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VIETNAM AND THE WORLD BANK:

# A STRONG AND ENDURING PARTNERSHIP

## A Brief Annotated History



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*The findings are based on the attached references and interviews held in Hanoi in early November 2010. In addition, some follow-up discussions have been held with Vietnam experts and Bank staff who worked on Vietnam in the past.*

*The focus of this draft report is on the big trends and events that have shaped the Bank's program in Vietnam. In the next round, it would be useful to supplement this "overview" with a more detailed look at the Bank's contribution in specific sectors and thematic areas.*

# EXECUTIVE SUMMARY

The origins of the World Bank program in Vietnam have shaped its special nature (and some would say its success).<sup>1</sup> The first formal meeting with President McNamara (former US Secretary of Defense) in 1976 symbolized in a very personal way the hoped-for shift to post-war reconstruction and development. But, while the World Bank responded with an economic mission and one irrigation credit, the relationship was soon disrupted again by Vietnam's involvement with Cambodia. The resulting US-led embargo prevented any new work in Vietnam for a decade. When the Bank resumed contact in 1988, Vietnam was still a very poor country. Disillusionment with the results of a centrally-planned economy led to some experimentation with market mechanisms. But more than three decades of war and isolation had left the country desperate for new ideas on how to stimulate production and reduce poverty.

The Bank's "creative" response to Vietnam's need for new ideas at this time remains one of the highlights of the program. Working closely with UNDP and through EDI (now WBI), Bank staff were able to learn about the economy and expose Vietnamese officials to experiences in other countries: especially neighboring countries in SE Asia, and the transitional economies of the former Soviet Union and China. Officials from that time credit the Bank with "holding our hand" as the country re-engaged with the world. In some ways, the gulf between the ideologies of Vietnam and the World Bank meant that both sides had to be flexible and open to new ideas. The absence of lending during this period is also seen (with hindsight) to have been a "blessing in disguise", as knowledge could be built up and shared without any operational pressures.

Vietnam ended its involvement with Cambodia in 1989 and repaid its arrears with the IMF in September 1993. This opened the door to new lending from the Bank, with two credits – for primary education and road rehabilitation – approved in October 1993. The resumption of lending was closely followed by the first donor conference, co-chaired by UNDP and the World Bank, in Paris in November 1993. The first Consultative Group for Vietnam, chaired by the Bank, was held in Paris a year later. At the Bank's initiative, a representative of the NGO community was invited to the second CG meeting in 1995. And, in response to Vietnam's request, the CG was moved to Hanoi in 1997. This set a precedent for in-country CGs which was soon followed by other countries.

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<sup>1</sup> The Republic of (South) Vietnam joined the World Bank in 1956. There was an economic mission in 1959 but no lending. The Socialist Republic of Vietnam (SRV) was formally constituted as a single, unified state on July 2, 1976 and assumed Vietnam's membership of the World Bank. The focus of this history is on IDA and IBRD. However, a box on the IFC program in Vietnam is provided on page 4. MIGA has also provided guarantees for the Phu My 3 power project, one of the largest foreign direct investments ever in Vietnam.

The World Bank opened a resident mission in Hanoi in May 1994. IDA lending grew rapidly from \$325 million in FY94 to \$502 million in FY96. Project lending focused on basic infrastructure (roads, power and irrigation) and social services (health and education). The first SAC (\$150 million) was approved in October 1994. However, efforts to negotiate a second SAC soon soured over the issue of conditionality. One official described the long lists of conditions imposed by the Bank and the Fund as “painful and humiliating”. However Bank staff continued to support reforms through ESW, including work on public finances, SOEs and private sector development. Noteworthy during this period was the support for the Vietnam Living Standards Survey (VLSS) and the 1995 Poverty Assessment and Strategy Report. The Bank’s poverty work in Vietnam is considered “best practice” and provided a benchmark for monitoring the impact of development on the poor.

The next watershed in the Vietnam program came with the decision to move the Country Director to Hanoi in September 1997. This was quickly followed by a series of new partnership initiatives which

### **IFC in Vietnam**

IFC started engaging with Vietnam in 1992 – to respond to the country’s quest for foreign investment and technology to transition into a market-oriented economy. IFC’s first investment was in the Hanoi Sofitel Metropole Hotel in 1994, followed by investments in capital-intensive industries such as cement, dairy products, steel and sugar. IFC also offered advice and support for establishing Vietnam’s first stock exchange and equitization program.

IFC officially opened offices in Hanoi and Ho Chi Minh City in 1997. In the same year, IFC established the Mekong Private Sector Development Facility (MPDF) to promote commercially viable SMEs in Vietnam, Cambodia and Lao PDR. IFC was also instrumental (along with MPI and the World Bank) in establishing the Vietnam Business Forum, first held in 1998, to support public private dialogue and improve the investment climate in Vietnam.

During the early 2000s, IFC played a pioneering role in developing private joint stock banks, which were in the early stages of development in Vietnam. More recently, IFC has expanded its trade finance program to contribute to maintaining the flow of trade during a period of capital scarcity. IFC has also invested in Vietinbank, one of the largest equitized state-owned banks in Vietnam.

IFC investment and advisory services are now strongly aligned within the World Bank Group’s Country Partnership Strategy for Vietnam. IFC’s current strategy to reduce poverty has three main pillars: to reinforce Vietnam’s economic competitiveness, promote inclusive economic growth and support environmentally and socially sustainable growth.

IFC has so far invested \$998 million, including \$216 million mobilized from syndicated loans, in 35 companies in Vietnam. IFC’s current outstanding investment portfolio amounts to \$571 million. Starting with just a handful of staff in 1997, IFC now has around 60 people working in investment and advisory services in Vietnam.

paralleled and in some cases led similar Bank-wide reforms. This was nowhere more evident than in Vietnam's early involvement as a pilot for the Comprehensive Development Framework (CDF) and the Poverty Reduction Support Paper (PRSP). To satisfy government and donor concerns, the PRSP was renamed the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), and a chapter was later added on large-scale infrastructure. These local adaptations foreshadowed similar shifts in the Bank in the mid-2000s to put growth and infrastructure back on the poverty agenda.

The CPRGS in turn provided a locally-owned framework for stronger donor coordination. CG working groups were organized around the main objectives and sectors of the CPRGS. And the CG process continued to evolve in line with the new partnership model: with meetings co-chaired by the Government and the Bank and mid-year update meetings held at a regional centre outside Hanoi. Participation of civil society was also expanded and a separate Vietnam Business Forum, closely linked to the CG process, was launched in 1998.

The stand-off on adjustment lending was eventually broken with the approval of the first Poverty Reduction Support Credit (PRSC) in May 2001.<sup>2</sup> The subsequent series of PRSCs (nine so far) were based on progress against an agreed set of performance indicators linked closely to the government's poverty reduction strategy. While the sectoral coverage of the PRSCs has been expanded over time, the number of triggers and prior actions has been reduced. Bank and other donor support are linked to a broad bottom-line assessment of progress, with GoV determining the pace of implementation in specific policy areas. This flexible approach has facilitated a broader dialogue, based on mutual trust, than would have otherwise been possible.

One price of the Bank's high-level policy dialogue and partnership approach was less focus on the project pipeline. Project commitments declined from a peak of \$502 million in FY96 to \$286 million in FY00. Project implementation was also increasingly a concern. The disbursement ratio on investment projects, which had reached 22% in FY98, dropped to 17% for FY99 and 12% for FY00. Implementation problems were not limited to the Bank and led to the first Joint Portfolio Review with ADB and JBIC in July 1999. This was followed by a Portfolio Implementation Performance Improvement Action Plan, which was endorsed in a conference with GoV officials in April 2000. Vietnam became a pilot country on harmonization of procedures (between the World Bank, ADB and JBIC) in May 2002.

From 2003 to 2007, the new Country Director focused on rebuilding the project pipeline and improving project implementation.<sup>3</sup> Total commitments rose to \$768 million in FY06, making Vietnam (at that time) the largest IDA recipient in the world. However, project implementation proved a harder nut to crack, with systemic problems in disbursement procedures, procurement and resettlement delays, and weaknesses in contract and financial management. As a result, disbursements continued to lag behind

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<sup>2</sup> The IMF provided a parallel Poverty Reduction and Growth Facility (PRGF) which was suspended in 2002 (and formally expired in 2004) when Vietnam refused to accept new conditionality on the disclosure of SBV financial statements.

<sup>3</sup> Vietnam is now the second largest IDA recipient after India.

expectations.

The Government's own plan (SEDP) for 2006-2010 was accepted as the successor to CPRGS. The CG settled into a regular pattern, with contentious issues resolved through prior consultation. The annual Vietnam Development Reports, led by the World Bank but prepared jointly with other donors and reviewed by a Vietnamese committee, provided a useful vehicle for developing a common understanding of the policy agenda. Bank analytical work also helped lay the groundwork for several new laws (e.g. on enterprises and procurement in 2005) and shape Vietnam's approach to WTO entry in 2007.

Vietnam continued to develop apace, with the economy growing on average by 7.6% from 1994 to 2007. Over this period, Vietnam was transformed from one of the poorest countries in the world to close to middle-income status. Poverty rates fell dramatically (from 58% to 16%), and Vietnam was well on track to achieve the MDGs. But storm clouds were gathering: massive capital inflows in late 2007 and early 2008 fueled asset price bubbles and then the global financial crisis hit export orders in late 2008 and early 2009. Faced with this whiplash, the Government struggled to maintain macro stability. Investor confidence was further eroded by the lack of transparency in policy making.

At the same time, the World Bank was facing its own challenges, as frequent management changes and gaps inevitably affected the leadership of the Vietnam program over the two years to April 2009. Policy dialogue and policy-based lending continued to be strong, but there was less attention to the details of project work and donor coordination over this period. As Vietnam neared middle-income status, the Bank program was also facing the added challenge of transitioning towards IBRD support.

The situation – in both Vietnam and the Bank program – has settled down over the past year. The Bank responded quickly to the government's request for additional financial support to help Vietnam to overcome the impact of the global financial crisis. A Policy Investment Reform DPL (\$500 million) approved in November 2009 was the first IBRD operation for Vietnam. Total lending reached \$2.1 billion in FY10, including \$1.4 billion from IDA and \$0.7 billion from IBRD.<sup>4</sup> There has also been some improvement in project implementation, with the disbursement ratio on investment projects rising from 12.6% in FY08 to 14.8% in FY09 and 18.7% in FY10.

Through 2009, IEG had evaluated 34 completed projects in Vietnam, and all were rated as "satisfactory" in terms of development outcomes. This is an extraordinary result by any standard. However, it is expected that some problem projects in the current portfolio will eventually be rated unsatisfactory. And project implementation remains a big challenge: not just for the World Bank but for the whole public investment program.

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<sup>4</sup> Total CG commitments for 2010 reached \$8 billion (compared to \$5 billion for 2009), including special assistance to help finance GoV's response to the global financial crisis.

While Vietnam has avoided a full-blown economic crisis, and GDP growth recovered to 6-7% in 2010, continued progress on macro reform is seen as a prerequisite for sustainable growth. Inflation (around 10%) is still higher than in other East Asian countries and has been rising again in recent months. And the Vietnamese Dong has been weaker than other regional currencies. According to the World Bank's latest Taking Stock report, the government needs to send an "unambiguous and consistent message" about its commitment to macro stability in the near term. This needs to be followed with policy actions and regular disclosure of key information to build credibility and trust among market participants. The recent effort to improve the working of SBV, through a recently approved SBV law, is a step in the right direction.

For the medium-term, the new development strategy for 2011-20 stresses the importance of shifting the focus from the quantity to the quality of growth. This means paying more attention to the productivity of investment, the sustainability of growth (including the impact of climate change) and the inclusion of all groups in the benefits of development. To this end, and to avoid falling into a middle-income trap, breakthroughs are needed on:

- institutional reforms to improve market regulation and public administration;
- investment in human resources, including improving the quality of education at all levels; and
- infrastructure development to meet the needs of a modern economy.

While there seems to be broad agreement around this strategy, there is also a healthy debate about how best to implement it. The latest session of the National Assembly (NA) criticized the Government over a range of economic issues, including the governance of SOEs, the management of public debt and the productivity of investment. The deliberations of the NA are broadcast live on TV and reported widely in the press, facilitating a degree of public debate which would have been unthinkable not too long ago.

GoV's new development strategy provides a good starting point for the next Country Partnership Strategy (FY12-16) now under preparation. Feedback from discussions in Hanoi provides some additional pointers on the future role of the World Bank:

1. **The Bank's role in providing access to knowledge on development is consistently raised by officials as its most important contribution.** The focus is on ideas rather than advice (and certainly not conditionality). Officials want to talk with people who have world-class expertise and relevant experience from other countries. They value knowledge embedded in projects as well as free-standing policy work. They are also clear that they will become even more demanding in the future: as the country faces more complex development challenges, as their own capacity expands, and as other sources of knowledge become available. This will be a challenge for the Bank, as an increasing share of the country budget is taken up with project supervision. So far, trust funds have helped to fill the gap. But sustaining this support for analytical work, and

ensuring it can be allocated flexibly to priority areas, will not be easy in the years ahead.

- 2. Vietnam’s move into middle-income status and access to IBRD has to be managed carefully.** As with all countries in this transition, government officials have concerns about continued access to IDA and how best to use IBRD resources. This is primarily a matter of overall budget management: the size of the fiscal deficit, alternative sources of financing and spending priorities. Given the cost of commercial borrowing for Vietnam, both IDA and IBRD are attractive financing options. However, officials are still discussing how best to allocate these resources across sectors, programs and regions. Vietnam is likely to opt for a mix of budget support and project lending, and so project implementation will remain a major issue. A joint effort to address the basic constraints (PMUs, safeguards, compensation etc) should be high on the agenda for the next few years. The Bank will also have to revisit its business model for lending, so that more funds can be disbursed through larger programs – closely linked to the government’s own sectoral priorities and policy reforms.
- 3. This would be a good time to reassess and reinvent the CG process.** The CG is now well established and no-one is looking for radical change. When well managed, it provides an effective forum for exchanging views on a range of development issues. However, this may be a good time to take another look at the process – given Vietnam’s move into middle-income status and the declining role of a number of bilateral donors. Funding sources are likely to become more concentrated, while the development agenda becomes more complex. And other fora, including the National Assembly, are becoming increasingly vocal on similar issues. More generally, it might be worthwhile looking at the future role of aid in Vietnam. This should consider both accelerating progress towards the MDGs (low-income agenda) and improving the business environment (middle-income agenda). From both perspectives, the decision of some bilaterals to pull back from Vietnam would seem to be premature.

# **VIETNAM AND THE WORLD BANK: A STRONG AND ENDURING PARTNERSHIP<sup>5</sup>**

A Brief Annotated History<sup>6</sup>

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- <sup>5</sup> This is a history of the World Bank program in Vietnam. While some historical events and development indicators are included to provide context, those wanting to learn more about the recent history of Vietnam should read some of the attached references (such as Lamb 2002, Hayton 2010 and Gainsborough 2010). The World Bank's Vietnam Development Reports also provide excellent coverage of development issues.
- <sup>6</sup> Sources in italics are either from the attached references (authors or titles with dates) or from interviews (names only without dates).

## 1976-1985: A FALSE DAWN

- North Vietnam and the US signed the Paris ceasefire agreement on January 27, 1973. South Vietnam surrendered to North Vietnam in April 1975.
  - Informal contact with the Bank was initiated in 1975 between Bernie Bell (then East Asia VP) and Vietnamese delegation in Paris on the sidelines of the Korea CG (Babson).
- The Socialist Republic of Vietnam (SRV) was formally constituted as a single unified state on July 2, 1976 and assumed Vietnam's membership at the World Bank.
  - SRV took over the seat previously held by the Republic of (South) Vietnam (RV) since 1976.
  - A formal decision was taken at the IMF on September 15, 1976 but no such event is recorded in the World Bank (Buhler 2001).
- First delegation from SRV visited Washington in October 1976 and met with President McNamara (previously US Secretary of Defense).
  - Mr. Le Van Chau was a member of this historic delegation. Both sides agreed to focus on the future rather than the past.
  - McNamara was keen to support Vietnam despite opposition from US Congress and threats to IDA (Lim).<sup>7</sup>
- First economic mission visited Vietnam in January-February 1977.<sup>8</sup>
  - An Introductory Economic Report was published in August 1977.
  - Important signal that the Bank could work with an Asian socialist country and laid groundwork for working with China in later years (Lim).
  - Report described impact of 30 years of war. Per capita income stagnated at US\$150 for 15 years. Reviewed 5-year plan for 1976-80 and estimated aid requirements for 1977 (\$1 billion).
  - Progress depended on the "evolution of an efficient management and planning system" and the "availability of financial and technical support from abroad."
- First IDA credit was approved in August 1978 for the Dau Tieng Irrigation Project.

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<sup>7</sup> Robert McNamara visited Hanoi in November 1995, under the auspices of the Council of Foreign Relations, to exchange views with General Giap on the Tonkin Gulf incident. He visited the Bank Office at that time, showing strong interest in the Bank program and enjoying a group photo with local staff (Babson).

<sup>8</sup> There had been an economic mission to RV in 1959. It concluded that the country was too dependent on foreign aid to qualify for an IBRD loan and there was no IDA in those days (CAE 2001). The 1977 mission was led by Ed Hawkins with Ed Lim as his deputy. Ed Lim went on to open the Bank Office in China.

- \$60 million for dam construction on the Saigon River and 14,000 hectares of irrigation (for rice and groundnuts).
- Major construction substantially completed by 1986 but benefits less than projected. Preparation was rushed and project needed more TA for “planning, design, specification, procurement and construction” (PCR 1989).
- Vietnam’s involvement with Cambodia began in December 1978. US-led embargo supported by many Western European and Asian nations.
  - World Bank warned that tensions with Cambodia could affect relations. SBV Governor replied: “You can see that we haven’t completed our reconstruction program, why would we invade another country?” But clearly other views prevailed. The involvement began the next day and Bank suspended high-level missions and new operations in Vietnam for a decade (Lim).

## 1986-1996: A NEW BEGINNING

- Vietnam initiated the Doi Moi reforms in 1986.
  - Literally “change to something new” but usually translated as “renovation”. Response to poor performance under central planning, but intended to save rather than disband state model (Hayton 2010).
  - Initial pace of change was slow as consensus was built around use of market mechanisms within socialist principles. Compromise, but not a coup and no open infighting (Rama 2008).
  - Process had started earlier with “fence-breaking”: bending rules to get things done. Learnt from rapid changes in Soviet Union and China, as well as other Asian experience, but without external pressure (Rama 2008).
  - Pace of reforms picked up in 1989.
- Vietnam re-established contact with the Bank in 1987.
  - The Bank “held our hand” as we re-engaged with the world economy (Tran Xuan Gia). President Conable was very supportive (Le Van Chau).
  - Following a request from the Vietnamese in 1987 to resume lending, the Bank sent a small economic mission to Vietnam in 1988 to learn about the Doi Moi reforms. Bank staff helped organize EDI courses

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<sup>9</sup> The first of these economic missions, which visited Vietnam in August-September 1989, was led by Gerhard Pohl with David Dollar doing the macro work. Their report on Vietnam: Stabilization and Structural Reforms was published in April 1990. The next three economic reports on Vietnam: Restructuring Public Finance and Public Enterprises (April 1992), Vietnam: Transition to the Market (September 1993) and Vietnam: Public Sector Management and Private Sector Incentives (September 1994) were led by David Dollar. The Vietnamese often say that they received only one dollar from the Bank during this period: David Dollar!

and administered UNDP projects, including sector work and TA to support reforms (CAE 2001).

- This was followed by a series of 3 economic reports and 4 sector reports on energy, transport, health and finance between 1990 and 1993.<sup>9</sup> These were well received by the Vietnamese (CAE 2001) and they had some impact on the second round of reforms (Le Van Chau).
  - Bank also helped expose Vietnamese officials to experiences in other countries. One high-level policy seminar in Kuala Lumpur, for example, allowed Vietnamese officials to exchange views with regional luminaries such as Mahathir (Malaysia), Widjojo (Indonesia) and Virata (Philippines). (Dollar)
  - Gulf between ideologies of Vietnam and the Bank meant that both sides had to be flexible and open to new ideas.
  - While the embargo on new projects was frustrating, this “breathing space” helped both sides get to know each other and focus on the big issues without the pressures and procedures of lending (CAE 2001).
- The end of Vietnam’s involvement with Cambodia in September 1989 opened the door to new lending from the Bank.
- Senior management contacts with Vietnamese officials intensified from 1991 (CAE 2001).
  - Key requirement was settlement of arrears (\$221 million) with the Fund, which occurred in September 1993 with bridging finance from commercial banks.<sup>10</sup>
  - Also in September 1993, US allowed American firms to bid on development projects financed by IFIs (even though embargo would formally stay in place until February 1994).
  - First round of new lending was approved in October 1993 for Primary Education (\$70 million) and Highway Rehabilitation (\$158.5 million). Total lending in FY94 was \$325 million.
  - Lending was facilitated by the solid base of sector work that had been completed since 1990.
- World Bank quickly took the lead on donor coordination.
- UNDP and the Bank (Cal Madavo) co-chaired first donor conference for Vietnam on November 9-10, 1993 in Paris.
  - Bank staff helped Vietnam prepare their aid case. Conference pledged \$1.8 million.
  - Bank and UNDP also organized monthly donor meetings in Hanoi, while various donors facilitated sector meetings chaired by relevant government officials.

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<sup>10</sup> Vietnam also settled its official debts through the Paris Club, its private debts through the London Club and its bilateral rouble debt with Russia. The Bank played a supporting role to the IMF in the Paris Club, and funded financial advisers for SBV’s negotiation team to the London Club and participated in the road shows to get support for the deal (Babson).

- First Consultative Group (CG) meeting for Vietnam, chaired by the Bank, was held in Paris in November 1994.
  - At Bank's initiative, representative of NGO community (Oxfam Ireland) was invited to second CG meeting in 1995. Sat at table and made statement for NGO community.
  - At Vietnamese insistence, CG was moved to Hanoi in 1997. Set precedent for in-country CGs – soon followed by other countries.
- World Bank opened a resident mission in Hanoi in May 1994.
    - Brad Babson was the first Resident Representative.<sup>11</sup>
    - The Bank's first office was in 2 rooms of a local hotel with 7 staff. Some of the local staff hired during this period still work for the Bank and they remember fondly the excitement and commitment of those early days.
    - The Bank Office moved to a French villa (53 Tran Phu Street) in 1995<sup>12</sup> and then to its current location on Ly Thai To Street (by the Opera House) in June 2000.<sup>13</sup>
    - The Bank Office in Hanoi now has a staff of 130, including 28 international staff and 3 trust-funded positions. Task management was substantially decentralized to the Hanoi Office after the Country Director moved to the field in 1997.
  - IFC also assisted Vietnam's efforts to attract foreign investment and technology transfer.
    - IFC started engaging with Vietnam in 1992.
    - The first investment for the Hanoi Sofitel Metropole Hotel was approved in 1994. This was followed by a series of investments in capital-intensive industries such as cement, dairy products, steel and sugar.
    - IFC also offered advice and support for establishing Vietnam's first stock exchange and equitization program.
    - IFC opened offices in Hanoi and Ho Chi Minh City in 1997.
    - The subsequent evolution of IFC's strategy in Vietnam, and the provision of investment and advisory services, is summarized in Box 1.

<sup>11</sup> Brad had started working on Vietnam when he headed the Education, Health and Population Division in East Asia after the 1987 reorganisation. He moved to head the Bangkok Regional Office in January 1992 and continued to work on Vietnam from there, before moving to Hanoi in May 1994.

<sup>12</sup> This prized location was rejected by the US Embassy because it was sandwiched between the North Korean and Iranian Embassies. It attracted a lot of local attention (including for wedding photos) as it was one of the few old villas without a fence in front. It was also very convenient, as the residence was just 2 doors down (Babson).

<sup>13</sup> In a sign of the times, the information center on the ground floor has now been moved up to the 2nd floor – and replaced by shops selling luxury goods (Gucci and Milano). Couples can still be seen having their photos taken outside on weekends!

## **Box 1: IFC IN VIETNAM**

IFC is the private sector arm of the World Bank Group. It fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments.

IFC started engaging with Vietnam in 1992 – to respond to the country’s quest for foreign investment and technology transfer to transition into a market-oriented economy. IFC’s first investment was in the Hanoi Sofitel Metropole Hotel in 1994. This was followed by investments in capital-intensive industries such as cement, dairy products, steel and sugar which supplied an increasingly robust domestic demand and was in line with Vietnam’s natural resources. IFC also offered advice and support for establishing Vietnam’s first stock exchange and equitization program.

IFC officially opened offices in Hanoi and Ho Chi Minh City in 1997. Wolfgang Bertelsmeier was appointed the first IFC Resident Representative to Vietnam. He was instrumental in managing the first portfolio during the difficult years of the Asian Financial Crisis and setting up the Vietnam Business Forum (VBF), which is now an important vehicle for policy dialogue between government, the private sector and the donor community. Thomas Davenport was appointed the first General Manager of the Mekong Private Sector Development Facility (MPDF). He worked to set up the Facility and managed its first five-year cycle 1997-2002.

The MPDF was launched in 1997 with the initial goal of supporting the development of the nascent private sector by promoting commercially viable SMEs in Vietnam, Cambodia and Lao PDR. The Facility helped SMEs secure external long-term investment capital for viable projects, strengthened their performance by addressing non-financial needs and developed intermediary organizations that delivered services to SMEs. Through its first five-year cycle (1997-2002), MPDF completed 96 financial advisory projects, 13 technical assistance projects and helped arrange financing totaling more than \$58 million for SMEs. The Facility also developed an effective management training program geared towards SME managers and delivered training to nearly 1,000 companies in Vietnam.

The VBF is coordinated by IFC with the World Bank and the Ministry of Planning and Investment (MPI). The Forum is chaired by the World Bank Country Director, IFC Regional Manager and one of the Deputy Prime Ministers or the Minister for Planning and Investment. Since its inauguration in 1998, the VBF has been an extremely effective vehicle for public private dialogue, playing a significant role in improving the investment climate in Vietnam. The VBF emerged as a response to the slowdown in foreign investment in Vietnam and the Asian financial crisis of 1997. The first IFC-led PSF took place in Hanoi just before the CG meeting in December 1998. A consensus was reached as to the key elements of the Forum, which are maintained today.

During the early 2000s, IFC played a pioneering role in developing private joint stock banks, which were in the early stage of development. IFC invested in ACB and Sacombank, the two largest private joint stock banks in Vietnam at that time. Both banks have provided a full range of commercial banking services, with a focus on the fast growing lending to SMEs and individuals. IFC provided the banks with an extensive advisory

*Continued*

service program in areas including strategic planning, credit risk management, asset/liability management and corporate governance.

IFC has responded to the recent financial crisis by expanding its trade finance program to contribute to maintaining the flow of trade during a period of capital scarcity. It has provided trade finance of up to \$345 million to five Vietnamese banks: ACB, An Binh Bank, Eximbank, Sacombank and Techcombank. In addition, IFC is contributing to the equitization program and building of a modern banking sector by investing in Vietinbank, one of the largest equitized state-owned banks in Vietnam.

IFC investment and advisory services are now strongly aligned to maximize development impacts within the World Bank Group's strategy in Vietnam. The current Regional Manager, Simon Andrews, is in charge of both investment and advisory operations in the country.

IFC's current strategy to reduce poverty in Vietnam has three pillars:

- **Reinforce Vietnam's economic competitiveness** by: supporting Vietnam's continuing transition to a market economy; alleviating Vietnam's infrastructure constraints; enhancing the productivity and skill base of Vietnam's workforce; and broadening and deepening Vietnam's financial markets.
- **Promote inclusive economic growth** by: providing opportunities for people to participate in and benefit from Vietnam's economic growth – with a particular focus on supporting economic linkages into rural and agricultural economies; increasing access to finance for rural and micro-borrowers; and expanding the rural population's access to infrastructure.
- **Support environmentally and socially sustainable growth** with an emphasis on: energy efficiency; cleaner production technologies and processes; pollution abatement; and development and commercialization of renewable energy.

Since 1992, IFC has made \$998 million in investments, including \$216 million mobilized from syndicated loans, in 35 companies in Vietnam. IFC's current outstanding investment portfolio amounts to \$571 million. IFC investment focuses on projects with the highest possible development impacts and responds to Vietnam's needs and development strategies at different development stages.

IFC's number of staff in Vietnam has continuously increased since its office was set up in 1997. Starting with just a handful of staff in 1997, the number grew to around 30 in 1998 when MPDF was fully set up and operational. Today, the number is around 60 people working in investment and advisory services.

- World Bank Group CAS for FY95-97 (September 1994) had five key elements:<sup>14</sup>
  - Structural adjustment lending to support Vietnam's transition to a market economy through a well-defined reform program with a clear timetable for implementation of important measures.

<sup>14</sup> A preliminary Country Strategy Paper was prepared in June 1993 (CAE 2001), but no public record of this document is available.

- Support to building the necessary institutions of a market economy through analytical work and TA, with particular focus on legal infrastructure and the financial system.
  - A base IDA lending program of \$330-420 million per year, with project lending focused on infrastructure, rural development and human resource development.
  - Targeted efforts to reduce poverty through projects supporting rural development and human resource development.
  - Support to the Government's program of environmental protection through advice, TA and projects.
- First Structural Adjustment Credit (SAC) was approved in October 1994.
    - \$150 million: first tranche disbursed on effectiveness (November 1994) and second in September 1996.
    - Aimed at strengthening macroeconomic stabilization and structural reforms in fiscal management, state enterprises, financial sector and trade policy.
    - Rated "highly satisfactory" by OED.
    - Bank worked closely with IMF within joint Policy Framework Paper for 1994-97. Fund approved 3-year ESAF for SDR362 million (\$535 million) in November 1994.
- Updated CAS for FY97-99 (October 1995) proposed expanded lending program.
    - IDA lending increased to \$400-500 million per year: based on good progress on macroeconomic performance, economic reforms and project implementation, and fair burden sharing with other donors (who were expanding their programs in Vietnam).
    - A matrix of monitorable actions and performance indicators was added to track progress on country objectives.
- Tensions were mounting between the Government and IFIs over conditionality.
    - The long lists of conditions imposed by the Bank and the Fund were "painful and humiliating" (Gia). Only tolerated for sake of the country.
    - Negotiations on SAC II broke down. Apart from a small Debt and Debt Reduction Operation (\$35 million) in FY98, there was no further budget support from the Bank (or Fund) until PRSC I was approved in 2001.
- But project lending continued to grow rapidly to \$502 million in FY96.
    - With major new credits for Power Development (\$180 million), Rural Finance (\$122 million) and National Health Support (\$101 million).
    - While initial progress on implementation was considered satisfactory (CAS 1995), this was largely due

to the rapid disbursement of the credit component of the Agricultural Rehabilitation Project. Other projects were held up by resettlement (highway rehabilitation) and procurement (primary education) issues (CAE 2001).

- Around this time, Vietnamese officials also started to question the Bank’s design standards on some projects, especially in the roads sector. They felt that Vietnam’s weather and rapid growth required higher design standards – a concern that was reinforced by the slow implementation rate of Bank projects (Ngo Think Duc).
- And Bank staff continued to support reforms through a large and high-quality ESW program.
- Economic reports covered Public Sector Management and Private Sector Initiatives (September 1994), Industrialization and Industrial Policy (October 1995) and Fiscal Decentralization and the Delivery of Rural Services (October 1996).
- Sector reports were prepared on transport, environmental issues, financial sector development, water resources and education financing.
- Noteworthy during this period was the support for the Vietnam Living Standards Survey (VLSS) and the Poverty Assessment and Strategy Report (February 1995). The Bank’s poverty work in Vietnam is considered “best practice” and provided a benchmark for monitoring the impact of development on the poor (CAE 2001). The poverty assessment also covered relevant policy issues in public finance, such as inter-governmental fiscal relations, targeting of infrastructure investments and provision of social services.

## 1997-2002: A NEW PARTNERSHIP

- The Country Director for Vietnam moved to Hanoi in September 1997.<sup>15</sup>
  - The Vietnam Country Director was the first to be decentralized to the field as part of the 1997 Bank-wide reforms.
  - When the Managing Director (Caio Koch-Weser) introduced the new Country Director (Andrew Steer) in Hanoi, he said: “In the new Bank, I now work for the Country Director”. The Vietnamese took note – and were determined to hold the Bank to its word! (Steer)
  - Phan Van Khai became PM at the same time, with Nguyen Tan Dung (now PM) as Deputy PM. Informal conversations helped to overcome cultural and language gaps, and build trust and understanding (Pham Minh Duc). Prerequisite for becoming a “trusted private adviser” (Agrawal).
  - Approach was consistent with Jim Wolfensohn’s new Comprehensive Development Framework (CDF):

<sup>15</sup> Two lead economists were appointed around the same time: Kazi Martin on macro policy and Nisha Agrawal on poverty. This model allowed the Bank to engage actively in both the short-term macro policy dialogue with the IMF and the longer-term poverty work underlying the CPRGS.

based on four principles of holistic long-term vision, ownership, partnership and results.

- Vietnam quickly became a pilot country for the CDF and later the Poverty Reduction Support Paper (PRSP). There was a sense that Vietnam was shaping the Bank-wide reform agenda as much as implementing it.
- CAS for FY99-02 (August 1998) proposed three lending scenarios based on progress on policy agenda.
  - Ranging from \$300 million per annum (low case) to slightly more than \$800 million per annum (high case), with a base case of \$580 per annum.
  - CAS also outlined five shifts in strategy: (1) a deeper focus on poverty and social issues, including mitigating the social costs of adjustment and the East Asian crisis; (2) a stronger link between projects and policy dialogue; (3) stronger partnerships and more decentralized implementation of projects; (4) a larger share of lending for rural development; and (5) support for Government's efforts to improve aid coordination and move towards program lending in certain sectors.
- Bank supported Government's efforts to prepare the Comprehensive Poverty Reduction and Growth Strategy (CPRGS).
  - Vietnam's version of the PRSP. Process started in mid-2000, and produced I-PRSP in March 2001 and full PRSP in May 2002. Chapter on large-scale infrastructure added in November 2003.
  - Led by MPI and signed off by PM – although outside formal planning process in Vietnam. More of an action plan for donor coordination and resource mobilization (Hung). But, unlike other low-income countries, not driven by HIPC or aid dependency. Therefore much stronger country ownership than in other PRSPs (Conway). The CPRGS was “produced on the government's own schedule, written by Vietnamese in the Vietnamese language, and only later translated into English for donor input” (Ohno).
  - Built on work of Poverty Working Group (PWG) established in 1999. Key forum for debate between GoV, donors and NGOs on poverty reduction strategy. Report on Attacking Poverty (November 1999), which brought together LSMS-based analysis of poverty trends with findings from four Participatory Poverty Assessments (PPAs), put in place much of the analytical framework required for a PRSP (Conway).
  - But there was also a lot of healthy debate within GoV and the donor community about what matters for poverty reduction. PRSP was named CPRGS to reflect links to CDF and the concerns of GoV and some donors (e.g. Japan, France, ADB) that growth agenda had to be at center of poverty reduction strategy. Indeed, in Vietnamese version, “growth” comes before “poverty reduction”. Addition of chapter on large-scale infrastructure foreshadowed similar moves to put infrastructure back on the Bank's poverty agenda in the mid-2000s.
  - June 2002 Joint Staff Assessment (JSA) acknowledged strengths of government-owned process: using participatory approaches and supporting appropriate outcomes (the Vietnam MDGs). But also

frank in its assessment of weaknesses, including the lack of contingency planning in macroeconomic policies, weak sector strategies poorly linked to the medium-term expenditure framework, and poor coverage of governance issues (including corruption). Concerns were also raised about SoV's capacity to implement the program and monitor progress.

- CPRGS provided framework for stronger donor coordination...
  - CG working groups were organized around main objectives (e.g. poverty reduction), themes (e.g. gender, SOE reform, aid effectiveness) and sectors (e.g. health, education, transport) of CPRGS.
  - CG process continued to innovate with meetings co-chaired by GoV and the Bank, and the introduction of mid-term CGs outside Hanoi. Cultural events organized around the CG reinforced the sense of Vietnamese ownership (Huong).
  - Participation of civil society was also expanded. Separate Business Forum, organized by MPI, the Bank and IFC, was linked to CG process (see Box 1). Opportunity to discuss constraints and issues faced by private sector.
  - CG commitments averaged around \$2.5 billion per annum from 1996 to 2002. Unlike most other low-income countries, aid to Vietnam in this period was still dominated by loans (80% of commitments) and projects (rather than budget support and sector-wide approaches).
- ... and resumption of policy-based lending.
  - The long-delayed SAC II was transformed into the First Poverty Reduction Support Credit (PRSC I) to support implementation of the I-PRSP. Credit for \$250 million (plus \$48 million in co-financing) was approved in June 2001. First tranche (\$100 million) was disbursed on effectiveness and the second tranche (\$150 million) before closing in December 2002.
  - Prior actions for Board approval included passage of Enterprise Law, equitization of 408 SOEs, adoption of the AFTA roadmap on tariff reductions, and completion of a public expenditure review.
  - Second tranche depended on macro framework agreed with IMF and progress in five key areas: trade policy, private sector development, banking reforms, SOE reforms and public expenditure management. GoV met 11 of 12 triggers; last trigger (restructuring plans for 3 General Corporations) was only partially completed due to factors beyond GoV's control.
  - IMF approved a parallel Poverty Reduction and Growth Facility (PRGF) in April 2001 for SDR 290 million (\$368 million). However this was suspended in 2002 (and formally expired in 2004) when Vietnam refused to accept new conditionality on the disclosure of SBV financial statements.<sup>16</sup>
  - While Vietnamese officials appreciate the personal efforts of IMF representatives in Hanoi, they are less

<sup>16</sup> The new Safeguard Assessments of Central Banks applied to all countries, following concerns about misuse of IMF resources (e.g. in Ukraine). In Vietnam, the breakdown in negotiations with the IMF probably reflected more fundamental disagreements over the pace of SOE and banking reforms, and the overall approach to conditionality (Rama). However, the transparency of policy in Vietnam remains a serious issue (Taking Stock 2010b).

complementary about the institutional relationship at that time: “The World Bank offered us a buffet, while the Fund stuck with a fixed-course menu” (Vu Khoan). For some Vietnamese officials, the Asian Financial Crisis (1997-98) raised serious questions about the Washington Consensus and opened up new approaches to macro management and development policy (Tran Xuan Gia).

- But project lending approvals and disbursements did not expand as rapidly as expected.
  - Project lending fell from \$502 million in FY96 to \$286 million in FY00 (see Table 1). Due to stretched capacity for project preparation, start-up costs on the new “CDF way of doing business” and greater focus on quality at entry (CAS PR 2000). With initially slow progress on adjustment lending, the total lending program was at the low end of the range foreseen in the CAS (\$300 million per annum).
  - Project implementation was also increasingly a concern. The disbursement ratio, which had reached 22% for FY98, dropped to 17% for FY99 and 12% for FY00 (see Table 2). Problems included redundant oversight, repeated revisions of implementation regulations, slow disbursement procedures, procurement and resettlement delays, and weaknesses in contract and financial management (CAS PR 2000).
  - Implementation problems were not limited to the Bank and led to the first Joint Portfolio Review with ADB and JBIC in July 1999. Followed by a Portfolio Implementation Performance Improvement Action Plan and a conference on Investment Project Management in April 2000 which endorsed the Action Plan.
  - Vietnam became pilot country on harmonization in May 2002. Bank, ADB and JBIC agreed to identify opportunities to harmonize procurement, financial management, environmental and social safeguards, and portfolio management.
- New CAS for FY03-06 (September 2002) built on the CPRGS framework and addressed some of the emerging issues.
  - CAS was organized around three themes of CPRGS: (1) supporting the transition to a market-oriented economy; (2) enhancing equitable, socially inclusive and sustainable development; and (3) promoting good governance.
  - Lending program was similar to previous CAS, with annual average of \$290 million in low case, \$580 million in base case and \$760 million in high case. High case included larger funding for annual PRSC (doubled to \$200 million) and two sectoral budget support programs (for rural roads and education). CAS recognized that high case would require more rapid progress on CPRGS reforms and project implementation.
  - Economic and sector work featured the annual Vietnam Development Reports introduced in 2000 (see Table 3) and included a regular cycle of core diagnostic work: Public Expenditure Reviews, Country Procurement Assessment Reports and Country Financial Accountability Assessments.

**Table 1: WORLD BANK LENDING TO VIETNAM /a**

(US\$ million)

	Commitment			Disbursements		
	Project	Budget	Total	Project	Budget	Total
	Lending	Support		Lending	Support	
FY94	325		325	0		0
FY95	265	150	415	75	159	234
FY96	502		502	35		35
FY97	349		349	187		187
FY98	360	35	395	204	35	239
FY99	308		308	207		207
FY00	286		286	156		156
FY01	379	250	629	158	101	259
FY02	593		593	231	161	392
FY03	193	100	293	298		298
FY04	606	100	706	311	107	418
FY05	599	100	699	304	104	408
FY06	668	100	768	324	95	419
FY07	487	225	712	374	102	476
FY08	1,043	150	1,193	399	231	631
FY09	649	500	1,149	539	143	681
FY10 /b	1,167	962	2,129	689	1,020	1,709

a/ Excludes stand-alone GEF, CFC and RETF projects.

b/ Includes \$700 million of IBRD commitments and \$500 million of IBRD disbursements. All other amounts are from IDA.

Source: World Bank

**Table 2: WORLD BANK PORTFOLIO INDICATORS FOR VIETNAM**

	Net	Projects	Problem	Problem	Realism	Proactivity	Disbursement	
Projects	Commitments		at Risk	Projects (DO)		Projects (IP)	I n d e x	
Index	Ratio /a		(%)	(%)	(%)	(%)	(%)	(%)
(number)	(\$ million)							
FY94	3	325	0.0	0.0	0.0	100.0		0.0
FY95	6	740	0.0	0.0	0.0	100.0		22.5
FY96	11	1,242	0.0	0.0	0.0	100.0		6.3
FY97	13	1,441	23.1	0.0	23.1	100.0		19.3
FY98	17	1,801	29.4	23.5	5.9	100.0	100.0	18.6
FY99	20	2,014	5.0	0.0	5.0	100.0	100.0	17.3
FY00	21	1,954	0.0	0.0	0.0	100.0	100.0	12.0
FY01	25	2,557	8.0	0.0	8.0	100.0		11.9
FY02	27	2,814	11.1	3.4	0.0	100.0	100.0	14.5
FY03	26	2,479	15.4	12.3	0.0	100.0	50.0	14.3
FY04	27	2,983	7.4	7.4	0.0	100.0	75.0	15.4
FY05	34	3,515	0.0	0.0	0.0	100.0	100.0	13.3
FY06	37	3,950	8.1	7.2	0.0	100.0		12.5
FY07	36	3,931	11.1	16.8	5.6	100.0	66.7	12.5
FY08	39	4,582	10.3	8.5	5.1	100.0	75.0	12.6
FY09	43	5,428	11.6	11.1	7.0	100.0	50.0	14.8
FY10	46	6,308	8.7	6.7	4.3	100.0	80.0	18.7

a/ Disbursements of investment projects as % of opening undisbursed balance..

Source: World Bank

## 2003-2006: A STRONGER PROGRAM

- Focus of program shifted back to consolidation and implementation in 2003.
  - New project lending had reached level (\$593 million) in FY02. But achieved in part by running down project pipeline. New lending was also delayed by the impact of SARS (which delayed preparation of two road projects). So project lending fell sharply to a record low (\$193 million) in FY03.
  - Even with approval of PRSC II (\$100 million), total lending was only at low-case levels (\$293 million).
  - Some sector staff had felt left out of the high-level policy dialogue. They also felt that the focus on reshaping the partnership had diverted attention away from the details of the project portfolio.
  - New Country Director (Klaus Rohland) arrived in December 2002 and focused on rebuilding the project pipeline and improving project implementation.<sup>17</sup>
- CAS Progress Report (January 2004) endorsed the objectives and themes of the CAS but proposed three shifts in the program.
  - The proposed shift from traditional projects to sector-wide approaches was delayed, pending the development of medium-term expenditure frameworks. Replaced with more traditional repeater projects, building on past successes.
  - GoV had requested more support from the Bank on large-scale infrastructure, following the revision of the CPRGS. Therefore proposed to increase lending for appropriately designed infrastructure projects.
  - The annual IDA allocation for Vietnam had been increased from around \$580 million when CAS was approved to around \$810 million. This was reflected in higher lending scenarios for FY05-06: up to \$750 million in base case and \$900 million in high case.
- The Five-Year Socio-Economic Development Plan (SEDP) for 2006-10 (March 2006) became the new PRSP for Vietnam.
  - Directive 33 from Prime Minister in September 2004 stated that the SEDP for 2006-10 would be drafted according to the same principles that had governed the preparation of the CPRGS.
  - According to Joint Staff Advisory Note (JSAN, December 2006), SEDP for 2006-10 was better linked to budgets and more poverty-focused and results-oriented than previous SEDPs. Draft SEDP was declassified for first time and discussed with different groups of Vietnamese society.
  - Four pillars: (1) the promotion of growth and transition to a market economy; (2) reducing poverty and ensuring social inclusion; (3) managing the environment and natural resources in a sustainable

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<sup>17</sup> Martin Rama took up the post of Lead Economist around the same time. He had already worked on Vietnam from Washington, and took the lead on seven Vietnam Development Reports from 2003 to 2009. During his seven years in Hanoi, he developed a rare understanding of the economy and policy making in Vietnam. This is evident in his insightful paper on the decision making process behind the Doi Moi reforms (Rama 2008).

manner; and (4) building institutions that can support the strategy. Intended to pave the way for Vietnam to become a middle-income country by the end of the plan period.

- JSAN endorsed SEDP as a plan that could deliver both growth and poverty reduction. However, to guide government and donor decisions, more work was needed to prioritize policy actions, clarify their sequencing and timing, assess their possible cost, and identify ways to monitor and evaluate their impact. JSAN also proposed more attention in implementation to the quality and efficiency of investment, tackling the persistent poverty of ethnic minorities, and developing strong and accountable institutions for managing public resources.
- Country Partnership Strategy for 2007-2011 (January 2007) supported the new SEDP.
    - Organized around the same four pillars. Common theme was the need to complete remaining structural reforms while moving ahead with a set of ambitious second-generation reforms. Objective of these reforms was to transform the role of government from a major producer of goods and services to the regulator and provider of foundations for a well-functioning, equitable and modern market economy.
    - The lending program was based on annual IDA allocations in the order of \$900 million, making Vietnam (at that time) the largest IDA program in the world.<sup>18</sup> The CPS also envisaged an opportunity to blend IDA and IBRD resources as Vietnam approached middle-income status towards the end of the plan period. A creditworthiness review was scheduled for FY08.
  - Vietnam Development Reports (VDRs) provided a vehicle for developing a common understanding of the policy agenda with GoV and donor community...
    - The annual VDRs from 2003 were organized around the themes of the CPRGS and SEDP 2006-11 (see Table 3). The first in each group (2003 and 2007) looked at the strategy as whole, while the subsequent reports looked at the pillars of the strategy.
    - The VDRs formed part of agenda at the end-of-year CGs. While the World Bank took the lead, other donors contributed substantially to the writing and review of the reports (from 2004). And a Vietnamese Reviewing Committee ensured that the ideas in the reports were widely discussed with government officials, researchers and development practitioners (from 2005).
  - ... while other analytical work fed into the policy dialogue on specific issues.
    - Bank analytical work helped lay the groundwork for several new laws: e.g. on enterprises and procurement in 2005.
    - Bank staff also worked behind the scenes to shift Vietnam's stance on WDR negotiations from a "concessions approach" to a "development approach". Included 3-year effort with VASS, for them to influence key decision makers within the Party, and a direct approach to PM to make more dramatic offer on tariff reductions (Rama). Vietnam joined the WTO in January 2007.

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<sup>18</sup> Vietnam is now the second largest recipient of IDA, after India.

**Table 3: VIETNAM DEVELOPMENT REPORTS**

Year	Title
2000	Attacking Poverty
2001	Vietnam 2010: Entering the 21st Century
2002	Implementing Reforms for Faster Growth and Poverty Reduction

CPRGS:

2003	Vietnam: Delivering on Its Promise
2004	Poverty
2005	Governance
2006	Business

SEDP 2006-11:

2007	Aiming High
2008	Social Protection
2009	Capital Matters
2010	Modern Institutions
2011	Natural Resources Management

Source: World Bank

- Similar approach with PM's advisory group, the Party and SBV helped to move forward the debate on banking reform, leading to the recent law on the State Bank of Vietnam and the decision to private all SOCBs with the participation of strategic investors (Rama).
- PRSCs provided flexible vehicle for monitoring progress on the policy agenda and coordinating budget support.
  - Until recently, PRSCs were Vietnam's sole general budget support instrument. Supported by a group of donors, with the Bank playing a key coordinating role.<sup>19</sup> There have now been nine annual PRSCs

<sup>19</sup> Recently there have been up to 11 co-financiers for the PRSCs, providing a similar amount of funding as the Bank (an average of \$160 million per annum over the past five years).

(see Table 1). After PRSC I, all PRSCs were single tranche operations. And, apart from PRSC II, which had some conditions for effectiveness, they were all based on prior actions (Hung).

- Rolling policy matrix was organized around themes of poverty reduction strategy. Sectoral scope increased over time (to include education, health, natural resources, the environment, legal reform, infrastructure etc.) while the number of triggers and prior actions were reduced (Grawe 2010).
  - Approach recognizes that the pace of implementation in individual policy areas is a matter for GoV to determine, with Bank and other support linked to a broad bottom-line assessment of progress. Some argue this approach has marginalized PRSCs in relation to deeper reforms, which require more continuous monitoring and follow-through to achieve results. But, on balance, the flexible approach has facilitated a broader dialogue, built on trust, than would have otherwise been possible (Grawe 2010).
  - For alternative views on the effectiveness and influence of external actors, including the World Bank, see Box 2.
- Project lending also expanded, with good results, despite continuing implementation problems.
- Project lending expanded from a low of \$193 million in FY03 to an average of \$590 million per annum over the next four years (see Table 1). Together with the PRSCs, this put total lending around \$700 million per annum, still lower than the IDA allocation (\$900 million) in the Country Partnership Strategy.
  - Disbursements ratios for investment lending rose slightly to 15% in FY04 but then fell back to 12.5% in FY06 and FY07 (see Table 2). This is well below the regional average (over 19%) in both these years.
  - However, despite slow implementation, IEG has rated all evaluated projects in Vietnam (34 by 2009) as “satisfactory” on development outcomes. While some sector staff question the veracity of these ratings, and some problem projects in the current portfolio may well be rated “unsatisfactory” in the future, this is an extraordinary result by any standard.
- Consultative Group remained the primary vehicle for donor coordination...
- There had been some debate in 2003 within MPI and with the Bank about the future of the CG, with the UNDP making a case to take the lead on donor coordination. Japan and France were also unhappy with the CPRGS until the chapter on large-scale infrastructure was added. And the Nordics always wanted to raise contentious issues (such as human rights). But the situation soon settled down, as donor concerns were addressed. And the regular pattern of working groups, mid-year updates and end-year CGs continued (Rohland).
  - Hanoi Core Statement on Aid Effectiveness was agreed by the delegations at the mid-year CG meeting in 2005. Applied the principles of the Paris Declaration to the situation in Vietnam. The focus on ownership, harmonization, alignment and results was very consistent with the Vietnamese approach to donor coordination and partnerships.

- ... while Innovation Days and Country Surveys provided contact with a wider range of development partners.

## **Box 2: Views from Outside**

External commentators have tended to question the influence of the World Bank in Vietnam. This view is summed up by Bill Hayton in his book on Vietnam: *Rising Dragon* (2010, p4) as follows:

“But is Vietnam really a poster boy for World Bank orthodoxy? The conventional explanation for Vietnam’s economic success goes something like this: an economic crisis in the early 1980s forced a conscious choice to embrace market forces at the Sixth Communist Party Congress in December 1986, after which the economy was liberalized, with World Bank advice, until Vietnam eventually joined the World Trade Organization in 2007. At best, that’s only half the story. To understand the other half you have to start history earlier and change focus. A better explanation for Vietnam’s success is that reform was begun to protect the state sector, not to dismantle it; that the state’s involvement has remained consistently high throughout reform; and that, until recently, World Bank policy advice has been ignored, except where it fitted with the Communist Party’s own priorities.”

Martin Gainsborough in his book on Vietnam: *Rethinking the State* (2010, pp172-176) explores this theme in more detail:

“Many accounts of Vietnam’s reform years emphasize the way in which Vietnam’s political elite have adopted a selective approach to external engagement – that is accepting those things they believe are helpful to it and rejecting those things they believe are not in their interests. In many respects, this kind of analysis is reasonable. It would, for instance, appear to make sense of Vietnam’s relationship with the IMF, which was downgraded in 2004 when the Vietnamese government said it was not willing to provide the financial data the IMF had made a condition of further lending.

Yet it is not simply a picture of selective opening up. The Vietnamese state has often recognized that at times it is not possible to resist external pressure. On such occasions it has proved adept at managing such pressure by appearing to sign up to things without then moving to implement them (a kind of ‘take the money and run’ approach). This comes across clearly in relation to donor activities in the field of anti-corruption...

How it is possible for the Vietnamese government to operate in this way is particularly relevant to an understanding of the true nature of Vietnam’s relations with the international donor community. In part the answer lies with the fact that the expatriate staff who work in the donor community are very often out of their depth in a political and cultural context they understand only poorly...

That said, it is not simply that the donors have the wool pulled over their eyes. Also relevant is the importance placed in the international donor community on the disbursement of aid money – the so-called ‘shifting budgets’ – such that project quality or implementation is less important than hitting disbursement targets.

*Continued*

Also important is the fact that Vietnam is viewed as a ‘success story’ among the donor community... Consequently, what we see, then, is a marriage of convenience between Vietnamese and external elites whereby their interests converge, albeit for very different reasons...

Furthermore, the notion that the reforms being proposed by the international donor community are all necessarily threatening to Vietnam’s elite and hence need to be resisted is also mistaken. Rather, many of the donor-backed projects which the Vietnamese government is involved in can be seen to be broadly supportive of elite power, particularly but not exclusively at the central level... That there is indeed a convergence of interests between the donors and Vietnam’s elite can be seen in relation to what at times appears to be a very cosy relationship between the two sides (e.g. the annual Consultative Group meeting between the government and international donor agencies).”

- The annual Innovation Days, modelled on the Bank-wide Development Marketplace, gave civil society groups an opportunity to present their ideas, with the winners receiving small grant awards. The first Innovation Day was held in 2003 on life safety. The most recent Innovation Days have been on accountability and corruption (2009) and climate change (2010).
- Country Surveys were introduced to gather feedback from a range of stakeholders on the role and performance of the Bank in Vietnam. There have so far been three Surveys: in 2003, 2005 and 2010. Overall feedback has been positive (see footnote 22 for other findings from the 2010 Survey).

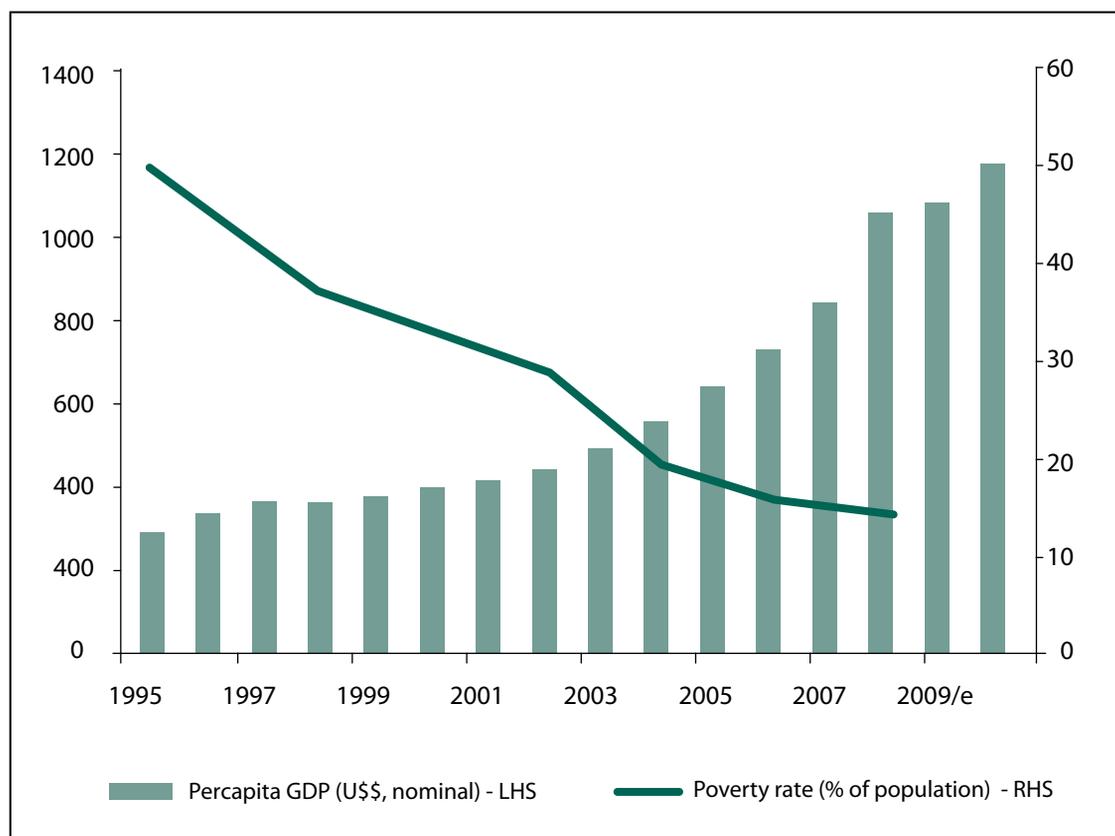
## 2007-2010: INSTABILITY AND TRANSITION

- Rapid economic growth in Vietnam, sustained over two decades, supported a remarkable record of rising incomes and falling poverty (see Graph 1).
  - GDP growth averaged 7.6% per annum from 1994 to 2007, raising Vietnam from one of the poorest countries in the world to close to middle-income status.<sup>20</sup>
  - Over this same period, poverty rates fell dramatically from 58% (in 1993) to 16% (in 2006).<sup>21</sup> Vietnam was also well on track to achieve the other MDGs. This is an impressive development record by any standard.
- But economic progress was threatened by macro instability in 2007 and 2008.

<sup>20</sup> Reliable and consistent national account data are only available back to 1994. The per capita income numbers in Table 4 are simply calculated by dividing GDP by population. Using the Atlas Methodology, GNI per capita was slightly lower at \$760 in 2007. The World Bank’s classifies lower middle-income countries as countries with a per capita income above \$995 in 2009. Vietnam’s GNI per capita in 2009 was \$930.

<sup>21</sup> These poverty rates are derived from the VLSS, which provides a reliable and comparable database for poverty analysis in Vietnam, thanks in part to support from the World Bank. But, in interpreting the trend, it’s important to consider the seriousness of poverty in the late 1980s and the movement of large numbers of people from just below to just above the poverty line.

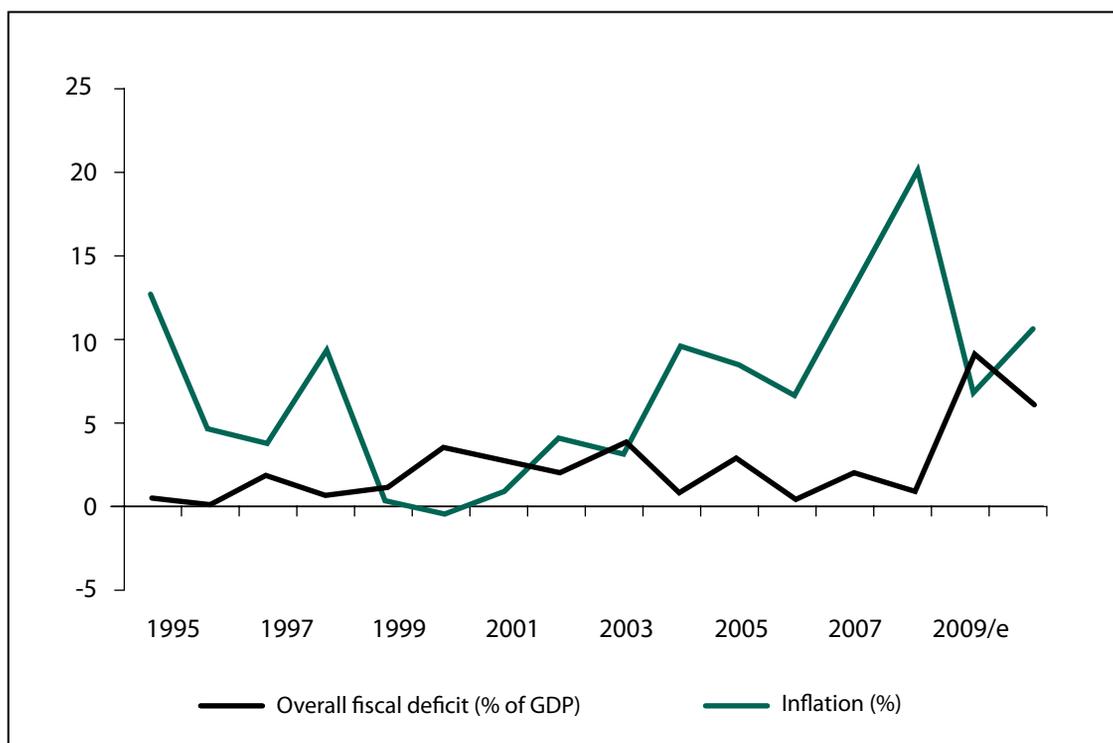
**Graph 1: VIETNAM GDP PER CAPITA AND POVERTY RATES**



Source: General Statistical Office of Vietnam

- The first signs of problems can be traced back to Vietnam’s accession to the WTO in 2007. The resulting external capital inflows fueled a credit boom and asset price bubble in later 2007 and early 2008.
  - Initial problems were compounded by a series of external shocks, including the surge in world commodity prices in early 2008 and the impact of the global financial crisis (GFC) on export orders in late 2008 and early 2009.
  - As a result, GDP growth fell to 6.3% and inflation rose to 20% in 2008. As the government struggled to manage the whiplash from external shocks, external reserves fell and the budget deficit rose sharply to 8.9% of GDP in 2009 (see Graph 2).
- While longer-term development issues remained to be addressed.
- Despite progress on poverty reduction, many people are still vulnerable to poverty. At \$2 per day,

**Graph 2: VIETNAM INFLATION AND BUDGET DEFICITS**



Source: Ministry of Finance, IMF and World Bank

almost half the population lives below the poverty line. And pockets of poverty, especially among ethnic minorities in the highlands, will be much harder and more costly to reduce than in the past.

- Vietnam also has to address new challenges to avoid falling into a middle-income trap: raising the productivity of investment, making growth more environmentally sustainable, improving the quality of human resources and strengthening the governance of public institutions.<sup>22</sup>
- The Bank program was also going through a transition.
  - Klaus Rohland left Vietnam in February 2007 to become Country Director for the Russian Federation (and after that, China). A new Country Director for Vietnam (Ajay Chhibber) took up his post in June. But he had only one year in the position, before leaving to become Assistant Secretary General at the UNDP. A new Country Director (Victoria Kwakwa) was appointed in April 1999.
  - These frequent management changes and gaps inevitably affected the leadership of the program at

<sup>22</sup> These medium-term development issues are discussed at more length in VASS (2010) and Van Arkadie et al (2010).

a time when Vietnam was facing major economic challenges and the Bank was transitioning towards IBRD support. Policy dialogue and policy-based lending continued to be strong, but there was less attention to the details of project work and donor coordination.

■ The CPS Progress Report (November 2009) confirmed Vietnam's transition to IBRD/IDA blend status.

- Following a creditworthiness review, the Bank declared Vietnam IBRD-eligible in October 2007. First IBRD operations were planned for FY10.
- Decision followed President Zoellick's visit to Vietnam in August 2007. It was controversial within GoV (which wanted to remain IDA-only for as long as possible) and the Bank (where FINCR was concerned about Vietnam's macro situation and the limited headroom for IBRD lending without a capital increase). (Rama)
- To ensure a sensible phase-in of IBRD lending, it was decided that Vietnam's shift to IBRD/IDA blend status would not affect its IDA allocations for the remainder of the IDA 15 period (through FY11). GoV also requested that IBRD resources be incremental to IDA for a period thereafter, so that Vietnam's transition to eventual IBRD-only status would be gradual.

■ Bank staff worked closely with IMF, ADB and other donors to coordinate macro policy advice...

- Differences of opinion over exchange rate policy, monetary policy and fiscal stance were worked out before regular meetings with Economic Cabinet (Chhibber).
- Led to adoption of stabilization package in March 2008, shift to stimulus in September 2008 and then rebalancing in September 2009 (Rama).
- Bank staff also provided public support when currency was under attack in May 2008 and when size of stimulus package was criticized in 2009 (Rama).
- But less successful in getting action to rein in SOEs (Chhibber), avoid administrative measures (CPS PR 2009) and improve the transparency of policy making (Taking Stock 2010b).

... and to provide budget support to cover the fiscal deficit.

- Pledges through the CG rose sharply from \$4.4 billion for 2007 to an average of \$5.2 billion for 2008 and 2009 and \$8.0 billion for 2010 and 2011.<sup>23</sup>
- The World Bank supplemented the annual PRSC series with a \$500 million Public Investment Reform Development Policy Loan in November 2009. This was the first IBRD operation for Vietnam and supported actions to strengthen the public investment project cycle (project selection, implementation,

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<sup>23</sup> The formal pledging session has been dropped from the CG since 2009. Information on pledges is now collected before the meeting and presented in the CG press release.

financial management and oversight).

- Other sectoral programs provided budget support for Program 135 (for poor and mountainous communities), power sector reform and higher education.<sup>24</sup>
- Project lending also expanded – with some improvements in implementation.
  - Project lending expanded from an annual average of \$580 million in FY05-07 to \$950 million in FY08-10 (see Table 1). Major new projects were for Hanoi Urban Transport, Rural Distribution, Danang Priority Infrastructure Development, Renewable energy Development, School Education Quality Assurance, Local Development Investment Funds, Northern Mountains Poverty Reduction and New Model Universities.
  - The disbursement rate also started to improve from 12.6% in FY08 to 18.7% in FY10. This is a significant improvement at a time when the overall portfolio was expanding rapidly. IEG ratings of Bank projects in Vietnam continued to be 100% “satisfactory”. However, these ratings include some projects which are “marginally satisfactory” and some current “problem” projects are likely to be rated “unsatisfactory” in the future.
  - The risks of corruption remained high. In 2006, the Bank’s Department of Institutional Integrity (INT) and DFID’s Anti-Corruption Unit looked into allegations of corruption in road projects implemented by PMU18. Their report concluded that there were indications of collusion and sloppiness, but not direct corruption by PMU18 officials.<sup>25</sup> The report was reviewed and released jointly with GoV, which prepared a follow-up action plan (Rama).
- The jointly prepared and reviewed Vietnam Development Reports continued to address longer-term development issues.
  - The 2010 VDR on Modern Institutions tackled the challenges of devolution and accountability, and the implications for governance reform. “People are becoming more demanding – as Vietnam endeavors to develop into a modern middle-income country, the pressure for better services, and more voice and participation will only get stronger.”
  - The 2011 VDR on Natural Resources Management asked: “How can natural resources be used efficiently to promote robust economic growth and alleviate poverty in a manner that is environmentally and socially sustainable?” Economic growth, population growth, urbanization and industrialization are all combining to increase pollution and the extraction of natural resources in Vietnam. And climate change will exacerbate the country’s problems with droughts and floods.

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<sup>24</sup> The First Higher Education Credit (\$50 million) was originally intended to be the first IBRD operation in Vietnam but was switched to IDA at the request of GoV. This last-minute decision caught other donors working in the higher education sector by surprise and reflects the on-going debate about how best to allocate IDA and IBRD resources.

<sup>25</sup> For more on recent corruption scandals, including the allegations surrounding PMU18, see Hayton (2010).

## 2011: LOOKING FORWARD

- While Vietnam has avoided a full-blown economic crisis, continued progress on macro reform is seen as a prerequisite for sustainable growth.
  - GDP growth recovered to 6-7% in 2010 and the fiscal deficit has been reduced to less than 6% of GDP. Inflation has also been reduced from the peaks of 2008 – although at around 10% it is still higher than in other East Asian countries and has been rising again in recent months. And the Vietnamese Dong has been weaker than other regional currencies.
  - According to the latest Taking Stock report (World Bank 2010d), the government needs to send an “unambiguous and consistent message” about its commitment to macro stability in the near term.
  - This needs to be followed with policy actions and regular disclosure of key macro and financial information to build credibility and trust among market participants.
  - The recent effort to improve the working of SBV, through a recently approved SBV law, is a step in the right direction, which needs to be nurtured and strengthened.
- The new Socioeconomic Development Strategy (SEDS) for 2011-2020 lays out the country’s medium-term objectives and priorities.
  - The draft SEDS, endorsed at the Party Congress in January 2011, stresses the importance of shifting the focus from the quantity to the quality of growth.<sup>26</sup> This means paying more attention to the productivity of investment, the sustainability of growth, and the inclusion of all groups in the benefits of growth.
  - To this end, breakthroughs are needed on: (1) institutional reforms to improve market regulation and public administration; (2) investment in human resources, including the quality of education at all levels; and (3) institutional development to meet the needs of a modern economy.
  - These key points are well known to all GoV officials, who can recite them verbatim, even though they’re not so easy to glean from the document itself.
- While there seems to be broad agreement around this strategy, there is also a healthy debate about how best to implement it.
  - The latest session of the National Assembly criticized the Government over a range of economic issues, including the governance of SOEs, the management of public debt and the productivity of investment.
  - One MP went as far as proposing a no-confidence vote in the PM over the Vinashin affair. In June, the National Assembly rejected the government’s plans for a North-South Express Railway.

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<sup>26</sup> This is actually not a new concern. A similar point has been made in GoV policy statements and plans over the past decade. However, there is now more understanding of the trade-offs involved and therefore (hopefully) more willingness to take the difficult decisions needed to raise the quality of growth.

- The deliberations of the National Assembly are broadcast live on TV and reported widely in the press, facilitating a degree of public debate which would have been unthinkable not too long ago.
- The strategic directions in the SEDS provide a good starting point for the next Country Partnership Strategy (FY12-16) now under preparation.
- Feedback from interviews in Hanoi provides some additional pointers on the future role of the World Bank:
  1. The Bank's role in providing access to knowledge on development is consistently raised by officials as its most important contribution.<sup>27</sup>
    - The focus is on ideas rather than advice (and certainly not conditionality).<sup>28</sup> Officials want to talk with people who have world-class expertise and relevant experience from other countries. They value the Bank's knowledge embedded in projects as well as free-standing policy work.
    - They are also clear that they will become even more demanding in the future: as the country faces more complex development challenges, as their own capacity expands, and as other sources of knowledge become available.
    - This will be a challenge for the Bank, as an increasing share of the country budget is taken up with project supervision.<sup>29</sup> So far, trust funds have helped to fill the gap.<sup>30</sup> But sustaining this support for analytical work, and ensuring it can be allocated flexibly to priority areas, will not be easy in the years ahead.
  2. Vietnam's move into middle-income status and access to IBRD has to be managed carefully.
    - As with all countries in this transition, government officials have concerns about continued access to IDA and how best to use IBRD resources. This is primarily a matter of overall budget management: the size of the fiscal deficit, alternative sources of financing and spending priorities.<sup>31</sup>

<sup>27</sup> This is somewhat at odds with the findings of the 2010 Country Survey in which stakeholders (56% of whom were government officials) valued the Bank most for its financial resources (31%) followed closely by knowledge (28%). One third of respondents reported that the Bank could increase its value by reducing the complexity of its financing. One quarter noted the importance of improving the quality of Bank expertise as related to Vietnam's specific challenges.

<sup>28</sup> Many outside observers see the failure of conditionality in Vietnam as a sign of weakness on the part of the Bank (see, for example, Gainsborough 2010 and Hayton 2010). However it is also a sign of the strength of Vietnamese ownership of reforms and the influence of the Bank as a trusted advisor is sometimes underestimated. Policy dialogue is more effective when there is mutual trust and no public posturing (Rama).

<sup>29</sup> The share of the Bank budget for country services in Vietnam allocated to Project Supervision has risen from 30% in FY00 to 43% in FY10.

<sup>30</sup> Bank-executed trust funds disbursed \$6.9 million in FY10, compared to a Bank budget for country services in Vietnam of \$11.9 million, including \$2.2 million for Analytical and Advisory services (AAA).

<sup>31</sup> Vietnam financed the higher fiscal deficit in 2009 with budget support from donors and domestic borrowing. As the deficit is reduced, and aid levels are maintained, domestic borrowing is expected to be cut back. However, Vietnam is not an aid dependent country, with net ODA accounting for less than 5% of GDP and only 12-13% of the state investment budget (Cox et al 2010).

- Given the cost of commercial borrowing for Vietnam, both IDA and IBRD are attractive financing options. However, officials are still discussing how best to allocate these resources across sectors, programs and regions.<sup>32</sup>
  - Vietnam is likely to opt for a mix of budget support and project lending, and so project implementation will remain a major issue. A joint effort to address the basic constraints (PMUs, safeguards, compensation etc) should be high on the agenda for the next few years.
  - The Bank will also have to revisit its business model for lending, so that more funds can be disbursed through larger programs – closely linked to the government’s own sectoral priorities and policy reforms.
3. This would be a good time to reassess and reinvent the CG process.
- The CG process is now well established and no-one is looking for radical change. When well managed, it provides an effective forum for exchanging views on a range of development issues.
  - However, the agenda and modalities need to adjust to reflect Vietnam’s move into middle-income status and the declining role of a number of bilateral donors.<sup>33</sup> Funding sources are likely to become more concentrated, while the development agenda becomes more complex. And other fora, including the National Assembly, are becoming increasingly vocal on similar issues.
  - More generally, it might be worthwhile looking at the future role of aid in Vietnam. This should consider both accelerating progress towards the MDGs (low-income agenda) and improving the business environment (middle-income agenda). From both perspectives, the decision of some bilaterals to pull back from Vietnam would seem to be premature. The potential role of non-traditional donors, such as China, should also be taken into account.

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<sup>32</sup> An excellent review of the role of the World Bank in middle-income countries is provided in Kanbur (2010).

<sup>33</sup> Similar conditions in Indonesia led to the sudden abolition of the CGI in early 2007. Ongoing discussions on the future of the Philippines Development Forum may also provide some relevant lessons for Vietnam

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# INTERVIEWS

NAME	POSITION	ORGANIZATION
Vu Khoan	Former Deputy PM	Government Office
Tran Xuan Gia	Former Minister	MPI
Ho Quang Minh	Director General, FERD	MPI
Le Van Chau	Former Deputy Governor	SBV
Duong Thu Huong	Former Deputy Governor	SBV
Phan Manh Hung	Former Deputy Director	SBV
Thinh Thi Hong	Director General, ICD	SBV
Le Thi Bang Tam	Former Vice Minister	Ministry of Finance
Nguyen Thi Hong Yen	Deputy Director General, DMEF	Ministry of Finance
Ngo Thinh Duc	Deputy Minister	Ministry of Transport
Nguyen Van Ngu	Director General	MoET
Tran Thi Gia'ng	Director General, ICD	Ministry of Health
Nguyen Si Dzung	Deputy Secretary General	National Assembly
Le Quoc Ly	Vice President	Ho Chi Minh Academy
Le Dang Doanh	Former President	CIEM
Nguyen Dinh Cung	Vice President	CIEM
Do Hoai Nam	President	VASS
Nguyen Thi Lan Huong	Director General	ILSSA
Bui Van Mai	Secretary General	VACPA
Pham Chi Lan	Former Member	PMResearch Committee

Hal Hill	Professor of SE Asian Economies	Crawford School ANU
Suiwah Dean-Leung	Associate Professor	Crawford School ANU
Steve Price-Thomas	Country Director	Oxfam GB
John Hendra	Resident Coordinator	United Nations
Ayumi Konishi	Country Director	ADB
Toshio Nagase	Senior Representative	JICA
Mamoru Sakai	Representative	JICA
Fiona Lappin	Head of Office	DFID
Mark Palu	Counsellor	AusAID
Heather Riddell	Ambassador	Embassy of NZ
Max von Bonsdorff	Counsellor	Embassy of Finland
Ben Bingham	Resident Representative	IMF
Simon Andrews	Regional Manager	IFC
Edwin Lim <sup>34</sup>	Former Senior Economist	World Bank
David Dollar	Former Senior Economist	World Bank
Bradley Babson	Former Country Representative	World Bank
Andrew Steer	Former Country Director	World Bank
Klaus Rohland	Former Country Director	World Bank
Ajay Chhibber	Former Country Director	World Bank
Nisha Agrawal	Former Lead Economist	World Bank
Martin Rama	Former Lead Economist	World Bank
Naoko Ishii	Former Country Coordinator	World Bank
Victoria Kwakwa	Country Director	World Bank
Deepak Mishra	Lead Economist	World Bank
Dinh Tuan Viet	Senior Economist	World Bank
Pham Minh Duc	Senior Economist	World Bank
Keiko Kubota	Senior Economist	World Bank
James Anderson	Senior Governance Specialist	World Bank
Jennifer Sara	Sector Manager	World Bank
Xiaolan Wang	Senior Operations Officer	World Bank

<sup>33</sup> Transcript of Interview with Edwin R. Lim, by William H. Becker and Marie T. Zenni, The World Bank Group, Oral History Program, October 30 and 31, 2002, Washington DC.

Pham Hung Cuong	Senior Operations Officer	World Bank
Nguyen Thi Mai	Senior Operations Officer	World Bank
Mai Thi Thanh	Senior Operations Officer	World Bank
Dao Lan Huong	Health System Specialist	World Bank
Sameer Goyal	Senior Finance Sector Specialist	World Bank
Alain Barbu	Portfolio & Operations Manager	World Bank
Bo Thi Hong Mai	Partnership Officer	World Bank
Myla Williams	Country Program Coordinator	World Bank
Mette Bertelsen	Special Assistant	World Bank

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## **A Brief Annotated History**

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