Vietnam at cross roads: Context, Challenges and Priorities

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Outline

- Country Overview
- World Bank Portfolio in Vietnam
- Emerging Challenges
- World Bank Country Partnership Framework
- Key Messages
Country overview
A multifaceted nation shaped by the topography and history

- Vietnam Facts sheet
- Land area: 331,000 km²
- Coastal line: 3,260 km
- Population: 94 million
  - Birth rate: 1%
  - Life expectancy: 72.91
- Ethnicity: Kinh (86%); 53 others (14%)
- Major cities:
  - Hanoi - 7.6 million
  - HCMC - 8.5 million
  - Hai Phong - 2.1 million
  - Da Nang - 1.1 million
  - Can Tho - 1.2 million
- Medium – Small (class 1-3) Cities: 67
Country overview

Complex political system: The triumvirate

Communist Party of Vietnam, National Congress

National Assembly (highest organ of state power)

President (Head of State)

Supreme People’s Court

Central Committee

Government

Prime Minister (Head of Government)

Minister

Minister

Minister

TheTriumvirate
Vietnam has achieved tremendous poverty reduction. In 1993, half of the population lived on less than $1.90/day (in 2011 PPP terms). By 2014, only 2.8 percent of the population fell into this group.

Poverty reduction has been paired with shared prosperity, where the average consumption level of Vietnamese falling into the bottom 40 percent grew by 6.8 percent annually from 1993 to 2014.

Poverty reduction and shared prosperity have been achieved through a combination of economic growth and effective delivery of basic services.

Source: Analysis of Vietnam Household Living Standards Survey and WDI data using the Find My Friends tool. NB: Dotted lines indicate periods when substantial methodology changes were made.
Country overview
Expanding opportunities to ethnic minorities, yet challenges remain

- The vast majority of the poor—nine out of ten—live in rural areas.

- Poverty is concentrated among ethnic minorities, with the smaller ethnic minority groups and those living in the northern and central mountains being particularly affected. Making up only 15 percent of the population, they account for 60 percent of the poor.

- More than half (54 percent) of those households that were poor in 2010 were still poor in 2014, while 22 percent had moved to ‘near poor’. Among the 2010 ‘near poor’, 17 percent had fallen back into poverty.

Poverty rate distribution by district in 2010 and 2014:

Source: Lanjouw, Marra, and Nguyen (2013) for 2010 data and SCD team analysis for 2014 data
Country Overview

Strong socio-economic performance in 2017

- Strongest GDP growth since 2008; stronger structural shift towards manufacturing and service.
- Six consecutive years of macroeconomic stability – inflation kept well in single digit.
- Current account and overall balance of payment continue to be in surplus - reserve rose to a record high level of about $53B
- Strong job growth (1.6M new jobs), multi-dimensional poverty rate reduced to about 6.9%
- Social security and health insurance coverage continues expanding
Country overview
Business environment continues to improve

### Doing Business 2018
*Vietnam vs. ASEAN*

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
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<tbody>
<tr>
<td>Singapore</td>
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<tr>
<td>Malaysia</td>
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<tr>
<td>Thailand</td>
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<td>Lao PDR</td>
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<tr>
<td>Myanmar</td>
<td>171</td>
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</tbody>
</table>

### Doing Business 2018
*Vietnam vs. ASEAN-4*

- **Vietnam**
- **ASEAN-4 average (IDN, MAL, PHL, THA)**

- Starting a Business
- Dealing with Construction Permits
- Resolving Insolvency
- Enforcing Contracts
- Trading across Borders
- Getting Electricity
- Paying Taxes
- Protecting Minority Investors
- Getting Credit
- Registering Property
Country overview

Government priorities: a facilitating state for business development

- Maintain macroeconomic stability through prudent monetary policies, fiscal consolidation, effective NPLs, and weak credit institution resolution.
- Further improve the business enabling environment by streamlining and modernizing administrative systems and procedures.
- Promote business development through support to SMEs and linkages to FDI and global value chains.
- Promote private sector participation in infrastructure development.
- Foster strong drive for implementation and policy coordination from the center of the government.
- Further strengthen governance, focusing on public sector integrity and transparency.
Country overview

Government priorities: Addressing productivity challenges for increased growth

- Structural shift towards manufacturing and service sectors, including high potential tourism sector.
- Agricultural transformation and restructuring— value chain development; food safety-agribusiness promotion;
- Regional development and coordination – e.g. the Mekong Delta, inter-provincials development programs.
- Trade facilitation and logistics services development.
- Infrastructure development – backbone transport systems (N-S Expressway, railway), airports, power generation – including renewable energy.
- Land agenda - land consolidation and administration.
- Tertiary education reform – skill development today for growth tomorrow and labor force competitiveness.
World Bank Portfolio
Strong financing engagements across sectors
Key flagship analytical works include:

- Vietnam 2035 Report
- Vietnam Taking Stock – Bi-annual Economic Update
- Vietnam at the Crossroads – Engaging in the next Generation of Global Value Chains
- Vietnam Poverty Update 2018 – Climbing the Ladder
- Vietnam Job Diagnostic Report.
- Vietnam Water Security and Governance Study
- Vietnam Urbanization Report
- Vietnam: Improving Workforce Education and Training
- Vietnam: Multi-sectoral Nutrition Action Plan
- Vietnam: Maximizing Finance for Development
**World Bank Portfolio**

**Economic Reforms for Inclusive Growth**

**Economic Outcomes**

- Per Capita GNI, Atlas Method Left Axis
- Poverty Headcount, US$1.90 2011 PPP Adjusted Right Axis

**Economic Transformation Phases**

- **1986-1998** First Generation Reforms and Rapid Growth

- **1999-2007** Global Integration
  - Key Events: 2001 USFTA, 2007 WTO

- **2008-2012** Macroeconomic Instability
  - Key Events: 2008/09 Global Financial Crisis

- **2013-2017** Stabilization and Recovery
  - Key Events: 2011 Domestic Banking Crisis

**Key Events**

- 1986 Doi Moi
- 1993 World Bank Re-engagement
- 1995 ASEAN
- 1998 Asian Financial Crisis
- 2001 USFTA
- 2007 WTO
- 2008/09 Global Financial Crisis
- 2011 Domestic Banking Crisis
- 2015 EVFTA
- 2017 CPTPP

**Economic Reform Priorities**

- **Land Reform**
- **Public Enterprise Law**
- **Price Liberalization**
- **Foreign Exchange Liberalization**
- **Trade Liberalization**
  - **SOE Reforms**
- **Fiscal Stimulus**
- **Macroeconomic Stabilization**


- **Structural Adjustment Credit (1994)**
- **Poverty Reduction Support Credit 1-5**
- **Poverty Reduction Support Credit 6-10 Public Investment DPO 1-2**
- **Economic Management and Competitiveness DPO1-3 (2013-15)**

**Knowledge**

- **WTO Accession Support Trade Facilitation TA**
- **VDR 2012 Market Economy for a Middle-Income Vietnam**
- **Vietnam 2035 Financial Sector TA Trade and Competitiveness TA Public Financial Management AAA**
**World Bank Portfolio**

**Comprehensive Engagements in Energy Sector**

**WB financing:** Only about 3-4% of overall power sector investments BUT helped promote power sector reform and restructuring

<table>
<thead>
<tr>
<th>Policy reforms</th>
<th>Impact</th>
<th>Generation capacity (GW)</th>
<th>Electricity access</th>
<th>T&amp;D losses</th>
<th>Average Tariff (US$/kWh)</th>
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<tbody>
<tr>
<td>Establishment of Electricity Regulatory Agency (ERAV)</td>
<td>Electricity Law</td>
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</tbody>
</table>

**WB financing:** $4.5 Billion

**IFC financing:** $10.9 Billion

**MIGA financing:** $903 Million
World Bank Portfolio
Comprehensive Engagements in Transport Sector

Outcomes

- Domestic Transport Volume (million ton-km)
- Mobility
  - Aviation
  - Maritime transport
  - Inland waterway
  - Road
  - Railway

Key Reforms

- 1993
- 1996
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- 2015
- 2016
- 2017

- 2001: Law on Road Traffic
- 2003: National Program on Traffic Safety
- 2004: National Transport Development Strategy (NTDS) to 2020
- 2005: Law on Inland Waterway Navigation
- 2004: Decree establishing the technical standards for different road classes
- 2007: Helmet Policy
- 2012: Establishment of Road Maintenance Fund
- 2014: Update NTDS to 2030

IDB Financing (Total US$3.2B)

- Highway Rehabilitation Project (US$159M)
- Rural Transport Project (US$55M)
- Highway Rehabilitation Project II (US$158M)
- Inland Waterways Project (US$73M)
- Urban Transport Improvement Project (US$43M)
- Rural Transport Project 2 (US$104M)
- Road Network Improvement Project (US$225M)
- Road Safety Project (US$32M)
- Rural Transport Project 3 (US$250M)
- Melong Transport & Flood Protection Project (US$136M)
- Hanoi Urban Transport Development Project (US$575M)
- Melong Delta Transport Infrastructure Project (US$342M)
- Northern Delta Transport Project (US$238M)
- Hai Phong Urban Transport Development Project (US$122.3M)
- Vietnam Road Asset Management Project (US$250M)
- HCMC Green Transport Development Project (US$124M)
- Results Based Operation for Local Bridge Construction and Road Asset Management (US$35M)
- Central Highlands Connectivity Improvement Project (US$150M)

Results

- Based Operation for Local Bridge Construction and Road Asset Management (US$35M)

Safety

- Fatalities per 10,000 motorized vehicles

2004: National Transport Development Strategy (NTDS) to 2020

2004: Decree establishing the technical standards for different road classes
World Bank Portfolio

Improving access to clean water and sanitation

1883. French occupied Hanoi. 1890. First drainage and sewerage map following western style has been drawn. 1890s. Septic tanks introduced for buildings.

1928. Drainage Map by Hebrad. Hanoi changed drainage direction from East to South due to lifting of dyke systems along Red river and


1975. Vietnam reunification

First water and wastewater design and construction codes issued

1986. Development of sewers and drains. Some small WWTPs for hospitals

1995. Law on Envi. Issued


1999. Decision 35/Ttg. of PM. Orientation for urban and ind. drainage

2000: National Strategy on RWS up to 2020

2001 - 2010: WB projects: NL-TN in HCMC. Urban upgrading. Priority Infra.. Medium cities, Coastal... JICA projects in MN (phase II), HCMC, Hai Phong, Vinh Phuc, Binh Duong, Hue, ... Projects of ADB, and other donors: KfW, Finnida, Denmark, France, ... In Binh Duong, Vinh Phuc, Tra Vinh, Tra Noc,

2003: Decree 67/2003 on EP fee

Decree 88 (urban and ind. wastewater), Decree 59 (solid waste mgmt), Decree 117/2007-ND-CP (urban and ind. water supply) issued

2007


2010

In pipe line: WB projects: medium cities, Urban WS & WW. Coastal, Da Nang. Sxt. city; ADB, KfW, Finnida, Norway, ... projects

2012
**World Bank Portfolio**

**Transforming the Agriculture Sector**

**Improve Sectoral Management**
- Community based Rural Infrastructure (2001)

**Build Capacity for Managing Risk and Uncertainty**
- Coastal Wetland Protection and Development (1999)
- Climate Change and Green Growth Series (2012 onwards)

**More Equitable Allocation and Sustainable Use of Natural Resources**
- Forest Sector Development Project (2004)
- Land Administration Project (2008)
- P 135 Program, Phase 1 and Phase 2 (2007 and 2009)
- Second Northern Poverty Reduction Project (2010)
- Coastal Resources for Sustainable Development (2012)
- Irrigated Agriculture Project (2014)

**Secure Agricultural Competitiveness and Inclusive Rural Growth**
- Rural Finance III (2008)
- Agriculture Competitiveness project (2008)
- Livestock Competitiveness and Food Safety (2009)
- Rice Strategy (2012)
- Vietnam Sustainable Agriculture Project (2015)
- Food Safety Diagnostic (2016)
- Agriculture Public Expenditure Review (2017)
- National Target Program (2017)
More equitable access and learning in basic education and higher quality tertiary education needed

A Government Priority
- Education comprises >20% of gov expenditures and >6% of GDP
- Fundamental and Comprehensive Education Reform (FCER) 2013
- Basic Educ to provide equal opportunities to develop 21st century competencies
- Tertiary Educ to be more responsive to labor market through improved governance and more effective financing, and develop a dynamic STI sector through R&D

**Exceptional Basic Education Outcomes**

![Average PISA 2015 Reading Score vs. Public Expenditure per Student (constant 2013 PPP$)](chart)

Public expenditure per student (constant 2013 PPP$)

Vietnam

**Looking Forward - Challenges**
- Basic education access and outcome gaps remain for ethnic minorities, esp females
- Only 1 of 2 children born in Vietnam graduates from high school
- Tertiary Education Master Plan under development needs to provide roadmap to revitalize the sub-sector
- Demographic shift and technological change increases the needs for more and better skills

**Basic Education - Total US$740m**
- First Primary Education 1993-2002, $67m
- Primary Teacher Development Project 2002-7, $20m
- Primary Education for Disadvantaged Children 2003-10, $139m
- Education for All Support Program 2005-9, $50m
- School quality Assurance Program 2009-14, $100m
- Vietnam Escuela Nueva/FTI project 2013-16, $84m
- School Readiness Promotion Project 2013-17, $100m
- Quality Deaf Education in Vietnam Project 2016-17, $3m
- Renovation of General Education Project 2016-20, $77m*
- Enhancing Teacher Education Program 2017-22, $100m+$80m borrower*

**Tertiary Education - Total US$727m**
- Higher Education Project 1998-2007, $83m
- Second Higher Education Project 2007-12, $59m
- Higher Education Development Policy 2009, $50m
- Higher Education Development Policy 2 2010-11, $50m
- Higher Education Development Policy 3 2013-14, $50m
- New Models Universities Project 2010-20 $180m*
- Fostering Innovation thru Research, Science & Tech 2013-19, $100m*
- Support for Autonomous Higher Education Project 2017-22, $155m*

* Ongoing projects

**World Bank Portfolio**

** WB Financing (1993 ~ )**

** TOTAL US$1.5b**
Efficient service delivery needs to tackle shifting disease burden and meet middle class demands

**Government’s Reform Agenda**

**Sustainable Health Financing and Insurance**
- Enhance efficiency while providing financial protection
- Manage transition from external donor to domestic financing, and from nat’l to insurance/provincial

**Service Delivery and Public Health**
- Expand access to quality public and private care
- Strengthen grassroots health system
- Multi-sectoral collaboration on tobacco/sugar tax and food safety
- Tackle health security/pandemic preparedness
- Champion multi-sectoral nutrition action

**Outcomes**
- Health as share of gov’t budget doubled from 7.9% (2008) to 14.2% (2014)
- Top 7 globally in improvements in UHC (universal health coverage) score
- Financial protection has improved, with impoverishment due to health spending falling sharply from 2.2% of the population in 2008 to 1.4% in 2014, associated with rising incomes

**BUT…**
- While fairly equitable across income groups, access for ethnic minorities and remote rural areas lags behind
- Growing burden of NCDs (to 73% of the disease burden in 2015), due to aging and lifestyle factors
- Rising expectations of the growing middle class

Population and Family Health Project 1996-2003, $129.6m
National Health Support Project 1996-2007, $126.6m
Regional Blood Transfusion Centers Project 2002-09, $47.5m
IDF Grant Improving Expenditure and FM 2003-06, $0.3m
JSDF Prevention and Control of Severe Acute Respiratory Syndrome 2003-07, $0.5m
Gain TF for Iron Fortified Fish Sauce Project 2005-08, $3m
HIV/AIDS Prevention Project 2005-12, $63m
Mekong Regional Health Support Project 2006-12, $85m
IDF Grant Facilitating MOH’s Stewardship Role 2007-10, $0.3m

Avian and Human Influenza Control and Preparedness 2007-11, $64m
Healthcare Support to Poor of N Uplands & Cent Highlands 2008-12, €12.3m
Northern Uplands Health Support Project 2008-14, $66m
Central North Region Health Support Project 2010-16, $75m
Korean TF Health System Gov Strengthening Project 2011-14, $0.35m
NE Red River Delta Regions Health Support Project 2013-19, $157.5m*
Hospital Waste Management Support Project 2011-19, $155m*
Health Prof Educ and Training for Health System Reform, 2014-20, $122m*
JSDF Grant N Mtn Integrated Child Nutrition Improvement 2015-18, $3m*

* Ongoing projects

**WB Financing (1996 ~ )**
**TOTAL US$1.1b**
Emerging Challenges
Sustaining Vietnam’s economic success

Reinvigorating productivity growth

Contributions to Labor Productivity Growth

- Contribution of capital-output ratio
- Contribution of human capital
- Contribution of TFP

Key Drivers

- Transition to market economy
- Structural transformation
- Global and regional integration
- Urbanization
Emerging Challenges

Continued strong investment in social sectors is critical

Human capital is the largest source of wealth, particularly in IBRD countries

Key Drivers

- Poverty concentrated among ethnic minorities, leading to reduced intergenerational mobility
- Rapid demographic transition
- Growing middle class with changing needs and higher expectations
- Technological change and increasing skill needs
Emerging Challenges
Vietnam is one of the most Vulnerable Countries in the World

Vietnam to experience significant temperature changes, with the strongest warming expected in the north. Top three hazards in terms of damages are storms, floods and drought.

The 2012 Government of Vietnam (GoV) climate change and sea level scenarios project a 57-73 cm sea level rise and a 2-7% increase in annual rainfall by 2100.

Tropical cyclones, floods, droughts, and sea level rise already have significant economic and human costs. Estimated losses of up to 0.9 % of GDP per year to natural disasters

Development impacts:

- 70% of the population lives in coastal or low lying delta areas; hence highly exposed to hazards such as typhoons, coastal flooding, river bank erosion and sea level rise.
- The human and assets exposure in the Mekong Delta to climate effects is exacerbated by population growth.
- Drought is an emerging concern in Vietnam, as exemplified by the worst drought in nearly 100 years in 2016.
- Fisheries, particularly coastal fisheries, are expected to be impacted with substantial reductions in catch potential.
- Coastal infrastructures, cities and livelihoods are projected to be particularly affected. A significant portion of poor are living in informal settlements, making them vulnerable to excessive heat and humidity stresses.
- Water resources to be largely impacted by climate change. In recent years, discharges from rivers and streams in Vietnam have already fallen short of the average water levels.
Emerging Challenges
Vietnam’s GHG emissions are growing

Vietnam’s change in CO2 emissions per GDP compared with select nations and regions

- Energy use has been growing faster than in any country in the region and energy intensity is among the highest in the world. Vietnam’s total GHG emissions have almost tripled and its carbon intensity (of gross domestic product [GDP]) has increased by 48 percent from 2000 to 2010.

- Vietnam expects electricity demand to grow about 10% per annum until 2030, requiring an increase in capacity from 35 GW to 120 GW.

- Under a BAU scenario, Vietnam’s GHG emissions are expected to triple between 2010 and 2030, with the energy sector becoming the most significant source of emissions.

- Land-based emissions continue to be high.
Fiscal consolidation is underway – Public-Debt-to-GDP Ratio is declining and remains below 65 percent threshold

Consolidation has led to a contraction in public investment

Quality and composition of adjustment could be improved - tax reform and domestic revenue mobilization and focus spending efficiency while protecting needed investment
Emerging Challenges
An increasingly challenging operating environment

- Extremely tight budget allocation for disbursement, hence slows down implementation substantially. Potential restructuring is expected.
- Push-back from Government on new lending utilizing IDA transitional support / IBRD resources.
- Little appetite from MoF in using guarantees for SoEs or DPL to pursue reforms;
- MoF emphasizes on-lending to subnational and lending without guarantee involves risks considering the complex institutional arrangement end indebtment risks.
World Bank Country Partnership Framework FY18-22

Long Term partners

4 years
World Bank Country Partnership Framework
The Unfinished Agenda

• Growth with Sustainability?
  ✓ Declining productivity growth;
  ✓ Weak innovation system;
  ✓ Urbanization does not help realize growth potential;
  ✓ Growth has come at the cost of the environment;
  ✓ Climate change challenge;

• Equity and Social Inclusion?
  ✓ Unfinished poverty reduction agenda: (i) ethnic minorities, (ii) people with disabilities (iii) urban migrants;
  ✓ Gender inequality issues;
  ✓ Rapidly changing demography with exhaustive dividend;
  ✓ Public services for the rising expectations of emerging middle class.

• Capable and Accountable State?
  ✓ Commercialization and excessive fragmentation of the state;
  ✓ Weak quality of public administration;
  ✓ Absence of effective checks and balances;
  ✓ Lack of effective mechanisms for citizens’ participation and voice.
World Bank Country Partnership Framework

World Bank Priorities: Focus Areas and Approaches for Engagements

Focus area 1: Enable Inclusive Growth and Private Sector Participation
Focus area 2: Invest in People and Knowledge
Focus area 3: Ensure Environmental Sustainability and Resilience

Cross-cutting area: Governance

Spatial

Complementarity & Innovation

Multi-Sectoral

Gender
World Bank Country Partnership Framework

Five Strategic Shifts

1. Comprehensive engagement to strengthen **private sector development and participation** across sector

2. Support to achieve **financial sustainability** of public services and transfers

3. Support to **ethnic minority poverty reduction** through livelihood and income generation activities

4. Multisector engagements to strengthen **linkages between education and the labor market**

5. Support to promote and stimulate **low carbon energy generation**
### World Bank Country Partnership Framework

#### The In-bound and Out-bound Knowledge Platform

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<thead>
<tr>
<th>Selected In-bound Knowledge</th>
<th>Selected Out-bound Knowledge</th>
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<tbody>
<tr>
<td>Solar auction</td>
<td>Energy access – rural electrification</td>
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<tr>
<td>Demand-side energy efficiency</td>
<td>Hydropower development</td>
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<tr>
<td>Center of government functions – the delivery unit model</td>
<td>Poverty reduction</td>
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<tr>
<td>Efficiency and provider payment reform in health insurance</td>
<td>Integrated urban water management</td>
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<tr>
<td>Multisector nutrition action plan</td>
<td>Inland waterways</td>
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<tr>
<td>Primary health care score card</td>
<td>Water access - Drainage and waste water planning and management</td>
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<td>UHC - Equity</td>
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</tbody>
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**Key Messages**

Vietnam has attained remarkable achievements during the past 30 years, where the WB and Development Partners contributions have been greatly appreciated.

IDA graduation comes at a critical conjuncture – a combination of (1) high public debt; (2) high demand for productive infrastructure; (3) affordable domestic capital market; and (4) shifts in institutional arrangement for ODA management.

IDA graduation is not only about GNP/capita – other factors, including country specifics can potentially impact smooth transition to IBRD.

The IBRD sets new challenges for Vietnam. The country will continue to need support from MDBs – WB to navigate successfully the challenges institutionally, regulatorily and operationally.

Vietnam will export its successful development experiences and knowledge to IDA countries.

IBRD re-capitalization is critical. It should not be seen as enriching the rich, but as an instrument to leverage knowledge, resource and paradigm shifts between advanced/emerging economies and low income economies.
Welcome to Vietnam!
Xin cảm ơn!
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