

Vietnam Development Report (VDR) 2009

Resource Mobilization

A Possible Outline
February 17, 2008

The annual Vietnam Development Report (VDR) series is an important vehicle to communicate with government and the broader community, including donors. VDRs influence the reform agenda, build consensus among thinkers and the public at large, harmonize upstream with donors, and position those involved as substantive contributors of knowledge and expertise.

VDRs are launched at the main Consultative Group meeting, in December, in English and Vietnamese. A more polished version is printed towards the end of the winter. Several thousand copies of each VDR are distributed over the years in both languages, and seminars and workshops with academics and policy makers are conducted over a long period to discuss their content. The topic for the VDR is usually decided at the beginning of the calendar year, if not earlier than that, based on the availability of key inputs. However, its preparation takes place mainly between September and November. A World Bank team is in charge, but the outline, messages and content are discussed in detail with a Steering Committee composed of participating donors and a Reviewing Committee involving Vietnamese counterparts who are recognized as experts on the topic.

However, the experience with the preparation of VDRs in 2006 and 2007, *Aiming High* and *Social Protection* respectively, tested the limits of the current approach. Admittedly, the *Aiming High* report involved a massive consensus building effort around the reform agenda in the Socio-Economic Development Plan (SEDP) 2006-2010. This effort, rather political in nature, resulted in its signing by 16 donors. The associated transaction costs were unusually high, but standard reports involve a smaller number of donors and focus on more technical issues. It is also clear that the preparation of the *Social Protection* report started later than usual. This was due to the protracted transition in management at the World Bank office which, again, should not affect subsequent reports. But the broader model in which the economic team of the World Bank works intensely on Poverty Reduction Support Credits (PRSCs) from December until June, and on VDRs from August to December, may need to be replaced by a two-track approach, one involving parallel work on the analytics and the policy dialogue all year long.

In such spirit, the current note proposes a few ideas for the VDR 2009, both on substance and on process.

SUBSTANCE

The VDR series for this five-year cycle started with one report (*Aiming High*) "reading" the five-year Socio-Economic Development Plan (SEDP) 2006-2010 and translating it into an actionable policy reform agenda and a monitorable set of indicators.

This comprehensive report is to be followed by four VDRs dealing in more depth with the reform agenda for each of the four pillars of the SEDP, namely: economic, social, environmental and institutional. First among them was the 2008 VDR on *Social Protection*. Starting with the social pillar was justified in part by the forthcoming legislative agenda, which will include the passing of the health insurance law, the minimum wage law, the revision of the labor code and the revision of the budget law, among others. The choice is also justified by the prominence we want to give to poverty reduction and social inclusion when discussing the policy reform agenda through the annual PRSC operations. One important decision to be made at this point concerns the pillar to be covered by the next VDR. There are several reasons why the focus should be on the economic pillar. Macroeconomic stability is a major concern at this point, as Vietnam gets exposed to international capital mobility. A VDR focused on how to strengthen tax policies, how to finance infrastructure investments, or how to supervise credit and capital markets, could make an important contribution in a potentially turbulent time. There are also timing issues that justify delaying detailed reports on the environmental and institutional pillars. The VDR on institutional issues should rely, heavily, on the governance module of the 2008 Vietnam Household Living Standards Survey (VHLSS). This crucially important data source will not be clean and ready for use before mid-2009. As for the environmental pillar, there is a need to conduct much more preparatory work before we are in a position to make a substantive, country-specific contribution. More work is needed, in particular, in relation to the adaptation to climate change.

These considerations suggest that the 2009 VDR should focus on economic issues. A tentative title for it would be *Resource Mobilization*. (The two-word titles used in this VDR series underline the idea of a second generation reforms, as opposed to the more basic reforms of the previous cycle, with the corresponding VDRs entitled *Poverty*, *Governance* and *Business*).

The preparation of the VDR 2009 could build on several analytical products and think pieces, some of which are already under preparation:

- **Financing needs.** Vietnam has the ambition of becoming a middle-income country in the short term, and an industrial country within a generation. Meeting these goals has important implications in terms of infrastructure development and skills accumulation. Although there is a risk of taking a somewhat mechanical approach (as with Incremental Capital Output Ratios) those implications can in turn be translated into resource requirements. A costing exercise had been undertaken when the Socio-Economic Development Plan (SEDP) 2006-2010 was launched. But it probably warrants some updating. The broader relationship between investment and saving warrants some discussion.
- **Tax policy.** A dozen studies on tax policy reform were launched by the World Bank in the fall of 2007 to inform the policy dialogue with government tax administration reform credit. Some of these studies cover cross-cutting issues such as revenue forecasting, tax sharing rules or the monitoring of tax administration performance. There are also studies dealing with each of the major tax instruments of Vietnam. These studies should become available in the spring of 2008.
- **Public investment.** The preparation, approval, implementation and monitoring of investment projects involving public resources need to be strengthened. Little consideration is given so far to cost benefit analysis. Coherence with regional development plans and infrastructure master plans is at times limited. Strategic

environmental assessments are uncommon, and more guidance is needed on project-specific impact assessments. Clear messages on procurement, resettlement, public financial management and implementation could shed clarity on what would be needed for donors to “move to country systems”.

- **Debt and liabilities.** The Debt Sustainability Assessment (DSA) conducted annually by the IMF and the World Bank provides a useful starting point. The overall creditworthiness issue should be discussed here. But there is also a need to get a clearer picture of sub-national borrowing, and concrete recommendations on debt management. One aspect not well covered in the DSA is the assessment of contingent liabilities. They include non-performing loans of the banking system, the liabilities of provincial infrastructure funds and the obligations of the government in relation to unfunded pensions for public sector employees.
- **Grassroots budgets.** The mobilization of resources at local levels involves local decisions made under Grassroots Democracy regulations. In principle, what people should know, decide, do and monitor is clearly established. But practice varies from locality to locality. There is room to build on previous analytical work on commune budgets and subsequent work by the Ministry of Finance. A more in-depth analysis of local fees could be warranted as well.
- **State capital.** The State Capital Investment Corporation is emerging as a potentially important player in capital markets. It can help improve economic policies, by dissociating ownership from regulation. It can also contribute to massive divestiture of smaller SOEs. But there are important governance issues to address, including how to manage the portfolio of strategic companies, how to avoid insider trading, or to which extent to participate in corporate decisions. The consequences, in terms of efficiency and systemic risk, of mixing up commercial and financial interests within large economic groups should also be assessed.
- **Capital markets.** There is a need for good analytical work on the development of the stock market, which went from 2 to 40 percent of GDP in capitalization in barely two years. The regulatory framework, the arrangements for supervision and the role of domestic contractual savings and institutional investors should be discussed in this context. There is also a need for guidance on the development of the bond market, from debt management to the consolidation of the multiple small bond issues, to the implementation of open market operations.
- **Banking reform.** There is a need for a serious update on the implementation of the banking reform roadmap under Decision 112. During 2008, it should also be possible to assess the first attempts to equitize major state-owned commercial banks. Meanwhile, several technical assistance initiatives by various donors are providing guidance on banking supervision and the re- organization of the State Bank of Vietnam as a modern central bank. The reform of policy banks should also be discussed in this context.
- **Access to credit.** In spite of rapid financial deepening, only three quarters of large enterprises and half of small- and medium-size enterprises have outstanding debts with banks. There are conflicting accounts in relation to the extent access to credit by households, and lack of clarity as to whether the subsidization of microfinance by the government is crowding out the development of small credit.
- **Private participation.** The legal framework for private participation in infrastructure is gradually being put in place. But questions remain regarding its implementation, especially in relation to unsolicited projects. The track record of

various financial instruments used so far to support private participation in infrastructure also needs to be assessed. But the most important determinants of success in attracting private investment may be related to the organization of infrastructure markets.

- **Equitization.** Another avenue to bring in private capital is through the equitization of large state-owned enterprises and commercial banks. As more and more large enterprises and banks are equitized, the process should be evaluated, together with the impact of equitization on economic efficiency. There is also a need to assess conflicting views on whether sales to strategic investors should precede Initial Public Offerings (IPOs) or the other way around.
- **International support.** A discussion was launched in late 2006 on the future of Official Development Assistance. Locally called *Beyond 2010*, this discussion has so far involved a survey of donors, to assess their plans over the next few years (2007-2010 and 2010-2013) in terms of volumes of aid, modalities and sectors. There is interesting information in there to help the government of Vietnam assess options for the use of ODA in the future. This should also be an opportunity to discuss the move to less concessional instruments.

PROCESS

Rather than waiting until the summer to start compiling the findings from different building blocks into a coherent story line, the preparation of the VDR 2009 could start during the winter. The objective would be to agree on what the main building blocks should be, to identify the main analytical gaps, and to mobilize financial and human resources to fill those gaps.

In practice, this would require going through several additional steps earlier on, compared to previous VDRs. The following time table could be considered:

- **March.** Informal workshop with interested donors to discuss a general outline and possible building blocks.
- **March.** Discussions with key Vietnamese counterparts in government and academia to better understand needs and concerns.
- **April.** Selection of the Steering Committee (one per participating donor) and the Reviewing Committee (key counterparts in government and academia).
- **May.** Launching of additional studies.
- **August.** Completion of additional studies.
- **September.** Informal workshop with Steering Committee and Reviewing Committee members to discuss the detailed outline and key messages.
- **October.** First draft of the VDR circulated for comments.
- **November.** Final report.