Board Meeting of September 22, 1998
Statement by Eugene Miagkov

VIETNAM - Country Assistance Strategy

1. We support the proposed Country Assistance Strategy of the World Bank Group for the Socialist Republic of Vietnam. I commend the Staff and Management for this very well prepared document.

2. We share the concern expressed in the CAS about the slowing momentum of growth and the eroding quality and sustainability of development, as well as the concern about Vietnam’s narrowing development options in the new regional context.

3. The paper acknowledges that the East Asia crisis has seriously affected the health of the Vietnamese banking system and its clients. I fully agree that a major financial sector reform is needed, and support the strategy of such a reform discussed in the CAS. At the same time I strongly believe that the prime attention at this moment should be given to the prevention of possible disruption of the national payment system and preparation of a contingency program of deposit protection. I invite the Staff to comment on that.

4. I am very concerned by the fact that for the past 15 months no agreement has been reached with the Government on a Policy Framework Paper. In this connection I would like to be informed about the current Bank/Fund cooperation in Vietnam. In particular, I am interested in how they assess the existing exchange rate regime in this country and the potential impact of possible Dong devaluation on the Vietnamese financial sector and economy as a whole.

5. Speaking about the new CAS in general terms, we are pleased to see that the Government and the Bank are in full agreement on development priorities and the direction of further reforms. As regards the existing differences in their views on the pace of reform, I believe that the launching of a major program of advisory and technical assistance services is the right way for the Bank to deal with this complex issue and seek common ground with the Vietnamese authorities.

6. Highly participatory manner of the CAS preparation deserves commendation. The paper mentions extensive consultations with
officials from the central and provincial governments, representatives of the foreign and domestic private sector, mass organizations, research institutes, NGOs, multilateral and bilateral donors, the Party and the National Assembly. However, I would appreciate some specific comments on how significantly and in what particular aspects those consultations have enriched the Bank’s understanding of Vietnam’s development needs. I would like to be fully convinced that this exercise – obviously costly and time-consuming -- has indeed been very beneficial for the new CAS.

7. Vietnam has made significant progress in reducing poverty in a relatively short period of time. However it is still one of the poorest countries. While poverty remains widespread, inequalities are beginning to emerge, and access to and quality of social services show signs of deterioration. Therefore we welcome and support the proposed stronger emphasis in the new assistance strategy for Vietnam on poverty reduction and social issues.

8. Clearly, progress in reducing poverty has been much less significant in rural areas, in the northern mountains region and for ethnic minorities. Taking into account that 90 percent of the poor are living in rural areas, we fully agree with the planned reorientation of IDA lending support towards agriculture, rural employment generation and natural resource management. This would be in line with the Government’s decision to put rural development at the center of its economic development strategy. We also support the proposal to allocate 10 percent of IDA resources for targeted area-based poverty programs and community-based rural infrastructure schemes.

9. We agree with the proposed composition and scope of IDA lending support calibrated according to the three alternative scenarios. We also believe that IDA will stand ready to help Vietnam shield itself from external shocks. For instance, we are pleased to note that the proposed adjustment credits and local level infrastructure and social operations allow for flexible and quick response in the event of extreme need.

10. In my opinion, the recent establishment of an in-country economic team at the Bank Resident mission in Hanoi is an appropriate and timely move at this critical juncture for Vietnam. I hope that it will help improve the quality and promptness of the non-lending services, which these days are in growing demand by the Government and other Bank partners in the country.

11. We expect that the implementation of this strategy will benefit significantly from the Poverty Assessment, Private Sector Assessment, Transport Sector Review, Energy Sector Strategy, Rural Development Strategy and other important studies which are nearing completion or will be completed during the new CAS period.

12. Taking into account the Government’s concern with regard to the aid coordination, I would like to encourage the Bank, as the Chair of the CG for Vietnam, to enhance its activity on this front. Let me also add that in view of the possible further deterioration of the situation in the East Asia Region I urge for a speedy finalization of a dependable contingency plan of cooperation involving the Government, the Bank and other donors.