the restructuring plan (with ASEM) • Support to the establishment and operation of banks' AMCs	• Support to independent IAS audits of VCB and ICBV for 2000 (USAID and Danida, Denmark) • Support for TA to help ICB implement its restructuring plans (planned ADF, France) • Support to twinning arrangement for VCB (planned – Netherlands) • Support to establishing internal audit systems in SOCBs (Ongoing - GTZ,

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
	• Implement better credit risk assessment processes and internal audits consistent with commercial banking • Increase lending to non-state sector, especially private SMEs • Implement phased re-capitalization over three years, conditional on each SOCB meeting its annual milestones in restructuring plans	AMCs – Workshop held in Hanoi Dec 01.	Germany) • Strengthen corporate governance of VBARD (ADB)
3. Reforming SOEs			
In their current form SOEs pose a serious threat to the growth perspectives of Vietnam. Comprehensive reforms are necessary to stop the drain on public finances and prepare industry for the competition implied by the trade regime Vietnam has signed up to. Implementation of social safety nets for displaced workers must follow hand-in-hand as a prerequisite for the viability of reforms.	• Improve performance accountability of SOE management • A hard budget constraint on SOEs through banks' adoption of commercial criteria for lending • Government's eligibility conditions for debt-relief • Credit ceilings and monitoring of 200 highly indebted SOEs	• Support to National Enterprise Reform committee (ASEM) • Study of performance of equitized SOEs (ASEM)	• Support to Steering Committee for Enterprise reform and Development (Danida, Denmark)
a. Equitizing and Divesting SOEs to reduce losses and improve governance Diversification of ownership is an important building block to improve management, and gradually cut the ties to Government finance and policy. Equitization of smaller labor intensive SOEs in competitive sectors could yield substantial early gains. Momentum has increased recently.	• Amend Decree 44 to increase transparency and effectiveness of the equitization process, including removal of shareholding caps • Move responsibility for issuing and selling shares away from SOE-managers	• Support equitization and divestiture in sector ministries -- MOI, MOC,MARD, MOT & people's comtees i.e. Hanoi (with ASEM European) • Pilot program for small SOE divestiture, including auctions in Haiphong & Dak	• Support to industry restructuring and Enterprise Development in the Ministry of Fisheries (Danida, Denmark) • Support to equitizationof Agricultural SOEs in Qunag

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
		Lak (Danida/IFC)	Tri Province (GTZ, Germany) • Support to financial audits of SOEs to be equitized, for listing on the stock market (ADB)
b. Liquidating non-viable SOEs to reduce losses. Substantial resources for other Government initiatives and priorities will be freed up as the loss-making SOEs are liquidated. Progress in this area is slow as the legal framework is cumbersome	• Adopt improved regulations for bankruptcy and liquidation • Complete the set target of 300 liquidations over 3 years		• Support to review of existing bankruptcy and liquidation regulations and their revision (ADB)
c. Restructuring SOEs that remain in Government control For reasons of national security and special interest a number of SOEs are to remain in Government hands including the General Corporations. It is vital that these receive immediate attention, in order to stop debt build up and bring them on a commercially viable course. Also, economies of scale could be reaped by merging smaller SOEs.	• Initiate diagnostic audits of the first 30 SOEs and complete audits of 100 large SOEs in 3 years	• Diagnostic audits of large troubled SOEs (Japanese PHRD) • Pilot restructuring of 3 General Corporations , Seaprodex, Vinatex and Vinacafe (DfID, UK)	• Enhancing institutional capacity of key agencies in diagnostic audits (ADB) • Diagnostic audits of large SOEs (Danida, AusAID) • Capacity building for management of state Capital and Assets in MOF, including MIS for SOEs (UNDP) • Support to restructuring SOEs in agriculture (GTZ, Germany)
d. Providing financial support to	• Announce the portion	• Social safety net	

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
displaced workers to ease transition A total of 400.000 workers with a peak of 100.000 in one year are expected to be displaced as a consequence of reforms. This impact is manageable within budget limits without threatening the inflation objective. The Government has established an Assistance Fund, which among other things is to compensate displaced workers.	of funds designated for displaced workers • Agree on the size of severance packages • Establish criteria for early retirement /retraining	program (ASEM 1 European)	
4. Promoting the Private Sector			
The private sector is constrained in Vietnam. The recent implementation of the Enterprise law has helped enormously, but more needs to be done.	• Improve overall climate for private enterprises in various ways	• Study on 95 SMEs with more than 200 employees (MPDF) • Private sector study (IFC, MPDF & WB)	• Study on economic development policy in the transition towards a market oriented economy (JICA, Japan)
a. Improving Private Sector Climate	• Continue removing or modifying restrictive business licensing restrictions in various sub-sectors to ease private entry • Implement the revised law on FDI, especially for automatic registration of export oriented FDI • Top levels of Government should take the lead in speaking well of the private sector in public • Allow formation of private business association	• Study on attracting FDI (completed, IFC) • Study on the private construction industry	• Assistance to CIEM to improve regulatory business environment (UNDP) • Support to monitor business registrations in the provinces every month (UNDP). • Credit and finance for private SMEs (DfID, UK and EU)
b. Facilitating access to and transactions in land-use rights	• Establish registration offices and a national data system for implementing		• Support for registration offices and national data

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
	secured transactions • Complete issuing titles to land-use rights • Ease restrictions for converting agricultural land into industrial land		system (UNDP)
c. Improving Corporate Governance Reforms are needed at many levels in the corporate sector. In order to change the managerial spirit, financial accountability of managers should be secured - in the largest enterprises by introducing corporate boards. Extended foreign participation in existing and new enterprises also among SMEs will bring more managerial expertise.	• Adopt international accounting and auditing systems in phases over the next three years • Enforce the requirement that private SMEs maintain proper accounts	• Support to MOF for preparing various IAS systems	• Corporate Governance Development in Vietnam (ADB) • Vocational training programs on business skills (ADB) • Support for conversion to IAS (EU)
5. Improving Public Expenditure Management			
Timely and coherent budget data is of vital importance to asses the efficiency of public expenditures; for all decision makers in Vietnam; and to enhance the legitimacy of tax collection in the eyes of the public. The Government has embarked on the process towards greater fiscal transparency.	• Designate treasury in MOF as department responsible for maintaining comprehensive public accounts. • Implement a fully integrated MIS and accounting system in treasury • Publish detailed budgets annually at the central and local level, covering at least 75% of total spending	• Public Expenditure Review (with five other donors & government)	• Capacity building in MOF (CIDA) • Treasury Computerization (France) • Review of revising the State Budget Law (GTZ, Germany) • Capacity building for central and local level public spending(UNDP) • External debt management (UNDP and Switzerland)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
a. Increasing tax revenue collection Revenue as a share of GDP has decreased in recent years. Reasons include a slowing economy, weakening enterprise performance and some weaknesses in tax administration. Revenue must be increased in order not to put too much pressure on poverty reduction efforts or put the prudent fiscal stance at risk. Planned SOE and banking reform will also require additional revenue to cover costs.	• Implement measures to raise revenue-collections in the medium term • Unify corporate income tax rate for domestic and foreign invested enterprises • Remove discretionary tax exemptions		
b. Improving expenditure management Reforms should aim at simplifying administration while accounting clearly for the use of revenue including foreign grants and loans and disclosing possible future financing gaps. Furthermore the budget should take into account all financial liabilities of the government.	• Prepare a medium-term fiscal outlook, making all assumptions explicit • Make inventory of all "off-budget" funds, accounts and guarantees • Develop reporting and MIS for SOEs		
c. Reallocating expenditures There may be scope for more efficient prioritization of expenditures to promote growth and reduce poverty. Recurrent budget implications of planned capital spending should be enhanced so as to increase over all efficiency. Existing safety nets are not very effective or well targeted to the poor.	• Coordinate capital and recurrent spending between MPI and MOF • Finance fee-exemptions for primary health treatment and education of the poor directly from the state budget • Reallocate within sectors to achieve better balance between capital and recurrent spending		
6. Building Legal Institutions			
Legal documentation is issued by different levels of law, leading authorities to cause	• Deepen and strengthen legal reforms		• Support for Public Administration

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
conflict, unclear regulations and rules, and delays in implementation. An important task for the government is to provide the market with a sound legal system including institutions to implement and enforce laws, and resolve disputes under them. A sound legal system will reduce the risks associated with, and hence promote, longer term investments e.g. in the manufacturing sector.	reforms • Enforce rules and regulations to avoid corruption and distrust		Reform (UNDP, Danida, Sida, ADB) • Support to the Office of the National Assembly, Supreme People's Court and Supreme People's Procuracy (Danida, Denmark) • Legal needs assessment (UNDP)