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INTERNATIONAL MONETARY FUND**

**Vietnam**

**Evaluation of the Poverty Reduction Strategy Paper (PRSP)  
Process and Arrangements Under the Poverty Reduction and  
Growth Facility (PRGF)**

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This report is one of six background case studies for the IEO Evaluation of PRSPs and the PRGF. The latter report, along with background case studies for Guinea, Mozambique, Nicaragua, Tajikistan, Tanzania, and Vietnam are available on the IEO website at [www.imf.org/ieo](http://www.imf.org/ieo).

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## ABBREVIATIONS AND ACRONYMS

AFTA	ASEAN Free Trade Agreement
AUSAID	Australian Agency for International Development
BWIs	Bretton Woods Institutions
CBOs	Community-based Organizations
CDF	Comprehensive Development Framework
CG	Consultative Group
CIDSE	Coopération Internationale pour le Développement et la Solidarité (Belgium)
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
DfID	Department for International Development (UK)
ESAF	Enhanced Structural Adjustment Facility
FGS	Focus on the Global South
GoV	Government of Vietnam
GSO	General Statistics Office
HCMC	Ho Chi Minh City
IDA	International Development Association
IEO	Independent Evaluation Office (IMF)
IFS	International Financial Statistics
INGO	International Nongovernmental Organization
I-PRSP	Interim Poverty Reduction Strategy Paper
JBIC	Japan Bank for International Cooperation
JSA	Joint Staff Assessment
MD	Managing Director
MOLISA	Ministry of Labor, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
MTEF	Medium-Term Expenditure Framework
NDA	Net Domestic Assets
NGO	Nongovernmental Organization
NPL	Non-performing Loan
NTB	Non-tariff Barrier
ODA	Overseas Development Assistance
PC	Performance Criteria
PEM	Public expenditure management
PIP	Public Investment Program
PPA	Participatory Poverty Assessment
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Assessment
PTF	Poverty Task Force
PWG	Poverty Working Group
SAC	Structural Adjustment Credit
SBV	State Bank of Vietnam
SDC	State Agency for Development and Cooperation

SEDP	Socio-economic Development Plan
SME	Small and Medium-sized Enterprise
SOCB	State-owned Commercial Bank
SOE	State-owned Enterprise
UNDP	United Nations Development Programme
USAID	U.S. Agency for International Development
USBTA	U.S.-Vietnam Bilateral Trade Agreement
VAT	Value-Added Tax
VDGs	Vietnam Development Goals
VLSS	Vietnam Living Standards Survey
VND	Vietnamese Dong
WEO	World Economic Outlook
WTO	World Trade Organization

## EXECUTIVE SUMMARY

The Government of Vietnam (GoV) initiated the preparation of an I-PRSP in mid-2000 which coincided with an intense planning phase in the country's policy cycle leading to the production of the current 10-year Socio-Economic Development Strategy and 5-year Socio-Economic Development Plan (SEDPs). The I-PRSP was presented to the Executive Boards of the Bank and the IMF in March 2001 along with a request for a 3-year PRGF-supported program and the first World Bank-supported Poverty Reduction Support Credit (PRSC). The full CPRGS (as the PRSP is known in Vietnam) was finalized just over a year later, around the time that the second review under the PRGF-supported program was completed.

The CPRGS was produced by the Ministry of Planning and Investment (MOPIC) in association with relevant ministries. Actual drafting was done by a 52-member committee from 16 ministries and agencies. Organization of the supporting participatory process was centered around the Poverty Task Force (PTF) composed of government ministries, multilateral and bilateral donors, and international and local NGOs. The PTF had emerged from the poverty working group, a forum set up by the government to facilitate collaboration with the donor community and NGOs on poverty issues.

**The content of the CPRGS is widely considered to be domestically owned.** The authorities maintained a firm hand throughout the drafting process, much of which was done in Vietnamese with only selected drafts translated into English. The strategy's emphasis on human capital and poverty reduction relative to other growth considerations reflects a perception that the donor community was the target audience for the document. A notable exception is the pattern of resource allocation for the public investment plan which does not appear linked to the poverty reduction orientation of the CPRGS, and which contains a stronger emphasis on infrastructure and industrialization. With the encouragement of Japanese donors, the authorities have since amended the CPRGS to include a chapter on the contribution of large-scale infrastructure to poverty reduction.

**The participatory process in the formulation of the CPRGS was less "country driven"** with international partners (the World Bank and a group of INGOs, in particular) initially assuming a leading role in the organization and financing of public consultations. To some degree, this reflected a lack of experience with, and initial discomfort on the part of, the authorities in conducting participatory exercises of the type called for under the PRSP Initiative. Government engagement with the participatory process intensified during the formulation process, but the true extent of the authorities' ownership of, and commitment to, a participatory approach to policy making will only be tested once they take the driver's seat in future participatory consultations.

Particularly **absent from the participatory process were discussions of the macroeconomic framework and many of the associated structural reforms** underpinning the strategy. There were numerous possible reasons for this, including a lack of interest and/or expertise in discussing the macroeconomic framework on the part of organizers of the participatory exercises, the absence of a systematic effort on the part of the IMF to encourage

public discussion of these issues, and the perceived lack of pressing macroeconomic problems that would warranted the allocation of scarce time at participatory workshops.

**The relationship of the CPRGS to the existing indigenous planning processes and documents (SEDPs) remains unclear.** Donors and IFIs look to the CPRGS as the key policy document while the authorities consider this to be the role of the SEDPs. The authorities have characterized the CPRGS as an “action plan” for implementing their SEDPs. However, the lack of clear priorities among competing demands and the absence of a transparent medium-term expenditure framework (or indeed a transparent budget planning process) in which to situate the SEDPs detracts from its operational value.

More generally, and despite proactive outreach on the part of the IMF’s Senior Resident Representative, there was **a lack of clarity with respect to the role IMF staff were expected to play in the formulation of the CPRGS**. At the same time, there was broad-based interest in the IMF playing a greater role in the policy debate (i.e., extending beyond traditional official interlocutors). While not a problem in Vietnam, it was felt that this would require IMF staff to more routinely develop their capacity to discuss complex macroeconomic issues with non-economists. Furthermore, it is unlikely that the current limited resources of the resident representative office would permit meaningful and sustained participation in a broader policy dialogue.

**There has been some increase in donor coordination**, most notably with the formation of a Like-Minded Donors Group, some of which are involved in the co-financing of PRSCs. However, there exists scope to improve coordination and some major donors are (for a range of reasons) reluctant to adapt their programs to align with the strategy. That said, the breadth and generality of the CPRGS has made it relatively easy to justify most pre-existing donor activities and therefore has not constrained donors in pursuing pre-existing priorities.

**On balance, the PRSP (CPRGS) has made a positive contribution to the policy-making process in Vietnam.** It is generally seen as having helped improve inter-ministerial coordination and the increased participation promoted transparency. The CPRGS has led to improvements in the mandate and capacity of information-producing entities such as the General Statistics Office. However, the monitoring and evaluation framework contained in the CPRGS appears to have been excessively ambitious and would have benefited from streamlining and priority setting to better reflect administrative capacity.

**With respect to the adaptation of IMF-supported programs under the PRGF to reflect PRSP principles and the “key features” of PRGF-supported programs, performance was mixed.**

**Alignment of policies in the PRGF-supported program with those of the CPRGS was only partial, although it has improved over time.** This was particularly the case with respect to SOE reform where vagueness about the authorities’ priorities initially masked differences between PRGF program commitments and the authorities’ desire for a substantial and continuing role for the public sector in the economy. While there existed a range of

opinion among the authorities, the decision to maintain a substantial public sector role was based on a broadly-owned government policy derived from lengthy internal party discussions. While the IMF eventually went along with this approach, it remained concerned about the potential long-term fiscal consequences of large SOEs and tensions with the authorities in this area were not fully resolved.

At the level of the macroeconomic framework, there were persistent differences of view between staff and the authorities on GDP measurement and macroeconomic prospects. This resulted in two separate medium-term forecasts, with the authorities' forecast underpinning the PRSP and that of staff underpinning the PRGF-supported program. However, the difference of view was transparently reflected in IMF staff reports and the CPRGS.

**While program conditionality has become more focussed on the IMF's traditional areas of expertise, there was little evidence of an actual reduction in the number of structural conditions.** This is surprising in light of the widely-acknowledged strong government ownership of the announced strategy, but appears to have reflected IMF staff's concerns with the strength of the political commitment in areas such as state-owned commercial bank reform as well as the adequacy of the agreed-to reform agenda.

The more defined division of labour between the Bank and the IMF in areas of overlapping interest **complicated the design of program conditionality.** The example of Bank-Fund conditionality on SOE reform illustrates two messages. First, the debate on the overall policy direction needs to take place in the context of the PRSP or equivalent strategy document; Fund conditionality that is not reasonably well aligned with this domestically owned strategy is unlikely to be effective. Second, in areas where the Bank has lead responsibility, it may well have its own priorities for analysis and conditionality design which may create "principal-agent" difficulties in setting conditions. This was the case in Vietnam where the focus of Bank lending operations in the SOE sector was on improving efficiency and privatizing smaller state enterprises, in line with the Government's gradualist reform strategy. In this case, the effectiveness of IMF conditionality may have been further undermined by attempts by IMF staff to use quantitative conditionality on credit growth, which—while perhaps justified on its own merits in pursuit of macroeconomic objectives—was not well suited for pursuing structural reforms in the SOE sector.

Perhaps reflecting the authorities' good track record in conducting fiscal policy, **significant fiscal flexibility was integrated into the PRGF-supported program.** Higher levels of spending in priority social sectors were accommodated and these were not constrained by overly pessimistic projections of ODA flows. The authorities had significant leeway on the manner in which they could use higher-than-expected revenues. Perhaps most notable was the absence from the PRGF-supported program of quantitative conditionality (i.e., performance criteria or benchmarks) on major fiscal variables.

Under the PRGF-supported program, **budgets became somewhat more "pro poor,"** as total poverty-reducing spending increased both as a share of GDP and of total expenditure. However, it is not clear the extent to which this trend can be attributed to the PRGF-



supported program since it began well before the adoption of the program. The progressivity of the tax system was not addressed as part of the PRGF-supported program although there are plans to undertake PSIA to assess the impact of future tax reforms.

**Some effort was made to assess—*a priori*—the impact of proposed program measures on the poor and most vulnerable.** Of particular note are efforts to establish and finance a social safety for workers displaced by SOE reform. Preliminary work was undertaken to assess the social and poverty impact of trade liberalization but the analysis was of only limited value in informing policy design. Beyond these examples, PSIA did not figure prominently as an input to PRGF program design, partly reflecting IMF staff's sense that proposed reforms would not have a major negative impact on the poor. Looking forward, an agenda for PSIA work has been endorsed, including with respect to trade and tax reforms.

There have been **some improvements in Bank-Fund collaboration**, most notably at the level of information sharing and as a result of the authorities' insistence on joint missions. However, further improvement may be constrained by tensions between the degree of decentralization in the respective institutional structures of the two institutions.

At a more fundamental level, the case of Vietnam raises important questions about the **value-added of an IMF-supported program in a low-income country experiencing macroeconomic stability and no pressing financing gap**. While program financing was clearly appreciated, it is not obvious that a PRGF-supported program with higher-than-average access was the most appropriate mechanism to support sound macroeconomic performance. Most donors appear to have valued primarily the “signalling” role that the program provided, but discussions with bilateral donor representatives suggested that the absence of such a program would not have significantly affected their aid decisions.

## I. INTRODUCTION AND OVERVIEW<sup>1</sup>

1. This report reviews Vietnam's experience with the PRSP initiative and its PRGF-supported program. Our analysis is based on published and unpublished IMF staff reports, internal IMF memoranda, relevant World Bank documents, material produced by the Vietnamese authorities, evaluations undertaken by a range of international stakeholders, and interviews in Washington, Hanoi and Ho Chi Minh City with Vietnamese government officials, a broad spectrum of Vietnamese civil society, the donor community, international NGOs, and IMF and World Bank staff involved with Vietnam between 1995 and 2003.

2. Section II briefly describes the economic and social context into which the PRSP/PRGF initiative was introduced. Section III discusses the process by which the CPRGS (as Vietnam's PRSP is called) was formulated and assesses the extent to which the CPRGS conforms to key principles underlying the PRSP Initiative. Section IV reviews Vietnam's experience under IMF-supported programs, including the PRGF, and Section V reviews the conformity of Vietnam's PRGF-supported program with the key features of PRGF-supported programs. The value-added of Vietnam's PRGF-supported program is discussed in Section VI. Section VII derives a series of conclusions and lessons from the Vietnam's experience of relevance to the PRSP/PRGF Initiative more generally.

## II. COUNTRY CONTEXT

3. Vietnam was one of the first Asian countries to produce a PRSP. Its tradition of basing public policy on medium-term socio-economic planning documents and its reputation for consensus based decision-making (albeit within the framework of its single party system) made it an interesting case study for IEO's evaluation. It is also widely considered a development "success story," having reduced poverty levels in the past decade more rapidly than virtually any other low-income country.

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<sup>1</sup> IEO visited Hanoi and Ho Chi Minh City (HCMC) from June 30, 2003 to July 12, 2003 to meet with various stakeholders involved in the preparation of Vietnam's PRSP—the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). IEO was represented by Jeffrey Allen Chelsky (IEO Economist) and Soren Kirk Jensen (consultant). A list of people interviewed is attached. The evaluation team is grateful to the staff of the Fund's Senior Resident Representative Office in Hanoi for assistance in the organization and conduct of its work while in Vietnam and to Patricia Yang Yang Chen and Daouda Sembene for research assistance. Stakeholder views were also solicited through an attitudinal survey conducted separately by CONCETTI, a Vietnamese consulting firm. The evaluation reviews developments up to December 2003.

4. The Vietnamese economy experienced strong growth over the last decade, averaging just under 6 percent annually since 1996 (Table 1). During the Asian crisis, growth slowed to 3.5 percent, but recovered thereafter.<sup>2</sup> Inflation has been in the single digits since 1996, falling to negligible levels in 1999 and 2001. Central government fiscal deficits have been modest for the most part, averaging less than 1 percent of GDP per year between 1996 and 1999. They increased to over 3 percent in 2000 and 2001, reflecting increases in government expenditure (including poverty reducing expenditures).

Table 1. Main Macroeconomic Indicators, 1995-2002  
(In percent of GDP)

	1995	1996	1997	1998	1999	2000	2001	2002
Real GDP growth	9.5	9.3	8.2	3.5	4.2	5.5	5.0 <sup>e</sup>	5.8 <sup>e</sup>
Inflation (end of period) annual percent change	12.9	4.5	3.6	8.6	0.1	-0.5	0.7 <sup>e</sup>	4.0 <sup>e</sup>
Fiscal balance (excluding grants, cash basis)	-1.4	-1.3	-2.7	-2.9	-1.4	-3.3	-3.3	-2.3 <sup>e</sup>
Fiscal balance (including grants, excluding on lending, cash basis)	-0.5	-0.2	-1.7	-0.1	-0.8	-2.8	-2.9	-1.9 <sup>e</sup>
Total revenue and grants	23.3	22.9	20.8	20.2	19.8	21.1	22.7	22.9 <sup>e</sup>
Total revenue excluding grants	22.4	23.5	21.5	20.1	19.2	20.6	21.3	
Total expenditure	23.8	24.9	24.8	22.2	20.6	23.9	25.6 <sup>e</sup>	24.8 <sup>e</sup>
General government education and health expenditures				5.0	4.9	5.2 <sup>e</sup>	5.8 <sup>e</sup>	
Current account balance, excluding grants 1/	-12.8	-9.9	-6.2	-3.9	-4.5	-2.1	-2.2	-1.1 <sup>e</sup>
Gross capital formation 2/	25.4	28.1	28.3	23.7	22.4	25.3	25.6	27.2 <sup>e</sup>
Total poverty reducing expenditures 3/					5.1	5.4	6.0	6.1

Source: IMF staff.

1/ Including official transfers.

2/ Total investment.

3/ IMF estimate based on (i) current expenditure on education, training, health, and family planning and (ii) capital expenditure on education, training, health and poverty-related projects in the agriculture, transportation, electricity and water sectors.

5. Per capita income has risen steadily from US\$272 in 1996 to US\$428 in 2002. The 1997/98 Vietnam Living Standards Survey (VLSS) estimated that 90 percent of poor households live in rural areas. With growth strongly concentrated in major centers like Ho Chi Min City (HCMC), this has led to perceptions of a widening gap between rich and poor within the country. Literacy rates—at over 90 percent of the population in 1998—are high compared to other low-income countries.

6. Vietnam is one of the largest aid recipients in the world, and Japan—providing more than half of total ODA—is its largest bilateral donor. It was one of the World Bank's pilot

<sup>2</sup> Based on IMF data. The IMF and the Vietnamese authorities were unable to agree on GDP data starting in 1998. Official data, therefore, differ from IMF numbers. A discussion of the implications of this for the CPRGS and the PRGF appears below.

countries for the application of the Comprehensive Development Framework (CDF) and was also included in the World Bank's evaluation in 2002 (see Annex 2) of the CDF. It was one of the six countries chosen in 1998 as a pilot for enhanced World Bank-IMF coordination.

7. The authorities have demonstrated clear commitment to development and poverty reduction and, with the benefit of strong growth, have exercised strong leadership in setting the reform agenda. At times, however, their approach has been at odds with that of the donor community and the IMF, resulting in lengthy delays in reaching agreement on a IMF-supported program. For the most part, there has been agreement on broad reform *objectives*—for example, poverty reduction and private-sector development—but there have been disagreements on how—and how quickly—these objectives should be achieved.

### **III. PRSP (CPRGS)**

#### **A. The Government's Response to the PRSP Initiative**

8. The Government of Vietnam (GoV) initiated the preparation of an I-PRSP in July 2000. This coincided with an intense phase in the country's planning cycle. The National Congress of the Communist Party convenes every 5 years to set out the country's overall policy direction. The outcome of this is the Socio-Economic Development Strategy and Plan (SEDP). The most significant of these are the 10-year Socio-Economic Development Strategy and 5-year Socio-Economic Development Plan but there are also a number of annual and sectoral plans. In April 2001, the 9<sup>th</sup> Party Congress endorsed the 10-year SEDP for 2001-2010. The 5-year SEDP for 2001-2005 was subsequently approved by the National Assembly.

9. It is against this backdrop that the PRSP Initiative was introduced. In recognition of the considerable time needed to develop a full PRSP, and in anticipation of an eventual request for concessional support from the BWIs, the GoV first prepared an I-PRSP. This was presented to the Executive Boards of the Bank and the Fund at the same time as a PRGF-supported program and a World Bank-supported Poverty Reduction Support Credit (PRSC).

10. A poverty reduction strategy that was to have been integrated in the country's 10-year SEDP was already being developed by the Ministry of Labor, Invalids and Social Affairs (MOLISA) with World Bank assistance when the government decided to participate in the CPRGS Initiative. The decision to engage in the preparation of a CPRGS overtook MOLISA's less ambitious effort and the Ministry of Planning and Investment (MPI)—the government's focal point for ODA management and coordination—was mandated by the Prime Minister to coordinate the CPRGS. Although initially skeptical of this shift in leadership on poverty reduction, a representative of the World Bank concluded that—in the longer run—it was beneficial for the CPRGS process given that the MPI was better placed to situate the exercise centrally in the Vietnamese policy agenda.

11. The Prime Minister specified that MPI should produce a CPRGS in association with relevant ministries. This led to the creation of the Drafting Committee, composed of 52 members from 16 different ministries and agencies. Some members subsequently established

internal working groups or organized workshops within their ministries or agencies to elaborate on specific elements of the CPRGS. These subgroups often included external stakeholders, including international organizations that could support MPI in preparing the CPRGS.<sup>3</sup> The Drafting Committee, under the leadership of MPI, played an important role throughout the PRSP preparation phase leading to the finalization of the CPRGS in May 2002. Key events in the preparation of the CPRGS are illustrated in Figure 1.

## **B. The Participatory Process**

12. In 1999, prior to the launch of the PRSP Initiative and in response to a recommendation from the World Bank, the government set up a forum to facilitate collaboration between the donor community, the Government, and NGOs on poverty issues.<sup>4</sup>

13. The forum was initially called the Poverty Working Group (PWG). As membership expanded, it developed into more of an information sharing forum (which now represents the entire donor/NGO community). The work of the PWG was then transferred to the Poverty Task Force (PTF) which was created to maintain operational focus.<sup>5</sup> This group began work on participatory approaches in an effort to create a more informed basis for policy dialogue on fighting poverty. With support from the PTF and a group of INGOs, the World Bank carried out four Participatory Poverty Assessments (PPAs).<sup>6</sup> The INGOS subcontracted some of the work to local NGOs or enlisted assistance from local research institutes. The exercise culminated in the publication of the PWG's *Vietnam—Attacking Poverty*,<sup>7</sup> presented to the December 1999 meeting of the Consultative Group (CG).

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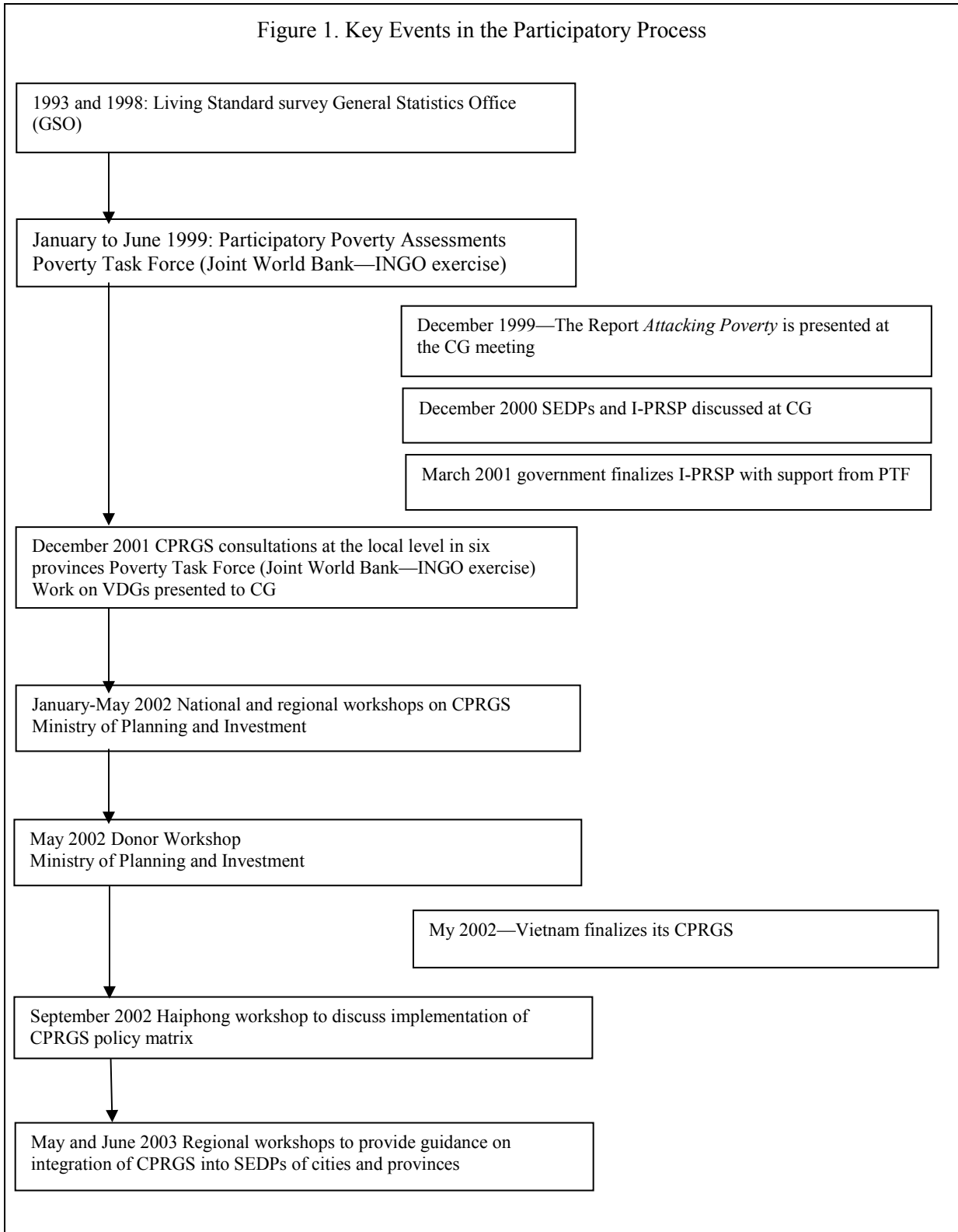
<sup>3</sup> For example, the Ministry of Health received support from the World Health Organization in preparing its input to the Poverty Task Force.

<sup>4</sup> The activities stemming from this decision are described in detail in “Case Study 3: Vietnam Process Document of the Country Experience—Draft for Discussion,” Action Learning Team of the Participation Thematic Group in the Social Development Department of ESSD Network, World Bank, November 2000. Available at: <http://www.worldbank.org/participation/web/webfiles/reference.htm#processcase>

<sup>5</sup> The PTF has been the main driving force behind the participatory process in Vietnam. For a more in-depth introduction to this forum, see footnote 3 and SGTS (2000). In 2001, the PTF was composed of 16 Government ministries, 6 donors (3 multilateral, 3 bilateral) 4 INGOs and 4 local NGOs.

<sup>6</sup> For more about PPAs in Vietnam see: [http://www.vdic.org.vn/eng/cprs/pov\\_anal001.htm](http://www.vdic.org.vn/eng/cprs/pov_anal001.htm).

<sup>7</sup> Available online at: <http://www.vdic.org.vn/eng/pdf/attpov.pdf>.



14. Civil society involvement was dominated by mass-organizations which participated as an extension of their traditional role in the policymaking process (see Box 1 on Civil Society in Vietnam). Interviews with some of these organizations (e.g., the Farmer’s Union and the Labor Confederation) suggested, however, that they were more focused on their own *pre-existing* development programs rather than with the formulation and implementation of a new, more broadly-based, CPRGS. We base this observation partly on our sense that—beyond insisting on the importance of the CPRGS and the consistency of their programs with the CPRGS—their awareness of CPRGS content was quite limited.<sup>8</sup>

**Box 1. Civil Society in Vietnam 1/**

Organized civil society in Vietnam is composed of so-called “mass-organizations,” non-government organizations (NGOs) and community-based organizations (CBO). The extent to which these organizations are able to operate independently of the government is constrained by policies limiting discussion outside officially-sanctioned venues. However, the GoV has indicated its intention to strengthen the role of local organizations through the implementation of the Grassroots Democracy Decree.

Mass-organizations are membership-based organizations closely affiliated with the structure of the State and sponsored by the Communist Party. The most significant are the Women’s Union, Farmer’s Union, Labor Confederation, and Youth Union. They implement their own development programs and have an extensive network reaching the local level. They play a consultative role to the Government with representation in National Committees and other forums where policies of concern to their members are discussed.

Independent NGOs are a relatively new phenomenon in Vietnam and, with only a handful of organizations, they play a limited role in the policy process. They operate under a number of constraints. Donors made efforts to get them to participate in the 1999 CG meeting but the Government was uncomfortable with this and invited mass-organizations to participate instead. There are, however, also examples of co-operation between government and NGOs, particularly at the local level.

CBOs constitute another element of organized civil society. These can be special purpose cooperatives, savings and credit associations, medical volunteers, village development committees etc. Their degree of independence varies from case to case. They have no formal role in policy making but have been able to voice concerns through the participatory exercises.

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1/ This box is partly based on interviews by the evaluation team and on SGTS and Associates.

15. Domestic NGOs and community-based organizations (CBOs) are generally considered to operate more independently than the mass-organizations. They did, however, play a relatively limited role in CPRGS formulation due to many of the constraints described below, as well as the absence of an umbrella organization to facilitate contact with NGOs that may have been interested in participating. As a result, no local NGOs were formally

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<sup>8</sup> This is consistent with a study commissioned by DfID (UK) of civil society participation in Vietnam in which the work of mass-organizations was characterized in the following way: “The main focus within these structures does not seem to be the development and articulation of policy options, but rather meeting the practical needs of their members,” *“Civil Society Participation in PRSPs, Vietnam Case Study,”* SGTS and Associates: (Hanoi, June 2000).

enlisted to carry out the participatory consultations. To a significant degree, the interests of local NGOs were promoted by INGOs, which are not subject to many of the constraints faced by their domestic counterparts.<sup>9</sup> That said, local NGOs—including those working in rural development, reproductive health, legal rights, gender issues and environment—attended and participated in a number of regional work shops and took part in PPA-related research. They do not appear to have been consulted in the formulation of the PRGF-supported program.

### **Government involvement in the participatory process**

16. The I-PRSP was produced to avoid delays in obtaining financial assistance.<sup>10</sup> I-PRSPs were not expected to be based on broad participatory exercises and this was certainly the case in Vietnam. However, they were supposed to show commitment to a timeline and a consultative process from which the full PRSP (CPRGS) would emerge.<sup>11</sup> The Joint Staff Assessment (JSA) of Vietnam's I-PRSP criticized the document for not outlining “in any detail the participatory process envisaged in developing a full PRSP.”<sup>12</sup>

17. The GoV became gradually more engaged in the process during the elaboration of the CPRGS. This was evidenced over time by more active involvement of the MPI in, and leadership of, the PTF. Reflective of the emerging role of the GoV, the MPI organized four regional workshops just before the finalization of the CPRGS. These were targeted mainly at representatives of provincial and district line departments and brought together about 500 officials from most of Vietnam's 61 provinces. Views within the donor community on the value of these workshops were mixed, with some representatives suggesting that MPI lacked the skills or was unwilling to engage in a two-way dialogue while others described the debate in the workshops as “vigorous.”<sup>13</sup>

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<sup>9</sup> For an illustration of this in the education sector, see Terme (2003), Section C.

<sup>10</sup> This is consistent with CIDSE/Caritas International's review of the Vietnam experience in which concludes that “the Government of Vietnam appears to see the PRSP process as a means to receiving funding rather than a process with an intrinsic value.” The authors base this conclusion on their sense that the participatory processes which were built around the initial consultation had not been sustained.

<sup>11</sup> IDA/IMF (1999): Poverty Reduction Strategy Papers – Operational Issues. Available at [http://poverty.worldbank.org/files/operational\\_issues.pdf](http://poverty.worldbank.org/files/operational_issues.pdf).

<sup>12</sup> IDA/IMF (2001): Vietnam, Interim Poverty Reduction Strategy Paper Joint Staff Assessment. <http://www.imf.org/external/np/jsa/2001/vnm/eng/032201.pdf>.

<sup>13</sup> Similar observations were made by CIDSE and Caritas International. They criticized the participatory process in Vietnam for being carried out “under donor pressure” by a Government which “insisted that [it] already knew the answers to the questions being

(continued)



18. On balance, the picture that emerges is that of a domestic participatory process launched, financed, organized, and (at least initially) run, by international stakeholders. Domestic stakeholders outside government played a limited role while government—perhaps reflecting an initial skepticism about the process and its value added relative to its own planning processes as well as the newness of the approach—shifted from passive to active engagement only over time. The relevance of this more generally is discussed in Section F in assessing the extent to which the CPRGS emerged from a “country-driven” process.

### **Discussion of macroeconomic framework or related structural policies**

19. During a planning workshop in Sa Pa in July 2000 (part of the earlier process led by MOLISA), there was an effort “to begin looking at links between the ongoing work on macroeconomic and structural policies with the ongoing work on sectoral strategies.”<sup>14</sup> Beyond that, there was no organized participatory discussion of the macroeconomic framework or related structural adjustment policies. Our interviews<sup>15</sup> indicated that—in consultation with the GoV—the organizers of the participatory consultations decided to omit key policy issues associated with macroeconomic management and structural reform (e.g., banking sector reform and the macroeconomic framework) from the agenda for the CPRGS participatory exercises. While not a member of the organizing group, IMF staff were no doubt aware of this decision. However, it does not seem that the Fund—or any other major stakeholder group, for that matter—expressed any serious concern with this decision to the authorities or organizers of the participatory exercise.<sup>16</sup> As a result, key macroeconomic and structural policies that formed part of the CPRGS and PRGF were not discussed with stakeholders outside government and the IFIs.

20. In explaining the motivation for excluding macroeconomic issues from the agenda of the participatory exercises, a World Bank representative suggested the decision was based—in part—on a sense that organizers did not possess the skills to lead such a discussion. More generally, there was a perceived shortage of skills to translate core macroeconomic issues into language that would be relevant to a broader group of stakeholders (certainly non-

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addressed.” More generally, they argued that the Government’s “interpretation of participation was limited to consultation and information exchange.”

<sup>14</sup> World Bank (2000).

<sup>15</sup> See also Shanks and Turk (2003), page 16.

<sup>16</sup> While few domestic stakeholders with whom we spoke raised serious concerns with macroeconomic issues generally, a notable exception was with respect to trade reform. Here, the Farmers’ Union was concerned with the limited access of their products to markets in developed countries and with price fluctuations in the price of primary products. Government officials raised trade issues more frequently, including with respect to recent U.S. trade actions against Vietnamese cat fish producers.

economists). Many of those with whom we met emphasized the need to take a more “poor-friendly” approach to participation in which macroeconomic issues would be presented simply and concretely, and in terms that related directly to the interests of those being consulted (e.g., creation of employment opportunities). In effect, what was needed was for someone to “connect the dots” between complex macroeconomic issues and poverty reduction. While outside of the formal CPRGS context, the IMF Senior Resident Representative made (highly appreciated) efforts in this regard, it does not appear that these efforts were systematically integrated into the CPRGS participatory process.<sup>17</sup>

21. In addition to a communication “skills gap,” we came across a range of alternative explanations for the apparent lack of interest among stakeholders in a broad-based discussion of the macroeconomic framework. A representative from the Ministry of Finance suggested that having MPI (which did not have primary responsibility within the Government for the macroeconomic policy framework) as the focal point for the Government’s efforts on the CPRGS could explain the lack of interest. Some IMF staff expressed a related concern, noting that MPI may have lacked the ability to engage in a meaningful discussion of the macroeconomic framework and was not particularly open to the views on this topic of other agencies—even within government—with equal or better expertise. It was also suggested that—given the limited time available at regional participatory exercises—organizers wanted to focus on issues of more direct regional (rather than national) relevance.

22. One of the most common explanations for the lack of interest in discussing macroeconomic and related structural policies was that, since Vietnam did not have pressing macroeconomic problems and the authorities were obviously committed to maintaining stability, there was little need for a participatory discussion of the macroeconomic framework in the formulation of the CPRGS. While it is true that Vietnam was experiencing macroeconomic stability and strong growth, negotiations between the Fund and the government on the medium-term macroeconomic framework were not without controversy and were, according to at least one government source, “very tough.” For example, because it was not possible for Fund staff and the authorities to reconcile their perspectives, the CPRGS document presented two different medium-term macroeconomic projections (the authorities’ and the Fund staff’s projection from the PRGF-supported program).<sup>18</sup> While this

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<sup>17</sup> See, for example, “Progress of the IMF in Vietnam: How do Macro Reforms Connect to Human Development and Poverty Reduction,” presentation by Susan J. Adams, Senior IMF Resident Representative in Vietnam to the Development Coordination Committee, Hanoi, <http://www.imf.org/external/country/VNM/rr/sp/031203.pdf> .

<sup>18</sup> A discussion of these differences could have been brought into the open, in a manner understandable to non-economists, to clarify the nature of the disagreement and the basic assumptions underlying the different frameworks. For a more detailed discussion of this issue, see Section 5A on Aligning the Macroeconomic Framework.

disagreement could have complicated a broad participatory approach to discussing the issues, it should not necessarily have precluded it.

23. Given the absence of a major stakeholder advocating for an open and participatory discussion of the macroeconomic framework, it is fair to ask whether its absence made any significant difference. If one were to look at the CPRGS as a “one-off” exercise, it is not obvious that the omission seriously undermined the quality of the CPRGS. As suggested, there were other priorities to be discussed and time spent discussing the macroeconomic framework was not without an opportunity cost.

24. However, if we view the PRSP process in a dynamic sense, a broader discussion on macroeconomic policy would have been of value. Particularly where many key stakeholders are unfamiliar with macroeconomic issues and their relevance for poverty reduction, a structured discussion could have contributed to longer-term capacity building and to a better understanding of potential policy tradeoffs and the links between macroeconomic policy and poverty reduction. Of course, expectations of what such a process can achieve in the short term need to be tempered by a recognition of the political context in Vietnam, but that is equally true for other policy issues. Without question, it is the authorities who are ultimately accountable for the structure and content of the participatory exercise. However, this does not imply that other major stakeholders—and the IMF, in particular—have no role to play in pointing out the costs and benefits of bypassing such issues.

### **Role of the Fund in the participatory process**

25. There was a widespread consensus among stakeholders with whom we met that—at a general level—the office of the IMF’s Senior Resident Representative had undertaken extensive outreach and had actively participated in meetings of the Poverty Working Group<sup>19</sup> and in Consultative Group (CG) meetings. Despite the size of the office and its limited resources,<sup>20</sup> it was noteworthy how near universal were expressions of appreciation for its outreach efforts (independent of the CPRGS participatory process), and for its efforts to explain links between macroeconomic issues and poverty reduction. That said, it is noteworthy that, while *consistent* with the Terms of Reference for the Senior Resident Representative, the level of outreach could easily be considered a very proactive interpretation of those Terms of Reference (see Box 2).

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<sup>19</sup> The IMF is not a member of the smaller PTF.

<sup>20</sup> The IMF office in Hanoi is composed of a Senior Resident Representative and four local staff. A theme that was repeated in meetings with donors and the authorities was the value of strengthening the IMF’s presence “on the ground” as a resource for donors and the government, for longer-term technical assistance, and as a counter balance to the significant World Bank presence in Vietnam. This was also one of the recommendations contained in the Nordic evaluation of the CPRGS in Vietnam (see Annex II).

## **Box 2. Terms of Reference for the Senior Resident Representative in Vietnam**

According to the Terms of Reference, some of the main tasks and responsibilities of the Senior Resident Representative in Vietnam are to:<sup>1/</sup>

- Facilitate the work of the Fund with Vietnam in “all areas;”
- Explain the policies and work of the Fund to the Vietnamese authorities and to a broader community of interested Vietnamese;
- Be the focus of working level cooperation and exchanges with other international organizations in Vietnam;
- Facilitate Fund TA to Vietnam and promote institutional building;
- Maintain informal contacts with “representatives of commercial banks and other financial institutions and with members of the business community and NGOs.”

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<sup>1/</sup> IMF, drafted June 2001.

26. Engagement within the CPRGS framework was more limited. Staff from the Resident Representative’s office attended a number of public events and were invited to participate in some of the regional “roll out” working group although the macroeconomic framework *per se* was not included on the agendas of these events. With respect to the “roll out” exercise, and given the Fund’s focus on macro/national level indicators and targets, it was not actively involved at the provincial and local levels.

27. Domestic stakeholders, INGOs and donors perceived the contribution of missions from IMF headquarters in a markedly less positive manner, with interlocutors from all major stakeholder groups not convinced that there had been much change in the Fund’s “way of doing business.” Missions were not seen as very accessible nor were they viewed as having a sufficient understanding of the Vietnamese context (although a number of those with whom we have met indicated that this has improved in recent years). They were often seen as driven by a desire to negotiate “tough” programs rather than to foster ownership and dialogue. Of course, these differences in perceptions reflect in part the different roles of missions from headquarters and the resident representative. Outreach efforts of the former are inevitably more limited given time pressures. Moreover, it is the mission leader—not the Resident Representative—who is responsible for taking the difficult decisions on program parameters. However, what was noteworthy was the prevalence and consistency of these views across a broad range of stakeholders and the desire to see a larger role played by the Senior Resident Representative in the Fund’s decision making process.

28. Taken as a whole, and as noted above, the Fund was not particularly proactive in encouraging structured discussions of the macroeconomic framework in the CPRGS participatory process. Granted, there are constraints to open public debate in Vietnam. At the same time, where efforts had been made (outside the CPRGS framework) to raise macroeconomic issues with stakeholders outside of central government agencies, these appear to have been highly appreciated.

29. It is difficult to speculate on the possible impact that a more proactive IMF role in the participatory process could have had. As suggested, the ability of much of civil society to participate in discussion of macroeconomic issues was also constrained by a lack of technical capacity. Our interviews revealed strong demand—both within and outside of government—for technical assistance to foster understanding of, and interest in, macroeconomic issues. This suggests that (at some level) there is a desire to engage in macroeconomic discussion to which an IMF contribution would be welcome. In any event, there were no clear guidelines at the time for staff on how to encourage participatory discussions of relevant macroeconomic issues.

30. One example of the Fund contributing to greater public dialogue on economic reform was the decision of the authorities to break with past practice and publish the staff report for the IMF-supported program in 2001. They have since consented to publication of subsequent reviews and the Article IV Consultation report for 2002.

### C. Joint Staff Assessment of the CPRGS

31. One of the intended purposes of the JSA is to provide the respective Executive Boards with an assessment of whether or not the PRSP represents an appropriate basis for concessional assistance to a member country. Concurrently, the JSA suggests how the country strategy might be improved. The four core elements that a PRSP is expected to address are: (i) description of the participatory process; (ii) poverty diagnosis; (iii) targets, indicators, and monitoring systems; and (iv) priority public actions. Supportive comments were received on the draft JSA for Vietnam from bilateral, multilateral, and NGOs members of the Poverty Working Group at an open meeting. A draft JSA was informally shared with the GoV (although no specific comments were received).

32. The JSA addressed most of the core elements although it did not describe what were the major *issues* raised during the participatory process. The document contained an extensive description of the participatory process, coming to a positive assessment of country ownership which went beyond the mere *description* called for in the JSA guidelines. However, this assessment understated the leading role taken by international stakeholders in the organization and financing of the participatory process, leaving the impression that the participatory process was more country-driven than was actually the case. A number of those with whom we spoke—noting the government’s capacity constraints and lack of experience in conducting a broad based participatory exercise—described a process strongly led by the World Bank, albeit at the request or with the support of the authorities. According to some World Bank observers, “MPI lacked the time and resources to conceptualize and manage the work...the World Bank had some experience in this sort of work and resources (financial and human) available to support.”<sup>21</sup> While there may well have been legitimate reasons for

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<sup>21</sup> Shanks and Turk (2003).

international stakeholders to have taken the lead, a more candid acknowledgement in the JSA of the government's role would have been appropriate.

33. The JSA succinctly discusses risks associated with the implementation of the strategy. These include the possibility of exogenous and domestic economic shocks, the failure to complete some key reforms in a timely manner and, most importantly, the risk that the CPRGS might not represent to domestic stakeholders the key guiding document of their poverty reduction activities given the existence of national planning documents such as the 5- and 10-year SEDPs.<sup>22</sup>

34. It is noteworthy how few stakeholders made reference to the JSA in our interviews. Those that did suggested that the JSA had little significance. While, as indicated above, the JSA for the I-PRSP may have provided the authorities with guidance on how to refine the I-PRSP (e.g., it may have prompted greater attention to governance and gender issues in the full CPRGS), it appears to have had little profile within the country or among donors.<sup>23</sup> There are a number of possible explanations for this. Any significant concerns that donors had with respect to the authorities' medium-term policy agenda could have easily been raised in the context of well-established channels (e.g., Poverty Task Force and working groups) on which donors, the authorities and civil society were represented. This in itself would have lessened the value-added of the JSA. Alternatively, the strong and widely-acknowledged ownership of the reform process by the authorities as well as the country's excellent track record in reducing poverty may have had the effect of lessening the relevance of an external commentary of the CPRGS. Finally, a few observers suggested that the concerns expressed in the JSA were of secondary importance to a donor community more focused on maintaining active engagement with a development "success story."

#### **D. Implementation and Monitoring**

35. The GoV has made several institutional changes to facilitate the implementation and monitoring of the CPRGS.<sup>24</sup> It organized an inter-ministerial steering committee to monitor implementation headed by the deputy prime minister. Each ministry has responsibility for monitoring implementation in its area of responsibility and to report back to the steering committee using a set of indicators specified in the Appendix I of the CPRGS. A new law on

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<sup>22</sup> In interviews, a number of IMF staff indicated that they did not consider the SEDPs to represent viable medium-term planning documents (at least not from the standpoint of economic policy) and had therefore never given them much consideration in the context of earlier program design or policy advice.

<sup>23</sup> It is too soon to assess the extent to which shortcomings in the CPRGS identified in the JSA will result in changes to subsequent versions of the CPRGS.

<sup>24</sup> These are described in depth in Part VI of the CPRGS.

statistics was to be passed to encourage the production and dissemination of data to improve the quality of policy analysis.

36. At the time of IEO's visit, the government was carrying out a "roll out" exercise in an effort to disseminate the messages of the CPRGS and initiate a process of integrating these into provincial planning. Donors and the World Bank considered the main value added of this exercise to be that it extends the CPRGS process and highlights the need to strengthen the collection and analysis of data at the provincial level. However, institutionalization of monitoring and evaluation of implementation was still at an early stage. The UNDP and World Bank are supporting work in this area and the latter is planning on analyzing Vietnam's traditional poverty monitoring system.

37. The CPRGS presents an extensive system of 136 indicators to monitor inputs and outputs at both the program and aggregate levels. It is based on, *inter alia*, information collected by the GSO in the context of bi-annual housing living standards surveys as well as consultations organized by independent research organizations to collect and analyze data. There has been progress in developing the monitoring system (including legislative changes to the function of the GSO and a decision to participate in the IMF's General Data Dissemination Standard (GDDS)). However, the framework of indicators for use in monitoring the linkages between policy measures and outcomes was not in place as of end 2003. While considerable information has been collected and a preliminary data base was completed, only two-thirds of the 136 indicators have been collected. For the remaining indicators, either no information was available or the quality of available information was deemed inadequate for use.

38. The slow pace at which the system of indicators is being put in place suggests that there a tradeoff in the monitoring and evaluation of PRSP/CPRGS implementation between comprehensiveness and the need for a core set of priority indicators that are manageable and available on a timely basis. That no information is available for almost one third of the indicators more than a year after the adoption of the CPRGS suggests that the initial framework may have been overly ambitious.

39. This could be due to a failure by the authorities and/or their partners to make a realistic assessment of administrative capacity constraints and the limits of what technical assistance could provide over the near term. Alternatively, the multiplicity of indicators could have been the result of an effort to respond to the broad range of priorities among a large number of domestic and international stakeholders.

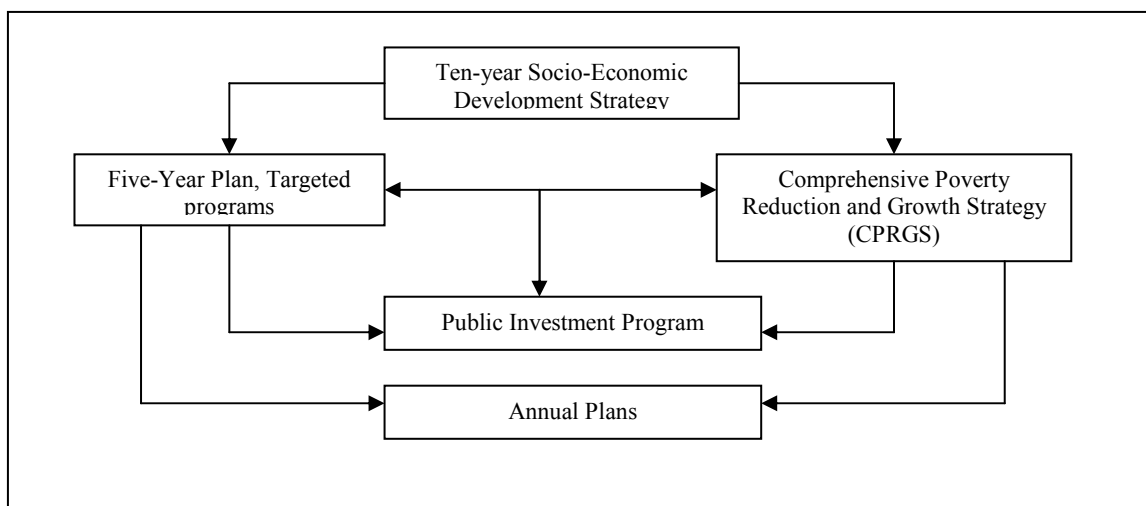
40. Regardless of which, the results-based nature of the PRSP/CPRGS, and the importance of establishing the credibility of the exercise early on, points to the desirability of a more manageable set of indicators which can be concisely and transparently monitored and presented. To the extent that a smaller set of indicators might not address all important priorities, scope would always exist to expand the range of indicators once experience with the initial framework and administrative capacity developed.

## E. CPRGS Content

### Links between the CPRGS and the Socio-Economic Development Plans (SEDPs)

41. Government officials and the CPRGS document describe the CPRGS as an “action plan” for implementing the 2001-2010 SEDPs and the 2001-2005 SEDP. As noted, the SEDPs are derived from Vietnam’s indigenous planning process (Figure 2). Therefore they represent an important benchmark against which ownership of the CPRGS can be assessed. While there are clear links between the content of the three documents, this evaluation finds that, as an action plan, the CPRGS falls short given that in some important areas the strategy is not sufficiently specified to be operationally useful (with an important example being SOE reform).

Figure 2. The Strategic Planning Framework in Vietnam



Source: The Comprehensive Poverty Reduction and Growth Strategy, Socialist Republic of Vietnam (2002).

42. The documents broadly address the same issues but there are clear differences in emphasis. While the CPRGS places more emphasis on what the international community considers to be “pro-poor,”<sup>25</sup> the two SEDPs emphasize an approach to economic development more directly grounded in industrialization and modernization. The CPRGS does refer to development in the agricultural/rural sector and industrial/urban development but it does not, for example, contain the concrete targets for the share of agriculture, industry and service that are established in the SEDPs. Although education, health, culture, environment and science and technology are addressed as important elements of the country’s development process in the SEDPs, they are of secondary importance relative to the CPRGS (see Table 2).

<sup>25</sup> For example, through a more explicit focus on education, health, and social safety nets.



Table 2. Comparison of the Sectoral Focus in the 10-Year SEDS and the CPRGS

10-Year SEDP: Sectoral economic development	CPRGS: Major policies and measures to develop sectors and industries
<ul style="list-style-type: none"> <li>• Agriculture, forestry, fishery, and rural economy</li> <li>• Industry and construction</li> <li>• Infrastructure (energy network and highways)</li> <li>• Services (commerce, transportation, post and telecommunications, and tourism)</li> <li>• Social sector development.</li> </ul>	<ul style="list-style-type: none"> <li>• Agriculture and rural economy</li> <li>• Industry and urban development</li> <li>• Infrastructure (opportunities for poor areas)</li> <li>• Education system</li> <li>• Health services and family planning</li> <li>• Culture</li> <li>• Environment</li> <li>• Social safety nets</li> <li>• Cross cutting: gender and ethnic minorities</li> </ul>

Source: Ten-Year Socio-Economic Development Strategy and Comprehensive Poverty Reduction and Growth Strategy.

### Public investment priorities and the CPRGS

43. The public investment plan (PIP) in the CPRGS (Table 3) sets out a range of scenarios for the period 2001 and 2005—the first reflecting minimum perceived investment needs; the second reflecting allocations with greater resource mobilization. The plan appears to more closely reflect the priorities contained in the SEDPs rather than those of the CPRGS, a view expressed by a number of the donors with whom we met. Most notably, *industry and construction*, which is dominant in the SEDPs, receives more than 40 percent of total public investment. Investments related to healthcare, training, education, science and technology collectively receive less than 10 percent. CPRGS sectoral priorities, on the other hand, are *agriculture and rural development, health care, training and education, transport, science and technology, and projects that directly target poverty reduction*. There is a modest shift in the sectoral balance of the PIP between the two scenarios with the second scenario allocating somewhat more to education, health and social safety nets. While this is consistent with a desire to allocate incremental resources to priority social sector spending, it does not significantly change the overall priorities reflected in the PIP.

44. The JSA illustrated an awareness of this issue noting that “donors hoping to align their assistance strategies to the CPRGS will expect to see, over time, fuller integration of the government’s five- and ten-year planning documents, annual and multi-year budget documents and plans, and the public investment program.” However, no specific plans exist along these lines, nor is it clear which policy priorities should guide such an integration.

Table 3. Public Investment Capital Allocation in CPRGS

	1996-2000 (actual)		Plan 2001-2005			
			Minimum		With additional resources	
	Trillion VND	Percent	Trillion VND	Percent	Trillion VND	Percent
<b>Total</b>	<b>555.0</b>	<b>100</b>	<b>840.0</b>	<b>100</b>	<b>980.0</b>	<b>100</b>
Agriculture, forestry, fishery, irrigation	63.0	11.4	109.2	13.0	133.0	13.5
Industry and construction	238.0	43.0	369.6	44.0	406.0	41.4
Transportation and post	85.4	15.4	126.0	15.0	147.0	15.0
Housing, public services, water supply	82.6	15.0	117.6	14.0	126.0	12.9
Technology, science, environment, surveys	2.8	0.4	5.6	0.6	14.0	1.4
Education and training	15.4	2.7	30.8	3.7	42.0	4.3
Health and social affairs	8.4	1.5	16.8	2.0	28.0	2.9
Culture, information, and sports	7.0	1.3	14.0	1.7	21.0	2.1
State management	18.2	3.2	26.6	3.2	28.0	2.9
Other sectors and activities	33.6	6.1	23.8	2.8	35.0	3.6

Source: Socialist Republic of Vietnam (2002).

## F. Key Principles of the PRSP Initiative

45. This section provides IEO's assessment of CPRGS conformity with the key principles underlying the PRSP approach.<sup>26</sup>

### Was the CPRGS the result of a country-driven process?

46. As argued, the CPRGS initiative was adopted by the Vietnamese authorities partly in an effort to obtain concessional resources from the World Bank and the IMF.<sup>27</sup> This occurred amidst a tradition of indigenous policy planning. While this provided an opportunity to tailor the CPRGS to an existing planning process, it also created scope for duplication in policy

<sup>26</sup> IDA/IMF (1999): Poverty Reduction Strategy Papers – Operational Issues, Box 1. Available at [http://poverty.worldbank.org/files/operational\\_issues.pdf](http://poverty.worldbank.org/files/operational_issues.pdf). The core features are that the strategy is country driven with broad-based participation, results and partnership oriented, comprehensive, and based on a long-term perspective of poverty reduction.

<sup>27</sup> This is consistent with the results of our survey which showed that donors were most satisfied with the extent to which the CPRGS was altered to accommodate their views.

planning. Nevertheless, the participatory process was generally seen as a worthwhile experience by most stakeholders interviewed by IEO.<sup>28</sup>

47. Initially, the GoV did not play a significant role in the process, which was (for the most part) financed and organized by the World Bank and a group of international NGOs. As noted, this was not necessarily due to the GoV opposing a participatory process but rather the result of limited skills and resources to conduct a participatory exercise, a view supported by the authorities who argued that they needed to learn from external practices before being able to take a more active role. Some Bank and IMF staff were also concerned that the formation of the CPRGS would not be sufficiently reflective of the views of relevant stakeholders in the absence of World Bank support for the participatory process. World Bank observers had some reservations with the proactive role taken by the Bank but were of the view that these concerns were “no longer an issue” given the GoV’s increased involvement in later stages. While our interviews suggest at least some residual concern with how best to balance the trade off between a “better” PRSP/CPRGS and the learning-by-doing and ownership considerations of creating space for the authorities to lead (and be perceived to lead) the participatory process.

48. As noted, the GoV (and MPI, in particular) did take a more active role along the way. Towards the end of the process, MPI organized a number of regional workshops. Some of the donors which we met suggested that this coincided with a realization on the part of the authorities of the value of the participatory exercise for their own planning efforts. At the same time and despite the existence of a governmental drafting committee with broad membership, some INGOs were concerned that CPRGS ownership was concentrated with MPI and that only a few other ministries were active in the formulation process. While there is evidence that this may be the case, it should also be recognized that the CPRGS process—according to many of these with whom we met—improved inter-ministerial coordination and thereby broadened the government’s approach to policy making. The IEO/OED survey of CPRGS stakeholders (see Annex II) indicated that domestic stakeholders (including the GoV) considered the CPRGS process to have been largely country-driven, with almost three quarters of respondents indicating that they felt engaged in the process.

49. The PRSP initiative is based on the principle that, to sustain implementation of the strategy, the PRSP has to be based on broad civil society participation. However, the involvement in the CPRGS formulation of independent domestic stakeholders was limited, partly reflecting the limited role such organizations play in Vietnamese civil society. This was reflected in our survey where, relative to other stakeholders, civil society was least

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<sup>28</sup> Just over half of respondents to our survey indicated that the CPRGS improved on past modalities.

satisfied with the extent to which it was consulted.<sup>29</sup> Moreover, the CPRGS was not debated in the National Assembly, a concern identified in the JSA, although the draft CPRGS was distributed to the Economic and Budget Committee of the National Assembly and the National Assembly did request copies of the CPRGS.

50. Several government officials suggested that an operationalization of existing SEDPs through the articulation of an “action plan” like the CPRGS would have been required had there been no CPRGS-initiative (although it is unlikely that this would have involved a participatory process). The fact that the CPRGS was drafted by a committee consisting of representatives from a broad range of ministries and government agencies and that it was initially drafted in Vietnamese (with later versions translated into English) also bears witness to the extent of government ownership.<sup>30</sup> It is noteworthy that—in key areas of disagreement with Bank and Fund staff—for example, macroeconomic forecasts and the goals of SOE reform—the government was not constrained in presenting its views in the CPRGS.

### **Is the CPRGS results-oriented?**

51. As noted, the CPRGS outlines a set of 136 monitoring indicators and contains a timetable for implementation of policies during 2003-2005. The set of monitoring indicators was often referred to, especially by government officials, as the main value added to the CPRGS initiative. Given the large number of indicators, it remains unclear how the government will prioritize the implementation of the development objectives and measures. Moreover, concern was expressed that there was inadequate capacity at the local and regional levels to monitor such a large number of indicators, a concern borne out by the slow progress noted in the CPRGS Progress Report in obtaining information on a number of the indicators. This constraint has been recognized by some donors, and the World Bank is in the process of implementing a pilot project on the application of CPRGS indicators. Our survey results suggest that domestic stakeholders (both government and civil society) were only marginally confident that there was an effective structure in place to monitor results; international stakeholders are considerably more pessimistic.

### **Comprehensiveness of the CPRGS**

52. The CPRGS considers poverty in Vietnam to be caused by factors related to demographics, ethnicity, gender, and educational attainment. Poverty is also seen as the other side of the rapid economic growth the country has enjoyed throughout the last decade but which has had a negative impact on the poor in certain areas. As such, the CPRGS

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<sup>29</sup> The highest ratings came from the donor community, which was quite positive on the extent to which they were consulted and (albeit to a lesser extent) the extent to which the CPRGS was altered to accommodate their views.

<sup>30</sup> MPI (2002), *The Process of the Comprehensive Poverty Reduction and Growth Strategy in Vietnam*. Available at: [http://www.mpi.gov.vn/website\\_oda/english/QuanheDT/quanhe.asp](http://www.mpi.gov.vn/website_oda/english/QuanheDT/quanhe.asp) .

acknowledges that while economic growth broadly contributes to poverty reduction, the distribution of its benefits depends on the “character” of growth.

53. Another way to assess comprehensiveness is by comparing issues raised in the CPRGS with those discussed in the various socio-economic development plans (SEDPs). Our assessment is that—while the emphasis differs between the CPRGS and the SEDPs—the issues addressed are essentially the same (although, as noted above, there was poor alignment with public investment plans).

54. Japanese donor agencies—by far the largest providers of ODA to Vietnam—had expressed concern that “large-scale” infrastructure was not sufficiently dealt with in the CPRGS, despite the authorities wanting to play up the “growth” dimension of their strategy.” They considered the CPRGS to have focused too heavily on the poverty reduction aspects of the strategy, while neglecting growth.<sup>31</sup> They attributed the omission to their sense that—as the first PRSP in the region, with no clear model to follow—the CPRGS was still “evolving.” On the other hand, other international stakeholders saw the GoV’s decision to include a chapter on “large-scale” infrastructure to have been motivated by optics related to the need to facilitate closer alignment of Japanese assistance with the CPRGS (rather than due to a lack of comprehensiveness in the original document).

55. The CPRGS does discuss the importance of infrastructure to growth and poverty reduction (including electricity provision, roads and bridges (particularly in rural areas), small-scale irrigation, information networks in the countryside and kindergartens/nursery schools).<sup>32</sup> However, it does not mention “large-scale” infrastructure *explicitly* even though it draws heavily on the five-year SEDP and provides explicit costing of infrastructure needs in, for example, road improvement and building heavy industry infrastructure in the oil and gas sector and in telecommunications). However, not all these plans are identified in the CPRGS as “Priority Directions” for the period 2001 to 2005.<sup>33</sup>

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<sup>31</sup> A fuller discussion of the importance of large-scale infrastructure can be found in *Linking Economic Growth and Poverty Reduction—Large Scale Infrastructure in the Context of Vietnam’s CPRGS*, Japan Bank for International Cooperation (JBIC), June 2003.

<sup>32</sup> As part of the Poverty Task Force’s series *Localizing MDGs for Poverty Reduction in Vietnam*, a paper was prepared in June 2002 by the Hanoi Office of the Japan Bank for International Cooperation (JBIC) entitled *Enhancing Access to Basic Infrastructure*. The analysis contained therein focuses on “pro-poor infrastructure provision as a national goal.” It addressed “the identification of targets and indicators as well as costs associated with infrastructure provision to the poor in disadvantaged communes of Vietnam,” including infrastructure needs related to electricity, transport, irrigation and information access.

<sup>33</sup> The CPRGS, acknowledging the “limited resources relative to demand,” sets out investment priorities. These are concentrated in the social sectors (health, education, targeted

(continued)

### **Partnership oriented?**

56. The CPRGS initiative has provided focus to a group of “like minded” donors who meet regularly to exchange information and coordinate activities.<sup>34</sup> Part of what defines the group is the willingness and interest of its members to align (to varying degrees) their activities with the CPRGS (although members reserve the right to depart from the CPRGS framework in response to political and/or human rights concerns). In concrete terms, they endeavor to harmonize procedures for aid delivery and a few of them are delivering significant shares of their aid budgets through co-financing of World Bank PRSCs.<sup>35</sup>

57. Not all major donors are aligning their aid programs with the CPRGS. For example, French donor agencies made it clear that—while harmonization of procedures was an objective to which French donor agencies were committed—alignment of strategy with the CPRGS *per se* was not one of their objectives. A representative from USAID, while supportive of the principle of alignment, explained that USAID provided direct budget support only in exceptional circumstances. In terms of the policy priorities articulated in the CPRGS, the representative considered it relatively easy to operate in a manner consistent with the CPRGS framework given how all-encompassing was the Strategy. That said, USAID was focusing its resources on HIV/AIDs, support for person with disabilities private sector development and support for the implementation the US-Vietnam Bilateral Trade Agreement (USBTA), not all of which were clear CPRGS priorities. Japanese donor agencies have moved to participate more fully in the CPRGS initiative after the decision by the authorities to include a chapter on “large-scale” infrastructure.

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support programs), rural/agricultural development, transport, environment and science and technology.

<sup>34</sup> The group is currently composed of donor agency representatives from Canada, Denmark, Finland, Netherlands, Norway, Sweden, Switzerland and the United Kingdom with Germany and Australia as regular attendees. The “like minded” donors group has its origins in the “Utstein” grouping of Norway, Netherlands, Germany, and the United Kingdom. Representatives of these countries working in Vietnam began to meet informally in 2000 in an effort to leverage “shared objectives centered on poverty reduction, improved aid effectiveness and a collaborative style of working.” The group became a natural forum for discussing CPRGS issues.

<sup>35</sup> Co-financing for the first PRSC (May 2001) of almost USD 50 million came from Denmark, Sweden, Netherlands, and the United Kingdom. The Netherlands, and the United Kingdom provided co-financing of USD 33.7 million for PRSC II (June 2003). While formal preparation of PRSC III is not expected to start until early 2004, the Bank reports interest in providing co-financing from a larger number of donors.

58. Interestingly, when asked in our survey for a perception of the extent to which donors were aligning their priorities with the PRSP, *domestic* stakeholders gave significantly higher marks than donors and international NGOs. A similar pattern was evident when the respondent was asked if donor coordination had improved. This difference is possibly related to a frustration among some donors with the extent to which other donors have chosen to remain outside the CPRGS process.

#### **IV. IMF-SUPPORTED PROGRAMS AND POLICY ADVICE**

##### **A. Brief Overview of IMF-Supported Programs and Policy Advice**

59. Vietnam's first three-year ESAF arrangement was approved in 1994, following normalization of relations with the IMF. Overall policy concerns were structural, for which some progress was noted but for which staff criticized the pace of reform, particularly with respect to trade liberalization and SOEs. The second annual arrangement was completed, but agreement could not be reached on a third annual arrangement. The program was allowed to expire in November 1997 with no further programs until 2001.

60. While there were differences of opinion with the Fund on the macroeconomic framework (including with respect to the magnitude of official commercial borrowing), what ultimately prevented agreement on a subsequent program was in the structural area. Within the GoV and the Communist Party, there were a range of views and an active debate on the role of the state in a market economy and the speed at which transition should occur. The absence of a domestic consensus on the content and pace of the structural reform agenda in the key areas of the financial sector, SOEs, and trade liberalization, prevented the authorities from agreeing to a new program for some time. This was despite the appointment of a more pro-reform government in September 1997 and public commitments from the Prime Minister to overhaul the SOE sector through mergers, partial privatization, sale or closure.<sup>36</sup>

61. The onset of the Asian crisis in the second half of 1997 had a negative impact on Vietnam and there was a mild deterioration in economic performance, mainly due to its trade and investment links with the region. However, the impact of the crisis was admittedly overestimated by Fund staff who indicated that they had not fully appreciated how relatively closed, and how therefore isolated from the regional crisis, was the Vietnamese economy.

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<sup>36</sup> A noteworthy feature of policy making in the Vietnamese Communist Party is the importance of achieving consensus on major changes to the reform agenda. Without consensus, and the associated support to implement specific policies, the authorities are generally reluctant to undertake commitments, including to the IMF. While this frequently manifested itself in a slower pace of reform, it suggests that commitments—when adopted by the authorities—are broadly owned and will be implemented.

Nevertheless, growth did decline from over 8 percent in 1997 to 3.5 and 4.2 percent in 1998 and 1999, respectively.<sup>37</sup>

62. Partly out of a concern with the potential fiscal burden associated with SOEs and SOCBs, Fund staff responded to the regional crisis by seeking—in the context of program negotiations—a more ambitious reform agenda, including with respect to privatization (or, as it came to be known in Vietnam, “equitization”), and the establishment of social safety nets for SOE workers. The authorities—while agreeing with many of the Fund’s concerns—remained committed to a more gradual approach to reform—particularly with respect to SOEs—in an effort to maintain social and political stability and build domestic consensus.

63. The economy began to rebound in mid 1999, partly in response to increasingly accommodative monetary and fiscal policies. With support from Fund staff, the authorities allowed the fiscal deficit (including grants) to increase (Figure 3) to accommodate—among other things—more capital spending on rural projects and increased social sector spending.<sup>38</sup> However, Fund staff were of the view that the strength of recovery was undermined by ongoing structural weaknesses, including in the SOE sector<sup>39</sup>. In staff’s opinion, this was depressing foreign direct investment, which remained well below pre-Asian crisis levels into 2001 (Figure 4). Nevertheless, at least with respect to SOEs, the authorities held to their policy of “retaining the large SOEs and letting go the small”, arguing that more ambitious pace of reform was unlikely to obtain the political support necessary for successful implementation.<sup>40</sup> Staff appeared to acknowledge this in the 2000 Article IV Consultation Report where they indicated that “while the plan may not be as ambitious as would have been warranted by financial considerations alone, it represented a major step forward and is backed by broad efforts at consensus building...” Nevertheless, concerns vis-à-vis SOEs and SOCBs appear to have been a major reason why program negotiations (now under the PRGF) progressed slowly.

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<sup>37</sup> All GDP figures are those of the IMF unless otherwise indicated.

<sup>38</sup> General government expenditure on health and education rose from around 4.6 percent of GDP in 1998 and 1999 to almost 5.4 percent by 2001.

<sup>39</sup> See, for example, the Staff Report for the 2000 Article IV Consultation, July 2000.

<sup>40</sup> In interviews, the authorities suggested that they would have like to have gone faster with SOE reform but that this was not “politically feasible.”



Figure 3. Fiscal Deficit (including grants)  
(In percent of GDP)

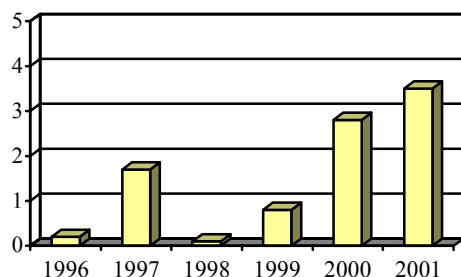
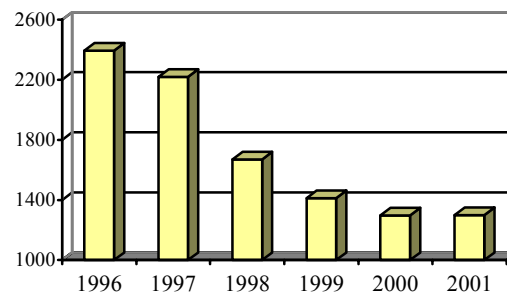


Figure 4. Foreign Direct Investment  
(In millions of USDs)



Source: IMF staff reports.

## B. New Three-Year PRGF Program

64. It was only in March 2001 that a request for a three-year PRGF-supported arrangement was brought to the Executive Board.<sup>41</sup> The reform constituency within the GoV had been strengthening leading up to this period leading to a convergence in view with the IMF. Some Fund staff and donors suggested that a contributing factor to the breakthrough was the bilateral trade agreement (USBTA) with the United States which was negotiated in 2000 (and took effect in December 2001), as well as Vietnam's acceptance of obligations under the ASEAN Free Trade Agreement (AFTA). These initiatives provided impetus to the trade liberalization agenda and were seen by many as turning points in Vietnam's structural reform agenda. As a direct result of these trade agreements, the authorities implemented trade reforms that went beyond those that were being sought by the Fund.

65. Staff expected that the implementation of the trade agreements would help create a level playing field between SOEs and private firms and that this would—over time—put pressure on the SOE sector to reform.<sup>42</sup> This—and the emergence of internal IMF discussions on the potential value of streamlining conditionality<sup>43</sup>—led staff to re-orient their approach to

<sup>41</sup> Alongside the I-PRSP; the full PRSP was not finalized until the following spring.

<sup>42</sup> The March 2001 PRGF staff report noted that “loss-making SOEs are prominent in the manufacturing sector now slated to be opened up to competition under the AFTA...Competitive pressures should help to rationalize these affected SOEs through forcing their restructuring...”

<sup>43</sup> The Managing Director's Interim Guidance Note on Streamlining Conditionality was distributed to staff in September 2000, with formal Board endorsement following in April 2001. Discussions on the PRGF-supported program restarted in earnest in August 2000 and carried into February 2001.

one that was more acceptable to the authorities (e.g., accepting the principle of “retaining the large SOEs and letting go the small”).

66. As of end-2003, the PRGF-supported program remains on hold due to problems related to Vietnam’s compliance with the requirements of the IMF’s safeguards policy. This is an ongoing issue and—consistent with IEO’s terms of reference—is not discussed here.

## **V. ASSESSMENT OF COMPLIANCE WITH PRGF KEY FEATURES**

67. The replacement of the ESAF with the PRGF was to bring with it certain changes in the manner in which IMF-supported programs in low-income countries were formulated. The intention was—in the context of a strategy embodying stronger national ownership of the reform agenda—to improve the integration of the macroeconomic elements of programs with the goal of poverty reduction. A number of key features of the PRGF were articulated to facilitate the achievement of these goals.<sup>44</sup> Their application in Vietnam is assessed below.

### **A. Embedding the PRGF in the Overall Strategy for Growth and Poverty Reduction—Alignment of PRGF with the CPRGS (and I-PRSP)**

68. The I-PRSP was submitted to the Boards of the Bank and the Fund in March 2001 along with a request for a three-year agreement under the PRGF. The CPRGS was completed and signed by the Prime Minister in May 2002 around the same time as the second review of the PRGF-supported program was completed. Since the CPRGS did not exist at the time the PRGF was negotiated, we looked first at the extent to which the initial program was aligned with the I-PRSP and, as the program evolved, its alignment with the CPRGS.

69. Alignment is assessed from two standpoints—so-called “temporal alignment,” which refers to the consistency of the respective macroeconomic projections and the relationship between the formulation of the CPRGS with the country’s internal budgetary process, and “policy” alignment, which refers to consistency between the policies and priorities articulated in the CPRGS with those contained in the PRGF-supported program. “Policy alignment” implies that the PRGF-supported program not contain major policy initiatives that are absent from the country’s own strategy.

#### **Alignment of the macroeconomic framework**

70. Elements of the respective medium-term macroeconomic projections adopted by the IMF and the authorities were out of alignment early on (Table 4). In late 1998, a disagreement emerged between staff and the authorities over the methodology for calculating GDP; the impact of which was compounded by a lack of consensus on some aspects of Vietnam’s medium-term growth prospects. As a result, IMF estimates and projections for

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<sup>44</sup> Summarized in “Key Features of IMF Poverty Reduction and Growth Facility (PRGF) Supported Programs,” International Monetary Fund, August 16, 2000.

GDP reported in the I-PRSP and the PRGF-supported program were lower than those of the authorities. Other major economic indicators (inflation, current account balance, government revenue and expenditure, overall fiscal balance, gross official reserves, imports) were virtually identical. The exception was exports, where the authorities' medium-term forecast was markedly higher than that of staff (by between 4 and 9 percentage points per year).

Table 4. Real GDP Growth  
(In percent)

	1999	2000	Est	Projected		
			2001	2002	2003	2004
I-PRSP (Mar. 2001)	4.8	6.7	7.5	>7.0	>7.0	
IMF Staff 1/	4.2	5.5	5.0	6.0	7.0	7.0
CPRGS (May 2002)	4.8	6.8	6.8	7.0	>7	7.5
IMF Staff 2/	4.2	5.5	5.0	5.3	6.5	7.0

Source: CPRGS, Socialist Republic of Vietnam, Appendix 2, pg. 125, 2002; I-PRSP, Table 1, 2001; IMF Staff Reports (Request for Three Year Arrangement Under the PRGF (March 2001) and Second Review Under the PRGF (June 2002).

1/ From the Request for a Three-Year Arrangement Under the PRGF (March 2001) and as reported in the I-PRSP.

2/ From the Second Review Under the PRGF (June 2002) and as reported in the CPRGS.

71. These differences were more pronounced between the CPRGS and the Second Review under the PRGF-supported program, both of which were presented to the IMF Board in May 2002. This meant that, between 1999 and 2004, estimates of the level of GDP in the authorities' medium-term forecast had increased almost 9 percentage points above that of staff. As with the I-PRSP, there were differences between export forecasts but there were now also significant differences on the fiscal side— as much as 1.4 percentage points of GDP on the overall balance for 2002—with IMF staff expecting higher deficits (Table 5).

Table 5. Overall Fiscal Balance (excluding on lending)  
(In percent of GDP)

	2000	Est	Projected		
		2001	2002	2003	2004
CPRGS (May 2002)	-2.8	-2.9	-2.5	-2.9	-2.9
IMF staff	-2.8	-3.5	-3.9	-3.7	-3.2

Source: CPRGS, Socialist Republic of Vietnam, Appendix 2, pg 125, 2002; IMF Staff Report Second Review Under the PRGF (June 2002).

72. According to staff, these differences were driven partly by the inclusion in the IMF forecast of the current costs of structural reform (explained in a footnote in the CPRGS).<sup>45</sup> There were also differences in the accounting treatment of government bank deposits (with the authorities deviating from international practice) and the inclusion in the staff forecast of a one time payment to veterans.

73. That there were different projections was made fully transparent in the I-PRSP, the CPRGS and PRGF staff reports, which contained tables showing both GDP and export projections and (in the CPRGS) fiscal projections. IMF staff indicated that the PRGF-supported program did not derive its forecast from the CPRGS and that the two were not broadly congruent. This lack of alignment is discussed in internal IMF memoranda on the request for a three-year arrangement under the PRGF but it was not flagged in the JSA.

74. With respect to budget issues more generally, the opaqueness of the Vietnamese budget process (Box 3) makes it difficult to assess the extent of alignment between the CPRGS and the national budget or budgetary process. Indeed, the JSA for the CPRGS notes that there is no Medium Term Expenditure Framework (MTEF) in which sectoral strategies are fully costed and prioritized. What is present is a range of relatively high-level scenarios for public investment derived from the five-year SEDP illustrating how priorities would change under different levels of donor financing. There is a breakdown of current expenditure into six sectoral categories, but this is for the entire five year period between 2001 and 2005 rather than annually. Detail on expenditure for individual fiscal years is only presented for selected social and poverty reduction objectives in eight sectors. However, the value of this information is undermined by the absence of a broader budgetary context illustrating other spending pressures.

75. Despite its shortcomings, the staffs of the Bank and Fund considered the preliminary costing of policy actions in the CPRGS to be indicative of significant progress given that Vietnam had no fully costed and prioritized MTEF. However, to achieve the alignment envisaged under the PRSP initiative, staff indicated that further advances will be required in budgetary management. This improved in the late 1990s when the budget was considered to be a state secret, but there remains scope for further significant improvement. Technical assistance is currently being provided in this area.

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<sup>45</sup> Staff did not consider the authorities' decision to exclude these amounts from their medium-term fiscal projection as indicative of a reluctance to undertake the associated reforms since they were included elsewhere in the Ministry of Finance's cost estimates. They believed that the exclusion was more reflective of indecision on the part of the authorities over how to treat these reform costs in their own accounts.

### **Box 3. The Budget Process in Vietnam**

Preparations for Vietnam's annual (calendar year) budget begins each summer. The Ministry of Finance (MOF) handles the recurrent budget while MOPIC handles the capital budget. The full budget is reviewed by the MOF before being submitted to the Office of Government. The National Assembly approves the budget at its last session of the calendar year, typically October-November, with the Budget-Finance Committee having primary responsibility for mark-ups. The General Statistics Office (GSO) now publishes some annual fiscal data (in Vietnamese and English). Preliminary data from the previous year (final data come with a one-year lag) and projected figures for the year ahead are available. Data reflecting functional classifications of expenditures (including spending on education and training, family planning, pensions and social relief) and revenues by major source SOEs, income tax, gasoline taxes, capital spending, etc.) are available with a two-year lag. Similar data (some of it quarterly) is provided on the MOF website.

There is little medium-term planning, and according to the JSA, the budgetary framework is not sufficiently integrated. On the positive side, some ministries (e.g., Education) are piloting MTEFs with the help of the World Bank. The Public Investment Program (PIP) is not yet linked to either the general capital/recurrent budgets or to the CPRGS, although donors have repeatedly urged this to be done.

### **Policy alignment**

76. It should be acknowledged at the outset that policy alignment does not necessarily imply that the IMF-supported program has aligned itself with the CPRGS given that the PRGF-supported program was approved in March 2001 while the CPRGS was not adopted until May 2002. It is not necessarily the case that PRGF commitments were driven by CPRGS content (or its precursor, the I-PRSP) rather than the other way around. Nevertheless, it is important to have a sense of the degree of consistency between the strategies, as well as to assess the extent to which differences converged over time. We examine these issues by analyzing in greater depth a number of specific policy areas.

77. The major policy issues addressed in the PRGF-supported program (see Annex 1) were SOE reform, SOCB reform and trade liberalization, all of which were addressed in the CPRGS. CPRGS commitments for SOE reform were based on a five-year SOE reform plan (with annual targets from 2001 to 2003, including for equitization and divestiture) adopted by the GoV in March 2001. At the same time, agreement with the World Bank and the Fund on annual targets for equitization, divestiture and liquidation of SOEs was a prior action for approval of the PRGF-supported program around the same time. As such, it is unclear whether or not the SOE reform agenda in the CPRGS was derived from the IMF-supported program or visa versa. Nevertheless, the broad objectives of the two strategies were the same, focusing on improvements in the efficiency of SOEs and acceleration in the "equitization" of SOEs in which the state does not need 100 percent ownership.<sup>46</sup>

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<sup>46</sup> "Equitization" is the framework in which the GoV approaches "privatization." It involves the conversion of capital in an SOE into shares which are then sold largely to workers and managers of the SOE.

78. *The SOCB reform* agenda was based on a restructuring framework adopted by the State Bank of Vietnam (SBV) in March 2001. Its main focus (which was similar to that contained in the PRGF-supported program) was “to curb the growth of bad debts and to ensure that commercial activities of the banking system will be conducted safely and efficiently.” The strategy also sought to separate preferential and policy-based credit activities for SOCBs while at the same time raising the share of credit to private SMEs and enterprises operating in rural and disadvantaged areas.

79. On *trade reform*, the authorities pledged to implement the bilateral trade agreement with the United States, paving the way for accession to the WTO, and prepare to take part in committed bilateral and multilateral cooperation mechanisms and to continue to remove non-tariff barriers (NTBs) on selected goods.

80. In some of these areas (e.g., SOE and SOCB reform), the PRGF-supported program contained considerably greater operational detail than the CPRGS. While in broad terms, the policy objectives were aligned between the two, there were important differences. For example, the PRGF-supported program, unlike the CPRGS, drew closer links between SOCB and SOE reform and credit policy, a subject on which disagreements between staff and the authorities persisted throughout much of the PRGF-supported program. The Fund’s (and Bank’s) approach to SOE reform (discussed in Section V)—initially put more emphasis on “equitization.” However, this evolved over time and, by mid-2003, had aligned itself more closely with the strategy in the CPRGS. Specifically, the Fund (and World Bank) came to accept the authorities’ desire to retain a relatively large share of the economy in the public sector and restructure (rather than equitize) large SOEs.<sup>47</sup> This evolution reflected Fund staff’s conclusion that—with this approach—Vietnamese economic performance “had been stronger than in transition economies that adopted “shock therapy” approaches, at least partly reflecting Vietnam’s limited industrialization and low income levels prior to transition.”<sup>48</sup>

### *The case of SOE reform*

81. SOE reform—perhaps the most controversial of the main structural policy challenges facing Vietnam—provides an interesting lens through which to assess alignment between the CPRGS and PRGF-supported program. It also provides a useful platform to illustrate the

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<sup>47</sup> According to our interviews, the authorities considered the difference of view with Bank and Fund staff to be based on their more conservative assessment of the speed at which the private sector would develop to absorb the human resources released in response to an aggressive down sizing of the public sector. Instead, their strategy sought to minimize social disruption by developing the private sector in parallel with public-sector reform to ensure that employment opportunities in the private sector existed prior to any large scale shedding of labour from the public sector.

<sup>48</sup> IMF, *Staff Report for the 2003 Article IV Consultation*, August 2003.

extent to which the PRGF-supported program embodied a number of other key features of the PRSP and PRGF Frameworks. While this is an area in which the World Bank has traditionally taken the lead, the macroeconomic significance of the SOE sector in Vietnam required the Fund to take an active interest. To a noticeable extent, the policy dialogue on SOE reform between the authorities and the BWIs converged over time, as new programs and operations were negotiated and in acknowledgement of the authorities' ownership of, and leadership with respect to, the approach articulated in the CPRGS. However, in the initial stages of the CPRGS initiative and the PRGF-supported program, there were significant differences between the authorities and the Fund/Bank with respect to how, and how quickly, many of these objectives would be achieved.

*SOE reform as a stumbling block in initial program negotiations*

82. Prior to the formulation of the CPRGS, a lack of agreement between staff and the authorities on SOE reform was the major stumbling block to a Fund-supported program. Initially, Fund staff—with support from the Executive Board—advocated a more direct and aggressive program of reform.<sup>49</sup> Fund briefing memos in the period leading up to PRGF approval based their concern with Vietnamese SOEs on the potential fiscal implications of failing to reform the sector and the eventual costs of provisioning NPLs owed by SOEs (about 12 percent of GDP).<sup>50</sup>

83. In the absence of the CPRGS when the PRGF-supported program was negotiated, IMF staff had the I-PRSP against which to align SOE reform but the I-PRSP provided only limited guidance. While emphasizing the need to increase transparency and strengthen the financial soundness of SOEs, the I-PRSP cited a number of other objectives including a need “to push strongly the equitization of SOEs” and to “diversify the ownership form of SOEs when the State does not require 100 percent ownership.” However, the abundance of objectives and lack of clear criteria for setting priorities made the scope and targeting of the SOE reform agenda unclear and thereby limited the operational value of the I-PRSP.

84. The CPRGS (brought forward in mid-2002 along with the second review under the PRGF-supported program), provided only limited additional guidance. While it called for the issuance of “criteria for the detailed classification of SOEs into different forms distinguished

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<sup>49</sup> Directors “emphasized that reforms of the state-owned commercial banks, large-state-owned enterprises, and the trade system should be the main focus of the reform process, and that these would have to be accelerated considerably,” Acting Chairman’s Summing Up at the Conclusion of the 1999 Article IV Consultation with Vietnam, May 1999.

<sup>50</sup> More recent interviews with staff suggest that concerns with the SOEs at that time were related more to the impact of a large and unreformed SOE sector on growth prospects rather than on the direct fiscal burden of the SOE sector as suggested in Staff Reports and internal staff memoranda written at the time.

by the amount and nature of shares held by the state” these criteria were not articulated. This made it difficult to translate the call to “accelerate the equitization of SOEs in which the State does not need to hold 100 percent ownership” into concrete guidance and to assess the extent to which the authorities and the BWIs were in agreement on the objectives of SOE reform. The lack of clarity on priorities may have also reflected a lack of agreement within the GoV on how to operationalize the objectives set out in the CPRGS.

85. The thrust of the authorities’ strategy as described in the CPRGS was to improve SOE performance, create greater autonomy and accountability for SOEs, and level the playing field with respect to private firms operating alongside SOEs. This was certainly reflected in the policy agenda contained in World Bank and IMF programs. However, at least initially, programs supported by the Bank and the Fund were less “gradualist” and gave a more prominent role to “equitization.” In contrast, the authorities were explicitly supportive of developing a significant and sustained role for SOEs in the economy, which was not an explicit objective of the PRGF or PRSC I.<sup>51</sup>

#### *The emergence of program agreement*

86. Despite this lack of clarity on the strategy, the authorities eventually reached agreement with the IMF and the World Bank on a target for the *number* of mergers, equitizations, sales and transformations of SOEs (this was a prior action for the approval of the PRGF-supported program).<sup>52</sup> Arguably, the decision to focus on the *number* of firms rather than targeting those with the largest potential fiscal burden was not wholly consistent with the IMF’s primary motivation for pursuing SOE reform (i.e., fiscal concerns), including the potential vulnerability from exposure through the state-owned banking system. Indeed, the staff report for the PRGF-supported program indicated that, in the IMF staff’s view, the authorities had adopted a “second best” strategy partly because of difficulty in targeting “fiscally significant SOEs” give the manner in which the SOE strategy was designed (i.e. the strategy focused on the number of equitizations rather than equitization of the largest SOEs).

87. There appears to have been three factors at play which led to the Fund’s acceptance of a “second best” strategy. The change—whereby Fund staff were willing to accept the authorities’ policy of “retaining the large and letting go the small”—appeared to come out of shift in approach to program negotiations related to the principles of the PRGF instrument. Negotiations beginning in 1998 and continuing into 2000 had stalled because of an inability

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<sup>51</sup> The lack of clarity on principles and on commitments on the scope of equitization was an ongoing source of tension with donors, the World Bank, and the Fund and it is in this area that program performance fell short of expectations, eventually requiring an admittedly ambitious re-phasing of the agreed roadmap in order to achieve the negotiated targets.

<sup>52</sup> Clarity improved somewhat in September 2001 when the government passed a resolution containing a detailed list of sectors to be controlled by government ownership.



to bridge the gap on policies advocated by the Fund with that proposed by the authorities. However, starting in mid-2000, internal Fund memoranda urged mission staff to “step back” and attempt to identify a set of policy measures that might be “broadly acceptable” to the authorities (a so-called “bottom line” of what the authorities would be prepared to commit) and to assess whether this would warrant program support from the Fund.

88. Second, the change in the Fund approach occurred against the backdrop of an internal policy debate at the IMF on the links between program ownership and streamlining conditionality. Partly as a result, some Fund staff argued successfully for the Fund to focus conditionality at a “macroeconomic” level leaving to the Bank and the authorities the task of articulating SOE-specific targets. This enabled the Fund to withdraw from setting conditions on specific SOEs (e.g., the most fiscally significant SOEs) and to focus on factors like aggregate SOE debt coverage and loss reduction. However, while this was the approach in theory, it was not substantially realized in practice since the targets eventually agreed to addressed only 2.5 percent of SOE debt. This is not to say that the Fund abandoned all direct efforts to pressure the authorities to accelerate the SOE reform agenda. For example, in the first review of the PRGF, staff continued to press for a strengthening of the framework for SOE equitization. In the second review, they urged the authorities to meet the equitization targets set under the World Bank’s first PRSC.<sup>53</sup>

89. Third, the World Bank approach to SOE reform also evolved in response to a greater willingness to give the authorities more leeway in determining which firms would be equitized. Underpinning the Bank’s strategy was an emphasis on private sector development and the demonstration effect associated with the privatization of even small- and medium-sized SOEs (rather than on the size of SOEs).<sup>54</sup> The Bank’s first PRSC, which accompanied approval of the PRGF-supported program, sought to enhance the transparency of SOE operations and the effectiveness of the equitization process in order to attract investors, capital, and better management. The specific changes proposed included a increase in caps on individual shareholding in equitized enterprises, publication of lists of firms to be equitized and a shift in responsibility for equitization away from the SOEs themselves.<sup>55</sup>

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<sup>53</sup> It should be noted that a number of GoV officials with whom IEO met, welcomed this pressure as a useful contribution to the government’s internal debate on the pace of reform.

<sup>54</sup> SOE reform benchmarks to be monitored under the PRSC focused on number of SOEs independent of SOE size or fiscal significance. The resulting reform program covered 32 percent of SOEs, accounting for 18 percent of employment but only 10 percent of outstanding SOE debt. It was not envisaged that the proposed measures would reduce the size of the SOE sector significantly.

<sup>55</sup> The Bank’s approach continued to evolve under PRSC II (approved in May 2003), partly due to an acknowledgement of the ongoing resistance within the GoV toward equitization and the difficulty in implementing enterprise-specific measures in a timely manner. PRSC II

(continued)

90. The Fund, having adopted a clearer division of labor on SOE reform and accepted a more indirect approach to the fiscal issues associated with the SOE sector endorsed this strategy, while acknowledging that the GoV's plan was less ambitious than recommended. However, they considered it a meaningful "first step" that, if accompanied by safeguards to strengthen SOE financial discipline, would represent a credible start to the medium-term process of reforming the SOEs. This was a clear change from the Fund's position in the May 1999 Article IV consultation where staff argued that there was an urgent need for a comprehensive reform framework encompassing the larger SOEs.

*Macro-level conditionality an imperfect substitute for structural conditionality*

91. Perhaps most interesting from the standpoint of program ownership was the manner in which IMF staff chose to pursue their objectives in the SOE sector. Staff were concerned with the quality of lending to SOEs (and its associated costs to the budget) given that almost two-thirds of credit growth was being absorbed by SOEs and that credit had been growing at a rapid pace.<sup>56</sup> They therefore sought to contain credit growth through quantitative conditionality on net domestic assets (NDA) to the banking system in an effort to increase pressure on SOEs to reform.<sup>57</sup> The authorities, on the other hand, considered credit growth to be a key element of their overall growth strategy (both from the perspective of SOEs and private-sector development) and consistently preferred a higher rate to that recommended by the Fund.

92. By the end of the negotiating mission for the second year of the PRGF-supported program, a two percentage point difference remained between the rate of growth the authorities were prepared to accept and what the staff required. With this the only explicit

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makes it clear that the SOE strategy for Vietnam does not rest on mass privatization but rather on leveling the playing field with SOEs and hardening their budget constraints. With guidance provided by the GoV's Decision 58, (which classified all sectors of activity according to the rationale for state intervention), PRSC II supported a GoV reform strategy that identified individual SOEs and requires all public entities with responsibility for SOEs to produce ownership transformation plans leading to the divestitures of SOEs that do not operate in sectors of activity where state intervention is justified. While this more targeted approach may prove easier to monitor and implement, it is too early (and SOE data are unavailable) to know if it will better address the fiscal concerns which motivated the Fund's interest in SOE reform.

<sup>56</sup> Both staff and the authorities confirmed that the discussion of credit growth was not motivated by a concern with inflation.

<sup>57</sup> Staff concerns with credit growth also derived from broader macroeconomic concerns including those pertaining to the SOCB sector and the sustainability of the fiscal accounts over the medium term.

issue outstanding, the mission returned to Washington without completing the review and agreeing on a macroeconomic framework for the second year of the program. Staff had taken the position that credit growth needed to be slowed to below 20 percent given weakness in the banking system, weaker-than-expected foreign exchange reserves, the medium-term fiscal risks associated with the flow of bad loans and the sense that accelerating credit growth to SOEs was crowding out credit to other sectors. Moreover, Fund staff felt that they had already accommodated a relatively high rate of growth (well in excess of any other country in the region). Credit growth was—according to staff interviewed by IEO—one of the few remaining levers for SOE reform on which the Fund could rely, given earlier decisions to leave the articulation of SOE conditionality to the World Bank. A compromise was reached in the weeks to come, but the basic message appears to be that staff’s resistance to compromising further on credit growth was partly a reflection of their inability to address medium-term fiscal concerns related to the SOE sector more directly.<sup>58</sup>

*Strategies start to converge*

93. Fund staff have now accepted the authorities’ approach to equitization, as suggested by the Chairman’s summing up for the 2003 Article IV Consultation where Directors called for “a vigorous implementation of the equitization program *for small and medium-sized enterprises...*” Fund concerns with the fiscal dimension of SOE reform was addressed more generically with a call for the government to “develop more fully its strategy for the sizeable SOE sector” or as a direct extension of concerns with the SOCBs. The separation of the equitization agenda from the fiscal dimension of SOE reform suggests that the Fund—at least in the context of its policy advice (the PRGF-supported program was on hold at the time)—has more clearly aligned itself with the authorities’ strategy for the SOE sector. That said, Fund staff—motivated by concerns with the governance structures in many large SOEs and the lack of reliable data on their performance—continue to advocate an extensive (albeit gradually implemented) SOE agenda.

94. This experience suggests a number of interesting messages about the role of IMF conditionality—and the “streamlining” initiative—in the context of the PRSP approach:

- Even in cases where the approach is strongly country-driven, as it was in Vietnam, it is not necessarily the case that there will be a simple model for the alignment of the PRGF (and other lending instruments) to the strategy in the PRSP. In some circumstances, the PRSP may not provide sufficient operational guidance.

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<sup>58</sup> In the view of some Fund staff, the World Bank’s strategy was focused on private-sector development and the demonstration effect of equitizing even small SOEs. This meant that the largest and most fiscally significant SOEs were not targeted. SOE conditionality under PRSC-I did provide some focus on 200 “large” SOEs, but these were by no means the largest SOEs and, as noted, they did not account for a significant share of SOE debt.

- There are limits to what IMF conditionality can or should be expected to achieve. While quantitative conditionality on NDA of the banking system may well have been justified on macroeconomic grounds, it was inevitably an imperfect instrument to influence structural reform (in part because it would inevitably impact on the availability of credit to commercially-viable enterprises). Moreover, relatively short-term conditionality may not have been the best vehicle for dealing with longer-term structural issues.
- The streamlining of structural conditionality—with the Bank taking the lead in negotiating SOE reform—raises coordination challenges between the Fund and the Bank that were not always fully apparent at the outset. The Fund’s main concern in the SOE area was to address the macroeconomic vulnerabilities represented by the largest and most fiscally-significant SOEs. The Bank had a different set of objectives, including fostering efficiency gains where it was not clear that the authorities were prepared to accept a targeted approach. In this context, the conditionality negotiated under PRSC I did not fully address the Fund’s macroeconomic concerns. This is not surprising in retrospect, since there is no reason why the Bank should have acted as the “agent” of the IMF in setting conditionality.

### **B. Greater Ownership of PRGF-Supported Reforms**

95. As acknowledged by the Fund, “greater ownership is the single most often cited, but also the least tangible, change moving to PRGF-supported programs. There is no single element of program design or documentation that will signal this change.”<sup>59</sup> That being said, there appears to be consensus among major stakeholder groups that there is strong government ownership of both the CPRGS and the PRGF-supported program. This could reflect the consensual nature of the Vietnamese decision making process, at least among the stakeholders involved in the process.

96. Another possible explanation—and one which was referred to by many of those with whom we met—was the Vietnamese authorities’ ability to negotiate with the IMF from a position of strength. In effect, Vietnam’s macroeconomic stability and strong growth, coupled by the willingness of donors to provide (increasing) resources in the absence of an IMF-supported program, meant that the authorities were not under pressure to agree to a program with which they are not fully comfortable. The fact that Vietnam was able to register reasonable growth and donor involvement without a program from between 1997 and 2001—a period of tremendous regional turbulence—is evidence of this. The net effect appears to be that—while the authorities clearly appreciate the resources and signaling role provided by the PRGF-supported program, their willingness to agree to its associated conditionality required that program measures were consistent with their own reform agenda.

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<sup>59</sup> IMF (2000).

97. This interpretation is consistent with the manner in which agreement was eventually arrived at on a PRGF-supported program. In the context of 1997 discussions on a possible third annual ESAF arrangement, there was pressure within review departments to ensure that a “successor three-year arrangement would require more than a continuation of a piecemeal approach to reform.” However, to a large extent, the “piecemeal approach” reflected the lack of domestic political consensus on the content and pace of a reform agenda. With the authorities concerned with the impact of rapid restructuring on social and political stability, and in the absence of a domestic consensus in support of rapid reform, no agreement was reached and the ESAF-supported program was allowed to lapse.

98. A turning point came in the summer of 2000, immediately prior to the release of the MD’s Guidance Note on Streamlining Conditionality. Pointing out that the Fund had been in unsuccessful negotiations with the Vietnamese authorities for almost two years, one review department suggested that staff step back and identify a set of policy measures that would be broadly acceptable to the authorities and then to assess whether this could form the basis for a program acceptable to the IMF. They also called for a clearer articulation of the logic underlying the division of conditionality between the Fund and the Bank. Acceptance of this approach led Fund staff to concentrate on the broad fiscal aspects of policies, leaving detailed SOE targets (i.e., at the firm level) to be monitored by the Bank.

99. The adoption of this approach—with Fund staff moderating their demands in a number of key areas, including by accepting a slower and less targeted approach to SOE and SOCB reform (see Section V), and backing off on demands for trade reforms—led to agreement on a PRGF-supported program within the year. While there may have been some evolution in what the authorities were prepared to do in a number of these areas, the critical change in negotiating positions came on the part of the Fund, consistent with the objective of allowing greater policy space and encouraging program ownership.

### **C. Broad Participation in the Formulation of PRGF-Supported Programs<sup>60</sup>**

100. The main elements of PRGF-supported programs are to be drawn from a country’s PRSP which, in turn, is to be produced in a transparent process with broad participation. However, in the case of Vietnam, negotiation of a PRGF-supported program predated the finalization of the CPRGS by more than a year, leaving the I-PRSP (for which there was no formal participatory process) to guide program design. Given the limitations of an I-PRSP with respect to participation and the requirement for PRGF-supported programs to be drawn from a broadly-owned national strategy, it might have been appropriate for IMF staff to have drawn on policies and priorities articulated in the existing SEDP. This does not, however, appear to have been the case. In fact, what was clear from our interviews was that neither

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<sup>60</sup> Section III (b) discussed the role of the IMF in the articulation of the CPRGS. This section looks more narrowly at the participatory dimension of the PRGF-supported program in the absence of a participatory strategy prior to the second year of the PRGF-supported program.

Fund staff nor many other members of the donor community considered the SEDP—which they considered to be an example of an “old style” central planning document—to represent a credible strategy for economic growth and poverty reduction.

101. In any event, there appears to have been little encouragement provided to mission staff to integrate a “participatory” dimension into program negotiations in the absence of a full PRSP (CPRGS).<sup>61</sup> While missions did meet regularly with donors and a number of non-central government agencies and ministries, there is little evidence that this had any significant influence on program discussions. The only indication of a diversity of views on key policy issues is staff’s expression of concern with the fragility of the political consensus in support of the reform agenda. That said, it should be noted that—beyond the requirement that a PRGF-supported program be formulated in a “participatory” manner—staff were provided with little guidance at the time with respect to the parameters and requirements of such participation in PRGF program design in the absence of a PRSP.

102. From the standpoint of the donor community, a number of donor representatives expressed disappointment that—while Fund missions were an excellent source of information—their interaction with the donor community was not consultative nor did they feel like “partners” in the dialogue with Fund missions (i.e., their views were not solicited by Fund staff as input into setting the policy agenda).

#### **D. Ensuring Appropriate Flexibility in Fiscal Targets**

103. Under the PRGF, it is intended that program design embodies greater fiscal flexibility to accommodate higher poverty-reducing spending in countries with sustainable macroeconomic and external debt positions when such spending can be financed on suitably concessional terms and where there is recognizable scope for more productive spending. In such an environment, greater policy space could be created for the authorities, for example, in deciding how to allocate higher-than-expected donor assistance. Staff are also asked to indicate how fiscal objectives will be influenced by likely shocks (including to sources of financing). In the case of Vietnam, there is relatively clear evidence that the Fund staff did integrate greater fiscal flexibility into its policy discussions and program negotiations.

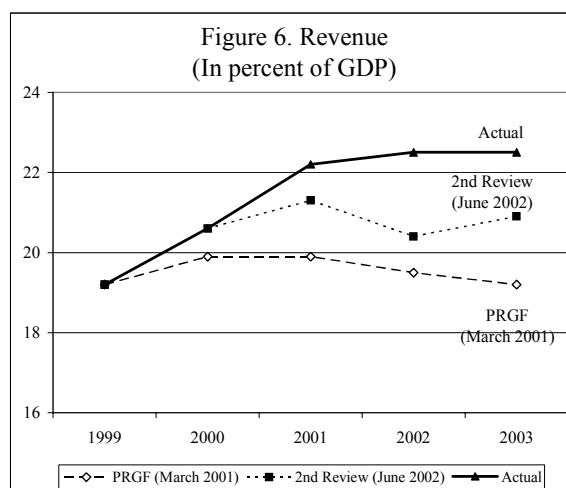
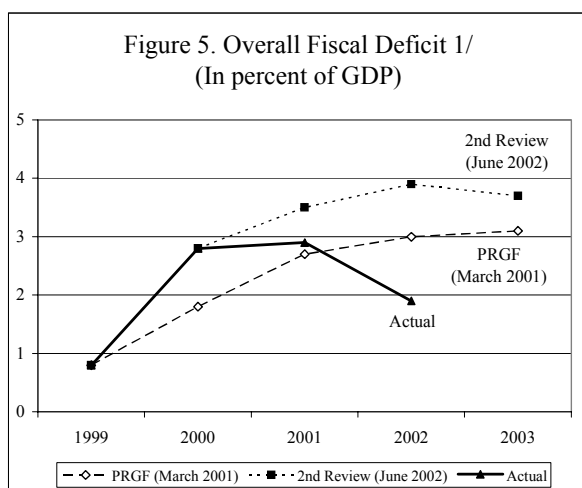
104. Our interviews revealed a general sense that, during program negotiations, the Fund was open to incorporating higher levels of productive spending (and an associated higher fiscal deficit) into the macroeconomic framework throughout the program. This included higher levels of social-sector and infrastructure spending, including on a social safety net for workers displaced from SOEs. As early as the 1999 Article IV consultation, well before the adoption of the PRSP/PRGF framework, Fund staff were arguing that “some adaptation in the mix of macroeconomic policies would be appropriate, by easing the budgetary stance and

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<sup>61</sup> The briefing paper for the first PRGF review indicates that “on the part of Fund staff, a low-key communications approach will continue to be followed.”

by tightening and redirecting credit policy...[and] that the budget deficit should be permitted to widen to accommodate the temporary costs of well-designed social safety nets for retrenched workers.”<sup>62</sup> That said, the medium-term macroeconomic framework in the 1999 Article IV report envisaged an overall fiscal deficit of only 1 percent of GDP in each of 2000 and 2001—virtually the same as in 1999.

105. Cautious support for a change in the mix of macroeconomic policies (including looser fiscal policy) was maintained in the 2000 Article IV consultation (the first Article IV following the introduction of the PRSP/PRGF framework), with the Fund recognizing “the need for the authorities to increase the share of expenditure directed toward social spending.” At the same time, the IMF sought to reduce risks to the budget over the medium term through sustained revenue efforts and wage restraints. In contrast to 1999 Article IV, the medium-term fiscal framework evolved to accommodate a significantly higher overall fiscal deficit, rising from less than one percent of GDP in 1999 to over three percent in 2000 and 2001. The increase came largely from more conservative revenue forecasts and—to a lesser extent—inclusion of the current costs of reform (Figures 5 and 6).



Source: IMF staff papers.

1/ Excluding onlending and capital costs of reforms.

106. This reflects an underlying sense, expressed by many of the donors and World Bank and Fund staff with whom we met, that the fiscal side was not a major issue in policy discussion because the Government had demonstrated prudent fiscal management and therefore, the Fund could rely on the authorities to run an appropriate fiscal policy without excessive oversight or intervention. This could be seen with respect to the caution with which the authorities drew on concessional loans provided by donors. A number of stakeholders

<sup>62</sup> Acting Chairman’s Summing Up at the Conclusion of the 1999 Article IV Consultation with Vietnam, May 1999.

suggested that this was driven by the authorities' desire to ensure that resources were used productively (or at least in a manner consistent with the Government's policy agenda) so that Vietnam's debt burden would not increase to the point that international interests would obtain excessive leverage over the domestic reform agenda.

107. Perhaps the most revealing demonstration of fiscal flexibility in the PRGF-supported program was the absence of fiscal conditionality in the form of quantitative performance criteria (PCs). Rather, program PCs emphasized credit issues such as net domestic assets of the banking system and domestic bank credit to the government and SOEs.<sup>63</sup>

108. Although not covered by specific conditionality, staff and the authorities held discussions in August 2002 on what to do with higher-than-expected revenues (see Figure 6).<sup>64</sup> While the mission had initially argued for the authorities to save a larger share of the additional revenue,<sup>65</sup> they eventually supported the authorities' intention to save one half of the revenue from over performance in 2002 and spend the remainder on civil service reform, including a badly needed wage increase. According to both staff and the authorities, the compromise was easily reached and the formula applied voluntarily by the authorities in response to revenue over-performance the following year.

109. A further assessment of the extent to which the fiscal framework provided the authorities with "space" to accommodate productive spending priorities can be made by comparing the relative optimism of projections for ODA disbursements.<sup>66</sup> Figure 7 indicates that, *ex post*, staff projections for ODA—both in absolute terms and as a share of GDP—were quite optimistic, suggesting that unduly conservative expectations for ODA (i.e., so-called "aid pessimism") were not a constraint on productive spending. Moreover, there does not appear to have been an assumption of declining reliance on aid since the program did not include a significant reduction in ODA financing as a share of GDP.

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<sup>63</sup> There was also a single PC on credit from the banking system and from the budget and budget support to the 200 targeted large SOEs. Other quantitative PCs dealt with nonconcessional publicly-contracted or guaranteed foreign currency loans, external payment arrears and net official reserves.

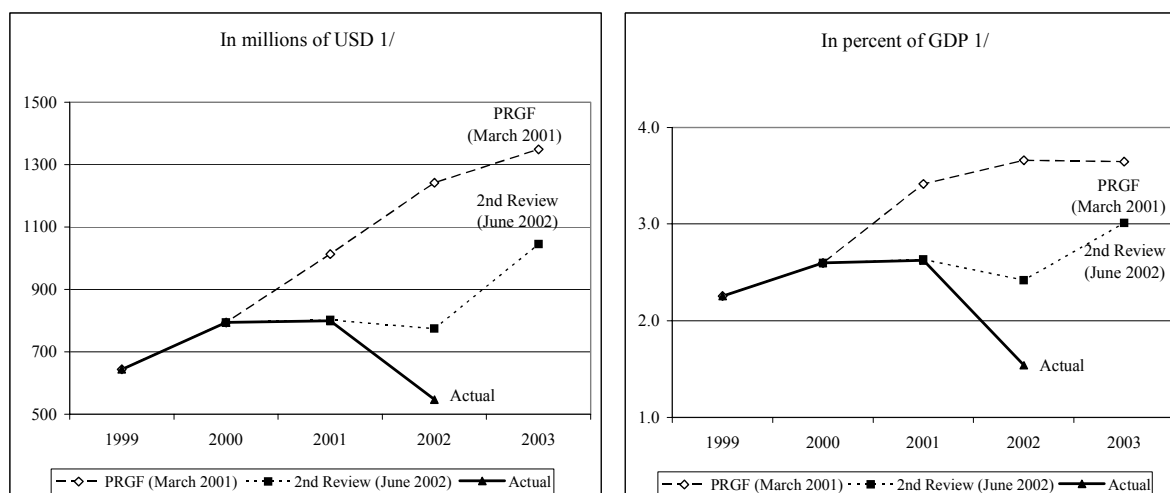
<sup>64</sup> Compared to revenue projections in the ESAF Arrangement—PRGF projections were both more conservative and more realistic. For the 1994-1996 period, staff projected revenue-to-GDP to rise above 25 percent. It never rose above 23.6 percent. The 2001 PRGF forecast the ratio closer to 20 percent, with actual performance between 1 and 2 percentage points higher. A similar pattern was evident for expenditure projections although actual expenditure in the most recent period exceeded forecast by about 1 percentage point.

<sup>65</sup> Staff were concerned that revenue related to higher-than-forecast oil prices was temporary.

<sup>66</sup> This is an issue that has received considerable attention from, for example, OXFAM GB and EURODAD (<http://www.eurodad.org/articles/default.aspx?id=460>).



Figure 7. Official Development Assistance



Source: IMF staff papers.

1/ Sum of ODA loans, official transfers (net), and use of Fund credit (net) minus amortization.

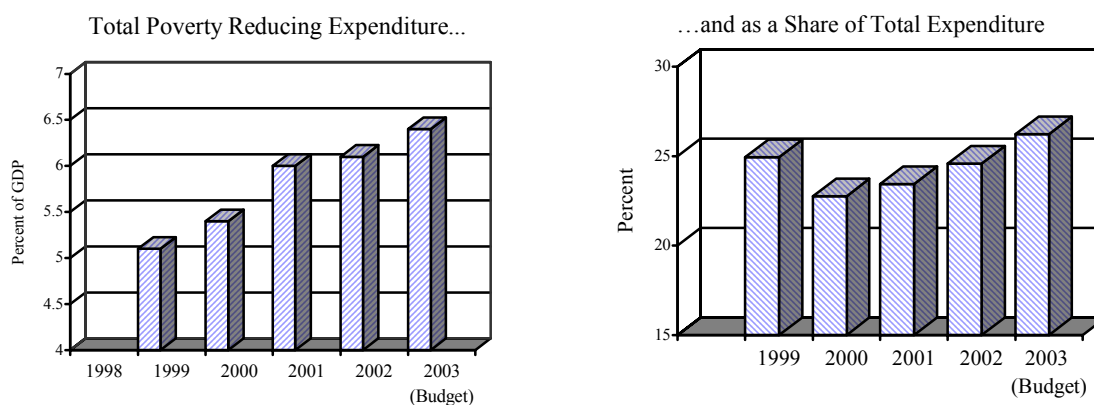
### E. Pro-Poor, Pro-Growth Budgets

110. What constitutes a “pro-poor and pro-growth” budget will vary from country to country but, according to the key features of the PRGF, it will involve the following three elements: (i) a reorientation of government spending toward social sectors, basic infrastructure and other activities that benefit the poor; (ii) improvement in the efficiency and targeting of spending in sectors relevant to growth and poverty reduction; and (iii) tax reforms that improve both efficiency and equity.

111. With respect to the reorientation of government spending, there appears to have been steady progress (as a percent of GDP) since 1999 (i.e., before the approval of a three-year PRGF-supported program) along with a marked increase in total poverty reducing expenditure in the first year of the program (Figure 8).<sup>67</sup> Between 1999 and 2002, total poverty reducing expenditure rose from 5.1 to 6.1 percent of GDP and it is expected to increase by a further 0.3 percentage points of GDP according to the 2003 Budget. However, the fact that this trend predates the PRGF/PRSP framework and the CPRGS suggests that the motivation to devote more resources to poverty reducing spending—at least initially—must be attributed to other factors. A look at the *share of total expenditure* dedicated to poverty reducing initiatives, on the other hand, suggests that the shift in expenditure composition coincided with the start of the PRGF-supported program.

<sup>67</sup> Based on IMF staff estimates, which takes into account current expenditure on education, training, health, and family planning and capital expenditure on education, training health, and poverty-related projects in the agriculture, transportation, electricity, and water sectors.

Figure 8. Poverty Reducing Expenditure



Source: IMF staff estimates.

112. There is some evidence of improved targeting of assistance to the social sector. An example is in the education sector where local CPRGS-related consultation revealed concerns with the costs of primary education (and user fees in particular). According to some commentators, this provided significant impetus to earlier work that had identified user fees as a major barrier to access by the poor to primary education.<sup>68</sup> With encouragement from a number of stakeholders, a commitment to reduce school fees for poor families was integrated in the CPRGS. However, this fell short—at least initially—of the desired elimination of such fees and it is not yet clear if the resources will be brought to bear at the local level to realize the goal and over what time frame this will happen.

113. Considerations related to the efficiency of the tax system were not prominent in the PRGF-supported program although efforts were made to improve the sustainability of revenue collection by, among other things, reducing the authorities reliance on oil revenue. Conditionality was limited to a few structural benchmarks and performance criteria in the second year of the PRGF-supported program related to improving the framework for undertaking tax assessment and for which technical assistance was provided. While not part of program conditionality, IMF staff were supportive of efforts to streamline VAT administration and customs collection including a reduction in the number of VAT tax rates and the scope for VAT and customs exemptions (an objective for which IMF technical assistance was provided in mid 2001). The lack of prominence given reform in this area may have been related to the absence of imminent fiscal pressure and the presence of clear commitment on the part of the authorities to the measures in question.

114. There was virtually no discussion of vertical equity dimensions of tax reform in the program documents although internal comments from review departments did express a more general concern with the low revenue yield and its inadequacy relative to the resources

<sup>68</sup> See Terme (2003) Sections D, E and F for a fuller discussion.

needed to increase social sector spending. Staff have suggested a number of reasons for the low revenue yield, including administrative constraints (including those associated with a progressive tax system), a high share of agriculture in the economy, and significant informal sector activity. Attention was paid to issues of “horizontal” equity, for example, to ensure equal tax treatment between foreigners and locals, but this does not appear to have been motivated primarily by poverty reduction concerns. Staff were concerned with the proliferation of *ad hoc* tax exemptions given to individual businesses, but again, the distributional implications of these exemptions were not considered. However, as discussed below, the proposed PSIA work plan flags the possibility of IMF staff undertaking PSIA of possible future tax reforms in 2004.

### **F. More Selective Structural Conditionality**

115. Consistent with the CPRGS, the thrust of the reform agenda was structural, with SOE reform, private-sector development and resource mobilization (including through the financial sector), figuring prominently. The relative stability of the macroeconomic situation meant that the PRGF-supported program focused on structural reforms with medium term fiscal implications, with trade liberalization, SOCB and SOE reform figuring prominently.

116. The World Bank has the lead role in many of these areas (particularly after the adoption by the Fund of the Guidelines on Streamlining Structural Conditionality in February 2001). One might therefore expect to have seen increased focus and selectivity in IMF conditionality between the 1994 ESAF-supported program and the 2001 PRGF-supported program. With respect to trade liberalization, one might also expect conditionality to have been influenced by the adoption of major bilateral and regional initiatives in the period between the two programs. Both expectations were realized to some degree.

117. The first annual ESAF arrangement contained 11 structural conditions which—apart from four on trade liberalization, were all in areas of the Fund’s traditional expertise (Tables 6 and 7).<sup>69</sup> During the ESAF-supported program, internal briefing papers and review department comments revealed a sensitivity that the Fund not be too “accommodating” of perceived political constraints on the reform process. As such, there was pressure to rely on a significant number of prior actions, particularly in the second Annual Arrangement. Almost half of the nine prior actions were in the areas of trade liberalization and SOE reform and the overall number of conditions almost doubled from the First Annual Arrangement.

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<sup>69</sup> Clearly, counting the number of conditions is a relatively crude measure of the extent of conditionality since specific conditions can represent very difficult levels of policy commitment. Nevertheless, it is a useful starting point for an assessment of streamlining.

Table 6. Structural Conditionality by Type

	Prior actions	Structural performance criteria	Structural benchmarks	Total
<b>ESAF</b>				
1 <sup>st</sup> Year (11/94)	0	3	8	11
2 <sup>nd</sup> Year (02/96)	9	0	12	21
<b>PRGF</b>				
Original Request (04/01)	7	2	2	11
1 <sup>st</sup> review (11/01)	5	2	4	11
<b>Total First Year Program</b>	<b>12</b>	<b>4</b>	<b>6</b>	<b>22</b>
2 <sup>nd</sup> review (06/02)	6	2	9	17

Source: IEO staff estimates based on IMF staff papers.

Table 7. Structural Conditionality by Policy Area

	Financial sector reform	Fiscal reform/ management	SOE reform (equitization/ privatization)	Trade liberalization	Foreign exchange	Monetary policy
<b>ESAF</b>						
1 <sup>st</sup> Year (11/94)	3	2	0	4	0	2
2 <sup>nd</sup> Year (02/96)	5	5	3	5	0	3
<b>PRGF</b>						
Original Request (04/01)	6	0	1	2	2	0
1 <sup>st</sup> review (11/01)	7	0	3		1	0
<b>Total First Year Program</b>	<b>13</b>	<b>0</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>0</b>
2 <sup>nd</sup> review (06/02)	9	3	4	0	1	0

Source: IEO staff estimates based on IMF staff papers.

118. In the end, the number of conditions in the first year of the PRGF-supported program (including both the initial program request and those spelled out in the first review), were close to their level under the second annual arrangement of the ESAF-supported program. This included 12 prior actions, the majority of which pertained to SOCB reforms. Four of the prior actions were in the areas of SOE reform and trade liberalization, motivated by Fund staff's assessment that these were critical for the maintenance of macroeconomic stability. At the same time, and despite an explicit acknowledgement of medium-term macroeconomic relevance, conditionality related to petroleum products and sugar, were omitted because these were considered to be areas in which "Fund staff has no expertise."<sup>70</sup>

<sup>70</sup> Staff Report for the 2001 Article IV Consultation and First Review Under the Three-Year Arrangement Under the PRGF," Box 5, November 2001.

119. There were 10 structural benchmarks and performance criteria in the first year of the PRGF-Supported Program, the majority of which also dealt with the SOCBs. Conditionality on individual bank restructuring plans was included although it also formed part of the World Bank's SAC conditionality given—according to staff—its importance to areas within the mandate of the Fund.<sup>71</sup> Fund staff explained in internal briefing papers that—while they would continue to rely on the Bank to *design* and *monitor* implementation of these plans—the one-year interval between SAC tranche releases could not accommodate the demand of Fund reviews conducted every 6 months.

120. Unlike the first year program (which included the initial request and the first review), the second year program was not completed and did not advance beyond the review intended to cover the second half of 2002. Despite this shorter period, it contained almost as many conditions as the first year program. SOCB reform remained the Fund's major preoccupation, and the program contained an increase in the number of conditions. This occurred despite staff's assertion that “reform of the state-owned commercial banks (SOCBs) proceeded on course and the structural performance criteria and benchmarks were observed, albeit with some delays.”<sup>72</sup> Consistent with staff's assessment that progress has been better than programmed in liberalizing the trade regime, conditionality in this area was eliminated.

121. The maintenance of significant SOCB conditionality partly reflected staff's belief that the earlier, mutually-agreed, targets were not sufficiently demanding. Also, staff noted that—despite the authorities' commitment to the reform strategy—considerable risks remained related to “continued resistance by vested interests to reducing the role of SOEs and from Vietnam's weak administrative capacity, particularly in restructuring the SOCBs.” It was in the face of these risks that staff appear to have decided to maintain a relatively high level of prior actions in the program.

122. To the extent that there were legitimate concerns with political commitment and vested interests, prior actions might have been the appropriate response although this draws into question the widely-held belief that the reform program was strongly owned. With respect to SOCB reform, staff also point to the constraint of implementation capacity. However, if this was a major factor contributing to non-compliance, additional technical assistance (TA) rather than conditionality, would have been a more appropriate response and indeed, Vietnam did receive a significant amount of TA from the Fund on SOCB restructuring in the year leading up to the completion of the second review. At least some of

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<sup>71</sup> Other areas of overlap included SOE reform and the trade system. On SOE reform, PRGF conditionality was designed in “aggregate terms” while that under the World Bank's PRSC were formulated at the “more detailed implementation level.”

<sup>72</sup> “Second Review Under the Three-Year Arrangement Under the PRGF and Request for Waiver of Performance Criteria,” June 2002, page 4.

the slower-than-expected pace of SOCB restructuring might also be attributed to a lack of progress in improving transparency and governance of many large SOEs.

123. On balance, we see evidence of Fund conditionality gravitating toward its traditional areas of expertise (as well as structural areas of macroeconomic significance). However, we see little evidence of greater parsimony in the number of structural conditions either during the evolution of the PRGF program or relative to the previous ESAF program.

### **Aggregate BWI structural conditionality**

124. This section assesses changes in Bank-Fund conditionality by addressing three questions: (i) what has happened to the level and focus of aggregate Bank-Fund conditionality; (ii) to what extent have there been changes in conditionality and the associated division of labor between the Bank and the Fund in areas of shared interest; and (iii) is Bank and Fund conditionality designed to make a meaningful contribution to the major objectives articulated in the PRSP. There is no simple method to aggregate conditionality, making comparison at specific points in time difficult. The nature, timing, and triggers associated with each institution's conditions vary by program and year, depending in part on the structure of the programs being implemented.

125. The analysis covers Bank and Fund structural conditions for lending operations from October 1994 to June 2001.<sup>73</sup> Drawing on original lending and program documents, conditionality is broken down into 21 categories (see Tables 1 and 2 in Annex VI). For the IMF, conditions are extracted from annual arrangements under the ESAF and requests and reviews under the PRGF. World Bank conditionality is drawn from lending documents for adjustment operations, both structural and sectoral. For Vietnam these adjustment operations are the Structural Adjustment Credit (1994), Debt and Debt Service Reduction Operation (1998), PRSC I (2001) and PRSC II (2002).<sup>74</sup>

#### *What has happened to the level and focus of aggregate Bank-Fund conditionality?*

126. A comparison of the level of aggregate structural conditionality before and after the PRSP Initiative is difficult to make given the almost seven year gap between major Bank adjustment credits and the four year gap between IMF-supported programs. What is clearer is

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<sup>73</sup> The period was chosen to reflect a sufficient length of time before and after the PRSP during which Bank and Fund operations were active and—where possible—to incorporate a full ESAF- or PRGF-supported program and Bank-approved adjustment operation.

<sup>74</sup> World Bank conditionality is recorded in the fiscal year in which the associated adjustment operation was approved. The government may have actually felt the burden of conditionality associated with a second or higher tranche at a time different from the approval of the credit. For these—and other reasons—simply adding up the number of IMF and World Bank conditions can be misleading.

the change in the focus of that conditionality, with SOE and financial sector reform increasing in prominence while the number of fiscal conditions, on the other hand, decreased.

127. On the trade side, conditionality increased markedly at the start of the PRGF-supported program and in PRSC I (mid-2001) from earlier credits and programs but fell off rapidly in the second year of the PRGF-supported program and in PRSC II. This likely reflected the coming into effect of the USBTA in December 2001 as well as the acceptance of AFTA obligations, which together signaled a key shift in Vietnamese trade policy.

128. Of particular interest is the significant decline in the number of conditions between the initial Bank-Fund programming at the start of the PRGF (2001) on one hand and the second-year program under the PRGF (2002) and the PRSC II (2003). Most of this reduction was due to a one-third reduction in World Bank conditionality, particularly in the areas of trade, SOE, and financial sector reform. As discussed in Section V(f), the number of IMF structural conditions did not decline, despite the IMF's streamlining initiative.

*In areas of shared interest, to what extent have there been changes in conditionality and the associated division of labor between the Bank and the Fund?*

129. There was a noticeable shift in the division of labor between the Bank and the Fund on SOE and financial sector reform from the first to the second year of the PRGF and from PRSC I to PRSC II. The Fund took more of a leading role in financial sector reform over time. On SOE reform, the reduction in the number of Bank conditions led to a more even distribution between the Bank and Fund. This does not, however, imply that the two institutions were equally involved in the *design* or *monitoring* of SOE-related conditionality. Rather, our interviews suggested the Bank retained a leading role and the significant decline in SOE conditionality in Bank operations appears to have arisen to give the authorities more "policy space" rather than being due to a reallocation of institutional responsibilities. The Fund maintained its level of conditionality in the SOE sector, but consistent with the broader reform strategy agreed between the Bank, Fund and the authorities, conditions were not targeted to the most macro economically significant SOEs.

*Is Bank and Fund conditionality (at least post-PRSP) in line with the policy priorities outlined in the PRSP and designed to make a meaningful contribution to the major objectives articulated in the PRSP?*

130. The aggregate conditionality and CPRGS priorities are broadly consistent with focus on SOE reform, support for a viable domestic financial system, and institution building and transparency. The inclusion of prior actions and triggers in the social, land and environmental sectors, and of conditions specific to strengthening the CPRGS processes also suggests alignment with the CPRGS. Fiscal conditionality, on the other hand, was concentrated on the revenue side, with little conditionality related to expenditure management or treasury systems—both areas of weakness from the standpoint of improving transparency in the allocation of resources, a precondition for improving the alignment of the PRSP with Vietnam's budget cycle and spending priorities.

### G. Poverty and Social Impact Analysis (PSIA) of Major Macroeconomic and Structural Reforms

131. Internal briefing papers indicate that concerns with the need to protect—and enhance—priority social expenditure appeared well before the launch of the PRSP Initiative although it is hard to assess the specific impact of these concerns on Fund policy advice.<sup>75</sup> The most notable *a priori* effort to mitigate the impact of reform measures on the most vulnerable was in the SOE sector where a social safety net was adopted for displaced workers. Based on work undertaken at the World Bank by Belser and Rama (2000), modifications were made to the GoV's Enterprise Restructuring Fund.<sup>76</sup> These changes figured prominently in the World Bank's PRSC I and the costs of these modifications were integrated into the budget and the PRGF-supported program.

132. Around this time, IMF review departments were pointing to the distributional impact of SOE and SOCB reform to encourage the mission to work with the Bank on a social impact analysis to ensure that necessary countervailing measures (*additional* to the safety nets that have been designed for displaced SOE workers) were built into the program. The World Bank did commission work to assess the effects of trade liberalization reforms using a computable general equilibrium model.<sup>77</sup> However, while this exercise concluded that liberalization would benefit all income groups, methodological shortcomings identified by Bank staff made it difficult to use the study to identify distributional impacts of proposed reforms. (The World Bank is currently assessing the impact of WTO accession using a richer combination of aggregate modeling and microeconomic simulations.)

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<sup>75</sup> As one of the case studies in the 1998 pilot on improving Bank-Fund collaboration (implemented in response to the recommendations of the IMF-sponsored External Evaluation of ESAF), Bank and Fund teams were required to “identify the agenda for reforming systems of social protection and social service delivery...they were to prepare explicit *ex ante* assessments of the effects of macroeconomic and structural adjustment on vulnerable groups and of relative price changes on the volume of social spending. The policy implications of these assessments and requisite measures to strengthen social safety nets [were to] be integrated in program design.” While it was acknowledged that the availability and comprehensiveness of data may not be adequate to identify vulnerable groups, guidance to staff argued that it should be possible to begin work immediately in the pilot countries which were chosen *in part because of the availability of survey data amenable to the analysis required*. It was also expected that social impact assessments would themselves prompt improvements in the quality and availability of data. This initiative was overtaken by the creation of the PRGF without any systematic assessment of progress being undertaken.

<sup>76</sup> Rama (2002) also attempted to assess the gender implications of public sector downsizing.

<sup>77</sup> Centre for International Economics, “Integration and Poverty: An Economy Wide Analysis,” November 2002.



133. Building on work undertaken to establish a social safety net for displaced SOE workers, there were plans in the spring of 2003, to undertake a survey of separated workers to assess the adequacy of the assistance provided. Beyond this, there was little direct integration of the results of PSIA into the design of the PRGF-supported program. Rather, the June 2002 staff report for the second PRGF review characterized the social impact of reforms as “manageable, but difficult to quantify.” It acknowledged labor redundancies arising from SOE reform but predicted significant positive impact from trade opening measures and lower domestic prices. Staff also attributed the limited focus on distributional issues in the PRGF to the fact that the broad development strategy that was being pursued was delivering strong results on the poverty reduction front.

134. But several times during our interviews, the authorities expressed interest in receiving additional analytical support to assess the impact of various aspects of economic reform, particularly the impact of trade liberalization on vulnerable groups and the implications for income inequality from uneven economic growth. Responding to this in the Spring of 2003, Fund and Bank staff agreed to a structured agenda of PSIA. In addition to ongoing work on SOE reform, they identified the impact of trade liberalization on poverty as the PSIA priority for the next 6 to 18 months. (PSIA on WTO accession was underway by September 2003, building on earlier joint work with a Vietnamese economic research institute). PSIA on the effects of possible future tax reforms was considered to be the next priority.

135. The delay in formulating a timetable and agenda for PSIA may have reflected the sense among some of Fund staff that—since the PRGF-supported program was not programming “anything harsh”—there was no strong need to assess the extent to which the program had serious distributional or social impacts. Moreover, some staff did not consider distributional issues to be particularly central to the mandate of the Fund. Another factor is the human resource constraints noted by some Fund staff associated with the significant turn over of key Bank staff working on Vietnam in 2002.

136. The donors with which we met did not consider themselves to have been well integrated into PSIA deliberations, but a number indicated an interest in providing support for these efforts. Their ability to provide such assistance would, in their opinion, require that Fund missions were more open and interactive with them in identifying PSIA needs.

## **H. Measures to Improve Public Resource Management/Accountability**

137. One of the most direct contributions of the PRGF-supported program to improving the transparency of public resource management was in the SOCB sector where conditionality required audits of the largest SOCBs.<sup>78</sup> The program also sought to establish a debt and budget support monitoring system targeted at 200 large SOEs. These efforts

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<sup>78</sup> While not subject to Fund conditionality, the PRGF-supported program also encouraged the authorities to bring extra budgetary funds into the budget framework.

bolstered and complimented the work of the World Bank and donors to improve public expenditure management more generally.<sup>79</sup> Particularly noteworthy was the decision of the authorities in 2001 to publish their Article IV staff reports and to establish a Vietnam page in the Fund's International Financial Statistics (IFS).

138. Movement in this direction began well before the PRGF-supported program. For example, the 1994 ESAF-supported program sought to improve the budget process through by—among other things—requiring the draft budget law to be presented to the National Assembly. Nevertheless, the JSA for the CPRGS makes clear that public resources management in Vietnam fell significantly short of international best practices. In particular, and despite recent efforts at the sectoral level, the government still lacks a rigorous and transparent Medium-Term Expenditure Framework (MTEF). The IMF has also identified shortcomings in the manner in which central bank resources are managed.

### **I. Bank-Fund Collaboration**

139. The evolution of Bank-Fund collaboration was dominated by the fact that there were few short-term macroeconomic concerns and IMF staff were mainly concerned with structural issues affecting medium- and long-term macroeconomic prospects, including fiscal sustainability. This structural focus brought the PRGF-supported program into areas in which the Bank was assumed to take the lead which colored the evolution of collaboration.

140. In the field, the quality of collaboration between the Bank and the Fund was enhanced by the decision—apparently at the request of the authorities—for a tripartite negotiation structure (i.e., whereby key issues would be discussed in joint meetings between the authorities and Bank and Fund staff). Interviews with Fund staff suggested that the request was motivated by perceived shortcomings in the consistency of Bank and Fund negotiating positions and priorities. However, we were able to neither confirm nor refute this view.

141. While collaboration at the working level was generally considered to be good, some of the Bank and Fund staff and donors expressed concern with the impact on the quality of collaboration of the difference in organizational structure between the Bank and the Fund. Specifically, the World Bank had devolved much of its decision making authority to a Country Director stationed in Hanoi supported by a large number of Hanoi-based staff while Fund authority resided in Washington with few Fund staff in Hanoi. Some people believed that this configuration had created confusion or inefficiency in discussions between the Bank and the Fund. To some extent, the appointment by the Fund of a Senior Representative (a B-

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<sup>79</sup> Much of this work—which drew on the World Bank and donor-financed Public Expenditure Review in 2000—was implemented through the World Bank's PRSC. In March 2003, the Bank also began implementing a Public Financial Management Reform Project to address weaknesses in multi-year fiscal planning, the monitoring of actual spending behavior and other shortcomings in transparency and accountability.

level staff member) mitigated these problems, but it was the view of a number of the stakeholders with whom we spoke (both among the authorities and within the donor community) that the authority delegated to the Senior Resident Representative was too limited and that key decisions were still made in Washington without sufficient consideration for the country context. It was also suggested that difficulties in communication may also have resulted from more complex lines of authority within the Bank as well as the sheer number of Bank staff—both at headquarters and in Hanoi—working on Vietnam.

142. At the level of content, as discussed, the respective objectives of the Bank and the Fund with respect SOE reform were not in complete harmony. Interviews with Fund staff and comments from review departments characterized the Fund's interest in SOE reform from its fiscal standpoint.<sup>80</sup> The Bank's strategy—while acknowledging fiscal considerations—had a different emphasis (i.e., to promote private-sector development), relying to a significant extent on the demonstration effects and potential longer-term efficiency gains from large numbers of equitizations (mainly of small and medium-sized SOEs). We found no explicit recognition in IMF staff reports of this difference or its implications for coordination. Discussion of Bank-Fund collaboration in staff reports tended to be superficial, mostly providing a description of the division of labor when a frank and transparent assessment on the interplay of respective efforts and program objectives would have been useful. Internal documents were somewhat more candid, but still did not address fully the potential coordination issues raised by the streamlining of structural conditionality in the SOE area.

143. The apparent absence of a substantive debate about the degree of coherence between the objectives of the Bank in an area in which it had the acknowledged lead role and the Fund's fiscal objectives points to a potential pitfall in the push for a clearer division of labor in areas of overlapping mandate. To the extent that limitations on the approach adopted were the result of a compromise with the authorities on what was possible (as was noted in staff reports), one would still have expected a clearer assessment of the impact of the accepted approach. Staff reports and internal memoranda went some way in this direction, noting how little SOE debt was being addressed through the approach adopted<sup>81</sup> In the end, Fund staff sought to compensate for the perceived shortcomings in the structural reform agenda with quantitative conditionality on credit growth. As discussed, this may not have been the most effective way to address the problem and it resulted in ongoing conflict with the authorities.

144. Another area in which Bank-Fund collaboration appears to have led to a less-than-satisfactory result was with respect to SOCB reform. Here, Fund staff identified a risk of

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<sup>80</sup> In comments provided as part of the Fund's review process in August 2000, it was argued that the number of SOEs equitized was not in the Fund's area of responsibility.

<sup>81</sup> *Vietnam—Request for Three-Year Arrangement Under the PRGF, International Monetary*, March 2001, paragraph 47.

“some confusion and possible duplication” in the area of SOCB reform and expressed concern about the adequacy of the targets agreed to with the World Bank, considering their quality to have been sacrificed in pursuit of “Bank-Fund collaboration.” This led to a situation where internal staff memoranda were warning about the commitment and performance of the authorities in pursuit of SOCB reform.<sup>82</sup>

145. On balance, scope remains to improve Bank-Fund collaboration both in the manner in which differences in the mandates and objectives of the two institutions are addressed and reflected in the design of conditionality and in reporting to the Board on reforms in areas of overlapping interest. There may also be a need to ensure greater coherence between the structure of IMF decision making authority and that of the World Bank.

## **VI. VALUE-ADDED OF THE PRGF-SUPPORTED PROGRAM**

146. Vietnam had strong and stable macroeconomic performance (even in the midst of the Asian Crisis) without a IMF-supported program.<sup>83</sup> Donor support remained strong throughout and there was no pressing financing gap facing the economy. This raises interesting questions about the value-added of the PRGF-supported program. During our interviews, a range of views were expressed on this topic. The authorities clearly welcomed the associated financing (but insisted that they were not dependent on it) and assigned some value to the signal the program framework provided to donors and, perhaps more importantly, to private investors. Along with most donors, a number of the government officials considered the timetable and monitoring framework associated with a PRGF-supported program to be valuable and there was a general feeling that the PRGF-supported program helped catalyze internal support and maintain momentum for the reform agenda. There was a clear consensus on the value assigned to Fund policy advice and technical assistance in areas where macroeconomic challenges were most likely to emerge but this was not seen as inextricably linked to the existence of a IMF-supported program.

147. A number of donors considered the provision of financing by the Fund to be important if the Fund were to retain “a seat at the table” (that is, if it were to credibly participate in discussions on the reform agenda). A few indicated that they considered a PRGF-supported program to be a logical complement to the CPRGS and the World Bank’s PRSC. On the other hand, most donors or government officials did not consider a PRGF-supported program to be essential to the establishment or maintenance of macroeconomic or balance of payments stability given—among other things—the authorities’ demonstrated

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<sup>82</sup> At the same time, staff reports to the Board—reflecting the authorities’ compliance with the agreed targets—were presenting a more favorable picture.

<sup>83</sup> Throughout this period, Vietnam received policy advice from the Fund through regular surveillance and benefited from IMF technical assistance, including from FAD and MAE (now MFD) and, more recently, from the Fund’s Statistics Department.

fiscal prudence. At the same time, a number welcomed the leverage the program provided to more reform-minded constituencies within the government. At a more concrete level, very few of the donors indicated that their level of support to Vietnam would have been significantly affected by the absence of a IMF-supported program.<sup>84</sup> A notable exception was the World Bank which indicated that the existence of a PRGF-supported program positively influenced their level of lending. As noted, the signaling associated with a IMF-supported program was welcome, but not considered essential for ongoing engagement by other donors.

148. The comments of a number of donors left us with the impression that resources provided by the Fund under the PRGF-supported program were viewed more as “burden sharing” with the donor community rather than being linked clearly to macroeconomic (and related structural) objectives embodied in the Fund’s mandate. Playing into the perception of IMF resources as “burden sharing” (which is not an intended mandate of either the IMF or the PRGF) is the manner in which Vietnam’s level of access to Fund resources was determined. In the process of formulating the PRGF-supported program, there was an internal debate among staff as to the appropriate access level. Some within the Fund recommended a level of access higher than the average for second-time users of IMF concessional resources. Others proposed a lower level of access (relative to that for second time users), citing the lack of an obvious financing need and the Executive Board’s request for greater differentiation of access proposals reflecting program strength.<sup>85</sup> In the end, the staff report for the program recommended access equivalent to 88 percent of quota with little explicit justification or reference to other low-income countries in similar circumstances.

149. Another issue that emerges from this discussion, is the inevitable tension between the a “country driven and owned” approach to PRGF program design and the perception of the Fund as a “catalyst” for reform within a country. There is a perception that the Fund has—to varying degrees—used the resources associated with programs to provide support or “tilt the balance in favor of” reform-minded elements in government. This is certainly the case in Vietnam where some IMF staff have characterized Fund financial support as providing “leverage” to press the authorities on macro-relevant structural reforms such as those in the SOCB or SOE sector. The reconciliation of PRSP/PRGF principles with the role of the Fund as a catalyzer of reform sentiment—i.e., as an agent of change—within a country is not a simple matter since it is rarely the case that domestic support for a reform agenda will be homogenous within governments, let alone across societies. As such, the PRSP/PRGF initiative may need to accept that concepts like “ownership” and “country driven” are

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<sup>84</sup> This is consistent with the fact that no significant withdrawal or diminution of donor support resulted when prolonged difficulties were encountered in completing the most recent program review.

<sup>85</sup> It was pointed out that 88 percent access had been proposed back in 1998 in the context of unsuccessful program negotiations on a program that was considered to have been much stronger than the program under consideration at the end of 2000.

questions of degree. The challenge is therefore for staff to exercise reasonable judgment in determining when there is sufficient domestic ownership of a reform agenda while continuing to advocate their views as part of a more broad-based policy debate.

150. Another question that emerges from the Vietnam experience is whether or not the PRSP/PRGF initiative has generated an expectation that a country with a PRSP—even one without an obvious need for IMF financing—would be expected to have a PRGF-supported program. Were this to be the case, it would have implications for the Fund’s role in low-income countries more generally, including the manner in which the Fund dealt with issues of prolonged use of Fund resources in PRSP countries.

## **VII. CONCLUSIONS AND LESSONS**

151. Vietnam is—in many ways—atypical of many low-income countries, particularly given the extent of domestic ownership for the reform process, the breadth and level of donor support, its strong tradition of consensus-based decision making, and its high literacy rates). In a number of respects, this limits the extent to which the lessons of Vietnam can be extrapolated to other country situations. Nevertheless, a number of lessons emerge.

### **A. Relationship to Indigenous Planning Processes**

152. While Vietnam does have its own indigenous medium-term planning processes, most individuals with whom we met saw value added in the CPRGS. However, the GoV remains committed to using the SEDP process as the paramount mechanism to articulate its policy agenda. Comments from donors and the BWIs, on the other hand, suggest that the CPRGS should be the central document. Consistent with this difference of opinion, the SEDPs are more widely known within Vietnamese society and the CPRGS is better known among international stakeholders.

153. There has been some discussion of merging the processes but there is no final decision or concrete timetable for achieving this. Perhaps more problematic is how reform priorities will evolve from a merging of documents given the SEDPs’ emphasis on growth and industrialization and the CPRGS’ stronger focus on poverty reduction. Moreover, the SEDPs are drafted on the basis of resolutions passed by the Communist Party; with the GoV tasked with developing mechanisms for implementing the plans. While in practice, the SEDPs and the CPRGS are consistent, the stakeholders involved in the articulation of the SEDPs (i.e., Party members) are a subset of those involved in the preparation of the CPRGS. Nevertheless, the merging of these two processes would be an important part of any effort to clarify policy priorities and guide budgetary allocations.

154. It might be beneficial were the authorities—in consultation with the full range of stakeholders—to discuss at an earlier opportunity how best to integrate the CPRGS and the SEDPs processes in such a way that national ownership is protected and encouraged while at the same time, the needs and expectations of international partners are addressed. The resulting product should also be more clearly linked to the internal budgetary process and resources allocations. The significant progress made over the last decade in reducing poverty

in Vietnam suggests that the authorities are—as one donor representative said—“doing something right” and this should raise the comfort level of the international community with a poverty reduction strategy that is truly home grown and country driven.

### **B. Joint Staff Assessment**

155. Judging from the improvement in the CPRGS in areas that had been identified as shortcomings in the JSA for the I-PRSP (e.g., governance, gender issues, etc), it appears that the JSA had at least some influence on the authorities. At the same time, the JSA does not appear to have received much attention outside of the government or the Bretton Woods Institutions. This may not be a serious shortcoming given the number of well-established channels through which donors can express concerns to the authorities.

156. That said, if the JSA is to serve its purpose of informing the Boards of the Fund and the Bank, it does need to provide a clear and frank assessment of the CPRGS. Along these lines two omissions from stand out. The first was that lack of an explicit acknowledgement that—as a result of ongoing disagreements with the authorities over GDP data—the macroeconomic framework in the CPRGS differed meaningfully from that contained in the PRGF-supported program. The second shortcoming was the JSA’s failure to provide an accurate description of the relative roles of external agencies and the authorities in the participatory exercise. This is not necessarily to suggest that the level of involvement of external agencies was not appropriate given the authorities’ capacity constraints, but it should have been more accurately described in the JSA.<sup>86</sup>

### **C. Macroeconomic Framework**

157. While the articulation of the macroeconomic framework in the CPRGS was “country-driven”, little participatory discussion went into its formulation. A range of reasons were given for this including a reported lack of interest in participatory discussions on the part of the authorities, civil society and donors (partly stemming from Vietnam’s macroeconomic stability) and the limited capacity within civil society to partake in such discussion. That said, Vietnam does have macroeconomic challenges over the medium and long term that will have a bearing on broader socio-economic development.

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<sup>86</sup> A larger issue is the extent to which the standard conclusion at the end of every JSA that, in the view of Bank and Fund staff, the PRSP “provides a sound basis for Bank and Fund concessional assistance” is meaningful. Given the desire of the BWIs not to undermine ownership, it would be unlikely that the JSA would conclude that a PRSP did *not* provide a “sound basis for Bank and Fund concessional assistance.” Were this to be the case, the PRSP would likely not have been brought forward. That said, the staff conclusion has led to concerns with the impact on country ownership of what some have characterized as BWI approval of PRSPs. Consideration should be given to eliminating this conclusion.

158. If the participatory expectations of the PRSP-initiative are to be met—a sustained effort may be needed over the longer-term to build domestic capacity for meaningful participation in discussions of the macroeconomic framework. Such a strategy would need to promote understanding of the relevance of the macroeconomy to poverty reduction. However, within the current political context, there are limits to what could be achieved.

159. The IMF has the potential to support these efforts but the parameters of such involvement would need to be considered as part of broader discussions of the role of the Fund in low-income countries and would require the support of the respective authorities.<sup>87</sup> Fund staff (including Resident Representatives) working on Vietnam have been provided with little guidance on their role (if any) in fostering the conditions for such longer-term capacity building although the December 1999 Summing Up from the Executive Board discussion on “PRGF—Operational Issues” does note that “Fund staff will need to participate in broad-based consultations on the policy framework, and expected that this would help increase ownership of prudent macroeconomic policies.” Guidance will need to be reviewed in the period ahead and may need to go beyond the “Guide for Staff Relations With Civil Society Organizations adopted in October 2003.”

#### **D. Streamlining Conditionality**

160. Given Vietnam’s reputation for ownership of its reform program, it could be thought of as a ideal candidate for the streamlining of conditionality. What is therefore noteworthy is the heavy reliance on prior actions, the significant increase in the number of structural conditions (from 11 to 17) by the time of the second review, and the use of quantitative conditionality to pursue structural objectives. This seems inconsistent with the spirit of the PRSP initiative, the country-driven nature of the process, and staff’s assertion that reforms in the area witnessing the greatest increase in conditionality were “on course.” It would therefore have been reasonable to have required staff to provide a clearer explanation of the reasons for a significant increase in conditionality during the course of a PRGF-supported program. More generally, the case of Vietnam highlights the importance of the PRSP providing a clear operational roadmap on all key policy reforms if it is to serve as the basis for a streamlining of conditionality (and , as discussed next, an effective division of labor between the BWIs).

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<sup>87</sup> A similar point was reached by the Fund’s Executive Board in the context of its review of progress in the implementation of the PRSP Initiative (September 2003) where “Directors saw an important role for the Fund in informing this dialogue [i.e., discussion in the public domain of the macroeconomic framework] through continued outreach efforts to the authorities, civil society, and donors.”



### **E. Division of Labor Between the Bank and the Fund on Conditionality**

161. Despite a clearer division of labor between the Bank and the Fund on structural conditionality, there were shortcomings with respect to the coherence of the overall strategy and its consistency with institutional objectives. In particular, the structure of conditionality in the SOE sector which emphasized achieving large numbers of equitizations of small and medium-sized SOEs, conformed to the Bank's objective of promoting private-sector development. However, it did not address the Fund's medium-term fiscal concerns. While this likely reflected a reluctance on the part of the authorities to tackle inefficiency in the most fiscally relevant SOEs, it led Fund staff to attempt to tackle the problems in the largest SOEs through the less direct channel of quantitative conditionality on credit growth.

162. This suggests that, in structural areas of relevance to the Fund but for which the World Bank has the lead, conditionality should be conceived of, and presented in, a more integrated manner. This should go beyond a simple description of the division of labor to include a substantive discussion of the consistency of Bank and Fund objectives and the extent to which the strategy adopted will address macroeconomic concerns. Where relevant, the relationship of quantitative conditionality to structural objectives should be made explicit, especially when quantitative conditionality is being used in pursuit (or in lieu) of structural objectives. In attempting to streamline conditionality it should not be assumed (nor is it always appropriate) that Bank and Fund objectives are identical. Where differences in approach or priority exist, this needs to be discussed more explicitly in staff reports.

### **F. Rationale for a PRGF-Supported Program**

163. The Vietnam case raises questions about the value added of IMF involvement in a low-income country that has achieved macroeconomic stability and strong growth. On the one hand, the Fund's involvement through the PRGF—particularly through the provision of concessional financing—was welcomed by the majority of groups and individuals with whom we spoke. On the other hand, the level of resources provided exceeded the average for second-time users, without any clear justification for the deviation and without a pressing financing gap. While difficult to assert definitively, the extent of the Fund's financial involvement may have had more to do with “burden sharing” considerations and the desire to provide sufficient resources to have a “seat at the table.”

164. We encountered a sense within the donor community that a PRGF-supported program was a logical counterpart to a PRSC credit. Were this rationale to be widely held, the PRSP framework may have created a presumption for a Fund program de-linked from considerations related to the Fund's mandate.<sup>88</sup> Given the limited resources available in the

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<sup>88</sup> It might also contribute to unwarranted prolonged use by some Fund members. See IEO's Evaluation of the Prolonged Use of Fund Resources, at <http://www.imf.org/External/NP/ieo/2002/pu/index.htm> and <http://www.imf.org/external/np/sec/pn/2003/pn0349.htm>

PRGF subsidy account, such a rationale—were it to be entrenched—would not be without its opportunity costs to other PRGF users. This suggests that a clearer justification for a PRGF-supported program, including its associated level of access, is required.

### G. PSIA

165. There was useful PSIA undertaken prior to the adoption of the PRGF-supported program and PRSC I, particularly with respect to the impact of SOE reform on displaced workers. However, the articulation of a medium term agenda for PSIA occurred two years following the design and approval of the PRGF-supported program. Some of this lag has been attributed to human resources constraints and staff turn over.

166. To the extent that the ultimate goal is that the results of PSIA are integrated into program design, IMF staff should—at an early stage and in consultation with stakeholders (and the World Bank, in particular)—draw on the PRSP to identify areas in which PSIA is needed (even if resources to undertake the analysis are not available at that time). Based on the *identification of needs*, an agenda and timetable of PSIA work should be articulated by BWI staff. Where resources are not readily available within the Bank or the Fund to undertake the PSIA in a timely manner, staff should be encouraged to approach other stakeholders (e.g., bilateral donors) to prepare assessments or work with domestic stakeholders to identify and meet PSIA needs. This would be consistent with expanding the “results-based” approach of the PRSP framework to include a clearer delineation of what the BWIs are expected to deliver.

### H. The Fund and Civil Society

167. Given the importance of domestic ownership and broad-based participation to the PRSP and the PRGF requirement of broad participation in the formulation of PRGF-supported programs, it is increasingly important for the Fund to have an understanding of, and establish working relationships with, stakeholders outside of central agencies. While Fund missions meet with stakeholders outside the Fund’s traditional circle of interlocutors more frequently than before, it is not always clear what staff are supposed to take away from such contacts nor is there clarity among the interlocutors as to what the Fund is hoping to achieve through its contacts with civil society. This had led to a degree of cynicism on the part of some within civil society who question the extent to which their views have any impact on the work of the mission and whether or not these meetings take place largely for the sake of optics.

168. Mission staff should be provided with greater clarity on the objectives of, and motivations for, contacts with, civil society.<sup>89</sup> These should be explained clearly to representatives of civil society. More generally, if these efforts are to produce meaningful

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<sup>89</sup> IMF management has recently produced a *Guide for Staff Relations With Civil Society Organizations* which addresses some of these concerns.

results, IMF staff should be encouraged, with appropriate incentives, to develop the skills required to communicate and discuss macroeconomic issues in a manner that is more easily grasped by non-economists.

### **I. The Role of the Resident Representative**

169. The importance of broad-based ownership and participation implies greater emphasis on longer-term relationship building between the Fund and domestic stakeholders. Fund Resident Representatives are uniquely placed to develop such relationships, the benefits of which are evident in Vietnam where the close rapport between the authorities and IMF Resident Representatives has contributed to an atmosphere of trust resulting in mutually beneficial dialogue. The relationship between the IMF mission leader in Washington and the Fund Resident Representative appears to have been close and productive throughout most of the period under study. As with most successful relationships, the collaboration and communication was largely informal manner. However, such a fortunate configuration of styles and personalities may not always be in place. In such a case, and particularly in a PRSP/PRGF country, this could be problematic and undermine the extent to which insight into ownership issues and internal political dynamics are reflected in program design.

170. In order to better capitalize on this relationship, efforts should be made to ensure that headquarters integrates the Resident Representative into program negotiations and surveillance work in a more systematic manner. This would require a more structured involvement of the Resident Representative in the early stages of preparing briefing memoranda prior to missions. One possible approach to ensure that the Fund obtains the full benefit from a successful Resident Representative would be for comments from the Resident Representative to be circulated and integrated into the preparation of mission briefs in a manner similar to that used for comments from departments outside the area department.

171. Also of note is the potential for the Resident Representative—when provided with sufficient resources—to help nurture the pre-conditions for a meaningful participatory discussion of the macroeconomic framework. Again, Vietnam provides a good example of what is possible (even in a society where public debate is not encouraged). As with staff in general, it also underlines the importance of ensuring that Resident Representatives possess the skills necessary to communicate economic issues into language that is accessible to a broader group of stakeholders (including non-economists) and that they possess a willingness to undertake outreach beyond the Fund’s traditional interlocutors.<sup>90</sup>

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<sup>90</sup> The role of the IMF Resident Representative was—at the time of this evaluation—under review by IMF management. This was partly motivated by demands being placed on the Fund by the PRSP/PRGF process and the acknowledgement that this bestows “considerable responsibility” on IMF Resident Representatives in PRGF countries who must now “be fully equipped and ready, whenever the authorities request it, to play an active role in the PRSP process, in both advisory and participatory capacities.”

**Major Policy Issues**

Document	Major Issues
Request for the Second Annual Arrangement Under the ESAF February 1996	State-owned enterprise (SOE) reform Land policy Commercial bank reforms
1996 Art. IV Consultation and Midterm Review Under the Second Annual Arrangement under the ESAF Nov. 1996	
1997 Art. IV Consultation, December 1997	SOE reform Financial sector reform Trade reform
1999 Art. IV Consultation, May 1999	SOE reform Banking system reform Trade reform
2000 Art. IV Consultation , July 2000	SOE reform State-owned commercial bank (SOCB) reforms Private sector development
Request for Three-Year Arrangement under PRGF, March 2001	SOE reform SOCB reform Trade reform
2001 Art. IV Consultation and 1st Review under PRGF, and Request for Waiver and Modification of Performance Criteria Nov. 2001	SOE reform SOCB reform Trade reform
Second Review under the Three-Year Arrangement under PRGF and Request for Waiver of Performance Criteria June 2002	SOE reform SOCB reform Safeguards assessment

Land policy: Clarifying nonagricultural land-use rights.

Financial sector reform or banking reform: address problems faced by state banks (nonperforming loans) and joint stock banks (weak financial position).

Staff urging the passage of state banks and commercial banking laws.

**OVERVIEW OF VIETNAM’S CPRGS POLICY MATRIX 1/**

**A. Macroeconomic and Structural Policies to Promote Economic Growth, Raise Income and Create Opportunities for the Poor**

*I. Create legal environment for fair and competitive business*

1. Create a fair business environment for different forms of enterprises and increase the transparency of regulations and policies.
2. Reform SOEs to strengthen efficiency and competitiveness.

*II. Create a stable macroeconomic environment*

- |  |   |
|--|---|
| 1. Fiscal policy and PEM:  | Implement appropriate fiscal policies to safeguard medium-term sustainability<br>Increase budget transparency to improve the information base for decision-making and target setting.   |
| 2. Monetary policy:  | Implement prudent monetary policy to control inflation<br>Reform banking sector and financial organizations to mobilize domestic capital resources<br>Foreign exchange policies to increase competitiveness, liberalize the current account |
| 3. External debt policies to keep debt service burden at a serviceable level |   |
| 4. Trade policy  | Measures to open trade, promote exports and international integration, and strengthen the country’s competitiveness.<br>Protect poor from negative impact of trade liberalization   |

*III. Public Administration reform: promote grass roots democracy and legal support for the poor*

Accelerate the reform of public administration, providing the poor with knowledge of the Law and their legal rights and obligations.

**B. Policies and Measures to Develop Major Sectors and Areas to Ensure Sustainable Growth and for Poverty Reduction**

*I. Policies and measures to develop sectors and areas and create opportunities for the poor*

1. Develop agriculture and the rural economy to reduce widely poverty
2. Develop industry and urban areas to create more jobs and improve living standards for poor.
3. Develop infrastructure and create opportunities for the poor to access public services.

**OVERVIEW OF VIETNAM’S CPRGS POLICY MATRIX (CONCLUDED) 1/**

4. Training and education:	Build a more equal and higher quality education for people Move towards completion of junior secondary education universalization and illiteracy eradication
5. Health: Improve quality of health services; increase the equity and efficiency of the health care system: concentrate on developing basic health care and community health care.	
6. Develop a modern culture closely lined to the identity of the nation and improve the provision of information to help people expand their capacity to make choices.	
7. Strengthen environmental protection and ensure a healthy environment for the poor.	Strengthen the sustainability of using natural resources in rural areas.
<i>II. Ensure the balanced development, increase gender equity and advancement for women</i>	
1. Promote balanced and sustainable economic growth between regions.	
2. Promote gender equity, enhance the participation of women at all levels of leadership.	
3. Create conditions to enable all social strata to fully take part in economic growth.	
<i>III. Develop the social safety net to support poor and vulnerable people</i>	
1. Minimize social impacts on the poor in the process of adjustment	
2. Minimize impacts of natural disasters on poor	
3. Protect worker rights and working conditions in a market economy	
4. Provide targeted assistance to vulnerable groups.	
<b>C. Monitoring and Evaluation</b>	
1. Improve macroeconomic statistics	
2. Poverty monitoring	

Source: CPRGS, Appendix 3. The full matrix contains a list of detailed measures and a timetable for their implementation.

## Survey Results

### Vietnam

As part of the OED and IEO evaluations of the PRSP Process and the PRGF, a survey of PRSP stakeholders was administered in each of the ten countries where a case study was undertaken. The objective of the survey was to obtain perceptions of the PRSP process and the role of the World Bank and IMF in supporting the initiative.

A standard survey of 39 questions was administered in each country. The full questionnaire can be found on both of the evaluation websites [www.worldbank.org/oed/prsp](http://www.worldbank.org/oed/prsp) and <http://www.imf.org/external/np/ieo/2002/prsp/index.htm>. The survey consists of four main components: information on respondents; the PRSP process (covering ownership, results orientation, comprehensiveness, partnership-orientation and long term perspective); World Bank performance; and the role of the IMF. In most cases, respondents were asked to indicate the extent of their agreement with statements on a five point scale<sup>91</sup>. The survey was translated, into local languages, where necessary, and pre-tested. A local consultant with survey experience was engaged in each country to assist with administration of the survey. Survey results were coded by the local consultant and sent back to Washington and an outside contractor, Fusion Analytics, was hired to analyze the data.

The survey was targeted at key groups within the three main categories of PRSP stakeholders: Government, Civil Society, and International Partners.<sup>92</sup> Within each group, the survey sought to obtain an *institutional view* and was targeted at the most knowledgeable individuals. Respondents were asked to define the nature of their involvement in the PRSP process, and their level of familiarity with the PRSP document, the Bank, and the IMF. Given the targeted nature of the survey, respondents who were “Not Aware” of the PRSP Process were excluded from the results. The specific samples were selected using three main inputs: information gained through the country case study mission; participants listed in the PRSP document; and input from the local consultant. In some cases, samples were circulated to obtain broader input on their composition. The study teams also identified a set of highly relevant respondents in each country for whom a survey response was required. These included core ministries and agencies (Finance, Economy, Central Bank), key PRSP-related ministries (Health, Education, Agriculture, etc.), and major donors. Survey questionnaires

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<sup>91</sup> The five point scales used in most questions offered a range from 1: Completely Disagree to 5: Completely Agree. Respondents could also mark 0 for Don't Know or Unsure.

<sup>92</sup> Fourteen stakeholder groups were identified: Government—central government, line ministries and sector agencies, local government, Parliament—Civil Society—local NGOs, business sector, labor unions, academia, media, religious organization, political party, other—International Partner—donor, international NGO. Results at the stakeholder group level will be presented in the aggregate analysis across all countries.

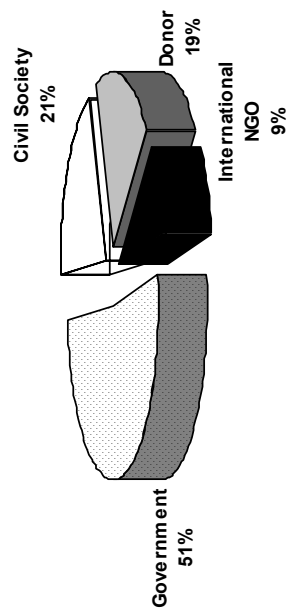
were tracked in order to ensure responses were obtained from key groups, however, individual respondents could choose to remain anonymous.

The following section presents findings from the survey applied in **Vietnam**. Section A provides an overview of the survey respondents, including the nature of involvement and familiarity with the process. Section B provides an aggregated snapshot of stakeholder perceptions of the PRSP process across each of five main sub-categories. Section C1 provides the mean results for all questions concerning the role and effectiveness of Bank and Fund support. Section C2 provides select means by stakeholder group. Section D presents results for questions with the most positive and negative responses and questions where there was the greatest consensus or disagreement on issues.

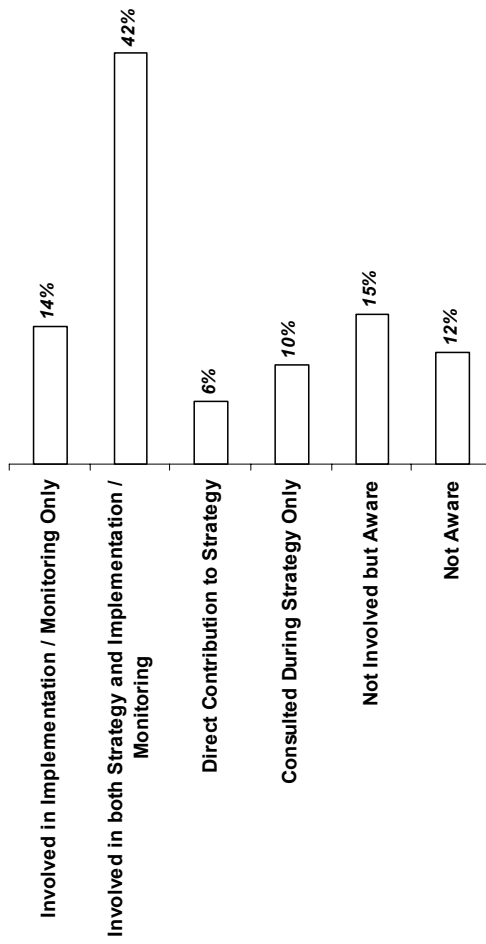


### A. Respondent Information

#### 1. Composition of respondents (n = 78)



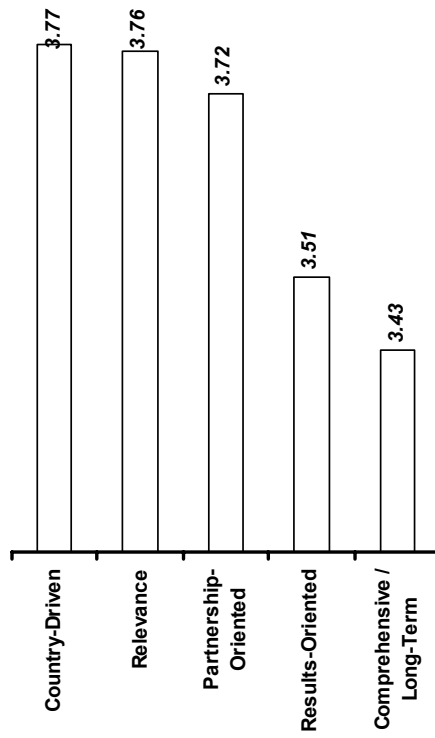
#### 2. Nature of involvement (%)



#### 3. Level of Familiarity

PRSP document	67%
Bank	68%
IMF	37%

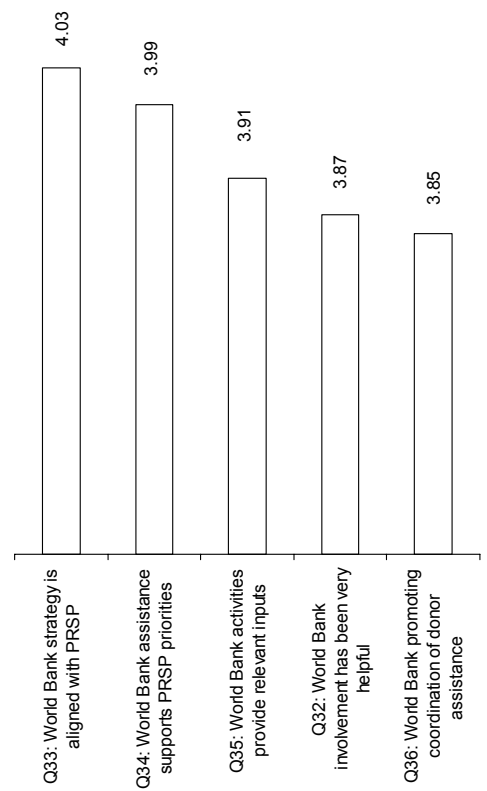
**B. THE PRSP PROCESS**



Based on a five point scale, where 1: Completely Disagree to 5: Completely Agree. Respondents could also mark 0 for Don't Know or Unsure.

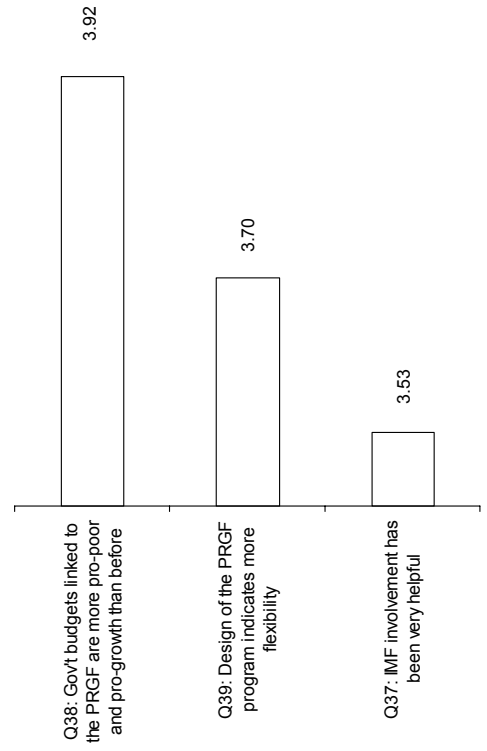
**C1. Bank and IMF**

**World Bank**

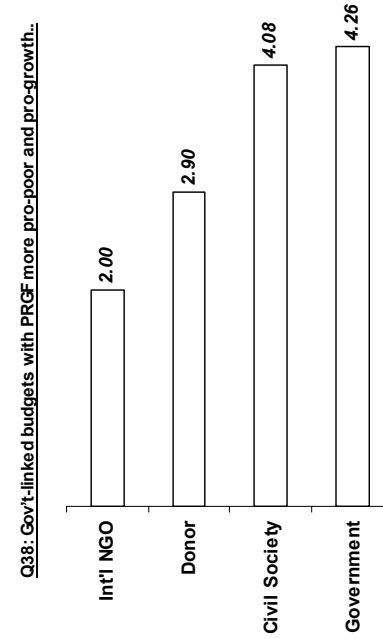
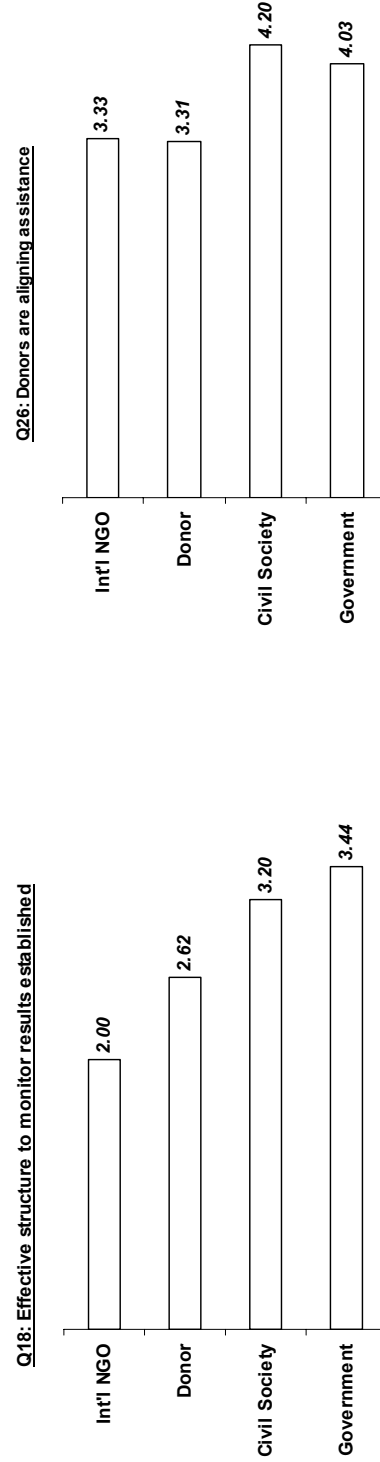
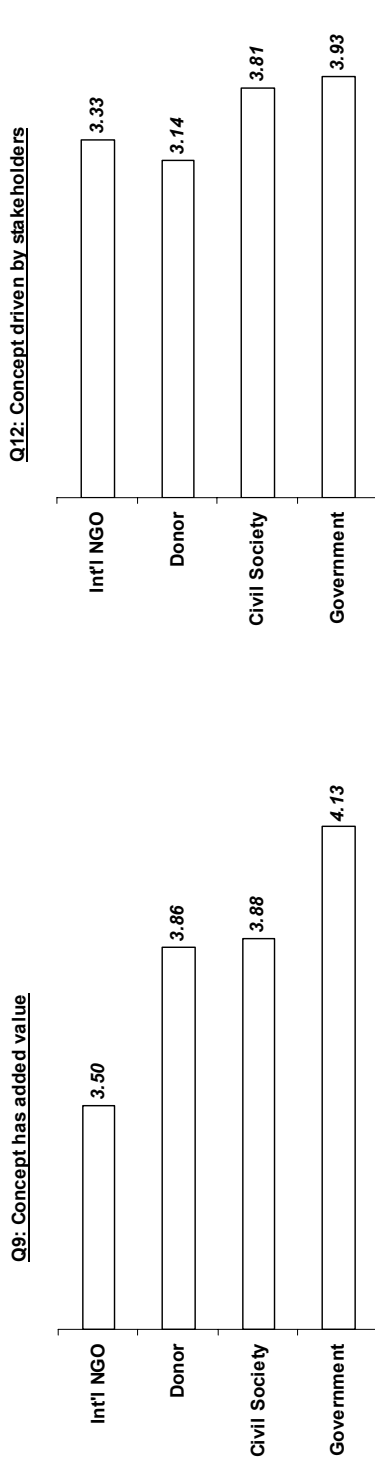


Based on a five point scale, where 1: Completely Disagree to 5: Completely Agree. Respondents could also mark 0 for Don't Know or Unsure.

**IMF**



**C2: SELECT MEANS BY STAKEHOLDER GROUP**



D. Composite Results Table

Question	Percent agree	Percent disagree	Means for highest standard deviations.	Means for lowest standard deviations	Percent don't know or unsure
<b>Most positive responses</b>					
Q8 Relevance: PRSP is a good model	74.4				
Q15 Country-driven: Government continues to engage stakeholders	74.4				
Q9 Relevance: PRSP adds value	71.8				
Q16 Results-oriented: Outcomes benefit poor	71.8				
Q20 Comprehensive: Adequate diagnosis of cause of poverty	65.4				
<b>Most negative responses</b>					
Q18 Results-oriented: Structure to monitor results		28.2			
Q17 Results-oriented: Realistic targets and plans		24.4			
Q19 Results-oriented: Results feed back		24.4			
Q22 Comprehensive: Macroeconomic framework participatory		24.4			
Q21 Comprehensive: Alternatives fully explored		21.8			
<b>Most polarized responses</b>					
Q29 Partnership-oriented: Coordination b/t World Bank and IMF improved			3.67		
Q30 Partnership-oriented: Quality of Bank/Fund collaboration			3.81		
Q13 Country-driven: Your stakeholders were consulted			3.72		
Q14 Country-driven: Final document was modified to accommodate viewpoints			3.67		
Q19 Results-oriented: Results feed back			3.15		
<b>Areas of greatest consensus</b>					
Q12 Country-driven: PRSP driven by national stakeholders				3.71	
Q23 Comprehensive: Balance between growth and poverty reduction				3.47	
Q8 Relevance: PRSP is a good model				4.44	
Q16 Results-oriented: Outcomes benefit poor				4.05	
Q9 Relevance: PRSP adds value				3.97	
<b>Most unfamiliar areas</b>					
Q29 Partnership-oriented: Coordination b/t World Bank and IMF improved					44.9
Q30 Partnership-oriented: Quality of Bank/Fund collaboration					32.1
Q19 Results-oriented: Results feed back					23.1
Q14 Country-driven: Final document was modified to accommodate viewpoints					17.9
Q13 Country-driven: Your stakeholders were consulted					16.7

Note: The percentage of those who "agree" or "disagree" relate to the total that responded to each question. The percentage of "don't know or unsure" is calculated on the basis of the respondents in the sample 78. To determine areas of low level of agreement among the sample (polarization), and high level of agreement (consensus), the means for all the questions were sorted by their standard deviation. The five highest (most polarized) and lowest (greatest consensus) ranking means are given in the table.

### **Other Evaluations of Vietnam’s PRSP Experience** **OED Evaluation of the Comprehensive Development Framework (CDF)**

“Evaluation of the Comprehensive Development Framework (CDF): Vietnam Case Study”<sup>93</sup> (June 2003) is one in a series of six country case studies in an evaluation of the implementation of the CDF by the World Bank’s Operations Evaluation Department (OED) and the Operations Policy and Corporate Strategy (OPCS). The evaluation was overseen by a multi-partner steering committee and conducted by North-South teams. The study assesses the extent to which development work in Vietnam is managed in accordance with CDF principles for effective utilization of aid, and whether the pursuit of these principles has improved the quality of foreign assistance.

- *Long-term, holistic development framework:* The reform agenda has slowly evolved into a more comprehensive structure, with recent efforts to consult widely outside the government. However, the quality of planning may be improved by clarifying political choices, formulating clearer policy goals, and more explicitly linking sector reforms to the country’s overall development objectives.
- *Country ownership:* There is widespread recognition that government ownership is strong at the policy level. However, ownership of individual projects remains weak, particularly in regard to technical assistance projects which are largely donor-driven.
- *Country-led partnership:* The partnership mode of working has led to greater information sharing, transparency, and dialogue among donors, bring about more joint analytical work among donors and more instances of joint financing. On the other hand, this has created greater demands on limited human and administrative resources, especially for small donors.
- *Results orientation:* The Millennium Development Goals have been translated into a set of medium-term Vietnamese Development Targets by the government, which are being incorporated into the CPRGS. While clear targets have been set in the CPRGS, some appear too ambitious. These targets will have to be improved to facilitate institutional accountability.

#### **United Nations Development Programme (UNDP)**

Between August 2002 and March 2003, the Evaluation Office of the UNDP conducted an evaluation of its role in the PRSP process. Vietnam was selected as one of seven country studies. The focus was on six key PRSP outcomes:

1. *National ownership to ensure a country-driven process involving the full participation of government and civil society:* The UNDP office in Vietnam has been

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<sup>93</sup> <http://www.worldbank.org/evaluation/cdf/vietnam.pdf>

- successful in facilitating coordination among donors but needs to ensure the involvement of all parts of government.
2. Broad-based participation of civil society and the private sector in order to transform government ownership into national ownership: The consultative PRS process in Vietnam has gradually led to further participation of non-governmental parties.
  3. Multi-dimensional nature of poverty and pro-poor growth: Monitoring of the MDGs has helped to raise awareness of the complex nature of poverty.
  4. Coherence between PRSPs and other longer-term national planning instruments: The PRSP follows in the footsteps of the government's 10-year Socio-Economic Development Strategy, turning national strategies into action plans.
  5. Development partnerships involving the UNDP and other governments, donors, and civil society: The UNDP plays its leadership role in the Consultative Group.
  6. *Poverty monitoring capacity, which the UNDP can help governments to more effectively achieve*: Because the PRSP in Vietnam is quite recent, monitoring arrangements have not been fully established.

### **Swiss Agency for Development and Cooperation (SDC)**

The “Independent Evaluation of SDC’s Bilateral Engagement in the Poverty Reduction Strategy Paper (PRSP) Process,”<sup>94</sup> commissioned in April 2003, offers a donor perspective on the PRSP experience in Vietnam. Switzerland is the seventh largest donor among the Like-Minded Donor Group. The study notes that times of easy gains in poverty reduction in Vietnam are over, as income inequality continues to rise more rapidly than expected. Certain segments of Vietnamese society, such as ethnic minorities and those living in remote and resource-poor areas, are facing an especially difficult time. Therefore, if stable and strong economic growth is to serve as an essential element of the country’s PRS, that growth must be broad-based and pro-poor. Some goals for future work by donors include:

- *Raising the status of the CPRGS in the context of other government plans and budgets*: Stronger and clearer linkages need to be made between the CPRGS and other government strategies.
- *Aligning the work and objectives of governments and donors*: The CPRGS, being developed after the GoV’s 10-year SEDP allows the CPRGS to become a useful management tool to help donors coordinate and harmonize with one another and with the GoV. The CPRGS framework can serve to guide spending as well as policy, by helping to better plan and deliver foreign aid and by improving the quality of that aid.

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<sup>94</sup> [http://www.deza.ch/ressources/deza\\_product\\_e\\_620.pdf](http://www.deza.ch/ressources/deza_product_e_620.pdf)

### **Nordic countries' evaluation**

The “Review of Nordic Monitoring of the World Bank and the IMF Support to the PRSP Process” was a pilot exercise focusing on the role of the BWIs at the country level. Monitoring was initiated in November 2002 and Vietnam was selected as a case study since at least two Nordic countries have sizable aid programs there. While the findings from seven pilot case study countries are summarized together, many of the recommendations may be applied to Vietnam:

- *Alignment:* Attention needs to be paid to the extent to which the IMF aligns its strategies and lending instruments with government policies and to the PRSP in particular. In Vietnam, the World Bank’s CAS is aligned to the PRSP but needs more explicit budget support.
- *Harmonization:* Where the portfolio is characterized by old-fashioned projects, the World Bank should take the lead in moving away from reliance on project implementation units and off-budget projects to joint implementation.
- *Public expenditure management(PEM):* The Bank and IMF need to be more open in PEM work including through clearer dissemination of assessment findings.
- *Priority public actions:* Links between macroeconomic/structural policies and poverty reduction have been found to be rather mechanistic and need to be analyzed at more depth. The World Bank and IMF should be open to, and promote the formulation of, alternative policy approaches by helping to open up policy debate to public consultation and non-governmental parties.
- *Poverty diagnostics:* The IMF, in theory, supports poverty and social impact assessments (PSIAs), which are supposed to form the foundation of PRSPs. But it remains to be seen whether PSIAs will be systematically applied to policy priorities..
- *Presence at country level:* Ensuring a permanent presence and maintaining a field-oriented focus is essential to the BWI’s operations at the country level. The IMF should extend the World Bank’s efforts to better understand the local context and have more open policy dialogue jointly with the government and other aid partners.

### **Focus on the Global South**

Focus on the Global South (FGS), an NGO based in Thailand seeks to create links between development at the grassroots and "macro" levels. In January 2002, FGS released “Structural Adjustment in the Name of the Poor: The PRSP Experience in the Lao PDR, Cambodia and Vietnam”<sup>95</sup>

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<sup>95</sup> [www.focusweb.org/publications/Research%20and%20Policy%20papers/2002/PRSP.pdf](http://www.focusweb.org/publications/Research%20and%20Policy%20papers/2002/PRSP.pdf)

FGS looked at national ownership issues, institution building, and policy formulation as each country underwent the first stage of the PRS process. The study commends the GoV for maintaining control over PRS formulation and for opening policy development to public debate. But it believes the GoV will need to take better account of those most affected by the PRSP, that is, the poor and vulnerable, if it is to become an effective poverty-reducing guide. The paper makes the following recommendations for Vietnam's poverty reduction strategy.

- *Economic growth:* Priority should be placed on reducing poverty and enhancing equity rather than on increasing economic growth.
- *Monetary policy:* While it is necessary to remove distortions in the monetary sector in a transition economy such as Vietnam, policy makers need to focus more on the timing, sequencing, and sensitivity to local conditions of monetary reforms.
- *SOE restructuring:* While Vietnam's policy matrix contains some explicit language on mitigation measures for those affected by restructuring, sale, or liquidation of SOEs, it does not do enough to provide support for displaced workers.
- *Trade liberalization:* As Vietnam opens its markets to the global community, policy makers will need to deal with the influx of imports.

### **Overseas Development Institute (ODI)**

"Politics and PRSPs: Issues for Long-Term Sustainability" by Tim Conway of ODI (August 2003) examines the political dimensions of the PRS process. This paper on the Vietnam experience is one of four case studies analyzing the relationship between the PRSP and the political environment in which it was developed. The study finds Vietnam to be atypical of countries implementing a PRSP in that it is not highly indebted or particularly aid dependent, and its political system displays greater commitment to poverty reduction and capacity to deliver on this goal. The paper analyzes the following aspects of the PRSP's political interaction in Vietnam.

- *Accountability:* The CPRGS reiterates the fundamental principle that the government is accountable to the people, in terms of its broader policies, performance, and PEM. Its governance provisions include application of the Grassroots Democracy Decree to increase transparency, participation, and accountability at local levels. While the GoV has increased efforts to be more accountable to the people, it still lacks some forms of local accountability, especially in areas where corrupt officials are dominant.
- *Policy space:* The CPRGS has opened up society to a broader range of influences by significantly broadening the government's approach to poverty reduction, by putting in place stronger links between policy inputs and outputs to achieve poverty reduction, and by including a range of external partners in the policy dialogue. However, it remains to be seen if these gains are sustained.



- *Citizen engagement:* Policy change by the GoV has historically taken the form of incremental response to popular resistance. The CPRGS has helped to increase the speed and efficiency of the that response by formally opening up the policy arena to popular participation..
- *Political competition:* Due to its status as a one-party state, political competition in Vietnam is largely defined by factions within the structures of the Communist Party and the government. Through its endorsement of existing initiatives, the PRSP serves to extend that political competition.
- *Donors as political actors:* There has always been an implicit understanding that the CPRGS would have to be acceptable to donors to secure access to concessional lending and other forms of international aid. Not only was the donor community the driving force behind the grassroots and regional consultations, but it was also largely responsible for much of the innovative content accepted by line ministries in the CPRGS. Donors helped the government to recognize that ministries of finance and/or planning should take the lead in coordinating national policy making and public spending for poverty reduction.
- *Political ownership:* It is hard to pinpoint the degree to which the PRSP can be regarded as owned by the GoV. On the one hand, it was not debated in the National Assembly, the general public's knowledge of the CPRGS was shallow, and the PIP contained a fundamentally different pattern of resource allocation. Yet Vietnam did opt into the PRSP process on its own and it does add a lot of value to existing government strategy documents. One test will be how committed provinces are to the CPRGS, since they have considerable power over their policies and public expenditure priorities.

## List of People Consulted

Name	Title	Organization
<b>I. Government</b>		
Nguyen Hoang Long		Ministry of Health
Dang Boi Huong		Ministry of Health
Dr. Le Hong Lam	Deputy Director	Cabinet Office
Dr. Nguyen Hai Huu	Director General, Social Protection Dept.	Ministry of Labour, Invalids & Social Affairs
Nguyen Van Xe	Vice Director	Dept. of Labour, Invalids & Social Affairs (HCMC)
Truong Thanh Hai	Senior Expert, Planning & Finance Dept	Ministry of Education and Training
Dr. Le Van Chau	Member	Prime Minister's Research Group on External Economic Relations
Dr. Le Dang Doanh	Advisor to the MIP – Minister	Central Institute for Economic Management
Dr. Tran Nguyen Tuyen	Deputy Director, General Economic Dept	Central Commission on Economy
Nguyen Ba Khoang	Deputy Director	General Statistics Office
Nguyen Trong Dung	Deputy Director	National Standing Committee on Enterprise Reform and Development
MA. Le Phu Cuong	Head of Foreign Exchange Division, Planning & Statistics Dept	Ministry of Trade
Dr. Truong Thai Phuong	Director General, Dept. of External Finance	Ministry of Finance
Dr. Phung Khac Ke	Deputy Governor	State Bank of Vietnam
Nguyen Thi Kim Thanh	Deputy Director, Monetary Policy Dept	State Bank of Vietnam
Nguyen Khac Thuc	Deputy Director, Foreign Dept	State Bank of Vietnam
Ho Huu Hanh	Deputy Director	State Bank of Vietnam
Dr. Nguyen Thien Nhan	Standing Vice-Chairman,	People's Committee of Ho Chi Minh City
Dang Hui Phap	Deputy Director	State Budget Dept
Mrs. Trinh Kim Hien	Manager	State Budget Dept
Duong Thanh Hien	Deputy Manager	Financial Dept. for SOEs
Mrs. Nguyen Thi Hong Yen	Manager	External Finance Dept
Mrs. Nguyen Xuan Thao	Officer	External Finance Dept.
<b>II. Bilateral Donors</b>		
Bella Bird	Head	DFID (UK)
Simon Lucas	Infrastructure Adviser	DFID (UK)
Vo Thanh Son	Senior Programme Office	DFID (UK)
Alain Fontanel	Directeur de projets, Coordinateur du Forum	Adetef (France)
Philippe Orliange		Ambassade de France
Luc Bonnamour	Directeur de l'agence	Agence Francaise De Developpment (ADF)
Hiroshi Suzuki	Chief Representative	Japan Bank for International Cooperation
Mitsuru Kitano	Minister	Embassy of Japan
Yasukata Fukahori	First Secretary, Head, Economic Division	Embassy of Japan
Frans Makken	Counsellor	Royal Netherlands Embassy
Jessica Levine Adkins	Deputy Chief of the Economic Section	U.S. Embassy
Jennifer L. Bachus Carleton	Economic & Labour Officer	U.S. Embassy
Michael F. Cavanaugh	Economic Officer	U.S. Consulate General (HCMC)
Jean Gilson	Country Manager, Vietnam	USAID
Laura H. Kirkpatrick	Economic Officer	U.S. Consulate General (HCMC)

## List of People Consulted (continued)

Name	Title	Organization
Anders Baltzer Jorgensen	Development Cooperation Counsellor	Royal Danish Embassy
Karl-Anders Larsson	Counsellor	Embassy of Sweden
Amatsu Kuniaki	Senior Project Formulation Advisor	Japan International Cooperation Agency
Paul Kelly	First Secretary	Australian Agency for International Development (AUSAID) (HCMC)
Claude Goulet	First Secretary (Development)	Canadian Embassy
Kathrin Oellers	First Secretary Development Cooperation	Embassy of Federal Republic of Germany
Ngo Huy Liem	Chief Technical Advisor	German Agency for Technical Cooperation
<b>III. International NGOs</b>		
Le Quang Duat	Program Support Manager	Plan International
Jane C. Hughes	Country Representative	Population Council
Ramesh Khadka	Country Director	Action Aid
Charles R. Bailey	Representative for Vietnam & Thailand	The Ford Foundation
Nguyen Dieu Anh	Project Officer Education Program	Catholic Relief Services
David Payne	Co-Director	VUFO-NGO
Chitose Noguchi	Assistant Country Director	CARE
Nguyen Thanh Tung	Program Coordinator	CARE
Trinh Ho Ha Nghi	Senior Project Officer	Save the Children, UK (HCMC)
Pham Thi Lan	National Coordinator	Save the Children, UK
Nick Freeman	Director	Mekong Capital (HCMC)
Michael Mann	Founding President	RMIT International University (HCMC)
<b>IV. Mass Organizations, Think Tanks and Local NSAs</b>		
Tran Du Lich	President	Institute for Economic Research, HCMC
Le Nguyen Hai Dang		Institute for Economic Research, HCMC
Le Minh Thanh		Institute for Economic Research, HCMC
Nguyen Xuan Nga	Deputy Director, Economic and Social Policy Dept	Vietnam General Confederation of Labour
Tran Thi Van Anh	Director	Vietnam National Center for Social Sciences and Humanities
Nguyen Quoc An	Member, National Standing Committee & Director of Society Department	Vietnam Farmer's Union
Nguyen Manh Hung	Vice-Director	Vietnam Farmers' Union
Tran Thi Mai Huong	Permanent Secretary and Director	National Committee for the Advancement of Women in Vietnam
Ta Thanh Hang	Deputy Director	Vietnam Commission for Population, Family and Children
Nguyen Thi Tuyet Minh	Manager	Vietnam Chamber of Commerce and Industry
Pham Thi Thu Hang	General Director	Vietnam Chamber of Commerce and Industry
Nguyen Thanh Binh	Deputy Director	Chamber of Commerce & Industry of Vietnam (HCMC)
Nguyen The Hung	Deputy General Director	Chamber of Commerce & Industry of Vietnam (HCMC)
Dr. Duong Thu Huong	Vice-Chairwoman of the Economic & Budgetary Committee	National Assembly

## List of People Consulted (concluded)

Name	Title	Organization
Jason Folkmanis	Reporter	Bloomberg
<b>V. Media (Local and Foreign)</b>		
Christina Pantin	Senior Correspondent, News & Television	Reuters
Margie Mason		Associated Press
Nguyen Pham Muoi	News Assistant	DowJones
Clare Arthurs	News Correspondent	BBC
Nguyen Quy Lam	Managing Editor	Vietnam Economic Times
To Le Minh	Reporter	The People Daily
Nguyen Khae Hop	Reporter	Law Newspaper
Nguyen Mans Hung	Reporter	Radio of Vietnam
Bui Carn Ha	Reporter	Youth Newspaper
Pham Doc Luan	Reporter	Saigon Times
<b>VI. Multilateral Agencies</b>		
Andrew Jacobs	First Secretary, Head of Cooperation	European Union
Ramesh Adhikari	Principal Governance Specialist	Asian Development Bank
Nguyen Tien Phong	Head, Poverty and Social Development Cluster	UNDP
Kanni Wignaraja	Deputy Resident Representative	UNDP
Daniel Musson	State Owned Enterprise Specialist	World Bank
Nguyen Nguyet Nga	Senior Economist	World Bank
Carrie Turk	Poverty Specialist	World Bank
Klaus Rohland	Country Director	World Bank
Soe Lin	Advisor, Operations Policy and Country Services	World Bank
<b>VII. IMF Staff</b>		
Susan J. Adams	Senior Resident Representative, Vietnam	2001 to present
Ha Thi Kim Nga	Economic Officer	
Champen Puckahtikom	Former Mission Chief	1999-2002
Erik Offerdal	Former Resident Representative	1997-1999
David Cowen	Former Country Economist	2000-2001
Sean Nolan	Mission Leader	2003 to present
Anthony Elson	Former Mission Chief	1999
Dennis deTray	Former Senior Resident Representative	2000-2001

Table 1. IMF Conditionality in Vietnam—ESAF (1994-97), and PRGF (2001-03) 1/

Category of Conditionality	ESAF-Supported Program (1994-1997) 2/			PRGF-Supported Program (2001-03)		
	1st Annual Arrangement (11/04)	2 <sup>nd</sup> Annual Arrangement (02/96)	Total ESAF	Request and 1 <sup>st</sup> Review (03/01, 11/01)	2nd and 3 <sup>rd</sup> Reviews 3/ (06/02)	Total PRGF
Exchange System		1	<b>1</b>	2	1	<b>3</b>
Central Bank Reform	1		<b>1</b>			
Trade Regime	4	5	<b>9</b>	2		<b>2</b>
Public Enterprises <i>Reform/Restructuring/ Privatization</i>		3	<b>3</b>	4	4	<b>8</b>
Fiscal— <i>General Government Tax/Revenue Reform</i>	1	2	<b>3</b>	0	3	<b>3</b>
Fiscal— <i>General Government Expenditure Reform</i>	0	1	<b>1</b>	0	0	<b>0</b>
Fiscal Other	1	2	<b>3</b>			
Financial Sector	4	7	<b>11</b>	12	9	<b>21</b>
<b>Total</b>	<b>11</b>	<b>21</b>	<b>32</b>	<b>20</b>	<b>17</b> 4/	<b>37</b>

Source: IEO staff estimates based on IMF staff reports.

1/ Note that the PRSP was endorsed by the IMF and World Bank Boards in June 2002. During the ESAF, two conditions not met earlier were re-introduced. These were in the fiscal and trade areas.

2/ Agreement was not reached on a Third Annual Arrangement and the ESAF-supported program expired in 1997.

3/ Third Review was not completed.

4/ Includes 2 conditions left over from first review.

Table 2. World Bank Conditionality in Vietnam, 1994-2003

Category	SAC I (10/94)	Debt Reduction (01/98)	PRSC1 (06/01)	PRSC2 (06/03)
Exchange System	1			
Central Bank Reform	1			
Trade Regime	4		11	3
Pricing and Marketing	1		1	
Public Enterprises: Reform/Restructuring/Privatization	7		13	5
Fiscal - General Government Tax/Revenue Reform	4			
Fiscal - General Government Expenditure Reform	5		2	
Fiscal - Treasury Systems				1
Fiscal - Debt Management	2			
Fiscal - Other	1		1	1
Civil Service Reform	1			
Social Security System/Social Safety Net (Social Sector)	2		3	4
Financial Sector	6		17	5
Agricultural Sector				2
Institution Building, Legal and Regulatory Framework, Transparency	5		7	7
PRSP Development and Implementation				3
Other	5	3	1	2
<b>Total</b>	<b>45</b>	<b>3</b>	<b>56</b>	<b>33</b>

Source: OED staff estimates.

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