Board Meeting of September 22, 1998
Statement by Joaquim Carvalho

VIETNAM—Country Assistance Strategy

We endorse this joint IDA/IFC Country Assistance Strategy for the Socialist Republic of Vietnam and commend the staff for a job well done. We find the document well balanced and informative. The process of broad consultation that took place in the preparation of this CAS and the consistency between the CAS objectives and Vietnam’s development agenda and priorities are worth noting. The Bank’s cardinal objective to assist the government in keeping the momentum of growth and improving the quality and sustainability of its development efforts is appropriate.

It is gratifying to note that the reform measures undertaken by Vietnamese authorities in recent years have yielded impressive results, with annual per capital income growth rate in excess of 5 percent, inflation rate reduced from near hyperinflation levels to single digits, and investment in real terms rising from about 12 percent of GDP in the late 1980’s to 28 percent of GDP in 1997. More importantly, Vietnam has moved from a food-deficit position to the world’s second largest exporter of rice. In addition, there are visible improvements in the living standards of its citizens.

Nonetheless, the current East Asian crisis poses a threat, not only to the country’s macroeconomic performance but also to the economic achievements made so far. Addressing this challenge would entail the appropriate consolidation of fiscal and monetary policies. In this respect, we consider the government’s plan to improve macroeconomic stability, strengthen the financial sector and reform state-owned enterprises to be a step in the right direction. Such a plan would boost investor confidence, increase foreign direct investment and accelerate economic recovery. The efforts being undertaken to remove distortions that hurt the poor are also laudable. We concur with the staff’s views on the crucial importance of deepening policy dialogue with the authorities since this would secure the sustainability of reforms and long term growth prospects, particularly at this time when the region is mired in economic turbulence.

We note the country’s efforts to weather the effects of the East Asian crisis. However, the fact that over one-third of loans in its banking system are denominated in foreign currency suggests that the country may be exposed to high exchange risk. We therefore support
the urgency attached to reforming the financial system. We would, however, have preferred moving the Financial Sector Adjustment Credit slated for FY00 forward as there is a pressing need for financial reforms that aim at minimizing the impact, in Vietnam of the current financial crisis in the region.

We commend the government of Vietnam for its progress in reducing poverty in the last four years, especially the special attention given to the disadvantaged groups, and welcome IDA’s proposed program for attaining broad-based economic development. In this connection, we are particularly pleased with the strategy to redirect IDA assistance towards rural development. We share the view that providing more resources for agriculture and rural employment should underpin the government’s strategy for reducing poverty in the rural areas. We agree that rural development is critical for boosting growth and reducing poverty, as more than 80 percent of the population and over 90 percent of the poor live in rural areas. There is, however, a need to encourage greater participation of stakeholders in the design and implementation of programs and projects to ensure ownership and sustainability. The proposed plan to coordinate closely with the other donors and NGOs is also welcome.

Although the Bank’s portfolio in Vietnam is fairly new, its management has been impressive and we hope that with the increase in the in-country staff in the Bank’s office in Hanoi, the level of project supervision will be enhanced. We believe that the bigger the Bank’s economic team, the higher the quality of the economic and policy dialogue with the authorities. We also expect that EDI will play an active role in helping to build capacity and consensus on economic policies.

Vietnam is supported by a great number of donors. Therefore the importance of aid coordination cannot be over emphasized, and we are pleased with the Bank’s role in assisting the government in this regard. We support the call for an appropriate division of responsibilities among donors in order to avoid duplication of efforts. We are also pleased to note the Bank-Fund collaboration in Vietnam and discussions with the UNDP in the preparation of this CAS.

We note the progress made by the Vietnamese authorities to resolve its external debt burden. As a candidate for the HIPC initiative, we would have expected more information on Vietnam’s external debt position. What are the latest developments, if any, in the negotiations between Vietnam and its creditors, particularly the Russian Federation? What are the Bank’s plans for the country in the framework of the HIPC initiative?

We are delighted to note the strong presence of IFC in Vietnam and hope that as the authorities strive to improve the regulatory framework, the Corporation will continue to support the government in encouraging both domestic and foreign investment and in fostering private sector development.

With respect to the issues suggested for Board discussion, we consider the proposed Bank Group assistance strategy to be appropriate and the analysis of risks involved realistic. We, however, feel that in order to reduce the impact of the East Asian crisis, Vietnam deserves more attention and assistance, especially in the financial sector and the state-owned enterprise reforms. We wonder why Bank assistance in the areas suggested will have to wait another year when there is critical need for them now.
Finally, we concur with staff on the level of non-lending services and volume of lending program to Vietnam for the period FY99 to FY02 as well as the triggers. We, however, hope that flexibility will be exercised as necessary, bearing in mind that Vietnam is a new borrower that needs substantial assistance to maintain the momentum of its poverty reduction efforts.