



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 18-May-2023 | Report No: PIDA36212



BASIC INFORMATION

A. Basic Project Data

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

Total Financing	190.00
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DETAILS

Total World Bank Group Financing	190.00
World Bank Lending	190.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

The Vietnamese economy weathered the COVID-19 crisis and the 2022 commodity price shock relatively well and macroeconomic stability has been broadly maintained. 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. Monetary authorities responded to the weakening economic prospects by cutting policy interest rates by a cumulative 130-150 bps since the beginning of the year. Fiscal policies are also expected to provide support through a recovery package estimated at 1.6 percent of GDP, although chronic challenges in the implementation of the public investment could impair policy effectiveness. In this context, the authorities requested budget support to help meet additional financing needs and lower the average cost of financing.

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 effort to sustain an inclusive and sustainable economic recovery. The program is organized around two broad pillars. The first pillar will support an inclusive economic recovery by enhancing the tax environment, supporting recovery, resilience, and financial inclusion of vulnerable households, and increasing access to childcare to promote gender equality. 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

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. Project Description

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 enhancing the tax environment; (ii) supporting recovery, resilience, and financial inclusion of vulnerable households;



and (iii) increasing access to childcare to promote gender equality. 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) supporting the transition towards renewable energy while promoting the financial sustainability of the power sector.

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.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance and the Ministry of Planning and Investment are key counterparts for this engagement. The Ministry of Finance coordinates with other authorities such as MOLISA, MPI, and SBV. The reform agenda and results indicators were developed in collaboration with these national authorities under the auspices of the Ministry of Finance. Data sources are all publicly available data. Given that the DPO supports the national reform agenda, the Ministry of Finance will be responsible for monitoring and review of implementation progress.

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

Poverty and Social Impacts

None of the prior actions supported by the proposed DPO series are expected to lead to any significant increases in poverty nor materially affect already poor households. 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 better access to childcare.

Environmental, Forests, and Other Natural Resource Aspects

While the implementation of PAs under the proposed operation will not have any significant effects on the environment, forests, and other natural resources, the reform supporting green procurement is expected to have a significant positive impact on the environment. The green procurement prior action promotes green and sustainable standards for goods, civil works and non-consulting services procured under CPTPP, EVFTA and UKFTA. Therefore, it contributes to tackle environmental problems such as deforestation (e.g., through the purchase of wood and wood products from legally harvested and sustainably managed forests) and greenhouse gas emissions (e.g., through the purchase of products and services with a lower CO2 footprint throughout their life cycle). Going forward, green procurement is expected to be a useful channel for raising environmental awareness by identifying the environmental impacts of a particular product/service throughout its life cycle and providing information on the benefits of greener alternatives. Other Prior Actions supported by the operation are not expected to impact the environment significantly.

G. Risks and Mitigation

While the overall risk rating for the operation is moderate, institutional capacity for implementation and sustainability



risks are considered substantial. The reforms supported by the series are aligned with the priorities identified in the new SEDS, emphasizing the authorities' commitment at the highest level. The SEDS priorities are now being translated into sectoral strategies and concrete action plans. The government has also launched the national master plan and various regional master plans which provide guidance for the formulation of public investment programs at both national and regional levels, to ensure their coherence with and effective contribution to the implementation of SEDS. The government has already reported substantial progress on the implementation of the reforms supported by the DPO series as discussed earlier. However, there is a risk that slowness in and fragmentation of decision-making processes across ministries and between the central and subnational governments may delay or hamper the implementation progress of some reforms, notably in the areas of the business environment, social protection, and digitalization, as those require strong vertical and horizontal coordination and implementation capacity. The World Bank's on-going technical assistance in various areas (many of which are supported by bilateral partners, including the Australian Government and SECO) aims to help the government address capacity and implementation challenges. For example, the Vietnam Integrated Fiscal Governance PASA is supporting the government to review and strengthen inter-governmental fiscal relationships to achieve greater efficiency of public expenditure programs at both national and subnational levels. The Vietnam Knowledge Platform for Tax Reforms is supporting the government in reforming its key tax policies, including property and environmental-related taxes, to ensure sustainable resource mobilization in the medium-long term. The leverage provided by the DPO series should help mitigate further these risks.

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APPROVAL

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Approved By

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