



# Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 17-Apr-2023 | Report No: PIDC36127

**BASIC INFORMATION****A. Basic Project Data**

Country Vietnam	Project ID P181146	Project Name Vietnam Second Inclusive and Sustainable Recovery DPO (P181146)	Parent Project ID (if any) P176717
Region EAST ASIA AND PACIFIC	Estimated Board Date Jun 29, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) The Socialist Republic of Vietnam	Implementing Agency Ministry of Finance		

**Proposed Development Objective(s)**

The proposed operation will support the Government of Vietnam's effort to promote and sustain a more inclusive, green and digital-friendly economic recovery.

**Financing (in US\$, Millions)****SUMMARY**

<b>Total Financing</b>	150.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	150.00
World Bank Lending	150.00

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

## Country Context

**The operation is being prepared against the backdrop of Vietnam's ongoing economic recovery from COVID-19 and the subsequent commodity price shock.** Economic conditions have changed dramatically since approval of DPO1. After



decelerating to 2.9 percent in 2020 and 2.6 percent in 2021, Vietnam's economy experienced a strong recovery in 2022, with growth accelerating to 8.0 percent. The recovery was driven by a rebound in private consumption after reopening and an effective vaccination campaign as well as buoyant external demand which supported Vietnam's export-oriented manufacturing sector. While stronger demand and higher energy and food prices led to rising inflation, price pressures seem to have eased somewhat in recent months. On the external side, Vietnam's BOP weakened in 2022, amid a rising current account deficit and capital outflows triggered by tighter global financial conditions but resultant exchange rate pressures were accommodated through a combination of FX interventions, exchange rate flexibility, and monetary tightening. On the fiscal side, Vietnam has maintained low levels of public debt, providing it with adequate fiscal space to provide policy support in case downside risks to growth materialize.

**In the near-term, the deteriorating global environment is posing headwinds to Vietnam's open and export-driven economy.** Weakening demand from Vietnam's main trade partners has weighed on exports which contracted by 11.8 percent (y/y) in the first quarter of 2023. GDP growth also slowed markedly to 3.3 percent – the second lowest Q1-quarterly growth rate registered in the past decade. In the medium-term, Vietnam's key development challenge is to sustain robust, productivity-led growth while making development more inclusive and environmentally sustainable. At the same time, Vietnam aims to steer its economy towards a more resilient and low carbon growth path.<sup>1</sup> Vietnam also needs to confront remaining inequality challenges which were exacerbated by the impact of the COVID-19 shock. In that context, The proposed operation supports priority policy and institutional reforms measures to support Vietnam's economic recovery and inclusive and sustainable development.

#### Relationship to CPF

**The DPO is an integral element of the existing Country Partnership Framework (CPF) (2018–22) and is aligned with the government's recently approved Socioeconomic Development Strategy (SEDS) for 2021–30.** It will also support several World Bank Group (WBG) corporate priorities including climate change, gender equality, and digitalization.

### C. Proposed Development Objective(s)

**The proposed operation will support the Government of Vietnam's efforts to promote an inclusive and sustainable economic recovery in the aftermath of the COVID-19 pandemic and the commodity price shock.** The program is organized around two broad pillars. The first pillar will support an inclusive economic recovery by enhancing the tax and regulatory environment, supporting recovery, resilience, and financial inclusion of vulnerable households, and reducing barriers to female labor force participation. The second pillar will contribute to a sustainable recovery by greening domestic policies through trade agreements, accelerating adoption of e-government, and greening its infrastructure through new investments in renewable energy and regulatory changes to enable electricity tariff reforms to enhance financial viability but also to strengthen price signals and encourage energy efficiency.

#### Key Results

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<sup>1</sup> World Bank. 2022. *Vietnam Country Climate and Development Report*.



**This operation (DPO2) will build on results already achieved by reforms supported under DPO1.** With the support of the DPF series, more than 85,000 children have received subsidized childcare. In parallel, efficiency and quality of public services delivered has improved as the value of contracts procured through the e-procurement system reached 70 percent of the total amount of contracts subject to competitive procurement and the number of government services available online (more than 4,000) doubled. Energy-related measures helped to increase installed solar power capacity from 4 GW to more than 15 GW. The measures supported by DPO2 will further deepen and solidify these results.

#### D. Concept Description

**The operation will support the Government of Vietnam's effort to promote a more inclusive, green, and digital-friendly economic recovery in the aftermath of the COVID-19 pandemic and the 2022 commodity price shock.** The policy areas and specific measures supported by the DPO series have been selected based on the strong and productive partnership built by Vietnam and the WBG.

**The DPO series will be anchored in two pillars and six policy areas.** The first pillar will support the authorities in their effort to support an inclusive recovery from the COVID-19 pandemic and subsequent commodity price shocks. Actions supported by the DPO series under this pillar aim are organized around three policy areas: (i) facilitating business recovery by reducing tax and regulatory burden; (ii) supporting recovery, resilience, and financial inclusion of vulnerable households; and (iii) reducing barriers to female labor force participation. The second pillar will contribute to a sustainable recovery by (iv) leveraging procurement to promote green recovery; (v) digitalizing the public administration to promote quality and efficiency of service delivery; and (vi) promoting the transition towards renewable energy while promoting the financial sustainability of the power sector.

#### E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

##### Poverty and Social Impacts

**None of the prior actions and their expected outcomes supported by the proposed DPO series are expected to have significant negative impacts on poverty and shared prosperity.** On the contrary, several reform measures are expected to directly benefit the poorest and most vulnerable groups through improved targeting and delivery of social programs as well as greater financial inclusion. Other reforms will contribute to faster economic growth among the poor, expanding income opportunities through their indirect effects on productivity and the allocation of resources. Gender equality and women earning opportunities should improve through access to better priced childcare.

##### Environmental, Forests, and Other Natural Resource Aspects



**This operation is unlikely to cause significant adverse effects on environment, forests, or other natural resources.**

Overall, the two prior actions related to greening infrastructure and transitioning to low carbon energy production will lead to significant positive environmental outcomes. The policy decision to move to solar energy will help gradually reduce the strong dependence on coal that is estimated to contribute to over half of GHG emissions in the country, principally around the two urban centers of Hanoi and Ho Chi Minh City. Other Prior Actions are not expected to impact the environment significantly. Some may have indirect effects through incentives to be greener and more efficient in energy use. For example, the adherence to the new regional trade agreement with the EU will promote some adjustments in the business environment, including in the most efficient use of energy in industries. The possibility that some of Vietnam's key trade partners, the US and EU, may raise carbon taxes at their borders would also incentivize exporting companies to accelerate their transition toward the use cleaner energy.

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**CONTACT POINT**

**World Bank**

Dorsati H. Madani, Andrea Coppola  
Senior Economist

**Borrower/Client/Recipient**

The Socialist Republic of Vietnam

**Implementing Agencies**

Ministry of Finance  
Nghia Nguyen Trong  
Mr.  
nguyentrongnghia1@mof.gov.vn



#### FOR MORE INFORMATION CONTACT

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 473-1000  
Web: <http://www.worldbank.org/projects>

#### APPROVAL

Task Team Leader(s):	Dorsati H. Madani, Andrea Coppola
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#### Approved By

Country Director:	Stefanie Stallmeister	28-Apr-2023
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