

Policy-based lending and conditionality – An experience of Vietnam

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The nearly 20-year reform process in Vietnam, which was initiated in 1986 and has brought about significant and renowned changes in the socio-economic development of the country, has always been a live and well-acknowledged example of a country-led change process. Over the period, the economy has been able to not only maintain its stability but also generate continued growth, even in the midst of the regional Financial Crisis in Asia in 1997 or the unfavourable conditions of the world economy faced in recent years. Among the most-recognised achievements, there is clearly the country's ability to retain a fairly high annual growth rate of over 7% over a long period, which has been second in Asia, just after China or the many remarkable progresses in terms of social development including the sharp fall in the number of the poor households in 2003 to just 12%.

The reform process has been going hand in hand with the regional and global economic integration. Vietnam has now been member to various regional and international institutions such as ASEAN, APEC, ASEM and is actively negotiating for her accession to the WTO by 2005.

The socio-economic achievements that Vietnam has gained since the course of reform are attributable to various factors, among which the policy reform plays a decisive role. It should be noted that this overall reform in general and the socio-economic policy reform in particular have been a truly locally-rooted and internal-driven process, rather than one implemented merely of outside pressures. As such, the policy measures undertaken are really ones of the people and for the people, which explained why they are widely and strongly supported in the society.

The development and implementation of policy measures in Vietnam are also a process that well reflects the multilateralism and diversification orientation of the Government that advocates a broadly consultative mechanism with the international donor and business communities. In terms of policy-based lending (PBL), cooperation relations between Vietnam and the international financial institutions such as the IMF, WB or ADB dated back since the early 1990s. Later on, a number of bilateral donors have also taken part in these relations either on a bilateral basis or through the co-

financing schemes.

With the IMF, Vietnam has worked out a number of PBL loans such as the SBA or the STF, which were based on the economic structural adjustment measures in 1993 and 1994. The ESAF loan, which was formulated on a 3-year basis for expanded structural adjustment programme aimed to help Vietnam achieve sustainable economic growth and strengthen the country's balance of payment. The PRGF in 1999 was a reform in PBL form that took place after the breakout of the East Asia financial crisis, described as seeking to help low-income member countries to effectively fight against poverty. In the case of Vietnam, as the country began to develop her own Comprehensive Poverty Reduction and Growth Strategy (CPRGS), these annual schemes focused much around this strategy.

With regard to the WB, the Government of Vietnam has worked out a number of PBL loans such as the SAC-1 with the policy focus on budget management, SOEs reform, reform in the financial and trading systems. The successful completion of SAC-1 has opened up the way for the continuation with SAC-2 programme, which later on changed its name to the Poverty Reduction Support Credit (PRSC). This scheme supplements well the IMF PRGF and helps strengthen the policy reform in the areas of banking, SOEs, trade liberalisation, public expenditure reform and private sector development. In addition, WB also provides PBL schemes in the project form such as the Rural Finance Project I that aimed at the development of the Rural Development Fund (RDF) or Funds for the Poor (FRP). The fruitful implementation of this loan has allowed the two parties to enter into the Phase II of the Project with the two key components, namely, rural credit and capacity building for the project stakeholders.

With regard to the ADB, the Financial Sector Program Loan (FSPL)-I schemes were aimed at creating favourable conditions to promote the development of the private sector, FDI and SOE reform. FSPL –II focuses more on the banking and financial sector.

Besides, there are also a number of bilateral donors that participate in the PBL schemes, among them the Japan-initiated Miyzawa program is one of notable significance as it aims to help Vietnam to promote the development of the private sector and especially the SMEs after the regional financial crisis.

The PBL experience of Vietnam has so far indicated:

(i). firstly, that the reform measures committed by the Government of Vietnam in the

PBL schemes are also ones that are seriously pursued by the Government in the framework of the country's reform process.

(ii). secondly, that the PBLs have played an important catalytic role for the policy reform progress in the country's transition period.

(iii). thirdly, that the PBLs have brought about a fast-disbursement source of finance to help the macro-economic stability as well as the implementation of various important socio-economic programs in the country.

(iv). fourthly, that the PBLs have also helped to strengthen the human resource development for the country via the associated training programs

Besides, there are also a number of improvements that need to be well considered for these PBL schemes:

(i). The conditionality of PBLs reflect at times strong donors' will to tie the recipient Government to a pressing reform roadmap that is not necessarily adaptable to the country circumstances.

(ii). PBLs measures are at times found overly broad and scattered, involving too great a number of implementing agencies, and thus reduce the necessary focus of the loan whilst excessively increase the time spent on negotiation and getting agreement.

(iii). The policy measures are designed usually in a fixed manner, leaving little room to adjust to changes taking place during the implementation stage.

Having said all this, it is important to jot down a number of key lessons for us in the reception of PBLs as follows:

- It is essential that the Government take full ownership in the design of policy measures as well as a strong leadership role during the implementation of commitments.
- All externally-imposed conditionality will fail to effectively help the recipient partner
- A constructive partnership that allows a frank and open consultative process between the Government and the donors is a must for a successful implementation of the PBL schemes.