Statement by Yuzo Harada  
Date of Meeting: October 25, 2001

Vietnam: Country Assistance Strategy Progress Report

General

1. We commend the Government of Vietnam for its increased ownership and continuous effort on Structural Reforms such as SOE and trade reforms, in which we have seen much progress.

2. While Vietnam has achieved remarkable economic growth over the past decade, poverty still remains. Assistance for further poverty reduction is an urgent development agenda. We hope that GOV will develop the full PRSP in an appropriate manner, with the strong commitment of GOV, and with the participation of and consultation with civil society and other major stakeholders. We also hope that this will be accomplished through utilizing the programs supported by the CAS.

3. We support Management’s decision to wait for the full PRSP to be developed before discussing the full CAS and we commend this well prepared update of the 1998 CAS. We welcome the four new potential issues for the next CAS cited on page 16, namely, SME Development, Knowledge for Development, Corporate Governance, and Public Administration and Legal Reform. These are all critical to the further development of the country and we look forward to seeing further discussion on these issues.

Specific Issues

4. Since we can anticipate an increase in the urban population ratio, strengthening and broadening the labor absorption capacity of the private sector is critical.
   - Given the fact that the agricultural sector constitutes a low share (25%) of GDP and a high share of employment (2/3), we can say that sector productivity is obviously low (Box 1). At the same time, poverty is more apparent in the rural areas; and, therefore, as GOV announces in the seven priority areas (paragraph 7), raising productivity is essential.
   - The current urban population ratio in the country is fairly low compared to those of other Asian or low-income countries (Vietnam 20%, East Asia 35%, low-income countries 32%). In this regard, we note that appropriate job creation and the improvement of the urban living environment should also be highlighted, bearing in mind the probability of an increase in the
urban population.
- As GOV’s Ten Year Socio-Economic Development Strategy aims to decrease agricultural employment (Box 1), GOV should also carefully monitor a smooth transition from reliance on this sector to others. We therefore stress the importance of private sector development.

5. In this regard, it is encouraging that we have seen a significant increase since January 2000 in the number of new enterprises being registered in response to the new Enterprise Law and we view the Bank’s study on examining the employment effects of the law as very helpful.

6. IFC plays a key role in assisting in private sector development, one part of the growth strategy of the country. We understand that IFC had been focusing more on advisory and technical services than new investment, reflecting the private investment environment. However, we believe there remains room for increasing investments taking into consideration that we have seen the structural reform of the country.

7. We agree that the external environment may not allow for the country’s continuous export growth, at least in the short term, although we acknowledge its necessity for the rapid growth of the country.

- In this regard, as pointed out in paragraph 55, global integration and opening up of the economy might put vulnerable populations at risk as well as negatively impact the public’s response.
- At the same time, although a deteriorating external environment does not sound the call for a change in the direction of policy, it may become a hurdle for policy implementation.
- For the GOV to implement the policy reforms they have committed to in recent years and to gain support from the international community, we expect an even stronger effort by GOV to achieve broad civil society consensus.

8. Sound implementation of the PRSC approved this May will have an impact on the medium and long-term development nature of the country. Among the five pillars addressed in the program, we commend GOV for its effort on improving Public Expenditure Management with wide support from the Bank. We expect GOV’s continuous strong commitment regarding sound Public Expenditure Management, coupled with improvement in its current and future debt management capacity.

9. We compliment the coordination/cooperation among the major donors being strengthened through CDF initiatives. The Joint Portfolio Review, in particular, undertaken together with the GOV, ADB and JBIC, has effectively resulted in substantial outcomes and this instrument assists GOV in addressing the problems it faces. We hope GOV will further strengthen this partnership.