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# Desperately seeking model countries: The World Bank in Vietnam

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## DESPERATELY SEEKING MODEL COUNTRIES: THE WORLD BANK IN VIETNAM

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### ABSTRACT

Vietnam is a very important country for the World Bank. It is the first recipient of IDA credits. It is also presented by the Bank as a model country for development success, especially in terms of poverty reduction. At the same time, the Bank is very active in Vietnam: it is the first provider of development aid; it is also the leader in economic research. Starting from a detailed diagnosis on the Bank's activities in Vietnam and on the contents of policies it promotes in this country, this paper analyses the political economy of the relationship between the Bank and the Vietnamese government. Since there is no IMF programme in Vietnam, the Bank is the main government partner among donors. But the Bank's influence over Vietnam's development path is limited. The Vietnamese government has always refused to adopt policies imposed by foreign organizations and the Vietnamese institutions are strong enough to be able to form an alter ego for the Bank and to achieve "ownership" of public policies. One could almost say that Vietnam is more important for the Bank than the latter is for Vietnam, especially because the Bank gains a political advantage image-wise from what it can hold up as a success story due to its work.

**Keywords:** World Bank, Vietnam, development aid, model country.

### RESUME

Le Vietnam est un pays très important pour la Banque mondiale du point de vue de ses financements : il est le premier récepteur de crédits distribués par l'AID. Cette importance tient aussi au rôle d'élève modèle en matière de politiques de développement que la Banque fait jouer au Vietnam. Ce pays est notamment mis en avant pour ses succès en matière de réduction de la pauvreté. En sens inverse, la Banque est devenue le premier bailleur de fonds au Vietnam et elle joue également un rôle de leader du point de vue de la recherche économique sur ce pays. Partant d'un diagnostic détaillé concernant les activités de la Banque au Vietnam et le contenu original des politiques promues par cette organisation, ce papier analyse l'économie politique des relations entre la Banque et le gouvernement vietnamien. En l'absence de financement du FMI, la Banque a su s'imposer comme le principal interlocuteur du gouvernement parmi les bailleurs de fonds. Mais son influence sur la trajectoire de développement du Vietnam est modeste. Le gouvernement vietnamien a toujours refusé de se voir imposer des politiques de l'extérieur et les institutions vietnamiennes sont suffisamment fortes pour former un *alter ego* à la Banque et pour s'approprier les politiques mises en place. A la limite, le Vietnam est presque plus important pour la Banque que l'inverse, notamment en raison des bénéfices que celle-ci en tire du point de vue de son image et de ce qu'elle présente comme une *success story* de son action.

**Mots-clés :** Banque mondiale, Vietnam, aide au développement, modèle de développement.

**JEL Code:** F35, F53, F59, O19

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The World Bank's activities worldwide have many facets: financing, development assistance with a focus on poverty reduction, and research and advisory services on development policies (Cling and Roubaud, 2008). This paper analyses the Bank's work in Vietnam.<sup>1</sup> It shows how its different missions are conducted in Vietnam. It looks at their similarities and differences compared with other developing countries and seeks to assess at least their qualitative impact on the country. This analysis is based mainly on the documentation we have gathered on the Bank's activities in Vietnam and interviews with senior members of the World Bank, other international organisations and the Vietnamese government.<sup>2</sup>

Vietnam is an extremely important country to the Bank. It tops the list of concessional funds granted by the International Development Association (IDA) in the form of project aid and budget support. The Bank and the other donors hence contribute to the poverty reduction achievements, bearing in mind that the government has been implementing active policies in this area for decades. At the same time, the Bank has become Vietnam's number one donor ahead of Japan and plays a prominent role among the country's donors.

Via its funds, the Bank seeks to influence national economic policy content, as it does in the other developing countries, going so far as to present Vietnam as a "model student" of its policies and of market-oriented reforms<sup>3</sup>. It is not a coincidence if R. Zoellick, right after being appointed President of the World Bank in 2009, has chosen Vietnam for his first trip abroad (Tran, 2008). Yet herein lies a paradox, which this article seeks to analyse. How can the Bank actively support a country governed by the Communist Party, even to the extent of holding it up as a model, when the liberal model the Bank promotes in all the developing countries continues to be broadly based on the Washington Consensus?

Explaining this paradox leads us to analyse in this paper the main characteristics of the development model followed by Vietnam since the launch of *Doi Moi* (Renovation) in 1986, and on the political economy of the relationship between the Bank and the Vietnamese government.

## **1. Fast-growing Bank funds**

The World Bank has been working in Vietnam since 1993, when it returned after a hiatus of nearly two decades. In a twist of fate, the same Robert McNamara who led the Vietnam War as US Secretary of Defence in the 1960s was the man who then, as President of the Bank, decided under American pressure to halt funds to the country (Gwin, 1997).

The Bank re-engaged with Vietnam following the American administration's change of stance in the early 1990s and the discharge of the debts contracted with the Bretton Woods Institutions by the South Vietnamese regime. Coming, as it did, one year before America lifted its embargo against Vietnam in 1994, the Bank's return marked the end of the country's isolation and the resumption of activities by other donors (Japan, France, etc.). Only the UNDP (United Nations Development Programme) and the Swedish International

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<sup>1</sup> In the remainder of this paper the World Bank will be shortened into "the Bank".

<sup>2</sup> All people interviewed in the writing of this article are gratefully acknowledged. The opinions expressed and any errors are the authors' own.

<sup>3</sup> A. Chhibber, then the Bank's Country Director for Vietnam, even called Vietnam a "poster child" of the World Bank in *The Economist*, special report on Vietnam, 24 April 2008

Development Cooperation Agency (SIDA) had remained in Vietnam for the nigh-on two decades of isolation that followed the country's reunification in 1975.

The country office initially had only a small team managing a minor portfolio, but gradually filled out to its current size of over a hundred people. A staff decentralisation policy boosted the local team's capacities and effectiveness by posting to Hanoi the formerly Washington-based project managers who had managed activities from afar by means of missions to Vietnam. Thus the 1990s saw the World Bank progressively committing to Vietnam, a transition economy with no major problems and a sharp growth path.

*Vietnam, IDA's number one customer*

In a very short time span, Vietnam rose up through the Bank's ranks in terms of IDA loan volume. In 2008, new commitments broke through the one billion dollar mark, with disbursements of over 600 million dollars (and a net transfer of virtually the same amount). Vietnam was now the number one recipient of IDA loans, ahead of India and Bangladesh.

Nevertheless, the rapidly bulging undisbursed balance (sum of commitments made in recent years and not yet disbursed) reveals a poor capacity to absorb the aid proffered by the Bank. This is a common stumbling block with development assistance in Vietnam.

Table 1: World Bank (IDA) Commitments, Disbursements and Net Transfers in Vietnam

| <i>Financial year</i>           | Unit: millions of dollars |       |       |       |
|---------------------------------|---------------------------|-------|-------|-------|
|                                 | 2005                      | 2006  | 2007  | 2008  |
| Commitments                     | 699                       | 768   | 712   | 1,193 |
| Gross disbursements (1)         | 408                       | 419   | 490   | 649   |
| Repayments (2)                  | 10                        | 18    | 27    | 35    |
| Net disbursements (3) = (2)-(1) | 398                       | 401   | 463   | 614   |
| Interest and charges (4)        | 30                        | 31    | 33    | 38    |
| Net transfer (5) = (3)-(4)      | 368                       | 370   | 430   | 576   |
| Undisbursed balance             | 2,682                     | 3,097 | 3,309 | 4,010 |

Source: World Bank

The World Bank plays a leading financial role among the donors operating in Vietnam. It has become the number one contributor of foreign official assistance for 2009, ahead of Japan and the Asian Development Bank (ADB). In terms of commitments, the Bank's funds represent approximately one-fifth of the total sum of official development assistance (ODA) to Vietnam, which stands at some five billion dollars (for actual disbursements of less than half that). The Bank's share of disbursements stands at approximately one-third of the total, a greater disbursement capacity that could be due to the high share of budget aid (which is by nature disbursed quickly) in its funding.

Nevertheless, the weight of ODA in the foreign funds received by Vietnam is modest. In 2008, standing at some 1.7 billion dollars, ODA came to less than 2% of GDP. Total foreign direct investment flows (7.8 billion dollars) and remittances by overseas Vietnamese (7 billion dollars) are infinitely higher. So Vietnam is not an ODA-dependent country, especially compared with the African countries where ODA generally represents over 10% of GDP, and even more than 20% in the dozen countries most dependent on aid (Ethiopia, Madagascar, Malawi, Mozambique, etc.).

Table 2: Growth in Bank Credits and ODA in Vietnam

Unit: millions of dollars

| <i>Financial year</i>              | 2005         | 2006         | 2007         | 2008            |
|------------------------------------|--------------|--------------|--------------|-----------------|
| IDA credits (commitments) (a)      | 699          | 768          | 712          | 1,193           |
| Including:                         |              |              |              |                 |
| -Development project credits       | 599          | 668          | 537          | 897             |
| -PRSC                              | 100          | 100          | 175          | 150             |
| Total ODA                          |              |              |              |                 |
| -Commitments (c)                   | 3,700        | 4,400        | 4,500        | 5,015           |
| -Disbursements (b)                 | 1,700        | 1,800        | 1,800        | 1,700(e)        |
| <i>FDI (net flows) (d)</i>         | <i>1,889</i> | <i>2,315</i> | <i>6,550</i> | <i>7,800(e)</i> |
| <i>Remittances (net flows) (d)</i> | <i>3,150</i> | <i>3,800</i> | <i>6,180</i> | <i>7,000(e)</i> |

*Sources:* (a) Country Lending summaries (World Bank website) (b) CPS 2007, (c) CG meeting report, (d) VDR 2009, (e) IMF 2009

*The disbursement sums are estimates for 2006-2008.*

*The Bank finances primarily infrastructure projects*

The credits granted by the Bank go towards financing three types of programmes: investment projects, which account for the bulk of funds, the poverty reduction and growth strategy (PRSC), and analytical and advisory activities.

The investment operations (consisting mainly of infrastructure building) are funded in the form of project aid, which all in all remains largely dominant. In 2008, an envelope of some 900 million dollars was earmarked to launch new operations. In late 2006, a study found a stock of 37 projects in different areas for a total of four billion dollars. The energy sector accounted for 25% of total credits in 2006, rural development for 23%, urban development for 15%, transport for 14%, economic management for 8%, education for 7% and health for 6%. These projects are part of the poverty reduction drive and contribute, more broadly, to the country's socio-economic objectives.

The energy sector provides a good illustration of the dual role played by the infrastructure projects financed by the Bank in Vietnam: they support economic growth while targeting the rural poor.<sup>4</sup> These investments build the country's energy generation capacity, which has hit a real bottleneck caused by the speed of economic growth and surging industrial and household consumption. In the second half of the 1990s, demand grew at a staggering rate of around 16% per year, doubling demand in just five years (this rate is slated to slide back to 10%-12% per year in the early 2010s).

A huge amount of investment is needed to accompany this growth and a great deal of it needs to come from foreign funds. For example, the Bank has financed nearly two billion dollars of

<sup>4</sup> Source: World Bank website on Vietnam

(<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIETNAMEXTN>). Accessed on 10 April 2009.

energy investments in Vietnam since it started working in the country. Japan's funding in this sector is much higher, but is often granted on less favourable terms.

The Bank's role in rural energy is especially decisive (in terms of total weight in the financing). For example, the Bank provided 150 million dollars of the total of just over 200 million dollars for the rural electrification programme for the 2000-2006 period. This programme was extended with a further injection of 220 million dollars through to 2010. The outcome of the programme is a particularly high percentage of rural households hooked up to the electricity grid considering the country's level of development (91% in 2005 against only 50% in 1995).

Around one hundred million dollars in annual financing (150 million dollars assigned in 2008) has been allocated to the poverty reduction and growth strategy in the form of budget support every year since 2001. This programme focuses on specific areas covered by the four general objectives in the government's five-year plan (SEDP: Socio-Economic Development Plan) for the 2006-2010 period.

- *Improve the business climate*: world market integration, public sector reform, financial sector reform and infrastructure development;
- *Social inclusion*: improvement of the education system and access for the poor, the health system and health insurance, social security, and gender equality;
- *Improve the management of natural and environmental resources*: land and forest management, and water management;
- *Improve governance*: process of public investment project selection and monitoring, management of public finances, and curbing corruption.

The Analytical and Advisory Activities (AAA) are generally conducted directly by Bank staff and financed by the Trust Funds<sup>5</sup> (30% of activities).

Then there are the International Finance Corporation (IFC) credits, which are put into financing specific private sector projects. IFC's portfolio has increased rapidly over the last few years, and the objective is to reach a total of 300 million dollars by the end of 2009. Contrarily to IDA, Vietnam is however not an important country for the IFC, which gives considerably more funding to other Asian emerging countries (China but also Indonesia, the Philippines, etc.). The Multilateral Investment Guarantee Agency (MIGA) also works in Vietnam providing guarantees for investment projects, such as the construction of the Phu My 3 power plant. These two institutions moreover provide technical assistance and training. For example, IFC has taken a hand in capacity building for commercial bank managers, while MIGA has provided assistance to the investment promotion institutions.

Up until 2008, World Bank funds to Vietnam consisted solely of IDA credits. In 2009, with the country verging on middle-income status,<sup>6</sup> Vietnam graduated to *blend status* and became eligible for both IBRD and IDA credits. It will be scratched from the list of countries eligible

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<sup>5</sup> The Trust Funds are budgets allocated by one or more Bank members to fund specific projects.

<sup>6</sup> In 2008, per capita GDP topped 1,000 dollars, although middle-income country status then has to be checked by the World Bank against a slightly different indicator of per capita Gross National Income (GNI). The per capita GNI threshold for middle income countries was 950 dollars in 2007. . Developing country eligibility for IDA and IBRD funds is defined on the basis of middle income/low income status, debt sustainability and institutional quality.

for IDA credits when the transition period ends at the beginning of the 2010s. Under this new status, funds will no longer be granted on concessional terms, but on the Bank's usual loan terms. Yet although the terms may be less advantageous, Vietnam could then obtain public financing from the Bank (non-IDA) and other aid agencies as well as private financing.

## 2. The World Bank and poverty reduction in Vietnam

Poverty reduction is a long-standing priority in Vietnam. It predates the international community's adoption of the poverty reduction strategies and Millennium Development Goals (MDGs). We look here at how these international initiatives may have influenced the content, directions and outcomes of the poverty reduction strategies conducted in Vietnam, and especially how they may have influenced the Bank's role in this process.

### *Massive poverty reduction since the 1990s*

At the beginning of the 1990s, poverty remained endemic in Vietnam despite the end of the previous decade's penury. The first household survey conducted in 1993 estimated that 58% of the population was poor. By 2006, this percentage had plunged to 16% and extreme (food) poverty had plummeted to less than 7% of the population (from 25% in 1993).

Table 3: Growth in the Incidence of Poverty in Vietnam (%)

|                         | 1993        | 1998        | 2002        | 2004        | 2006       |
|-------------------------|-------------|-------------|-------------|-------------|------------|
| <u>Poverty</u>          | <u>58.1</u> | <u>37.4</u> | <u>28.9</u> | <u>19.5</u> | <u>16</u>  |
| Urban                   | 25.1        | 9.2         | 6.6         | 3.6         | 3.9        |
| Rural                   | 66.4        | 45.5        | 35.6        | 25.0        | 20.4       |
| Kinh and Chinese origin | 53.9        | 31.1        | 23.1        | 13.5        | 10.3       |
| Ethnic minorities       | 86.4        | 75.2        | 69.3        | 60.7        | 52.3       |
| <u>Food poverty</u>     | <u>24.9</u> | <u>15.0</u> | <u>10.9</u> | <u>7.4</u>  | <u>6.7</u> |
| Urban                   | 7.9         | 2.5         | 1.9         | 0.8         | 1.2        |
| Rural                   | 29.1        | 18.6        | 13.6        | 9.7         | 8.7        |
| Kinh and Chinese origin | 20.8        | 10.6        | 6.5         | 3.5         | 3.2        |
| Ethnic minorities       | 52.0        | 41.8        | 41.5        | 34.2        | 29.2       |

Source: World Bank (2008)

*Food poverty is defined on the basis of the 2006 cost of a basket of goods providing 2,100 calories per person per day (this threshold corresponds to just over one dollar per day in purchasing power parity). Poverty (general poverty) is defined on the basis of the cost of the same basket of goods, to which is added the consumption of basic non-food goods (transport, etc.). These two thresholds are defined nationally and are not therefore strictly comparable with the thresholds used for the usual international comparisons.*

Poverty reduction has been ongoing since the 1990s, but has not been evenly spread across the different population groups. As is generally the case in the first stages of development, rural poverty has fallen less than urban poverty, which has virtually disappeared. Poverty has also fallen more among the Kinh and Vietnamese of Chinese origin than among the Vietnamese ethnic minorities, who live for the most part in remote and mountain areas. Although these ethnic minorities account for less than 15% of the country's population, they form half of its poor. The North-West region, which is also the most isolated (and where



many ethnic minorities live), is the country's poorest region regardless of the indicator used, and poverty there has barely shifted since the last decade.

The massive national drop in monetary poverty is due primarily to the Vietnamese economy's rapid growth. Unlike many developing countries, this growth has been largely inclusive, avoiding the marginalisation of a large proportion of the population and a sharp rise in inequalities. The Gini Index, the most widely used gauge of inequalities, posted an increase from 0.34 in 1993 to 0.36 in 2006. This is relatively low (especially compared China's increase), bearing in mind that the level of overall inequalities itself remains modest.

Public policies have also played a role with ambitious budget transfers between rich and poor provinces and the targeting of poor populations:

- the size of the budget transfer between rich and poor provinces is remarkable, which makes Vietnam's transfer policy very specific among developing countries; through the equalization mechanism, the richest provinces (Ho-Chi-Minh City) transfer as much as three quarter of their budget resources to the poorest provinces; for the latter, financial transfers represent as much as half of their provincial GDP; these resources make political decentralization work as provinces have the financial means to conduct their own social and development policy since the Budget law of 2002, which came into effect in 2004 (VDR, 2008);
- two poverty reduction programmes have also played an less important part in this: the National Targeted Programme for Poverty Reduction (NTP-PR) and the P135 programme to assist people living in mountain areas. The first programme grants financial transfers to the poor (for health in particular), while the second has primarily helped village communities to build infrastructures (roads, schools, etc.). This second programme receives Bank funding.

The immediate upshot of these massive infrastructure investments has been a sharp rise in access to public services and an extremely positive shift in the human development indicators. With nearly 100% of pupils completing primary school and 75.8% of children enrolled in secondary school, Vietnam is far ahead of all the countries with a comparable development level. The picture is the same for life expectancy, which rose to 68 years for men and 73 years for women in 2005. Access to drinking water and electricity has also risen sharply, here again with considerable regional, urban/rural and group-based inequalities. All in all, Vietnam is ahead with most of the MDGs from the point of view of the 2015 deadline, a fact of which few developing countries can boast (World Bank, 2008).

Table 4: Progress towards the Millennium Development Goals (2008)

| Goal  | Progress   | Status   |
|---|--|--|
| 1. Eradicate extreme poverty and hunger<br>- Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day<br><br>- Halve, between 1990 and 2015, the proportion of people who suffer from hunger   | <i>Poverty reduced by two-thirds between 1993 and 2006</i><br><i>Proportion reduced by more than two-thirds between 1993 and 2006</i>                    | <i>Already achieved</i><br><br><i>Already achieved</i>                 |
| 2. Achieve universal primary education<br>- Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling  | <i>Grade 5 completion rate (gross) 104% for boys and 98% for girls</i>   | <i>Likely to be achieved</i>   |
| 3. Promote gender equality and empower women<br>- Eliminate gender disparity in all levels of education no later than 2015  | <i>Gender equality at all school levels, except for ethnic minorities</i>  | <i>Already achieved</i>  |
| 4. Reduce child mortality (among the under-fives)<br>- Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate   | <i>Reduced by 65% from 1990 to 2005 (down from 53% to 19%)</i>   | <i>Already achieved</i>  |
| 5. Improve maternal health<br>- Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio   | <i>Fell by two-thirds, from 120/100,000 in 1990 to 85 in 2007</i>  | <i>Likely to be achieved</i>   |
| 6. Combat HIV/AIDS, malaria and other diseases<br>- Have halted by 2015 and begun to reverse the spread of HIV/AIDS<br><br>- Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases   | <i>Infection rate went up from 0.34% in 2001 to 0.44% in 2005.</i><br><i>Malaria cases severely reduced: only 35 deaths in 2007.</i>                     | <i>Likely to be achieved</i><br><br><i>Already achieved</i>            |
| 7. Ensure environmental sustainability<br>- Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources<br>- Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation | <i>Forest cover up, but loss in closed-canopy forest and biodiversity</i><br><i>Rapid progress on drinking water; much slower on hygienic sanitation</i> | <i>Uncertain to be achieved</i><br><br><i>Uncertain to be achieved</i> |

Source: UNDP, GSO and World Bank (from World Bank, 2008)

*Vietnam has formally adopted a poverty reduction strategy*

In 2002, at the donors' request, Vietnam prepared and adopted a Poverty Reduction Strategy Paper (PRSP) entitled the *Comprehensive Poverty Reduction and Growth Strategy (CPRGS)*. Vietnam, like all the low-income countries, had to observe the PRSP initiative if it wanted to continue receiving funds from the Bank and the other aid agencies.

Even if the CPRGS was not drafted by the Bank's office in Vietnam, contrarily to what happened in many African countries (Cling, Razafindrakoto and Roubaud, 2003), it was written by the authorities in close coordination with the Bank. With the adoption of this

strategy, the Bank granted a first Poverty Reduction Support Credit (PRSC) in 2001-2002 (the eighth tranche of which was launched for 2009). Vietnam was the first developing country, alongside Uganda, to have a PRSP. Several donors followed the Bank's lead and also granted budget support credits.

Yet the CPRGS failed to really find its place in government policy, since the Vietnamese government continues to apply five-year planning. Once the CPRGS had been adopted, the government no longer referred to it and it was quickly forgotten. The Bank consequently decided that the five-year plan would be deemed Vietnam's PRSP, and this decision was put into practice for the Socio-Economic Development Plan 2006-2010 (which makes no reference whatsoever to the CPRGS).

Yet the SEDP's content is largely different to a classic PRSP and very similar to the previous five-year plans. It prioritises macroeconomic policies and infrastructure projects, in keeping with the usual purposes of these plans. Surprisingly, however, reference to the MDGs is only found in the appendix and the poverty reduction goal is barely mentioned. Policy budgeting is presented for the projects only. And, despite the fact that the SEDP echoes the five-year Soviet plans by setting a number of highly specific targets for the level and annual growth rates of the main economic aggregates as well as for the period-end social and human development indicators, no policy monitoring and evaluation system is associated with these goals (whose inclusion is nonetheless one of the innovations introduced by the PRSPs). However, the SEDP does have the fundamental advantage of being drawn up by the government (whose ownership principle is respected) through some public consultation (see hereafter), and of corresponding to its priorities which was not true of the CPRGS.

Seeing as the SEDP is perceived as the benchmark document for the development and poverty reduction strategies, it makes sense to assess it using the analytic grid applied to the PRSP. We find that the macroeconomic policy does not link up with poverty reduction and there are no explicit trade-offs concerning the growth model chosen. Moreover, the SEDP mentions the economy's international integration and sets trade growth and export upgrading targets without taking into account either the obstacles encountered or the impact of the international integration model chosen, especially from a social standpoint (what impact do FDI flows have on regional inequalities, for example?).

All in all, the SEDP's policies remain extremely broad-based (despite their sector and regional focuses) and interventionist. The document's presentation tends to underpin the impression that the government determines all economic and social outcomes, which is not so true anymore in Vietnam where the government's role is dwindling in an up-and-coming market economy. From the institutional point of view, in particular, the SEDP sidesteps the problems raised by the breakneck economic and social restructuring process underway in Vietnam.

The Bank is aware of these shortcomings and addresses them in part in the *Vietnam Development Reports* (VDRs) prepared for the annual Consultative Group meetings between the government and donors. The VDRs take the government's strategy such as it is presented in the SEDP and define economic policy guidelines (which are mainly the Bank's) to implement it and achieve the goals set. These recommendations link the SEDP to the PRSC and incorporate the conditionalities associated with this programme (11 triggers have been included in the PRSC 8 signed in 2008, see table 5). The VDRs hence also form a guide to

measure progress made, in the absence of a specific monitoring and evaluation system for the SEDP.

Table 5: Conditionality (*Triggers*) for PRSC 8

| <b>Pillar I : Business development</b> |  |
|--|--|
| <b>Area</b>                            | <b>Policy Action</b>   |
| State sector reform                    | Strengthen financial management of SOEs and their investments in other entities, defining the level of such investments                            |
| Financial sector reform                | Prepare revised Law on Central Bank focusing its mandate on and enhancing its autonomy in regard to monetary policy and financial sector stability |
| Infrastructure                         | Adopt a pricing system for electricity from renewable energy and provide incentives for government procurement of energy-efficient equipment       |
| <b>Pillar II : Social Inclusion</b>    |  |
| <b>Area</b>                            | <b>Policy Action</b>   |
| Education                              | Formulate education development strategy to 2020 focusing on equity of learning outcomes and relevance of contents                                 |
| Health                                 | Adopt standards for certification of health care practitioners and classification of private health facilities                                     |
| Social protection                      | Approve a strategic plan to ensure prudential and effective investment of social security funds  |
| <b>Pillar III : Natural Resources</b>  |  |
| <b>Area</b>                            | <b>Policy Action</b>   |
| Land and forests                       | Establish criteria and time bound plan to assess the quality of forest resources nationwide  |
| Environment                            | Approve national target program on adaptation to climate change and allocate institutional responsibilities for its implementation                 |
| <b>Pillar IV : Governance</b>          |  |
| <b>Area</b>                            | <b>Policy Action</b>   |
| Public financial management            | Formulate public debt management law consolidating the management of domestic and external debt  |
| Legal development                      | Establish the National Bar Association, with governing documents and structures approved by the community of lawyers.                              |
| Fighting corruption                    | Prepare a revised Press Law to encourage accurate, objective and responsible reporting on corruption   |

Source : World Bank (2008)

### 3. The Bank's actions in Vietnam are at odds with liberal orthodoxy

In Vietnam as in other developing countries, the Bank aims through its funding to influence development (macro-economic and sector) policies. Because there is no IMF programme in Vietnam, the capacity of the Bank to influence policies is increased (respecting its mandate and the “concordat” signed between the two Bretton Woods Institutions). But Vietnam above all follows its own development path, even if it also borrows from other (especially Asian) countries’ experience. Because of this, the influence of the Bank in Vietnam can only be based on a non-doctrinary approach taking into account these specificities.

*The Bank takes into account the specificities of Vietnam*

Vietnam has posted remarkable macroeconomic performances since the launch of *Doi Moi*. Since the mid-1980s, GDP growth has been close on 8% per year (a performance similar to China whose annual growth rate has hovered around 9% over the same period). Since the beginning of the 2000s, Vietnam has posted Asia's highest rate of growth in exports, half of which are made up of manufactured products (Cling and Chaponnière, 2009). These performances prompted the weekly *The Economist* to hail Vietnam as "Asia's other miracle" (the first being China) in a special report on the country.<sup>7</sup>

After decades of war followed by years of economic depression and penury, *Doi Moi* (1986) marked Vietnam's transition to "market socialism" (Dao Xuan Sam and Vu Quoc Tuan, 2008). This set the stage for the emergence of a vibrant private sector alongside a huge sustained public sector, with state-owned enterprises continuing to control whole swathes of the economy (energy, industry, banks, etc.). The government has by and large continued to conduct highly active public policies in all areas (agricultural, industrial and planning policies), to regulate basic commodity prices, and so on (Beresford, 2008). This distinctive economic model, of a market economy combined with strong government intervention, has been called "alliance capitalism" and has been applied in equivalent forms by most of the emerging Asian countries (World Bank, 1993).

Like most of the emerging Asian countries, Vietnam has applied an export-driven growth model. This has prompted swift international integration despite the American embargo on the country remaining in place through to 1994. Trade liberalisation, however, has been very gradual and the import substitution policies have combined selective import protection with strategies to develop new export sectors. For example, Vietnam has become the world number one exporter of Robusta coffee and pepper and number two in rice and cashew nuts, the second exporter of garments on the American market (after China), etc. The local content rules have prompted a budding motor vehicle industry. And the foreign investment inflows policy has driven national capital holdings in foreign multinational subsidiaries and geographically steered their location.

Vietnam shares many common characteristics with China, as these two countries are the only one worldwide which combine a market economy with a one-party State led by the Communist Party. Some authors go as far as writing that they follow the same economic model, the main difference being that China calls her economy a "socialist market economy" while Vietnam a "socialist-oriented market economy" (Le Huu Tang and Liu Han Yue, 2006). Whatever the case, Vietnam combs through China's reforms and their impacts since 1978 (nearly a decade ahead of Vietnam), looking for benchmarks to follow, amend or even reject. The Bank is pretty much left out of this close, albeit ever-ambiguous bilateral relationship where contacts are made directly at the highest level.

In this environment, the World Bank's action in Vietnam is a substantial departure from the liberal *doxa*, such as it was decreed by the Washington Consensus and applied in its most caricatural version by the structural adjustment programmes and their intrusive conditionalities. The principles guiding the Bank's philosophy and actions appear to have taken on board the lessons of past mistakes and criticisms of its work (World Bank, 2005;

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<sup>7</sup> *The Economist*, title of a special report on Vietnam, 24 April 2008.

Rodrik, 2006). Two main premises underlie the middle line it has taken: firstly, acknowledgement of the need to find a balance between market mechanisms and public intervention, the balance between the two being an empirical issue to be determined on a case-by-case basis; secondly, the firm rejection of the principle of the one-size-fits-all model, also prompting a certain relativism as to the policies to put in place.

The reasons for such a non-dogmatic approach are open to debate. It could be thought to be partially “imposed” by the nature of the Vietnamese regime and its runaway economic successes. The Bank would consequently not have been in a position to come down heavily in favour of liberal shock therapy, as it was able to do in other countries with much weaker governments and less conclusive performances.

The IMF, on the other hand, did try to stick to a “hard” line and came away with a bad taste in its mouth, stopping its disbursements in 2002 and winding up its last programme in 2004. The official reason given was the rejection of the IMF’s request to conduct an independent audit of the central bank. Yet beneath the surface was Vietnam’s decision to dispense with the IMF’s services due to a growing disagreement over privatisations (state-owned enterprises and banks), with the Vietnamese authorities resisting attempts to speed up the process underway. The IMF’s handling of the 1997 Asian crisis, widely criticised by many governments in the region, also came into play since it had left a dent in the IMF’s credibility (Rama, 2008).

Yet it has to be said that the Bank demonstrated a certain amount of in-house flexibility, wherein the choice of staff and the influence they brought to bear clearly made a difference. The people we spoke to felt that a number of Bank managers played an important role, because they took a pragmatic, grass roots approach to the country, living in Vietnam to improve their understanding of local situations, build trust with the Vietnamese authorities and gain leverage with their superiors at Bank headquarters.<sup>8</sup>

In some way, you could say that the Bank managed to use to its own advantage the Vietnamese authorities’ extremely pragmatic approach to the reforms, rejecting a too sharply ideological attitude. This uncommon course of influence (from the country of intervention to the Bank) is obviously an accomplishment for Vietnam. Yet it is also to the Bank’s credit for taking more of a back seat and not always dictating. The Vietnamese economy’s outstanding performance obviously went a long way to making the Bank more receptive and swinging the internal pendulum away from the proponents of a more radical attitude and towards the “moderates”.

### *The Bank strays from the liberal model on a number of counts in Vietnam*

A definite distance has been taken from the generic liberal model on the following fronts.

*Macroeconomic policy:* Aside from in their basic principles (macroeconomic stabilisation and “prudent” management of the economy), the public policy recommendations differ distinctly from all-out liberalisation. For example, the standard recommendation for a flexible exchange rate as an ultimate objective (especially to absorb short-run shocks and free up

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<sup>8</sup> Of particular note are A. Steer, World Bank Country Director for Vietnam from 1997 to 2002, his successor K. Rohland (2002-2007), M. Rama (lead economist since 2002), C. Turk, etc.

leeway for monetary and tax policies) neglects its disadvantages, such as greater vulnerability to external shocks. The Bank underlines the need for a gradual transition towards a flexible exchange rate, taking into account the risks potentially occurring during the transition period (VDR 2009). The same observation holds for the liberalisation of the capital account. And the restrictive measures imposed in early 2007 to curb surging stock market prices and uncontrolled growth in the money supply are seen as largely positive.

*Privatisation:* State-owned enterprises are not as a rule deemed less efficient than their private counterparts, notwithstanding the question of the differential between private return and social return. Even as it spurs on the privatisation process underway, the Bank endorses the Vietnamese authorities' gradual and partial approach and acknowledges their positive contribution to the country's economy. In many areas and in the light of the empirical data, the behaviour and performances of the state-owned enterprises compare favourably with the private sector. Moreover, although public ownership of enterprises can be a source of inefficiencies, the ownership transfer from the public to the private sector can also bring about some risks difficult to manage (VDR 2009). This conclusion holds again for the public-private partnerships, which are not presented as posting better performances than public investment. The vital issue is considered to be more the regulatory and competition framework than the nature of corporate ownership.

*Redistribution, social protection and inequalities:* Vietnam is praised for its massive redistributive policy with its extensive tax decentralisation, which is exceptional for a country with this level of development (even in Europe). This underpins the idea, albeit disputed within the Bank, that growth is not enough. Some poor provinces receive the equivalent of half of their GDP in budget transfers and close attention is paid to the question of inequalities. Vietnam's success in this area (the transition process has been conducted so far without any substantial increase in inequalities), unlike China in particular, is admired and seen as an end in itself, giving the lie to the idea of a necessary trade-off between growth and distribution.

In social protection, the Bank takes the universal coverage line rather than sticking to the more traditional temporary "safety nets" (VDR, 2008). Yet it takes no clear-cut position on the policy of subsidised loans to the poor by the Vietnam Bank for Social Policies (VBSP), whose benefits are recognised (positive, albeit modest impact; helping the poor become part of the mainstream economy). Once again, the gradual approach is promoted: "The strategy of the VBSP is to move in the direction of more commercially-oriented microfinance in the future, but this may be a gradual process," (VDR, 2009).

The *socialisation of education* is a term used to define the principle of cost sharing in the Vietnamese education system. It has been launched in the 1990s by the Vietnamese government, and initially supported by the Bank which promoted such cost-recovery policies in many other developing countries. Education for all has always been a top priority for Vietnam. Yet faced with the post-*Doi Moi* dismantling of the co-operatives that had played a major role in managing basic services, the need to remedy the poor quality of education and funding constraints, the Vietnamese authorities decided in the early 1990s to authorise tuition fees as of secondary school and the creation of private establishments for all levels of education. At the same time, voluntary contributions were encouraged in primary education (Vuillemin, 2004). These options known as the "socialisation of education" were based on the idea that household participation in covering the costs of education would supplement the increasingly decentralised public resources while giving the local community more control

over the use of funds and service quality. Paradoxically, the Bank was not in favour of this policy due to its impact on access to education for the poor.

After having supported this policy (conditionally to subsidizing poor children's education), the Bank emphasized its negative impact on access to education for the poor (VDR, 2004).<sup>9</sup> With the support of various donors including the World Bank, the Vietnamese government set up extensive targeted programmes (fee exemptions for the poor and assistance to communes with problems rallying resources) to limit the effect of this policy on inequalities. Nevertheless, a number of empirical analyses (Nguyen, 2004; Glewwe, 2004) find that the equity problems are rooted less in the introduction of a paid system than in its implications. The principle is taking hold that parents have to pay out of their own pockets if they want quality education for their children. The widespread emergence of extra private lessons, unofficial payments to teachers and backhanders to gain entry to the best state and private schools is creating inequality in the education system.

Lastly, by declining dogmatic stances and one-size-fits-all solutions, the Bank in Vietnam effectively hops off the band wagon. For example, it remains circumspect about the recent craze for conditional cash transfers, pointing up the negligible poverty reduction role they have played to date along with a certain number of intrinsic shortcomings (stigmatisation and lowering self-esteem). In another domain, the Bank provides funding to support Vietnam's ambitious higher education policies. This is unusual for the Bank which focuses funding in this sector on primary or secondary education.

#### **4. The knowledge Bank**

In addition to its operational activities (funds and projects), the World Bank plays a vital role in the production of information on the country's economy and policies. No other foreign institution is as active in this area, and the Bank enjoys an unrivalled reputation on this front (not without sparking some jealousy).

This aspect of the Bank's activities in Vietnam comes under the formal framework of the Knowledge Program. Analytical and Advisory Activities (AAA) form an integral part of the pillars of the Vietnamese government's Socio-Economic Development Plan (SEDP) 2006-2010 (see above). Their purpose is fourfold: to improve the understanding of the main economic problems; enhance the economic policy dialogue with rigorous analyses; steer the new aid methods and approaches, and provide the technical assistance needed to consolidate the four pillars defined in the SEDP.

The Bank's knowledge programme is widely heralded as a key feature of its activities and one of its greatest achievements. This view is echoed as much by the international academic community (Banerjee *et al.*, 2006) as by the Bank's own clients, as shown by the latest survey of them (for Vietnam: World Bank, 2007). We break the "Knowledge Bank" functions down into three areas: statistics, economic and policy analysis, and training and knowledge dissemination. In so doing, we seek to bring to the fore the particularity of the Bank's action in Vietnam.

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<sup>9</sup> The Bank started to have mixed feelings about the principle of cost sharing as a whole in the mid-1990s.



## *Statistics and databases*

The Bank plays a central role in the production of first-hand data, even if some other donors also bring some support (UNDP, SIDA, etc.). The *Vietnam Household Living Standards Survey* (VHLSS) is a model example of this. Like most socialist countries, Vietnam's official statistics used to rely more on administrative registers than on public opinion surveys. Yet the introduction of *Doi Moi* ("Renovation") and the poverty reduction focus showed up this weakness as a glaring failing. The donors responded by pushing for the General Statistics Office (GSO) to conduct the first official survey on living conditions in 1992/1993. As the Bank was not yet active in Vietnam at the time, it only brought some technical assistance while asking the UNDP to finance the operation, in a total role reversal. At the instigation of the Bank's researchers, the 1992 survey was based directly on the *Living Standards Measurement Studies* (LSMS) survey matrix, which the Bank had first developed and promoted in the developing countries in the mid-1980s.

The Bank's approach for supporting statistical production consists of financing the launching of new surveys in order to create a demonstration effect. But the objective is to pull out afterwards, so that the national institutions can finance themselves and therefore "own" these new surveys. This survey was conducted a second time in 1997/1998 before being institutionalised in 2002, with a substantially enlarged sample and the national budget paying for and hence stabilising the survey through to 2010. To date, four waves of VHLSS have been conducted at regular intervals in the 2000s (2002, 2004, 2006 and 2008). In addition to the Bank's technical assistance with the basic survey, it was also behind the survey's inclusion of targeted subject modules on what are deemed fundamental issues such as land tenure, household businesses, education, health, nutrition, vulnerability and governance. And given the VHLSS's reputation with the Bank and, via the Bank, with the academic community as one of the best surveys in the world and Vietnam's reputation as a benchmark country, many renowned economists have drawn on it for their research work. The survey plays a particularly important role in Vietnam since it supplies the official poverty figures that serve as the reference for international comparisons<sup>10</sup>, most of the indicators on the MDGs and the Vietnam Development Goals (MDGs tailored to Vietnam) and a large number of SEDP performance indicators.

In addition to its support for the VHLSS surveys, the World Bank is involved in other statistical operations such as business surveys. Prime examples of this are the *Investment Climate Assessment* surveys, the surveys on the informal sector and the surveys on improving the quality of the agricultural censuses. In the field of governance, in addition to the incorporation of a module into the 2008 VHLSS, the Bank backed surveys on public service user satisfaction (*Report Cards*) in four cities in 2004. Since then, the Ho Chi Minh City People's Committee has taken up the methodology and conducted a new wave of the survey using its own funds. The Bank's assistance with statistical activities extends beyond production itself to survey data analysis and dissemination of the findings (see below).

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<sup>10</sup> MOLISA (Ministry of Labour, War Invalids and Social Affairs) also publishes its own poverty statistics used by the ministry to allocate the aid it grants.

*Research: economic analysis and policy research*

The Bank also leads in policy research, although some other international researchers work on Vietnam which attracts a lot of attention from academics worldwide. It is by far the number one producer in this field where no other donor, let alone national institution, is as active. The applied research is either produced by the Bank's staff themselves (the Hanoi or Washington team) or funded by the Bank (knowing that the Bank's office in Hanoi only employs 10 economists out of a staff of 130). It covers a wide range of subjects, with a strong focus on the microeconomics of households and poverty, drawing largely on the wealth of information in the VHLSS surveys. The range of publication media is also wide: from grey literature for short-term consultations on current economic policy issues to academic papers published in the leading international economic reviews and specialised publications.<sup>11</sup> Vietnam's current "in" status attracts a certain number of world-renowned development economists.

Among these publications, the *Vietnam Development Report* (VDR) stands out as a flagship report. Although it is billed as being the summary of the donor co-ordination group, it is predominantly a product designed and produced by the Bank in Hanoi. The VDR is based on the *World Development Report* model (Yusuf, 2009). It takes stock of Vietnam's most recent economic situation, generally through the prism of a key economic policy issue. The report became an annual publication in 2003 (frequency was lower previously). Issues follow a four-year cycle<sup>12</sup> with one more general issue (VDR 2003 and 2007) and three issues in a row focused more on the issues of poverty, inequality and social protection (VDR 2004 and 2008), governance (VDR 2005, also scheduled for 2010), and the role of growth and business (VDR 2006 and 2009).

This report has all the strengths of the *World Development Report* (WDR) without any of its shortcomings. It is an easy read for the layman. It presents, like the WDR, the up-to-date state of play on a given issue and a documented discussion of the policies in place or in the pipeline without hesitating to send a clear message (which is what the WDR finds it much harder to do as the "voice" of the Bank). Lastly, its size is reasonable at some one hundred pages. It contains a wealth of tables, charts and boxes and boasts what is probably the most comprehensive statistical appendix available on the Vietnamese economy. The VDR draws extensively on the work of national researchers and is systematically translated into Vietnamese (see below). This initiative owes a great deal to the lead economist posted in Hanoi since 2002 (M. Rama), who designed its structure, heads the writing team and writes most of the report.

The *Vietnam Development Report* subjects (2003-2010):

2010 Institutions: Modern Institutions  
2009 Business climate: *Capital Matters*  
2008 Human development: *Social Protection*  
2007 General: *Aiming High*  
2006 Business climate: *Business*  
2005 Institutions: *Governance*  
2004 Human development: *Poverty*  
2003 General: *Vietnam Delivering on its Promise*

<sup>11</sup> There are too many publications to list them all. One of the recent benchmark books is Glewwe, Agrawal and Dollar, 2004.

<sup>12</sup> It is planned to go to a five-year cycle from 2011 with a new VDR dedicated to the environment.

### *Training, capacity building and knowledge sharing*

One of the strategic pillars of the “Knowledge Bank” and its capacity-building policy is to train and upskill Vietnamese economists. As the country only recently opened its doors to the outside world, many economists were trained in the former Eastern European countries and only a small pool of economists so far is familiar with modern economic analysis techniques. Here, the Bank meets a dual goal: to contribute to the spread of international economic research and policy analysis practices via assistance to individuals (researchers and economic and financial administration staff) and institutions; and to create a network of high-level Vietnamese specialists who can meet the demand for economic analyses, especially from the Bank itself.

This strategy works towards the Bank’s aim to draw on local skills to improve the international community’s dialogue with Vietnamese institutions. The component takes two forms: ad-hoc consultation whereby Vietnamese researchers are placed on international teams studying certain subjects; and support to economic research institutions. For example, four of these institutions with a good local reputation have been selected for long-term assistance:<sup>13</sup>

- the Centre for Analysis and Forecasting (CAF) of the Vietnamese Academy of Social Sciences’ (VASS) , which specialises in poverty assessment but also does research and forecasts on the economic situation (impact of the crisis in 2009);
- the Institute of Labour Science and Social Affairs (ILSSA) of the Ministry of Labour concentrates on labour market and social security issues;
- the Institute of Policy and Strategy for Agriculture and Rural Development (IPSARD), which is part of the Ministry of Agriculture; IPSARD analyses agricultural policies which is of major importance in Vietnam as half of employment is still found in agriculture;
- the Central Institute of Economic Management (CIEM), which is part of the Ministry of Planning and Investment (MPI); the CIEM studies the macro-economic situation and policy issues.

The Bank also has an active policy to disseminate economic and statistical data and knowledge in general on Vietnam and beyond. This policy is especially commendable since the country only opened up recently, just as the knowledge-based economy was becoming a vital driving force for growth and development.

For example, the Bank has an economic data centre in Hanoi called the Vietnam Development Information Center (VDIC), which is popular with the Vietnamese public and ex-patriots living in Vietnam. Although the VDIC is co-financed by the Australian, Canadian and Danish governments, the UNDP and the Bank with the active support of the Vietnamese government, the Bank is its mainstay and the centre is even set up in the same building. The Bank rounds out its statistical activities with the development of user-friendly tools presenting key charts and tables from the major national surveys and micro-data (CD-ROMs, etc.).

Mention should be made of the Bank’s intense translation work. This work is particularly useful in a country where the command of English and other foreign languages remains the privilege of a tiny academic elite. For example, the VDRs are systematically published in

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<sup>13</sup> These same institutions are also supported by other bilateral aid and research organizations (DANIDA, GTZ, IDRC, etc.).

English and Vietnamese, as are many other publications and documents on Vietnam and other countries.

*A positive assessment with a few weak points*

There is no doubt that the Bank performs extremely well in knowledge production and dissemination and in the ownership of this knowledge by local players (on both the supply and demand sides). It is also the only donor to have made such an effort in this area, except from British Aid (DFID), which finances the Bank's activities in this field but without conducting its own. Basically, all the major studies on the Vietnamese economy are produced by the Bank or with the Bank's support.

Yet this does not spare it criticism on a few specific points. Generally speaking, the Bank's policy is evidently not totally altruistic. Given that Bank is itself a stakeholder on the policy front, it has the means to promote its own interests via national intermediaries and to strengthen its power.

For example, the VDR is officially supposed to be a joint donor community report written following a broad-based consultation process. In fact, the Bank is at the real core of this publication, which it can use to push its own views. This dominant position creates friction among the donors. Some of them are not directly involved in writing the report. The UNDP, after working closely on the early issues of VDR, withdrew from this annual exercise in 2006 stating that the writing process was not participatory enough.<sup>14</sup> And then there is the subject of access to information. Some researchers outside of Bank channels complain that the microdata access procedures lack transparency. The Bank is criticised for not having managed to convince the General Statistics Office (GSO) to introduce a protocol for the academic community to use survey data. Consequently, the Bank's researchers and those hooked up to networks within the Bank enjoy privileged access to the information and hence a non-competitive information advantage.

Another example is that although the VHLSSs are considered to be high quality, they also come in for some severe criticism (Pincus and Sender, 2007). The authors point up a serious problem with the representativeness of the surveys, which underestimate the weight of temporary migrants in urban areas especially. They argue that as these temporary migrants are frequently poor, unprotected workers, the poverty indicators are biased and the good performances in this area overestimated. Pincus and Sender accuse the Bank of long playing down this problem to present its contribution to the survey in a better light, with the ulterior motive of presenting the Vietnamese case as an international development model.<sup>15</sup>

There is a clear conflict of interests here: the Bank is accused of producing the very data used to assess its own action. This argument is developed by others such as Bhalla (2002) in a more general context. Bhalla challenges the Bank's international poverty figures, which he says are largely overestimated to give greater credence to its "business" of poverty reduction.

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<sup>14</sup> One of the main difficulties met by UNDP when participating to the VDR was the need to consult with its headquarters and with all the UN agencies operating in Vietnam. UNDP was not given the time needed to conduct this consultation process.

<sup>15</sup> The Bank considers that it recognized this problem a long time ago and that it has been trying to help the General Statistics Office to solve it by improving of migrants in the survey.

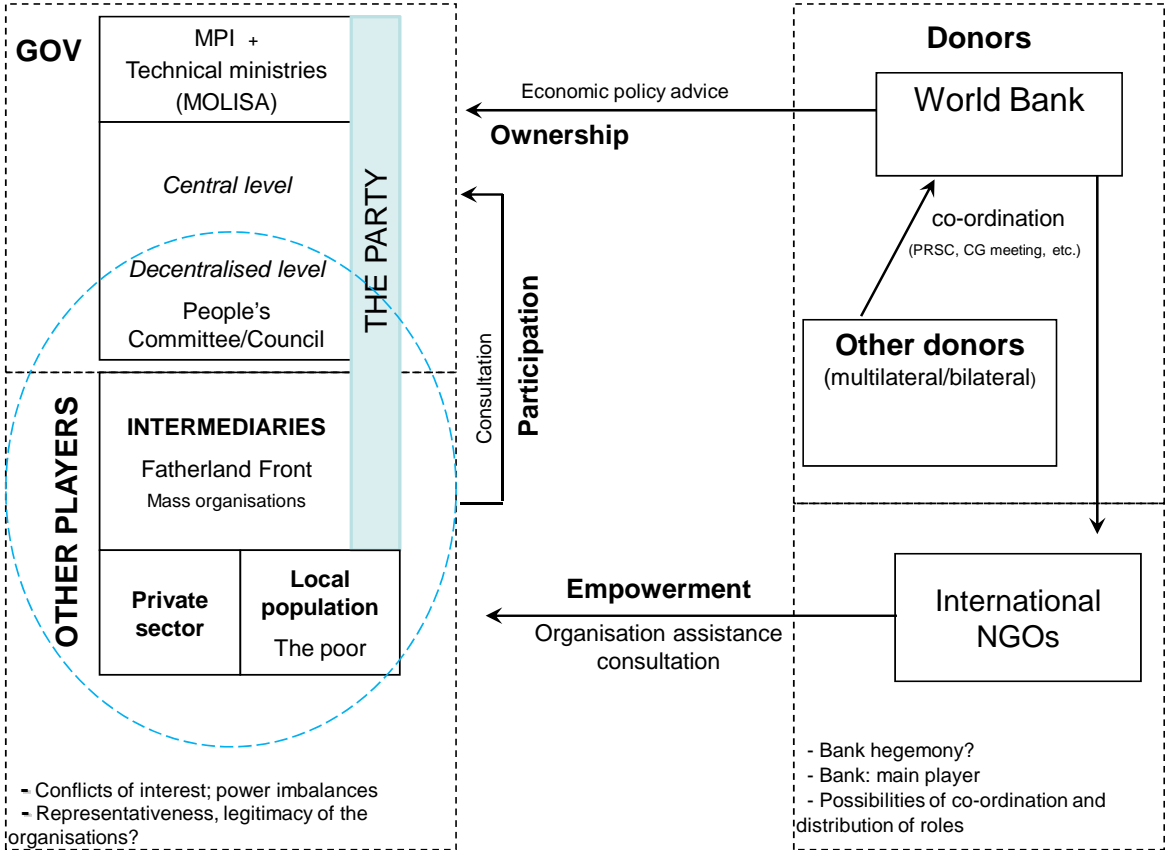
Although there may be grounds for these criticisms, we feel that the road to be taken is not to dispute or undermine the Bank’s action in this area, but to draw inspiration from it. In particular, other donors should develop alternative networks that would prevent monopoly situations by diversifying the supply of expertise.

**5. The Bank’s relations with the government and the other donors**

The worldwide introduction of the new poverty reduction strategies promoted by the World Bank has brought a new focus on the political economy of the reforms and a redefinition of the role of the development players. Vietnam is no exception to this rule. The figure below takes the basic framework and adapts it to Vietnam to show the principles supposed to guide the interactions between the two main generic players: the government and the other national stakeholders on one side, and the foreign players on the other. Among these foreign stakeholders, we separate out the World Bank, the other donors and the international NGOs. The diagram also highlights a number of potential problems that could hinder the implementation of these principles.

As shown by this figure, it is important to note that despite the original nature of the Vietnamese political regime, ostensibly at odds with the Bank’s own implicit ideology (market and liberal democracy), the Bank has not set up a fundamentally different framework for action to that in effect in the other developing countries.

**Figure 1: Relationship between Poverty Reduction Strategy Players in Vietnam**



### *The relations between the Bank and the government*

Since its (late) arrival in Vietnam, the Bank appears to have carved itself out a central position unparalleled on the local scene. Not only is the Bank one of the country's leading financial partners, it also has a very close relationship with the Vietnamese government and plays an advisory role valued by the authorities, especially in time of crisis. Although it arrived long after the UNDP, it quickly took the UNDP's place due to its financial and analytical capacity.

What is the reason for this apparently paradoxical situation? Indeed, everything pointed to relations being more antagonistic and mutually distrustful: close link with the erstwhile political enemy (United States), instinctive (albeit historically justified) suspicion of the outside world, a visceral attachment to the country's independence that sat ill with the Bank's often hegemonic attitude, etc.

In the first place, the Bank has always scrupulously respected the basic principle of non-intervention in the political arena, as laid down in its charter. Without going so far as to defend the concept of "Asian values" promoted by the leaders of Singapore, the Bank remains oblivious to the political regime as long as the principles it defends are respected (ownership, empowerment, etc.).

The "virtues" of political stability can probably be cited in part. For example, like other donors the Bank has avoided to formulate direct critiques on certain matters of governance and corruption (unlike what it did in Cambodia), just as it was making good governance a core element of its policies in the other developing countries. It preferred to adopt a practical approach on governance issues (reform of the custom and financial system) rather than a doctrinary one. At the same time, it tried to encourage the government's effort to launch reform on this subject, while recognizing the complexity of their implementation. This attitude strengthens the Vietnamese authorities' relationship of trust with the Bank in that it proves there is no double talk or hidden agenda.

Obviously, as elsewhere, the policies promoted by the Bank could change the domestic balances and eventually lead to political protest. For example, building up the non-state entities (private sector and local authorities) will necessarily make it harder and more complicated to maintain the current mode of political rule; not to mention the more general theory that economic development itself automatically puts pressure on for political liberalisation (Inglehart & Wentzel, 2005).

However, insofar as the authorities consider that the Bank's purposes correspond to their own aims, these (potential) induced effects are a risk to be taken and it is their own responsibility to keep the lid on them. In some ways, in refusing an inegalitarian growth model (see above), the Bank is effectively an objective ally of the Vietnamese government in that it avoids a source of social unrest. This relationship of mutual interest is criticised by other donors who consider that the Bank is an unconditional supporter of Vietnam (its *cheerleader*) and serves as a guarantor for the country (for example, the signing of the PRSC triggers other funds), when the international community's duty should be to insist that certain principles are respected (governance, state-owned enterprise reform, etc.).

Secondly, the historical circumstances surrounding the Bank's arrival in Vietnam played (and continue to play) a decisive role. The country decided on and launched *Doi Moi* (market

economy and international outlook) on its own initiative without foreign advice before the international institutions turned up in the country (Rama, 2008). At a time when Vietnam was under the American embargo and isolated internationally, the authorities urgently needed technical assistance to carry through the reform process. Yet their “sister countries” were in no position to provide this assistance: either because they had their own problems (Russia and other Eastern European countries) or because relations had been cut off with China, which had embarked upon its own reform in 1978.

Even before the Bank’s official return to Vietnam, it was providing this assistance on an informal basis. The Prime Minister’s aides at the time have fond memories of the days when, with just one “Dollar” (David Dollar, today the Bank’s Country Director for China), the Bank played a decisive role in making the country open to international experiences. Two decades later, this dissemination of foreign experiences is still one of the Bank’s most welcome contributions to Vietnam.

Although the Vietnamese authorities are very attentive to their relationship with the Bank (which is far from the case with China, for example), they only apply (or reject) its recommended policies after assessing them in detail. This ensures total policy effectiveness and justifies the application of ownership principles at the same time. It is because Vietnam is in good enough shape to take its future in its own hands and because it tries to define its own vision of its development that the Bank can play the role it plays. A cheeky assertion at this point would be, “It is the Bank that buys into Vietnam’s policies rather than vice versa.”

How much of a role has the World Bank played in the Vietnamese economy’s growth path? It is hard to give an accurate answer to this question. Contrary to its practice in many developing countries, the Bank, like the other donors, cannot really claim to have influenced the economic policy choices in Vietnam, much less the pace of reform implementation. Nevertheless, the Bank has played a significant role in terms of advisory services, economic analyses and capacity building.

The part played by the Bank on the policy research front meets a real demand from the Vietnamese authorities who want to draw on international experience, not to apply as are the models presented as benchmarks (best practices), but to fuel internal discussions on the directions to take. Reform implementation decisions are made only when they have enough analytical elements to prove their relevance to Vietnam. So the Vietnamese authorities mobilise the resources and research, but to steer and implement reforms on their own home-grown agenda.

The bank’s ability to adapt to the Vietnamese environment is also to its credit. Firstly, as it rather inspired misgivings over the structural reforms, it focused its actions mainly on developing infrastructures and poverty reduction. Secondly, instead of trying to win the Vietnamese over by means of direct negotiations, it prioritised working with key institutions that provide analyses and advisory services to the decision-makers (Rama, 2008).

Lastly, rather than define conditionalities for the granting of loans, the Bank for once adopted a more flexible stance. The emphasis is on guidelines that define a certain number of strategic reforms (see table 5 hereabove) negotiated with the authorities and intermediate goals to be met. Disbursement hence depends on an overarching assessment of the state of progress with the recommended reforms rather than the satisfaction of precise criteria. So the Bank has learnt to be less demanding about the speed of reform implementation. More generally, this

flexibility stems from the fact that the institution's actions today are no longer presented as assistance activities, but as partnership activities.

Without wanting to play down the Bank's merits in Vietnam, the institution's more flexible position probably has to do with the large volume of credit granted the country and the ambition to make it an example of success on an international scale. More importantly, however, Vietnam has the particularity of an indomitable will and capacity to design and steer its nationwide reforms in total sovereignty. Yet the process takes time, and this does not meet with the recommended reform pace to the great despair of the international institutions' experts. This modus operandi has undoubtedly influenced the effectiveness of the policies and the country's growth path. The question could therefore be raised as to whether the Bank's atypical relationship with the Vietnamese authorities, which has in some ways been imposed by the circumstances, should be held up as a model in the other countries in which the institution works.

#### *Relations with the other donors*

The World Bank acts as co-ordinator and catalyst for the community of donors working in Vietnam. Its co-ordination activities essentially take the form of the chairmanship of two regular meetings: the Consultative Group meeting (twice a year) and the Business Forum meeting (organised by the International Finance Corporation). Today, these meetings are major events for the discussion of goals and co-ordination of aid between the Vietnamese government and the donors (Consultative Group), and between the government, the private sector and the donors (Business Forum). Through the debate on development aid, the Consultative Group is an instrument of political dialogue between the government and all the donors, which is managed by the Bank.

The PRSC, which is a budget-aid programme negotiated by the Bank with the government, plays a key role in the coordination between donors. It has become a tool for many donors to engage in dialogue on the policies they wish to promote. In this way, the PRSC helps smooth the way for multidonor credits. A dozen countries (with the United Kingdom top of the list) hence co-finance the PRSC along with the European Commission and the Asian Development Bank, generating a total sum of 210 million dollars in 2008 (in addition to the Bank's 150 million dollars). Even more donors have taken part in the discussions held in connection with this programme. The Bank's programme has therefore gradually gained greater leverage and the PRSC's total funds ultimately come to more than double the sum granted directly by the institution.

The World Bank's financial weight in Vietnam, combined with its capacities based on its locally available human resources, makes the institution the natural candidate for international community co-ordinator. This role has earned it praise, but also criticism from the other donors. The Vietnamese government appreciates the Bank's co-ordination role since it means it can externalise among donors the transaction costs that are payable by the national authorities in most of the developing countries. The Bank therefore finds itself acting as a go-between for the other donors, if not deciding between their positions on behalf of the government.

Co-ordinating all the donors' actions while promoting its own aims and criteria inevitably gives the Bank a certain amount of power. So it is hard for it to escape gripes about its domination, especially since behind the statements on the harmonisation of international



development assistance lies the obvious fact: the World Bank's main aim, just like the national and international development agencies, is to conduct its missions and step up its activity, influence and profile. This prompts competition among donors, although it does not rule out the possibility of mutually beneficial co-operation where fitting.

Despite occasional friction, there is an effort to improve co-ordination among donors in Vietnam. Take, for example, the *Hanoi Core Statement* (HCS), a commitment to comply with a certain number of criteria defined by the Vietnamese government with the donors to improve aid effectiveness. The statement covers five key principles: ownership, alignment with national strategies, harmonisation and simplification of procedures (management and programme diagnostic reviews), managing for results, and mutual accountability. The HCS tailors the Paris Declaration (OECD, 2005) to Vietnam and lays down generally more ambitious goals than the Declaration to be met by 2010.

Here too, Vietnam is deemed a model in its implementation of the Paris Declaration (2005) and the Accra Agenda for Action (2008). The Vietnamese government has showed interest in this international initiative, as confirmed by the efforts to put the HCS into practice. Yet in donor circles, the HCS is probably more important to the other donors than to the Bank, which, as we have seen, has its own channels affording it direct access to the power base. Without wanting to play down its importance, the Bank takes part in the exercise, but does not seek to lead it. Moreover, the work on aid harmonisation gives the Bank a dual advantage: it gives the other donors an outlet to come out from under the Bank's domination in this area and it restricts them to the issue of methods, while the Bank pockets the lion's share of policy content.

#### *Relations with civil society*

Vietnam, unlike most of the other developing countries, does not have a civil society legally independent of the ruling political party in Vietnam. All the associations have to join the Patriotic Front. However, these associations are allowed in practice some leeway, which is not precisely defined and which evolves permanently. Furthermore, there is no clear indication that the different functions promoted by the Bank via the participatory processes (participation, empowerment, ownership and accountability) are less well fulfilled than in many other developing countries with more liberal political systems. Also, Abrami, Maleski and Zheng (2008) argue that Vietnam's political system empowers a larger group of citizens and accepts more accountability than China's.

Firstly, despite the official principle of "democratic centralism", the highly decentralised system affords real decision-making power to the local political levels in the form of people's committees and councils working at the different levels (province, district and commune) of the administrative structure (Papin, 2003). Underpinned by a still weighty historical legitimacy derived from the war period (proliferation of grass-roots initiatives), these committees and councils enjoy a great deal of independence and the central authorities find it hard to impose their views and co-ordinate policies (public investment, taxation, etc.).

Secondly, Vietnam is singular among countries with comparable development levels for its consultation of the people by these local authorities. Although an iron hand still looms, the people have many opportunities to voice their opinions. For example, over half of the households on the P135 poverty reduction programme for people in mountain areas and ethnic minorities say they were consulted about this programme and two-thirds were satisfied

with the outcomes (Hung *et al.*, 2008). These figures are beyond compare with those for the African countries, for example (Cling, Razafindrakoto and Roubaud, 2004).

More generally, the participatory process associated with the CPRGS co-ordinated by the Bank and a number of international NGOs comes across as a model of its kind (Shanks and Turk, 2002) in blatant contrast with the bogus exercises organised in most of the developing countries. Last but not least, the system's decentralisation and the success of the participatory processes sustain the Bank in its indifference to Vietnam's political organisation, which is anyway out of its mandate).

The consultations held to define the CPRGS set the stage for a participatory process to develop the SEDP in 2005 in keeping with PRSP preparation principles. The National Assembly discussed and passed the Plan. Several foreign NGOs and donors helped organise consultations in the provinces. The Bank believes that these consultations gave the SEDP an even sharper poverty reduction focus by influencing it in at least three areas: scaling up the section on agricultural development and farmers' organisations; prioritising basic services to ethnic minorities (in particular, a commitment to waive tuition fees for these populations); and sharpening the focus on involving the people in the decision-making process, with the aim of introducing more participation, transparency and accountability into the poverty reduction programmes (World Bank, 2007).

All in all, the PRSPs' advocated principles have improved the way in which the SEDP is prepared and its content into the bargain, without imposing a development policy from the outside.

## **Conclusion**

The Bank fulfils its three-pronged mission in Vietnam: its financial role (granting loans), its development agency role (assistance to poverty reduction policies, to implement reforms and infrastructure projects), and its knowledge production role (providing analyses in liaison with research bodies).

As we have seen, the Bank may well play a prominent role among the donors in terms of both funds and economic policy advice. And it has piled on the economic policy advice at key moments (WTO accession and 2008 crisis). Yet its influence over Vietnam's overall growth path is limited. Firstly, the sum of public and private funds from other sources, especially Japan (ODA, commercial loans and FDI), is infinitely higher. Secondly and more importantly, Vietnam does not have an exclusive tête-à-tête relationship with the Bank on the economic policy front, unlike many other developing countries. For historical, political and economic reasons, the Chinese model is inordinately more important to Vietnam than the Bank's advice, often drawn from the experience of third countries.

Vietnam has adopted many market economy principles at its own initiative in a fast-track international integration strategy. At the same time, it has held on to a dwindling number of particularities (see, especially, the role of the state-owned enterprises). So the Bank would find it hard to lay rightful claim to Vietnam's economic successes, along with its poverty reduction achievements, even if it is sorely tempting to do so.

It almost looks as if Vietnam were more important to the Bank than vice versa, on at least two counts: first, because the case of Vietnam is packed with development policy lessons; and second, because the Bank gains a political advantage image-wise from what it can hold up as the accomplishments of its work in the country. This singular situation has positive repercussions in that it makes the Bank more open and more receptive than in other developing countries.

The Bank's approach in Vietnam, which consists of avoiding giving lessons, reinforces its relationship with the government and increases the effectiveness of its interventions. This approach allowed to establish a balanced partnership between equals, and increases the openness of the government to analysis and advice given by the Bank when it is needed.

Then there is the impression that Vietnam makes the most of the Bank's services (financial and advisory), more than the Bank seeks to push its own agenda (even if it derives obvious advantages from the relationship). This win-win relationship is obviously not without its shortcomings, but isn't this basically the way in which all relationships between the Bank and its recipient countries should be set up? The flipside is that it is hard to draw lessons from this harmonious relationship for broader replication in other countries. If the Bank only plays a marginal flanking role in Vietnam's development process, rather than steering operations as it too often seeks to impose elsewhere, it is because the Vietnamese institutions are strong enough to be able to form an *alter ego*. The Bank's flexible, non-dogmatic attitude to Vietnam is therefore a necessary, but insufficient condition for it to play a positive role in the country's development.

To conclude, we could look into the Bank's prospects for action in Vietnam now that it is poised to become a middle-income country. As we have seen, the form of financing will change and IDA's no-interest loans will be replaced by IBRD loans at market rates. Vietnam's development progress has also given it the ability to diversify its foreign financing sources. However, it would be jumping the gun to say that Vietnam will now be able to do without the Bank and the international institutions in general. In fact, at least three factors actually point to increased dependence on the Bank and the international institutions.

*Firstly*, international integration has brought greater constraints on the economic policy as seen, for example, from WTO membership. The guarantee provided by the Bank and other international institutions will be needed for the WTO to grant Vietnam market economy status and for the country to secure the private capital market finances to which it can now aspire.

*Secondly*, there is a risk that the international crisis could make the Vietnamese economy more vulnerable, at least in the short run. This would increase the need for more active intervention by international aid, especially the Bank (see, in particular, the granting of an international loan in 2009 to finance the fiscal slippage).

*Thirdly*, and this factor was starting to raise its head even before the onset of the crisis, Vietnam has made it through the "easiest" stages of the development process and is now arriving at a juncture where strategies become more complicated and mistakes probably also more costly. Many emerging Asian countries have encountered this obstacle before Vietnam (often without managing to overcome it), and there is no denying that the Bank's international experience in this area could prove invaluable.

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