Vietnam: IMF-World Bank Relations

Partnership in Vietnam’s Development Strategy

The government of Vietnam’s development strategy is set forth in its Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The CPRGS focuses on: (i) high growth through a transition to a market economy, (ii) an equitable, socially inclusive, and sustainable path of growth, and (iii) the adoption of a modern public administration, legal, and governance system. A Joint Staff Assessment of the CPRGS was discussed by the Boards of the IMF and the World Bank in June and July 2002, respectively.

The IMF is supporting Vietnam’s growth and poverty reduction efforts in the context of a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). The IMF has taken the lead in the policy dialogue on macroeconomic policies and has been active regarding a set of structural issues, especially on trade and banking reform and related SOE reform.

The World Bank has taken the lead in supporting the Government’s structural and institutional reforms in a number of sectors, and has backed the reform program through a series of Poverty Reduction Support Credit (PRSCs). The first PRSC, for US$250 million, included measures to: (i) liberalize foreign trade; (ii) restructure or divest SOEs; (iii) strengthen the banking system; (iv) create a better climate for the development of the domestic formal private sector; and (v) improve the efficiency, equity, and transparency of public spending. The final tranche was disbursed in December 2002. This PRSC was co-financed by the UK, Netherlands, Denmark, and Sweden.

The second PRSC, signed in August 2003, was broader in scope. It extended beyond the structural reform agenda and included measures related to socially inclusive development and to modern governance. This second PRSC translated the development vision of CPRGS into a series of concrete policy measures, and laid the foundation for a series of annual PRSCs, until the revision of CPRGS, currently expected in 2006. It also established a series of triggers to assess the pace of policy reform, and linked this to the size of subsequent budget-support operations. The second PRSC, for US$100 million, was co-financed by the UK, Netherlands and Sweden.

World Bank Group Strategy and Lending

The World Bank Group is combining all of its instruments of assistance to support the objectives laid out by the CPRGS. Those instruments include analytical and advisory activities, IDA project support, IFC, Mekong Project Development Facility (MPDF) and MIGA activities, a series of PRSCs, and partnerships and ODA coordination. A Country Assistance Strategy, presented to the World Bank Board in August 2002, sets out the planned support of the CPRGS objectives during the Bank’s FY03-05.

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Support for Vietnam’s transition to a market economy will shift in focus from “design” to “implementation” of the policy reform agenda. The planned work will deal with financial sector development, the reform of SOEs, support for the domestic private sector, corporate governance, and private participation in infrastructure. IFC, MPDF, and MIGA will expand their work to improve the climate for domestic and foreign investment. Virtually all IDA credits will support policy, institutional and infrastructure support for Vietnam’s ongoing transition, with the planned series of PRSCs being used as vehicles for the policy dialogue.

Several priorities are identified by the CPRGS to enhance equitable, inclusive, and sustainable development. They refer to disadvantaged and lagging areas, to the living standards of ethnic minorities, to gender equality, to access and affordability of social services for the poor, to the mitigation of impacts from natural disasters, and to enhancing environmental management. The World Bank favors a sector-wide approach for two projects supporting this agenda, Rural Roads III and Education for All. Sectoral budget support requires significant progress in the preparation of medium term expenditure frameworks, as well as improved transparency and financial management.

Efforts to improve governance will focus on public financial management, information and transparency, and legal development. Major technical assistance will be provided by the World Bank in each of these areas, and IDA projects will be undertaken in Public Financial Management, Customs Modernization, e-Government and, if requested, Legal Development. So far, AsDB, UNDP, and a number of donors have taken the lead on public administration and civil service reform, whereas the World Bank plays the leading role in public financial management.

The scale of the lending program depends on the pace of the policy and institutional reform agendas, as well as on progress in project preparation and implementation. Over the next three years, the IDA program will range from less than US$300 million in the low case, to about US$760 million in the high case, with a base case of US$580 million per year. The IFC and MIGA programs are also expected to grow significantly as the investment climate improves. Today Vietnam is the largest IDA-only borrower, and the second largest user of IDA resources in the world after India.

In addition to its lending program, the World Bank will work in capacity-building and knowledge-sharing in key areas of emphasis. A complete set of core diagnostics was prepared, and new round of economic and sector work will be undertaken during the next few years. A Banking Sector Review was recently completed. A new household survey, the 2002 Vietnam Household Living Standards Survey, will serve as the basis for a Poverty Assessment in FY04. An integrated Public Expenditure Review will also be launched in FY04. Annual Vietnam Development Reports will summarize the accumulated knowledge and foster the policy and institutional reform agenda.

**IMF-World Bank Collaboration in Specific Areas**

Collaboration between the World Bank and the IMF was essential to launch the PRSC-PRGF program in 2001. The process leading to this program spanned four years, starting at the onset of the East Asian crisis. The overall framework for this collaboration was laid out in 1998, in preparation for what was then expected to be the second Structural Adjustment Credit for Vietnam. The lead agency in each policy area was identified in the Policy Framework Paper, and
particularly in the Structural and Sectoral Policy Matrix for 1999-2001. The direct involvement of the IMF in some of the structural areas such as financial sector reform, SOE reform and trade reform was justified because of their potential impact on macroeconomic stability.

As a result of this overall framework, the World Bank supports policy reforms in collaboration with the IMF in several areas, including external debt management, financial sector reform, SOE reform, and public expenditure management. In some of these areas, the World Bank and the IMF have identified complementary sets of policy triggers for the PRSC and the PRGF programs respectively. In others, cooperation between the two institutions has taken place in the context of specific tasks, not directly related to lending.

Trade reform has been an integral part of the Government’s reform strategy, as evidenced by considerable trade liberalization through the 1990s. The World Bank has supported the following trade liberalization measures: (i) removal of quantitative restrictions on the imports of a series of products; (ii) increases in the share of garment export quotas to be auctioned; (iii) further liberalization of rice exports; and (iv) reduction of tariffs on imports from ASEAN countries in the context of the ASEAN free trade agreement (AFTA). Progress in each of these areas has been achieved since early 2001. In parallel to these steps, the Government successfully completed a Bilateral Trade Agreement with the US and is currently aiming at securing accession to the WTO by 2005.

The PRSC-PRGF represented a breakthrough. It also led to a program with several atypical features, including initially retaining a relatively large share of the public sector in the economy, and a plan to restructure, rather than immediately privatize, large SOEs.

The World Bank has worked closely with the Ministry of Finance, the National Steering Committee on Enterprise Reform and Development and the Ministry of Labor, Invalids and Social Affairs in all areas of the SOE reform program. It has mobilized resources from various donors, especially in the area of transparency of SOE information and accountability. Among the measures being supported in this area are the monitoring of 200 highly indebted SOEs, the strengthening of recording and reporting of systematic data on SOE performance and a series of in-depth audits of SOEs in specific sectors. The World Bank plays a key role in the monitoring of ownership transformation (especially equitizations, sales and liquidations) and SOE creation. A series of diagnostic audits of large troubled enterprise groupings in four protected sectors are being implemented with the objective of assessing SOE viability. Restructuring three large General Corporations (SOE holding companies) in sectors where Vietnam has comparative advantage in world markets is also a priority. The design and implementation of the social safety net for redundant SOE workers has been an integral part of the World Bank’s work program.

In the area of public expenditure management, key remaining challenges include: (i) integrating formulation of the recurrent and capital budgets within a medium-term expenditure framework; (ii) improving budgetary data and increasing the transparency of data and information flows; and (iii) ensuring an effective process for prioritizing and reallocating public expenditures to improve sector outcomes, reduce poverty and limit the prospective increase in inequality. To meet these challenges, the Government launched the Public Financial Management Reform Initiative (PFMRI), a medium-term program for strengthening public financial management. This overarching program deals with reforms in five areas: public expenditure management (including state budget management, investment planning, and financial management information); public
debt management; revenue management; SOE fiscal risk management; and public asset management.

The PFMRI is a Government-led initiative and donors are coordinating their financial and technical support for the program. The IMF takes the lead in revenue management while the World Bank takes the lead in public expenditure management. Currently, the IMF is providing technical assistance to help develop a comprehensive program for reforming the tax system and tax administration. The World Bank is leading the work in developing an integrated financial management information system, through a Public Financial Management credit for US$54 million, approved in May 2003. The credit also supports the preparation of medium-term expenditure frameworks in four sectors and four provinces, and the development of a database of public debts. The credit was co-financed by the UK.

Jointly with other donors, the World Bank is also supporting an effort to modernize planning and budgeting processes at the provincial level. This effort is part of a broader attempt by the Government of Vietnam to “roll out” CPRGS to the provinces. The goal of the exercise is for local policy makers to identify monitorable targets related to growth and poverty reduction, to align resources to the attainment of those targets, and to introduce mechanisms for consultation with the local population.

The World Bank, which has had a long-term role in the modernization of the financial sector, has taken the lead in the effort to strengthen the banking system. It has worked closely with the State Bank of Vietnam (SBV) who has been the primary government contact for the sector, but a relationship has also been maintained with the Ministry of Finance (MoF). Input has been provided by way of direct technical assistance and policy dialogue, with the aim of rationalizing the Joint Stock Banks, strengthening of State-Owned Commercial Banks (SOCBs), improving the supervision of the system, and modernizing the infrastructure for banking. The areas of work with the SOCBs have included the resolution of Non-Performing Loans (NPLs), provisioning for loan loss, re-capitalizing banks as they meet their restructuring targets, introducing internal auditing, and developing a viable payments system. Current efforts aim at improving the regulatory framework for policy lending, and at developing more effective mechanisms for NPL resolution.

The IMF has assumed responsibility for advising on the monetary policy functions of the SBV. It has also been directly and intensely involved in the central area of SOCB reform because of its fiscal and macroeconomic implications, in particular NPL resolution and the resulting re-capitalization. Also included in this has been work on minimizing directed lending, interest rate liberalization and the process and timing of the recapitalization of SOCBs.

As a consequence of the many challenges facing the financial sector in its transition from a Government directed and managed system to a market-based one, assistance from the World Bank, IMF, AsDB, and other donors has been sought. The World Bank has led the effort of donor coordination in the financial sector. It hosts regular financial sector donor coordination meetings which have been recently supplemented by the IMF-hosted donor meetings specific to assistance to the SBV.

Thus far there has been cooperation and assistance between the two organizations. The conditionality of the PRSC and PRGF has been complementary. A single-voice approach has been taken on many difficult issues. Looking ahead, it will be important to avoid confusion and
duplication. The resolution of NPLs, the operation of debts and assets trading companies, the recapitalization of the banking system and the regulatory framework for policy lending by the Government are all areas where continued collaboration is needed.

The IMF and the World Bank currently collaborate to strengthen the capacity of the General Statistics Office in the area of economic statistics. The IMF focuses on improving balance of payments, national accounts, and price statistics while the World Bank concentrates on issues related to the production of high-quality household and enterprise surveys, and to access to data.