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ANNEX

Vietnam - Mid Term Review (MTR)

Part 1 - Executive Summary

After a decade of uninterrupted GDP growth of around 8 percent per year, boosted by Vietnam's accession to the WTO in 2007, the country has been adversely affected by the global economic downturn through a sharp decline in export growth, a drop off in FDI inflows and a fall in remittances from overseas, which may put at risk some of the development gains of the last decade. The government has reacted rather adequately, first through stabilising a steeply rising inflation in early 2008, then through stimulating a lagging economy, which managed to grow at an enviable pace (with an estimated real GDP growth of 5.3%), compared to most other countries, in 2009. The more difficult economic environment has also led the Vietnamese leadership to focus its attention on containing social discontent and cracking down on open challenges to the one-party system, which might trigger a more hard-line approach to human rights.

Recent developments in the socio-economic context and adjustments in Vietnamese policies did not lead to significant changes to the fundamental orientations of the national Socio-Economic Development Plan (SEDP) 2006-2010, which remain largely relevant. Although its details are still under deliberation within the Vietnamese leadership, the next SEDP to be implemented as from 2011 is expected to reiterate the key priorities of the current development plan.

Despite the economic achievements of the last years, poverty remains an important issue in Vietnam. The economic crisis has hit the poorest - about 13% of the total population of 86 million in pre-crisis time - hardest. Social protection remains inadequate with insufficient pension schemes; around 70% of health expenditure is still paid "out-of-pocket", risking to draw large numbers of near-poor back into poverty; the poverty gap between the Kinh majority and ethnic minorities is widening; and new patterns of poverty arise such as urban poverty and poverty related to internal labour migration. Climate change, which will exacerbate the scope and threats of natural disasters, has climbed high on the agenda of the government, without a comprehensive and credible policy response so far.

Governance and respect for civil and political rights remain matters of concern, although some progress has been achieved in areas such as religious freedom.

Overall relations between the EU and Vietnam have developed positively and the conclusion, targeted for 2010 if both sides share a comparable level of ambition, of a new Partnership and Cooperation Agreement (PCA) will provide a more modern and more comprehensive framework than the current Cooperation Agreement for broadening and diversifying dialogue and cooperation in new strategic areas such as migration, security, climate change, energy, and science and technology.

The first Indicative Programme 2007-2010 under the current Country Strategy for Vietnam has been successfully implemented to date, with 58 percent of appropriations committed during 2007-2008, and robust disbursement performances. An independent evaluation of EU assistance to Vietnam carried out in 2009, the key conclusions of which are broadly shared by the Commission, confirmed that the orientations of the Country Strategy Paper remain valid. It recommends that the EU should continue to support Vietnam's Socio-Economic Development Plan with stronger pro-poor focus, notably through supporting Vietnam's pro-poor programmes in rural areas with disadvantaged ethnic minorities. The Commission also shares the conclusion of the report that EU support to health has not been very successful so far but that the envisaged sector approach should be further pursued, building on the capacity-support project jointly co-financed by the EU and two EU Member States. Trade Related Assistance and support to governance and civil society have been successful and should be continued. The evaluation also concludes that the quality of EU assistance has improved dramatically through better sector concentration, use of country systems and government-led and integrated capacity-building projects. The EU should pursue such avenues in the implementation of the next MIP.

Against this backdrop, the Commission does not propose any fundamental change to the key orientations of the Country Strategy Paper 2007-2013 and would propose the following budget breakdown for the next MIP 2011-2013:

Indicative Budget Allocation for the MIP 2011-2013:

Focal Sector 1	Support to Vietnam's Poverty Reduction Strategies	€70 Million	48.5%
Focal Sector 2	Support to the Health Sector	€56 Million	39.0%
Additional Action 1	Trade-Related Assistance	€15 Million	10.5%
Additional Action 2	Support to Governance and to the EU-Vietnam "Strategic Dialogue"	€3 Million	2.0%
Total		€144 Million	100%

Taking into account that new Government programmes covering the 2011-2015 period (SEDP, Pro-Poor programmes, sector programmes) may be formally adopted in 2011 only, and that both focal areas have pro-poor reforms and results as their overall objective, transfers of allocations between focal sectors 1 and 2 may be required, in case conditions for their actual and effective utilisation would not be fulfilled (e.g. delays in adopting certain Government programmes).

Part 2 - Mid Term Review (MTR)

(I) ANALYSIS

Main political, economic, social and environmental developments in Vietnam

The **political situation** in Vietnam remains characterised by a low commitment to civil and political rights under one-party rule. Calls for political pluralism continue to be firmly rejected. Although Vietnamese authorities have shown an increased openness over time to discuss governance and human right issues, concerns remain, for the EU and others, on issues such as freedom of expression and the media. Corruption remains endemic, although the government has strengthened its anti-corruption strategy in early 2009 and ratified the *UN Convention on Corruption*. Administrative, legal and judicial reforms are progressing slowly. Political attention has started to focus on preparations for the next Party Congress to be held in January 2011, during which Prime Minister Dung is expected to be seeking his reappointment. As part of its "multidirectional" foreign policy, Vietnam has demonstrated continuing interest in intensifying relations with the EU, which it views as an alternative geopolitical pole for dialogue, a key market for its exports and a major source of FDI, high technology and ODA.

The **economic situation** deteriorated sharply in 2008, against the backdrop of the international economic and financial downturn. Inflation rose steeply and peaked at 28% in mid 2008 before slowing to 17.5% in early 2009. GDP growth dropped from 8.5% in 2007 to 3.9% in the first half of 2009. The IMF expects a 4.5% growth for 2009, which still leaves Vietnam among the best performers in Asia and worldwide. External trade declined sharply, as did the trade deficit (from 13.7% of GDP in 2007 to an estimated 7.8% in 2009) and FDI. The Government reacted promptly to curb inflation and, at the end of 2008, to stimulate the economy with a US \$8 billion support package. The biggest challenge for the government is currently to strike a delicate balance between growth and stability objectives. The regulatory environment as well as law enforcement and infrastructure bottlenecks remain serious concerns for business.

One of the repercussions of growth has been pressure on land for coffee plantations, hydro-power plants and extractive industries in the highlands with often inadequate compensation and relocation packages offered to previous occupants, often from ethnic minorities.

The crisis has a significant **social impact** as the economic downturn hits the poorest (around 13% of the population in 2008 according to World Bank statistics) hardest through job losses, inadequate social protection, a high level of out-of-pocket-payments for health and volatile food prices. Moreover, it threatens to draw the near-poor living just above the poverty line (around 15% of the population) back into poverty. Information gaps and lack of data are a source of concern, as is the need to better coordinate pro-poor programmes and, above all, to put in place a comprehensive and inclusive social protection system. Poverty remains a major issue in Vietnam, and the very good progress achieved before the crisis is slowing down for some education, HIV/AIDS as well as water and sanitation MDGs. The economic downturn seriously affects workers in labour-intensive and export-oriented industries (shoes, seafood, furniture), and domestic and overseas labour migrants, adding pressure on the “decent work” agenda. Finally, the recession hits women harder than men, given their predominance in export-oriented industries.

Vietnam is among the most vulnerable countries to **Climate Change** worldwide, with 10% of the population (particularly in the Mekong Delta) under direct threat in case of a sea level rise, and the issue has climbed high on the agenda of the leadership. The Government started implementing a new *National Target Programme on Climate Change*, approved by the Prime Minister in December 2008, which mainly focuses on adaptation. A number of mitigation measures have been taken through large investments in hydropower, renewable energy and reforestation. The Government has also committed to improving linkages between Climate Change and disaster risk reduction.

New EU policy objectives and commitments.

The negotiation of an **EU-Vietnam Partnership and Cooperation Agreement (PCA)**, which started formally in 2007, will aim to provide a broad and robust legal framework for enhanced dialogue and cooperation between the EU and Vietnam on a broader range of issues.

EU-ASEAN Free Trade Agreement (FTA) negotiations, for which Vietnam has acted as facilitator on the ASEAN side, have not progressed as expected for political and economic reasons. Both sides therefore agreed to take a pause in the region-to-region negotiation. The EU is now pursuing bilateral negotiations with those countries of ASEAN interested in negotiating a comprehensive FTA, starting with Singapore. These bilateral FTAs will serve as building blocks for a region-to-region negotiation in the longer-term. Vietnam has confirmed its interest at political level in such a bilateral FTA and technical contacts have started. Delivering on its “Aid for Trade” commitments, the EU will continue to provide assistance allowing Vietnam to cope with its obligations as a new WTO member and to successfully negotiate an increasing number of FTAs.

Tackling Climate Change has become a key priority on the EU’s global agenda and Vietnam has expressed interest in intensifying cooperation with the EU following up on the Copenhagen Summit. While Vietnam has recognised that it will be deeply affected by climate change and has launched a *National Target Programme on Climate Change* led by the Prime Minister, donors, including the EU, consider that planning is imprecise, that the programme lacks priority-setting, and remains too exclusively focused on agriculture, forests and infrastructure. The budget and financial management mechanisms are also unclear and inter-ministerial coordination remains problematic. However, several donors including the EC stand ready to support a future Climate Change-sensitive Socio Economic Development Plan 2011-2015. The EIB has also been very pro-active on Climate Change since 2006 and concluded in 2009 a credit agreement of €100 million with the Ministry of Finance to finance climate change relevant projects. While a law on energy efficiency and conservation is being prepared in Hanoi, industrial policies are not adequately covered. The EU Delegation in Hanoi participates in the donors’ group on Climate Change and in joint efforts to define needs and assistance modalities – the latter preferably in the form of budget support. More generally, as a G77 developing country,

Vietnam does not consider itself concerned by greenhouse gas obligations. The EU and Vietnam have entered into discussions on Forest Law Enforcement, Governance and Trade (FLEGT) as Vietnam seems increasingly sensitive about its furniture export possibilities to the EU.

The EU is committed to supporting the **ASEAN integration process**, which has recently gone through an accelerated phase with the entry into force of the **ASEAN Charter and the establishment of the ASEAN Economic Community by 2015**. **Regional cooperation**, notably within ASEAN, is also a growing priority (mainly economic) for Vietnam, which will assume the rotating chairmanship of ASEAN in 2010. Vietnam is a very active participant in EU-ASEAN cooperation projects (notably READI and TREATI) from the previous MIP in the areas of standards, customs, border management, statistical cooperation and aviation safety. Furthermore Vietnam participates actively in the Greater Mekong Sub-region (Thailand, China, Laos, Cambodia, Vietnam) integration efforts supported by the Asian Development Bank.

Migration issues, including illegal migration and trafficking have been regularly discussed within the context of the *EC-Vietnam Joint Committee Sub-Group on co-operation in the areas of Institution-Building and Administrative Reform, Governance and Human Rights* as well as in newly-established regular EU-Vietnam workshops on migration. A concrete result of EU-Vietnam dialogue has been the formulation and financing of a project with the IOM raising awareness of the dangers of trafficking and drawing up a comprehensive “migration profile” of Vietnam. The new PCA will offer a more robust legal basis for further cooperation in this field.

The **National Assembly (NA)** has been a beneficiary of substantial EU support to Vietnam’s **legal reform agenda** (*Institutional Support Project*), acting as a platform for privileged mutual access and information. In the light of the **decentralisation process** in Vietnam, a provincial focus of some EU capacity-building support, notably for health, is timely and appropriate.

Relations with an **emerging but still fragile civil society** are also developing well, notably thanks to the successful implementation of the *European Instrument for Democratisation and Human Rights* (EIDHR) and *Non State Actors* (NSA) programmes. These two thematic programmes provide the main channel for funding NGOs in Viet Nam. They complement and underpin EU-Vietnam cooperation by reinforcing the capacity of non-state actors and local authorities to participate in poverty reduction efforts and by promoting the development of a more robust civil society and local authority networks in Vietnam. They have also facilitated regular consultations on the occasion of the preparation of the CSP/MTR/MIP.

Vietnam has been a pilot-country for the implementation of the **Aid Effectiveness** agenda. The *EU Harmonisation Roadmap* adopted for the first time in the aftermath of the Paris Declaration in 2005 constitutes the basis for enhancing aid effectiveness at EU level. In this Roadmap, particular attention is paid to the “four additional commitments” laid down in the European Consensus on Development Policy (on the use of country systems; coordinated capacity-building; avoiding parallel PMUs; joint donor missions etc.) and, more recently, to Division of Labour, in line with the 2007 Code of Conduct. Other results achieved in this area include the annual *Bluebook on EU assistance to Vietnam* and the new EU-UN local Cost Norms for managing ODA. Progress is regularly monitored by EU Development Counsellors in Hanoi, and annual reports and updates of the Roadmap are endorsed at Ambassador’s level. Regular dialogue and consultations between the Government of Vietnam and the broader donor community regarding the implementation of the “Hanoi Core Statement” (the local version of the Paris Declaration) take place in the context of the Partnership Group on Aid Effectiveness (PGAE) and local Consultative Group meetings. Furthermore, the Delegation has been a supporter of the “One United Nations” (UN) initiative. Vietnam is one of the eight countries worldwide where reform of UN operations is being piloted in order to ensure better coherence and greater strategic relevance of programmes.

Results, Performance and Lessons learnt

A Vietnamese-led mid term review, released in 2009, of progress towards development outcomes and results of the **Socio-Economic Development Plan 2006-2010 (SEDP) and of Poverty-Reduction Support Credits (PRSC)** has provided a global overview of progress made in attaining the targets defined in the SEDP. Overall progress has been satisfactory, notably when it comes to achieving the MDGs, except for HIV/AIDS and water and sanitation (see annex: “Summary of progress and availability of data” and annex on MDG). However, slow or no progress for certain reform areas (e.g. financial sector reform, social protection, environment) remain a cause for concern. Positive results can be attributed, first and foremost, to the government’s own efforts but also to support by 12 donors among which the EC, through global budget support. PRSC and the related policy dialogue, based on a comprehensive common performance assessment matrix, have provided leverage for advancing reforms.

Good results have been produced by EU-funded projects under the former CSP 2002-2006, notably in the governance area, with the *Institutional Support Project* strengthening capacities of the National Assembly and the European Technical Assistance project (ETV II), increasing the tax-raising capacity of the Ministry of Finance. *MUTRAP II* (trade related assistance), the *Private Sector Support Project* (PSSP) and the *Street Children Project* also produced important results. Examples thereof include:

- New Laws on Corporate Income Tax and VAT, Law on Standards and Technical Regulation, Law on Quality of Goods and Products (ETV II), the amendment to the Law on the Promulgation of Legal Normative Documents (the “Law on Laws” with help from the ISP project)
- The development of a framework for codification of laws (ISP)
- The development of two pilot databases in the Ministry of Justice for the registration of civil and nationality status and criminal records (ISP)
- The establishment of TBT and SPS Enquiry Points and Notification Bodies (MUTRAP II)
- Improved system of economic forecasting and trade statistics (ETV II)
- Strengthened tax and customs administrations facilitating for business and trade facilitation (ETV II)
- Two first business incubators set-up in Vietnam for software and food-processing (PSSP)
- A sustainable mechanism to help street children (Street Children Project)

Certain progress was made on **Public Financial Management**, as demonstrated by Public expenditure reviews (PER) and Country Financial Accountability Assessment (CFAA) carried out in recent years, and the adoption of the Single Strategy Document (SSD) in 2009. Donors, including the EC, supported Vietnam in this area through successive Multi Donor Trust Funds, while insisting that a more comprehensive approach in reforming PFM would be followed by Vietnam, and that Vietnam would accept using the PEFA methodology. VN agreed on a “pilot-based PEFA” by 2011.

Results produced by the **Non State Actors** programme and the **European Instrument for Democracy and Human Rights (EIDHR)** are difficult to quantify in an environment which is rather unfavourable for networking and cooperation between European and Vietnamese non-governmental organisations. However for less sensitive, though still quite important topics, for instance relating to domestic violence, migrant workers and the situation of people living with HIV/AIDS, NSA and EIDHR projects have produced tangible results. These results include increased awareness and improved social inclusion of people living with HIV/AIDS (several projects in HCMC and Hai Phong); increased awareness among stakeholders, notably the Youth Union and the police, of the problems faced by children who have come into conflict with the law; increased sensitivity among policy-makers on the advantages of multi-lingual education for ethnic minority children; increased awareness

of the risks for women and children resulting from human trafficking; increased awareness and protection for migrant women in Hanoi affected by domestic violence; improved living conditions and capacities for the poor in remote areas. Cooperation in more sensitive and hard-core issues relating to civil and political rights has been confronted to certain forms of self-censorship from civil society organisations.

Overall, **financial performance** in implementing the MIP 2007-2010 has been good with 100 M€ out of the 160 M€ committed by the end of 2009, and identification for the remaining 60 M€ of the Annual Action programme 2010 finalised by mid 2009. Disbursements increased dramatically in 2007 and 2008, with 49 m€ and 44 M€ paid.

The main **lessons learned** from the independent evaluation of EU cooperation in Vietnam (see final draft report attached) which took place in early 2009 can be summarised as follows:

- The current economic crisis points to the need for flexible response capacity;
- The use of global budget support/policy dialogue is a success and should be continued with greater involvement of civil society and relevant staff profiles;
- Supporting Vietnam's Socio Economic Development Plan (SEDP) remains valid but more pro-poor emphasis is advisable;
- EU support to health has been delayed and not very successful so far, but the sector approach should be further pursued;
- The traditional project approach for rural development was not very sustainable although needs remain high. Other ways of supporting poor/remote areas could be explored with due attention for environment and forests;
- EU Trade Related Assistance has been successful and should be continued. Flexible programming is key for the EU to be able to respond to evolving needs;
- Support to non-State actors has been successful and should be continued through specific programmes but also through stronger involvement of civil society in designing and implementing government programmes such as the SEDP and pro-poor programmes.

The independent evaluation also confirmed the EU's comparative advantages in its few intervention areas. The EU's experience and coordinating role for the policy dialogue related to the PRSC, its leading role in supporting Vietnam's health sector reforms and its expertise and exclusive competence for trade policy are widely recognised and appreciated by the government and donor community.

Regarding the implementation of the **Aid Effectiveness** agenda, after some "quick wins" realised during the 2006-2008 period, the mid term review on implementing the Paris Declaration revealed less than expected progress in reaching the Paris Declaration Goals, notably as concerns programme approaches, use of country systems and Division of Labour (DoL). After the adoption of the *Accra Agenda for Action* (AAA), the Government of Vietnam and donor community demonstrated willingness to re-invigorate the Aid Effectiveness process, notably through the adoption of a multi-annual Implementation Framework for the AAA, and an Action Plan for 2009, putting strong emphasis on better use of country systems and programme approaches. The European Commission has actively promoted and applied Division of Labour, based on complementarity and comparative advantage among EUMS, notably through: (1) an annual update of the EU donor mapping; (2) co-financing and delegated cooperation with Germany and Luxemburg of a health sector capacity project while SE and NL withdrew from this sector; (3) taking a lead in supporting the Government of Vietnam (Ministry of Health) and donors' "Statement of Intent (SoI) on Aid Effectiveness in the Health Sector" for three of the ten 10 concrete objectives ("milestones") leading to a first ever Sector

Policy Support Programme/Sector Budget Support in Vietnam by 2011; (4) phasing out from the basic education sector while ensuring that three other donors would remain active; (5) taking a lead among donors for policy dialogue in the context of the PRSC on health, education and global integration; (6) joint capacity-building involving the Commission, Denmark and Sweden in the area of judicial reform; (7) a forward-looking (2009-2012) donor mapping is being carried out as part of the EU Harmonisation Roadmap, so as to anticipate other donors phasing out against the backdrop of Vietnam becoming a Middle Income Country. The participation of Vietnam in the regional EU-ASEAN Statistical Cooperation Programme should also help improve the collection of data which is needed to facilitate donor coordination.

(II) PROPOSED RESPONSE IN 2011-2013

In the light of the above, namely the fragile socio-economic situation in Vietnam and important persisting pockets of poverty; the lack of social safety nets particularly in health; the need to further consolidate Vietnam's WTO membership with due attention for the social agenda; room for improvement in governance; outstanding challenges in the area of aid effectiveness and the findings of the independent evaluation, the priorities of the CSP reflected in the two focal and two non focal areas remain valid. However, within these areas, and also through better mainstreaming, adjustments are suggested to address the effects of the crisis on the poor, important persistent pockets of poverty (notably among ethnic minorities), climate change, disaster risk reduction, and some issues regarding aid effectiveness. More particularly, emphasis will be put on:

- Supporting pro-poor policies, particularly through better focus and fine-tuning delivery in the two focal areas (Support to SEDP and Health);
- Continued Aid for Trade, but more flexibly, so as to be able to respond rapidly to the potential needs arising from FTA talks;
- Climate Change (including disaster risk reduction) through mainstreaming in existing policies and pressing for a “greener” next SEDP;
- Aid Effectiveness, through better harmonisation/Division of Labour and use of country systems (budget support and policy dialogue with particular attention to supporting MDGs). In this connection, support to PFM will be continued through a multi-donor trust fund in which the EC participates. A valuable alternative for PEFA which Vietnam is not likely to accept will be pursued;
- Intensifying consultation and cooperation with civil society. The independent evaluation of EU cooperation with Vietnam as well as the non-state actors consulted during the MTR process, underlined the need for a stronger involvement of civil society in development policies and programmes, including budget support programmes, and, particularly, in monitoring. The EU will encourage the strengthening of the dialogue between government and civil society on development policies. In addition, the EC will keep using thematic programmes (particularly NSA-LA programme) to increase NSOs' capacity and credibility in this area;
- More flexibility to address unexpected issues and demands for policy dialogues and initiatives arising from PCA negotiations, while maintaining aid concentration as a priority;
- Integration of cross-cutting issues, notably trade, climate change, disaster risk reduction and the environment, migration, and the social dimension (poverty and employment).

As regards the choice of aid modalities, good progress is being made - and is accelerated in this Indicative programme 2011-2013 - in moving from a traditional project approach to the use of country systems, mainly through budget support, accompanied by a high quality policy dialogue with the Government.

Part 3 - Indicative Programme 2011-2013

I. Focal Sector 1: Support to Vietnam's Poverty Reduction Strategies

The EU will support the Poverty Reduction Strategies of Vietnam preferably through general budget support to Vietnam's National Development Strategy (SEDP, see I.1 below) and/or through sector budget support (see I.2 below) in areas even more directly focused on poverty reduction.

The Government is preparing the new Socio Economic Development Strategy for 2011-2020 and is currently consulting stakeholders for its first 5-year implementation plan (SEDP 2011-2015). As Vietnam may reach middle income country status in 2010 or soon after (and has already achieved such status according to the World Bank), the new strategy is expected to aim at sustainable growth, while continuing to have a strong focus on Poverty Reduction through economic development and enhanced social programmes and to address emerging challenges such as Climate Change.

The EU will continue to encourage the Vietnamese government to prioritize social inclusion in the next SEDP and will support the SEDP through general budget support (see I.1 below), albeit with reduced amounts, and/or sector budget support (see I.2 below) in areas even more directly focused on poverty reduction.

1.1. Support to Vietnam's National Development Strategy Programme:

1. Strategy context/ justification:

Vietnam's 2006-2010 Socio-Economic Development Plan (SEDP) outlines necessary reforms in four key areas ("pillars"), namely economic growth, social inclusion, environmentally sustainable growth and modern governance. The next SEDP will build on these four objectives, all of which are key to Vietnam's development and consistent with both EU policies and strategies and the findings of the Mid Term Review and the independent country evaluation.

The implementation of the MIP 2007-2010 demonstrated the importance and added value of donor harmonisation and coordination in Vietnam. Vietnam is a country with many donors and the move away from "traditional" project aid towards budget support has been a great benefit to Vietnam, by reducing transaction costs, enhancing the predictability of aid and providing a forum for effective, comprehensive policy dialogue, increasingly based on Division of Labour and comparative advantage.

2. Objectives

The overall objective of supporting the SEDP is to reduce poverty and maintain sustained growth. Specific objectives will be to strengthen social inclusion, address environmental and climate change challenges, better integrate Vietnam into the world economy and improve governance and the situation of human rights, with a particular emphasis on poverty reduction and attaining MDGs/VDGs.

3. Expected Results and main indicators:

The results will consist of policy reforms implemented by Vietnam and the achievement of the main targets defined in the SEDP 2006-2010 and 2011-2015. These targets include the MDGs/VDGs as well as other targets related to the 4 pillars described in the specific objectives. There is for the existing PRSC 6-10 an outcome monitoring matrix (51 indicators) agreed jointly between Government and donors, and a similar system is expected to be established in the next phase. The EU will continue

to focus on global integration, poverty reduction and social sectors, notably health as well as cross-cutting themes such as climate change, transparency and public financial management.

Highlighted below are some of the indicators corresponding to SEDP 2005-2010. Further specific indicators will be selected out of the monitoring and evaluation framework of the SEDP 2011-2015. The lack of reliable data remains a matter of concern to the donor community. In addition to Vietnam's own data, mainly produced by the General Statistics Office (GSO), ongoing technical assistance projects in the area of health, labour market, trade related assistance and tourism will improve data availability thereby contributing to better monitoring possibilities.

	Baseline Situation	Most recent	Target
Children with disabilities attending school	56.6% (2006)	63.1% (2008)	65% (2015) 70% (2020)
Child malnutrition	Stunting: 29% Underweight: 25% (2006)	Stunting: 32% Underweight: 20% (2008)	Stunting: < 25% Underweight: < 20% (Target 2011)
% of people below the VN poverty line	20% (2004)	16% (2008)	10% (2011)
Poverty among ethnic minorities	61% (2004)	52% 2006)	40% (2011)
Population with access to improved or clean water	Urban: 82% Rural: 48% (2004)	Urban: 83% Rural: 52% (2006)	Urban: 95% Rural: 75% (2011)

4. Activities

The main activities will be regular policy dialogue across the four pillars of the SEDP, monitoring and analysis of performance, and technical cooperation aimed at improving the capacity of various public bodies and more inclusiveness and involvement of civil society.

5. Implementation

General Budget support with accompanying TC will be the preferred option for implementation; harmonisation with other donors will be essential and influence the modalities under which funds will be disbursed.

6. Cross-cutting issues

Budget support and policy dialogue are suitable means for addressing cross-cutting issues such as poverty, gender, minority issues, climate change and the environment, and governance. The EU will pay particular attention to incorporating elements to address Climate Change challenges (including disaster risk reduction) in the national context through all SEDP pillars, notably through active participation in the *Partnership Group on Climate Change*.

7. Risks and conditions

Main risks are:

- Donors reallocating their ODA from poverty reduction to economic cooperation or scaling down their assistance as a consequence of Vietnam achieving MIC status; a reduction of the number of donors which are contributing financially and taking part in the policy dialogue;
- Slowdown in government reforms in the areas of the public sector reform (state-owned enterprises), public finance management and financial sector reform but also on social inclusiveness. It is therefore a priority for the EC to minimise fragmentation among the donor community and that donors remain aligned and agree on mutually acceptable goals in these areas;
- Insufficient link of GBS with civil society, which the EU will counter by pressing for greater inclusiveness of civil society organisations in planning and monitoring of the SEDP.

8. Estimated EC contribution

€10-20 million, 7-14 % of total budget.

9. Co-ordination with Member States

Given the success of the PRSC process in terms of coordination and harmonisation, the EU will continue this approach, in particular by further supporting division of labour among Member States.

1.2. Sector policy support programme in areas more directly focused on poverty reduction

(a) Strategy Context / Justification

The 2009 evaluation recommends specific action to tighten poverty impact. While the poverty rate in Vietnam has been reduced to 13%, residual poverty, mainly concentrated in the North and Central Highlands among ethnic minority groups, is still large (over 10 million people) and more complex to eradicate. The main Government programme seeking to address this challenge is the so-called **Programme 135 phase II** (covering 2006-2010) targeting the poorest communes in ethnic minority and mountainous areas. Originally the government's pro-poor programme (P135-I) focused essentially on basic infrastructure. This programme has evolved, in dialogue with involved donors, towards a more comprehensive approach to poverty reduction including further decentralisation, empowerment of local communities, support to improvement of livelihoods, and capacity development. By engaging in P 135 II in 2010, the last year of P 135 II and of the current MIP, while the Government is starting the preparation for the next phase (2011-2015), the Commission will be able to influence the content of the future programme towards better targeting and results orientation, market oriented livelihood approaches, further decentralisation and empowerment of local communities, integration of climate change adaptation and disaster risk reduction, and improved monitoring and financial management. Its support to P135 as from 2010 will constitute a swift response to the impact of the global economic downturn on particularly vulnerable groups.

(b) Objectives

The overall objective will be hunger alleviation and sustainable poverty reduction in targeted regions in which ethnic minorities predominate within the local population. Specific objectives include the reduction of poverty and food insecurity in the project areas, in particular among ethnic minorities, through improved income opportunities, access to clean water, education and health facilities, and through empowerment of local communities.

(c) Expected Results and main indicators

- The achievement of Specific Objectives and Results will be measured with reference to indicators to be selected from the baseline established in 2007 with approximately 100 indicators. These indicators are based on data provided by the General Statistics Office of Vietnam.
- P-135 includes a detailed set of output targets regarding the provision of facilities and services to the population, however the results agreed upon between the Government and donors concern at the moment essentially improvements to the programme structure and implementation, necessary to achieve the Specific Objectives. These include a further improvement of poverty targeting, decentralisation, local capacities, improved resilience to environmental threats, participation and empowerment, PFM, monitoring and evaluation, and more effective and market-oriented livelihood approaches. In the next phase the Commission intends to encourage an increased emphasis on outcome targets.
- An important result will be also an improvement in the policy dialogue, aided by improved division of labour among donors. The policy dialogue also allows addressing issues that are not activities of the programme, but affect the livelihoods of Ethnic Minorities.
- Below are listed a few relevant indicators at outcome and result levels.

	Situation in 2006		2010	2015
	P135-II	Non P135-II	target	target
	areas	areas	in p135 areas	in project areas
Poverty headcount (%)	43,0%	37,0%	30,0%	30% *
Households reporting regular lack of food	46,3%	39,8%		tbd
% lack of clean water	44,8%	40,9%		20,0%
Having small irrigation system	61,3%	65,7%	80,0%	100,0%
Net enrolment rate at upper secondary level	33,3%	40,1%	75,0%	80,0%

(d) Activities

Budget support will be associated with policy dialogue and monitoring of progress, and technical cooperation, in particular for capacity development at district and commune level.

(e) Implementation

In line with the DCI regulation, the European Consensus for Development, and the Code of Conduct for Division of Labour, this support will take place preferably as a sector budget support, using country systems (the successor of the 135 II programme) in a coordinated way with other donors and Member States.

(f) Cross-cutting issues

Civil society involvement (including women's organisations) will be strongly encouraged, as part of the participation and empowerment agenda. The environment, climate change and disaster risk reduction will also be addressed in the policy dialogue.

(g) Risks and Conditions

The main risks are:

- capacity development for effective decentralisation not decisively addressed;
- livelihood models not sufficiently adapted to local conditions and market oriented;
- insufficient emphasis on the use of local languages prevents effective participation;
- overlapping or incoherence between different poverty reduction or social programmes.

All four will be addressed, closely, as part of the policy dialogue.

(h) Estimated EC contribution

€50-60 million, 34.5-41.5% of total budget.

(i) Co-ordination with Member States

The existing coordination framework for P-135-II is well defined and already functions well. Four donors are contributing to the programme (World Bank, Ireland, Finland, AUSAID) and the EU and Switzerland are joining in 2010, with an increased emphasis on division of labour in the policy dialogue.

II. Focal Sector 2: Support for the Health Sector

(a) Strategy, context and justification

The serious problems in the health sector already identified in the Strategy Paper 2007-2013, section 1.3, have since 2007 been confirmed and are being exacerbated by the **economic and financial crisis**. Key challenges include **(i)** slow progress towards reaching a number of MDGs, particularly for under-five mortality rate; maternal mortality rate; under-five malnutrition rate; and HIV prevalence; **(ii)** insufficient public spending and very high out of pocket payments (almost 70%); **(iii)** demographic changes; **(iv)** labour migration contributing to spreading contagious diseases; **(v)** the gaps in health status across regions and populations. Vietnam's **2011-2015 Health Sector Plan**, to be adopted in December 2010, will seek to address these issues.

Climate Change is also having important impacts on epidemiology and disease patterns. The potential consequences of climate change for the capacity of the health system will need to be factored into programme development. This will be particularly pertinent in areas such as improving resilience of health infrastructures, training of health professionals and public awareness-raising. The **still fragmented health system, weak planning and implementation capacities** and continued **decentralization and private sector developments** add up to challenges for managing the health system and providing essential health services to the poor. On the positive side, the adoption of important legislation such as the **Law on Health Insurance** in 2008 and the adoption by the Ministry of Health and donors of the "*Statement of Intent on Aid Effectiveness in the Health Sector*" which includes a roadmap and 10 milestones towards a programme-based approach for the health sector need to be underlined.

The EU, drawing lessons from mixed results in supporting health projects in Vietnam, and from sector budget support in education, engaged in preparing a sector approach in Vietnam through a **€14.750 million capacity-building project**, co-financed with Luxemburg and Germany, and based on a comprehensive, government-led needs assessment. This project specifically addresses the planning weaknesses and core strategic issues such as decentralization, health financing etc. It fully respects the

guiding principles of the EC Backbone Strategy on Technical Cooperation and PIU's (demand-led; result-oriented; country-owned; donor harmonization; integrated PMU). It was approved by the Commission as part of the Annual Action Program for 2008 and activities on the ground will start at the end of 2009, at central and provincial level.

In line with the recommendations of the Evaluation of EU assistance to Vietnam carried out in 2009, preparations are progressing well in view of approving EU Health Sector Budget Support in the context of the Annual Action Program 2010. This support will be continued under the MIP 2011-2013.

Taking into account the fact that new Government programmes covering the 2011-2015 period (SEDP, Pro-Poor programmes, sector programmes) may be formally adopted in 2011 only, and that both focal areas have pro-poor reforms and results as their overall objective, transfer of allocations between focal sectors 1 and 2 may be required, in case conditions for their actual and effective utilisation would not be fulfilled (e.g. delays in adopting certain Government programmes).

(b) Objectives

The overall objective of EU support in health sector is to improve the health status of the population, especially the poor; the near-poor; ethnic minorities; women; children; and other vulnerable groups. The specific objectives will be in-line with those of the upcoming 5-year national health plan 2011-2015. The following key outcomes are anticipated:

- Improved access to quality services by the poor
- Enhanced quality and organization of the health workforce
- Improved equity and efficiency of health financing

(c) Expected Results and indicators

In the table below, there are a few result indicators that are being considered in the formulation of the 5-year plan, to be monitored annually in the JAHR:

Indicative indicators	Expected by 2010	Targeted to 2015	Targeted to 2020	Vision to 2030	MDG 2015
1. Average longevity	Aged 73,5	Aged 74	Aged 75	Aged 78	-
2. Ratio of mother death/100.000 alive born children	74,5	70	< 60	50	70
3. The under 1 mortality rate	15‰	13.8‰	< 12‰	< 10‰	25‰
5.Children weighting under 2,500g at birth	5,1%	<5 %	< 4,5%	< 4%	< 5%
7. Children's inoculation against measles	85%	88%	90%	90%	> 80%
8. Commune clinics meeting national standards	80% (1)	50% (2)	80% (2)	100% (2)	

10. Stop the malaria from wide spreading (infection, death/100.000 population)	M. 82 C. 0,02	80 < 0,02	75 0,015	70 0,01	M: Infection C: Death
11. Stop the tuberculosis from wide spreading (infection, death/100,000 population)					

(d) Activities

Instead of supporting pre-identified activities, typical for project mode support, EU assistance will support a viable sector program, namely Vietnam's 2011-2015 Health Sector Plan, to be adopted in December 2010 (Statement of Intent, milestone 8). A Common Performance Assessment Framework which is being developed in the context of the JAHR will allow to monitor progress.

(e) Implementation

EU support will be carried out preferably through sector budget support, provided that the necessary conditions are met, in particular regarding (i) the macro-economic context; (ii) the health sector programme; (iii) public financial management.

(f) Cross-cutting issues

Given the growing public concern on the causes and effects of climate change, the EU Delegation will pay particular attention to (i) assisting the health authorities to integrate climate change effects on health in national and provincial health plans; and (ii) assisting the government to address medical solid and liquid waste treatment problems. Bridging the gap of health indicators between Kinh majority and ethnic minorities, gender and combating petty corruption will also be mainstreamed.

(g) Risks and conditions include:

- The global economic crisis and domestic macroeconomic situation persists, the budget deficit rises and the government loses its focus on social inclusiveness and health reform and financing. The EU and other donors will continue to advocate greater government focus on health including increased public spending as a key feature for poverty eradication;
- Climate change has unpredictable impacts on human health and on health infrastructure. The EU and other donors will continue to press for greater coordination between the Ministry of Health and line Agencies and local Authorities. This will be particularly important in developing contingency plans to cope with natural disasters;
- The Ministry of Health and other government agencies fail to deliver on the 10 milestones of the Statement of Intent. The EU and other donors are providing TA for each milestone, based on division of labour, led by MoH. The EU capacity building project will prioritize actions required for a successful start-up and implementation of the programme;
- The “MIC” trap. Several examples in South East Asia (e.g. the Philippines) demonstrate that graduating from developing to middle-income country status and over-hasty withdrawal by donors may have adverse effects on the socio-economic situation in general, and health indicators in particular. Vietnam's continued commitment to social inclusiveness, supported by donors and its growth despite the crisis will help mitigating this risk.

(h) Estimated EC contribution

€56 Million or 39 % of the total budget.

(i) Coordination with Development Partners

The Commission and EU Member States meet in the EU Health Sector Working Group, chaired by the EU Delegation in 2009, on a rotating basis. At donor-wide level, the Health Partnership Group, co-chaired by the Ministry of Health and a donor on rotating basis in which the EU actively participates, features as a platform for rallying donors and CSO to support a government-led Program Based Approach (PBA) in health. The Statement of Intent (SoI), approved by the Health Partnership Group, is considered as best practice for donor coordination, government-led PBA and use of government systems.

III. Additional Action 1 - Trade-Related Assistance

(a) Strategy context/justification

Since Vietnam joined the WTO in 2007, it has spared no effort to fully benefit from its integration into the world trading system. This is reflected in the Socio-Economic Development Plan (SEDP) for 2006-2010, which includes “the expansion of trade through an acceleration of Vietnam’s international economic integration” as one of its main priorities. However, against the backdrop of the economic crisis, Vietnam faces reduced levels of Foreign Direct Investment (FDI) and exports due to lagging demand, higher technical and sanitary standards applied by importing trading partners as well as emerging requirements on government procurement, Intellectual Property Rights (IPR), environment and labour standards. In order to overcome these challenges, Vietnamese authorities will need to increase efforts to improve notably trade legislation, procedures for quality assurance and certification, transparency of the legal system, and enforcement of its WTO commitments, particularly on IPR.

The EU, through its bilateral “*Multilateral Trade Assistance Programme*” MUTRAP II, supported Vietnam in its accession to the WTO and in implementing its WTO commitments. Currently, MUTRAP III aims to strengthen the capacity of the Ministry of Industry and Trade to further implement and develop Vietnam’s trade and economic integration strategy. The EU has committed itself in the Doha Ministerial Declaration to supporting developing countries through trade-related technical assistance and capacity-building, and the Council adopted an *EU Strategy on Aid for Trade* in October 2007. Therefore, during the 2011-2013 period, and as proposed by the independent evaluation of EC assistance to Vietnam carried out in 2009, the EU will continue to provide trade-related assistance, building on and consolidating the current programme MUTRAP, and the different regional initiatives such as the EU-ASEAN Regional Co-operation Programmes focusing on Intellectual Property Rights and on Standards, Quality and Conformity Assessment (ECAP III), from which Vietnam also benefits. The likelihood of a bilateral EU-Vietnam agreement adds up to the relevance of continuing EU trade-related assistance to Vietnam.

The EU has been a major development partner in the Vietnamese tourism sector since 2004 through support to mainly vocational education and human resource development through the introduction of a modern skills training system in the whole of Vietnam. The EU’s involvement will be strengthened through a major sector capacity-building programme focussing on environmentally and socially responsible tourism from the AAP 2010 to be implemented over five years until 2015. It will focus on ensuring that benefits of tourism are reaching the poor and that environmental, ethical and social concerns are addressed in planning, management and delivery of tourism services.

(b) Objectives

General

Enhance Vietnam's integration in the world trading system, enhance Vietnam's integration in ASEAN and increase EU-Vietnam trade and investment relations, while maximising benefits for the country's development and poverty reduction agenda.

Specific

Trade and investment facilitated through improved public and private sector capacity for policy making, improved implementation of trade commitments, and improved compliance with international treaties and environmental and labour standards.

(c) Expected Results

- Improved capacities for Vietnam to negotiate and implement a comprehensive free trade agreement with the EU, including assistance to analyse its possible impact and benefits;
- Additional negotiated international trade integration agreements (WTO and bilateral commitments), including with the EU;
- Improved capacity towards progress in meeting the criteria of Market Economy Status (MES);
- Improved capacity and understanding regarding trade in services, competition, standards, customs, consumer protection, intellectual property, government procurement, business information about the European market and EU regulations (e.g. REACH) which are key features in FTA negotiations;
- Improved capacities of both the public and private sectors to meet more demanding health, hygiene, security, and environmental requirements in major export markets;
- Strengthened public and private sector capacity to meet export requirements and mitigate the negative effects of trade liberalisation and the global crisis by supporting the decent work agenda and adopting more international standards;
- Progress towards adoption and implementation of international labour conventions including support to occupational health and safety and vocational education and training; social protection of workers, strengthened employer- and worker-representation;
- Progress towards implementation at national level of the priority actions under the Strategic Schedule for the ASEAN Economic Community.

(d) Activities include:

- Policy-oriented research, seminars, conferences and similar events to enhance public awareness and participation in the formulation and implementation of trade and industrial policies and related issues (competition policy, TBT/ SPS measures, Doha round, trade facilitation, consumer protection, labour legislation, decent work agenda, industrial environmental standards etc.).
- Technical assistance and capacity building in the above areas.

(e) Implementation

The principles of the EU Backbone Strategy will be followed in particular regarding government ownership and embedding in the Ministry of Industry and Trade (MOIT). The independent evaluation on EC assistance emphasised the need for a flexible cooperation tool able to provide rapid responses in a context of global uncertainty and rapidly evolving needs. Such a tool could support the EU-Vietnam dialogue on trade issues and allow Vietnam to address emerging market access issues for exports to the EU and elsewhere, as well as other challenges mentioned above.

(f) Cross-cutting issues

Vietnam's trade policies and regulations should aim to maximise positive externalities for the environment as well as for human, animal and plant health and safety. Equal opportunities will be ensured for women to participate in all activities. The project will seek to incorporate specific elements addressing the challenges and opportunities (e.g. green business) of climate change in industrial policy and trade agreements.

(g) Risks and conditions

Trade defence mechanisms or protectionist measures introduced by Vietnam's trading partners as well as poor economic performance in the region and/or in Vietnam may jeopardise the country's commitment to export-oriented trade policy. This risk is minimal, due to Vietnam's dependence on export markets.

(h) Main indicators

- Vietnam complies with all key commitments of WTO and bilateral trade agreements by 2017;
- Excellent capacity of Vietnamese stakeholders to negotiate and implement development-oriented trade agreements;
- Output based indicators: upgraded regulatory framework; development of training modules for the government and industry; number of replications of the trainings received;
- Result based indicators: such as the reduction of transaction costs and time needed for customs clearance; reduction in the number of detentions, rapid alerts and other forms of product access controls at importing countries;
- Impact based indicators: more trade in Vietnamese products that comply with EU regulations; value added and employment generated through increased exports to the EU.

(i) Estimated EC contribution

€15 million, 10.5 % of the total budget.

(j) Co-ordination with Member States and other donors

EU Member States and other development partners recognize the leading role of the Commission in trade-related technical assistance and particularly on trade policy. Coordination and co-financing with member states will take place in existing working groups and may be extended to other partners such as Australia and Switzerland, or to UN/ILO to support the "Decent Work Agenda".

IV. Additional Action 2: Support to Governance and the "EU-Viet Nam Strategic Dialogue"

(a) Strategy context / justification

A legal framework on legal and judicial reform as well as public administration reforms has been put in place in Vietnam in recent years, which also comprises the fight against corruption. However, actual implementation of these reforms progresses at a slow pace and remains a matter of concern. The EC has been present in the area of governance, administrative reform and human rights since 2005, with three projects:

(1) the Institutional Support Project (ISP), a €8 million intervention in the areas of legal/judicial reform providing capacity-building support to the National Assembly, the Ministry of Justice, the Supreme Procuracy and the Supreme Court;

(2) a €3 million programme, called “Strategic Dialogue”, to support the *EU-Viet Nam Sub-Group on co-operation in the areas of Institution-Building and Admin Reform, Governance and Human Rights*. Activities under this programme include support to returnees in the Central Highlands and stateless people in the Mekong delta; support in the areas of migration, and of combating corruption and a support facility for the EU-Vietnam Sub-Group on co-operation in the areas of Institution-Building and Administrative Reform, Governance and Human Rights;

(3) a €8 million EC contribution to the new Justice Partnership Programme (JPP) with a total donor budget of €18.7 million, to be co-financed by the EU, Denmark and Sweden, as a successor to the ISP, which ended on 30 June 2009, and to a similar project funded by Denmark.

As recommended by the independent country evaluation on EU assistance carried out in 2009, the EU intends to build upon results and achievements to date and to further strengthen its presence in the crucial governance sector. Furthermore, after having forged a special relationship with the National Assembly (NA) through the Institutional Support Project (ISP), well-focused capacity building support could eventually be envisaged to the National Assembly (NA), subject to the willingness of the National Assembly to provide overall policy and sustainability indications on which a programme could be built. Follow-up actions to the JPP could also be envisaged, as well as cooperation in demining and on migration issues. Civil society will be consulted and associated with project design and implementation. Local calls for proposals under the EIDHR and NSA thematic programmes will complement these activities.

(b) Objectives

General

Improved governance, administrative reforms and human rights in Vietnam.

Specific

To promote constructive dialogue and co-operation between the Government of Vietnam and the EU in relevant areas under the Partnership and Cooperation Agreement (PCA). Increased profile and visibility of Vietnam and the EU in each others' regions, preferably by joint initiatives. Strengthened capacities of the National Assembly (NA) of Vietnam. Consolidated EU support in the area of governance already provided under the CSP 2002-2006 and the MIP 2007-2010.

(c) Expected results

- Successful implementation of governance aspects of the future Partnership and Co-operation Agreement (PCA);
- Enhanced cooperation in the areas of governance, democratisation, public administration;
- Strengthened links between Vietnamese and EU entities (e.g. public administrations, legal and judicial institutions);
- Progress achieved in implementing administrative reforms and improving governance;
- National Assembly (NA) Deputies familiarised with concepts of modern parliamentary democracy and parliamentary practices;
- Enhanced capacity of Vietnamese institutions to exercise their function in selected areas.

(d) Activities

In order to achieve the above-mentioned results the following types of activities may be foreseen:

- Policy-oriented research, studies, seminars, conferences and similar events to enhance the understanding of Vietnamese officials and strengthen their participation in the formulation and implementation of policies in general and in the negotiations on the PCA in particular;
- Technical assistance and transfer of EU expertise and experiences through results-oriented workshops and study-tours related to well-identified policy objectives;
- Training activities for National Assembly (NA) Deputies and their staff;
- Policy advice and dialogue to upgrade the policy and regulatory framework;
- Capacity building and training for central and provincial authorities;
- Networking and media events.

(e) Implementation

In line with recommendations of the independent evaluation of EU assistance, a flexible tool will be established allowing for rapid and efficient response to emerging needs related to the implementation of the PCA.

Implementation modalities will be defined bearing in mind the need to provide assistance in a rapid and flexible manner.

(f) Cross-cutting issues

Gender equality, human rights, environmental protection and climate change will be duly considered when identifying and implementing actions related to the PCA and to continued support to Vietnam's legal and judicial reforms. Civil society organisations will as much as possible be associated and consulted.

(g) Risks and conditions

Continued commitment of the government of Vietnam to the reform agenda and to concluding and implementing the Partnership and Co-operation Agreement. The success of activities also relies on continued overall political stability, on sound project management and on the availability of appropriate and qualified expertise.

(h) Main indicators

Output indicators: Number and quality of actions implemented under the PCA. Consolidation of results of the ISP and JPP projects in terms of quality of law implementation, institutions and human resources. Increased awareness of European perspectives, economic, political and cultural relations between the EU and Vietnam. The role of the NA is strengthened and its legislative role and its role of supervising the executive increased.

Impact indicators: Vietnamese citizens benefiting from more relevant policies and services.

(i) Estimated EC contribution

€3 million (2 % of the total budget); this amount would be sufficient given the fact that the implementation of the Justice Partnership Programme (JPP) would continue through 30 June 2015.

(j) Coordination with Member States and other Donors

As in the case of the Justice Partnership Project, the EU will coordinate with other donors and will continue to take an active participation in the governance partnership group.

ABBREVIATIONS

AAA	Accra Agenda for Action
AAP	Annual Action Programme
APRIS	ASEAN Programme for Regional Integration Support
ASEAN	Association of South-East Asian Nations
AUSAID	Australian Aid
CPAF	Common Performance Assessment Framework
CSO	Civil Society Organisation
CSP	Country Strategy Paper
DCI	Development Cooperation Instrument
DE	Germany
DoL	Division of Labour
EC	European Commission
EIDHR	European Instrument for Democracy and Human Rights
ETV II	European Technical Assistance in Vietnam - Phase II
EU	European Union
FDI	Foreign Direct Investment
FI	Finland
FTA	Free Trade Agreement
GBS	Global Budget Support
GDP	Gross Domestic Product
GMS	Greater Mekong Sub-region
HCS	Hanoi Core Statement
HSWG	Health Sector Working Group
IE	Ireland

ILO	International Labour Organisation
IMF	International Monetary Fund
IPR	Intellectual Property Rights
ISP	Institutional Support Project
JAHR	Joint Annual Health Review
JPP	Justice Partnership Programme
LA	Local Authority
LU	Luxembourg
MDGs	Millennium Development Goals
MIC	Medium Income Country
MIP	Multiple Indicative Programme
MoH	Ministry of Health
MOIT	Ministry of Industry and Trade
MPI	Ministry of Planning and Investment
MS	Member States
MTR	Mid-term Review
MUTRAP II	Multilateral Trade Assistance Programme - Phase II
National Assembly	NA
NGOs	Non-governmental Organisations
NSAs	Non-State Actors
NTP	National Target Programme
ODA	Official Development Aid
P 135	Programme 135
PBA	Programme Based Approach
PCA	Partnership and Cooperation Agreement
PFM	Public Finance Management
PGAE	Partnership Group on Aid Effectiveness
PIU	Project Implementation Unit

PMU	Project Management Unit
PRSC	Poverty Reduction Support Credits
PSSP	Private Sector Support Programme
REACH	Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals
READI	Readiness for Education At a Distance Indicator
SEDP	Socio-Economic Development Plan
SoI	Statement of Intent
SPS	Sanitary and phyto-sanitary measures
TA	Technical Assistance
TBT	Technical Barriers to Trade
TC	Technical Cooperation
TREATI	Trans Regional EU-ASEAN Trade Initiative
TRTA	Trade Need Assistance
UN	United Nations
VDGs	Vietnam Development Goals
WB	World Bank
WTO	World Trade Organisation

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Draft Final Report

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Evaluation for the European Commission





Development
Researchers'
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Italy



Aide à la Décision Economique
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Framework contract for
**Multi-country thematic and regional/country-level
strategy evaluation studies and synthesis
in the area of external co-operation**

LOT 4:

**Evaluation of EC geographic co-operation
strategies for countries/regions in Asia, Latin
America, the Southern Mediterranean and Eastern
Europe (the area of the New Neighbourhood
Policy)**

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**Evaluation of
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The evaluation is managed by Particip GmbH within a
consortium led by DRN.

**Evaluation of
European Commission's Cooperation with Vietnam
Country Level Evaluation
Draft Final Report**

The report consists of two volumes:

Volume I: DRAFT FINAL REPORT
Volume II: ANNEXES

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EXECUTIVE SUMMARY

I. Objectives of the evaluation

The overall purpose of this evaluation is to ensure accountability for the use of allocated resources as well as to promote a lesson-learning culture in EC development cooperation. The main specific objectives of the evaluation were:

- to provide the relevant external co-operation services of the EC and the wider public with an overall independent assessment of the EC's past and current cooperation relations with Vietnam;
- to identify key lessons in order to improve the current and future strategies and programmes of the Commission.

II. Country context

Economic and social trends

Vietnam, a country of 86 million, is a one-party state, but one which since the introduction of the *doi moi* (reform) programme in 1986, has been slowly transforming into a market economy and experienced continual improvement in its economic basis. GDP has more than doubled in the last decade, leading to an average per capita income of US\$1,024 in 2008. International trade and inflows of foreign direct investment – mainly into export-oriented manufacturing – have been the main drivers of growth. This economic success has led to remarkable decreases in poverty. Both the Vietnam Development Goals (VDGs), which are a localised version of the Millennium Development Goals (MDGs) and the MDGs, show a consistent improvement of social indicators, from education enrolment to infant mortality. However, progress is uneven. Poverty remains much higher among the ethnic minorities than among the Kinh and Chinese majority. Inequality is growing, not only between the majority Kinh and ethnic minorities but also within the Kinh majority. Nor has Vietnam has not been immune to the international economic crisis that emerged in force in 2008. FDI commitments flagged, and actual disbursements plummeted in 2008. Exports have declined and many urban construction projects have been abandoned. Several international firms have shut down their operations in Vietnam completely, and others have scaled back. In short, the Vietnamese economic miracle is appearing increasingly vulnerable. While data, particularly on the social side, are slow to appear and not entirely reliable, there is anecdotal evidence that progress against poverty is suffering and ambitious MDG goals will not be met.

The role of ODA

Vietnam's social and economic transformation has been significantly accelerated by international donor assistance. Vietnam is the main receiver of the development aid in East Asia in absolute terms, and now receives about 3% of its GDP in grants and concessional loans. There are currently 51 donors, including 28 bilateral and 23 multilateral or supranational donors operating regularly in Vietnam. The EC is medium-sized one of the latter, with a total ODA portfolio of approximately 250 million USD in terms of disbursements between 2001 and 2007.

Net disbursements of ODA, Vietnam, 2001-2007 (Current prices USD millions)

	2001	2002	2003	2004	2005	2006	2007
All donors	1431.2	1274.5	1765.2	1832.4	1905	1845.5	2496.8
of which							
DAC countries/members	819.5	746	967.3	1184.8	1252.8	1306.3	1488.4
of which							
EU DAC countries/members	282.5	280	361.8	429.5	505.8	579.5	658.8
Multilateral	574.9	508.6	785.5	615.1	632.5	526.5	979.2
EC	21.3	18	30	27.9	42.4	41.8	67.7
share of total	1.5%	1.4%	1.7%	1.5%	2.2%	2.3%	2.7%
share of EU DAC	7.5%	5.4%	8.3%	6.5%	8.4%	7.2%	10.3%

Source: OECD DAC Development Statistics Online, accessed 14 April 2009,
<http://stats.oecd.org/WBOS/Index.aspx?DataSetCode=Table2A>

Vietnam has been considered a pilot country for implementation of the aid effectiveness agenda following from the Paris Declaration and, more recently, the Accra Action Agenda. The first of these was adapted to national circumstances and priorities in the Hanoi Core Statement on Aid Effectiveness.

The EC's cooperation engagement with Vietnam

The legal basis for EC cooperation with Vietnam over the assessment period was the 1996 Framework Co-operation Agreement, is a comprehensive agreement covering a broad range of subjects for dialogue and cooperation in the political, economic, development co-operation, social and cultural fields. Prior to 2002, EC strategy focused on: development of the least favoured rural and mountainous areas of the country, social sectors affected by the transition to the market economy, activities to ensure that environmental concerns would be taken into account, on-going economic and administrative reforms, conditions for the transfer of European technology, and conditions for the development of two-way trade and European investment. The implementation approach was, broadly speaking, that of traditional large development projects, namely implementation by a Ministry, in which a Project Management Unit was headed by a National Project Director and an International Expert. However, project implementation faced some challenges and, in setting its first (2002-2006) Country Strategy, the EC favoured sector-wide approaches over individual projects whenever possible. In formulating its second (2007-2013) Country Strategy, the EC adopted the view that the effectiveness of EC aid would be enhanced if there were a narrower sectoral focus. The overarching objective of EC support to Vietnam under the CSP 2007-2013 is the sustainable reduction of poverty, to be achieved mainly by providing support to the implementation of Vietnam's Socio-economic Development Plan 2006-2010, support to the health sector and additional actions in the area of trade-related assistance and support to strategic dialogue. The strategy places great emphasis on increasing aid effectiveness through alignment and coordination in the context of the Hanoi Core Statement.

In pursuit of enhanced effectiveness, the EC has contributed to joint funding arrangements such as general budget support and sector budget support initiatives, as well as participating in development partner harmonisation and alignment activities. In 2004 the EC co-financed the

third World Bank Poverty Reduction Support Credit (PRSC 3), along with 6 other donors and has continued to give general budget support through this mechanism, providing support for PRSC 3 to 7. Total funds provided have been US\$ 19.9 million for PRSC 3, US\$ 20.3 million for PRSC 4, US\$12.4 million for PRSC 5, US\$28.9 million for PRSC 6 and approx US\$23.9 million for PRSC 7 in 2008. The PRSC is designed to support key areas of the Government of Vietnam reform program and is aligned with the objectives of the CPRGS and the SEDP 2006-2010.

III. Methodology

Structuring stage

During the Structuring Stage of the evaluation, the EC's intervention logic and most important areas of cooperation were identified. Preliminary evaluation questions (EQs), judgement criteria (JCs) and related indicators were specified based on the intervention logic, then discussed with members of the Reference Group and the Evaluation Managers, and re-drafted accordingly.

Desk phase

During the Desk Phase, document review and interviews with officials in Brussels were employed to prepare preliminary answers to EQs, identify data and information gaps, and specify hypotheses to be explored during the Field Phase. In addition to Results Oriented Monitoring Reports, project documents, Mid-Term Reviews and Final Evaluations.

Field phase

During the Field Phase, the Evaluation team conducted over 100 interviews with persons concerned with EC cooperation, in the form of relevant EC Delegation staff in Vientiane, multilateral agency officials, bilateral agency officials, officials of the Government of Vietnam at the central and provincial levels, and representatives of national and international NGOs. Small focus group discussions were held in the areas of rural development, education; and support to civil society. Five "Special Focus" case studies (see Annex 7 of Volume 2) were prepared.

Draft final report

Following the field stage, a draft final report was prepared and submitted for comments by members of the Reference Group. The present draft final report document reflects revisions made in response to these comments. Based on this draft, a consultative seminar will be held in Hanoi in which EC officials from the Hanoi Delegations, officials from DG Relex and EuropeAid in Brussels, the Evaluation Manager, representatives of Government, and representatives of international and national civil society organisations will take part. Feedback from this seminar will be reflected in the drafting of the final report.

IV. Overall assessment

The following overall assessment deals with how well the EC's cooperation engagement, described above, has fit the country's needs, whether it has been consistent with EC strategic objectives; how well has it performed in terms of impacts; and whether recent and ongoing current shifts in the programme improve performance.

We have found that: in the major sectors, in which it intervened, rural development, education, and health, the EC has made significant contributions to poverty reduction, although we flagged some disappointments in each area. The EC's major pro-poor intervention in health is still in its early stages and fundamental problems of capacity for policy making and health care finance remain to be addressed in this lagging sector. The sustainability of impacts in rural development was weak; the impact on the poorest of the poor could have been improved by more attention to the needs of these groups in both strategy and implementation. Finally, EC programmes successfully supported civil society development and improved governance.

Vietnam is a country with many donors and correspondingly high transaction costs for the Government. The EC has consistently moved towards multi-donor and joint approaches, such as general budget support for the Government's poverty reduction strategy, sector budget support for education, forestry, and (now emerging) health. General budget support has been successful in reducing poverty, although doubts have emerged over whether the extremely ambitious goals set by Government will be met. Sector budget support in education generated some good results, but was not as effective as hoped because of problems with capacity, especially for financial management, and the vertical nature of the national target programmes supported. These lessons are being applied in developing budget support for the health sector.

Budget support has permitted the EC to engage effectively with policy dialogue and has provided a setting for helping government to improve public financial management. However, progress in the latter area, whether viewed on a sector by sector basis or at the aggregate level, remains slower than needed.

The EC has been an active, indeed a leading, participant in efforts to coordinate and harmonise with other donors. While we have expressed reservations about progress towards full aid effectiveness in Vietnam, there is good reason to believe that these efforts, and the move to general budget support, in particular, have improved aid effectiveness.

Despite the problems that have been identified in this evaluation and can be found described in its Findings, an overall assessment of EC strategy in Vietnam along Development Assistance Committee (DAC) lines would be positive. EC's strategy in Vietnam was assuredly relevant to country needs. The EC cooperation programme has been effective in attaining poverty-reduction impacts and, in moving towards joint approaches and aligning with the aid effectiveness agenda, efficiency has improved. The programme was, in addition, coherent with EC strategic priorities and added value in support for trade integration, civil society development and governance, and in coordination.

However, much remains to be done. As Vietnam accedes to Middle Income Country status, and with ODA very likely to decline as a result of the global recession, there may be a shortage of ODA resources in the country, and hence of resources that can be directly allocated to poverty reduction. Yet, there will remain large numbers of persons living in poverty, many of them living in circumstances such as geographical remoteness that make poverty reduction inherently difficult.

Thus, there is continuing need for capacity building for policy making, prioritization, resource allocation, and better financial management. An approach that favours learning by doing closely linked to capacity building, as through budget support, is in line with this. However, well designed projects that address the very poorest, or provide support for civil society development and improved governance, can also play a valuable role.

Looking to the longer term, the EC should also recognise that budget support itself will eventually cease, leaving open the question of what kind of cooperation programme will be appropriate in the long term. It is possible that historical analogies, such as the EC's engagement with Korea or Japan, might be a fruitful source of lessons.

V. Conclusions and Recommendations

The evaluation has given rise to **four general conclusions** (sector specific conclusions are given in the main text). In decreasing order of priority, these are:

1	The recent economic crisis has caught the EC cooperation programme (and no doubt other donors) by surprise, and the lack of contingency planning and timely data is evident. The aid landscape in Vietnam is undergoing fundamental shifts, and the GoV and donors are just coming to grips with this.
2	The move to greater use of general budget support has been successful overall and the quality and professionalism of general budget support is still improving. However, it implies a different way of working for staff and a significant involvement of civil society in the monitoring process.
3	The experience with targeted sector budget support in Vietnam, especially in education, raises a number of issues. In addition to the need for sufficient financial management capacity and a clearly articulated and GoV-owned sector strategy, one of the main issues is that most central ministries are fully responsible only for a minor part of the sector budgets, including National Target Programmes. To the extent that sector budget supports NTPs, it may fail to enhance sector wide coordination and policy making. At the same time, we recognise that sector budget support has not been an outright failure; it has generated useful information and lessons learned, and has the capacity to strengthen rational systems in ways that traditional projects can not.
4	Despite close alignment with the GoV's SEDP and the undoubted commitment of the GoV to poverty reduction, there is still need to ensure linkages between the EC programme and poverty reduction.

These are linked, in turn, to **four recommendations** (sector-specific recommendations are given in the main text):

1	Configure strategic process and implementation modalities to allow for more nimble reaction to rapidly changing circumstances. Incorporate scenario-based approaches into the strategic planning process. Encourage the GoV to improve its performance in the provision of accurate, timely, unbiased data related to poverty and the MDGs. Where technical assistance and capacity building needs related to the latter are not being covered by other donors, stand ready to incorporate these into projects and programmes; provide
2	Continue to participate in general budget support while attempting to acquire more EC Delegation capacity in Public Financial Management. Ensure that support for civil society development includes support for a more independent monitoring role. In the spirit of rG1, consider what comes after general budget support.
3	Sector budget support should, where possible, be truly sector wide, rather than supporting only national target programmes.
4	The EC should not lose sight of the fact that links between its programme and poverty are not to be taken for granted. Some specific actions (see Page 40 below) could tighten these.

Acknowledgements

We have benefited from the hospitality of the EC Delegation in Hanoi and the many national and international partners and stakeholders in Vietnam who were generous with their times. The Reference Group of this evaluation was constructive and supportive. We also express our gratitude to the Joint Evaluation Unit and the Evaluation Managers for effective chairing of the Reference Group and management of the process as a whole.

ANNEX 2A: COUNTRY AT A GLANCE

Country at a Glance

a) Macro- economic Indicators

		2005	2006	2007	2008e	2009e	2010e	2011e
Basic data								
1	Population (in 1000)	83106	84156	85149	n/a	n/a	n/a	n/a
	annual growth rate	1,31	1,26	1,18	n/a	n/a	n/a	n/a
2a	Nominal GDP (in billions USD)	52,90	60,90	71,10	89,90	90,6	98,00	106,8
2b	Nominal GDP per capita (in millions USD)	636	723	835	1041	1035	n/a	n/a
2c	annual change in %		13,6	15,49	24,67	-0,6	n/a	n/a
3	Real GDP (annual change in %)	8,4	8,2	8,5	6,2	4,8	5,8	7,0
4	Gross fixed capital formation (in % of GDP)	35,6	36,8	41,6	41,5	33,2	33,6	33,8
International transaction								
5	Exports of goods and services (in billions of USD)	32,4	39,8	48,6	62,9	53,2	61,7	72,8
5	Exports of goods and services (in % of GDP)	61,25	65,35	68,35	69,97	n/a	n/a	n/a
6	Trade balance (in % of GDP)	-4,6	-4,6	-14,6	-13,7	-7,8		
7	Current account balance (exc. FDI) (in % of GDP)	-1,1	-0,3	-9,8	-10,3	-8,1		
8	Net inflows of foreign direct investment (in % of GDP)	3,59	3,78	9,28	12,24	n/a	n/a	n/a
9	External debt (in % of GDP)	32,5	31,4	33,3	29,8	31,9	31,7	31,2
10	Service of external debt (in % of exports of goods and non-factor services)	4,5	4,2	3,8	3,4	4,5	5	4,8
11	Foreign exchange reserves (in months of next year's imports)	2,2	2,1	3	4,1	3,3	2,8	2,6
Government								
12	Revenues and Grants (in % of GDP)	27,2	28,7	27,6	27,2	24	24,4	24,7
	of which: Grants (in % of GDP)	0,5	0,8	0,4	0,3	0,3	0,3	0,3
13	Expenditure (in % of GDP, incl. off budget expenditures and net lending)	31,7	29,8	32,9	31,8	32,2	30,9	30,5
	of which: capital expenditure (in % of GDP)	9,4	9,1	9,8	8	6,9	6,4	5,9

Source:

GSO

IMF

IMF

IMF

14a	Overall fiscal balance (inc. Off budget expenditure and net lending)	-4,5	-1,1	-5,3	-4,7	-8,2	-6,5	-5,8
15	Debt (in % of GDP)	44,5	44,1	46,3	44,4	47,5	n/a	n/a
	External debt (in % of GDP)	32,5	31,4	33,3	29,8	31,9	n/a	n/a
Other								
16	Consumer price inflation (annual average change in %)	8,3	7,5	8,3	23,1	8	6	6
17	Interest rate (for money, annual rate in %)							
18	Exchange rate DONG per USD (end of period)	15907	16068	16003	17486	n/a	n/a	n/a
19	Unemployment (in % of labour force, ILO definition)	5,31	4,82	4,34	n/a	n/a	n/a	n/a
20	Employment in agriculture (in % of total employment)	53,99	51,77	50,07	n/a	n/a	n/a	n/a

2008,2009: estimates (e)

2010, 2011: forecasts (f)

ANNEX 2B: COUNTRY AT A GLANCE

b) Key MDG and Development Indicators

Data availability and reliability remains a challenge for Viet Nam. The issue has been raised by the donor community in the framework of the mid-term review of the Government's Socio-Economic Development Plan, the mid-term Consultative Group meeting 2009, as well as in other donor consultation fora.

The table below contains a compilation of government statistics and statistics compiled within the UN MDG progress framework, World Bank as well as from various other sources. This fact must be taken into consideration when studying the below time series. Where the time series is not entirely comparable over time, the relevant year has been given within brackets.

The Vietnamese Government's Statistics Office will publish the Viet Nam Household Study by end 2009, which will provide more recent data.

Key indicators	1990b	2006	2007	2008	Intermediate target	2015 Goals
1. Proportion of population below 1\$/day in PPP	63.7 (1993) ¹	21.5 ²	14.8 ³	13.1 ⁴	15-16% (2010) ⁵	halve 1990 levels
2. Prevalence of underweight children (%)	41 ⁶ , 7.3 ⁷	20 ⁸ , 5.3 ⁹	23 ¹⁰ , 5.3 ¹¹	20.6 ¹²	20 ¹³ , <6 (2010) ¹⁴	20 ¹⁵
3. Under 5 child mortality	58 ¹⁶	26 ¹⁷	14.9 ¹⁸	n/a	25 (2010) ¹⁹	19 ²⁰

¹ UN, <http://mdgs.un.org/unsd/mdg/Data.aspx>

² UN, <http://mdgs.un.org/unsd/mdg/Data.aspx>

³ Government Report for the Consultative Group Meeting 2008, Stabilizing Macroeconomic Development. Refers to 'poverty rate'.

⁴ ibid

⁵ EC CSP 2007-2013, Annex 3

⁶ MPI, MDG progress report (December 2008), <http://www.undp.org.vn/undpLive/mdgs/viet-nam-and-the-mdgs?&languageId=1>

⁷ Joint Annual Health Review Reports 2007 and 2008 (%<2500g)

⁸ <http://www.childinfo.org/profiles.html>, <http://www.undp.org.vn/undpLive/mdgs/viet-nam-and-the-mdgs?&languageId=1>

⁹ Joint Annual Health Review Reports 2007 and 2008 (%<2500g)

¹⁰ http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED

¹¹ Joint Annual Health Review Reports 2007 and 2008 (%<2500g)

¹² MPI, MDG progress report (December 2008)

¹³ ibid

¹⁴ Joint Annual Health Review Reports 2007 and 2008 (%<2500g)

¹⁵ ibid

¹⁶ ibid

(%)						
4. HIV prevalence rate of women aged 15-24 (%)	0.004 ²¹	0.51 ²²	0.3 ²³ /0.51 ²⁴	n/a	<0.3 (2010) ²⁵	stop and reverse
5. Proportion of births attended by skilled health personnel (%)	86 ²⁶	92.2 ²⁷	88 ²⁸ /94 ²⁹	95 ³⁰	n/a	100 ³¹
6. Proportion of 1 year old children immunized against measles (%)	88 ³²	93 ³³	83 ³⁴	n/a	100 (2010) ³⁵	100 ³⁶
7. Net enrolment ratio in primary education (%)	87 ³⁷	95.96 ³⁸	99 ³⁹	n/a	99 ⁴⁰ (2006-2010)	n/a
8. Ratio of girls to boys in primary (secondary)	0.93 (0.91) ⁴¹	0.96 (0.99) ⁴²	n/a	n/a	1 ⁴³ (2010)	n/a

¹⁷ ibid

¹⁸ http://www.childinfo.org/mortality_underfive.php

¹⁹ MPI, MDG progress report (December 2008)

²⁰ Joint Annual Health Review Reports 2007 and 2008

²¹ UNAIDS

²² UNAIDS

²³ http://www.childinfo.org/hiv_aids_prevalence.php

²⁴ UNAIDS

²⁵ Socio-Economic Development Plan 2006-2010

²⁶ Joint Annual Review Reports 2007 and 2008

²⁷ MPI, MDG progress report (December 2008)

²⁸ http://ddpext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=&REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED

²⁹ Joint Annual Health Review Reports 2007 and 2008

³⁰ Government Report for the Consultative Group Meeting 2008, Stabilizing Macroeconomic Development.

³¹ Joint Annual Health Review Reports 2007 and 2008

³² http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?REPORT_ID=13160&REQUEST_TYPE=VIEW

³³ http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=&REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED

³⁴ http://www.unicef.org/infobycountry/vietnam_statistics.html#54

³⁵ MPI, MDG progress report (December 2008)

³⁶ Joint Annual Health Review Reports 2007 and 2008

³⁷ MPI, MDG progress report (December 2008)

³⁸ Ibid, <http://www.undp.org.vn/undpLive/mdgs/viet-nam-and-the-mdgs?&languageId=1> (96 %)

³⁹ ibid

⁴⁰ ibid, <http://www.undp.org.vn/undpLive/mdgs/viet-nam-and-the-mdgs?&languageId=1> (90 % in 2010)

⁴¹ http://globalis.gvu.unu.edu/indicator_detail.cfm?IndicatorID=58&Country=VN

education						
9. Primary school completion rate (%)	n/a	85.62 ⁴⁴	n/a	n/a	n/a	n/a
10. Proportion of population with sustainable access to an improved water supply (%)	65 ⁴⁵	66.4 ⁴⁶	n/a	75 ⁴⁷	87 (2010) ⁴⁸ , 95 (2010) ⁴⁹	n/a
11. Fixed lines and mobile telephones per 100 inhabitants	0 (mobiles) ⁵⁰	24 ⁵¹	50 ⁵²	72.2 ⁵³	102 ⁵⁴ (2010)	n/a
12. Formal cost required for business start up (days)	n/a	24.3 ⁵⁵	24.3 ⁵⁶	20 ⁵⁷	16.8 (2010) ⁵⁸	n/a
13. Time required for business start up (days)	90 ⁵⁹	32 ⁶⁰	15 ⁶¹	5 ⁶²	5 (2010) ⁶³	n/a
14. GDP per capita (US\$)	402 (2001) ⁶⁴	723 ⁶⁵	834 ⁶⁶ , 835 ⁶⁷	n/a	1050-1100	n/a

⁴² <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTEDUCATION/EXTDATASTATISTICS/EXTEDSTATS/0,,menuPK:3232818~pagePK:64168427~piPK:64168435~theSitePK:3232764,00.html>

⁴³ EC CSP 2007-2011, Annex 3

⁴⁴ MPI, MDG progress report (December 2008)

⁴⁵ http://hdrstats.undp.org/en/countries/data_sheets/cty_ds_VNM.html

⁴⁶ MPI, MDG progress report (December 2008)

⁴⁷ www.cpv.org.vn

⁴⁸ EC CSP 2007-2013, Annex 3. Rural population.

⁴⁹ EC CSP 2007-2013, Annex 3. Urban population.

⁵⁰ http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?REPORT_ID=13164&REQUEST_TYPE=VIEW (mobile phones)

⁵¹ http://www.mic.gov.vn/details_e.asp?Object=271032936&news_ID=13653411

⁵² ibid

⁵³ ibid

⁵⁴ ibid

⁵⁵ www.doingbusiness.org/CustomQuery/

⁵⁶ ibid

⁵⁷ ibid

⁵⁸ ibid

⁵⁹ Ministry of Planning and Investment

⁶⁰ www.doingbusiness.org/CustomQuery/

⁶¹ ibid

⁶² ibid

⁶³ ibid

⁶⁴ MPI, MDG progress report (December 2008)

⁶⁵ ibid

⁶⁶ ibid

⁶⁷ <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIETNAMEXTN/0,,contentMDK:20212080~menuPK:387573~pagePK:1497618~piPK:217854~theSitePK:387565,00.html>

					(2010) ⁶⁸	
15. Access of rural population to an all season road	30 ⁶⁹	70 ⁷⁰	n/a	n/a	n/a	n/a
16. Household electrification rate	51 ⁷¹	90.4 ⁷²	n/a	n/a	n/a	100 ⁷³

SUMMARY OF ACHIEVEMENT OF MILLENNIUM DEVELOPMENT

GOALS OF VIETNAM

(Source: Viet Nam continues to achieve the Millennium Development Goals, Ministry of Planning and Investment report, December 2008)

SUMMARY OF ACHIEVEMENT OF MILLENNIUM DEVELOPMENT GOALS OF VIETNAM

	GOALS AND TARGETS	1990	Implemented	Target of 5 year 2006-2010 plan	Likelihood of achievement by 2015
MDG 1: Eradicate Extreme Poverty and Hunger					
1	Proportion of poverty	58% (as of 1992)	15.5% (2006)	10-11%	Achievable
2	Poverty gap		8,4 (2006)		
3	Malnutrition rate of children under 5 (weight in comparison with age)	41%	20.6% (2008)	20%	Likely to achieve
4	GINI (by expenditure)	0,350 (as of 1999)	0.36 (2006)		Likely to achieve

⁶⁸ Socio-Economic Development Plan 2006-2010

⁶⁹ <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIETNAMEXTN/0,,contentMDK:21202868~menuPK:3949587~pagePK:1497618~piPK:217854~theSitePK:387565,00.html>

⁷⁰ <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIETNAMEXTN/0,,contentMDK:21202868~menuPK:3949587~pagePK:1497618~piPK:217854~theSitePK:387565,00.html>

⁷¹ <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIETNAMEXTN/0,,contentMDK:20506969~iSCURL:Y~pagePK:141137~piPK:141127~theSitePK:387565,00.html>

⁷² Japan Bank For International Cooperation

⁷³ <http://www.buyusa.gov/asianow/vpowergen.html>

Goal 2: Universal primary education					
5	Net enrolment rate of primary education	87%	95.96% (2006)	99 %	Achievable
6	Primary education completion rate		85.62% (2006)		
7	Net enrolment rate of lower secondary education		81.04% (2006)	90%	Achievable
Goal 3: Promote gender equality and empower women					
8	The ratio of girls against boys in primary education		94,1% (2006)		Achievable
9	The ratio of girls against boys in lower secondary education		93,05% (2006)		Achievable
10	The ratio of girls against boys in upper secondary education		97,08% (2006)		Achievable
11	The ratio of female in National assembly No. XII, session 2007-2011 (against all NA members)	18,48% (Session IX, period 1992-1997)	25.76% (Session XII, period 2007-2011)		
12	Ratio of female in provincial people council		23.88% (Session from 2004-2009)		
13	Ratio of female in district people council		23.01% (Session from 2004-2009)		
14	Ratio of female in commune people council		19.53% (Session from 2004-2009)		
15	Rate of newly issued land use right certificate bearing both husband and wife's name		90% (2006)	100%	Achievable
MDG4. Reduce the child mortality rate					
16	Mortality rate of children under 5 (o/oo)	58	25 (2008)	25	Achievable
17	Mortality rate of children under		15.5		Achievable

	1 (o/oo)		(2008)	16	
18	Ratio of children under 1 being vaccinated against measles		96.4% (2006)	100%	
MDG 5. Improve maternal health					
19	Maternal mortality rate against 100,000 alive cases	233	75 (2008)	60	Achievable
20	Ratio of birth attended by health care personnel.		92.92% (2006)		Achievable
21	Ratio of married women of 15-49 using contraception		78% (2006)		Achievable
22	Ratio of women receiving at least 3 medical checks during pregnancy		84.5% (2006)		Achievable
MDG 6. Combat HIV/AIDS, malaria and other diseases					
23	Rate of HIV carriers with pregnancy		0.38% (2006)		Unlikely to achieve
24	Proportion of malaria infected over 1,000 population		1.08 (2006)		Achievable
25	Mortality rate due to malaria over 100,000 population		0.048 (2006)		Achievable
26	Proportion of tuberculosis cases over 1,000 population		1.17 (2006)		Achievable
27	Mortality rate due to tuberculosis over 100,000 population		2.2 (2006)		Achievable
MDG 7. Ensure Environmental sustainability					
28	Rate of forest coverage		39% (2008)	43%	
29	Areas of natural land with biodiversity preserved		2.5 million ha (2006)	Increase by 11,6% (by 2010)	28% increase compared with prior to participating in Biological diversity treaty

30	Amount of Carbon dioxide emission per capita	0.3	1.2 (2004)		
31	Rate of urban population having access to clean water supply		91.8% (2006)	95%	Achievable
32	Rate of rural population having access to clean water supply		66.4% (2006)	75%	Achievable
33	The rate of population having access to improved hygiene facilities				
34	Rate of households with proper toilets		59,11% (2006)		Achievable
35	Rate of households waste collected and processed in urban areas		28.96% (2006)		Unlikely to achieve
36	Rate of households living in temporary houses		7.39% (2006)		Unlikely to achieve
MDG 8. Develop a global partnership for development					
37	No. of telephone /100 population		51,36 (2006)		
38	No. of mobile phone subscribers/ 100 population		23.47 (2006)		
39	No. of ADSL subscribers/ 100 population		0.7 (2006)		
	<i>Ensure basic infrastructure for poor communes and people:</i>				
40	Rate of poor communes with basic infrastructure			100%	Achievable
41	Rate of households with proper toilets			75%	
	<i>Job creation</i>				
42	The number of employed population (million people)		1.63 (2006)	1,6 million (8 million in 5 years)	Exceeding the goal

43	The proportion of female in the labor force		49.4% (2006)	50%	Achievable
44	The proportion of trained labor force		27.8% (2006)	40%	Achievable
45	Unemployment rate in urban area		4.65% (2008)	5%	Exceeding the goal

ANNEX 3: COMPARATIVE TABLE

SUMMARY TABLES MIP 2007-2010 AND MIP 2011-2013

Comparative Table: MIP 2007 – 2010 & Indicative Budget allocation for MIP 2011 – 2013:

		2007-2010		2011 – 2013	
Focal Sector 1	Support to Vietnam's National Development Strategy Programme	64 mil. €	40%	70 mil. €	48.5%
Focal Sector 2	Support to the health sector	64 mil. €	40%	56 mil. €	39.0%
Additional Action 1	Trade Related Assistance	18 mil. €	11%	15 mil. €	10.5%
Additional Action 2	Support to the Governance & the EC-Vietnam Strategic Dialogue	14 mil. €	9%	3 mil. €	2.0%
		160 mil. €	100%	144 mil. €	100%

ANNEX 4: DONOR MATRIX (2007 DISBURSEMENTS IN USD MIL)

OECD/DAC sector classification Source:OECD/DAC (alternative source stated in brackets)	Education	Health	Population Policies	Water Supply and Sanitation	Government and Civil Society	Other Social Infrastructure and Services	Transport and Storage	Communications	Energy	Banking and Financial Services	Business and other services	Agriculture, Forestry and Fishing	Industry, Mineral Resources and Mining, Construction	Trade	Tourism	Multi-Sector/cross-cutting	Commodity Aid and General Programme Assistance	Action related Debt
Austria	1,068	0,839			0,277		0,539								0,024			0,988
Belgium	6,207	2,066	0,082	2,988	0,896	0,714	0,035		0,473	1,480		1,214				3,079		
Czech Republic	n/a	n/a	n/a			n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	1,034	0,122	0,315	13,936	1,478	0,430	0,399	0,096			4,987	8,735	3,831			8,332	21,130	
Finland		0,185	0,098	7,923	0,575	0,143	0,046		0,536	0,214	0,137	2,602	0,212			12,140		
France	46,057	4,829		13,214	2,375	4,816	1,231	0,158	1,985	27,073	0,417	35,912				16,835	10,951	
Germany	27,372	5,414	8,955	11,357	5,788	4,302	10,396	0,001		0,069	1,861	6,848	3,543			6,265	8,353	
Greece	0,015	0,041																
Hungary																		
Ireland	0,280	0,677			12,494	10,385							1,385					
Italy	1,860	1,125		5,738								0,641			0,014	0,616	1,442	
Luxembourg	0,537	5,190	0,558		0,028	0,193				0,534		1,344		0,044	0,166	2,153		
Netherlands		6,340	0,894	8,408	0,597	0,386		4,036	0,093	0,127	0,182	4,184	1,087		0,018	5,563	16,427	
Portugal	0,003																	
Spain	1,002	0,001			5,810	0,671	0,146	3,754		0,626		0,165		0,133	0,355	2,741	6,845	
Sweden	0,059	4,304	0,972		9,411	1,704	0,253		3,190	0,033	0,673	1,091	0,613			24,326		
United Kingdom	30,546		5,813		11,158		0,235					2,462	32,357			7,465	2,099	4,904
EC	20,938	1,405		0,184	9,025	5,884	0,232		0,271		2,650	0,949	0,196	1,816	0,733	5,231	14,056	
EU total	136,978	32,538	17,686			29,629	13,511	8,045	6,548	30,156	10,908	66,147	43,222	1,993	1,308	94,745	81,303	5,891
Australia	14,295	1,050	0,009	0,133	16,966	6,336			0,107	0,117	1,654	6,195	0,083	1,542		11,830		
Canada	5,431	1,342	0,541		4,649			0,321		1,550	0,570	3,252	0,648			0,495		

Japan	23,479	15,596	0,487	48,008	22,717	4,975	301,900	19,115	202,074	1,513	2,658	9,590	11,983	0,920	0,043	34,550		
New Zealand	2,908	0,209	0,015		1,496							0,194				0,136		
Norway	6,230	0,115	0,256	8,005	2,079	1,217	0,206		0,309	0,355	0,239	1,823	0,772	0,009		7,217		
Rep.of Korea																		
Switzerland	0,353			0,484	3,721	0,031				3,256	0,318	2,395	5,548	0,710		1,850		
USA		1,070	26,661	0,045	7,589	1,304			2,395		0,376	0,130	0,009	2,217		1,747		
Global Fund		7,414	2,266															
UNICEF	1,086	1,052	0,234	0,378	0,463	0,801										0,285		
UNDP			0,562		4,747											0,549		
ADB (ADB)	330,5	241,2		392,82	196,400		2378,900		980,140	467,000		842,870	108,500			355,690		
World Bank (WB)	77,130	50,100		123,670	138,630		261,060			21,000		40,200						
Totals by sector, DAC & Multi-lateral excluding ADB	267,890	110,487	48,717	244,469	262,968	44,293	576,677	27,481	211,434	57,947	16,722	129,927	62,265	7,391	1,352	153,406	81,303	5,891
% EC	7,82%	1,27%	n/a	0,08%	3,43%	13,28%	0,04%	n/a	0,13%	n/a	15,85%	0,73%	0,31%	24,57%	54,21%	3,41%	17,29%	n/a

OECD/DAC sector classification Source: OECD/DAC (alternative source stated in brackets)	Emergency Assistance and Reconstruction	Support to NGOs	Unallocated/Unspecified	Total by donor (OECD/DAC totals, may not add up with sector columns)
Austria			2,658	6,390
Belgium		0,094	0,157	19,480
Czech Republic	n/a	n/a	n/a	3,040
Denmark				82,540
Finland			0,027	26,780
France	0,372	0,311	6,776	154,460
Germany	0,047			97,640
Greece	0,274			0,330
Hungary				0,55
Ireland	0,138		0,045	27,300
Italy				6,070
Luxembourg	0,068		2,167	14,340
Netherlands			0,130	47,740
Portugal				0,003
Spain			4,098	31,51
Sweden	0,338		0,062	47,03
United Kingdom				97,15
EC	2,444		0,142	67,71
EU total	3,682	0,405	16,264	600,959
Australia		2,717	0,021	63,110
Canada			0,005	28,93
Japan		2,878	62,507	640,04

New Zealand	0,510	0,242	1,157	6,94
Norway	1,099		0,053	29,98
Rep.of Korea				24,670
Switzerland	0,175	1,190		20,03
USA	0,257			40,58
Global Fund				9,680
UNICEF				n/a
UNDP				n/a
ADB (ADB)				6294,020
World Bank (WB)				711,790
Totals by sector, DAC & Multi-lateral excluding ADB	5,722	7,433	80,007	1594,023
% EC	42,71%	n/a	0,18%	4,25%

ANNEX 5: MTR DRAFTING PROCESS

1. Political Dialogue with the partner country.

The main dialogue partner on the government side is the Ministry of Planning and Investment (MPI), with which policy dialogue takes place on a regular basis, both on Aid Effectiveness issues for which MPI is in the lead, and on the EC-Vietnam bilateral cooperation.

Once per semester, this policy dialogue is extended to include the Office of Government and Ministry of Finance as well.

Formal policy dialogue takes place in the context of the EC-Vietnam Joint Commission Working Group on Development Cooperation, co-chaired by the DG of MPI and the AIDCO D Director. The last meeting of the WG took place in October 2009.

Regarding the MTR process, a first exchange of views has taken place with MPI on the occasion of the joint RELEX H 5-AIDCO D 1 mission which took place from 9 to 13 February 2009. The EU Delegation and RELEX/AIDCO colleagues exchanged views with MPI on whether key priorities of the CSP remained valid (Support to the SEDP and the Health Sector) and agreed that this was still the case. It was also agreed that, against the backdrop of the financial crisis and persisting poverty particularly among ethnic minorities, a stronger poverty focus would be welcome notably through engaging in the government's pro poor programme P135. It was also agreed that Climate Change needed to receive a higher profile as a cross-cutting issue.

A second consultation took place during the stakeholders meeting (Hanoi, 16 June), co-chaired by the EU Delegation and MPI, on the independent evaluation of EU assistance to Vietnam. The afternoon session of that meeting was devoted to the content of the MIP 2011-2013. MPI agreed to keeping the two focal and two non-focal sectors, with stronger pro-poor emphasis through supporting the SEDP and P 135, and also due attention to mainstreaming climate change.

A third consultation was held in October 2009 during meetings of the EU-Vietnam Working Group on Development Cooperation and Joint Commission.

Policy dialogue with other key ministries took place as follows:

- Ministry of Health: regular bilateral meetings (on average once per month) and trimestrial meetings of the Health Partnership group;
- Ministry of Justice: during identification and formulation of the Justice Partnership Programme (first semester 2009) and in the EC-Vietnam subgroup on governance and human rights (10 July 2008);
- Ministry of Finance: regular meetings on new aid modalities (budget support);
- Ministry of Trade: in the context of the MUTRAP III project and the subgroup on trade (will meet in October 2009).

2. Consultations with other donors.

EU Member States have been consulted on the outcome of the “internal review” at the EU Development Counsellors meeting of 21 January 2009. They agreed that overall orientations of the Country Strategy Paper (CSP) remain valid but also that the EU should put more focus on poverty and ethnic minorities through engaging in P 135. They also welcomed continued support to a sector approach in health (particularly those EUMS who are active in the EU health sector working group)

and to TRTA and support to governance; on the latter issue, EUMS co-financing the Judicial partnership project (JPP) supported to focus on judicial rather than legal reforms.

The World Bank expressed its approval on continued support to the SEDP through GBS but also through P 135 during the RELEX/AIDCO mission to Hanoi in February 2009 (see above).

Most EU Member States were present at the stakeholders meeting (Hanoi, 16 June 2009), co-chaired by the EC Delegation and MPI, on the independent evaluation of EC assistance to Vietnam, and approved the orientations of the MIP 2011-2013.

EU Member States in Hanoi were consulted on the full draft of the MIP 2011-2013 in November 2009.

3. Consultations with non-state actors.

Civil society organisations in Hanoi have been invited to express themselves on the MTR and the orientations of the MIP 2011-2013 on three occasions during 2009.

(1) 21 January 2009.

The Delegation consulted NGOs on the checklist for the review of the CSP during a two-hour meeting organised on the 21st of January 2009. Participants received the checklist as well as the web-link to our current CSP a few days before the meeting.

Participants (list attached) expressed their satisfaction for being consulted on the CSP.

The following are the main issues discussed:

1/ The choice of focal areas in the CSP:

The INSEE (Institute for Studies on Society, Economy and Environment) representative expressed support to the CSP and its two focal sectors. He acknowledges selecting areas of intervention is difficult and agrees that supporting the SEDP and the health sector are both very important and strategic to reduce poverty in Vietnam.

He agreed with the use of budget support as a main tool to disburse fund as he thinks that “the Government is capable” and “budget support increases ownership”.

The representative of Oxfam supported the concentration strategy and the choice of focal areas to avoid spreading efforts.

2/ The EC strategy to fight poverty, especially among ethnic minorities:

Participants underlined the need to fight poverty, especially among ethnic minorities, for which the share among poor people increased by 10% between 2004 and 2006 (from 40 to 50%). The EU was invited to better consider ethnic minority's poverty during the mid-term review as the current CSP does not mention it sufficiently. Also, the current CSP lacks of indicators to better follow poverty reduction at local level and the impact of PRSC on it. The Delegation explained the process to follow PRSC results and acknowledged that SEDP monitoring and evaluation framework suffers from lack of data at national and even more so at local level. Following indicators of the SEDP at local level would allow for a better analysis.

3/ EU support to Civil Society Organisations (CSOs) and the role of CSO in development cooperation in Vietnam:

CSOs are quite recent in Vietnam and their role in policy discussions with the Government is still limited. However, it increases step by step. For instance, while CSOs were not mentioned in the Hanoi Core Statement (2005), they have been integrated by the Ministry of Planning and Investment into the localised version of the Accra Agenda for Action.

CSOs expressed appreciation for the Non-State Actors (NSA) programme, but also expressed hope for an increase of funds. The EU Delegation responded that although the amount dedicated to NGO intervention in Vietnam remains small compared with the overall ODA disbursed by the EU, it is increasing year after year.

4/ EU potential support to P135:

Programme 135 phase II being studied as a potential area of support, the Delegation asked NGOs for their opinion about the programme. Although participants think there is room for improvement, they all support P 135 as an effective tool to fight poverty in Vietnam. They expressed the wish that in a future version of P 135, Civil Society would be more actively supported by the programme.

(2) 10/02/2009

Following a consultation meeting with NGOs on 21 January 2009 about the checklist for the review of the CSP for Vietnam, the EU Delegation, together with two representatives from RELEX H and AIDCO D, conducted a second consultation with them on the review of the CSP during a one-hour-and-half meeting organised on the 10 February 2009.

The list of participants is attached.

Main issues discussed were the following:

1/ Poverty Reduction is an overarching objective of the CSP:

Participants re-confirmed the relevance of the CSP with a strong focus on poverty reduction.

The INSEE representative reiterated that the selection of budget support as an aid delivery mechanism is appropriate since the Government of Vietnam puts a high priority on poverty reduction in its development agenda.

2/ EC support to CSO and the role of CSO in development cooperation in Vietnam:

Participants appreciated a recommendation from the Head of the EU delegation in Hanoi on meeting with CSOs twice a year for consultation on different development issues. However, they raised a concern on lack of EU support to CSOs inside the Strategy. The EU Delegation responded that EU support to Vietnam consists of (i) bilateral cooperation, and (ii) different instruments and thematic programmes such as NGO co-financing, NSA/LA, EIDHR, etc. Direct financial support to NGOs (CSOs) is only made through Calls for Proposals. Furthermore, supporting CSOs has been mainstreamed in EU programming.

Several NGO representatives recommended that the Government should provide a space for CSO participation in development process. This space is not yet provided. The role of CSOs in the current SEDP as well as in its MTR report is still weak. If the EU chooses budget support as main aid delivery mechanism in Vietnam, it should ensure that the Government of Vietnam would involve bringing CSOs in its development agenda.

3/ Further comments on the CSP

Additional comments from NGOs on the CSP concerned the impact of the current global economic crisis on the CSP, and its flexibility for responding to the crisis. NGOs also called for the CSP to

include: (i) Social protection; (ii) migration; and (iii) and cross-border trafficking. The EC responded to the above as follows:

- It is very difficult for the EU to react and adjust to the challenges of financial crises as it takes the EU one to two years for any initiative/programme to be adopted and become operational. The EU has a long-term commitment, while financial crises are short-term and need quick reactions. However, some flexibility exists: for example, the EU was able to fund certain small activities benefiting returnees in the Central Highlands and to support a study tour on civil society.
- Social protection has been indeed mainstreamed in our programme as the Health sector support is EU's core business in the year to come.
- Concerning migration and trafficking, the EU signed a strategic dialogue project with IOM for addressing human trafficking in Vietnam and designing a migration profile in Vietnam. The EU also supports a regional programme with ASEAN in this area.

(3) 16/06/2009

CSO representatives also participated in the stakeholders meeting (Hanoi, 16 June), co-chaired by the EC Delegation and MPI, on the independent evaluation of EU assistance to Vietnam, and approved the orientations of the MIP 2011-2013.

While supporting the EU's engagement in government pro poor programmes such as P 135, they pointed to the need to increase the role and participation by civil society in such programmes. Particularly the role of civil society in monitoring government implemented projects/programmes such as the P135 should be legalized. NGOs are implementers at grass root level. There are good models consolidated from NGO projects such as Village and Commune Development Planning, Value Change, etc. The question is how these good models could be applied / replicated in big government development projects/programmes such as the P135.

ANNEX 6: ENVIRONMENTAL PROFILE

SECTION A – General environmental issues

(This section does not include issues specific to climate change, which are gathered under section B.)

The rapid changes in Vietnam in the last few decades in terms of rapid economic growth, industrialisation and continuing population growth have had an adverse impact on the natural environment. This, coupled with a weak institutional capacity to adequately address environmental issues, as well as limited technical infrastructure and financial resources allocated to environmental protection, has contributed to a wide range of environmental problems. Recently environmental issues have received increased recognition in Vietnam, but more efforts still need to be made to mainstream and integrate environmental protection into economic and development planning across all sectors.

2. State of the Environment⁷⁴

Vietnam is a developing country and among the most densely populated countries (245 persons/ km²) in the world, with an estimated population of 86 million (2008 est.), growing at an annual rate of 0.99 % (2008 est.). One quarter of the population lives in the urban areas, mainly along the coastal plains and deltas of the Red river in the North East, and the Mekong River in the South. The remainder of its population lives in rural areas and the livelihood of 70% of the rural population is based on the exploitation of natural resources.

The Government of Vietnam's **National Strategy for Environmental Protection (NSEP) until the year 2010 and Vision toward 2020** recognises that there is a rapid deterioration in environmental quality and natural resources. In the last five decades, Vietnam has witnessed significant destruction of its natural resources, including an increasing rate of deforestation, biodiversity loss, and rapid deterioration in environmental quality. High rates of rural under-employment, land shortages, and industrialisation, have contributed to migration to cities. Burgeoning urban populations are overwhelming municipal infrastructure and services and causing environmental problems such as unmanaged landfills, transport-related air pollution, untreated hospital and hazardous waste, and raw sewage flowing in open channels.

Land resources: Vietnam has a total land area of about 33 million hectares (mha), of which 25 mha comprises mountainous and hilly regions. Unfortunately, land degradation tends to become prevalent in the whole country and is typically seen in the forms of erosion, washing, loss of organic materials, drought, desertification, inundation, salinisation and acidification. Other causes of land degradation include urbanisation, insecure land tenure, poor logging practices, expansion of aquaculture into areas of acid sulphate prone soils, and acidification. About 50 percent of Vietnam's land area has been identified as having poor quality soils as a result of human activity. The overuse of agrochemical and pesticides and improper farming practices are causing pollution and degradation in numerous areas. In addition, some areas are contaminated with Agent Orange/dioxin as a consequence of the war. Land degradation has resulted in a large number of barren and uncultivable areas and increasingly desertified areas. Cultivated land per capita, therefore, has declined over the past decade.

Minerals, geology & geological risks: Mining and quarrying for ores, gems and construction materials is causing localised but significant habitat loss in the region. Quarrying of limestone for cement manufacture is a particular threat to limestone karsts. Recently, plans to authorise the

⁷⁴ Sources: (1) *Vietnam Environment Monitor 2002*, the World Bank & *Vietnam Environment Monitor 2004: Vietnam at a Glance*, the World Bank: 77; (2) *Vietnam: State of the Environment 2001*, the UNEP:

exploitation of very large bauxite mines in the Central Highlands has provoked a debate about the human and environmental impacts.

Forestry: For a poor mountainous and disaster prone country such as Vietnam, which is also highly dependent on irrigated-agriculture, forest cover has a specifically strong impact on sustainable development in terms of soil erosion, rainwater catchments, fuel and building material for local communities and job opportunities in forestry. Despite recent increases in forest area, closed canopy forests make up only 13 percent of total forest area, while poor and regenerating forests make up 55 percent of total forest area. Mangrove forests were once distributed widely but are now reduced by some 80%, as a result of fuelwood extraction and conversion to aquaculture. The total forest area is 12.3 million ha, with 10 million ha of natural forest and 2.2 million ha of plantations. The government planned to increase forest coverage from 33% to 38% in 2007 and to 43% in 2010; Whilst quantitative targets are likely to be achieved, the quality of the resulting forest cover, for example in terms of biodiversity, is less certain, as a large part of this new forest coverage might be plantations, as for example rubber.

Biodiversity: Vietnam is one of the world's 10 most biologically diverse countries containing about 10 percent of the world's species, even while covering less than one percent of the earth's surface. The high species diversity and endemism is under threat from habitat losses caused by population growth, legal and illegal logging, dam and road construction, and agricultural expansion. Demand both from within Vietnam and outside fuels a major wildlife trade.

National Protected Area System: To conserve biodiversity resources, the Government has adopted policies on the localisation of the typical ecosystems for protection purposes and development of special use forests. There are presently 126 protected areas, with 2 Ramsar sites, 4 Biosphere Reserves and 2 pilot marine protected areas, covering a total of 2,541,675 ha and accounting for 7.6% of the total land area. However, many of protected areas face a variety of constraints in terms of financial resources, personnel and capacity.

Water Resources: About two thirds of Vietnam's water resources originate outside the country, making Vietnam susceptible to water resources decisions made in upstream countries. Vietnam is ranked low in Southeast Asia's water availability per capita. Irrigation constitutes the largest part of the demand on water resources. In 2001 water consumption for agriculture was about three times higher than for other water uses⁷⁵. Most dams and reservoirs in Vietnam have been constructed for multiple purposes, including flood control, irrigation, hydropower, water supply and other flow management uses. Most are more than 20-30 years old. There are about 3600 reservoirs of various sizes. The storage of water in reservoirs may affect the availability of water downstream. In addition, sudden releases may cause flooding problems, river erosion downstream and other effects on the water ecosystem. Therefore, the operation of hydropower plants requires co-ordination with the needs for water by other sectors.

Trends in the country's nine river basins indicate good upstream water quality, while downstream sections are often polluted. Groundwater quality is showing some contamination. Water supply falls short of demand in urban and rural areas due to inadequate infrastructure and confusing jurisdictional responsibilities.

Marine and Coastal Natural Resources: Vietnam's rich and diverse 3,200 km long coastal and marine eco-systems are also under threat.⁷⁶ Over the last five decades, Vietnam has lost more than 80 percent of its mangrove forests with shrimp farming one of the leading causes for this destruction. It

⁷⁵ Vietnam Environment Monitor 2003, the World Bank:16

⁷⁶ Vietnam 2010: Entering the 21st Century. Partnerships for Development. Vietnam development report 2001, WB in partnership with ADB and UNDP

was estimated that the annual loss in terms of forgone benefits of mangrove functions (e.g., fishery, forestry, and erosion) could be in the range of 10-32 million USD per year⁷⁷.

While gross output from fisheries more than doubled from 1990 to 2001, the growth of the fishing fleet, combined with an increase in the size of vessels, led to a sharp decline in the catch per unit. Coastal fisheries' output has reached or surpassed sustainability limits.

Off-shore fishing is still within allowable levels.⁷⁸ About 96 percent of Vietnam's coral reefs are severely threatened by human activities, including destructive fishing methods, over-fishing, and pollution.

Rapid urbanization and industrialization in the interior, port and marine transport development, expansion in coastal tourism, and rise in oil spills contribute to the deterioration of coastal water quality.

Waste management: Insufficient **wastewater treatment** and **waste management** from both domestic and industrial sources are causing severe problems of water and air pollution. Wastewater and run-offs from urban areas, industrial centres, and agricultural land, pollute surface, ground, and coastal waters of Vietnam. Untreated sewage from households, effluents from industrial enterprises and seepage from garbage dumps or landfills are the main causes of organic pollution of surface water. Ninety percent of the enterprises established prior to 1995 have no wastewater treatment facilities, and use obsolete equipment. Most of the collected waste in Vietnam is disposed in dumps and open landfills, and there is no separate treatment for hazardous waste. A number of cities and towns are now introducing selective collection and treatment of urban waste, but this is far from being a generalised practice.

Air quality in nearly all urban and industrial areas is affected by particulates, lead and nitrous oxides, sulphur dioxide and carbon monoxide emitted by sources including vehicles, factories, power plants, and households. Fine particulates are an emerging problem in urban areas. Sulphur dioxide emissions near some factories occasionally exceed the standard by several fold. Lead levels at major traffic intersections in main cities are starting to decline following the government's decision to ban leaded gasoline.

Landscape & cultural values: At the regional level, major road networks are being created that link capital cities and major ports, such as the East-West Corridor linking the port of Da Nang in Vietnam with Bangkok, via southern Lao P.D.R. As well as causing direct loss and fragmentation of habitat, creating barriers to the dispersal of species such as gibbons, new roads open up previously inaccessible areas to settlement and habitat conversion. In addition, new roads strengthen economic links between remote rural areas and urban centres, facilitating the expansion of wildlife trade networks and placing increased pressure on plant and animal populations.

Influence of the War on the Environment⁷⁹: The Vietnam War involved an unprecedented assault on the environment. Vast quantities of bombs, cluster bomb units ("bomblets"), napalm, landmines, toxic chemicals, etc. have had lasting effects on soils, water systems, biological diversity, and perhaps even climate. Life forms at many levels of the evolutionary scale have been significantly affected, from primitive plants and animals to human beings. Nearly three decades later, many of the affected ecosystems have still not recovered. The long-term consequences include loss of habitat and

⁷⁷ The Quang Ninh and Hai Phong Coastal Region: *Options for Comprehensive Development*, Seminar on *Options for Comprehensive Development in the Quang Ninh and Hai Phong Coastal Region*, World Bank, 1999.

⁷⁸ Vietnam Environment Monitor 2003, the World Bank:17

⁷⁹ Long-term Consequences of the Vietnam War, Copyright ©2002 by Föreningen Levande Framtid; www.nnn.se/vietnam/environ.htm

biological diversity, severe and persistent problems of public health, enormous economic losses, and severe constraints on human development.

The affected populations have made some progress in restoring the environmental damage from the war. But much more remains to be done and available resources are very limited. It is an enormous task that will require substantial resources, long-term commitments and appropriate corrective measures.

3. Environmental Policy, Legislative and Institutional Framework

3.1. Environmental Policies and Legislation

In connection with the economic renovation, the Government of Vietnam has put in place a sound legal framework for environmental protection and natural resources conservation which include many laws, regulations, and directives. The environmental policies for the sustainable development of Vietnam were first systematically presented in the “*National Plan of Environmental Protection and Sustainable Development (1991-2000)*”. This plan recognises the urgency of the problem and set out programmes for action. Key policies and legislation regarding natural resource management and environmental protection include: *Law on Environment Protection (1994 and revised in 2005)*; *Biodiversity Action Plan (1995)*; *Five Million Hectares Reforestation Programme (1998)*⁸⁰; *National Strategy for Environmental Protection until 2010 and Vision toward 2020 and Oriented Strategy for Advancing Towards Sustainable Development (2003)*; *Vietnam’s National Action Programme to Combat Desertification*; *Management Strategy for a Protected Area System in Vietnam to 2010*; *National Action Plan on Re-enforcing the Control in Wild Animal and Plant Trade in the period 2001-2010*; *Party Resolution on “Environmental Protection in the period of Industrialisation and Modernisation Enhancement” (2005)*; *National Targeted Programme of Energy Conservation and Efficiency (2006)*; *National Targeted Programme to Respond to Climate Change (2008)*; and recently the National Assembly has ratified the *Law on Biodiversity Conservation* ratified which will be enforced from July 2009. *Law on Energy Conservation and Efficient* is under developed.

The country is making progress towards to MDGs targets, however much remains to be done to implement environmental laws, strategies and global conventions, and improve environmental governance, in order to ensure that fast economic growth will not lead to environmental degradation, greater health risks or rapid depletion of biodiversity and other natural resources.

3.2. Environmental Institutional Framework

Ministry of Natural Resource and Environment (MONRE) is Vietnam’s central environmental authority. It has an overall mandate for environmental strategy, legislation and policy formulation, environmental institution building, environmental impact assessment, environmental research, environmental quality standards, data collection and management. It also supervises and supports the provinces in environmental management and the implementation of national policy and regulations. **Vietnam Environmental Administration (VEA)** is an executive department for environment within MONRE. At the provincial level, **departments of Natural Resource and Environment (DONRE)** have been established in all 63 provinces. The environmental management divisions are part of DONRE offices. Given the Climate Change is high in the government agenda, a new department of Meteorology-Hydrology and Climate Change has been established in 2008 under MONRE.

Ministry of Agriculture and Rural Development (MARD) is responsible for the state management over activities relating to agriculture, forestry, water resources and rural development, terrestrial national parks and protected areas, including coastal wetlands.

⁸⁰ *Five Million Hectares Reforestation Programme* is a major management initiative to meet forest product needs in a sustainable manner, protecting the environment and increasing social and economic benefit.

Environment Police Agency: The Environment Police Agency under the Ministry of Public Security, initially consisting of 120 policemen, was officially introduced in Hanoi on 6 March 2007 to help improve environmental protection in the country. They will work with environmental inspectors to detect and monitor environmental violations. The Environmental Police Agency will develop its force in other provinces and cities.

Environmental expenditure⁸¹: About 5 percent of environmental ODA has targeted institutional strengthening including environmental policy co-ordination, environmental impact assessment (EIA), and increasing public awareness. In natural resource projects, focus areas have been watershed protection in upland forests, income generation in hill areas, and mangrove and inland marshes. A preliminary analysis indicates that core environmental expenditure hovers just under one percent of the total public spending (except for 2000). The state budget for environmental protection shall be used for the following purposes: (a) investment in the development of public environmental protection infrastructures; (b) regular expenditure for environmental governance which consists of appropriate rates for strengthening national capacity for environmental management integrated with capacity for implementation of MEAs; (c) as a co-finance for projects on strengthening capacity for global environmental management⁸².

Vietnam Environmental Fund was established in June 2002, with initial capital of 500 billion VND is financed under the State Budget and from different sources such as compensation from damages caused to the environment, fees for environmental protection (wastewater, gas emission, solid wastes, mineral exploitation), administrative fines for infringing environmental protection law and fees for selling/exchanging CERs. This fund also aims at providing investors in environmental projects low interest loans as well as subsidies and/or co-financing if they borrow from other official sources.

Vietnam's Environmental Monitoring System⁸³: The National Environmental Monitoring Network, managed by MONRE, was established at the end of 1994. By 2001, the Network had expanded to 20 stations, which carry out monitoring at 72 locations in 40 provinces, including environmental hotspots. The monitoring parameters are the basic quality parameters of air, water, land, coastal environment, solid waste, noise, acid deposition, radioactivity, and working environment. The monitoring frequency is six times a year. The Network also manages six automatic air monitoring stations that run 24 hours/day. The data obtained by the National Network are used effectively in compiling annual state of environment reports and also for environmental protection managerial activities.

Strategic Environmental Assessment (SEA): SEA is required to assist the government in the formulation of future development strategies. According to the revised Law on Environmental Protection, an SEA must be conducted for a number of overall plans and strategies in order to incorporate environmental considerations in the planning process.⁸⁴

There is a high interest in SEA in Vietnam. Several representative case studies were selected to evaluate the potential of SEA in Vietnam namely: (1) The Development of Mekong Delta; (2) the Protected Areas Network System in Vietnam; (3) the Tourism Sector in Vietnam; and (4) the Master Development Plan of Ha Long City; (5) Development Plan for Northern Coastal Economic zone; (6) Hydropower plan in Vu Gia-Thu Bon delta, Quang Nam province.

The Ministry of Planning and Investment (MPI) actively supports the incorporation of environmental considerations into higher levels of decision-making. However, influence of SEA on the government planning process is still quite modest.

⁸¹ Vietnam Environment Monitor 2002, the World Bank:36

⁸² Article 11 of the revised Law on Environmental Protection, 2005.

⁸³ Vietnam Environment Monitor 2002, the World Bank, box 9:37

⁸⁴ Article 14 of the revised Law on Environmental Protection, 2005

International Environmental Agreements: Vietnam is party to the following Multilateral Environmental Agreements (MEAs)⁸⁵: Conventions on Biodiversity Conservation, Climate Change, Endangered Species (CITES), Wetlands (RAMSAR), Control of Trans-boundary Movement of Hazardous Waste and Their disposal (Basel Convention), Ozone Layer Protection (Montréal Protocol), Prevention of Pollution from Ships (MARPOL), Law of the Sea (UNCLOS), Desertification, Stockholm Convention on Persistent Organic Pollutants (POPs conventions), and Kyoto Protocol and Clean Development Mechanism (CDM).

Implementation of Environmental Policies and Legislation in Vietnam: Over time, an institutional system of environmental protection together with a compatible legal framework has been established. Achievements in environmental management have, on one hand, helped reduce pollution, deterioration and other incidents and on the other hand, improved noticeably the quality of the environment.

However, despite the initial success, there remain a lot of unresolved issues and weaknesses in environmental management. All in all, there are **10 ministries and 15 committees**, and several local-level agencies, whose actions influence the environment. These ministries and agencies are highly segmented with limited co-operation between them. Some sectoral line ministries, such as the Ministry of Industry and Trade (MOIT) and Ministry of Construction (MOC), are strengthening their environmental planning capacity. However, there are significant functional overlaps, making co-ordination time consuming and resource intensive, and accountability difficult⁸⁶. The communication between the line ministries and the Vietnam Environmental Administration (VEA) is often weak. A preliminary staff review of the above mentioned ministries and departments indicates inadequate capacity and over-extended staff.

The effectiveness in the implementation of environmental policies, therefore, is not yet satisfactory. The governmental agencies involved in environmental issues need to strengthen their capacity both at central and local levels and to decentralise their functions. Effective communication and co-ordination within and between relevant departments and institutions should be encouraged. Furthermore public participation in decision making related to, for example, environmental impact assessments and planning should be enhanced.

4. European Commission and other international development assistance

In 2008 the EC support to Vietnam in the environmental field has been through bi-lateral projects: (1) “**Urban Environmental Planning Programme**” (2006-2009) and (2) “**Support for Forest Sector Development in Vietnam**” (2006-2010). While the “**Urban Environmental Planning Programme**”(2006-2009) has provided support to the medium sized cities in Vietnam in the area of urban environmental planning through a small grant programme which has resulted in a range of environmental planning improvement (i.e improve access to resident, better waste management and cleaner public areas) in those cities, the second project “**Support for Forest Sector Development in Vietnam**” provided valuable support in strengthening forest sector policy (i.e forest governance), management capacity of local authority (i.e. management boards of protected areas) as well as raising awareness of community and their participation in nature conservation and forest management. The EC also participates in the multi-donor support Poverty Reduction Support Credit (PRSC) led by the World Bank which addresses the four main pillars of the National Socio-economic Development Plan, namely Business Development, Social Inclusion, Natural Resources (including Land, Forest, Water and **Environment**), and Modern Governance.

FLEGT: Government of Vietnam has (GoV) expressed a strong commitment to address illegal logging and has recognised the need to develop appropriate licensing and a chain of custody

⁸⁵ Vietnam Environment Monitor 2004: Vietnam at a glance, the World Bank: 77

⁸⁶ Vietnam Environment Monitor 2002, the World Bank:31

arrangements for legally-harvested timber. However, due to the limited capacity of GoV to take this issue forward, there has been relatively little progress on licensing and on certification-based instruments for tackling illegal logging. The adoption of the “due diligence regulation” by the EU and the “Lacey Act” in the US, progress of Voluntary Partnership Agreements between the EC and partner countries elsewhere, and increased efforts by the EC and certain EUMS to help Vietnam to overcome problems related to illegal wood imports used in Vietnam’s large and still growing furniture industry have pushed (Forest Law Enforcement, Governance and Trade) FLEGT high on agenda governing EU-Vietnam relations. It is increasingly sensitive about the economic interests at stake and its image abroad and serious about investing in FLEGT. In November 2008 the EC and a number of interested EU MS (NL, FI, DE) and the Vietnamese Ministry of Agriculture, and Rural Development (MARD) agreed to establish a Technical Working Group (TWG) on Forest Law Enforcement Governance and Trade (FLEGT). This agreement followed on a number of bilateral exchanges between the EU and government held during 2008. The aim of FLEGT Technical Working Group (TWG) is to investigate the options available to Vietnam and the European Union to jointly combat the trade in illegally harvested timber and timber products, to facilitate a shift towards sustainable forest management and to promote trade in legal and sustainable timber products.

These bilateral initiatives are complemented by a number environmental related projects funded under the Asia-wide and thematic programmes. Interventions from these projects include capacity building for environmental management, strengthening dialogue on biodiversity policies and community driven sustainable natural resources management. By December 2007, under the EC’s horizontal programme, Asia Pro-Eco (2002-2007), ten projects with activities in Vietnam were approved to foster the adoption of policies, technologies, and practices that promote cleaner, more resource-efficient solution to environmental problems. In December 2007 the EC has launched a new environmental programme called “SWITCH – Asia programme” with objective to promote **sustainable production** (i.e. development of less polluting and more resource efficient (energy, water, raw materials) products, processes and services and **sustainable consumption** patterns and behaviour in the Asia region, through an improved understanding and strengthened cooperation between Europe and Asia, notably by mobilizing the private sector, i.e. SMEs, retailers, producer, financial institutions and consumer organisations, along with relevant public sector authorities.

Since November 2006 more than 10 projects funded in Vietnam under the EC’s DIPECHO programme for over €3 million. In addition, a series of actions have been undertaken through regional projects to support national frameworks and networking. These projects implemented by the DIPECHO’s partners, have focused on coastal and delta areas, as well as more recently on remote mountainous provinces.

Several EU Member States and other donors are actively supporting the environment, natural resources and climate change in Vietnam. In terms of institutional strengthening of VEA and of MONRE, UNDP, ADB, Sweden, Canada and Denmark are the lead donors and have provided significant support. So far, Denmark and UNDP are the lead donors in Climate Change together active support from ADB, Australia, Finland, JICA, Netherlands, Norway, UK/DFID, US & WB. Several EU Member States are supporting the forestry sector, including the Czech Republic, Denmark, Finland, Germany, Netherlands and Switzerland. In terms of biodiversity conservation, the Netherlands, Denmark and Sweden have provided considerable support. France, Germany, Sweden and Denmark have provided support to urban environmental planning and industrial pollution control. Several EU Member States are also providing support to coastal zone management and the fishery sector, including Denmark, Hungary, Spain⁸⁷. Others donors supporting the environment and natural resources sectors include, the United Nations Development Programme (UNDP), the World Bank (WB), the Asian Development Bank (ADB), several International NGOs (CARE, CIFOR, Oxfam, FFI, IUCN, SNV, WWF, etc.), and the Governments of Australia, Canada, Japan, Switzerland, USA, among others.

⁸⁷ EU Blue Book 2008

5. Recommendations

In terms of priorities, EC's assistance will be based on the Socio-economic Development Plans (2006-2010 & 2011-2015) and eight priority programmes identified in the **Vietnam National Strategy for Environmental Protection until 2010 and vision toward 2020**⁸⁸. One of the main principles for sustainable development in Vietnam is for the *“Protection and improvement of environment quality to be considered as inseparable factor from the development process”*.⁸⁹

Mainstreaming the environment into development and economic co-operation⁹⁰ can be done best in Vietnam when ensuring that environmental issues are discussed at an early stage of the government's plan. Each programme or project should be screened to determine whether it is necessary to carry out a Strategic Environmental Assessment (SEA)⁹¹ at sector level or for budget support or an EIA at project level. The pilot SEA for selected sectors which are conducted under PRSC will be further expanded and become the general rule, in addition to more specific requirements in the legislative and capacity-building fields.

Sector and budgetary supports have become major delivery mechanisms for the European Commission and for many other EU member States. However, inadequate attention has been paid to integrate environment and climate change factors in sector and budgetary support programmes. **Possible future EC support of this kind might include:** (1) ensure environment and climate change matters are included in policy dialogue and in public expenditure planning and review; (2) ensure all sector and budget support programmes funded by the EC screened in order to determine whether an SEA is needed and if this is the case, the integration of the findings of the SEA in the sector strategy will be ensured; (3) promoting energy efficient and non-polluting technology with provision of better energy services for the poor through the *“Thematic Programme on Environment and sustainable management of Natural Resources, including Energy”* (ENRTP), ENRTP and the SWITCH-Asia programme; (4) Promoting the EU Forest Law Enforcement on Governance and Trade (FLEGT) in Vietnam; and (5) regional integration and co-operation in river basin management, biodiversity conservation, and wildlife trade.

The Delegation has been provided with the **Environmental Integration Handbook** and a series of **“Responding to Climate Change: Sector script”**, which is a set of practical guidance on the links between climate change and a specific sector together with possible responses to climate-related challenges. These tools, among others, will be used to assist the Delegation to reach agreement with the government on the relevance and benefits of integrating environment and climate change issues in the identified priority sectors.

⁸⁸ The Vietnam National Strategy for Environmental Protection until 2010 and vision to 2020, Annex, 2003: 118. Priorities are: (1) Shutting down industries that seriously pollute the environment; (2) National hazardous waste treatment; (3) Medical waste treatment; (4) Remedy of environmental consequences caused by chemical warfare; (5) Basin Environmental Protection of three rivers CAE, Hue and Dong Nai; (6) Implementation of the Five Million Hectares Reforestation Programme; (7) Strengthening of the governance of environmental protection at central local and sectoral levels; and (8) Improvement and enforcement of the environmental legal system.

⁸⁹ Summary of the Vietnam Agenda 21, 2002:4.

⁹⁰ The EC Policy and approach to Mainstreaming the Environment, sheet 9

⁹¹ SEA is a systematic process for evaluating the environmental consequences of a proposed policy or programme in order to ensure that they are appropriately addressed at the earliest stage of decision making on a par with economic and social consideration.

SECTION B: Climate Change related issues

1. Vulnerability of the country to consequences of CC.

Due to its geographical location and topography Vietnam is prone to typhoons, floods and salinity intrusion. Typhoons hitting Vietnam on average five to six times per year raise sea levels and send storms surges up estuaries, inundating valuable croplands. These risks are likely to be increased with CC.

In addition, the long coastline of Vietnam, with densely populated low lying areas, makes the country also very exposed to the expected raise of the sea level.

According to Climate Change models, Vietnam is one of the most disaster-prone countries in the world. **Four indicators** provide an indication of Vietnam's current vulnerability to climate change: **temperature, access to fresh water, agriculture productivity and sea level rise**. The UN Human Development Report (2007) found that a two-degree temperature increase would result in global sea level rise by one meter.

A separate study by the WB placed Vietnam at the top of its list of 84 countries surveyed for the impact of sea level rise (SLR). The study calculated that 10.8% of Vietnam's population would be displaced with a one meter sea level rise, with disproportionately high impacts in the Mekong and Red River deltas. Sea level rise and saline intrusion would threaten not only Vietnam's food security but the food security of other states that are dependent on Vietnam exports. The study reveals that Vietnam ranks among the top ten countries that will feel the adverse impact of global climate change in **six major areas: land, population, GDP, urban extent, agriculture extent, and wetlands**. Vietnam ranks first on four of these indicators and second on the remaining two⁹².

2. Vietnam's contribution to greenhouse gas emissions

Vietnam's total GHG emissions are projected to double from net-emissions of 104 million Mt CO₂e in 1994 to about 233 million Mt CO₂e in 2020⁹³. Sectors which contributed the most to the total amount of carbon dioxide emission are agriculture (47%), energy (36%) and forestry (10%)⁹⁴.

With Vietnam becoming a middle income country, with growth remaining high in spite of the financial crisis slow-down, controlling the growth of emissions is increasingly a concern.

3. Policy and Strategy Framework on Climate Change in Vietnam

3.1 Timeline of Climate Change in Vietnam:

1992 – Signs and ratifies United Nations Framework Convention on Climate Change (UNFCCC)

1994 – Signs and ratifies Kyoto Protocol

2003 – Submits Vietnam Initial National Communication to UNFCCC

2004 – Draft National Strategy for Clean Development Mechanism (CDM)

2007 – Vietnam National Steering Committee for UNFCCC and Kyoto Protocol was established on 04 July 2007 chaired by a Vice Minister of MONRE. The Committee consists of 15 members from 14 related ministries and agencies.

⁹² S. Dasgupta et al., The input of Sea Level Rise on Developing Countries: A Comparative Analysis, Policy Working Paper No. 4136, page 44, The World Bank, Washington D.C, 2007.

⁹³ Vietnam has completed the National Green House Gas inventory for the year of 1990, 1993, 1994 & 1998.

⁹⁴ Vietnam Green House Gas Inventory, 1998.

2008 – National Targeted Programme in Responding to Climate Change (NTP) was approved by the government. National Steering Committee is chaired by the Prime Minister. Minister of MONRE is a Standing Vice Chairman of the Committee. Two other Vice Chairmans of the Committee are Ministers of MPI and MOF. A new department of Meteorology-Hydrology and Climate Change has been established in 2008 under MONRE.

2009 - The Standing Office for the implementation of the NTP to Response to Climate Change, under MONRE was established.

Next steps:

- Prepare the Vietnam Second National Communication to be submitted to UNFCCC, with support from UNEP/GEF.
- Climate Change's scenario predictions are being developed and followed by further impact assessment. Scenario predictions will include sea level rise, temperature and impact of climate change in order to build an action plan.
- Develop guidelines on financial management for the implementation of the NTP
- Each ministry and province prepares its own Action Plan to implement the NTP under its responsibility by 2010. MONRE is in the process of finalising the guidelines for preparation of the Action Plan for each ministry and province.
- The current SEDP (2005-2010) and consequently the MTR do not yet reflect issues on Climate Change. Integration of Climate Change issues should be considered in the design of the next SEDP (2011-2015).

3.2 The National Targeted Programme on Responding to Climate Change (NTP).

The NTP is designed to be in line with the Government 5-year Social Economic Development Plans and aims at capacity building in relevant government agencies and provinces. Each sector and province will have to develop its own action plan together with a clear time schedule and expected funding for the implementation of the NTP within its sector/area. Detailed mandate/responsibility for each sector/province will also be developed.

The NTP provides a good overview of the current situation and trends of climate change in Vietnam as well as of potential impacts in the vulnerable sectors/areas. The NTP identifies agriculture and energy as the sectors that contribute most to the GHGs emissions, followed by the forestry sector (i.e.. deforestation), while the sectors that will suffer most from climate changes are agriculture and food security, water resources, and public health.

The budget required for the NTP's implementation during the period of 2009-2015 is estimated at approximately **€ 87 million**⁹⁵ (110 million USD), 50% of which is expected to be funded by the state budget, while the remaining 50% by foreign capital (i.e. ODA, soft loan).

Main NTP's activities to be implemented during this period (2009 – 2015) are: assessment of climate change impacts; development of a scientific-technological program on climate change; capacity building (awareness raising, human resource development, strengthening of policy framework and institutional structure); enhancement of international cooperation; mainstreaming the NTP in the socio-economic development plans and in other sectoral/provincial development plans; identification of key measures as well as development of detailed action plans to respond to climate change.

The implementation of the NTP will be based on the existing government structures (i.e. ministries, provincial authorities), coordinated by MONRE, under the National Steering Committee chaired by the Prime Minister. However, it hasn't yet very clear how the operational structure of the NTP will

⁹⁵ The final budget was reduced from 2,374 billion VND (during the design phased) to 1,965 billion VND.

function. Capacity constraints (in terms of human, financial and technological resources) and weak coordination among line ministries are the main challenges. In November 2008, Government of Denmark has launched a **Fiduciary Risk Assessment's mission** to suggest opportunities to strengthen the financial management capacity of GoV partner agencies responsible for implementation the NTP. Key fiduciary risks and mitigation recommendations are presented in Annex to this note.

NTP will ensure that socio-economic development strategies and sector plans address climate change and it should ensure good coordination under the prime minister's leadership. NTP will also help raise awareness of climate change, which is still limited, strengthen knowledge of climate change. Knowledge of benefit and costs of adapting infrastructure to climate change, or of low-carbon technological innovation needed to be strengthened. There is an urgent need to mobilise Vietnam scientists to work on these issues⁹⁶.

3.3 Assessment of the NTP: strengths and weaknesses

The NTP provides a good overview of the current situation and trends of climate change in Vietnam as well as of potential impacts in the vulnerable sectors/areas. The NTP focuses on climate change adaptation but hardly covers climate change mitigation issues.

However, it is not yet very clear how the operational structure of the NTP will function. Capacity constraints (in terms of human, financial and technological resources) and weak coordination among line ministries are the main challenges. An M&E framework for the implementation of the NTP has not yet in place.

It is unclear what modalities can be used to fund the NTP other than sector budget support. A number of Development Partners in Vietnam request to set up structures for differentiating funding channels for NTP contributions, possibly using delegated cooperation. It is also not clear if budget of the NTP refers to additional resources to be provided to ministries and provinces and through which financing mechanism.

4. Support from Donors to Climate Change

4.1. Support from donors to NTP

Several donors, INGOs and the UN have placed priority on supporting the NTP with financial support and technical assistance. Draft matrix on Climate Change activities in Vietnam has been prepared with support from NGOs and the WB, and will be updated/ validated by government and donor community. So far, **Denmark and UNDP are the lead donors** in supporting the development and implementation of the NTP. Other active donors include ADB, WB, Australia, Finland, JICA, Netherlands, Norway, UK/DFID and USA. A number NGOs and Foundations (CARE, Oxfam, SNV, Rockefeller Foundation) have actively supported the development of the NTP.

DENMARK: 40 million USD was committed by the government of Denmark to support adaptation and mitigation efforts, of which 25 million USD will be used to support the NTP and 15 million USD will be used to support the government of Vietnam on energy efficiency (2009-2014); Capacity building for Climate Change focal point with budget of 502,776 USD (2006-2009); **Fiduciary risk assessment** mission of the Danish support programme to NTP (2008-2009)

JICA, together with **AFD** are considering a possible Development Policy Lending on Climate Change (Climate Change Programme Loan) that they are currently designing their support of 200-300 million USD to an "NTP plus". It would be a non-targeted, "PRSC alike" budget support related to policy actions in the field of Climate Change. The policy actions would be drawn mainly from the National Target Programme on CC, but not exclusively; considering the scope of the NTPCC too narrow, it

⁹⁶ From the interview of Mr. John Hendra, UN Resident Coordinator in Vietnam by Vietnam Investment Review, April 13-19, 2009.

would also draw from other Government policies related to climate change like for example the energy efficiency policy (MOIT) or MARD's strategy. JICA would provide loans of 150 million \$ the first year followed by 100 million per year the following years. The AFD did not specify the amounts from their side.

Main causes for the reluctance from other donors in supporting the implementation of the NTP until now include: unclear priority setting in the NTP and coordination mechanism between line ministries and between central and local levels; lack of financial management system and absence of sound medium-term planning and inadequate budgets for operation, management and recurrent expenditures⁹⁷; action plans for the implementation of NTP by line ministries and by provinces has not yet developed; unclear how the NTP's action plan will be integrated in the action plans of lined ministries and provinces. An M&E framework for the implementation of the NTP is not yet in place.

4.2. Support from donors to other climate change related actions

UNDP: Strengthening national capacities to respond to climate change in Vietnam, reducing vulnerability and controlling GHG emission, 4.66 million USD (2008-2012); Mainstreaming Climate Change into socio-economic development planning, 3.6 million USD (2008); Developing a proposal for financing under the One-UN fund (to do analytical work, strategies, coordination, etc.) to support to NTP. Estimated budget of this proposal is 2-3 million USD over 5 years. Sustainable Land and Forest Management: Review and formulate policies, policy instruments and procedures for reducing forest degradation through carbon financing: Improve the management of degraded forests to protect and enhance carbon stocks and reduce GHG emissions, 2.3 million USD (2009-2012); National framework on Reduce Emission from Deforestation and Forest Degradation (REDD), 1.2 million USD (2008-2009).

World Bank (WB): The WB has been involving in or financing analytical work in climate change in a number of sectors, about 15 different ongoing studies for some \$1.5 million/year. The WB's analytical work will increase over coming years when it becomes clearer where it can provide a benefit and what are the key issues that still need further attention. For the time being, the focus are focused on: economic cost/benefit analyses of selected sectors, social vulnerability, fisheries, impacts on urban areas, agriculture, climate finance, renewable energy, energy sector in general, urban drainage, and others. The on-going study on economics of climate change study is co-financed by the **Netherlands, United Kingdom and Switzerland (SDC)**. One of the key potential investment funds is the **Clean Technology Fund** which will be jointly implemented by the WB and ABD (concessional lending with minimum of USD 100 million on power generation, transport, energy efficiency). The government is encouraged to submit investment proposals to this Fund.

Asia Development Bank (ADB): Support Implementation of the National Energy Efficiency Programme, 1 million USD, (started in 2007); Strengthening Mitigation and Adaptation in Asia and the Pacific. ADB is developing energy efficient public transport systems in Hanoi, Ho Chi Minh City and other cities in Asia. (250 million USD). The Vietnam's component is implemented by Hanoi, HCMC PCs; ADB's Carbon Market Initiative (150 million USD).

International Fund for Agriculture Development (IFAD): Mitigating the Impact of Climate Change and Land Degradation through IFAD's COSOP for Vietnam, 56.5 million USD. The programme is under development.

⁹⁷ The Government of Vietnam is in the process to develop a joint circular between Ministry of Finance and MONRE which will provide guidelines on financial management for the implementation of the NTP.

NORWAY has provided initial supports on UN-REDD (est. 4 million USD for Vietnam), intends to support the government on Carbon Capture and Storage (CCS) and the NTP

The European Investment Bank (EIB) has signed an agreement with the Government of Vietnam for a loan of 100 million Euro, mainly devoted to Climate Change adaptation investments. The operation will focus on supporting a series of investments that contribute to climate change mitigation through the avoidance or reduction of emissions of greenhouse gases, or their sequestration, by the use of renewable energy sources and energy efficiency enhancements as well as afforestation or reforestation. The operation may also include climate change adaptation projects on a case by case basis. This would include the climate-proofing of infrastructure projects which would be supported on an incremental cost basis. In the latter case, the link with climate change will be clearly demonstrated (i.e. that the project is required as a result of climate change). The operation could also be used to part-finance projects that support EU presence in Vietnam. It is envisaged that at least 70% of the proposed operation would be allocated to projects that contribute to climate change mitigation.

5. Areas of support

5.1 Mitigation measures:

Energy (energy efficiency & conservation, renewable energy), forestry (plantation, restoration, conservation), agriculture (i.e. reducing GHG emissions by capturing methane from livestock waste, paddies fields), industry (cleaner production), carbon finance (CDM, REDD). **Potential donors:** WB, ADB, UNDP/UNEP, Denmark, Finland, JICA, Norway, IFAD, EIB and EC (through SWITCH Asia Programme).

5.2 Adaptation measures

Agriculture (crops, disaster preparedness & mitigation, construction (urban planning, irrigation,)), improve adaptive capacity and resilience to climate change of communities. Donors call for further strengthening of disaster risk reduction capacities at all level. “Climate proofing” of infrastructure investment is a priority, especially for coastal protection. **Potential donors:** WB, ADB, UNDP, JICA, Australia, Denmark, Finland, Netherlands and EC (through ECHO/DIPECHO)

6. Mainstreaming Climate Change in the EC – VN Development Cooperation (MIP 2011 – 2013)

The Delegation has been provided with “sector scripts” that highlight the possibilities and advantages of climate integration through accessible and pragmatic examples.

Mainstreaming CC into the different focal areas of EC support will mean the following:

6.1. Focal area 1 (Budget support)

- The Delegation, together with other donors, will ensure the implementation of the NTP on Climate Change (2011-2015) will be integrated within the next SEDP (2011-2015) through PRSC dialogues and P 135.
- Raising the policy profile of climate change, both during dialogue and also in cooperation with the EU MS, government and CSO.
- Support for adaptation options to cope with climate change impact (through inclusion in PRSC’s reform matrix; P 135; Health, NSA);
- Support for climate change’s mitigation (through inclusion in PRSC’s reform matrix related to forestry, agriculture, energy; SWITCH projects, EIB facility)

- Mainstreaming climate change adaptation and mitigation in the development planning process, that is, making it an integral part of sustainable development, poverty reduction and disaster risk management strategies.
- Strengthening policy frameworks, promoting low-carbon development option, providing incentives for private sector action, and significant flows of finance. Additional TA on capacity building, together with supports from other donors, might be necessary.
- During the development of the EC budget support, the EC will provide adequate flexibility, budget and time schedule for the identification and formulation phases to accommodate further environmental/climate change integration steps.

6.2. Focal area 2 (Health)

- Given the increasingly prominent impact of CC on people's health and the need to integrate CC in sector operations, a Health Sector Script is prepared to provide practical guidance on the links between CC and the health sector.
- The Delegation will continue to dialogue with the government, in strong collaboration with lead donor in climate change, on this growing important issue and will try to integrate as much as possible environmental aspect into its programming and implementation.
- Advocate the benefits and promote the use of Strategic Environmental Assessment (SEA) in the preparation of sectoral programmes (*page 5, Draft Staff Working document on improving environment integration in development cooperation, 25/03/2009*)⁹⁸

6.3. Trade Related Assistance

- Promotion of the EU's initiatives such as: FLEGT, REACH.

6.4. Regional programmes

- Promotion of regional cooperation dealing with trans-boundary issues including Clean Production and Consumption and Disaster Risk Reduction. (SWITCH – ECHO-DIPECHO)

7. Thematic programmes (NSA, Environment)

- More research is required to better understand climate change challenges and cost effective solutions at the local level and to fill knowledge gaps.
- Support NSA raise public awareness on climate change risks and the need for adaptation and mitigation solutions
- Building adaptive capacity at local community level to cope with climate change impact.

⁹⁸ SEA can help highlight areas where policies, programmes and major plans to be supported under CSPs may encounter environmental risks and constraints or conflicts, and identify the need or opportunities for alternatives or impact mitigation activities at a policy planning level. Due to its participatory nature the SEA process offers significant opportunities to raise the profile of environment in the political dialogue with partner government (page 3, iQSG Programme Guide for Environmental mainstreaming).

ANNEX 7: MIGRATION PROFILE

1. General assessment

With a population of over 85 million (2007), Vietnam is a country facing a clear set of population and socio-economic challenges. The majority of the population –some two thirds was born after the end of the American war in 1975- falls within the category of 15 to 39 years, in other words working age. The most pressing issue for these men and women is to find jobs, in a situation where there are over 1.6 million new entries into the workforce each year. Pressures for out-migration (see below section 2) are directly linked to this underlying population issue, as the national economy –despite expansion at high rate for the past ten years- is not able to accommodate all newcomers.

2. Labour migration

Currently, the most significant type of migration which Vietnam experiences is out-migration for reasons of (temporary) employment. As described above, many more people seek employment every year than the local labour market is able to absorb. One feature of Vietnam's strategy to address its labour over-supply is to maximise the deployment of labour migrants abroad. Already in the early 1980s, workers were deployed to the former USSR, Czechoslovakia and Eastern Germany. Over the years, as the Eastern European labour market continued to recruit Vietnamese workers, the Government of Viet Nam has signed bilateral agreements to provide workers countries including Bulgaria, Japan, Malaysia, Taiwan, Oman, Qatar, Russia, Slovakia and Saudi Arabia. By mid-2006, there were an estimated number of 400,000 (legal) Vietnamese workers in more than 40 different countries, with Malaysia, Taiwan, Korea and Japan as top destination countries.

Concerns which have arisen in recent years relating to the phenomenon of labour export are issues of exploitation, human rights and bonded labour. The government of Vietnam has licensed a number of brokers to act as middlemen between individual would-be migrants and overseas recruitment agencies. Since supply by far outweighs demand for labour migrants in destination countries, these agencies have in some cases resorted to charging exorbitant fees for their services. Workers are known to have been charged 165 million VND (approximately EUR 7,000) for the opportunity to work abroad. They will typically only be able to recover such a fee after one to two years in the country of work. Once overseas, there is often little protection or assistance for migrants who face difficulties.

3. Irregular migration to the EU

Labour migration often leads to irregular migration to the EU, including illegal entry to several EU Member States. Migrant workers are often induced to enter into heavy debt, in order to have the opportunity to work on an overseas labour scheme. Once indebted, they can find themselves stranded in the receiving country, only to find that the job promised failed to materialise, or had been grossly misrepresented. At this point, migrants fall easy prey to people smugglers and human traffickers. Faced with few choices, migrants can be persuaded to make a clandestine enter into some EU Member States, where they find themselves confined in cannabis factories paying off their debts. What had started out as legal overseas labour can often develop into people smuggling and even to human trafficking.

While Vietnamese irregular migration to the EU is not as great as some other nationalities, the incidence of Vietnamese organised crime is a serious problem in some EU MS, including the UK. Vietnam currently supplies the fourth highest foreign prisoner population in the UK, with approximately 70% of prisoners being detained for drug-related offences. Vietnamese control the hydroponic production of cannabis in England and Wales and associated violence is increasing.

An EU-Vietnam seminar on migration was held on 22 June 2009 to address issues such as irregular migration to the EU and readmission. The EU has proposed to the Vietnamese Ministry of Public Security to hold such consultations on a regular basis.

4. Migration for marriage

The number of arranged and brokered marriages between Vietnamese women and foreign men, particularly from the Republic of Korea and Taiwan, has grown rapidly in recent years. These arranged marriages usually occur after only one or two meetings organised by intermediaries, with the bride moving to her husband's country, with little knowledge of the local language, culture and customs. Such migration has led to increased vulnerability to exploitation, with the mass media in Vietnam reporting regularly on cases of forced labour and sex work. Vietnamese women who divorce their husbands and return to Vietnam face the additional problem of being technically stateless, as renunciation of Vietnamese citizenship is a prerequisite for marriage with a Korean national.

5. Human trafficking

Vietnam is a significant source country for trafficking in women and children. Reliable statistics are not available, but there is evidence that the numbers are growing. Women are trafficked for sexual exploitation primarily to Cambodia, Malaysia, China, Taiwan and South Korea, as well as to the United Kingdom, Eastern Europe and the United States. Women are also trafficked within the country, usually from rural to urban areas.

National policies have been developed to tackle the trafficking scourge, notably a national plan of action to combat trafficking (2004-2010). Specific guidance has been developed for government officers to deal with issues of return and reintegration of trafficked women and children. However, the effective implementation of government policies is hampered by inadequate resources as well as corruption (in view of the huge sums that can be made by police and government officials colluding in the trafficking business).

6. Kidnapping and trafficking in children for purposes of adoption

An issue of increasing concern is the problem of illegal adoptions. Viet Nam is a popular source country for adoptions, with a number of EU Member states and other industrialised countries having bilateral agreements with Viet Nam under which such adoptions take place. In recent years, however, both the USA and Sweden, amongst others, have cancelled their adoption treaties with Viet Nam in view of growing levels of corruption and exploitation involved. Typically, babies come from poor rural families who are forced to part with the child out of economic hardship. Middlemen and government-licensed brokerage agencies pay these families a few hundred US dollars, but make a huge profit from the fees adopting parents have to pay. There is also increasing evidence of organised "baby-farming". There have been documented cases in which small children and infants were kidnapped and sold for adoption to persons in Europe, North America or China.

ANNEX 8: GOVERNANCE PROFILE

1. General assessment

The Socialist Republic of Viet Nam is an authoritarian state ruled by the Communist Party of Viet Nam (CPV). The government, in power since the reunification of the country in 1975, claims historic legitimacy and does not tolerate any challenge to its power. Candidates standing for elections – for instance for the National Assembly- are vetted by the Viet Nam Fatherland Front (VFF), a body of the CPV and such elections are consequently neither free nor fair. No opposition groups are allowed. Enjoyment of international human rights, in particular civil and political rights, is subject to severe restrictions. In the past months, the regime has intensified control on the media and cracked down on some high-profile bloggers and journalists writing about corruption issues or calling for multi-party democracy in the country. On 20 January 2010, Le Cong Dinh, a prominent lawyer who had previously represented a number of human rights defenders, and three co-defendants, Tran Huynh Duy Thuc, Nguyen Tien Trung and Le Thang Long, were all given lengthy prison sentences following their conviction on charges of carrying out activities aimed at overthrowing the people's administration under Article 79 of the criminal code, which can carry the death penalty. The legal framework suffers from serious deficiencies, including badly drafted legal documents, a lack of capacity among staff, and a politicized judiciary.

2. Political actors

The Communist Party of Viet Nam (CPV) is the sole political party. No other institutional player rivals the CPV. The Constitution tasks it with “leading the state and society”. It is the institutional home of the Politburo, the day-to-day source of political power in Viet Nam. The CPV Party Congress meets every five years. The Congress elects the 160-member Central Committee, in which political power is formally vested. The Central Committee in turn elects the 14-member Politburo and the General-Secretary. The National Assembly (NA) is largely subject to the control of the CPV (90% of NA Deputies are CPV members). It meets twice a year for six weeks, largely with the task of approving draft laws set before it. During recent years, however, the NA has acted to strengthen its powers, notably through introducing public question and answer sessions with government ministers. The NA elects the President who in turn nominates the Prime-Minister.

3. Civil and political rights

The Constitution of Viet Nam enshrines the leading role of the CPV. The Constitution furthermore provides for citizens' enjoyment of civil and political rights. In reality, however, people cannot express opinions which openly run counter government and CPV policies (see below). The election of National Assembly Deputies held in May 2007 was neither free nor fair, since all candidates required prior approval by the Viet Nam Fatherland Front (VFF), an organ controlled by the CPV.

4. Freedoms of speech and press

The government restricts the freedoms of speech and press in respect of any language that criticises government leaders, promotes political pluralism or multiparty democracy, or questions policies on sensitive matters such as human rights, religious freedoms, or border disputes with China. The CPV, government and CPV-controlled mass organisations control all print, broadcast and electronic media. On 12 May 2008, police arrested reporters Nguyen Viet Chien of the daily newspaper Thanh Nien and

Nguyen Van Hai of the daily newspaper Tuoi Tre for "abusing democratic freedoms" in connection with their reporting on the PMU-18 case⁹⁹.

In Vietnam tight domestic censorship of print and electronic media remains in place across all regions. The Vietnamese authorities use tight controls to censor online news and information and to monitor internet use and access. In January 2009, new legislation made it illegal for bloggers to use pseudonyms and forced internet hosts to inform the authorities about their customers' activities and to report any blogs that appear to violate the law.

5. Freedom of assembly, freedom of association

The freedom of assembly is subject to limitations. Permits are necessary, which local authorities can issue or deny arbitrarily. The government severely restricts the freedom of association. Opposition political parties are neither permitted nor tolerated. Members of *Bloc 8406*, a political activist group that calls for the creation of a multiparty state, face harassment and imprisonment.

6. Freedom of religion

Improvements have been made in recent years in overall respect for religious freedoms. At the same time religious groups encounter the greatest restrictions when they engage in activities that the government perceives as political activism or a challenge to its rule. The government restricts the activities of the unrecognised Unified Buddhist Church of Viet Nam (UBCV). It is often difficult to distinguish between religious freedom and land rights issues, which are often contentious. A severe crackdown on the Roman-Catholic community in the country took place in late 2008, when the government decided to confiscate two plots of land - one of them the residence of the former papal nuntius to Viet Nam - the ownership of which was being discussed between the government and the church.

7. Corruption

Corruption is a major problem pervading all sectors of society. The Vietnamese government has made some progress in developing a framework for tackling corruption by agreeing a National Anti-Corruption Strategy in May 2009 and ratifying the UN Convention Against Corruption in August 2009. However, there is no effective measure of implementation and government efforts tend to focus on prevention and enforcement, rather than tackling the root cause of weak accountability. Protection of whistleblowers, in particular, needs to be guaranteed. This includes journalists reporting on state corruption.

Petty corruption is an issue with which ordinary Vietnamese citizens are confronted on an almost daily basis. The "give and take mechanism", deeply rooted in Vietnamese culture, means that citizens have to make routine under-the-table payments for public services (e.g. in hospitals). Traffic police are notorious for extorting bribes. The most lucrative jobs in the government bureaucracy are positions which deal with approving land-use certificates or private investment projects. An anti-corruption law was adopted in 2005, but implementation remains flawed.

8. The rule of law

Viet Nam's legal system is complicated, with currently some 200 laws, 100 ordinances and 10,000 by-laws in place. Implementing decrees sometimes contradict laws or make them impossible to apply. Some of the decrees contradict provisions stipulated in the law. Furthermore, human rights and

⁹⁹ Following international protests, Nguyen Van Hai was released by the government during the 2009 "Tet" amnesty.

freedoms enshrined in the Constitution of Viet Nam cannot be directly claimed by citizens through adequate legal channels and jurisdictions do not rule on breaches of constitutional rights. The courts and judicial system suffer from political influence, corruption and overall inefficiency. The CPV exerts direct influence on the appointment of judges and - in some cases, notably those relating to political dissidents and high-level corruption cases - determines the verdict.

9. Public administration reform

Recruitment in the civil service generally does not take place on the basis of transparent and merit-based principles. Viet Nam's bureaucracy is over-bloated, despite a recent reduction in the number of Ministries from 22 to 18. Officials are appointed for life and, with minor exceptions, cannot be dismissed (*e.g.* for incompetence). Salaries and morale are low, terms of reference are lacking and performance is not routinely assessed. The government's public administration reform (PAR) master-plan (2001-2010), which was enacted to tackle these and other challenges, has not been rigorously implemented.

ANNEX 9: REPORT ON BUDGET SUPPORT

1. EC budget support to Vietnam -Overview

The EC currently provides Vietnam with general budget support (GBS) to reinforce the country's socio-economic development plan as well as sector budget support (SBS) in the field of Education. Preparations are also underway for extending sector budget support to the Health sector and for focused poverty reduction actions.

1.1 The Poverty Reduction Strategy Support Credit (PRSC):

PRSC is a comprehensive tool to support the implementation of the Vietnamese socio-economic development plan (SEDP). While PRSC 1 to 5 supported the first SEDP (2001-2005), the current cycle of PRSC operations, PRSC 6 to 10, support SEDP 2006-2010. It is a joint-donor tool, with which all participating donors are aligned in accordance with the principles of donor harmonization as set in the Paris Declaration and the Accra Agenda for Action. By working together and having a single policy platform for dialogue, donors not only reduce transaction costs for the government, but also effectively strengthen their collective voice in policy dialogue. In a country such as Vietnam, where ODA represents a relatively small proportion of the overall budget, the importance of a unified voice among donors in policy dialogue cannot be ignored.

Through its participation in the PRSC process, the EC enhances its ability to help shape the policy agenda in Vietnam. Each year a policy matrix is outlined which serves as a starting point for the annual policy dialogue. The matrix contains a wide range of potential "policy actions" corresponding to the 4 "pillars" of the SEDP. The "policy actions" are the focus of joint discussion between all development partners and the government. A dozen of the policy actions, so-called "triggers", are subsequently chosen in order to assess government progress in implementing the reform agenda over a period of time. The triggers are defined and agreed annually with the government in May (Year n) and assessed jointly by all donors in the following May (Year n+1). From July to April, donors and public bodies (e.g. State Bank of Vietnam and line ministries) meet on a regular basis to discuss progress, which in turn helps to ensure that GBS is effective and in accordance with the Paris Declaration.

It is widely acknowledged that reforms introduced under the first five years of PRSC led to real progress in the areas of poverty reduction, social sectors and economic growth. Under the new PRSC cycle (started in 2006), results can be measured against the specific development objectives spelled out in the SEDP. They address the Millennium Development Goals and are further developed in the SEDP 2006-2010 monitoring and evaluation framework. This framework, adopted by Government in May 2007, contains key objectives in areas including education, public financial management, trade and environment. It relies on "chains" of indicators, linking government policies with development targets. A comprehensive assessment of progress will be undertaken twice: a first time jointly in 2009 and a second time in 2011. For details on results achieved, please refer to section 4.

Table 1: overview of EC participation in PRSC

PRSC	Amount of the EC financing agreement	Total amount of the PRSC (loans & grant)	EC contribution for “Budget support “	Mode of EC intervention
3	20 000 000	\$215 200 000	EUR 15 000 000 \$18,854,514	Single trust fund WB (fee: 2%)
4	8 000 000	\$180 000 000	EUR 7 900 000 US\$10,349,505	Single trust fund WB (fee: 2%)
5	10 000 000	\$213 000 000	EUR 8 900 000 \$12,342,502	Single trust fund WB (fee: 2%)
6	20 000 000	\$334 000 000	19 800 000	Single trust fund WB (fee: 2%)
7	44 000 000	\$380 000 000	13 000 000	Direct BS
8	n/a	TBC	13 000 000	Direct BS
9	n/a	TBC	17 000 000	Direct BS
Total	102 000 000	TBC	94 600 000	

1.2 The Education National Target Programme (E-NTP):

Through the Targeted Budget Support to the education sector, the EC has been assisting the Government of Vietnam to improve education service delivery. According to the independent evaluation of the EC’s cooperation with Vietnam carried out in 2009, the impact of sector budget support in this field was not as successful as expected. There were some positive contributions, such as an increase in GoV funds for the primary education sub-sector and an improved harmonisation of donor assistance with GoV aims and objectives. However, it can not be clear how much of the improvement can be attributed to the National Targeted Programme that was supported. Basic organisational and managerial issues remain to be addressed in the MoET and in its relations with provincial departments. Moreover, different stakeholder groups hamper any attempts to improve sector-wide capacity for policy making, priority setting, and resource allocation. The report concluded with recommendations that SBS should, where possible, aim for a truly sector wide approach rather than supporting national target programmes alone.

1.3 The Health Sector Policy Support Programme (HSPSP):

Provided that the necessary eligibility conditions are met for sector budget support, EC assistance to the health sector will focus on providing support to the viable sector programme, namely Vietnam’s 2011-2015 Health Sector Plan. This plan will be adopted in December 2010, as per Roadmap included in the Statement of Intent (ref. section 2.a below on the evolution of health sector strategy).

1.4 Focused Poverty reduction actions:

The Commission is already participating, as an active observer, in the partnership meetings on programme 135, the main government programme to address poverty in mountainous and ethnic minority areas. At present, a group of donors is providing targeted budget support through this mechanism. Following the recommendations of the independent evaluation of EC's cooperation with Vietnam, the Commission intends to join this donor group from 2010 onwards.

2. Evolution of budget support in term of eligibility criteria

2.a “Existence of a well-defined national/sectoral policy and strategy:

The SEDP: Vietnam development strategy is set in “Socio-Economic Development Plans”.

The SEDP 2006-2010 articulates Vietnam's national strategy to “boost the economic growth rate, achieve rapid and sustainable development and quickly bring the country out of the low development state”. Approved in June 2006, it outlines policy measures deemed necessary for Vietnam to advance to middle-income status by 2010 and sets major economic, social and environment targets. In 2007, donors jointly produced the Vietnam Development Report, commonly known as “Aiming High”, in which the SEDP was assessed as being comprehensive results-focused government-owned Poverty Reduction Strategy. Subsequently, all European Union Member States and other donors in Vietnam aligned their development assistance programmes with the SEDP.

In 2009 Vietnam reached a significant milestone by attaining middle income country status. Vietnam's new objective is to become an industrialised country by 2020. In this respect, the Ministry of Planning and Investment (MPI) has been tasked by the Prime Minister to develop the new medium-term strategy and its first 5-year implementation plan (SEDP 2011-2015). The consultation process for SEDP 2011-2015 is already underway, which will feed into the drafting of the new strategy during the second semester of 2009 and the first half of 2010. The final document is planned to be presented to the National Assembly in May 2011. Donors will be consulted on a first draft of the new SEDP in the autumn of 2009 and on advanced drafts of SEDP throughout 2010. During current and ongoing policy dialogue, government representatives have given firm indications that the new SEDP will continue to build on the reforms pursued in the SEDP 2006-2010, while also responding to new challenges. It will continue to have a strong focus on Poverty Reduction through economic development and enhanced social programmes, as well as address Climate Change issues. It will therefore be in line with global EC development policy strategic objectives and priorities.

The education strategy: The drafting process for the Education Development Strategic Plan (EDSP) 2009 – 2020 started in July 2007 in response to rapid economic growth and emerging issues of the sector. Based on the preliminary evaluation of EDSP 2001-2010, MOET proposed several strategic solutions with the focus on quality management improvement, institutionalization autonomy empowerment, and administration reform efficiency.

In view of the ongoing public debate created by the consultation process, MOET has been trying to revise the contents and finalize costing of the strategy. At present, the 15th version is being modified in compliance with the 2011-2015 SEDP orientation as guided by the Politburo. As the result of this change, the development process will be divided into 2 phases: 2009-2010 and 2011-2015 with the vision up to 2020. In order to comply with the upcoming SEDP, a Task Force has been established under the guidance of the Minister, which will review and create the links between education and development objectives/goals. The structure of cost-sharing and financial management is under discussion, which may need more time for adjustment and approval.

The health strategy: A Statement of Intent on improving aid effectiveness in the health sector was approved in March 2009 by the Ministry of Health (MoH) and the donor community, providing a roadmap with 10 milestones, including a costed 5-year National Health Plan 2011-2015.

2.b “A stability-oriented macroeconomic policy framework”:

Over the course of the past decade, Vietnam has enjoyed a sustained period of economic growth, and has seen ensuing improvements in social indicators. Between 1999 and 2007 Real GDP growth averaged at 7.2% per annum, surpassing 8 percent per annum between 2005 and 2007. Vietnam achieved MIC status in 2009 and poverty has been steadily declining, falling from 58.1% in 1993 to 28.9% in 2002 and 16% in 2006. According to the last household survey, most social indicators recorded large gains. Five of the ten main Millennium Development Goal targets set for 2015 have already been attained (poverty reduction, reducing the proportion of people suffering from hunger, reducing gender gaps in primary and secondary education and fewer malaria cases), and another four could be reached ahead of time. Nevertheless, major challenges remain, particularly in the area of water and sanitation.

Following this extended period of economic stability and sustained growth the Vietnamese economy is now facing significant challenges, mainly linked to the global economic slowdown. In 2008 alone, Vietnam experienced two economic crises in succession and witnessed proactive government responses aimed at ensuring macroeconomic and financial stability at both extremes of the economic spectrum. During the first half of the year, the reacted to a rapidly overheating economy overheating and soaring inflation by tightening monetary policy and applying fiscal restraints. Their efforts contributed to a stabilization of the economy and a reduction in the trade deficit. From June 2008 onwards, Vietnam began to feel the adverse effects of the global financial crisis and the subsequent worldwide economic slowdown. Although the banking sector was not directly affected, the economy began to feel the adverse effects of a withdrawal of foreign investor capital and a fall in demand for Vietnamese exports, which were compounded by the GoV’s ongoing anti-inflationary monetary and fiscal policies. In response, the GoV reversed course from containing inflation to supporting economic growth by easing monetary policy, increasing exchange rate flexibility and, in line with policy responses elsewhere, launching a large fiscal stimulus package in late 2008 to support domestic demand.

Overall, Vietnam has managed to stay relatively unscathed from the effects of the global downturn and the economy is still growing, despite the regression in export growth, and the clear decline in FDI, remittances, and tourist visitors to Vietnam. The near term outlook for the country will depend on the size and duration of the global recession and the policy responses of the government. Nevertheless, the latest IMF Article IV Report confirmed that the medium-term outlook is much more favourable. Vietnam is still an attractive destination for foreign investors and capital inflows are fully expected to pick up as investor confidence returns, although it remains to be seen whether Vietnam will enjoy the same level of FDI inflow in the coming years.

2.c “A credible and relevant programme to improve Public Finance Management (PFM)”

Several diagnostic studies, such as the EC Diagnostic study (2004), the World Bank Public Expenditure Review-Integrated Fiduciary Assessment (2005) and the report of the Country Financial Accountability Assessment (2008) have confirmed that Vietnamese PFM systems are satisfactory for GBS. The CFAA assesses that the risk to funds managed through the Vietnamese public financial management systems is moderate. Financial risks arise mainly from weaknesses in reform implementation and compliance gaps with the legal framework. The government has given only a guarded commitment to investigating a limited application of the Public Expenditure and Financial Accountability (PEFA) framework.

The budgeting system lacks sufficient transparency and relatively little information is published in the state budget. Indeed, the state budget is still not presented in a way that would enable a comprehensive understanding of budget allocation per sector, nor of regional allocation (expenditure per province). There is very little information published at provincial level and financial reporting is weak. In this respect, both the SSD and the CFAA call for further revision of State Budget Law to improve the

budget structure and coverage in line with international norms. Efforts to revise the law are currently ongoing.

A more robust control environment with increased transparency and greater accountability for the efficient and effective use of public resources is gradually being created. Historically, the Government has taken a comprehensive but fragmented approach to PFM reform. The GoV took steps to address this fragmentation with the elaboration of a PFM ‘Single Strategy Document’ approved early 2008. It constitutes a single reform strategy intended to make monitoring easier and donor support even more effective. It covers activities until 2010 and concentrates on seven prioritized reforms (budget management, budget revenue management, debt management, financial market supervision and bond market development, corporate finance management, public assets management and price control). A steering committee for financial reform supports the Government to implement the single document. The PFM partnership group meet on a regular basis to follow progress of the reforms. The Single Strategy Document constitutes a credible and relevant programme to improve PFM and the EC fully supports its implementation through its 1 million EUR participation in a multi-donor trust fund financing capacity building activities for all agencies involved.

3. What does the EC achieve with budget support in terms of policy dialogue?

3.a – Policy dialogue within PRSC:

The EC is a very active player in policy dialogue. In order to enhance the EU’s voice as well as enhance effective participation in dialogue, the EC, together with MS decided to apply a division of labor and shared responsibility across areas of the PRSC. In this respect, the EC took the lead for policy dialogue on global integration issues, health and education while member states took the lead in other policy areas. The EC is also an active player in the areas of Public Financial Management and Legal reforms.

Examples of key achievement of EC participation to the policy dialogue are:

- **Health**: For PRSC 7 donors, under the leadership of the EC, proposed a trigger related to health insurance, which stated that the GoV “*Submit health insurance law which better pools risks and allows improved incentives in payment to service providers.*” The Law was submitted in May 2008 and adopted by the National Assembly in November 2008. The Law identifies a clear road-map towards universal coverage of compulsory health insurance for all; defines benefit packages; and clarifies the role of a specialized health insurance agency as a whole-sale purchaser for all types of health insurance cards. The Law also (i) confirms government's commitment to supporting the poor and those living on the poverty line, as well as vulnerable and marginalised groups, including children, farmers, ethnic minorities, etc.; and (ii) lays the foundation for more equitable reimbursement methods (e.g. diagnosis-related disease payment, capitation payment). Expected results of the Law, which came into effect on 1st July 2009, include the provision of better quality services and better risk pooling to protect the poor, those on the poverty line and vulnerable groups.

- **Public Financial Management**: Since internal audit is a major area for PFM reforms, the EC and EU LMDG donors advocated a trigger on internal audit legislation under PRSC 9. The State Audit Commission (SAV) of Vietnam subsequently accepted it as a trigger. In this context, the EC is currently engaged in discussions with SAV and other donors in order to identify how best the donor community can support SAV develop and implement internal audit legislation.

3.b – Policy dialogue within the SPSP Education:

With the support of the Education Sector Group (ESG) - the official forum for harmonisation in the education sector (EC was the co-chair until July 2008), the EC has been actively supporting the MoET in the development of the new Education Strategic Plan 2008 -2020, which is the trigger for education under PRSC 8.

Moreover, the EC has been appointed as the focal point for education for the EU/LMDG donor group for the PRSC dialogue on education.

Together with other donors (WB, DFID, Belgium, CIDA), the EC worked as a key player to assist the Government of Vietnam to review, select, implement, and evaluate the existing and new triggers including EMIS Roadmap, E-NTP programmes, Full Day Schooling, Higher Education etc... to support disadvantaged regions and ethnic minorities.

4. What results are achieved thanks to the EC budget support?

Progress towards the overall objectives outlined in the SEDP is assessed through the general monitoring and evaluation system of the GoV as well as through the joint donor mechanism of the PRSC process evaluation. In this context, relevant information is gathered through:

- Annual reports on the progress of the SEDP, provided by the Government to the National Assembly and to donors.
- The annual outcome matrix of the PRSC and the mid-term review of the PRSC.
- Sector reviews: Health (JAHR), Education (annual review)
- The monitoring and evaluation framework (June 2007) and the Mid-Term Review (MTR) of the SEDP (May 2009).

EU LMDG donors conducted an in-depth analysis of the government SEDP mid-term review in order to identify areas of progress and challenges. They shared their views with the government in a letter sent to the ministry of Planning and Investment on May, 29 June.

The WB and donors are also conducting the mid-term review of the PRSC. At this stage the review is not entirely finalised as data from the 2008 Vietnamese Households survey is not available yet. Preliminary results indicated that out of 39 indicators (out of 51) which could be measured, 29 demonstrate good progress and 7 already attained targets.

Table 2: Sample of progress monitoring towards development outcomes

Indicator/ area	Definition	Baseline (year)	Most recent (year)	Target (2011)
Poor communes with basic infrastructure	Fraction of 1,700 poorest communes in Program 135-2 with schools, clinics and electricity	- Schools: 86% - Clinics: 82% - Electricity: 67%	- Schools: 80% - Clinics 98%: - Electricity 85%	- Schools: 100% - Clinics : 100% - Electricity: 80%
Poverty among the population at large	Proportion of people below the new Vietnam poverty line	20% (2004)	16% (2006) - Waiting for VHLSS 2008	10%
Poverty among ethnic minorities	Proportion of ethnic minorities below the new Vietnam poverty line	61% (2004)	52% (2006) - Waiting for VHLSS 2008	40%
People living in urban slums	Fraction of the population living in houses not meeting government standards	25%	Waiting for VHLSS 2008	10%
Population with access to improved or clean water	Includes urban and rural population. Includes all improved water sources excluding all hand dug wells	- Urban: 82% - Rural: 48% (2004)	- Urban: 83% - Rural: 52% (2006)	- Urban: 95% - Rural: 75%
Public debt and public guarantees	Ratio of public debt to GDP, inclusive of publicly guaranteed debt at all levels of government	43.5% (2006)	44% (2008)	Below 55%
Children with disabilities attending school	Proportion of children with a functional disability attending primary or secondary	56.5% (2006)	63.1% (2007-8 school year)	65% by 2015, 70% by 2020.

	school			
• Child malnutrition rate	• Proportion of children stunted (low height for age) or underweight (low weight for age).	• Stunting: 29% • Underweight: 25% • (2005)	• Stunting 32.6% (new metric) • Underweight 19.9% • (2008)	• Stunting: Below 25% • Underweight: Below 20%
• Population with hygienic sanitation.	• Population with access to properly designed and installed sanitation.	• 32% • (2004)	• 38% • (2006) •	• 75%

Source: PRSC Programme Appraisal Document, June 8, 2009

4. Recommendations from the evaluation of the European Commission's co-operation with Vietnam:

In June 2009 an independent evaluation of the European Commission's cooperation with Vietnam concluded that the EC's overall strategy had a positive impact on Vietnam and was relevant to the country's needs. The cooperation programme was assessed to have been effective in having a significant poverty-reduction impact, and in moving towards joint approaches and aligning with the aid effectiveness agenda, efficiency had improved. The programme was furthermore judged to be coherent with the EC strategic priorities and as having added value in support for civil society development, governance and coordination.

The report concluded that the move towards greater budget support had been successful overall and that the quality and professionalism of GBS is still improving. Furthermore, the report recognised that budget support has permitted the EC to engage effectively with policy dialogue and had provided a setting for helping the government to improve public financial management. The use of GBS has brought to light the need to enhance EC Delegation staff skill sets in order to negotiate complicated policy issues in multi-stakeholder groups. Aware of a lack of independent monitoring outside the international community, the report also recommended that the EC support civil society, academic institutions in particular, to become involved in the monitoring process.

A number of issues with respect to sector budget support were raised in the evaluation. In addition to a need for further enhancement of financial management capacity and a clearly articulated government-owned sector strategies, one of the main issues in Vietnam is that most central ministries are fully responsible for only a minor part of sector budgets, including National Target programmes (NTPs). Consequently, sectoral budget support to NTPs had on occasion fallen short of truly influencing sector wide coordination and policy making. Nevertheless, important lessons had been drawn from the SBS experience, and it had proved to strengthen national systems in ways that traditional projects can not.