Board Meeting of September 22, 1998
Statement by Matthias Meyer

Vietnam: Country Assistance Strategy

Our chair endorses the Joint Country Assistance Strategy for Vietnam, as we find it to be very informative and comprehensive. The report contains a thoughtful analysis of the economic and social developments in Vietnam, as well as outlines the challenges the country is facing. Having said this we have some comments on the document and will focus on a few, in our view, most important topics:

• **Social and Economic Context.** The analysis of the social and economic context and Vietnam’s development agenda cannot be much argued upon. However, it seems that the Bank is putting proportionally too much emphasis on the negative influence of the Southeast Asian financial crisis. Actually, Vietnam’s major problems pertain to the Government’s indecisive response in implementing economic reforms and legal framework adjustment measures, as well as in curbing corruption and red tape. The Bank might also be too optimistic in projecting the future, especially the growth scenario, where under the present condition the very low growth of 0-3% should not be excluded, as from the year 1999. It is an especially possible scenario, if the Government continues its hybrid policies resulting from the compromise between the hard-liners and reformists within the ruling party.

• **Coordination and Consultation.** We commend the special efforts made in preparing the CAS in consultation with other major agencies as well as with Vietnamese Government. In practice, however, we have noticed that some donor initiatives, especially those of smaller players that are not as active in co-financing WB activities, have not been taken into consideration. As an example, we can give an accession process of Vietnam to WTO, where Switzerland provides comprehensive assistance and where it is our understanding that the proposed drafting of a road map is already well advanced.

• **More Focused Agenda.** The CAS report describes a very ambitious program covering many different sectors and activities. We feel that a more focused approach selecting fewer sectors, where the Bank has a comparative advantage and significant operational experience, would increase the efficiency of the measures. In that respect, we wonder as to whether the Bank’s recent move to implement major programs of advisory and technical assistance services in fields,
where it has neither the operational experience nor the operational set-up, will eventually help Vietnam to overcome its development challenge. A case in point is the public administration reform, for which a nation-wide program has been implemented for nearly four years under the general auspices of UNDP and the Netherlands Government. Other such areas are urban development and education. It would also be advisable for the WB to increase the intensity of its advisory support in those sectors where it has full competence: improving macroeconomic stability; strengthening the financial sector; reforming SOEs; raising productivity through infrastructure.

- **Private Sector Mobilization.** The interest of the Bank to mobilize the private sector can be commended. However, the WB seems too optimistic regarding the “equitization” of SOEs in Vietnam, where there is no evidence that the Government is really committed to achieve even half of its target with the extremely modest progress made since the program was launched. So far, less than 200 minor SOEs have been equitized. The Bank is also too optimistic as far as the actual opportunities of developing a “vibrant” private sector are concerned, within the set of existing laws and the absence of signals that the Government is willing to create an enabling legal framework.

- **Reduction of FDI Flows.** With the reduction of FDI flows to Vietnam from its neighboring countries a new framework to attract investors from western developed countries is now a more pressing issue. Investors are discouraged, however, when confronted with the Vietnamese reality (corruption, unstable legal, political and economic environment, and cumbersome procedures). In this context, we perceive it as a problem of great importance for future sustainable economic development of Vietnam.

- **External Debt Burden.** Vietnam’s external debt burden is significant and could become even more so, depending on the outcome of ongoing negotiations with Russia. We welcome current efforts undertaken by the Government to improve debt management capacity, with the support of UNDP. The Prime Minister’s Debt Management Action Plan has been followed by the establishment of a high-level interministerial committee, and a comprehensive UNDP capacity development project will start in 1999. We support these efforts and are confident that this coordinated approach will lead to a much-improved external debt management capacity.

- **Sector Studies.** The Bank intends to develop many sector strategies and masterplans, including energy, transport, health and environment sectors, and a national hydropower study. Actually, most of these studies seem to focus more on identifying projects which could increase the Bank’s portfolio rather than aim at strengthening and streamlining the Government’s undertakings. It would appear more appropriate for the Bank to embark on supporting sectors, where other smaller donors have already prepared the ground (e.g. education sector, where the WB did not attempt to make any follow-up to the Vietnam Education Finance Sector Study).

- **IFC Program.** The proposed approach and development trends for IFC program are well established and seem to take into consideration all possible impending factors. It is, however, doubtful that the IFC
financing for private hospitals (annex 1, page 11) should be given priority under present circumstances.