

Department for International Development

The Department for International Development (DFID) is the UK Government department responsible for promoting sustainable development and reducing poverty. The central focus of the Government's policy, based on the 1997 and 2000 White Papers on International Development, is a commitment to the internationally agreed Millennium Development Goals, to be achieved by 2015. These seek to:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

DFID's assistance is concentrated in the poorest countries of sub-Saharan Africa and Asia, but also contributes to poverty reduction and sustainable development in middle-income countries, including those in Latin America and Eastern Europe.

DFID works in partnership with governments committed to the Millennium Development Goals, with civil society, the private sector and the research community. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID has headquarters in London and East Kilbride, offices in many developing countries, and staff based in British embassies and high commissions around the world.

WHAT ARE COUNTRY ASSISTANCE PLANS?

Country Assistance Plans (CAP) set out how DFID aims to contribute to the achievement of the Millennium Development Goals in various countries. Country Assistance Plans start from the basis of our partner country's poverty reduction strategy and set out in detail how DFID will work as part of the international development effort to support a country's strategy for reducing poverty. They include a framework for annual assessment of DFID's performance in implementing the plan. These annual updates of CAPs will be available electronically at www.dfid.gov.uk. Major reviews of Country Assistance Plans leading to new printed documents are expected to be undertaken every three to four years.

Vietnam: Country Assistance Plan 2004–2006

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**Part 3 and Annexes 3–8 are available electronically on the DFID website, www.dfid.gov.uk. These are subject to change from time to time. Enquiries can be sent by e-mail to enquiry@dfid.gov.uk*

Alternatively, hard copies of Part 3 can be sent on request. Please phone 0845 3004100 or write to Enquiry Point, DFID, Abercrombie House, Eaglesham Road, East Kilbride, Glasgow G75 8EA

Part 1 – Background information

A. Summary

1.1 Vietnam has made important gains in its development over the past decade. The rates of economic growth and poverty reduction have been exceptional. Human development indicators continue to be impressive given Vietnam's per capita income. The Government of Vietnam has an impressive track record in implementing policies that have a positive effect on the welfare of the Vietnamese people. However, huge challenges face Vietnam over the coming years.

1.2 The move from a centrally-planned economy to what the Vietnamese Government describes as a 'socialist-oriented' market economy¹ is necessary to:

- maintain levels of economic growth;
- reduce poverty; and
- create employment for a rapidly growing workforce.

Major change will be needed for this to happen in a way which is appropriate to the social and political situation and maintains stability.

1.3 Inequalities are widening between the rich and poor, between urban and rural areas, and between the majority Kinh people and ethnic minorities. Major challenges face the Government to deliver quality services effectively, particularly to people who live in remote areas. Opening up economic opportunities, in rural and remote areas in particular, will be necessary for broad based economic growth and poverty reduction to continue.

1.4 Vietnam has developed a Comprehensive Poverty Reduction and Growth Strategy (CPRGS), which serves as its poverty reduction strategy paper (PRSP). The CPRGS draws on the Government's traditional five-year plans and is intended to encourage change and secure extra resources for the main policies and programmes designed to maintain economic growth and eliminate poverty.

1.5 Our Vietnam strategy will be based on support for the

CPRGS and putting its main policies and programmes into practice. We will focus our activities around three main strategic objectives which are important themes within the CPRGS.

- Achieving a fairer and more effective and efficient use of public financial resources.
- Promoting socially inclusive development and greater accountability to citizens.
- Supporting economic and social transition.

1.6 We will also maintain a strong focus on improving the effectiveness of the entire international development effort. We will promote the channelling of Overseas Development Aid (ODA) resources into the Government budget to support and strengthen the Government's strategies, wherever possible. An important part of our approach will be co-operating with other organisations and using joint funding mechanisms when it reduces transaction costs.

1.7 DFID Vietnam became a devolved office in May 2003. Staff numbers have increased and programme resources are expanding rapidly from £19 million in 2002/2003 to a projected £60 million in 2005/2006.

¹ An economy that is managed in accordance with basic socialist principles in terms of equality and welfare.

B. The challenge

1. Introduction

Political Context

- 1.1 Since reunification in 1976, Vietnam has been a one party communist state. There are 64 provinces and a decentralisation process is underway. The country is led by the Secretary General of the Communist Party, the President and the Prime Minister. Decision-making is by consensus. The Communist Party is dominant at all levels of Government. Elections are held but all candidates have to be approved by the Fatherland Front, an instrument of the Communist Party. About 90% of National Assembly deputies are Party members. The Party as an institution rarely engages directly with donors.
- 1.2 The legitimacy of Vietnam's Government has traditionally been based on its achievements in war and strong nationalist sentiment. The recent economic transformation, and the emergence of a generation with no recollection of the war years, mean that the Party must now continue to deliver stability and increasing prosperity if it wishes to retain its legitimacy.
- 1.3 Despite the dramatic economic changes over the last decade and a half, there seems to be little demand for significant political change. However, the Party, alert to the need to respond to the Vietnamese people's changing expectations, talks increasingly of improving democracy and accountability (but within the current one-party structure). People's right to be informed, consulted, and to supervise the activities of local government has been enshrined in two grassroots democracy decrees. Similarly, there have been moves to strengthen the role of the National Assembly, and the People's Councils at sub-national levels. A new law on the respective roles of the executive and representative bodies has also just been approved. These initiatives, while incremental in nature, provide opportunities for donors to support the development and implementation of the democratisation process.

- 1.4 There is international concern about some aspects of the Government's human rights record. While DFID's programmatic focus will be on helping to improve social and economic rights, as well as better representation of the people through their elected bodies, we will continue to work closely with Embassy colleagues on broader human rights issues and their impact on development.

Vietnam's record on economic growth and reducing poverty

- 1.5 Vietnam's potential has been severely limited by the burden of conflict. A combination of war, poor economic management, extensive state control and isolation from the world economy left Vietnam with high levels of poverty, severe shortages of food and high inflation. The economic crisis of the mid-1980s prompted a radical change of policy. In 1986, the 'doi moi' or renewal period started, and this was the basis of a reform and liberalisation process that has continued steadily until today.
- 1.6 Over this period, progress has been dramatic, although from a very low base. Growth has averaged around 7% a year through the 1990s. The size of the economy has doubled. Vietnam has emerged as a major exporter of commodities such as rice and coffee and is becoming an increasingly important part of the world supply chains of manufactured goods such as clothing and footwear.
- 1.7 Vietnam's Government has been successful in delivering policies that improve the welfare of the people. Vietnam's record in reducing poverty has been outstanding – the incidence of income poverty² was reduced from 58% in 1993 to 29% in 2002. The main human development indicators, detailed in the Millennium and Vietnam Development Goals, have improved significantly and are at similar levels to those that are normally seen in a country with a per capita income two or three times higher than Vietnam's.

² Poverty level figures are based on food and non-food expenditure data from the Vietnam Living Standard Measurement Surveys, in line with international best practice.

1.8 Gender and ethnic differences in access to education are most noticeable among poorer households and at higher educational levels. There are concerns that HIV and AIDS is spreading beyond drug users who inject and people who work in the sex industry to the general population, and action is needed to contain it. Malnutrition rates in children are closely related to poverty and remain among the highest in the region.

1.9 Despite recent progress, Vietnam is still a poor country with a per capita income of only US\$400 in 2000. Its development challenges are complicated. Most of Vietnam's poor people live in rural areas (90%) and largely depend on agriculture and (directly or indirectly) Vietnam's natural resources for their livelihoods. Many people live just above the poverty line and are vulnerable to:

- ill health;
- crop failure;
- the effects of environmental problems and natural disasters; and
- increasing exposure to volatile international markets.

2.0 The pattern of decline in poverty is uneven across regions, with poverty being concentrated in the northern, north central coast and central highlands. Inequalities have also been rising, especially between people living in rural and urban areas, and between the majority Kinh people and some ethnic minorities. This is a cause of concern for the Government as it potentially threatens social stability.

2. The main challenges for the medium term

Maintaining economic growth that will not harm the environment but will help the poor

2.1 Vietnam has an economy in transition that has begun to develop the policies and institutions to support an escape from poverty and to sustain improvements in welfare. Although recent years show a strong track record of managing macroeconomics (national income, investments and so on), the Government still has tough challenges tackling a difficult agenda of structural reforms. Future growth will depend on:

- reforms in the business and financial sectors;
- improved management of public spending and public investment; and
- increased involvement with the global economy by making trade easier.

Progress over recent years has been uneven, with some areas moving ahead rapidly (such as trade reform) and other areas (such as State Owned Enterprise (SOE) reform) meeting more obstacles and deep-seated institutional constraints.

2.2 It is critical that Vietnam maintains the recent high rates of growth to create employment for the one million or so people who join the workforce every year. To achieve this, Vietnam will need to continue to create an environment in which domestic and foreign business people can make stronger contributions to encourage economic growth for the poorest regions and improve the quality of the environment.

Opening up the economy while maintaining social and political stability

2.3 Vietnam has made rapid progress in opening up the economy, reflected by recently signing a trade agreement with the US and taking steps to join the World Trade Organisation (WTO). Working towards joining the WTO by 2005 will need political commitment and determination in introducing a range of reforms.

China's regional economic dominance and the fact it has recently joined the WTO creates important incentives for Vietnam to become a member. We expect that increased access to China's markets will encourage exports from Vietnam across most industries. But we also expect that competition with China's exports in third markets will become more intense, and that Vietnam is likely to be particularly affected when quotas on Chinese exports of textiles and clothing end in 2005.

2.4 Vietnam still lacks the firm foundations for creating world-class companies that are able to take advantage of the benefits of international trade and create extra jobs on a large scale. To meet these challenges, Vietnam's legal and public administration institutions will need to develop rapidly. It will be essential that these institutions develop to increase competitiveness while maintaining social cohesion and political stability.

Tackling widening inequalities

2.5 In 2002, 29% of the population was still below the poverty line, and an estimated 11% lives in hunger. These figures represent dramatic improvements, as compared to 10 years previously, in the welfare of most people. They also hide significant differences driven by ethnic background and geography. About 70% of ethnic minority people live under the poverty line and 42% live in hunger. In the poorer regions, up to five times more people live in poverty than in the richest region. Measures to effectively target government programmes in disadvantaged areas will be essential to prevent inequality from increasing more dramatically during the next phase of growth. Making social service provision more responsive and flexible for the poorest groups, while maintaining and improving the quality of these services, will be a major challenge.

2.6 Migration from the countryside could be one important factor that limits the growth of wage inequality across the country. Current practices in household registration mean that migrants can face disadvantages in trying to make a living in new places. There are also concerns that unregistered migrants are not normally included in information used for planning, and monitoring poverty.

There is potential for this to become a serious social problem in areas where many migrants live, particularly as the number of people moving from rural areas to urban areas is expected to increase over the next five to 10 years.

Increasing the Government's responsibility to citizens

- 2.7 Consultations with the poor have highlighted the lack of awareness that citizens have about their entitlements to services that the Government provides. Raising awareness of citizens' entitlements will be essential in improving their quality of life, as will be strengthening the main representative organisations (the People's Councils and the National Assembly). The effectiveness of the decentralisation process will depend on the extent to which initiatives to improve democracy at a local level and the accountability of the Government succeed.

Improving how public resources are used and reducing corruption

- 2.8 To improve the reach and quality of services the Government will need to manage public spending and investments better. A revitalisation of public administration reform is needed to tackle a range of issues from public sector pay to strengthening financial systems and reducing corruption. Creating strong monitoring systems will also be essential for the implementation of policies.
- 2.9 Corruption is widespread. Some people argue that it is growing to a point where it could undermine longer-term growth in Vietnam, but the nature and range of corruption is not well understood.

3. Vietnam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS)³

3.1 The Vietnamese Government's strategy for economic growth and reducing poverty is set out in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), which it published in 2002. The CPRGS serves as Vietnam's Poverty Reduction Strategy Paper. The three-year strategy is based on a number of other planning documents, including the national social and economic development strategy and sectoral five-year plans.

Analysing the CPRGS

3.2 The widely recognised and positive features of the CPRGS are that: economic growth and reducing poverty have a central position in the strategy; it builds on existing government plans; and it is based on quantitative and qualitative policy analysis. The consultation process of developing the CPRGS was far-reaching by Vietnamese standards. There are also signs that the process of putting it into practice has helped to introduce changes in Government planning and delivery systems.

3.3 However, we also recognise that planning and budget processes need to be strengthened and the effect on poverty of some government measures has not been given attention, such as how land is used and cost recovery for basic services. The Government could also pay more attention to strengthening the institutional systems through which the Government's growth strategies and poverty programmes will be put into practice.

Opportunities presented by the CPRGS

3.4 The role of the CPRGS in relation to existing plans and budgets, especially the Government's five-year plan is evolving. We expect that the CPRGS will help to provide additional momentum to important reforms needed to continue economic growth and poverty reduction; and secure extra resources for them, within existing planning and budgeting processes and from the international donor community. There is some tentative evidence that the CPRGS is playing this role.

3.5 The CPRGS is also helping to improve the effectiveness of the aid effort by providing a sound government-led framework for planning ODA, putting it into practice and monitoring it. Possibilities are also opening up for new ways of delivering aid to Vietnam that increase donor coherence and reduce the transaction cost burden on the Vietnamese Government. Types of aid such as the Poverty Reduction Support Credit (budget support, co-ordinated by the World Bank) are structured around progress in putting the CPRGS into practice.

3 This section and (Annex 1) is based on a jointly-agreed analysis of the CPRGS and assessment of implementation risks by the 'Like-Minded Donor Group' (LMDG). It was put forward to the Ministry of Planning and Investment with the Swiss Agency for Development and Co-operation, and the Embassies of Canada, Denmark, Finland, Germany, the Netherlands, Norway and Sweden. It being used as a basis for the strategies of other development partners, including Sweden and Canada. If you would like a copy of the full text, please contact us.

4. The role of international development assistance

- 4.1 So far, most of Vietnam's achievements are due to the efforts and resourcefulness of Vietnam's Government and the Vietnamese people. As Vietnam is still a poor country and has a good track record in using resources effectively, there is still a strong case for high levels of aid over the next seven to ten years to help Vietnam's progress towards achieving its development goals.
- 4.2 At the moment, about 20% of public spending in Vietnam is funded from ODA. As gross domestic product (GDP) continues to expand, it is likely that ODA will reduce proportionately over the coming years. So, while the extra finance is important, it will become less so. At current GDP growth rates, Vietnam has only seven to ten more years of access to concessional finance.
- 4.3 Donors can also play an important role in helping the Government its process of change by strengthening the momentum and quality of reform processes, including those that focus on inclusive development. The Government has made it clear that it strongly values the technical help and ideas that donors can bring in important areas of the development process, and the advantage of being able to learn from international experience.

Part 2 – UK assistance plans

C. UK development partnership

1. Introduction

- 1.1 Our main aim over the period of the Country Assistance Plan (CAP) will be to support Vietnam's Government implement their strategy for economic growth and reducing poverty. Within this framework, we will focus on a number of areas where we believe we can add value to the development effort.
- 1.2 Our focus will be on crosscutting issues, and an in-depth involvement in education and transport. We will use a variety of instruments, including budget and sector support, projects, and small influencing funds.
- 1.3 Throughout our programme, we will aim to promote the effectiveness of the entire international development effort in Vietnam. We will focus on the Vietnamese Government's development strategies and on processes jointly developed with other donors.

2. Strategic objectives

- 2.1 The strategic objectives to guide our work are shown in the box below. These three linked objectives reflect the main themes in Vietnam's CPRGS.

STRATEGIC OBJECTIVES

Objective a: To promote the efficient, effective and equitable use of public financial resources.

Objective b: To strengthen the Government's efforts to achieve socially inclusive development and accountability to citizens.

Objective c: To support economic and social transition.

- a *To promote the effective, efficient and equitable use of public financial resources*
- 2.2 We will work with the Government to make sure that strong policy, planning and budget allocation processes

are in place and public financial resources are used effectively to maintain growth and reduce poverty. We will help the Ministry of Finance (MoF) to identify and introduce the main requirements of a modern system for managing budgets and public finances. Piloting medium-term expenditure frameworks (MTEF) for a number of sectors and provinces will be an important part of this. We will be open to wider opportunities to work on strengthening the budget process.

- 2.3 We will support improvements to resource allocation mechanisms and financial monitoring, particularly in relation to education and rural transport. This will allow us and other donors to move towards more direct budget support in these sectors. We will also support the Government's efforts to address issues concerning individual and community contributions to education and transport services and transport maintenance funding.
- 2.4 We will support the Government's initiatives to pass financial decision-making and management to the lowest feasible levels through work on commune-level budgeting and financial decision-making in schools. We will support approaches that give citizens access to budgetary information, involve them in decision-making and monitoring budgets, and increase the accountability of Government.
- 2.5 We will also support work to improve the ability of the people's representative organisations (the National Assembly and People's Councils) to effectively monitor how budgets are shared out and used. Similarly, we will support the development of the audit functions and measures to increase their independence from the Government.
- 2.6 As well as strengthening public financial management, we will look for opportunities to support the anti-corruption effort. This will include developing the understanding of corruption as well as measures to reduce it and, in particular, its negative effect on the poor.

b To strengthen the Government's efforts to achieve socially inclusive development and accountability to citizens

- 2.7 We will work with the government to strengthen its strategies and programmes for targeting services and programmes for the poor to tackle growing inequalities, including reaching ethnic minorities. Through existing rural development projects, we will look at new ways in which the Government can reduce vulnerability and increase opportunities for the poorest people. We will support efforts to improve the design of the Government's targeted programmes and how they are put into practice, with a view to supporting them directly.
- 2.8 In education and transport, we will support the targeting of resources and programmes to disadvantaged areas and groups. In education we will also focus on quality issues and addressing inequalities. In the area of HIV, we will focus on reaching vulnerable people, as well as preventing the spread of AIDS from getting any worse.
- 2.9 We will strengthen the capacity of local government through our work in education, transport and rural development programmes. We will look for further opportunities to support grassroots democracy. In particular, we will focus on including women and ethnic minorities in decisions that affect their lives, and look for opportunities to make sure that information is shared as widely as possible.
- 2.10 We will continue to focus on promoting good analysis of poverty and policymaking based on strong evidence, and we will increase the number of partners we work with to include government and research institutions, and other donors. An important part of this work will be assessing how the main reforms affect poverty and society in general. We will look for opportunities to strengthening the monitoring of CPRGS outcomes and the achievement of the Vietnam Development Goals (VDG).

c To support economic and social transition.

- 2.11 The main driver of Vietnam's future growth and the main provider of economic opportunities for poor people will be the private sector. We will strengthen our work in this area. We will continue to support economic, governance and social reforms through the Poverty Reduction Strategy Credit (PRSC), our work with SOE and measures to increase opportunities for the poor. We will review the need to become more deeply involved in these and possible new areas, and will consider whether existing work (particularly on SOE) needs to be re-focused.
- 2.12 Tackling the main obstacles to the development of the institutions, policies and practices needed to continue the transition to a modern economy while maintaining political stability and social cohesion is an area we plan to focus on. Slow progress in some areas for (example SOE reform), the financial sector and labour mobility, (including the challenges posed by migration) may be evidence of a need for new approaches to strengthen governance and markets.
- 2.13 Other areas of concern include factors that are making large-scale investment harder and the implications of joining the WTO. Social issues such as the possible loss of employment and safety nets as a result of the Government withdrawing from certain areas of the economy will be important over the next five to ten years. The need for improved institutions to protect basic work standards may also raise new challenges.
- 2.14 Tackling these wider questions will be risky, and opportunities for us to add further value are still uncertain. We will carry out an assessment over the first year of the CAP implementation through contact with central and provincial government, research institutions, other donors and the private sector. We will also draw on DFID Policy Division in London and other DFID programmes with experience of these issues, and use a wide pool of existing knowledge. We will develop a sub-strategy with clear priorities to guide work in this area.

2.15 We may need to carry out further experimentation in some areas and learn from other countries (such as China and Malaysia) that developed unorthodox solutions to fit their social and political situations. New research may be needed, for example, to identify the more deep-seated institutional constraints and to inform the debate on options and common ground for reform. Working with Vietnamese institutions to support local momentum for change will be essential to achieve this aim. We will also aim to strengthen the links between any work in these areas and the policy process (including the CPRGS and PRSC).

3. Our approach

- 3.1 When choosing areas of current and future work, we will be guided by our strategic objectives and their contribution to Vietnam's Development Goals. When working towards objectives, we will:
- to make sure the Vietnamese Government leads, and is responsible for, the development process;
 - to pay close attention to the effect of the development effort on poor people;
 - to maintain a focused programme and be clear on our priorities;
 - to respond to opportunities in the external environment;
 - to be open in our style of working and consult others;
 - to strengthen local capacity; and
 - to learn and share lessons.
- 3.2 We will broaden our range of partners to include stronger partnerships with various central ministries of the Vietnam Government, and possibly the regions. As part of our programme, we will aim to extend our relationships to Vietnamese research institutions, civil society organisations and the private sector.
- 3.3 We will strengthen our focus on learning lessons and sharing information. We will in particular increase the attention paid to the impact of the development effort on poor people and the effectiveness of our approach.

We will stay in touch with the realities of poor people's lives and make sure that their views are represented in discussions on policy.

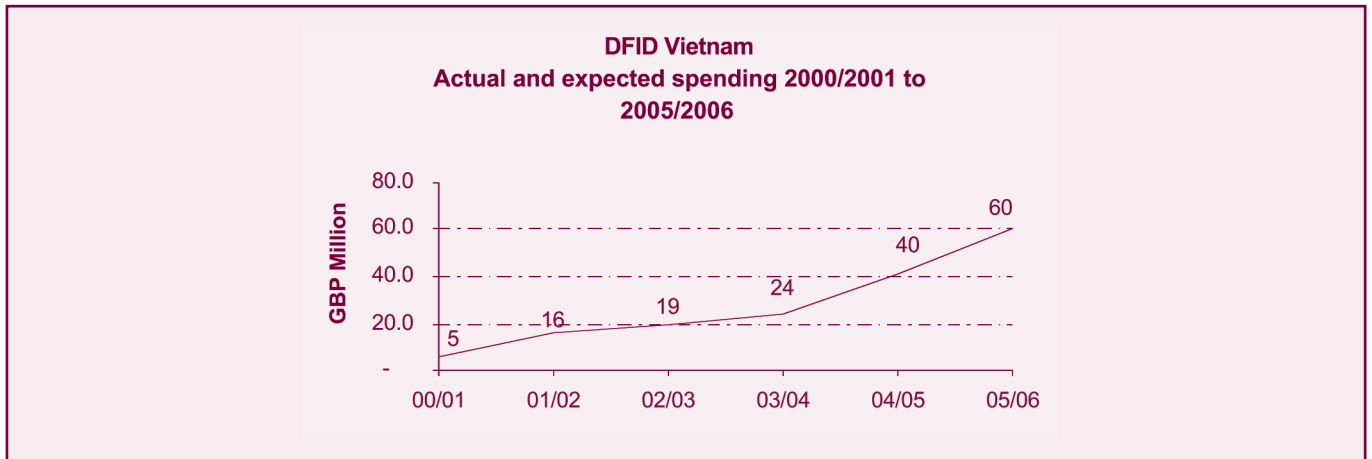
Donor harmonisation

- 3.4 One of the main themes of our approach is promoting greater effectiveness of the international development effort. In deciding where to focus, we will always take account of the activities of other donors and choose areas where we can clearly add value.
- 3.5 We will broaden and deepen our relationships with the main donors. We already have a strong track record with the World Bank (WB) and a number of jointly-financed actions with the Asian Development Bank. We will continue working towards a common agenda with Japan and work towards sector-wide approaches in education with the European Commission and the World Bank, and in rural transport with the World Bank and others. Participation in the Like-Minded Donor Group will continue to be an important area of work for us.

Types of aid

- 3.6 We will use a variety of aid instruments to achieve our objectives. Where possible we will provide flexible funding through the Government budget to support Government strategies. We will explore greater use of delegated co-operation, seconding staff and providing finance where we share a common agenda and the capacity to deliver is proven. Where appropriate, we will use project modalities and joint funding with others if we can make genuine savings in transaction costs.
- 3.7 We will continue to support aid-untying efforts and promote fair competition, including involving domestic private sector companies and consultancy firms in providing services that have been funded by aid.

D. Resources



1.1 DFID Vietnam is one of the fastest growing programmes in DFID. Our spending is increasing substantially from under £5 million in 2000/2001 to an expected £21 million in 2003/2004, rising to an expected £60 million in 2005/2006. The reasons for this increase are that Vietnam has achieved good progress in reform and reducing poverty, and the prospects for this to continue are good. The rising aid framework will depend on reforms and progress in reducing poverty continuing to be put into practice.

1.2 We plan for most of the extra programme resources to be absorbed in budget support instruments that support the Government's strategies. We will continue to finance the PRSC and, if progress continues, increase our allocation over time. While we cannot predict events precisely at this point, we expect that opportunities will arise in the education sector, and possibly in the transport sector, in 2005. Other opportunities include possible direct financing to Government's targeted programmes over the medium term. We will continue to look for opportunities for delegated co-operation. We will keep the number of projects as low as possible.

Annex 1

Analysing risk

- 1.1 While there is good reason to be confident that Vietnam can achieve its targets for economic growth and reducing poverty, several risks could threaten this.

Failure to adapt Vietnam's institutions to support growth and change

- 1.2 To maintain high growth while maintaining social cohesion, Vietnam's institutions and ways of working need to continue to adapt. Slow progress in some areas (for example, SOE reform) may be a signal of the difficulties ahead. Donors may be able to help through supporting reform efforts and appropriate research.

Not enough institutional incentives in the government to put a complicated reform agenda into practice

- 1.3 The flexibility and incentives to re-order priorities and adopt the new ways of working that the CPRGS needs are limited. Central and local government are still not really able to develop plans based on real evidence. In particular, high levels of provincial autonomy and a variable ability to interpret policy affect how policy is put into practice. The main consequences of this are delays and policy changes being introduced inconsistently. The risk is assessed as medium impact, medium probability.
- 1.4 Donors can help the Government to manage these risks through support for more effective management at central, provincial and local levels. This should include monitoring and evaluating the processes and outcomes set out in the CPRGS.

Failure of the CPRGS to influence the Government's and donors' planning and budgeting in a way that benefits the poor

- 1.5 Government and donor resources are not well coordinated to help reduce poverty. This may reduce the effects of spending on economic growth and reducing poverty. This risk is considered medium impact, medium probability.
- 1.6 Ongoing measures to address this risk include: Government efforts to coordinate implementation of the CPRGS through an inter-ministerial steering committee and through its leadership of the PRSC; Government and donor actions to roll out the CPRGS to provinces and incorporate key poverty focused actions in their planning and budgeting processes; support for public financial management reform, pro-poor budgeting, and the piloting of medium term expenditure frameworks in several sectors and provinces.

Failure to include disadvantaged groups in development efforts

- 1.7 There is a real concern that despite the Government's commitment, the benefits of development programmes will not reach poorer groups or that some people may be negatively affected by planned reforms.
- 1.8 Measures to reduce costs include creating processes and opportunities for the poor to become increasingly involved in planning, putting into practice and monitoring development, including support for the Grassroots Democracy Decree. Greater focus on the potential environmental, social and poverty effects of planned reforms will help to reduce negative effects and increase positive benefits. It is essential to closely monitor how the main actions to reduce poverty (including the CPRGS progress reports) are put into practice.

Annex 2

What we have learnt

Policy and putting it into practice

- 1.1 Our experience in Vietnam shows that there is still resistance to structural reform. Donors can help to tackle this by supporting the Government's efforts to progress its reforms, including tackling the limits on competitiveness. Through the PRSC process in particular, there is some evidence that the international community can strengthen the Government's efforts.
- 1.2 There is often a wide gap between what is set out in policy and what local people actually experience. There are opportunities for development partners to improve the focus on the poor (including the most disadvantaged groups) to make sure their needs are adequately tackled when delivering policy measures and putting them into practice.
- 1.3 Progress on decentralisation is patchy. Concepts such as participatory and bottom-up planning challenge traditional processes based on strong central control. By building capacity and strengthening institutions there is evidence that effective decentralisation and the grassroots democracy agenda can move forward.
- 1.4 The Government is taking steps to strengthen the National Assembly and the People's Councils. Opportunities are becoming available for development partners to help make sure that appropriate checks and balances are in place – and that the Government at all levels is more accountable.

DFID Vietnam's approach

- 1.5 Our experience as a small bilateral donor suggests that working with and through multilateral and bilateral donors (rather than developing traditional bilateral projects) has been a successful way of leveraging more resources from other donors. This has given us access to policy discussions that we would not otherwise have been able to access. It has also been useful for learning lessons about aid effectiveness and promoting greater donor coherence around the CPRGS process.
- 1.6 However, further work is needed to judge accurately how effective this approach is. In some cases, the transactions cost burden is simply transferred rather than reduced. In the worst cases, it has actually been increased by operational difficulties. The approach has also meant that we have been less able to build direct relationships with a range of government partners.
- 1.7 We have learnt that partnerships need to be open, flexible and based on trust and a clear common agenda. Partner organisations need to be able to learn from implementation experience and adjust accordingly.
- 1.8 As we expand our profile and programme in Vietnam over the CAP period, joint funding will be one of a number of tools to promote the effectiveness of the international development effort. However, our focus is likely to shift from projects to more joint funding of the Government budget and to strengthening donor co-ordination.