

USAID/Vietnam

Annual Report

FY 2005

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Vietnam

Performance:

Background: For nearly two decades of “doi moi” (renovation) policy, Vietnam has been remarkably transformed from centrally-planned to market-driven economy. This process has led to macroeconomic stability and an average annual per capita income growth rate of 6-7% over the last decade driven by strong export performance, dynamic foreign direct investment and an expanding private sector. With a GDP per capita of \$485 in 2003, Vietnam, however, remains a low-income country. Vietnam was recognized by the United Nations as having achieved the Millennium Goal for poverty reduction as the poverty halved from 58% in 1993 to 29% in 2002. Poverty incidence, however, remains high in rural and mountainous areas -the home to poor farmers and minority people, with limited access to credit, productive assets and quality social services.

Vietnam remains committed to continued development of export-oriented economy, trade liberalization and global integration. The Government of Vietnam (GVN) signed the Bilateral Trade Agreement (BTA) with the U.S in 2001 and is pursuing the accession to the World Trade Organization (WTO) in 2005. The GVN has embarked upon a major program of legal reform and has promulgated a wide range of new and amended legislation to be compliant with international trade agreements. The private sector's fast growth is one of the most striking features of the Vietnam's economy over the past decade, particularly since the passage of the Enterprise Law in early 2000, which spurred dramatic growth of private sector. Private small and medium enterprises (SMEs) account for some 50% of GDP and create most of the jobs for 1.5 million new employments that enter the workforce every year. Yet, the state sector continues to crowd out private sector, with the state's share of GDP rising over the past decade to reach 39%. Monopolies and preferential treatment in many industries involving state-owned enterprises (SOEs) continue. There is a less conducive regulatory environment for private sector development, demonstrated by the vague formulation, unexpected changes and divergent interpretation of laws and regulations. The financial sector is inherently weak and the financial markets are underdeveloped and fail to meet the demands of a market-based economy. Two new business laws - a Unified Enterprise Law (UEL) and a Common Investment Law (CIL) are under consideration. These should further institutionalize Vietnam's commitments to the international integration process and create a level playing field for all businesses.

The GVN has attached great importance to maintaining harmony between economic growth and social development and equity. In 2004, Vietnam was ranked 112th of 177 countries on the Human Development Index and cited as a good example in many areas of social development, such as high life expectancy (69.7 years) and the adult literacy rate (94%). However, the country faces great social challenges. A quarter of children under five are under-nourished with the infant mortality rate being 20 per 1,000 live births in 2002. Vietnam's estimated percentage of People with Disabilities (PWDs) is high, at 6.3% (5.2 million), and 1.2 million of those are children. Services and resources for PWDs remain limited, and support services have traditionally have come from charities. With economic growth, the gap between the rich and the poor, between urban and rural area has been widening. The GVN has been combating an HIV/AIDS epidemic, which is now becoming generalized. By August 2004, over 83,400 HIV carriers were detected in 93% of districts of Vietnam. In fact, the estimated figure of people with HIV/AIDS is three time higher that the reported one. The GVN's plan to reduce the HIV/AIDS infection rate to below 0.3% by 2010 has calls for tremendous external support. See the State Department Office of the Global AIDS Coordinator report for a discussion of this program, <http://www.state/s/gac/>.

U.S. Interest and Goals: The U.S has strategic objectives in Vietnam. It would be beneficial for the U.S for Vietnam to become a more open, and stable country in this area of the world. Vietnam's economic development also fits well with the overall U.S strategic goals to promote economic prosperity in the U.S through the development of overseas markets and business opportunities. More importantly, as Vietnam

lies in a strategic location, accelerating Vietnam's transition to a more market-based economy secures the stability of South East Asia, which is of strategic importance to the U.S. USAID is addressing the 'transition' challenges by supporting trade and investment reforms related to BTA and enhancing the competitiveness of the indigenous private sector. USAID also continues the lead role it has occupied since early 1990s in support for vulnerable groups in Vietnam, including war victims, displaced and orphan children, people with disabilities, and those living in the natural disaster-stricken areas, which threaten to undermine Vietnam's sustainable socio-economic development progress. With the President's Emergency Plan for AIDS Relief program, the U.S also supports Vietnam's efforts to slow the spread of HIV/AIDS by a variety of prevention, care and treatment support activities.

Challenges: Vietnam faces 'transition' challenges as it embraces legal, institutional and economic reforms. A lack of transparency, uncertainty and inconsistency in the legal system and the slow and ineffective SOEs equitization have impeded competitiveness of the economy. More critically, the institutional mechanisms for enforcing laws and regulations are weak. Additionally, reform of financial sector and a cumbersome administrative and regulatory apparatus has been slower than expected. In spite of the GVN's great efforts to build a transparent and rule-of-law based state, the country's governance remains weak, which in turn has led to serious corruption and threatened sustainable economic growth and poverty reduction. The goal for WTO accession by 2005 calls for further and faster openness, which means substantive and deeper legal reforms are needed. It is essential that Vietnam maintains this momentum to ensure continued rapid growth and poverty reduction. There is a concurrent challenge to improve the quality and sustainability of growth to ensure that the benefits are shared widely and equally across all social and economic groups, including vulnerable and minority groups. Continued economic gain and further progress in poverty reduction will depend on the quality of education and health services available to the poor. Regarding HIV/AIDS, the recent approved National Strategy represents a sound basis for further action. However, to succeed, the commitment of national leaders and mass organizations to forge a truly national effort to stem the spread of the pandemic and stamp out stigma and discrimination against people living with HIV/AIDS are essential. All of these are challenges will need to overcome for Vietnam's transition process to succeed.

Donor Relations: Donor coordination in Vietnam is very good. In the 12th Consultative Group meeting in early December 2004, donors pledged \$3.44 billion of development aid to Vietnam in 2005. Japan is the Vietnam's biggest donor, followed by the World Bank (WB) and the Asian Development Bank. These big donors focus on infrastructure, energy, governance, banking and social and rural development. Major bilateral donors include France, Australia, Canada, Denmark, Sweden and United Kingdom. The principal areas of focus of bilateral donors are governance, human resource development, private sector and rural development, and natural resource management. USAID is active in the Donor Working Group in Trade, Governance, finance, education, finance, and SMEs partnership along with many donors such as European Union, UNIDO, UNDP and a number of other bilateral donors. USAID is the largest donor in the disability area in Vietnam and plays an important role in coordinating donors and international NGOs in disability. USAID is also actively engaged in Government-Donor Working Group on HIV/AIDS to support the GVN in formulation of National Strategy for HIV/AIDS prevention, care and treatment support. Given this donor portfolio in the country and USAID's comparative advantage, USAID is collaborating with the WB, IFC/MPDF, WHO, UNAIDS, UNDP and other bilateral donors in the areas of HIV/AIDS, trade liberalization, legal reform, and private sector development.

Under the President Emergency Plan, USAID works closely with the U.S Center for Disease Control of the Department of Health and Human Service, Department of Defense, and the Department of Labor to help the GVN slow the spread of HIV/AIDS. Similarly, in the area of economic growth, USAID works closely with the U.S Department of Agriculture, U.S Patent and Trademark Office, and U.S Trade Development in Vietnam.

Key achievements: FY 2004 was a year of excellent progress for the USAID program in Vietnam.

1. Accelerated Transition to a More Open, Market-based Economy: 2004 was the third year of BTA implementation, which proved to be a productive year that surpassed the expectations in terms of the breath and depth of requests from the GVN's counterparts - who are key beneficiaries of USAID program

to assist the BTA implementation. The USAID program achieved three important results: (i) strengthened fundamental governance and legal framework for BTA implementation; (ii) built up strong relationships with 46 GVN counterparts, and provided them with the tools and expertise necessary to support BTA implementation; and (iii) created a strong momentum for private sector business to grow fast and compete in global market through a comprehensive approach targeted at both regulatory environment and enterprise levels.

Through the STAR-Vietnam and the public-private partnerships established by the U.S-Vietnam Trade Council's Educational Forum, USAID has made remarkable progress in revising existing laws and adopting new laws in compliance with BTA standards in many realms of market access for trade in services, intellectual property rights (IPR) protection, commercial relations, legal transparency, investment dispute settlement, customs procedures and business facilitation. Of significance are three important laws that have been passed in 2004 due to USAID's extensive technical support: 1) the Civil Procedure Code that handles the BTA-related areas of market access to goods, IPR, investment relations and transparency and right to appeal; 2) the Law on Local Laws that assures the transparency for rules and regulations applied by provincial and local governments - a key requirement of the BTA; and 3) the Law on Complaints and Denunciation that develops an effective system for appeals and judicial review of administrative actions, as required by Chapter IV of the BTA. The USAID work on GATT customs valuation for assessing import duties in lieu of minimum prices laid out a foundation for a \$70.0 million World Bank program to modernize customs procedures. USAID played a key role in reforms in commercial arbitration for resolving commercial disputes and enforce foreign arbitral awards. In FY2004, under USAID programs, approximately 3800 GVN officials, lawyers and business leaders, judges received BTA training, legal education and policy consultations through workshops, public-private linkages and study missions. In light of the BTA implementation, there has been a remarkable surge in investment and two-way trade flow between the US and Vietnam.

Building on the success of the previous pilot program, USAID's Competitiveness Initiative achieved encouraging results during FY 2004 in identifying key policy and competitiveness issues of concerns and establishing key cluster groups. With USAID technical assistance, regulatory and policy environment concerns of private sector were raised in the meeting with GVN's Prime Minister, public-private dialogues workshops and forums, involving over 1000 private businesses over the country. USAID activities contributed to increased awareness and participation of private sector in advocacy for policy changes in critical areas of land, taxation and credit conducive to private business. The cluster initiatives also were undertaken with growing industries in software/ICT, fruits, home furnishings and tourism to increase the competitiveness of SMEs. A banking training course development model was designed and piloted successfully that will be applied on a sustainable commercial basis for joint stock banks that should increase the capacity of these banks to lend to SMEs. All of these have created a vigorous momentum for expansion of the private sector and the development of business associations.

2. Improved Access to Services for Selected Vulnerable Groups: Under this SO, USAID supports efforts to develop disability related programs from a rights-based approach. This year, USAID contributed to significant changes in the legislative and policy environments. With recent success on the approval of the Barrier-Free Access Standards and Codes, new construction has begun to follow the guidelines. The Ordinance of Disabled People continues to undergo review to assess the impact made toward lives of people with disabilities. A new guideline for mainstreaming children with disability into the regular education system was developed by the Ministry of Education in order to include in the education system 50% children with disabilities by 2005 and 70% by 2010. The National Coordinating Council on Disability (NCCD), supported by USAID, undertook a key strategic planning process leading to the identification of a four-year plan for the NCCD. NCCD participating members and representatives from organizations of PWDs are highly committed to promoting the NCCD to a supra-ministerial coordinating agency to ensure effective coordination among ministries in Vietnam. The NCCD has taken great strides in bringing together government, NGOs and PWD groups to discuss and disseminate policy developments, to promote the establishment of self-help groups and an association of PWDs. USAID supports the Disability Forum, a disability-related information exchange center, a Vietnam-based NGO, led by Vietnamese PWDs. The Disability Forum is working actively through several working groups, one of which is involved in promoting employment for PWDs. A broad, comprehensive approach to preventing

and managing disabilities at the household and community levels is also supported through USAID. Several hundred health workers, teachers and community members have received training in various aspects of Inclusive Education, Community-Based Rehabilitation, injury prevention and childhood development. The Government is now looking at ways of institutionalizing this comprehensive and integrated approach on a national level.

In FY 2004, USAID made impressive progress in improving capacity of the Vietnam Women's Union (VWU) to prevent trafficking of women and children. A Plan of Action on Prevention of Trafficking in Women and Children for 2003-2007 was officially adopted with a model developed to provide rehabilitation services and training to prepare for the trafficked children returning from Cambodia to reintegrate into their home community in the Mekong Delta. Additionally, USAID worked on disaster mitigation provided emergency in-kind support and training program on sea safety measures for coastal fisher folk. USAID also helped Vietnam complete the flood mapping in 7 central provinces and provided flood level measurement equipment for broadcast flood and storm warning on national television stations. During the past year, USAID-funded program on Building Capacity for Child Survival among Vietnamese Ethnic Populations has contributed to increased access to, and use of, maternal, child and newborn health services; improved quality of health services at health facilities and at the household levels; increased practice of key household behaviors for maternal, child and newborn health; and contribution to the sustainability of project activities beyond the initial intervention phase. These improved services benefited initial 15 communes of Dakrong and Huong Hoa Districts, Quang Tri Province.

The USAID-funded program also has substantially contributed to the implementation of the Vietnam national HIV/AIDS program. The USAID program supported further development of action plan to implement the National Strategy on HIV/AIDS Prevention and Control developed in 2003. The 1996 HIV/AIDS Ordinance is being reviewed and the first revised draft has been finished and distributed for comments. The first HIV/AIDS Estimation and Projection in Vietnam has been done in cooperation with MOH and UNAIDS, which shows a greater HIV/AIDS picture and forms the basis for strategic thinking and future program design. Successful models in both prevention and care and treatment continue to be scaled up in the focus provinces to reach more beneficiaries. As in July 2004 Vietnam was selected the 15th focus country of PEPFAR, a more detail report on USAID-funded HIV/AIDS program can be found in the "State Department Office of the Global AIDS Coordinator, <http://www.state.gov/s/gac/>."

Gender: Programs supporting HIV/AIDS, disability and trafficking in person have successfully inserted gender issue into mainstream discussions, and have incorporated gender-related issues in their programs. USAID funded programs have addressed gender differences in relation to stigma and discrimination associated with HIV/AIDS, have helped to ensure the incorporation of gender issues in the National HIV/AIDS strategy for transmission of HIV/AIDS and on the provision of care and treatment for positive mothers. Gender will also be assessed when a new strategy for assistance to disability to be developed, specifically in relation to education and access to services. USAID's partners have identified major gender differences in access to education and services, USAID will build on these findings to ensure gender equality in new strategy development.

Trade Capacity Building: USAID's efforts to trade capacity building are well endowed in the economic development programs under SO 440-006 that accelerate Vietnam's transition to a more open, market-oriented economy. The currently-run programs to support BTA implementation and Vietnam Competitiveness Initiative that focus on trade liberalization and export-oriented industry clusters clearly indicate USAID's systematic and on-going support to build trade capacity for Vietnam. USAID is seeking to involve US Trade Commission to design an activity to provide assistance to capacity building in implementing competition and consumer protection policies for the Vietnam's Trade Competition Administration in the Ministry of Trade. USAID is engaged in regular meetings of the Donor Trade Working Group consisting of a number of donors such as WB, UNDP, JICA, EU, GTZ, AusAID, and SIDA to coordinate efforts and resources aimed at trade capacity building for Vietnam.

Results Framework

440-006 Accelerated Transition To A More Open, Market-Based Economy

SO Level Indicator(s):

BTA-promoting legislation enacted or revised with USAID support

Increase in the private sector's share of GDP

IR 1 Trade and Investment Regime Liberalized

IR 2 Private Sector Competitiveness Enhanced

440-007 Improved Access to Services for Selected Vulnerable Groups

IR 1 Services Delivered to Vulnerable Groups

IR 2 Lives and Property Saved by Disaster Preparedness

440-XXX 498-009 U.S. - Asia Environmental Partnership (US-AEP)

440-YYY 498-022 ANE Regional - Stabilize Population Growth and Protect Human Health