

INTERNATIONAL MONETARY FUND



Staff Country Reports

Vietnam: Joint Staff Assessment of the Poverty Reduction Strategy Paper Progress Report

The attached Joint Staff Assessment (JSA) of the Poverty Reduction Strategy Paper Progress Report for **Vietnam**, prepared by the staffs of both the World Bank and IMF, was submitted with the member country's Poverty Reduction Strategy Paper (PRSP) or Interim PRSP (IPRSP) to the Executive Boards of the two institutions. A JSA evaluates the strengths and weaknesses of a country's poverty reduction objectives and strategies, and considers whether the PRSP or IPRSP provides a sound basis for concessional assistance from the Bank and Fund, as well as for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative. The Boards then decide whether the poverty reduction strategy merits such support.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$15.00 a copy

**International Monetary Fund
Washington, D.C.**

This page intentionally left blank

INTERNATIONAL MONETARY FUND
AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

SOCIALIST REPUBLIC OF VIETNAM

Joint Staff Assessment of the Poverty Reduction Strategy Paper

Annual Progress Report

Prepared by the Staff of the International Development Association
and the International Monetary Fund

Approved by Jemal-ud-din Kassum and John Page (IDA),
Masahiko Takeda and Anthony Boote (IMF)

January 30, 2004

I. INTRODUCTION

1. The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was approved by the Prime Minister of Vietnam on May 21, 2002 and was discussed by the Boards of the IMF and IDA in July 2002. In November, 2003, the Government of Vietnam completed the “Vietnam Growth and Reduction of Poverty Annual Progress Report of 2002-2003” (hereafter referred to as the Report). This Report is now being submitted to the Boards of the IMF and IDA for discussion as a first Poverty Reduction Strategy Paper (PRSP) progress update.

2. The Report was prepared by the Ministry of Planning and Investment (MPI) and the CPRGS Secretariat under the guidance of the Inter-Ministerial Working Group established to oversee the implementation of the CPRGS. The drafting process involved consultations within Government, albeit with only limited input from key line ministries, such as the Ministry of Agriculture and Rural Development. The staffs encourage MPI and the CPRGS Secretariat to investigate ways in which line ministries might play a more fundamental role in monitoring progress against the CPRGS in future years. Through the circulation of the draft Report, external partners including the international donor community, researchers and local and international non-governmental organization (NGOs) were encouraged to participate in debate and contribute comments in writing. The drafting team made a number of important changes and edits in response to the comments received and the staffs believe that there is a continued commitment to incorporating the views of stakeholders beyond Government in tracking progress against the CPRGS.

3. The Report assesses progress in achieving CPRGS goals and identifies the remaining challenges. It mainly covers the period since the approval of the CPRGS, by reviewing recent developments in macroeconomic performance and structural and social change. In

particular, the Report covers (i) the evaluation of economic growth and poverty reduction; (ii) policy implementation in the period of 2002-2003; (iii) challenges and measures in poverty reduction and growth; and (iv) strategy implementation, initial results and proposals. The Report also introduces a new chapter to the CPRGS, on large-scale infrastructure, thus responding to a gap in the original CPRGS, identified by the Government one year ago.

II. OVERALL ASSESSMENT

4. The Report covers all the major sectors of activity, reflecting the comprehensive nature of the CPRGS. It records that output growth continues at a rapid pace, despite international instability and challenges such as the SARS outbreak in early 2003. The Report also reviews some of the most important policy developments of the last year, including an assessment of progress in financial sector reform, the transformation of State-owned Enterprises (SOEs), further opening of the economy, the promotion of a more favorable investment climate, and improvements in public financial management. The staffs agree with the Report's assessment that there are areas where the agenda for structural reform has been slower than expected and where bottlenecks have occurred. This includes in particular restructuring and the transformation of ownership in the SOE sector, which in turn has implications for the overall quality of bank credit.

5. The Report also assesses progress in terms of reducing poverty and attaining the Vietnam Development Goals (VDGs, the localized version of the Millennium Development Goals, or MDGs), as well as other targets set in the CPRGS. The VDGs were developed following analytical work which brought together Vietnam's international commitments embodied in the MDGs and the national-level challenges and priorities. The result is a set of goals that incorporates the MDGs but also includes some other priority areas for progress in Vietnam, such as governance and infrastructure development. In the assessment of progress, the Report relies on data from administrative sources and from twelve Participatory Poverty Assessments (PPAs) conducted during the Summer of 2003. It also makes extensive use of new data available from the 2002 Vietnam Household Living Standards Survey (VHLSS). The staffs believe that the Report provides a candid assessment of some of the important difficulties and challenges. The staffs especially appreciate the attention given to social issues, including growing inequalities, poverty among ethnic minorities, the problems faced by unregistered or temporarily registered rural-urban migrants, and the challenges of promoting good governance and combating corruption.

6. The Report describes the mechanisms established to oversee the implementation of the CPRGS and outlines the systems established to monitor progress. The latter is measured against the VDGs and other targets set in the CPRGS. Data presented in the Report indicate progress against most of these goals. The Government has provided a separate document reviewing the definitions of all the indicators considered and the data sources for each of them. The monitoring of governance targets remains the most difficult area, suggesting the need for more work to establish a workable monitoring framework.

7. The staffs consider that the implementation of the CPRGS has recorded significant successes, and this is well documented in the Report. Key measures have been adopted in the macroeconomic, structural and social areas in 2002-03. The Report provides a generally frank assessment of both accomplishments and challenges, and describes a number of proposed policy actions. However, the forward-looking section of the Report lacks the specificity of the review of progress to date, and the Report falls short in several areas in describing the necessary actions to implement strategies to promote sustainable growth and poverty reduction. In this respect, a future progress report could include (i) a better articulation of linkages between the achievements and the policy actions; (ii) a candid assessment of the potential risks associated with the current policy stances; (iii) a more explicit description of how the PIP and the annual budget link to CPRGS implementation; and, (iv) a more explicit set of actions to tackle poverty among ethnic minorities and other vulnerable groups.

8. The staffs also recommend that the next Report have a more explicit discussion of planned actions, including an updated policy matrix. The policy dialogue which continues under the series of Poverty Reduction Support Credits (PRSCs) and the Poverty Reduction and Growth Facility (PRGF) suggests to the staffs that there is a more detailed government-led agenda for future change and action, but that this is not well represented in the Report. The annual socio-economic development plan for 2004 sets out a number of targets for many of the indicators included in the CPRGS and these approved targets could be reflected and discussed in the next Progress Report in more detail. The discussion of the reform agenda at the CPRGS workshop held in Haiphong in October 2002 is also not well captured by the Report. Other recent policy developments, and especially the determination of the Government to accelerate the process of accessing the World Trade Organization (WTO), are not appropriately reflected either.

9. The staffs encourage the Inter-Ministerial Working Group to develop a clearer view of how they can generate more debate and involvement within the various ministries and bring this cross-departmental perspective into the CPRGS implementation process. In addition, the staffs urge the Inter-Ministerial Working Group to elaborate on its stated intention to integrate the CPRGS, the five year planning process, the one year planning process and the processes established to allocate public resources.

10. The staffs believe, in particular, that there is a more active role for the Ministry of Finance (MOF) in planning this integration over the next two years. The MOF-led Public Expenditure Review will investigate many issues of direct relevance to CPRGS implementation and the staffs would hope that the lessons learned about the links between resource allocation and poverty reduction can be incorporated into the next progress report. The current lack of linkage between the CPRGS, the Public Investment Plan (PIP) and the annual budget process constrains the development of a robust process for outcome-focused expenditure planning. The staffs hope that the development of sectoral and provincial Medium-Term Expenditure Frameworks (MTEFs) will help to address this weakness over coming years.

III. IMPLEMENTATION OF THE STRATEGY

11. The staffs recognize the strong achievements in growth and poverty reduction over the past year. Progress has been consistent across a broad range of indicators. GDP grew at 7 percent in the last year,¹ exports expanded by 22 percent, and the actual inflow of foreign direct investment (FDI) increased by 10 percent. While precise figures are not available for 2003, a comprehensive update of the poverty situation, based on household survey data from 2002 and participatory poverty assessments conducted during the Summer of 2003, confirms that there has been strong progress in this area as well. The poverty rate is not declining as fast as it did in the early 1990s, but it is nonetheless falling by the equivalent of two percent of the population every year.

A. Poverty Reduction

12. The reduction in poverty over the past decade has been one of Vietnam's most striking achievements. The latest data, from the 2002 VHLSS, show that between 1993 and 2002, the proportion of the population living in poverty declined from 58 percent to 29 percent. The Report has made good use of these data, together with information from the PPAs and from administrative sources. It has also made an impressive attempt to highlight trends for different subgroups of the population. Poverty trends are presented both by region and by ethnicity. Social outcomes are also presented for different quintiles and the gaps between groups are clearly identified. While many of the national and international targets may be met, or nearly met, for the population as a whole, certain groups and people living in certain areas are less likely to see such progress. One group which is not identifiable in the data is the unregistered or temporarily registered migrants, though they are described in the Report as a group that is particularly disadvantaged in a number of respects. The staffs believe that it is important that Government adjust the VHLSS survey so that poverty and social outcomes can be tracked for more mobile populations.

13. One of the most important challenges in coming years will be to ensure that economic growth continues to have the same strong impact on poverty. The Report recognizes the difficulties in ensuring that the lowest income quintiles of the population continue to see improvements in living standards commensurate with the growth in the economy. The staffs echo the concern that the Report raises about growing inequality in the country and encourage the Government to consider the challenges that this implies with regard to improved targeting and redistributive mechanisms, especially in the allocation of public resources. The lack of discussion of specific measures to improve the poverty focus of public expenditure is a weakness of the Report. The staffs would welcome stronger involvement of the MOF in the implementation of the CPRGS. Such involvement would become increasingly important as the Government seeks to develop MTEFs in several sectors

¹ Official estimates; IMF staff estimates of GDP growth are somewhat lower than those of the national authorities.

and provinces. The staffs believe that this involvement is fundamental to achieving a tighter alignment between CPRGS outcomes and public spending priorities.

14. Ethnic minority poverty emerges from the Report as an area of serious concern. Though there have been a number of initiatives targeted at ethnic minorities which are described in the report, actions to date have not been able to prevent a widening gap in living standards associated with ethnicity. The report is candid in presenting data which shows that ethnic minorities are 30 percent of the poor – more than double their share in the population as a whole. The staffs believe that this is likely to worsen and that there is a real prospect of ethnic minorities representing more than 40 percent of the poor in 2010 in the absence of bold and committed action. The passage of the new Land Law provides for land allocation practices which, if the implementing guidelines are well-designed could be more appropriate for ethnic minorities in accommodating communal land use. The dependence of many ethnic minority populations on fragile forestry lands raises a number of important issues with regards to the reform of State Forestry Enterprises and the ownership and control of forestry lands. The staffs strongly encourage the Government to involve ethnic minority people in the process of developing actions designed to benefit them.

15. There is limited attention to the gender dimensions of poverty in the Report. The commitment made in the CPRGS to prioritize actions that reduce the work burden on women and to reduce levels of domestic violence are not thoroughly discussed in the Report. The recent PPAs suggest that both these issues generate hardship for women and the staffs urge the Government to include in the next report an assessment of work undertaken to address these problems. The staffs believe that more of the data could usefully be disaggregated by sex as progress against the CPRGS is tracked.

B. Macroeconomic Policies

16. The medium-term macroeconomic framework set out in the original CPRGS paper (Appendix 2) remains broadly appropriate, although some updating and extensions to cover the years 2005-06 are called for. Real GDP growth is expected to continue on a strong trajectory over the medium-term, providing a conducive environment for achieving poverty reduction goals. Inflation objectives have been achieved through 2003, and can be maintained at present moderate levels (3-4 percent per annum) in the coming years with appropriately focused monetary management. The fiscal balance (excluding onlending) has been kept within program objectives during 2002-03, and budgetary revenue performance has been encouraging, as flagged in the Report. But revenues will likely come under pressure from several sources in the coming years, and hence the Report's emphasis on the need for tax policy reforms and modernization of tax administration is appropriate. The Report also points to the surging trade and current account deficits in the last year, notwithstanding exceptionally strong export growth; the staffs believe that the external position is manageable, given ongoing capital inflows, but merits continued review as a possible indicator of excess demand pressures.

17. Looking forward, the staffs recommend that an updated macroeconomic framework that extends through 2006 be elaborated and discussed. The Government could develop a framework along the lines explored in the 2003 Article IV discussions with IMF staff. While the overall macroeconomic outlook is generally favorable, the staffs have pointed to concerns about rising public debt levels over the medium-term, stemming from continued trend growth in onlending operations and uncertain (but potentially sizeable) costs of state bank and enterprise reform. These issues need substantial further consideration by the Government.

C. Structural Reforms

18. The Report discusses policy developments in various structural areas. The staffs note that impressive progress has been made to open trade, promote exports and international integration, and strengthen the country's external competitiveness. The Government is committed to creating a more open and competitive economy through implementation of the ASEAN Free Trade Area (AFTA) agreements and the bilateral Trade Agreement with the United States (USBTA). The WTO accession process is becoming a cornerstone of economic and structural reform. Vietnam has benefited from its greater openness to trade in the past, and the commitment of the Government in this area remains strong.

19. The Report make an unclear reference to measures to substitute imported production inputs with domestic ones in an attempt to reign in the emerging trade deficit in 2003 and expected deficit in 2004. This would constitute a worrying policy intention were it not for the Government's simultaneous very strong commitment to accede to the WTO. The Government is currently developing a detailed, prioritized, and time bound action plan to prepare for WTO membership by end 2005. It is expected that the determination to join the WTO will impede the implementation of new protectionist polices. The World Bank is coordinating and leading donor assistance in this area. While not explicitly addressed in the Progress Report, the poverty and distributional implications of planned trade measures are part of the WTO accession agenda, with the World Bank supporting a series of Poverty and Social Impact Assessments in this area.

20. The Report points to the considerable improvements achieved in the business environment since the implementation of the Enterprise Law, and notes the efforts made to simplify registration procedures through such initiatives as the one-stop one-stamp service and the phasing out of dual pricing. The staffs see scope for further initiatives in this area, borrowing from the agenda items that have emerged in the Government-private sector dialogue conducted through the Vietnam Business Forum.

21. The pace of reform of SOEs and the banking sector has proven to be slower than originally envisaged in the CPRGS paper. The Government's strategy to reform the state enterprise sector distinguishes between a sizeable number of strategic sectors, in which SOEs would continue to play a lead role, and non-strategic sectors, where the Government intends to divest itself of enterprises, primarily through equitization. Progress in improving and simplifying governance in the SOEs has to date been limited, while the equitization program fell behind schedule, requiring a major revision of the masterplan in mid-2003. The Report

would benefit from a fuller and more frank assessment of the obstacles encountered with SOE reform, and could more clearly define how these obstacles are to be overcome in the next few years.

22. On the banking side, the Report notes the efforts being made to improve operational capabilities and accounting practices in the state-owned commercial banks (SOCBs), to liberalize interest rates, and to shift policy-based (or directed) lending from the SOCBs to specialist government financial institutions. These are important initiatives, but much further progress is needed to strengthen SOCB's commercial orientation, operational practices, profitability, balance sheet quality, and loan appraisal capabilities. The staffs are concerned at the exceptionally rapid pace of credit expansion in some SOCBs, which could further burden balance sheets; at the sluggish pace of NPL resolution, in turn linked to slow SOE reform; and at the sizeable future capital needs of the SOCBs, which are unlikely to be met from internal resources, given low profitability. These issues will require careful consideration by the Government, if the build-up of quasi-fiscal liabilities in the banking system is to be avoided.

D. Sectoral Policies

23. The Report provides a very comprehensive discussion of the role of infrastructure in promoting economic and social development through the addition of a new chapter to the CPRGS. Large-scale infrastructure projects, if based on a sound cost-benefit analysis and implemented properly, should contribute to significant output growth and poverty reduction in Vietnam. The staffs commend the policy focus of the large-scale infrastructure chapter. However, the chapter does not provide clear guidelines on how to screen projects so that they meet the policy goals – an overarching priority if public investment projects are to contribute to growth and poverty alleviation objectives. The staffs would also welcome a more detailed discussion on how to integrate the capital expenditures, currently coordinated by MPI through the PIP with the recurrent expenditures, coordinated by the MOF through the budget.

24. The Report documents a number of important developments in the fields of health and education. The staffs feel that some of the achievements in the health field are underrepresented in terms of their potential impact on poverty. For example, the recent achievements in nutrition and disease control (especially the success in containing SARS) are underplayed. The staffs agree with the Report that Decree 139 on the provision of Health Care Funds for the Poor (HCFP) is an important step in providing affordable access to health services to the poor. The staffs also welcome the intention to increase the health budget, which is currently low as a proportion of total expenditure by international standards.

25. The Report recognizes the potential threat posed by the spread of HIV/AIDS, as the disease starts moving from high-risk groups to the general population. The Government has recently passed a new HIV/AIDS strategy which begins to outline a multi-sectoral approach. The staffs believe, however, that there is a need for urgent and bold action in preventing a generalized epidemic. This will involve: (i) de-stigmatizing HIV/AIDS by treating it as a social trauma rather than a social evil; (ii) disseminating information on preventive measures

such as barrier methods to avoid HIV contamination; (iii) facilitating access to confidential and voluntary testing; (iv) including HIV/AIDS issues in school curricula; (v) offering appropriate and affordable care and treatment and supporting adults and children affected and infected by HIV/AIDS; (vii) involving people living with HIV/AIDS in policy making for HIV/AIDS prevention and project design; (viii) ensuring leadership and commitment at the highest level of Government in the fight against HIV/AIDS; and, (ix) ensuring that the combat of HIV/AIDS is acknowledged by the whole of Government to be mainstreamed in all sectors.

26. Progress in the implementation of sectoral policies hinges on financing and targeting issues, especially as Vietnam moves towards increased decentralization. It is the view of the staffs that the approach taken under the National Education for All Action Plan initiative, not described in detail in the Report, provides a relevant precedent. This is a national plan with strong ownership, which establishes standards for the quality of basic education that will apply throughout the country. It will also address outstanding issues associated with the definition of appropriate norms for the allocation of recurrent expenditure and the development of a MTEF for the sector. And it requires an appropriate targeting of communes to be supported. Equally important is the targeting of poor households for the allocation of education fee exemptions, which are key to address the affordability of education for poorer households. The staffs encourage the successful features of this approach, especially the definition of quality standards, the development of MTEFs and the use of proper targeting, to other sectors.

27. The Government has initiated a number of activities recently to evaluate the performance and impact of the national targeted programs, particularly the Hunger Eradication and Poverty Reduction Program and Program 135 to assist the poorest communes. The staffs believe that these evaluations and other recent analytical work could help the Government to redefine these targeted programs so that benefits for the poor are maximized. The staffs urge the Government to make use of these findings to direct both the activities funded in future targeted programs and the mechanisms and principles that guide program implementation. Of the latter, mechanisms for improved targeting and for ensuring participatory and decentralized management deserve particular attention.

E. Governance

28. The staffs recognize the achievements, set out in the Report, in a number of administrative and legal reforms. In particular, the rapid expansion of the “one-stop shop” model to more than 33 provinces and selected ports marks an important step forwards in minimizing the bureaucratic barriers to registration processes and basic administrative services. The passage of the Law on the Promulgation of Legal Documents has improved transparency in the legal sector, as reflected in increased public consultations in law-making and in the growing fraction of legal documents published daily in the Official Gazette. The amended State Budget Law and the new Law on the Organization of People’s Committees and People’s Councils set the basis for improved accountability in an increasingly decentralized decision-making environment.

29. The staffs commend the MOF for the steps they have taken in publishing budget data, including the establishment of a website, while underscoring the need for substantial improvement in the compilation and release of fiscal data to allow better tracking of budgetary expenditure composition, extra-budgetary funds (such as the Development Assistance Fund), and public debt levels. The staffs see a need for a more transparent approach to monetary data, including the regular public release of data on foreign reserves and other key items of the central bank balance sheet, as a means of enhancing public confidence in the domestic currency and the conduct of monetary policy. The staffs also see a need for significant enhancement of the capabilities of the State Audit of Vietnam, as a tool for enhancing oversight and accountability in state organizations. In particular, weaknesses in the audit arrangements for the State Bank of Vietnam, which were identified in the context of implementing Fund safeguards policy, have contributed to an extended hold-up of Fund concessional assistance under the PRGF and resumption of lending under the PRGF will require that these weaknesses are adequately addressed. The staffs call for the Government to expand the resource capabilities of the State Audit of Vietnam and to utilize available technical assistance to buttress domestic capabilities to this effect.

30. The Report also notes the introduction of a new Decree on Grassroots Democracy (Decree 79). The PPAs conducted during the Summer of 2003 suggest that there is growing knowledge among commune officials of their obligations under the Grassroots Democracy Decree. They also suggest that there is still limited knowledge in poor communities about people's rights and obligations under this Decree. Looking forward, it would be helpful to examine the constraints on building more transparency, accountability and participation in decision-making processes. In this regard, the staff feel that it is important to look beyond capacity constraints to investigate the incentives that prevail at the commune level for commune officials to engage in more transparent and accountable planning and budget processes.

31. The Report describes difficulties encountered to date in ensuring a fully participatory approach to CPRGS implementation, but the role for civil society outside the mass organizations remains vaguely defined. The passage of Decree 88 on local associations provides a legal framework for some kinds of local organizations. The staffs encourage the Government to engage in consultations with local organizations as the implementing guidelines are drawn up. The Decree is testing the ground for a long-awaited Law on Associations, which is on the legislative agenda of the National Assembly for 2004.

32. The staffs welcome the section on actions to reduce the level of corruption in Vietnam. The Government is currently undertaking diagnostic work on corruption, but the staffs note that this is proceeding slowly. The Government is considering a draft Ordinance on corruption and this is a welcome development. However, the staffs believe it is important that legislation on corruption is well-informed by a thorough analysis of the extent and nature of corruption in Vietnam. The staffs strongly encourage an open discussion of the contents of the draft Ordinance, and would underscore the linkages between corruption and complex and non-transparent regulatory structures.

F. Monitoring and Evaluation

33. The annex to the Report presents a welcome update of most of the indicators that together form the monitoring framework of the CPRGS. This enables an assessment of the progress made against the corresponding VDGs and targets, and the staffs recognize the strong achievements made towards them. The poverty and social data presented in the report are partly derived from the 2002 VHLSS, whose high quality reflects the increasing capacity of the General Statistics Office to collect and process data. However, 2002 VHLSS data have not yet been made publicly available for further analysis by the Vietnamese research community and others in spite of a commitment to greater data dissemination in the new Statistics Law adopted in 2003. The staffs welcome the progress made towards compiling an overview of agreed definitions of all 136 CPRGS indicators, together with the corresponding information sources. The overview reveals, however, that there is scope for cross-sectoral discussion, perhaps through the Inter-Ministerial Working Group, both on definitions and on the most reliable data collection methods. It is also recommended that a shorter list of “core” indicators be developed to reduce burden of monitoring and evaluation, especially at the provincial level.

G. Coordination Mechanisms

34. The Report describes the institutional arrangements established for CPRGS implementation and outlines the activities taken by the Inter-Ministerial Working Group and the CPRGS Secretariat to make the CPRGS a reality. The staffs concur with the Report that a number of challenges remain and believe that many of these are correctly identified. Of particular concern is the need to foster participation across ministries regarding implementation. More human resources might be needed for this purpose.

35. The staffs welcome the intention to integrate the CPRGS into the five-year and one-year planning processes. They also commend the efforts taken so far to bring the CPRGS to sub-national levels of Government. In addition to an information campaign and a series of regional workshops, a number of interesting initiatives have been undertaken to help provinces build their local planning processes around CPRGS principles. This has involved collaborative attempts by central agencies and donor partners to work with Provinces in the development of plans that are more evidence-based, more participatory, more outcome-focused, better linked to resources and more tightly monitored. The Government hopes that work such as this will promote stronger, more poverty-focused planning in all provinces of Vietnam by 2008. It would be important for the CPRGS Secretariat to provide a framework for cross-province learning as this work gains momentum.

36. The Report requests that official development assistance (ODA) be coordinated around the priorities and actions outlined in the CPRGS and calls for a harmonization and simplification of procedures to ensure that this assistance is effective. The Government and donors discussed these issues in some depth during the recent Consultative Group meeting and there is strong support for using the CPRGS as a guide for donor assistance. The staffs believe that the series of PRSCs has been a valuable instrument in developing a coordinated

dialogue with Government on important elements of the policy reform agenda established in the CPRGS. Current indications are that a large number of donors would like to co-fund the next PRSC. The staffs agree with the Inter-Ministry Working Group request that direct support to CPRGS implementation should focus on activities at the sub-national level but would emphasize the need for this to be structured within an agreed framework for cross-learning.

IV. RISKS TO THE STRATEGY

37. The medium-term outlook under this strategy is, however, subject to risks, including: (i) the potential for significant investment misallocation in the government-controlled financial intermediation process, impairing growth and the fiscal position; (ii) the risk of a slowdown in private sector investment, if weaknesses in the business environment are not adequately addressed; and (iii) threats to Vietnam's exports from protectionism and/or intensified competition from other exporting countries, partly as a result of the phasing out of the quotas established under the Multi-Fiber Agreement (MFA). Successful accession to WTO is important in minimizing this threat. Also, macroeconomic policies, with monetary policy as the most flexible instrument available, will need careful calibration to ensure an appropriate pace of demand expansion over the medium term.

38. Some of the most important risks to the successful implementation of the CPRGS relate to slippage, especially in the area of public sector reform, due to resistance from losers of reform. There is a possibility that political support might erode, or momentum might slow, as implementation proceeds. This is particularly so as benefits from the reform program are shared unequally, and as certain groups bear disproportionate costs. The reform costs could also be higher than estimated if SOE reform continues at a sluggish pace, or if new lending goes into unviable projects. There could be a significant increase in the costs of re-capitalization of SOCBs if the pace of reform does not pick up and banks' credit appraisal capacity is not substantially enhanced. Finally, failure to ensure that adequate progress is made in improving the transparency of public finances and in tackling corruption could together defeat the attempt to build modern governance.

39. The risks of reform for income distribution can be mitigated through the prior analysis of the poverty and social impact of proposed reforms. The staffs commend the Government on the implementation of the safety net for laid-off SOE workers, which was based on extensive consultation and analysis. A recent survey which traces claimants from this fund shows that this is working well. The planned accession to WTO in 2005 will demand a considerable amount of analytical work if the Government is to manage the important and necessary changes in a way that minimizes costs. Some such work is already underway. The staffs feel that issues around the development of a land market and the distress sales of land constitute an under-explored area for Poverty and Social Impact Analysis (PSIA) work and encourage robust research into this topic.

V. CONCLUSIONS

40. The Government of Vietnam has made substantial progress in promoting economic growth and poverty reduction over the last year. This is clearly demonstrated by macroeconomic data and by credible evidence on social outcomes. A number of challenges will be important in future years and these are recognized in the Report. First is the need to keep the reform program on track, at a time when integration with the world economy is proceeding faster than the restructuring of the state sector. Slow progress in the twin areas of SOE reform and financial sector reform is a matter of concern, as is the still weak integration of the PIP into a broader medium-term expenditure framework linking capital and recurrent expenditures. Second is the need to tackle growing inequality in living standards and social outcomes through the use of improved targeting instruments and redistributive mechanisms. Related to this challenge is the need for concerted efforts to address ethnic minority poverty and to include migrants who lack registration in development activities. Thirdly, it will be important to improve the quality of governance. Cross-sectoral interaction, especially through the Inter-Ministerial Working Group, and improved coordination between the center and the provinces, will become increasingly important. More work will also be needed in defining a range of indicators for tracking progress in governance issues.

41. In sum, it is the view of the staffs of the World Bank and the IMF that the CPRGS continues to articulate a sound set of policies and programs. The country's efforts towards the implementation of CPRGS provide sufficient evidence of its continuing commitment to economic growth and poverty reduction. Despite the challenges just described, progress in development outcomes and commitment to reform are strong enough to provide a credible framework for World Bank and IMF concessional assistance. Access to such assistance is also subject to meeting the fiduciary and other safeguards requirements of the relevant lending institution. The staffs recommend that the Executive Directors of the World Bank and the IMF support these conclusions.