Policy Reform Initiatives and Aid Management in Vietnam

Utilizing Poverty Reduction Support Credits (PRSCs) as a part of reform process

Masumi Shimamura
Mitsubishi UFJ Research & Consulting Co.
May 22, 2008

Vietnam’s Development Vision and Policy Reform Initiatives

Development Vision: to become an industrialized country by 2020 with accelerated industrialization and modernization

- The government’s main driving force for reform is its strong desire to achieve significant status in the international community
  - Vietnam’s strong determination and commitment to meet with WTO compliance
- PRSC policy actions have been consistent with WTO compliance – PRSC may well be considered as one of the available tools to support Vietnam’s WTO accession

Question: Would the government have proceeded the reform process in the absence of PRSC?
Does PRSC Process Contribute to Strengthen Ownership?

- PRSC does not involve explicit policy conditionality
  ➔ Different from traditional adjustment lending
- PRSC facilitates donor alignment with the national strategy
  ➔ Playing significant role as a “coat hanger”
- The government is not dependent on PRSC resources
  ➔ Creating bases for healthy policy dialogue
- PRSC can facilitate reform process but can not be a panacea for every reform
  ➔ Limitation exists in dealing with step-by-step capacity building on the ground

What is the Government’s Intention in Proceeding PRSC with Donors?

- Mobilizing available donor funding until the country graduates from the IDA status
  ➔ To utilize donor funds in soft terms until it envisages to become a middle income status after 2011
- Aiming for signaling effects to both internal and external audiences
  ➔ To legitimatize reform process and persuade internal stakeholders to gain their support
  ➔ To provide potential foreign investors a sense that Vietnam has increased its attractiveness as a destination for investment
Total Disbursement by Operation and Number of Co-financiers

Source: modification of World Bank material

Investment trends in Vietnam
(amounts newly approved and implemented)

- Increase in investment coincides with PRSC assistance period

Source: materials from a JICA expert
While setting appropriate milestones/policy measures, and constantly monitoring their progress through PRSC framework can facilitate the reform process.....

Policy actions only address the essence of the most important milestones for reform

Thus, step-by-step capacity building on the ground is indispensable to achieve tangible results

Policy actions and technical assistance should go hand in hand to exert synergetic effects to facilitate true policy reform

Japan’s strength: Japan can bring up policy issues identified through practical assistance on the ground to the PRSC dialogue, and vice versa

The END