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## CASE STUDY 7a – VIETNAM

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### Launching the Vietnam Private Sector Forum, 1997 – 2000

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#### The Setting

After the fall of Saigon in April 1975, the centrally planned economy along socialist models was extended throughout the country and the private sector was marginalized, if tolerated at all. Since the results in terms of economic performance were disappointing, Vietnam in the late 1980's adopted Doi Moi, the new economic policies which became a tremendous success, starting with the privatization of agriculture. Foreign investment increased rapidly, but the boom sometimes overlooked fundamentals: for example, 14 foreign companies were licensed to build cars in a country that acquired p.a. about 5000 vehicles.

By 1996, a hangover set in among foreign investors. FDI declined. Coupled with this was a sense – real or not – that there was a slow down of the reform process; there was talk that Vietnam was “back sliding”. Growth declined.

Then came the Asia crisis in mid 1997, beginning in July 1997 in Thailand and spreading through the region. During the December 1997 Consultative Group (CG) meeting of Vietnam and its donors in Tokyo, the Korean Won plummeted. All participants shared a sense of crisis and the uncertainty of how long it would last and how deep it would be. On behalf of the Government of Vietnam, the Deputy Prime Minister announced an eight-point program to increase growth and eradicate poverty. In its statement to the CG, IFC recommended a dialogue between government and the private sector to seek ways to improve the investment climate. The Government delegation, headed by Deputy Prime Minister Cam, reacted positively. The government clearly was concerned about the economic situation and wanted to act to reverse the negative tide.

The suggestion to have a dialogue stemmed from the notion that in the crisis situation, it might be helpful to sit down together and consider ways to achieve the common goal, i.e. more economic growth and more investment in Vietnam. But while this seemed helpful to all participants, little thought was given how such a dialogue should take place, who should participate, how often meetings should be held, whether this be done once, or occasionally. Probably what eventually emerged was way beyond everybody's initial expectations in 1997.

#### The Launching

It was the Prime Minister who took the initiative next. In February 1998, the Prime Minister called for a meeting with about 300 foreign investors in HCMC. Also invited were key bilateral and multilateral donors, including The World Bank and IFC. There was no agenda except for the government representatives to listen to the foreign investors. Some of the participants voiced general systemic concerns, but some also took the opportunity to advocate their own causes. Several companies asked for protection, one for a stop to issuing licenses for projects that would compete with theirs, one for an increase in import duties for competing imports, and one for a halt in imports of competing

products. While it was good that foreign investors had a chance to convey their views to top government officials, in specific terms, the message from the meeting to the government was not clear and to some degree left the impression that foreign investors were asking for handouts. Something had been achieved in this first step, but more work needed to be done to make this a useful exercise.

## **Evolution**

The next step was taken in May 1998 at a private sector meeting ahead of an interim CG meeting. The link with the CG came at the recommendation of the World Bank Country Director. And it was this link that probably ensured the survival of the initiative in 2000 when some critics of the initiative within government advocated the government withdraw from the dialogue. But while this link probably proved vital later on, it did not address the immediate need to find a way to have a dialogue between government and the private sector on systemic issues, rather than demands for favors by individual companies.

Discussions on how best to structure this took place in an informal group of private investors and donors, orchestrated by IFC. It became clear that in order to distill common concerns of the private sector one should be working through chambers of commerce and associations. The solution that was adopted was that instead of having a free flowing unstructured get-together where company representatives would compete for airtime, presentations would be made by business organizations. Moreover, the business organizations would discuss among themselves the topics to be raised with the government. And the papers to be presented would be discussed among the various associations. In this way, the agenda and the presentations would reflect concerns of the (foreign) private sector at large.

IFC was asked by the private sector to coordinate the process. IFC also maintained contact with government. In December 1998, the first IFC orchestrated PSF took place in Hanoi at the Metropole Hotel; just before the Consultative Group Meeting. It was a half day event and the feedback from the participants was very positive. Among the understandings reached was that the PSF should take place every three months to ensure a continuous dialogue; one of these meetings would precede the CG meeting, one the interim CG meeting, while two of these meetings would be stand-alone.

By December 1998 the PSF was established as part of the CG process with 3 parties: government, donors and private sector.

Also established at that time was the basic format for the PSF as a dialogue between government and the private sector, with the donor community backing and endorsing the process.

The presence of the donors in the background gave the process credibility, but it also acted to temper the statements from the private sector and to ensure that proposals were not contradictory to the main concerns of the donor community. So, the presenters needed to pay attention not only how their messages would be received by Government, but also by the donor community. This triggered discussions from time to time. A particularly contentious case was the preparation for the 2000 PSF in HCMC where labor market issues were on the agenda. There were some clear disagreements between a couple of private sector speakers and the donor community. As a result, the presentations were adjusted to be less inconsistent with the views of the donor community, and this probably helped limit the disagreements that developed at and after that PSF. In fact, this link to the donor community may have helped avoid the demise of the forum.

Key elements of the PSF were thus in place. But this still left unresolved important issues of how the PSF would be structured. The question was how the private sector would organize the work with the backing of the donors for the dialogue.

It was first confirmed that the dialogue on the private sector side would be structured through business groups and that the business groups all together would select the topics for the agenda with Government, select which group would prepare the presentation, organize a debate around the draft presentations and indicate who would make the presentation (in most cases, those who had prepared the draft notes).

It was further discussed that before each PSF a meeting of the private sector organizations was to be held to discuss agenda items, select draftors and presenters and agree on the overall approach. After each PSF, a post mortem would be held to review the discussions and what should be the next steps. These meetings would continue to be hosted by embassies to emphasize the support of the donors for the dialogue. For the sake of transparency and openness, government representatives would be invited to these meetings as well.

Now that the process of the Vietnam public-private dialogue had been going on for a bit over a year, the feeling was that the various events had been very successful in articulating concerns of the private sector and that this process should be continued. But there was also the sense that an element of continuity should be introduced to work in detail on issues rather than raising them time and again.

The solution that was adopted to address this was the proposal that working groups would be formed around key issues and should be staffed by members from both government and the private sector. There were suggestions to organize working groups meeting monthly around the following topics:

- Banking
- Legal
- Infrastructure
- Manufacturing & Distribution

Subsequently, some of the groups formed sub-groups on more specific topics (especially from the M&D group) and some groups were discontinued. For example the legal working group decided that it would be better to join other working groups rather than have a stand alone group on legal matters since they intersect the work of all other groups.

Finally, a further notion was introduced to support continuity and coherence of the process. This was the proposal to appoint a PSF chairman, but more precisely of the private sector initiative within the PSF, also as counterpart to Government. IFC agreed to play this role.

The first PSF with all the main elements in place happened in June 1999 in Haiphong.

There still remained an important challenge: how to expanding the PSF to fully include the domestic private sector. While the forum had been co-chaired from the beginning by Mme. Pham Chi Lan, who articulated concerns of the domestic private sector in a very eloquent way, it clearly was important to get domestic private sector groups involved directly.

Government initially was ambivalent about this, with some sense that voicing those concerns at a platform at which ambassadors from the donor countries were present would be inappropriate or even counterproductive. One government official stated: we have an ongoing dialogue with our own private sector, there is no need for the donors to organize that. At the same time, not having representation of the domestic private sector limited the credibility of the forum. The full inclusion of domestic investors was a gradual process with MPI starting to suggest the invitees to the forum. This was broadened over time.

As the various working groups were getting busy in 1999 and as sub-groups were formed – and all this work was taking place in two different cities, Hanoi and HCMC – another challenge arose. How to keep all this activity coordinated and avoid different groups getting in each others way? For IFC it was impossible even to attend all working group meetings, let alone be active in all of them.

This created the call for a secretariat for the PSF. From the beginning, there was a consensus that it would be best to have the secretariat operate under the IFC umbrella. There was also a consensus that this initiative should be funded by foreign chambers of commerce and donors. Also important was the emphasis on wide representation of funding sources to ensure there was broad ownership. A budget for two years was prepared and the funding mobilized from Western as well as Asian business groups and donors.

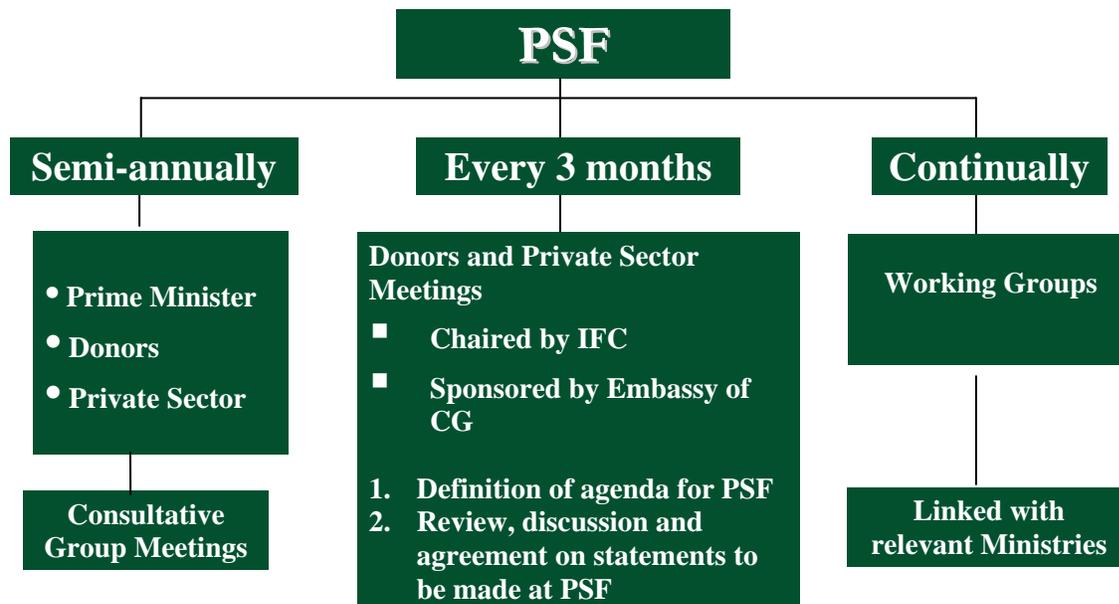
### **Vietnam – Private Sector Forum 2000**

By 2000, the PSF had taken on the basic format that it has kept until today; it has three main components:

- the semi-annual meetings with senior government officials and with the donors in attendance; this is normally just before the CGM or interim CGM;
- every three months, meetings of the private sector and donors (with government also invited); these meetings condense and coordinate the work of the working groups, prepare the agenda for the upcoming PSF or review the various presentations that will be made at the PSF;
- there are the working groups that meet as required on average every 2 to 4 weeks; these groups typically have 10 – 20 members from the private sector and from government, and it is here that most of the work takes place.

Sometimes, there has been a bit of terminological confusion, with the term PSF being applied to both the meetings with senior government officials, or the meetings among private sector and donors (albeit with government and party invitees), or sometimes to the whole process. Senu strictu, the semi-annual meeting with senior government officials is the PSF, later VBF. This event is co-chaired by the most senior government official (normally either the (Deputy) Prime Minister or the Minister of Planning and Investment), the World Bank country director, a representative of the Vietnam Chamber of Commerce (as a voice of the domestic private sector) and the IFC country manager.

The more frequent meetings of private sector and donors and government observers are really supporting events. These are chaired by IFC. The IFC country manager was also in charge of reporting to the CGM on the results of the PSF and two private sector participants in the PSF attended the CGM as observers, normally one from an Asian and one from a Western business group.



## Challenges Overcome

Looking today at the VBF, one might have the impression that this emerged as a well-organized and smooth structure of a dialogue. In fact, not only was there no plan at the outset, challenges arose along the way that threatened the existence and survival of the forum.

However, what turned out to be important for the forum's survival during the early years was that opponents and supporters of the forum were located among all players, or to put it differently no player had a uniform view. While government broadly supported the forum, some in government did not and prevailed in some instances. And the same was true for the private sector and the donors. In addition to some opposition within government, some donors were hesitant, and there was fatigue and some reluctance among the private sector.

Within government, senior leaders as well as working level counterparts supported the overall goals of the process, but there was also concern about giving the private sector (initially foreign) too much of a platform for statements that were sometimes seen as too critical.

Among some donors there was a parallel concern of giving too much airtime to the (foreign) private sector to voice criticism, to the detriment of other issues and possibly the overall mood of donor-government relations.

Concerns about too much prominence for private sector issues were particularly strong coming from a few of the NGOs; although many supported the concept of the PSF, a number felt that it was not right for foreign investors – who, after all, were in Vietnam to make profit – to get such a high level platform with very senior government representatives, while the NGOs who had come to Vietnam to help the poor did not have that opportunity.

Although representatives of the NGO community attended the PSF as observers, these demands became increasingly strong in 2000 with the call for a Civil Society Forum modeled after the PSF. This contributed to the views of some in government that the whole process was going too far and that there was a risk that the government-donor agenda was becoming overloaded.

Interestingly, on the private sector side, some private sector investors expressed fatigue with dialogue and advocated terminating the forum because of a lack of progress and tangible results. A somewhat different pitch came initially from some associations that felt that because of their weight they had privileged access to senior government officials and did not want to share this with competitors, who might not be as successful in accessing government.

This referred to especially some Asian business groups who also felt that some of their Western colleagues sometimes were insensitive to Asian etiquette. The concern was that by participating in the forum, one implicitly endorsed what was being said by others and who was saying it, and therefore was subject to any potential irritation by the audience.

A further complication arose from the difference between domestic versus foreign investors. The law treated foreign and domestic companies differently, in most cases favoring the domestic companies. Rates for electricity, water, advertising and labor were different, and foreigners paid higher prices for many goods and services, for example airline tickets. For foreign investors, a level playing field became a demand that was often articulated and one of the PSF meetings was under the heading "Levelling the Playing Field".

Of course, competitors of foreign investors felt the opposite. Like some of the Asian business associations, a number of Vietnamese business groups were opposed to the dialogue. Some within government felt that airing concerns of the Vietnamese private sector in a platform shared with foreign donors and investors was not appropriate. One official said "we do not need the assistance of the foreign donors to talk to our own private sector". And in a way the low level of participation of domestic private sector organizations limited the credibility of the PSF – which was, in the early stages, seen by some essentially as a forum of the Western private sector.

So the challenges early on were to broaden the base of the PSF to include all foreign business groups and provide them an active role and at the same time reach out and include the domestic private sector associations. These twin challenges were met successfully.

## **Results Achieved**

- Continued dialogue on economic reform and needs for reform
- Elimination of dual pricing system
- Leveling of playing field for foreign and local companies
- Improvement in investment climate

## **Lessons for Replicability**

**The Vietnam Forum responded to extraordinary circumstances.** The Vietnam Forum emerged as response to the Asia crisis. A sense of urgency or crisis among the key players in government and the private sector would seem important to get a dialogue started. If there is no urgency, why bother?

**Government, donors, and foreign investors were all looking for ways to improve the investment climate to accelerate growth and create more jobs.** This is linked to the shared sense of urgency. Therefore key players all were genuinely interested in finding solutions and open to suggestions and criticism. There was a commonality of the main goals and readiness for dialogue and engagement by government, private sector and donors.

This sharing of fundamental goals among the key participants would seem essential for such a dialogue.

**A model is not necessary.** The Vietnam Forum started with no road map. The main actors shared a sense of urgency and common goals, and therefore were ready to engage in a dialogue. But the scope and frequency of this dialogue was not clear, neither the need for a supporting infrastructure (working groups and secretariat) that turned out to be so effective.

The dialogue started and went through many ups and downs. But maybe it was the sense of pragmatism on the part of all participants that was essential to help the Vietnam Forum not only survive but thrive. Few in 1997 and 1998 would have envisaged that on December 1, 2005, 400 participants would gather in Hanoi for the VBF. And certainly nobody imagined that there would be observers from South Africa and Brazil.

**Communication is critical.** This means not only being in contact but also ensuring, in a country which uses its national language for communication, that documents are translated into Vietnamese and that simultaneous translation is available at larger events. This was always emphasized in Vietnam.

**Linking the Vietnam Forum to the CG process was vital.** The link to the CG process in the Vietnam case is somewhat of a special feature. Not all such initiatives have this feature and a dialogue might well work without it. But in the Vietnam case the concept emerged at a CGM and thus was linked from the beginning; it also probably helped weather the 2000 crisis.

**It is important to bring out issues of interest to the private sector at large, and ensure that dialogue does not get hijacked by a particular interest group.** What should be avoided is raising points of importance to a specific company. Public-private dialogue should not be abused to ask for protection or hand-outs. In Vietnam this was achieved by working through chambers of commerce and other business groups. This can also help establishing continuity.

**The doctrine of the low hanging fruits.** While there was agreement that it would be important to focus on tangible results that could be achieved quickly in order to give the process credibility, there was also the view that longer term objectives should not be discarded in favor of a purely ad hoc approach.

An example that may illustrate this is the approach to what was called the dual pricing system, the already mentioned practice to charge different prices and rates to foreigners or Vietnamese. This had become the theme of the first PSF in spring of 1999 in Hanoi. As always, draft papers of the statement were submitted in advance to government. At the opening, the minister stated that it was the intention of the government to eliminate the dual pricing system. He also announced some immediate measures for implementation of this policy. This included that foreigners and Vietnamese would now pay the same price for entry tickets to museums and national and historic monuments. Some foreign private investors received this announcement with a dose of skepticism, others saw it as a concrete first step in a very important direction. Soon, further steps in this direction followed.

Aiming to get some tangible results early on is very important to maintain credibility of the process and to keep all participants committed. From experience in other countries, it does not seem very

difficult to gather the private sector for a meeting with senior government officials. Of course, the convening power of the World Bank Group is impressive. The question is what will happen thereafter. Unless there are some real results within a reasonable time frame, the process is likely to wither away.

**Working groups were crucial.** While there was a feeling that the high level PSF meetings every three months or so were useful, there evolved the sense that there was a need for continuity to monitor progress and to develop solutions to the issues raised at the PSF. The vehicle to do this was the working group. They became very effective in functioning in a low-key way and allowing input from foreign and local private investors, bankers and lawyers into regulations as they were being prepared. Obviously a more effective way of dealing with regulations than trying to change them after the fact.

**A secretariat is very helpful to ensure continuity.** At the beginning, overall coordination of the Vietnam Forum was handled by IFC, while coordination of the emerging working groups was done by the co-chairs of the groups. For example, Unilever ensured coordination of the M+D group which operated in HCMC. With some groups working in HCMC and others in Hanoi, it became increasingly complex to ensure that all the work was consistent and did not contradict each other. This became important because the Legal working group cut across sectors. And there was nobody who was able to follow progress everywhere, especially since there were a number of sub-working groups.

It became evident in 1999 that the process needed a secretariat to sustain it. Funds were raised from a variety of donors. A conscious decision was made to ensure buy-in from both Western and Asian donors and also to ensure contributions from business associations. IFC wanted to make sure that people put their money where their mouths were. One multilateral institution pledged a contribution, but eventually did not pay, the lesson here being that pledges are promises which may or may not materialize. IFC agreed to provide space and equipment and to hire the two staff as IFC consultants.

Vietnam in the late 1990s was a place where donors were very interested in looking for attractive initiatives they could support. It might have been faster and easier to go for single donor funding. But this would have linked the process too much to a specific donor. The route that was taken, i.e. to look for support from as many donors and business groups as possible, ensured that there was widespread ownership of the process. It would seem that this is an important lesson.

One issue dominated the discussions regarding the need for a secretariat: the role of the secretary. Should he/she be a leader of the process? A spokesperson for the private sector? Or should the role be one of coordinating and ensuring that all participants were adequately informed of the work that was advancing in so many working groups and sub-groups? There was quite a bit of (sometimes heated) debate over this. What emerged was a clear majority view (but not a consensus) that the secretariat and the secretary should be facilitators and coordinators. Neither the private sector nor the donors wanted a new player that might undercut the participants from the private sector.

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Mr. Bertelsmeier joined the World Bank Group in 1976 as a Young Professional. He joined IFC in 1990 as Sr. Investment Officer in IFC's Africa Department. He was IFC's Country Manager for Vietnam, Laos and Cambodia from 1997 through 2000. From 2000 through August 2004, he was IFC Country Manager for Brazil, based in São Paulo. Before joining the World Bank Group, Mr. Bertelsmeier was Investment Officer with DEG of Germany in its Latin America Department. Prior to that, he was Branch Manager of Deutsche Bank. Mr. Bertelsmeier has a degree in Economics and Business Administration from Frankfurt University.