

**The Comprehensive Poverty Reduction  
and Growth Strategy in Vietnam**

Process, Donor Contribution, and Prospects for  
its Implementation

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## Abbreviations

AAV	Action Aid Vietnam
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
APEC	Asia Pacific Economic Co-operation
ASEAN	Association of Southeast Asian Nations
AusAID	Australian Agency for International Development
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Co-operation and Development)
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CEMMA	Committee on Ethnic Minorities and Mountainous Areas
CG	Consultative Group
CIDA	Canadian International Development Agency
CIEM	Central Institute for Economic Management
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CRS	Catholic Relief Services
CSOs	Civil Society Organisations
DAC	OECD Development Assistance Committee
DANIDA	Danish International Development Assistance
DELISA	(Provincial) Department of Labour, Invalids and Social Affairs
DFID	United Kingdom Department for International Development
DPI	(Provincial) Department of Planning and Investment
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
EVN	Electricity of Vietnam
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
GCOP	Government Committee on Organisation and Personnel
GDP	Gross Domestic Product
GIS	Geographic Information Systems
GoV	Government of Vietnam
GSO	General Statistics Office
GSOP	Government Committee on Organisation and Personnel
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit

HEPR	Hunger Eradication and Poverty Reduction
HIPC	Highly Indebted Poor Countries
IDA	International Development Association
IDTs	International Development Targets
IMF	International Monetary Fund
INGO	International Non-governmental Organisation
I-PRSP	Interim Poverty Reduction Strategy Paper
JBIC	Japan Bank for International Co-operation
JICA	Japan International Co-operation Agency
MARD	Ministry of Agriculture and Rural Development
MDGs	Millennium Development Goals
MOC	Ministry of Construction
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MOH	Ministry of Health
MOI	Ministry of Industry
MOJ	Ministry of Justice
MOLISA	Ministry of Labour, Invalids and Social Affairs
MOSTE	Ministry of Science, Technology and Environment
MOT	Ministry of Trade
MPI	Ministry of Planning and Investment
MRDP	Vietnam-Sweden Mountain Rural Development Programme
NCFAW	National Committee for the Advancement of Women
NGO	Non-governmental Organisation
NSEP	National Strategy for Environmental Protection
ODA	Official Development Assistance
ODAP	Ho Chi Minh City Official Development Assistance Partnership
OECD	Organisation for Economic Co-operation and Development
OGB	Oxfam Great Britain
OHK	Oxfam Hong Kong
PA	Poverty Assessment
PAS	Poverty Alleviation Strategy
PG	Partnership Group
PIP	Public Investment Programme

PPA	Participatory Poverty Assessment
PRA	Participatory Rural Appraisal
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PTF	Poverty Task Force
PWG	Poverty Working Group
SAC	Structural Adjustment Credit
SBV	State Bank of Vietnam
SC GB	Save the Children Great Britain
SIDA	Swedish International Development Co-operation Agency
SMEs	Small and Medium Enterprises
SOEs	State-owned Enterprises
SWAp	Sector-Wide Approach
UN	United Nations
UNDP	United Nations Development Programme
VCCI	Vietnam Chamber of Commerce and Industry
VDGs	Vietnam Development Goals
VLSS	Vietnam Living Standard Survey
VND	Vietnam Dong
WTO	World Trade Organisation



## Summary

Vietnam is one of about 70 countries to develop a PRSP (Poverty Reduction Strategy Paper) since 1999, when this new instrument was introduced; and it was one of 12 countries that had completed a 'full' or 'comprehensive' PRSP by mid-2002. Vietnam had prepared an Interim-PRSP (I-PRSP) in early 2001 to gain access to the concessional lending facilities of the World Bank (Poverty Reduction Strategy Credits, PRSC) and the IMF (Poverty Reduction and Growth Facility, PRGF). As Vietnam is neither a HIPC-country nor has it been facing a severe balance-of-payments gap, it was not a typical candidate for a PRSP. It has shown an impressive record of poverty reduction and a high degree of macroeconomic stability in the 1990s. Thus, it can be regarded as a good example for the new approach to support for poverty reduction, with the own strategy of the country as the basis for concerted donor support – as opposed to the old-style adjustment lending based on donor conditionality.

This study analyses the PRSP approach of Vietnam and attempts to answer the question whether the PRSP will improve the prospects for further poverty reduction in Vietnam. It gives a detailed description of the drafting process and focuses on a range of factors that may be critical for the implementation of the PRSP.

The study is structured in the following way: After an introduction in Chapter 1, in Chapter 2 the concept of the PRSP is presented as the analytical background for the case study. Chapter 3 summarises the poverty situation of Vietnam and the challenges for further poverty reduction. Chapters 4 to 6 analyse the PRSP by focusing on its drafting process (Chapter 4), its contents (Chapter 5), and the prospects for its implementation, including recommendations on aligning development assistance to the PRSP (Chapter 6). The study ends with conclusions on the lessons learned from the case of Vietnam (Chapter 7).

## The Concept of PRSPs

A PRSP is a comprehensive and strategic approach to reducing poverty in a developing country. It is designed by the developing country itself in co-ordination with development partners. PRSPs first served as a precondition for debt relief under the Highly Indebted Poor Countries (HIPC) initiative and then became the basis for all concessional lending by the World Bank and the IMF. Furthermore, they are supposed to become the basis for the country assistance programmes of bilateral, multilateral and non-governmental donors. The PRSP approach is guided by seven core principles that reflect the current convictions of the development community:

The drafting process should be

- ?? *participatory*, involving broad-based participation of the poor, of civil society organisations, of governmental institutions at national and sub-national levels and by the private sector at all operational stages,
- ?? *partnership-oriented*, involving co-ordinated participation of donors, and
- ?? *country-driven*, that is, owned by the developing country.

The strategies' contents should be

- ?? *comprehensive* in recognising the multidimensional nature of poverty, embracing all relevant policies and providing a coherent framework for them,
- ?? based on a *long-term perspective* for poverty reduction,
- ?? *results-oriented* and focused on outcomes that would benefit the poor, and
- ?? *prioritised* in such a way as to make implementation feasible, in both fiscal and institutional terms.

First experiences with some countries' Interim or Comprehensive PRSPs – as discussed at a PRSP Review conference in January 2002 – reveal the following critical issues regarding the drafting process, contents and policy implementation:

- ?? To receive concessional loans and/or debt relief, I-PRSP timetables often have been too ambitious. This has led to time pressure during the drafting process and hence unsatisfactory results.
- ?? Both PRSP countries and donors have expressed the importance of broad-based participation during the drafting and implementation processes. But often ambitious expectations have not been met.
- ?? While ownership is a core principle of the PRSP approach, donors, and especially the World Bank and the IMF, still apply too inflexible conditionalities for their credit facilities.
- ?? Many (I-)PRSPs lack clear priorities for policy measures or given sectors; they rather look like 'shopping lists'. In some cases, achievements in terms of poverty reduction are difficult to measure due to a lack of suitable indicators and sufficient capacities to measure progress.
- ?? Developing countries are sometimes simply overburdened by the PRSP requirements. A country's capacities for planning and implementation, especially at the regional and local level, are often overestimated by national governments and donors alike.
- ?? Drafting and implementing a comprehensive strategy like a PRSP requires more efficient and effective co-operation among donors.

The seven core principles of the PRSP and the critical issues identified at the Review conference provide the analytical framework for the Vietnam case study.

## Poverty Situation of Vietnam

Absolute poverty in Vietnam declined from over 70 % in the mid-1980s to 37 % in 1998. Poverty reduction is indicated quantitatively by rising rural and urban incomes and improving social indicators. It is also reflected by the perception of poor households that overall well-being has improved.

This sharp decline in poverty was made possible by policies of fundamental renovation (*doi moi*) since the late 1980s that have transformed the socialist economy in the direction of market structures. *Doi moi* policies have dissolved agricultural production co-operatives, started restructuring state-owned enterprises, and promoted private sector development as well as international economic integration. These reforms led to growth rates of over 7.5 % annually between 1990 and 2000.

Some key characteristics of poverty in Vietnam are: 90 % of the poor live in rural areas, the poor are predominantly farmers. Remote and upland areas are the poorest regions. Poor households typically have small landholdings or are landless. Ethnic minorities and children are more than proportionally exposed to poverty. Deep poverty persists among unregistered migrants in urban areas.

With only US\$ 400 annual per capita income and more than one third of the population living in absolute poverty, poverty reduction is still a major issue for Vietnam. After more than a decade of successful poverty reduction, Vietnam is facing new challenges:

*First*, there are limits to agricultural employment, given the shortage of arable land in Vietnam and the low productivity in the agricultural sector. Therefore, increased yields, a more diversified agricultural production, and rural off-farm employment will be the main pillars for rural poverty reduction. Underemployed agricultural labour will either have to be absorbed in rural off-farm activities or it will migrate to the cities.

*Second*, growth in the non-agricultural sector faces increasing competition due to Vietnam's deepening integration into regional and global markets. In consequence, further market-oriented reforms are needed to raise the competitiveness of Vietnamese products.

*Third*, disadvantaged groups and regions have benefited less from *doi moi* reforms and overall poverty reduction. In order to prevent a further widening of the social gap, targeted poverty reduction programmes have to be more focused.

### The PRSP Drafting Process in Vietnam

It is mainly due to the influence of the donor community, which wanted to enhance the poverty focus of Vietnamese policy and development cooperation, that analytical and diagnostic work on poverty has been conducted on a larger scale even prior to the PRSP process. For that purpose, a *Poverty Working Group* of the Government of Vietnam (GoV), donors and international NGOs was established in 1999. The *Attacking Poverty Report* (published in 2000) constituted a common analytical base for Vietnam and the donors.

To gain access to concessional credits from the World Bank and the IMF, Vietnam drafted an Interim PRSP within a few months in 2000. Except for inclusion of the poor in the context of four *Participatory Poverty Assessments*, which served to establish an analytical basis for the PRSP, participation in the drafting process of the I-PRSP was limited. The I-PRSP mainly focused on sustainable economic growth as the key to poverty reduction. It lacks prioritisation and costing of programmes as well as indicators and mechanisms for poverty monitoring. These weaknesses were pointed out in the World Bank and IMF *Joint Staff Assessment*. Nevertheless, the PRSC and PRGF credits were approved in April 2001.

There was about one year available for the development of a Comprehensive PRSP – the Vietnamese Government renamed it into the *Comprehensive Poverty Reduction and Growth Strategy*

(CPRGS). Following distribution of the first draft in early February 2002, an intensive consultation process with Vietnamese stakeholders and donors took place over a period of three months, until the CPRGS was completed in May 2002.

*Participation*: Various Vietnamese stakeholders participated in the drafting process of the CPRGS, but their involvement, contribution and impact varied. The formulation of the CPRGS was a task of the central government. Local authorities and people at the local level were heard during consultations that provided valuable inputs for the paper. In this sense, the process was participatory. However, participation of the local level was neither broad nor institutionalised. Although the government of Vietnam made efforts to organise a participatory drafting process, and although recent activities to institutionalise participation in terms of implementing poverty alleviation programmes (particularly at the local level) are promising, there remains the challenge of getting lower administrative levels involved in the implementation of the CPRGS.

*Partnership-orientation*: The inputs of the donors to the CPRGS drafting process were considerable. There is a multitude of more or less formalised institutions in Vietnam (partnership groups) that facilitate the interaction between Vietnamese and donor agencies. The Vietnamese Government and the donors used these institutions to co-ordinate their work on the CPRGS. The Poverty Task Force provided the most important forum for government-donor-NGO interaction.

*Country-ownership*: There is strong ownership among Vietnamese stakeholders at the central level, but this is limited at the local level, due to a lack of information and participation. The comprehensiveness of the PRSP approach is still not widely recognized in Vietnam. Poverty alleviation is still widely regarded as a sectoral issue. The CPRGS is both a strategy designed to satisfy donor requirements and attract more ODA and an internal action plan for implementing existing government strategies. It is to be expected that the upcoming annual plans and the next Five-year Socio-economic Development Plan (2006-2010)

will specify and incorporate the actions laid out in the CPRGS. However, it remains to be seen whether the CPRGS will become the official basis for the planning and budgeting process in the coming years.

### The Contents of the Vietnamese PRSP

The CPRGS targets continuing high growth linked to social progress and equity. The overarching growth and poverty reduction targets are: Double the GDP between 2000 and 2010, and reduce poverty in the same period by 40 %. Altogether 12 development goals are formulated, most of them related to the Millennium Development Goals (see Annex 1). There is a particular focus on reducing the development gap between different regions and population groups. The strategy seeks to reconcile the tension between economic growth and social equity that had become apparent in the I-PRSP. It creates a closer link between growth and poverty alleviation by adapting the Millennium Development Goals to the Vietnamese context.

The CPRGS is a *comprehensive* strategy. It recognises the multidimensional nature of poverty in that it formulates policies that are related to the three dimensions of poverty: opportunity, empowerment and security. The cross-cutting issues *gender* and *environment* are considered in the CPRGS; specific sections are devoted to both issues. However, only gender empowerment, embodied in specific gender indicators, is an integral part of sectoral policies.

Given that the CPRGS is linked to the Socio-Economic Development Strategy and the Poverty Alleviation Strategy, which cover a ten year period, it can be concluded that the CPRGS is based on a *long-term perspective*. The analysis shows that all strategies are linked, but that within strategies tensions exist that are also reflected between the strategies. The CPRGS aims at high growth of GDP and employment, but the driving force of 'industrialisation and modernisation' is supposed to be the state sector. On the other hand it is acknowledged, that only the private sector can provide the employment needed for urban and rural

poverty reduction. Furthermore, the benefits of international economic integration will only be reaped, if competitiveness of enterprises will increase rapidly, which is difficult to imagine in an economy driven by the state sector. Most donors do not agree with the underlying concept of a 'socialist market economy'. That they – and particularly the World Bank and the IMF – support the CPRGS may be taken as a sign that ownership is regarded to be more important than full consensus on economic and political concepts.

The CPRGS is *results-oriented*. It sets out clear goals and indicators that refer to economic and social development. A monitoring and evaluation system has to be established, and responsibilities have been defined for it. However, policies are not always fully reflected in indicators, particularly in the areas of environment and good governance.

Weaknesses are visible in the *prioritisation of policies*. The relevant chapter uses two different sources for calculating the demand for and allocation of resources to implement the strategy: the Five-year Development Plan 2001-2005, covering public and private investment, and projections of budget expenditure data for the years 2003-2005, including recurrent expenditures. Due to an incomplete *Medium-term Expenditure Framework* for the overall budget and for specific sectors, the data cannot be linked sufficiently. Much more systematic work on public expenditure planning is required to achieve a consistent and prioritised expenditure framework.

### Challenges for Implementing the CPRGS

Four critical areas have been identified in which strategy implementation bottlenecks are obvious:

- ?? Implementation of structural reforms,
- ?? Institutionalisation of participation,
- ?? monitoring of and feedback on results,
- ?? harmonisation of donor contributions.

All four areas are covered in the CPRGS. However, it appears that more work has to be done to clarify the concrete steps to be taken in these areas, both by the GoV and by the donors, to achieve the ambitious targets for growth and poverty reduction.

### *Implementing Structural Reforms*

The ongoing structural reforms in the second phase of *doi moi* are setting the framework for growth and poverty reduction. They cover a large part of the Policy Matrix in the CPRGS. Their implementation will critically influence the scope for resource mobilisation and resource allocation in Vietnam.

*SOE Reform and Private Sector Promotion:* This area is critical for the achievement of growth and employment targets, because of its close link to the further integration of Vietnam into the world economy, i.e. to trade and FDI policies. The question of the competitiveness of Vietnamese goods and services in both local and the export markets is pivotal. In view of its planned WTO accession, Vietnam has little time left to adjust its legal and political framework as well as the structure of enterprises. More international competition will pose a severe threat to the existence of enterprises and thus to employment creation.

SOE reform, as outlined in the CPRGS and in the more detailed action plan of the government, as well as the government's recent activities in private-sector promotion, do not fully grasp the challenges ahead. The government's drive for modernisation concentrates on investments in state enterprises which are supposed to play a leading role in core sectors of the economy. However, there are no clear targets as to when these enterprises are to achieve competitiveness. In the private sector there is a severe lack of resources to finance modernisation. It will not be sufficient to multiply the number of SME and household enterprises for the sake of employment creation as in the past, because the environment in which these enterprises will have to operate will be more competitive than in the past.

*Banking Reform:* Modernisation of enterprises, growth and employment generation requires a smoothly functioning financial sector capable of mobilising private savings and providing enterprises with short- and long-term funds. Due to a large amount of non-performing loans and an under-developed culture of commercial lending in the banking sector, it is as yet unable to fulfil this role.

Furthermore, despite advances made in the rural finance system in recent years, rural areas are still not yet sufficiently supplied with banking services, which is an urgent prerequisite for the development of disadvantaged rural areas, and particularly for the establishment of rural SMEs.

*Public Expenditure Reform:* An important bottleneck for the implementation of the CPRGS, and more generally for further poverty reduction in Vietnam, is the lack of transparency and accountability of the Vietnamese fiscal system. Budget data are still in a highly aggregated form and do not contain several off-budget accounts. There are estimates that at best 75 % of de facto budgetary transactions are covered in the budget.

The Vietnamese public revenue system lacks adequate fiscal decentralisation. Sub-national administrative levels have de facto no revenue-raising power of their own. The centre determines the rate structure of all taxes, and collects them. Poor provinces, districts and communes have negligible amounts of own resources at their disposal. Their power to influence the allocation of resources is limited, while National Programmes and support from international donors play an important role for poverty alleviation activities. Communal administrations, especially from poor provinces, depend to a large extent on local fees and contributions for local services. Often levied per head, these fees and contributions are a disproportionately heavy burden for poor people. The *Grass-roots Democracy Decree* requires fiscal transparency and accountability at the commune level. However, implementation is still in its early stages, because government employees at the commune level mostly lack specific training to provide detailed budgetary information.

A system of redistribution between poor and better-off provinces is in place, but criteria for resource allocation are unclear. A formula-based system would avoid lengthy and non-transparent negotiation processes between the centre and the provinces.

*Public Administration Reform:* Reform of public administration is an important contribution to removing bottlenecks for the implementation of the CPRGS, because it will primarily be the government and the public administration that have to implement the strategy. Despite some achievements of Vietnam's Public Administrative Reform, many shortcomings remain.

- ?? Due to the dominant role of the Communist Party of Vietnam, decision-making processes within administrations often depend on power relations within the Party, instead of following official rules of procedure. This hampers predictability of administrative procedures.
- ?? Often, a sufficient legal framework is in place, but law-enforcement is weak. More emphasis should be placed on law enforcement and implementation.
- ?? Responsibilities are clearly defined neither at the national level nor at sub-national levels. Co-operation between ministries is weak, although the PRSP process has already improved the way in which involved ministries co-operate. At sub-national levels, there are initiatives to institutionalise co-operation, but they remain sporadic. Clear rules of procedure would improve the ability to plan and implement poverty alleviation activities, especially more comprehensive programs such as the CPRGS.

### *Institutionalising Participation*

Implementing the CPRGS requires institutionalised participation for three reasons. First, to make it possible to gather information, second, to develop ownership and, third, to increase transparency and improve governance. Vietnam has institutionalised participation at the local level by issuing the

*Grassroots Democracy Decree*; however, participatory processes are weak at the provincial and central level. The analysis revealed the following shortcomings:

*Gaps in the System of Representation – the Limited Number of Stakeholders:* The government, closely intertwined with the Party, dominates development activities – followed by donors and international NGOs. The private sector, Vietnamese NGOs, the parliament and target groups are underrepresented.

*Differing Notions of Participation:* Before participation can be institutionalised, stakeholders need to agree on the level of participation they want to institutionalise. The interviews revealed that everybody agrees on the importance of participation for implementing the CPRGS. However, the ways in which this is understood differ, and as a result the level of participation sought remains unclear. In a consensus-based society like Vietnam's there is a danger that the only consensus that may be reached is the least common denominator. Indeed, the CPRGS limits participation to the local level.

*Varying Levels of Participation:* Intra-governmental participation and civic engagement at the national level are very weak. In contrast, civic engagement at the local level has been increasing significantly thanks to the *Grassroots Democracy Decree*. Although provincial governments have implemented the Decree in different ways, common strengths can be grouped in three areas: first, empowering people to take their own initiatives to overcome poverty, second, achieving sustainable poverty alleviation activities through local contributions to communal projects and, third, better governance through an improved working relationship between government officials and the population as well as through increased management capacities of local officials.

Despite the impressive achievements made regarding participatory processes at the local level, the following *weaknesses* may prove to be bottlenecks for implementing the CPRGS:

- ?? The flow of information is hindered by a lack of knowledge in local administrations as to what information needs to be provided to whom, by a lack of the funds needed to distribute information, by the remoteness of certain villages, by the fact that travel costs to remote villages are not reimbursed and by language barriers in ethnic minority areas.
- ?? Participation varies according to geographical remoteness and levels of knowledge. Especially in certain ethnic minority areas, women are underrepresented. Some local officials are not trained to facilitate participatory workshops. As a result, the population lacks the knowledge needed to take informed decisions. Intransparent budgeting procedures at the district and province level deprive communes of a basis for planning. The lack of political will has further limited participation.
- ?? The contributions of people are limited due to their lack of capacity to implement projects and a lack of resources in poor communes. Poor vocational skills prevent them from finding jobs in poverty reduction projects.
- ?? People's supervisory competencies are limited to the local level, and for this reason corruption is less likely to be uncovered at higher administrative levels.

### *Monitoring of and Feedback on Results*

The third critical area for implementing the CPRGS is the establishment of a monitoring and evaluation system. Monitoring comprises tracking the implementation of the PRSP, evaluating the impact on poverty reduction and finally feeding the results back into the decision-making process. Hence, monitoring and evaluation is an integral part of the PRSP cycle, one that ensures an orientation towards results. Feedback of results will improve the implementation of the strategy and provide the basis for a reformulation of poverty reduction policies. In consequence, monitoring supports good governance for poverty reduction, because it facilitates priority setting and increases transparency.

As outlined in the CPRGS, a monitoring and evaluation system has to be developed to track the indicators listed in the strategy. In the process of drafting the CPRGS, the section on monitoring and evaluation has improved considerably. Nevertheless, three main problems for the future implementation of the CPRGS monitoring system were identified. They relate to the quality of the indicator framework, data collection methods and institutional arrangements. In summary, limited monitoring capacity and co-ordination of the different agencies involved in monitoring, evaluating and feeding back results are major challenges ahead.

### *Harmonising Donor Contributions*

One main outcome of the PRSP process will be a better harmonisation of donor activities. Both the GoV and the donor community recognise the need for country-wide harmonisation. Considerable progress in harmonisation has already been achieved, but challenges remain, including standardisation of aid delivery procedures, achievement of programme-orientation in aid delivery, increased efficiency and effectiveness of partnership groups, and enlarged fund pooling.

The need for harmonisation stems mainly from the significant increase of ODA inflows to Vietnam in the last decade, which is still continuing. Because ODA was rarely co-ordinated, it led to duplication and gaps in aid activities as well as major burdens for the administration of the GoV. Harmonisation therefore envisages reducing the transaction costs of aid delivery and raising the effectiveness of ODA.

Many donors are willing to align their assistance to the CPRGS. They want to use the CPRGS as a guide for their Country Assistance Strategies (CAS), provided it meets their expectations in terms of quality (priorisation, costing, action orientation).

Four dimensions of harmonisation can be distinguished. First, harmonisation of procedures and practices among donors in order to adapt them to the GoV system over time. A group of like-minded European countries is particularly willing

to harmonise donor procedures and could pave the way for other donors.

Second, increasing the programme orientation of aid, i.e. donors move their aid activities away from isolated projects with a view to aligning their assistance to a common recipient country programme. Project-oriented aid is still widespread in Vietnam, but many donors want to improve the programme orientation of their aid, e.g. through Sector-Wide Approaches (SWAp). There are forms of SWAps in which donors deliver aid in a co-ordinated though financially individual way (see Annex 2 for the forestry sector).

Third, partnership groups (PGs) are GoV–donor–NGO fora that have already led to increased harmonisation, but challenges remain. PGs vary significantly regarding their formalisation, their goals, and the quality of their work. There is no prescription for a successful PG. To work efficiently, PGs should be small to be operational and need results-oriented commitment on the part of their members. Therefore, each donor should focus its capacity on a few PGs. One possible enlargement of the partnership approach would be to establish PGs at the provincial level.

Fourth, fund pooling is the most critical element of harmonisation for many donors. Many donors oppose fund pooling and particularly budget funding because of the lack of accountability and transparency of the Vietnamese budgetary system. Thus, forms of fund pooling that allow sufficient control over expenditures will be the only acceptable way of programme-based aid for many donors as long as public expenditure management is not improved considerably in Vietnam.

There are several challenges for German development cooperation, taking into account a relatively well-developed culture of donor co-operation in Vietnam. First, decision-making powers and capacities should be enlarged at the country level to make the implementing institutions more flexible and to enable them to cope with an increased workload. Second, the German engagement in partnerships should be selected strategically to create comparative advantages for

German expertise in prioritised areas. Third, the management of the participation of German institutions in partnerships should be improved. Fourth, project experiences should be communicated more effectively in partnerships as well as in the policy dialogue. Fifth, participation of German technical and financial co-operation in SWAps should be co-ordinated and existing projects of GTZ and KfW should be integrated into evolving SWAps.

## Conclusion

It is still too early to give a definitive answer to the question whether the Vietnamese PRSP will improve the prospects of poverty reduction. The final draft of the Vietnamese CPRGS of May 2002 is broader in scope than the existing strategies in that it attempts to integrate macroeconomic and sectoral policies, giving them a stronger pro-poor orientation than has been the case in the past. It is also more outcome-oriented than previous strategies in that it contains a broad set of targets and indicators that can form a basis for policy evaluation. However, how this strategy will be implemented and what role it will play in the Vietnamese policy process is still an open question.

Taking into account the potential bottlenecks for implementation mentioned above, completion of the CPRGS can be seen as the first phase in a process that will have to continue. This first phase has improved the quality of the policy dialogue between Vietnam and the donors and thus set the stage for aligning donor contributions to the Poverty Reduction Strategy.

Against this background, the concept of *ownership*, central to the prospects for the implementation of the strategy, has to be put into perspective. In the early stages of the PRSP process, only a small group of bureaucrats and donor representatives was involved in the discussions related to the strategy. During the completion phase of the strategy paper a wider group of government, non-governmental and donor representatives became involved, widening the scope of discussion and leading the way into a process of ‘mainstreaming’

the poverty focus of the strategy within the Vietnamese administration.

It will be imperative, however, to develop an implementation concept for the CPRGS that includes the provincial, district and communal levels as well as the emerging civil society in Vietnam. The CPRGS should not be misunderstood as yet another plan to be implemented on the orders of the Hanoi authorities. It appears that the PRSP process in Vietnam has contributed to developing the awareness needed for a more de-centralised approach.



## 1 Introduction

Poverty reduction strategies have become one of the major issues in development co-operation in recent years. The fight against absolute poverty has always been the overarching goal of development co-operation. However, the development debate in the last decade has seen a major revision of both concepts of poverty reduction and the ways in which development partners (“donors and recipients”) interact. The revision was triggered by the widespread disappointment over the dismal results of poverty reduction policies in the past. The policies of most developing countries, it was argued, were not focused and comprehensive enough to have a major impact on poverty. They lacked a clear concept of “pro-poor growth.” The interventions of the donor community, on the other hand, were criticised as ineffective due to their insufficient orientation to support anti-poverty policies in developing countries and the lack of co-ordinated donor interventions.

The critique of the weaknesses of past approaches has been reflected in a new concept of co-ordinated poverty reduction which was introduced in the late 1990s. The background was the common aim, as laid out in the Millennium Development Goals, to reduce world-wide poverty by half by 2015. To reach this ambitious goal, it was argued, a new approach had to be defined, encompassing well-defined poverty reduction policies in the developing countries on the one hand and co-ordinated support of these policies by the donor community on the other. As part of the HIPC initiative towards debt relief in the poorest countries, the new concept introduced in 1999 centred around the development of Poverty Reduction Strategy Papers (PRSP) in an interactive and participatory process, involving the major stakeholders in developing countries as well as the developing partners. The PRSPs are to be the basis for the policies of developing countries as well as of future donor interventions.

Vietnam is one of about 70 countries to embark on the PRSP-approach. It showed remarkable successes in reducing poverty in the 1990s; however, more than one third of the population are

still living in absolute poverty. The donor community has thus far shown considerable support for Vietnam and seems to be willing to support an even more comprehensive approach to poverty reduction based on the PRSP approach. BMZ has declared Vietnam to be one of four “focus countries” in the framework of its Action Plan for Poverty Reduction by 2015.

The present study takes Vietnam as an example for the implementation of the PRSP approach. It attempts to answer the question whether this approach will improve the prospects for poverty reduction in Vietnam. In order to answer this question, the study will

- discuss the PRSP-concept as it has been developed in recent years, taking into account the lessons learned in the countries in which it has been implemented thus far (Chapter 2);
- give an overview on the actual poverty situation in Vietnam, analyse the impact of economic reforms on poverty reduction and identify the major challenges ahead (Chapter 3);
- assess the process of the drafting of the PRSP in Vietnam, as it has evolved in the years 1999-2002, with regard to the major conceptual principles (Chapter 4);
- analyse the contents of the draft PRSP with regard to the major principles to be considered (Chapter 5);
- assess possible bottlenecks for the implementation of the PRSP and outline possible needs for adjustment which the PRSP might entail for donors, particularly for German development co-operation (Chapter 6).

The study assumes that compliance with the six stated principles of the PRSP (*country-driven, partnership-oriented, long-term, comprehensive, results-oriented, prioritised*), will mean improved prospects for poverty reduction in Vietnam. The methodological approach used to answer the lead question consists of interviews with the stakeholders in the Vietnamese PRSP process: the persons and institutions involved in the drafting of the PRSP, both on the Vietnamese and on the donor side, and the stakeholders at the local levels

who are to implement the PRSP on the ground. The study analyses the perceptions of stakeholders with regard to the process and the contents of the PRSP as well as with regard to possible bottlenecks to its implementation.

The GDI team had the opportunity to participate in the consultation process in the final stage of the drafting of the PRSP: After a preparation process of about one year the final draft of the full PRSP was presented by the Vietnamese government in early February 2002, to be discussed in a series of countrywide consultations with local stakeholders and donors until the end of April 2002. The team has participated in one of the workshops (in Quang Binh province, central region) and spent about three weeks conducting interviews with stakeholders and experts at the central level in Hanoi and three weeks at the local level in Son La (northern region) and Ha Tinh province (north-central). The provinces were selected by the Vietnamese partner institution, the Central Institute for Economic Management (CIEM), which is carrying out a long-term research project on the "Renovation of the Planning Mechanism," focusing on innovative participation mechanisms at the local level.

The Vietnamese PRSP is regarded with great interest, but also with some scepticism. As in other PRSP processes, the major question is whether the Vietnamese PRSP is really "owned" by the Vietnamese side; not only by the government, but also by groups in society that are not yet formally represented in the political process in Vietnam, since the country still has no *civil society* in the true sense of the word. If this question can be answered affirmatively, and the PRSP is well received by all development partners, the result could be major adjustments to the focus and the delivery mechanism of development co-operation, since the PRSP is supposed to be the basis for the Vietnamese policies in all major political areas and, inter alia, for all contributions of development partners.

## 2 The Concept of Poverty Reduction Strategy Papers

A PRSP is a comprehensive and strategic approach to reduce poverty in a developing country. It is designed by the concerned developing country in co-ordination with development partners. The PRSP concept has been designed by the World Bank. PRSPs first served as a precondition for debt relief under the HIPC initiative and then became the basis for all concessional lending by the World Bank and the IMF. PRSPs may thus be seen as having taken the place of the former World Bank/IMF Structural Adjustment Programmes for Least Developed Countries.

The PRSP approach is guided by seven core principles that reflect the current convictions of the development community. According to these principles, the drafting process should be *participatory*, *partnership-oriented* and *country-driven*. The contents of strategies should be *comprehensive*, based on a *long-term perspective*, *results-oriented*, and *prioritised*.

### 2.1 The PRSP Principles

The PRSP principles reflect the current convictions of the development community. Among others, documents like the *Guidelines on Poverty Reduction* and *Shaping the 21<sup>st</sup> Century* by the OECD/DAC as well as the UN *Millennium Declaration* reflect these convictions<sup>1</sup>. In the late 1990s, the World Bank developed the Comprehensive Development Framework (CDF) to improve the efficiency and effectiveness of development co-operation. The principles that guide the CDF<sup>2</sup> served as basis for the seven core principles guiding the PRSP concept:

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1 See OECD / DAC (1996); OECD / DAC (2001); UN General Assembly (2000).

2 The CDF is guided by the principles: long-term vision and strategy, enhanced country ownership of development goals and actions, more strategic partnership among stakeholders, accountability for development goals.

The drafting process for the strategies should be

- *participatory*, involving broad-based participation of the poor, of civil society organisations, of the private sector and of governmental and administrative institutions at the national and sub-national levels at all operational stages,
- *partnership-oriented*, involving co-ordinated participation of development partners, and
- *country-driven*, which means that the country concerned, not the donors, should be the driving force in the drafting of the strategies.

In terms of their contents, the strategies should be

- *comprehensive* in recognising the multidimensional nature of poverty, embracing all relevant policies aimed at reducing poverty and providing a coherent framework for these policies,
- based on a *long-term perspective* for poverty reduction,
- *results-oriented*, i.e. focused on outcomes that would benefit the poor, and
- *prioritised*, to ensure that implementation is feasible, in both fiscal and institutional terms.

The requirements of a PRSP, as explained in this chapter, are taken from the PRSP Sourcebook of the World Bank.<sup>3</sup>

### 2.1.1 Process Principles

#### Principle 1: Participatory

The primary responsibility for formulating a PRSP lies with the central government. Assuming full leadership of the PRSP process means not only designing policies but also organising a framework for broad-based participation. Participation helps to identify the real needs and prob-

lems of the poor and the various stakeholders and therefore enriches a strategy's contents. Participation also enhances identification with the policies associated with the strategy, which should lead to better results in implementation. A participatory drafting process demands the exchange of information and thereby increases the transparency of decision-making. This should, ideally, improve government accountability and, as a result, improve the overall governance and economic efficiency of development activities.

The central government should involve sectoral ministries and parliaments. Participation and approval by national and local parliaments are important indicators with regard to ownership and the strategy's significance. The contributions of local governments are particularly important because in many cases they have to deal with the implementation of adopted policies on the ground.

Besides public institutions, civil society organisations (CSOs) and the private sector should also contribute to the formulation of a PRSP. CSOs sometimes express people's concerns more directly than central or local administrations. Furthermore, CSOs can provide specialist and local knowledge. However, some interest groups may be more influential than others. It is therefore important to verify whether geographic regions, gender aspects, ethnic minorities, etc., are accorded equal consideration. Private sector associations should also be heard, so that they can propose measures to improve the business environment and promote economic growth.

Poor and vulnerable groups are empowered by bringing their analysis, priorities, and voice into the decision-making process. The result is that the policy framework becomes more relevant and responsive to their needs. Participatory poverty assessments are a helpful instrument to take into account specific needs and demands of the poor.

#### Principle 2: Partnership-oriented

Bilateral, multilateral and non-governmental development partners should be involved in the drafting process from the outset. Their participa-

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<sup>3</sup> See World Bank (2001b).

tion contributes to a strategy in which every partner can find his own role. Once the various projects and programmes of development partners are aligned to the overall poverty reduction strategy, overall co-ordination will be enhanced and efficiency in implementation will be improved.

There is an inherent dilemma between partnership and ownership. The more the development partners are involved in the drafting process, the more they may tend to dominate the process as well as the contents of the strategy. Since PRSPs were invented by donors and are developed on donor demand, the partnership principle might simply be interpreted as a euphemism for donor domination. However, particularly in countries where a considerable part of the public budget is funded by development assistance, development partners are a natural stakeholder in the process, and the financing of the poverty reduction strategy will require their consent to the PRSP.

### Principle 3: Country-driven

The first two principles, *participatory* and *partnership-oriented*, can be seen as indicators to assess the extent to which the process is country-driven. First, broad-based participation can only be successful if the central government is willing to listen to the various national stakeholders and to take their voices into account. Serious participation, in turn, increases ownership of the strategy both within society and government at the national and sub-national levels. Second, cooperation with donors can only be fruitful if the developing country itself is convinced of the necessity to reduce poverty and the utility of a comprehensive poverty reduction strategy to do so. If donors decide what a country has to implement, the result will not be satisfactory. Thus, a drafting process that is not dominated but supported by donors is a useful indicator for assessing whether a country is in the driver's seat.

### 2.1.2 Content Principles

One challenging requirement for PRSPs is to integrate all policies relevant for poverty reduction in a coherent framework. This is an essential difference to many previous poverty reduction programmes. In most cases, they involve a sectoral and targeted approach. The World Bank stresses that a PRSP does not need to be an entirely new national blueprint; on the contrary, national authorities should draw upon existing national plans and sectoral programs as far as possible. There is no standard table of contents for a PRSP. Each national poverty reduction strategy must focus on its particular problems and tailor the solutions accordingly. Nevertheless, according to the World Bank, there are some general elements regarding contents that need to be considered:<sup>4</sup>

#### Principle 4 and 5: Comprehensive and Based on a Long-term Perspective

Comprehensiveness means recognising the multidimensional nature of poverty and embracing all relevant policies aimed at reducing poverty.

Poverty is multidimensional in that it entails a lack of economic wealth, exclusion of socially disadvantaged groups or individuals, and vulnerability to external and uncontrollable events. A comprehensive strategy to reduce poverty should therefore promote *opportunity*, support *empowerment* and enhance *security*.<sup>5</sup> The multidimensional nature of poverty also embraces the different characteristics of urban and rural poverty that need to be taken into account.

A PRSP is not a targeted approach to reducing poverty in a certain area or of a certain nature. Being a comprehensive strategy, it should cover all relevant sectors and policies, including an as-

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4 See World Bank (2001b).

5 This broad perception of poverty is also reflected in the Millennium Declaration and the MDGs. See UN General Assembly (2000).

assessment of how these policies could contribute to poverty reduction. *Macroeconomic* and *structural policies*, *private sector development* and *infrastructure interventions* are intended to promote pro-poor growth and create employment. The various spheres of *human development* may reduce vulnerability and increase social welfare, e.g. through health-care, education and social safety nets. *Cross-cutting issues* such as environmental protection, gender equality and good governance are intended to ensure sustainable and equitable poverty reduction.

All policies have to be embedded in a long-term perspective or a development vision for the country in question. The short-term policies should be compatible with the long-term goals of sustainable poverty reduction.

### **Principles 6 and 7: Results-oriented and Prioritised**

To be *results-oriented*, a PRSP must formulate targets and indicators for poverty reduction and other related goals of sustainable development. It has to explain how to monitor and evaluate policy implementation. To be able to measure progress in poverty reduction, PRSPs must build on reliable data disaggregated by regions, social groups, and gender. Furthermore, the impact of past and proposed policies must be assessed to provide an analytical base for the choice of policies.

PRSPs have to define, cost, and *prioritise* public actions that have been chosen to implement the strategy. Policies have to correspond to institutional capacities. Where these capacities are lacking, capacity-building measures have to be included in the PRSP.

### **Key Steps in the PRSP Process**

As country circumstances vary and national stakeholders are to be the driving force in the process, there can be no standard procedural requirements. According to the World Bank, the

following five steps outline very generally a path for formulating a PRSP:

- First, analytical and diagnostic work is called for to deepen the understanding of poverty and reflect the diversity of experiences according to gender, age, ethnic or regional groups. In this stage, Participatory Poverty Assessments can provide helpful information.
- Second, the various national stakeholders and international development partners engage in a participatory drafting process. The result should be an analysis of the impact and related costs of the proposed policies including a prioritisation of policies.
- Third, the strategy has to be approved at the country level. If key stakeholders of the drafting process agree upon the strategy presented, the PRSP is truly country-owned. Afterwards, the PRSP – or I-PRSP – has to be approved by the World Bank and IMF Boards before debt relief and/or concessional loans can be made available.
- Fourth, the policies outlined in the PRSP have to be implemented. Since a PRSP normally includes existing projects and programmes, implementation is in some parts already on track. Agreement on roles and responsibilities of government or the national and sub-national level as well as private organisations and civil society is crucial. Furthermore, policy measures have to be monitored and regular feedback assured.
- Fifth, the impact of the PRSP implemented should be assessed and lessons for subsequent phases should be drawn. At this stage participatory evaluations are as important as participation in the drafting process to ensure that the assessment is based on the view of the stakeholders, and especially on the perceptions of the poor.

If a PRSP is combined with PRSG/PRGF credits from IMF and World Bank or with debt relief in the framework of the HIPC initiative, an annual report on implementation is required and IMF/World Bank propose a complete update of the strategy after 2-5 years.

Thus, a PRSP is not a one-time operation. It is a continuous process of policy formulation, implementation and feedback in a participative setting. The drafting of a PRSP is only the first step in a long-term process.

IMF and World Bank have stressed, however, that the timing of the annual PRSP Progress Report is flexible, and may change over time in order to become consistent with national reporting and decision-making processes.

## 2.2 Early Experiences: The PRSP Review

A comprehensive review of experiences with PRSP began in September 2001. The World Bank and the IMF organised a review meeting in January 2002 which was attended by stakeholders from countries engaging in the PRSP process as well as more than 30 multilateral, bilateral and non-governmental organisations. Statements made during the conference<sup>6</sup> and reports from various development institutions<sup>7</sup> as well as the latest review of the PRSP approach by the World Bank and the IMF, published in March 2002<sup>8</sup>, serve as basis for this section. The review was based on 42 I-PRSPs and ten full PRSPs.

### 2.2.1 Issues Regarding the PRSP Drafting Process

#### Time Pressure

An important lesson that has emerged is that the initial country timetables for developing full

PRSPs have proved to be overly ambitious. In addition, some PRSP timetables have been affected by delays in implementing key policies. Many countries are expected to need longer than twelve months after finalising their I-PRSP to develop a full PRSP. Since debt relief based on an I-PRSP has been the priority for many countries, pressure imposed by HIPC and/or PRGF timetables has led to "hasty", "ad hoc" and "perfunctory" consultation of stakeholders, even within government.

#### Participation: Undisputed overall Recognition, but Insufficient Realisation

There is overall agreement on the importance of participation in the PRSP process. The participation requirement has opened up new opportunities for civil society organisations and clearly influenced the strategies' contents in several developing countries.

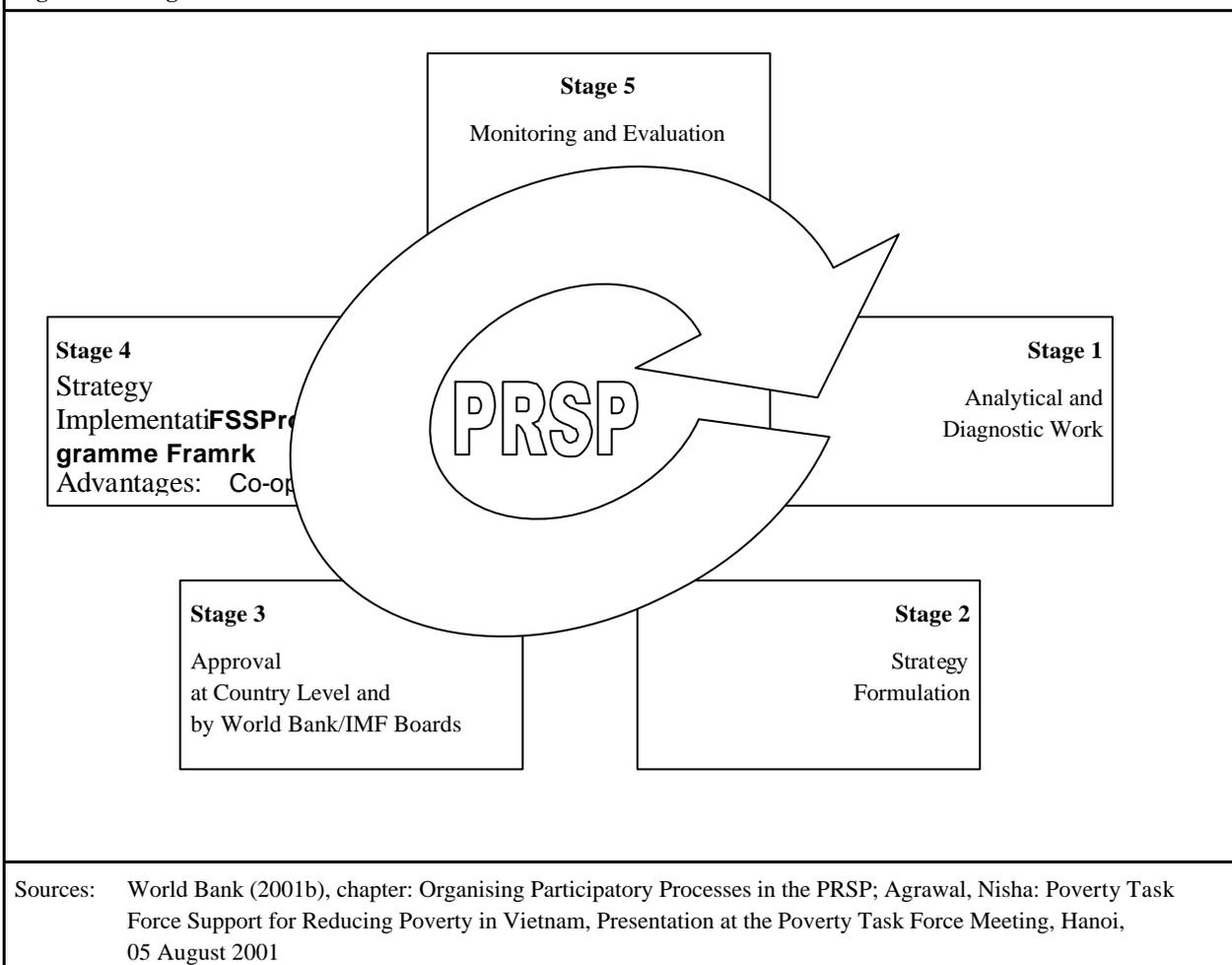
However, most reports come to the conclusion that participation has not been taken seriously enough by governments. Furthermore, consultations with stakeholders have not automatically led to consideration of their opinions. As a result, the PRSP process entails, paradoxically, the danger that policy control may be even further centralised. There is an important difference between *government* ownership and *country* ownership. In particular, the finance ministries seem to have taken the lead in several cases – not least because donors concentrate on these ministries as their primary contact institutions. Local governments, and especially parliaments, have not been sufficiently involved in the preparation, approval and monitoring of country strategies. In some cases, independent civil society institutions have hardly been involved at all because they are poorly organised, at an early stage of development, and/or non-existent.

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6 The opinions and findings presented at the review meeting mentioned in this chapter are based on IMF/World Bank (2002a).

7 All comments on PRSPs from multilateral, bilateral and non-governmental development institutions as well as research institutes are available at: [www.worldbank.org/poverty/strategies/review](http://www.worldbank.org/poverty/strategies/review).

8 IMF / World Bank (2002b).

**Figure 1: Stages of the PRSP Process**

### Too Tight Donor Requirements Lead to Lack of Ownership

Whereas donors demand more (and more effective) participation to achieve country ownership, some developing countries have argued that national ownership is compromised because PRSPs are mainly donor-driven instruments of conditionality, a critique especially addressed to the World Bank and the IMF. PRSPs are conceived in Washington and are accompanied by extensive guidelines. They are subject to appraisal and scrutiny by World Bank and IMF staff. Indeed, real ownership would require a open PRS concept adapted to country situations. Donors should review their instruments on a country-to-country basis rather than prescribing dogmatically their standard set of instruments, and the World Bank and the IMF should involve other development partners in

PRSP appraisals. Especially Latin American countries have stressed that World Bank and IMF conditions should be linked more closely to the PRSPs. Some donors and NGOs have demanded more flexibility, transparency, consultations and presentation of alternatives regarding macroeconomic policies and conditionalities of PRGF and PRSC.

### Necessity of Enhanced Donor Co-operation

The PRSP process has had a mobilising effect on donors, and donor co-ordination has ranged higher on the agenda since PRSP processes began. However, co-ordination between bilateral and multilateral donors must be improved, as both sides have stressed. Bilateral institutions find it difficult to make their positions heard. World Bank and IMF

are accused of poor information management and lack of collaboration with other development partners.

## 2.2.2 Issues Regarding the Contents of PRSPs

### Insufficient Poverty Analysis

Some countries have been able to draw on existing poverty reduction strategies and adjust them successfully to the comprehensive PRSP framework. Some have taken advantage of prior poverty assessments that helped them to establish reliable data. Nevertheless, most countries lack ex ante poverty analysis, or their poverty data are not reliable or outdated. This lack of data has impacted negatively the strategic foci and target setting of the papers and reduced the ability to analyse trends. Also, poverty and social impact analysis of major policies and programmes has often not been undertaken as part of PRSPs.

### Lack of Priorities and Results Orientation

In many cases, (I-)PRSPs have no clear priorities for policy measures or certain sectors, they rather look like "*shopping lists*,"<sup>9</sup> All reports underline that an important problem is a lack of precision when it comes to the indicators and benchmarks needed to monitor progress in implementation. Strategies are often not focused on results, and they remain at a high level of abstraction. Even though it is encouraging that national interpretations of the Millennium Development Goals have often been used as a long-term vision, they are too highly aggregated. Some donors propose not only more precision but also more selectivity as regards indicators and goals.

More quality and less quantity of targets and indicators would also lead to better costing of pro-

posed policies. There is a general tendency to focus on expenditure in public budgets such as basic social services, instead of generating revenues in productive, employment-generating sectors. This brings about a reliance on long-term donor-financed programmes, whereas necessary tax reforms are sometimes neglected. Donors stress the importance of realistic and precise budgetary planning, effective targeting of expenditures towards poverty reduction, and efficient mobilisation of domestic resources to finance these expenditures in the long run. PRSP time-planning should be adjusted to political and budgetary cycles.

Furthermore, the growth scenarios on which progress in poverty reduction or revenue for public budgets are based often appear to be too optimistic. Hence, envisaged goals become unrealistic. Instead of being a realistic and sustainable strategy to reduce poverty, PRSPs run the risk of becoming an "*all-embracing government planning exercise like in the 50s*."<sup>10</sup>

### Cross-cutting Issues not Sufficiently Taken into Account

In many cases, cross-cutting issues such as gender, environmental sustainability, human rights or other aspects of governance are not sufficiently integrated into the PRSPs. Often, links between these issues and poverty reduction are neglected. Whenever gender aspects are mentioned, we find that strategies mostly go no further than just referring to classic sectors such as basic education and health. Although improving governance and reducing corruption are often mentioned as important objectives within PRSPs, most strategies fail to present a systematic analysis, intermediate indicators, and measures to tackle these challenges.

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9 IMF / World Bank (2002a): Synopsis 12: European Commission.

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10 IMF / World Bank (2002a): Synopsis 15: OECD.

### **Insufficient Harmonisation with other National Development Strategies**

Naturally, in many countries other national development plans already exist or are about to be drafted. However, in some countries little effort has been made to harmonise these different planning strategies. As a result, government policy is sometimes ineffective or even contradictory, especially if budgetary questions remain open.

#### **2.2.3 Issues Regarding the Implementation of PRSPs**

##### **Institutionalisation of Participation**

Even in cases where participation has played an important role, continued stakeholder involvement during implementation is not guaranteed, because often the participatory process lacks institutions and regularity. Closely linked to the problem of institutionalisation is the challenge of effective decision-making involving many stakeholders. Cumbersome political processes and participation of powerful interest groups may lead to compromises at the lowest common denominator.

##### **Weak Implementation Capacity**

Capacity problems in implementing, monitoring and evaluating PRSP are becoming an increasingly important issue as many developing countries now enter the implementation phase. Especially capacities at sub-national levels are often overestimated by national governments and by donors. The comprehensive approach of PRSP calls for managerial skills to identify inter-sectoral links and decide on priorities that fit the local context, and this calls for participatory planning and implementation methods. These requirements often already turn out to be difficult to meet in the drafting process, and they may, in consequence, be too complex when it comes to implementing a PRSP. Participants at the Review Meeting put the main emphasis on the need to strengthen capacities with regard to budgetary management, pov-

erty tracking, impact analysis, and monitoring and evaluation.

##### **Donor Alignment and Collaboration**

Some developing countries have stressed that donor support should be aligned to each country's PRSP, if the goals set are to be achieved. Donor policies should be oriented more towards integrated programs to increase their effectiveness. Improved co-operation among donors would reduce the administrative burden of recipient countries. As a result, donors would make gains in reducing their transaction costs. Many donors remain cautious about untied or non-earmarked programmatic lending due to weak and/or non-transparent public expenditure systems within the recipient countries. But even without fund pooling or general budget support, there remains considerable scope for improving the coherence and efficiency of donor support.

#### **2.3 Analytical Framework for the Vietnam Case Study**

The present study undertakes a comprehensive analysis of the Vietnamese PRSP. The lead question of the study is:

“Does the PRSP improve the prospects for poverty reduction in Vietnam?”

Thus, it is assumed that the preparation of the PRSP is not an end in itself or merely a fundraising instrument. To be worthwhile, the PRSP should provide a clear value added in terms of poverty alleviation in Vietnam. This value added is, however, not easy to measure. The implicit assumption here is that a well-conceived and – implemented PRSP will have a positive effect on poverty reduction.

The analytical framework of the case study is based on the general concept of the PRSP, in particular on the seven PRSP principles (2.1), and the critical issues identified in the PRSP review (2.2).

Against this background, the study will address the following questions:

- Has the drafting process been *participatory*, *partnership-oriented*, and *country-driven*?
- Is the strategy *comprehensive*, based on a long term perspective, *results-oriented* and *prioritised*?

It is argued that if the Vietnamese PRSP complies to these seven principles, it can be regarded as well-conceived.

With regard to the prospects for its implementation the issues to be addressed are chosen from the list of critical implementation issues identified in the PRSP review (2.2.3):

- Institutionalisation of participation at national and sub-national levels,
- establishment of a comprehensive monitoring and evaluation system, and
- co-operation and harmonisation of donor contributions.

Furthermore, some key areas of reform in the Vietnamese PRSP are taken as examples to assess the challenges for implementation. Reforms in these areas – the banking sector, state-owned enterprises, public expenditure management and public administration – have already been carried out prior to the PRSP and there is already some experience with regard to their implementation.

## Research Design

Four main steps were undertaken to develop this report:

- First, an in-depth analysis was conducted of primary and secondary sources related to Vietnam's PRSP. Initial results were summed up in a preliminary report.
- Second, a stakeholder analysis was undertaken. Documents published during the process of drafting the PRSP helped to identify the main groups of stakeholders. These are persons and institutions involved in the draft-

ing process and stakeholders at the local level who will implement the PRSP on the ground. Interviews with stakeholders were conducted at the national level in Hanoi and at the local level in the provinces Son La (in the northern part of the country) and Ha Tinh (in the north-central region of Vietnam). The provinces were selected by the Vietnamese partner institution, the Central Institute for Economic Management (CIEM). Using semi-structured interviews, data were collected on stakeholders' perception and judgement of the PRSP drafting process, its contents and potential bottlenecks for its implementation in Vietnam (see the interview guideline in Annex 3).

- Third, national and foreign experts were interviewed. Some of these were representatives of the Vietnamese administration, scientists, or donor representatives who have an overview over the entire CPRGS or specialised knowledge about certain sectors. The expert interviews were mainly conducted to support the content analysis and the assessment of implementation problems at the national and local level.
- Fourth, the research team collected information by taking part in one of four workshops in which local stakeholders had the opportunity to comment on the PRSP. It was organised in Quang Binh province (Central Vietnam). Information was gathered about perceived implementation problems at the local level to complete findings concerning Vietnam's PRSP process and its contents.

These steps made it possible to use triangulation based on different sources and means of information collection.

### 3 Poverty Situation in Vietnam<sup>11</sup>

Poverty in Vietnam declined from over 70 % in the mid 1980s to 37 % in 1998, but major challenges for poverty reduction remain. The main cause for this outstanding record of poverty reduction has been economic growth, enabled by the ongoing Vietnamese policy of renovation (*doi moi*) since the late 1980s. This policy, aiming to create an open market economy in Vietnam led to impressive growth rates of 7.5 % annually in the last decade.

But poverty reduction gains are unevenly distributed among groups and regions. Poverty in Vietnam remains widespread, especially in rural areas. With an annual per capita income of US\$ 400 , Vietnam is still a poor country, far behind other countries in the dynamic East Asian Region.

To secure poverty reduction in the future, a huge number of jobs will have to be created, the private sector has to become more competitive internationally, and anti-poverty programs have to be focused more on disadvantaged groups and regions.

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11 The poverty analysis is mainly based on the Vietnam Living Standard Surveys (VLSSs) of 1992/1993 and 1997/1998 and four Participatory Poverty Assessments (PPAs). The VLSSs are nationally representative sample surveys and were carried out by the General Statistics Office (GSO). Some 4,800 households were included in the first VLSS and about 6,000 households were covered in the most recent survey. The location for the four PPAs were chosen to represent the diversity of geographic, physical, and social circumstances which poor households face. They were conducted in the Provinces of Lao Cai, Ha Tinh, Tra Vinh, and in Ho Chi Minh City.

This chapter is mainly based on the three following documents that refer to the findings of the VLSSs and the PPAs: National Centre for Social Sciences and Humanities / UNDP (2001); PWG (1999); PTF (2001d).

### 3.1 Reform Process and Poverty Reduction in the 1990s

#### The “*doi moi*” Reform Process

Before the fundamental renovation programme (“*doi moi*”) was launched, Vietnam was a country with a low level of development, heavily damaged by the war. Both its economy and its society were dominated by agriculture. The socialist principles of central planning and collective ownership guided the state's development policies. Despite its low level of economic development, Vietnam has made good achievements in social areas like education and health.

In the early 1980s, weaknesses in the central planning model began to become obvious. Economic growth stagnated, inflation rose rapidly, and chronic shortages in basic consumer goods occurred. People had very limited opportunities to choose employment and to earn decent incomes. The collectivisation in agriculture which had begun in the 1950s in the North and the late 1970s in the South led to a sharp decline in agricultural production.

In response to these economic and social problems, the government introduced some market-oriented reforms, mostly at the micro-level. The most important measures gave enterprises and farmers the autonomy to buy and sell through free market transactions. But the microeconomic reforms turned out to be insufficient. Although the economy started to grow again, high inflation persisted, and people's living standards remained very low. In the mid-1980s, over 70 % of the population were considered poor as measured by the international poverty line.<sup>12</sup> The failure of the reforms proved that successful macroeconomic reforms were impossible unless the central planning model itself was transformed.

The Sixth Party Congress held in December 1986 officially endorsed the programme of renovation (*doi moi*). This programme is a comprehensive

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12 See the definitions of poverty lines in Box 1, p. 16.

reform agenda that aims at transforming the central planning system into a market economy with a socialist orientation (“leading role of the state”). It further envisages integrating Vietnam’s economy regionally and globally. Implementation of the reforms started out in 1987 and were accelerated in 1989.

### **Agricultural Sector Reform**

The agricultural sector reform is especially important for broad poverty reduction and for the Vietnamese economy as a whole. 75 % of all Vietnamese and 90 % of the poor live in rural areas, and the share of agriculture in GDP was 24 % in 2000. Two main developments can be distinguished. First, agricultural sector reform increased agricultural productivity, and second, it diversified production. The reform improved the incomes and the living standards of rural households dramatically.

As early as 1981, de-collectivisation policies began with the adoption of the product contracting system that gave farmers more autonomy in producing and selling their products. Together with Decree 10, which defined farm households as autonomous economic units, and other reform measures such as price liberalisation and unification of the multiple exchange rate in 1989, framework conditions were set to dissolve collectives. Land (land use rights) was distributed among farming households.

The Land Law of 1993 gave land users the right to transfer, exchange, lease, inherit and mortgage their land use rights. The strengthening of property rights to land gave farmers the opportunity to use and manage their land in a self-responsible way. Hence, reforms increased productivity and diversified agricultural production.

The output of rice, which accounted for 45 % of all agricultural revenues and provided two-thirds of the country’s food supply in 1998, has more than doubled over the last 15 years. Vietnam has developed from a food importer to the second largest rice exporter in the world.

The decollectivisation policies encouraged farmers to work more efficiently and increase yields. But compared to countries which use more capital-intensive methods, Vietnam still has scope for further increasing paddy yields. At present, 29 % of annual crop land is not irrigated, and only three-quarters of paddy land is planted with high-yielding varieties.

According to the VLSS, average rice revenues increased by more than 20 % between 1993 and 1998. In the same period, rice prices have increased due to increased international prices and the unification of the exchange rate. Therefore, it is the rice price that accounted for the majority of the increase in rice revenues, though increased yields per hectare as well as an expansion of the cultivated area were also important factors here.

Increased revenues are not limited to rice production and have affected the overall agricultural sector. Between 1993 and 1998, agricultural incomes grew by 61 % on average, and agricultural GDP grew between 4% and 5% annually during the last decade. These annual agricultural growth rates are among the highest in the world and are equal to those for China and higher than those for Thailand, Indonesia, Malaysia, and the Philippines during similar periods of rapid growth and development.

One important reason for these impressive growth rates is the transformation of Vietnam’s agriculture from rice mono-cropping into diversified agricultural production during the 1990s. Starting from a low share of agricultural production in 1993, revenues from perennial crops (coffee, tea, rubber, among others) and fruit trees more than doubled by 1998. Livestock (especially pigs, poultry) and aquaculture, particularly in coastal areas, now account for over 30 % of all agricultural revenues.

In addition, diversification of off-farm activities also played an important role. From 1993 to 1998, incomes from non-farm activities grew by 30.5 % and are now the second main income source in rural Vietnam. The Participatory Poverty Assessments have shown that agricultural diversification

is among the most important factors for increasing rural living standards.

The increase in agricultural output also reduced hunger substantially. Prior to *doi moi*, Vietnam had to import food, despite the fact that it was an economy based on agriculture. On average, Vietnam imported one million tons of rice annually. Since the implementation of *doi moi* reforms, food production has grown at a rate 2.5 to 3 times that of the population rate, which raised the average annual food production per capita from 281 kg to 400 kg in 1997. Even in years of natural disasters like in 1999, food security was largely maintained.

Taken together, the agricultural reforms have led to agricultural diversification and augmentation of agricultural incomes that played a critical role in reducing poverty in the 1990s.

Agriculture remains the largest sector in terms of employment; but the share of agriculture in output and employment is declining. It is industry and services that are expected to be the main source of growth and employment in the future. Between 1993 and 1998, the structure of the economy was already changing. The share of agriculture in GDP fell by over 6 percentage points to about a quarter of GDP, while the share of industry expanded from 27 % to 33 %. Compared to the average annual growth rate of 8.4 % between 1993 and 1998, the industrial sector expanded most rapidly, at 13.0 % annually.

### Private Sector Development

Macroeconomic reforms started in 1989 and eliminated production and consumption subsidies. A **price reform** abolished controlled prices for most goods and services. The budget was no longer financed by credits, and interest rates on loans to state-owned enterprises (SOEs) were raised above the level of inflation.

In addition, **reforms of the financial sector** eased collateral requirements and gave more autonomy to commercial banks. The reforms improved ac-

cess to formal credits for the rural population as well as for enterprises. More than half of all farmer households now have access to credit.

A fundamental policy shift regarding **state-owned enterprises** began to take shape at the end of the 1980s. Direct fiscal subsidies for SOEs were eliminated, and loans to SOEs were controlled more carefully. Furthermore, market pricing was introduced for inputs and outputs of SOEs. The reforms were successful inasmuch as profitability and performance have improved. The number of SOEs reporting losses has decreased. About 500 smaller SOEs have been "equitised," i.e. their shares have been distributed among employees, the state, and external investors.

But adjustments have had high social costs. About 800,000 employees – one third of the state-enterprise labour force – left the sector between 1988 and 1992, the period that experienced most lay-offs, and the number of firms declined from 12,000 to 7,000.

Overall, the importance of SOEs for Vietnam's economy is still high, especially in capital-intensive sectors. The state sector, including government administration, accounts for around 40 % of GDP. SOEs absorb half of all credits, while their contribution to employment is small: they account for only 9 % of total employment.

On the other hand, *doi moi* has made it possible to create new jobs, nearly all in the private sector, during the last 10 years. These new jobs have compensated for the lay-offs in the state sector. Between 1993 and 1998, overall employment grew by about 1.8 % annually. The engine of employment growth has been the service sector. Although the output of the service sector grew only at 8.3 % annually between 1992 and 1998, compared to industrial GDP growth of 13 %, the service sector accounts for 43 % of all wage jobs and was the fastest-growing creator of jobs between 1993-1998. Annual employment growth rates were 6 % in the service sector, compared to 4 % in the industrial sector and only 0.4 % in agriculture.

The new **Enterprise Law** that came into effect in January 2000 significantly lowered the costs and efforts involved in registering a private enterprise by simplifying and removing licensing requirements. On average, 1,200 new small and medium enterprises (SMEs) have registered each month since then, considerably more than beforehand. 70 % of these new registrations are start-ups and are adding to domestic investment.

The private sector, including private agricultural activities, now accounts for more than 90 % of all

both ASEAN and AFTA, has signed a Bilateral Trade Agreement with the USA, and envisages joining the World Trade Organisation (WTO) in the near future.

This process of liberalisation and opening up has increased the participation of private firms in foreign trade and attracted foreign investment. The

domestic private sector's share in the value of non-oil exports rose from 12 % in 1997 to 22 % in 2000, and the value of imports increased from 4 %

	<b>Vietnam</b>	<b>Republic of Korea</b>	<b>China</b>	<b>Thailand</b>
Period	1991-1997	1970-1992	1970-1992	1970-1992
GDP Total (%)	9.0	9.5	9.1	7.7
– Agriculture	5.0	3.1	5.4	4.2
– Industry	13.0	13.2	11.2	7.7
– Services	10.0	9.4	11.0	7.5

Source: World Bank et. al. (1998), p.7

employment in Vietnam. Private firms have more incentives to invest in labour-intensive activities than SOEs and foreign investors, given the endowment of productive factors in Vietnam. The labour-intensive growth generated by the private sector will be crucial to creating new jobs in the future.

Another reason why the government has promoted the private sector and launched market-oriented reforms since the 1990s is the envisaged **integration into the international economy**, i.e. increasing international trade and attracting foreign investments. The trade regime has opened up gradually. Private enterprises were allowed to engage in foreign trade, first by obtaining a license, and since 1998 without any restrictions. Export taxes were reduced on many products and export quotas were removed. On the import side, quantitative restrictions were removed on seven commodity groups and the maximum tariff was reduced to 50 % (with some exceptions). But import restrictions remain high in areas dominated by state-owned enterprises. Vietnam is now a member of

to 16 %. Exports rose at 20 % annually, and foreign direct investments accounted for up to 30 % of gross investments in Vietnam in the mid-1990s.

Taken together, the *doi moi* policies initiated in the late 1980s have led to rapid economic growth and a structural shift towards the private sector and export-oriented production. With a delay of two decades, Vietnam is now seeking to catch up with the group of high-growth Asian countries that also have recorded impressive gains in poverty reduction in the past (see Table 1).

### **Effects of *doi moi* on Poverty Reduction**

Poverty has decreased substantially in Vietnam during the *doi moi* reforms due to impressive output figures and income growth. In the mid-1980s, average per capita income was around US\$ 170. Over 70 % of the population were considered poor as measured by the international poverty line (see Box 1). During *doi moi*, poverty fell to 37 % in 1998 and GDP per capita increased to US\$ 400. The

number of people below a “food poverty line” which is lower, also declined from 25 % to 15 %, indicating that even the very poorest segments of the population experienced improvements in their living standards between 1993-1998. While poverty incidence is still high in Vietnam, almost no other country has recorded such a sharp decline in poverty in such a short period of time.

The diversified economic structure as well as increased competition between the SOE sector, the private sector and the FDI sector in attracting skilled workers have increased income levels substantially. Income has more than doubled over the last 15 years and average monthly per capita income grew by 75 % between 1994 and 1999.

The outcomes of *doi moi* in terms of reduced income poverty and improved food security have paved the way for progress in various aspects of well-being:

- Ownership of consumer durables – such as radios, television, and bicycles – have gone up. In 1998, 47 % of households owned a radio, 58 % a television, and 76 % a bicycle.
- Malnutrition has declined from about half the population to a third, but it remains high among girls and boys below the age of 5 years.
- Research suggests that there have been additional benefits. Households report a greater sense of control over their livelihoods, reduced stress, fewer domestic and community disputes. They express optimism that life will continue to get easier in the future.

These improvements in material and non-material aspects have been widespread. All regions and all groups have benefited, though at different rates. Both the incidence and the depth of poverty have declined in rural and urban areas as well as in all seven geographic regions of Vietnam.

But the gains in poverty reduction remain fragile. Because many individuals were positioned close to the poverty line in 1993, modest improvements have been sufficient to pull them over the poverty line. A relatively small deterioration in living standards would be sufficient to push them back below the poverty line.

Apart from reducing material poverty, Vietnam has made impressive gains regarding the social dimension of poverty in recent years. According to the commonly used social indicators, Vietnam has a better performance than countries with similar income levels. Two reasons typical for socialist countries can explain this phenomenon. First, income inequality, at least up until recent years, was less significant than in other poor countries. Second, the government places high priority on social sectors. Public expenditures on social services, including health and education, rose to over 6 % of GDP in 2000, which is more than a third of all public spending. Efforts to improve broad education were reinforced during *doi moi*. Even in the early 1990s, when overall public expenditures were reduced, expenditures for education remained stable.

As a consequence, many education indicators have improved. School enrolment rates have improved for both girls and boys. Primary school enrolment rates were already high and have increased further to around 90 %. Lower secondary rates have doubled and are now around 60 %. Upper secondary enrolment has increased dramatically, from 6 % to 27 % for girls and from 8 % to 30 % for boys, reversing the downturn in upper secondary enrolment seen in the late 1980s and early 1990s.

But some challenges in education persist. In spite of the recent improvements, the gender gap is still significant at higher levels of education and is wider among the poor and in rural areas. The national completion rate is less than 70 %, with significant regional variations. The drop-out rate for children belonging to poorer households is 40 %. This can be explained by increased private school fees and other related costs, which are too high for the poor.

Like the education sector, the health sector has always been a high priority for the government.

**Box 1: Poverty Lines Used in Vietnam**

Two poverty lines are used in Vietnam; each for a different purpose:

1. The *international poverty line* is based on the Vietnam Living Standard Survey (VLSS) that was conducted in 1992/1993 and 1997/1998 by the General Statistical Office (GSO). This poverty line is based on the minimum consumption level of both food (70 %) and non-food items (30 %). Taken together, the general poverty line amounts to VND 1,789,871 (US\$ 128, using nominal exchange rates) in 1998. This poverty line is not directly comparable to the more common poverty line of US\$ 1 per person per day (Purchasing Power Parity). Also defined by the GSO, the *food poverty line* is lower than *the international poverty line* because it is oriented to the minimum expenditure required to satisfy a minimum nutritional need of 2,100 calories per person per day. 1997/98 it was fixed at VND 1,286,833 per person per year.

2. The *national poverty line* is determined by the Ministry of Labour, Invalids and Social Affairs (MOLISA), and is differentiated per region. For the period 1996 - 2000 it was set at the income equivalent of buying 15 kg of rice per month in mountainous and remote areas, 20 kg in rural and 25 kg in urban areas. MOLISA recently decided to increase the poverty line to allow more people to benefit from anti-poverty programmes and to broaden the definition of poverty beyond the focus on food supply. The new line is based on per capita income of VND 80,000 (US\$ 5.50) per month for island and rural remote areas, VND 100,000 (US\$ 6.90) for plains rural areas, and VND 150,000 (US\$ 10.30) in urban areas. Poor communes are defined as those having an incidence of poverty exceeding 40% and lacking basic infrastructure.

Source: United Nations Country Team (2001), p. 8

Therefore, Vietnam's performance in terms of health is better than that of countries with similar income levels. The health system has been further expanded and improved during *doi moi*, and has also been partially liberalised. The number of private pharmacies has grown rapidly, and together with the introduction of user fees, liberalisation has resulted in high private spending on health. Inequality in access to health services and in health outcomes are widening. The dominant use of public hospitals by rich segments of the population and the greater representation of the top quintile among health insurance members are examples of uneven opportunities in the health sector. Therefore, one of the key challenges for public health is to improve accessibility to health services, particularly for the poor and for people living in remote areas.

### 3.2 Characteristics of Poverty

Most recent information on poverty is based on four participatory poverty assessments which formulated by the World Bank and DFID in partnership with Action Aid Vietnam, Oxfam, and

Vietnam-Sweden Mountain Rural Development Programme.<sup>13</sup>

Poverty remains largely a rural phenomenon, but the vast majority of poor households report that living conditions have improved in recent years. 90 % of the poor live in rural areas, and 80 % of the poor work in agriculture. An important cause for the reduction in poverty appears to be the ability of poor people to diversify their incomes and become less vulnerable to shocks and crises. Only few households report deterioration in their livelihoods. However, in the remote highland areas improvements appear to be taking place more slowly. The three poorest regions are the Northern Uplands, the Central Highlands, and the North Central Coast.<sup>14</sup>

The poor are predominantly farmers with low levels of education and limited access to information and functional skills. The highest incidence of poverty (57 %) is among those who have not even completed primary education. Poor households have small landholdings and landlessness is le-

<sup>13</sup> See World Bank, et. al. (1999).

<sup>14</sup> See Annex 7.

coming more widespread. These households are vulnerable to seasonal, household-specific, and community-wide shocks. Households that are unable to make a living from the land find few opportunities for stable income generation off the farm.

The rural-urban income poverty gap is widening as a consequence of the uneven growth in different sectors. Between 1993 and 1998, incomes increased by 130 % in urban and 60 % in rural areas. In the same period, rural income poverty decreased from 66 % to 45 %, while poverty in urban areas decreased from 25 % to 9%. Even in rural areas poverty is decreasing; but as a consequence of lower agricultural growth rates, rural income poverty is declining at a slower pace.

Migration to urban areas, mainly to Ho Chi Minh City and Hanoi, is therefore on the increase. Between 1989 and 1999, the share of the population living in urban areas rose from 19.4 % to 23.5 %. Although the incidence of poverty in urban areas is less than 10 %, deep poverty persists in urban areas. Especially migrants to urban areas who have not secured permanent registration face difficulties in accessing public services and may also be socially marginalized.

Poverty among ethnic groups has declined, but not as rapidly as for the majority of the population. In 1998, poverty among the ethnic Vietnamese, the Kinh, decreased to 31 %, while 75 % of all members of ethnic minorities are still income-poor. Ethnic minorities face many specific disadvantages. These can be summarised as difficulties related to remoteness, inadequate infrastructure and physical and social isolation. Ethnic minorities also participate less in public decision-making, since they are underrepresented in local administrations.

One underlying cause of these disadvantages is the alienating effect of being unable to speak the national language fluently. In addition, one group in the PPAs raised the problem of negative ethnic stereotypes held by ethnic Vietnamese. By contrast, official policy emphasises the need to respect cultural differences.

Households with many children or few labourers are disproportionately poor and particularly vulnerable to high and variable health and education costs. The poor tend to have disproportionately many children. Poor children are less able to attend school and are trapped in a cycle of inherited poverty.

### 3.3 Challenges for Further Poverty Reduction

Future poverty reduction efforts will have to cope with new challenges. Compared to the 1990s, the situation has changed: there are severe limits to further increase in agricultural employment, international competition for Vietnamese enterprises is rising, and social and regional disparities are more difficult to tackle.

#### Limits to Agricultural Employment

During 1993-1998, agricultural diversification was one of the main sources of poverty reduction. Even though the agricultural sector continues to grow (4.0 % estimated for 2000)<sup>15</sup>, it may not be able to grow as fast in the future, because the availability of arable land is limited. Landlessness has already become a problem in certain regions. Therefore, increased yields, more diversified agricultural production, and off-farm employment in rural areas will need to play a more important role in rural poverty reduction.

To **increase yields**, more capital and more technology are needed. Rural finance therefore needs to be overhauled as a key part of overall banking reform. The PPAs show that most rural households still rely on informal credit sources. To improve technology, scientific advances in the rural sector are needed. In consequence, spending on agricultural research and extension services will have to be increased. Vietnam only spends 1.7 % of its agriculture budget on research and extension

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15 See CIEM (2001), p. 110.

<b>Table 2: Social and Economic Indicators of Vietnam</b>		
<b>Social Indicators</b>	<b>Value</b>	<b>Year</b>
Population size	77.7 m	2000
Population growth rate	1.42 %	2000
Life expectancy at birth	68.3 years	1999
Real GDP per capita	US\$ 400	2000
Poverty headcount ratio (percentage of population below international poverty line)	37 %	1998
Poverty headcount ratio (percentage of population below national poverty line)	17 %	2001
Human Development Index (out of 174)	108	2000
Estimated HIV prevalence rate among adults 15-49 years	0.22 %	2000
Population with access to safe water supplies	51.8 %	2000
Ratio of social service to public expenditures	34 %	1999
Proportion of underweight children (under 5 years)	33.8 %	2000
Illiteracy rate among adults	7 %	1998
Illiteracy rate among women	9 %	1998
Net primary enrolment rate	94.8 %	1999
Ratio of girls to boys in primary education	98.1 %	1998
Ratio of education expenditures to GDP	2.0 %	1999
Under-five mortality rate (per 1,000 live births)	42	2000
Maternal mortality ratio (per 100,000 live births)	100	1999
<b>Economic Indicators</b>	<b>Value</b>	<b>Year</b>
Ratio of Budget Deficit to GDP	-1,8 %	2000
Inflation rate (consumer Prices)	-1,8 %	2000
Export growth	25.2 %	2000
Ratio of debt service to export revenues	7.1 %	2000
Foreign debt (US\$)	12.8 billion	2000
Foreign currency reserves in monthly imports	2.3	2000
Sources: BMZ (2001c); United Nations Country Team (2001), p. 6; World Bank (2001c)		

compared to 6% in China and around 10 % in Thailand and Malaysia.

A **more diversified crop mix** is also crucial for rural income and output growth. While, in principle, farmers are nowadays free to produce crops of their choice, they face restrictions from local officials if they try to switch from paddy cultiva-

tion to other crops, because a there continues to be a strong political will that Vietnam must be self-sufficient in food production. These restrictions prevent farmers from choosing crops with higher returns and from spreading their risk across a number of income sources.

**Increased off-farm employment** will have to absorb surplus labour if labour productivity in agriculture is to be increased. However, administrative constraints and shortage of capital are impeding the development of the rural non-farm sector. First, the influence of agricultural SOEs on input, output, and export marketing is still high. Second, the land law has not been implemented fully. The mechanisms for administering land transactions at the provincial level are still not in place. Third, improved access to loans is particularly important for increasing yields, but also for the development of the rural off-farm sector. Without the development of rural off-farm employment, high rural underemployment, migration to the cities and urban poverty are bound to increase.

### **The Private Sector Faces Increased International Competition**

Even if rural development continues successfully, migration to urban areas can be anticipated. Therefore, the private sector, both in rural and in urban areas, has to be the main source of employment generation in future. Employment growth in the state sector is limited due to the ongoing reforms mentioned above. Even if state enterprises were to grow, they are unlikely to be a great source of employment because they focus on capital-intensive activities.

But private sector development faces new challenges due to increased international competition for enterprises. As mentioned above, Vietnam is already a member of regional trade agreements and is aiming at further integration into international trade regimes.

The World Bank estimates that recently adopted trade reforms will increase employment, incomes and consumption of all income groups over the medium term, even though some households will suffer from short-term unemployment when labour is reallocated across sub-sectors. On average, the increases in labour for expanding sectors would compensate for contractions in highly protected, import-competing sectors. However, this

optimistic scenario will only materialise if further market-oriented reforms are implemented that enhance the domestic and international competitiveness of Vietnamese products.

The necessary reforms include: improving private sector access to land and credit, simplifying market entry for new enterprises by reforming business licensing practices, facilitating the formation of business associations for private sector enterprises, and fully lifting limits on the use of agricultural land for industrial purposes. All this requires a more complex policy mix than the *laissez-faire* approach of the 90s, which unlocked private initiative but did not lead to the formation of many internationally competitive enterprises.

### **Targeting Disadvantaged Groups and Regions**

Even with high growth, there will be some groups of the poor that will not benefit as much as others. In the past, the achievements of poverty reduction due to high growth rates were unevenly distributed among groups and regions. As a result, the social gap is widening. Given that resources for social transfers are limited, improved targeting of scarce resources for poverty alleviation is crucial.

The PPAs and the VLSS 1998 indicate that government programmes are not necessarily reaching the poor and have weak coverage, because Vietnam's social welfare system is dominated by social insurance payments to public employees. The poorest quintile of the Vietnamese population has the lowest ratio of social welfare income to household income. In addition, fewer than 7% of the poorest quintile receive transfers from public poverty programs. Thus, to improve targeting and better reach the poor, it is essential to revise the institutional structures and processes for transfer and safety net provision. Furthermore, programme co-ordination can be improved by institutionalising universal rules for the implementation of existing programmes at the local level.

In addition, the safety-net function of social welfare spending must be strengthened. The trans-

formation of Vietnam's economy towards a market economy is increasing self-responsibility regarding economic and natural risks. There is therefore a need for a safety net system that serves as insurance in cases of household-level and community-level shocks. Especially for the latter case, risk pooling at the national level is needed.

In sum, the new challenges of high non-agricultural employment growth, increasing international competition and widening social and regional gaps require an approach to poverty reduction which differs from the successful strategy of the 1990s. It was appropriate, therefore, that Vietnam and the donor community embarked on a dialogue on poverty reduction even prior to the PRSP. The following chapter outlines how this dialogue eventually led to the CPRGS of May 2002.

## 4 The PRSP Drafting Process in Vietnam

This chapter is divided into three parts: *First*, strategic approaches to reduce poverty prior to the PRSP process are described. *Second*, an overview of the drafting process and content of the Interim Poverty Reduction Strategy Paper (I-PRSP) is given. *Third*, the drafting process of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) is assessed according to the three process principles.

### 4.1 Strategic Approaches to Reducing Poverty Prior to the PRSP Process

#### 4.1.1 Participatory Poverty Assessments and the Poverty Working Group

During the 1990s, international development paradigms converged on poverty reduction as the predominant goal. This convergence gave rise to a stronger need for sufficient poverty analysis.

In early 1998, a new Poverty Assessment (PA) for Vietnam was launched by the World Bank. The

first PA for Vietnam had been carried out on the basis of the 1992/1993 Vietnam Living Standard Survey (VLSS). Data for the second VLSS were collected during 1997 and 1998, and the survey results were available in early 1999. The new PA was to be carried out in partnership with central and local governments as well as with donors and NGOs. The aim was to have a joint PA which could serve all these groups. According to standard practices, the PA was to be based on both quantitative (VLSS) and qualitative information (Participatory Poverty Assessments).

The two VLSS were carried out with financial support from UNDP and SIDA. The World Bank and DFID provided technical support for the jointly produced PA. Four international NGOs which were already involved in certain PPA-related activities in Vietnam were identified as PPA partners. In February 1999, the World Bank proposed to the Ministry of Planning and Investment (MPI) the establishment of a joint government-donor-NGO Poverty Working Group (PWG).<sup>16</sup> It was to be a platform for the joint dialogue on poverty issues (see Table 3).

In early 1999, the planning stage of the PA was complete: one year after the initial discussion concerning the need for a new PA, all key players at the national level had been engaged. The required resources were available and a mechanism for collaboration was in place. The PA was supposed to be a report of the PWG (not only of the World Bank), to be presented and debated at the December 1999 Consultative Group (CG) Meeting in Hanoi.

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<sup>16</sup> The PWG was one of over 20 government-donor-NGO groups that have been founded in Vietnam since 1998. Partly, they are a result of Vietnam being a pilot country for the World Bank's Comprehensive Development Framework (CDF). The aim of the partnership groups is to enhance co-ordination between the different stakeholders and thus to achieve a more efficient allocation of internal and donor funds. For further information on the partnership groups see Chapter 6.4.

<b>Government and Mass Organisations</b>	<b>PPA Partner Agencies</b>	<b>Donors</b>
<ul style="list-style-type: none"> <li>– Ministry of Planning and Investment (MPI)</li> <li>– Ministry of Finance (MOF)</li> <li>– State Bank of Vietnam (SBV)</li> <li>– Ministry of Agriculture and Rural Development (MARD)</li> <li>– Ministry of Labour, Invalids and Social Affairs (MOLISA)</li> <li>– General Statistics Office (GSO)</li> <li>– Committee on Ethnic Minorities and Mountainous Areas (CEMMA)</li> <li>– Women's Union</li> </ul>	<ul style="list-style-type: none"> <li>– Oxfam Great Britain (OGB)</li> <li>– Action Aid Vietnam (AAV)</li> <li>– Save the Children United Kingdom (SC UK)</li> <li>– Vietnam-Sweden Mountain Rural Development Programme (MRDP)</li> </ul>	<ul style="list-style-type: none"> <li>– United Kingdom Department for International Development (DFID)</li> <li>– Swedish International Development Agency (SIDA)</li> <li>– United Nations Development Programme (UNDP)</li> <li>– World Bank</li> </ul>

Source: World Bank (2001d)

The four PPAs were carried out in different provinces (Lao Cai, Ha Tinh, Tra Vinh, Ho Chi Minh City) and were supported by the four PPA partner agencies. The *Voices of the Poor* report is a synthesis of the four PPAs.<sup>17</sup> The subsequent report *Attacking Poverty*<sup>18</sup> goes one step further, establishing a framework for poverty reduction on the basis of the four PPAs. This framework corresponds to the three main dimensions of poverty reduction of the World Bank's World Development Report 2000/2001<sup>19</sup>. According to the report, *opportunities* must be created, *equity* ensured and *vulnerability* reduced to achieve sustainable poverty reduction. Finally, the third part of *Attacking Poverty* sets out the main challenges on the way towards a Comprehensive Poverty Reduction Strategy. The intention of the report was to present the critical issues involved in attacking poverty and to generate a policy debate. It did not conclude with policy prescriptions but raised questions to be discussed between all of the par-

ties involved in the economic and social development process in Vietnam.

In December 1999 *Attacking Poverty* was presented at the Consultative Group (CG) meeting in Hanoi. 20 local NGOs were invited to participate in the opening session and to contribute to the discussion of the report. The CG meeting endorsed the PA.

#### **4.1.2 The Development of the Poverty Alleviation Strategy**

Even prior to the PRSP process, Vietnam already had a *targeted* poverty reduction strategy, the *Hunger Eradication and Poverty Reduction Strategy (HEPR)*, administered by the Ministry of Labour, Invalids and Social Affairs (MOLISA) since the mid-1990s.

After the December 1999 CG meeting, the Prime Minister asked MOLISA and the PWG to jointly develop a new poverty reduction strategy for Vietnam. This strategy was meant to support Vietnam's Five Year Plan and the Ten-year So-

17 See World Bank, et. al. (1999).

18 See PWG (1999).

19 See World Bank (2000).

cio-Economic Development Strategy 2001-2010, which were prepared in parallel in the course of the year 2000.

For the development of the Poverty Alleviation Strategy, the PWG was expanded to form an information-sharing group including more donors and NGOs. The *Poverty Task Force (PTF)* was established as a smaller working group. The composition of the PTF is altered from time to time to reflect changes in its function. The PTF meetings are co-chaired by Government and a representative of the donor community.

Together with the new Ten-year Socio-Economic Development Strategy 2001-2010, the Poverty Alleviation Strategy 2001-2010 was discussed and adopted at the ninth Party congress in April 2001. This strategy was, like its predecessor, the HEPR, a targeted strategy focusing on specific programs for poor and vulnerable groups. As one of the sector strategies under the Ten-year development Strategy, it did not have the broad policy coverage proposed in the *Attacking Poverty* report.

## 4.2 The Interim Poverty Reduction Strategy Paper (I-PRSP)

### 4.2.1 The Drafting Process of the I-PRSP

Due to the new requirements for concessional lending by the World Bank and the IMF, the Government of Vietnam had to draft an IPRSP in parallel to the development of the Poverty Alleviation Strategy. The IPRSP relied on the same analytical base, but it was broader in scope since it had to contain a macroeconomic framework as well as a programme for the major structural policies to be carried out by Vietnam as the basis for the PRSP/PRGF loans.

In May 2000, the World Bank and the IMF informed Vietnam's authorities about the I-PRSP requirements. Thereupon, the government appointed the MPI, and not MOLISA, to be the lead agency for drafting the I-PRSP. In September and

October 2000, consultations on the IPRSP took place and a draft was distributed to the donor community. In March 2001, the I-PRSP was presented to the boards of the World Bank and the IMF. This cleared the way for the first PRSC (US\$ 250 million) and PRGF (US\$ 368 million) credits for Vietnam to be signed.

### 4.2.2 The Contents of the I-PRSP

The I-PRSP<sup>20</sup> focuses on sustainable economic growth as the key to poverty reduction. It states: *"The Government of Vietnam [...] believes that a strategy to achieve high and sustainable growth will narrow the economic development gap between Vietnam and other countries in the region and the world, generate resources to raise the welfare and living standards of the people, and reduce poverty."*

The growth and poverty reduction objectives are the following:

- Doubling the country's GDP between 2000-2010 (average GDP growth of 7 %).
- Maintaining macroeconomic stability; creating a sound international balance of payments position; increasing the export growth rate to over twice the GDP growth rate; augmenting foreign exchange reserves; controlling the budget deficit, inflation and foreign debt; raising domestic savings.
- Modernising the country's economic structure; promoting balanced growth between the country's regions; continuing to increase food production; contributing to socio-economic stabilisation; improving rural people's living standard; eradicating hunger and reducing poverty.

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<sup>20</sup> See Socialist Republic of Vietnam (2001).

**Box 2: Timetable of the PRSP Process in Vietnam***Strategic Approaches to Reduce Poverty Prior to the PRSP Process*

- 03 1999 First Meeting of Poverty Working Group (PWG)
- 03-09 1999 Participatory Poverty Assessments (PPA) training, fieldwork, analysis and drafting; national synthesis report based on PPAs: *Voices of the Poor*
- 06 1999 Mid-term Consultative Group (CG) Meeting (Hai Phong)
- 10-11 1999 PWG reviewed findings of both VLSSs and PPAs; the two types of poverty assessments (quantitative and qualitative) were integrated in the *Attacking Poverty* report
- 14-15 Dec. 1999 Seventh CG Meeting (Hanoi): PWG presented the *Attacking Poverty* report
- 01 2000 PWG was considerably enlarged and Poverty Task Force created
- 22-23 June 2000 Mid-term CG Meeting (Da Lat)
- 04-06 July 2000 MOLISA and World Bank Planning Workshop (Sa Pa): Development of a poverty reduction strategy

*The I-PRSP Process*

- 08-10 2000 Work on I-PRSP initiated; Poverty Task Force review workshop of the draft I-PRSP
- 14-15 Dec. 2000 Eighth CG Meeting (Hanoi)
- 14 March 2001 Completion of I-PRSP

*The CPRGS Process*

- 22 March 2001 IMF and World Bank Joint Staff Assessment of the I-PRSP
- 06 April 2001 IMF approved US\$ 368 Million PRGF Arrangement for Vietnam
- 19-22 April 2001 Ninth Party Congress of the Communist Party of Vietnam: Approval of Socio-Economic Development Strategy 2001-2010
- 06 June 2001 World Bank approved US\$ 250 Million PRSC Arrangement for Vietnam
- 18-19 June 2001 Mid-term CG Meeting (Hoi An)
- 06/07 2001 Government of Vietnam established the inter-agency drafting unit led by MPI
- 07-10 2001 Research themes to support the CPRGS were identified; eight thematic studies were carried out, seminars were conducted
- 17-19 Sept. 2001 Poverty Task Force (PTF) Workshop (Hai Phong): Adaptation of the Millennium Development Goals to the Vietnamese context
- 04-06 Dec. 2001 Regional Conference on National Poverty Reduction Strategies (Hanoi)
- 07-08 Dec. 2001 Ninth CG Meeting (Hanoi): Government of Vietnam/MPI presented the outline of the CPRGS
  
- 12 2001 Commune Consultations on the I-PRSP
- 02 2002 Completion of the first draft of the CPRGS
- 15 March 2002 Completion of the second draft of the CPRGS
- 23 April 2002 Completion of the fourth draft of the CPRGS
- 02-04 2002 National consultation workshops on the draft CPRGS
- 05 2002 Completion of the CPRGS

} Submission of the draft  
CPRGS to the  
stakeholders for comments

Source: Own database

- Continuing to implement the hunger eradication and poverty reduction programme by means of programmes targeting the poor and based on essential infrastructure projects and major transport links.
- Creating a favourable environment to achieve economic well-being by strengthening productive capacities.
- Providing a social allowance to those living under especially difficult circumstances; consolidating the gains in hunger eradication and poverty reduction.
- Reducing the incidence of poverty to less than 10 % (national poverty line) by 2005.

### 4.2.3 The Joint Staff Assessment of the I-PRSP

The Joint Staff Assessment<sup>21</sup> of World Bank and IMF served as a basis for the boards of the World Bank and the IMF to approve the concessional credits. According to the Joint Staff Assessment, the Vietnamese I-PRSP met the requirements for an I-PRSP and provided a good basis for the development of a full PRSP and for World Bank and IMF concessional assistance.

The Assessment identified strengths of the I-PRSP and stated necessary steps towards a full PRSP.

#### *Strengths*

- The I-PRSP was developed as part of the government's overall strategic planning process.
- Ownership during the drafting process was strong due to the fact that the document was written entirely by the government in Vietnamese.
- The process took place in a largely participatory way, including the consultation of NGOs, donors, and other organisations.

- The I-PRSP contains the results of analytical and diagnostic work concerning the poverty situation in Vietnam and identifies the challenges ahead.
- The paper describes the government's poverty reduction strategy and Vietnam's central aim of fostering structural reforms to promote employment, exports and broad-based economic growth.
- The paper specifies the direction of sector-specific interventions aimed at supporting the structural programme.

#### *Necessary steps*

- Indicators and mechanisms for poverty monitoring have to be identified.
- Gaps in poverty-related data and analysis have to be filled to be able to link proposed policy measures to poverty outcomes.
- Specific sector strategies have to be elaborated to promote the delivery of high-quality services and to ensure a strong poverty focus.
- Programmes have to be prioritised and costed to ensure affordability.
- The participatory process pursued thus far has to be strengthened to achieve broad ownership of the strategy and to ensure active consultations with the poor on programme development and implementation.
- Questions of government organisation and accountability have to be addressed by preparing the full PRSP and addressing a broadened scope of poverty reduction activities.
- It is necessary to ensure that adequate attention is paid to vulnerable groups that may not benefit automatically from structural reforms.

The challenges that the Joint Staff Assessment identified were to be addressed in a full, or comprehensive PRSP (CPRSP). The task of the CPRSP process was to make the government's broad policies and general directions more concrete and to find solutions that would fit into a specific implementation schedule.

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<sup>21</sup> See IMF / IDA (2001c).

### 4.3 Assessment of the CPRGS Drafting Process: Participatory, Partnership-oriented and Country-driven?

As indicated in the timetable in Box 2, the CPRSP, named Comprehensive Poverty Reduction and Growth Strategy (CPRGS) by the Vietnamese government, was developed within about a year's time, from June 2001 to May 2002. Figure 2 (p. 26) gives an overview over the CPRGS drafting process and its linkages.

#### 4.3.1 Participatory: Vietnamese Stakeholders in the Drafting Process

Various Vietnamese stakeholders participated in the drafting process of the CPRGS, but their involvement, contribution and impact varied. The formulation of the CPRGS was the task of the central government. Local authorities and people at the local level were heard during consultations that provided the paper with valuable inputs. In that sense, the process was participatory. However, participation of the local level was neither broad nor institutionalised. Although the Government made efforts to organise a participatory drafting process, and although recent activities aimed at institutionalising participation in the implementation of poverty alleviation programmes (particularly at the local level) are promising, there remains the challenge of getting the lower administrative levels involved in the implementation of the CPRGS.

#### Participation at the Central Level

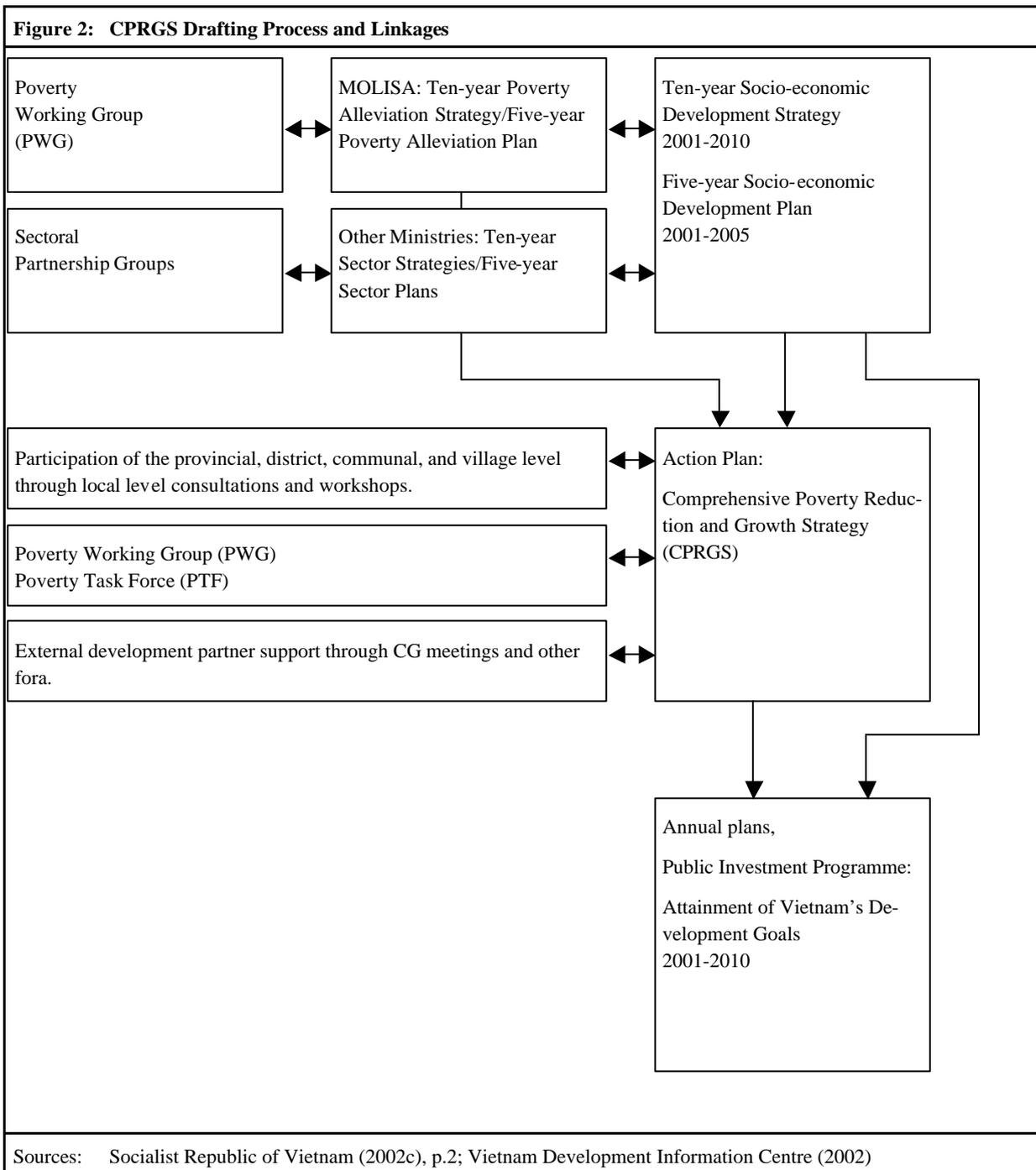
The first decision concerning the CPRGS drafting process was about which line ministry should be the lead agency: MOLISA, which was in charge for targeted poverty reduction prior to the PRSP process, or the MPI, which, as the central planning institution, had drafted the I-PRSP. The World Bank favoured upgrading the targeted Poverty Alleviation Strategy to a PRSP, but since the capacities of MOLISA were insufficient to develop a comprehensive strategy, the Government appointed the MPI to lead the CPRGS-drafting

unit. The MPI organised the overall drafting process and took on the challenge of incorporating existing strategies and adjusting them to the poverty focus of PRSP as well as to additional targets (the MDGs).

Inter-ministerial co-ordination took place in three steps: *First*, information of those who had not yet been involved, and discussion of the new aspects of PRSP. *Second*, research by ministries in their respective sectors aimed at filling in data gaps. *Third*, summary of the results and discussion, in the course of which consensus was to be reached.

The participation of the different line ministries varied from ministry to ministry as well as in terms of time. The staff members from the different line ministries delegated to work in the CPRGS drafting unit were initially not in rapport with their respective ministries. Hence, the CPRGS was from the beginning not very closely connected to the line ministries' strategies. The limited contributions of the line ministries at this stage imply that the respective officials did not consider the CPRGS as very important. It appears that during the drafting process they recognised the importance of the CPRGS and thus the participation of the line ministries increased. One reason for their increased involvement may be the pressure of the MPI and the donors to include more detailed sector-specific content in the paper. During the last weeks of the drafting process, the line ministries commend on the draft CPRGS and made suggestions for improvement.

One important task of the line ministries (especially following and in response to the comments on the first draft of the CPRGS) was the costing of the proposed actions. A World Bank "costing mission" supported several line ministries in ensuring that the CPRGS included estimates of the resource requirements of implementing the strategy, and it provided advice to the MPI on prioritising investments within the Public Investment Programme (PIP) to ensure consistency with the CPRGS and to make the PIP more poverty-focused.



<b>Box 3: Members of the Drafting Unit of the CPRGS of Vietnam</b>	
<p><i>Macroeconomic management ministries and agencies</i></p> <ul style="list-style-type: none"> <li>– Ministry of Planning and Investment (MPI)</li> <li>– Ministry of Finance (MOF)</li> <li>– State Bank of Vietnam (SBV)</li> <li>– Committee for the Reform of SOEs</li> </ul> <p><i>Sector ministries and agencies</i></p> <ul style="list-style-type: none"> <li>– Ministry of Trade (MOT)</li> <li>– Ministry of Industry (MOI)</li> <li>– Ministry of Agriculture and Rural Development (MARD)</li> <li>– Ministry of Construction (MOC)</li> <li>– Ministry of Transportation and Communication</li> <li>– Electricity of Vietnam (EVN)</li> </ul>	<p><i>Social affairs ministries and agencies</i></p> <ul style="list-style-type: none"> <li>– Ministry of Labour, Invalids and Social Affairs (MOLISA)</li> <li>– Ministry of Education and Training (MOET)</li> <li>– Ministry of Health (MOH)</li> <li>– Committee on Ethnic Minorities and Mountainous Areas (CEMMA)</li> </ul> <p><i>Other related ministries and agencies</i></p> <ul style="list-style-type: none"> <li>– Ministry of Foreign Affairs (MOFA)</li> <li>– Government Committee on Organisation and Personnel (GCOP)</li> <li>– General Statistics Office (GSO)</li> </ul>
Source: Socialist Republic of Vietnam (2002a), pp. 63-64	

However, several donors criticised the fact that the involvement of the line-ministries was not broad enough and that co-operation between Vietnamese agencies was a weak spot during the CPRGS drafting process.

Participation of non-governmental organisations at the central level was limited:

- The *National Assembly* was not involved in the CPRGS drafting process. Drafting was the sole task of the Government.
- *Mass organisations* are not part of the Government and thus did not participate in the drafting process. The *Women's Union* participated in the PRSP drafting process as a member of the PWG. When the various drafts of the CPRGS were finalised, the mass organisations had the opportunity to comment on them.
- The *private sector*, represented by the Vietnam Chamber of Commerce and Industry (VCCI), was also invited to comment on the CPRGS.

### Participation at the Local Level

The voices of the *local population*, particularly the poor, were heard during the PPAs of 1999 and the communal consultations of December 2001, which were conducted by international NGOs in collaboration with local authorities in the four provinces in which the PPAs were carried out in 1999. The consultations were conducted by the same organisations as in 1999. Two more communal consultations took place in Quang Tri and Vinh Long provinces. Like the PPAs, the communal consultations were conducted with massive support from the donors.

For the communal consultations, an adapted version of the I-PRSP was worked out to gain appropriate feedback from the local level. The purpose of the communal consultations was to identify the most urgent needs of the local population.

Province	Region	Organisation(s)	PPAs of 1999	CCs of 2001
Lao Cai	North	Vietnam-Sweden Mountain Rural Development Programme; World Bank, Voice of Vietnam, Northern Mountains Poverty Reduction Project	X	X
Ha Tinh	Centre	Action Aid Vietnam	X	X
Tra Vinh	South	Oxfam Great Britain	X	X
Ho Chi Minh City	South	Save the Children	X	X
Quang Tri	Centre	Plan International	–	X
Vinh Long	South	Catholic Relief Services	–	X

Source: Poverty Task Force

Five broad issues were discussed:<sup>22</sup>

*1. Poverty background and trends*

Living conditions have continued to improve over the past years. Although people were optimistic that policy measures and public actions set out in the I-PRSP are leading to further poverty reduction, they were sceptical about whether the proposed measures would actually be implemented as intended.

Although people were optimistic about the Government's general direction, they were concerned that the policies would generate more benefits for the better-off than for the poorest people. Improved targeting and closer investigation of the needs of the poorest groups were emphasised to ensure that the broad strategic direction is flexible enough to accommodate particular needs that this group may have.

Issues of gender inequity were not recognised as priority concerns. People generally felt that women were likely to benefit as much as men if the proposed actions were implemented as described.

*2. Creating opportunities for poor people and supporting livelihoods*

Measures to create opportunities for poor people to improve their livelihoods were identified and discussed; these included:

- Improving basic infrastructure
- Intensifying and diversifying agricultural production
- Improving participation of poor households in markets
- Developing SMEs and household enterprises
- Improving access to credit
- Training and information

*3. Improving access to quality basic social services*

The total costs of education threaten to undermine progress in achieving the education universalisation targets and have particular implications for the equity of access to education.

Curative healthcare is unaffordable for poor households, leading to real hardship and placing livelihoods under severe stress.

Current mechanisms for providing exemptions to or reducing the costs of both education and healthcare for poor households have not been broadly successful in addressing these problems and need rethinking.

<sup>22</sup> See Northern Mountains Poverty Reduction Project / World Bank (2002).

#### 4. Reducing vulnerability

Measures to help poor households to manage risk should be clear and transparent, so that poor households know what their entitlements are and how to go about claiming them.

Local initiatives to help the poor to deal with shocks should be based upon a better understanding of the differences between the needs of the poor and the needs of the better-off.

#### 5. Institutional arrangements for implementing the CPRGS

Concerns about the implementation of what was generally recognised as good poverty alleviation policies came up throughout the consultations in all of the sites. Poor people consistently requested more information, more participation, and more equality as well as more accountability and transparency on the part of decision-makers and service-providing institutions.

The results of the communal consultations were presented to the PTF and the MPI and considered in the CPRGS, particularly with regard to the costs of basic social services as well as transparency and participation issues. The results were also fed into *consultation workshops*, which were organised at the provincial level.

### Consultation Workshops

From January to March 2002, the MPI organised level to gain inputs from local stakeholders to improve the draft CPRGS.

The stakeholders represented at the four consultation workshops included provincial and district officials, representatives of mass organisations and international donor organisations. Emerging local NGOs were not heard during the communal

consultations; however, some of them did attend the consultation workshops.

All consultation workshops were organised and conducted by the MPI but financed by international donors. Hence, it is not certain whether the consultations would have taken place without the support of international donors.

One participant at the first consultative workshop at Tuyen Quang province criticised the limited participation. He gave the following reasons for his assessment:

- A high number of participants, the majority of which came from Hanoi,
- participants presented their own opinions, but not those of their institutions,
- the local population was only represented through the presentation of PPAs,
- the basis for discussion (i. e. the CPRGS draft) was not distributed until the first day of the workshop,
- the methods of discussion were not adapted to participant needs,
- the workshops lacked experts for all sectors, and thus the contribution of the workshops was restricted.

All in all, there was participation at the local level, but only to a limited extent. Communal consultations and regional workshops convey the impression of being ad hoc activities. However, the PRSP process has contributed to introducing consultative mechanisms which were new in the Vietnamese context. It remains to be seen whether these mechanisms will be sustained during the implementation of the CPRGS (Chapter 6.2).

Date	Province	Participants' origin
05./06.01.2002	Tuyen Quang	Northern provinces
28 Feb./01.03.2002	Quang Binh	Central provinces
19./20.03.2002	Ho Chi Minh City	Urban centres
21./22.03.2002	Can Tho	Southern provinces

Source: Poverty Task Force

**Box 4: The Consultation Workshop in Quang Binh Province**

The agenda of the consultation workshop in Quang Binh province included presentations and discussions on PRSP related topics.

*First*, the CPRGS was presented by a representative of MPI. The results of the communal consultations in Ha Tinh Province were presented by a representative of Action Aid Vietnam.

*Second*, group discussions took place on the following seven topics:

1. Education and Health
2. Agriculture and Enterprise Development in Rural Areas
3. Infrastructure
4. Public Expenditure Management and Community Participation
5. Governance and Participation
6. Natural Disaster Prevention, Hunger Alleviation and Poverty Reduction
7. CPRGS Implementation Monitoring and Assessment

The group discussions were supposed to find answers to three main questions:

1. Are the goals and targets selected for each sector appropriate to reducing poverty in Vietnam from the point of view of sector contributions?
2. What are the challenges involved in realising these goals?
3. What are concrete policies that need to be adopted and implemented to ensure the achievement of these goals and targets?

*Third*, the findings of the group discussions were presented and discussed at the plenary session.

People used the opportunity to feed back their concerns to the central government. One participant of the consultation workshop noted that this was the first time that the central government had come down to the provincial level to consider local opinions.

Source: GDI survey

### 4.3.2 Partnership-oriented: The Role of External Development Partners

#### Participation of the Donors in General

Donor involvement in the CPRGS drafting process was manifold in nature: Donors participated in the bi-annual CG meetings at which PRSP issues were raised; they were involved in partnership groups (sectoral partnership groups, PWG, and PTF), supported PPAs and consultations, participated in thematic studies to localise the MDGs in the Vietnamese context and commented on the draft CPRGS. The different qualities of donor involvement and their impact on the drafting process were as manifold as the various means of participation.

Only a few donors participated in the process from the outset. The World Bank was always the driving force, with UNDP and ADB acting as regular supporters of the PWG. The IMF, represented only by one person in Hanoi, was involved mainly in the framework of the CG-meetings, but also indirectly through its control over the macroeconomic developments and economic reform issues which were tied to conditions under the PRGF.

Among the bilateral donors, DFID played the strongest role, mainly because it worked in close collaboration with the World Bank and had early in the process seconded one poverty expert to the World Bank office in Hanoi. DFID was also

among the few bilateral donors which set aside funds for the support of activities of the PWG. SIDA, AusAID and CIDA were also active collaborators in the PWG. Their engagement was facilitated by the facts that they are represented in Hanoi by specialised staff and their country programming is carried out to a large extent in a decentralised way, giving them some leeway to react quickly to changing demands in the local policy process.

Japan, by far the largest bilateral donor in Vietnam, joined the PWG and the PTF at an early stage but was not very actively involved in its activities. Germany, France and the EU were not particularly involved in the process. Germany, however, was represented in the PWG through a capacity-building project at MOLISA (“Capacity building for self-help oriented poverty alleviation”) which supported the ministry in its representation in the PWG. Only in December 2001, following the CG meeting at which the first draft

of the PRSP was presented, did Germany (represented by GTZ) join the PTF, replacing SIDA, which had left the PTF due to capacity constraints.

### The Partnership Groups, the Poverty Working Group and the Poverty Task Force

Most participants in the thematic or sectoral *partnership groups* characterised their work as a “useful exercise” that provided a platform for constructive policy dialogue. Differing in the scope and depth of their work, the partnership groups supported some of the line ministries with conceptual inputs before the line ministries themselves provided their sectoral chapters to the CPRGS drafting unit. The role of the donors in these groups was mixed. According to the personal assessment of one donor agency official, about 20 % of the partnership groups are mainly driven by Vietnamese stakeholders, for 30 % of the part-

**Box 5: Members of the Poverty Task Force as of January 2002**

<i>Vietnamese ministries and agencies</i>	<i>Bilateral donor agencies</i>
– Ministry of Planning and Investment (MPI)	– Japan Bank for International Co-operation (JBIC)
– Ministry of Agriculture and Rural Development (MARD)	– Japan International Co-operation Agency (JICA)
– Ministry of Labour, Invalids and Social Affairs (MOLISA)	– United Kingdom Department for International Development (DFID)
– Ministry of Finance (MOF)	– Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)
– Ministry of Construction (MOC)	
– Ministry of Industry (MOI)	<i>International Non-governmental Organisations (INGOs)</i>
– Ministry of Justice (MOJ)	– Action Aid Vietnam (AAV)
– State Bank of Vietnam (SBV)	– Catholic Relief Services (CRS)
– Institute of Economics	– Oxfam Great Britain (OGB)
	– Oxfam Hong Kong (OHK)
<i>Multilateral donor agencies</i>	– Plan International Vietnam
– United Nations Development Programme (UNDP)	– Save the Children United Kingdom (SC UK)
– Asian Development Bank (ADB)	
– International Monetary Fund (IMF)	
– World Bank	
– Food and Agriculture Organisation (FAO)	

Source: PTF (2002)

nership groups no distinction can be drawn, and 50 % of the partnership groups are mainly driven by donors.

The *Poverty Working Group (PWG)*, and particularly the *Poverty Task Force (PTF)*, played a high-profile role. As the PTF was the main partnership group to support the CPRGS, the members of the PTF had the largest impact on the CPRGS drafting process, with the MPI on the Vietnamese side and the World Bank and DFID on the donor's side acting as the driving forces, mainly due to their continuous and high-ranking representation and their conceptual inputs to the PWG and PTF.

### Adaptation of the Millennium Development Goals to the Vietnamese Context

To support the CPRGS process, the PTF commissioned eight thematic studies to adapt the Millennium Development Goals to the Vietnamese context. This series of papers reflects a collective effort of the Government and the donors to propose a set of goals and outcome targets for poverty reduction in Vietnam.

The eight thematic studies, prepared by consultants under the guidance of donors and Vietnamese stakeholders, dealt with the following topics:<sup>23</sup>

- Eradicating poverty and hunger (World Bank, PWG)
- Reducing vulnerability and providing social protection (World Bank, ILO, ODI)
- Providing quality basic education for all (DFID, MOET)
- Improving health status and reducing inequalities (ADB, WHO)
- Ensuring environmental sustainability (WWF with donor – Government – NGO group)
- Promoting ethnic minority development (UNDP)

- Enhancing access to basic infrastructure (JICA/JBIC with infrastructure sub-group)
- Ensuring good governance for poverty reduction (ADB with a donor – Government – NGO sub-group on governance and public management indicators)

The studies served as a basis for discussions during a workshop on Vietnam's poverty reduction goals in Haiphong in September 2001. At this workshop, the MDGs were adapted to the Vietnamese context. The adapted MDGs ('Vietnam Development Goals') form the basis of the targets and indicators in the CPRGS.

### Comments on the Draft CPRGS

Between November 2002 (first draft) and April 2002 (fourth draft), the drafting unit distributed the drafts to stakeholders for comment.

A large number of donors took this opportunity to comment on the draft. Vietnamese stakeholders also commented, e.g. the Vietnam Chamber of Commerce and Industry (VCCI) on private sector promotion, or the Women's Union on gender issues. Their contribution can in part be traced through the drafts (see, for example, Boxes 7 and 8).

Some donors submitted joint statements to the drafting team. A like-minded group around DFID (Great Britain, Netherlands, Sweden, Denmark, Norway, Switzerland and Finland) pointed out the following positive aspects and made some suggestions for the improvement of the first draft.<sup>24</sup>

#### *Positive aspects*

- The CPRGS is more *comprehensive* than the I-PRSP.
- The incorporated *poverty analysis* enriches the CPRGS.

23 See PTF (2001a-h).

24 See DFID, et. al. (2002), pp. 1-2.

- The underlying *CPRGS process* was considered to be very fruitful, although the strength of the process was seen as not well-reflected in the paper itself.
- *Ownership* of the Government of Vietnam was considered to be strong.

#### *Suggestions for improvement*

- The first draft of the CPRGS concentrated on the economic and the business sector. The need of the people – especially of the poor – has to be put at the core of the strategy to shift the emphasis specifically to *pro-poor growth*.
- The *monitoring section* needs more development, with sufficient attention paid to quality aspects and outcomes. Ways to reach and to measure the *Vietnam Development Goals* need to be elaborated.
- Objectives were not sufficiently *prioritised*.
- A credible *costing practice* was still not in place.
- *Institutional and governance issues* were overlooked throughout the first draft of the paper.
- Many of the grassroots consultations pointed to a ‘gap’ between central policies and local level reality. Issues regarding this and the quality of services actually delivered need to be addressed.
- Many of the proposed actions were at a very high level of generality; more specified actions would improve the document.

If the paper were improved along these lines, the donor group indicates that “... *we would not need to write down our own donor Country Strategy Papers if the CPRGS is strong enough. Instead we – and others – could accept the CPRGS as the Vietnam Poverty Reduction Strategy and write a “country plan” setting out which parts of the*

*CPRGS we would support and how we would provide this support”*.<sup>25</sup>

The French and German governments also submitted a joint statement on the first draft, with a wide range of suggestions and critical remarks, but without indicating the far-reaching consequences for their future support as expressed by the group around DFID.

All in all, there were a great number of comments from different stakeholders on the CPRGS drafts. Some recommendations found their way into the final version, others did not. It is difficult to judge which stakeholders exerted more influence than others in this process. It is remarkable, however, that the process was open enough to provide all stakeholders with an opportunity to comment, in contrast to the usual secrecy of the Vietnamese policy-making process.

#### **4.3.3 Country-driven: Ownership of the PRSP**

Throughout the interviews with donors and Vietnamese stakeholders, the widely held opinion was expressed that the Vietnamese PRSP was primarily donor-driven (especially by the World Bank), due to its nature as precondition for concessional loans. The PRSP finally has to be approved by the boards of IMF and World Bank and hence is not a strategy approved by a sovereign country without external influence.

During the drafting process, however, the Vietnamese side showed strong ownership of the process and the strategy itself. The MPI in particular was in the driver’s seat during the drafting process. It had proposed the time schedule and the procedures for drafting and it kept to the schedule, working under tremendous pressure at times. The head of the drafting unit, Mr. Cao Viet Sinh of MPI, stated publicly with great confidence that Vietnam would be the first country to write a full PRSP by itself. The naming of the PRSP as the CPRGS, with the G standing for the strong growth

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25 *ibid.*, pp. 1-2.

orientation of the Vietnamese government, underlined this independent and self-confident position.

It was the ownership of the Vietnamese government that encouraged more donors to participate in the PRSP process. The commitment of the Vietnamese government, the fact that it has its own priorities and a favourable constellation of personalities were recognised as reasons for a good climate of co-operation.

### **Relationship of the CPRGS to Other National Strategies**

The relation of the CPRGS to other strategies is characterised in the final version as follows:

*“The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) is an action plan that translates the Government’s Ten-year Socio-economic Development Strategy, Five-year Socio-economic Development Plan as well as other sectoral development plans into concrete measures with well-defined road maps for implementation. This is an action plan for realising economic growth and poverty reduction objectives. The Comprehensive Poverty Reduction and Growth Strategy is closely related to the national annual socio-economic development plans and the plans developed by different ministries, agencies and sectors. The national socio-economic development plan that is passed by the National Assembly serves as a tool for bringing the policies and measures contained in the CPRGS into practice”*<sup>26</sup>

Thus, the CPRGS is both a strategy written to satisfy donor requirements and attract more ODA and an internal action plan for implementing the government’s existing policies.

However, at least at the central level, ownership of the CPRGS cannot be as broad as the ownership of the Ten-year Socio-economic Development Strategy and the related sector strategies and annual plans, because the CPRGS – like the

I-PRSP – will be approved only by the Government of Vietnam, whereas the Ten-year Socio-economic Development Strategy and the Five-year Socio-economic Development Plan as well as the annual plans are endorsed by the government, the Communist Party of Vietnam and the National Assembly. An endorsement of the CPRGS by the National Assembly would surely enhance the relevance of the strategy.

It is to be expected that the upcoming annual plans and the next Five-year Socio-economic Development Plan (2006-2010) will specify and incorporate the actions laid out in the CPRGS. This would require, however, that both the structure and the character of the annual plans, particularly the provincial plans, would have to be altered: They would have to incorporate a broader range of targets, and their focus would have to be more on policies and less on the achievement of quantitative production targets.

### **Pressure and Influence of Donors**

The continuous support of the PRSP drafting process and the comments on the CPRGS provided by the international donor community can be interpreted as a permanent insistence on the progress of the paper and on the nature of its contents. This support improved the quality of the paper on the one hand, though on the other hand it may have led to a decline of the involvement of Vietnamese stakeholders or a decline of enthusiasm concerning the formulation of the strategy on the Vietnamese side.

One multilateral donor representative stated that the drafting process had been a good effort, but that national ownership of the CPRGS, especially in comparison to the Ten-year Socio-economic Development Strategy, which was widely published and country-driven, was doubtful. His reasons:

- ministries were not well informed about the CPRGS at the outset,

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<sup>26</sup> See Socialist Republic of Vietnam (2002c), p. 2.

- it was not clear to everybody why the country needs another three-year action plan in addition to the ten-year, five-year, etc. plans,
- the CPRGS has to be approved not only by the Government but also by the World Bank and the IMF,
- CPRGS meetings were not attended by the highest-ranking government officials, the head of the drafting unit being a deputy department head of MPI.

Some stakeholders stated that the World Bank had put the Vietnamese side under pressure concerning the schedule of the PRSP. Hence, there was not enough time to agree on contents, especially in the Vietnamese consensus-building processes. They argued that as long as the World Bank sets deadlines for loan disbursements, it could be difficult to support processes that are really country-driven, and this could take more time. The World Bank on the other hand argued that it had never put Vietnam under time pressure. If the government decided to set deadlines for the finalisation of the IPRSP and the CPRGS to obtain concessional credits in good time, this was its own decision.

According to a representative of an INGO, there was a neo-liberal “Washington Push” in all roundtable discussions such as the CG Meetings and the PTF. The NGOs sought to get back to the poor. But the Vietnamese side finally took its own decisions, after having listened to everybody. For the NGO representative, “it was clear who was in the driver’s seat.”

In the end, there is no clear-cut answer to the question of ownership. Obviously, the process was initiated and strongly influenced by donors, but the Vietnamese side kept it under control and made it clear from the outset that the existing national strategies would have to be the basis of the PRSP. However, as the next chapter will show, the CPRGS is considerably broader, more detailed and more outcome oriented than the existing national strategies. This was mainly the result of donor influence. The new philosophy of a comprehensive poverty orientation embracing all poli-

cies has still not been ‘mainstreamed’ into the Vietnamese policy process. Recognition of the comprehensiveness of the PRSP approach is still not widespread in Vietnam. Poverty alleviation is still widely regarded as a sectoral issue. Thus, limited participation by national stakeholders at the central level and particularly at the local level may result in limited ownership throughout the process of implementation.

## 5 The Contents of the Vietnamese CPRGS

The analysis of prospects for poverty reduction cannot concentrate solely on the drafting process of the CPRGS. It must include an analysis of the strategy itself. It is, though, impossible to assess every policy and sector in this report, because such an analysis would demand specific experience and knowledge about specific sectors. Nevertheless, an assessment of contents is possible in accordance with the analytical framework outlined in Chapter 2. Four core principles refer to contents: comprehensiveness, long-term perspective, results orientation and prioritisation.

### 5.1 Overview of Contents

The CPRGS of May 2002 targets continuing high growth linked to social progress and equity, with a particular focus on reducing the development gap between different regions and population groups. It seeks to reconcile the tension between economic growth and social equity that had become apparent in the IPRSP. The IPRSP was biased toward creating economic opportunities for the poor through high economic growth. The CPRGS creates a closer link between growth and poverty alleviation by adapting the Millennium Development Goals to the Vietnamese context and integrating them into the strategy. They provide clear and quantifiable poverty alleviation targets on the basis of which Vietnam’s development will be monitored.

The strategy consists of six parts:

### **Part I: Socio-economic Setting, Current Poverty Situation, Achievements and Challenges**

This section describes recent economic developments and the status of poverty in Vietnam. It highlights the high economic growth rate resulting from private sector development, agricultural diversification and commercialisation, improved financial systems and economic liberalisation. Increased resources financed infrastructure development and improved living standards, thereby halving poverty. However, challenges remain due to rising inequalities, continuing widespread poverty, high vulnerability of people living just above the poverty line, and fierce economic competition as a result of world-market integration.

### **Part II: Objectives and Tasks of Socio-economic Development and Poverty Reduction**

This section shapes the vision and the basic philosophy of the strategy, which is described as follows:<sup>27</sup>

1. Poverty reduction serves as a fundamental factor for ensuring social equality and sustainable growth.
2. Progress in poverty reduction must be based on broad-based, high-quality and sustainable economic growth and must create favourable conditions for poor people and poor communities to access opportunities to develop and expand their production and businesses and to enjoy the fruits of growth.
3. Poverty reduction is structured as a component of the Ten-Year Socio-Economic Development Strategy and Five-Year and Annual

Socio-Economic Development Plans from the central to the grassroots level.

4. Poverty reduction is not only the task of the Government and the whole society, but it is first of all the responsibility of the poor themselves to develop the capacity to escape from poverty.

The chapter defines economic and social development targets derived from the existing national strategies and the adapted Millennium Development Goals (see Annex 1). Whereas the overall economic objectives are based on the Ten-year Strategy (“...lay foundations for transforming the country into a basically modern-oriented industrialised country by 2020”), the social objectives are more based on the MDGs (poverty reduction, education universalization, birth-rate reduction, reduction of maternal mortality, sustainable development, reduction of vulnerability of the poor, gender equality).

### **Part III: Create an Environment for Rapid, Sustainable Development and Poverty Reduction**

This chapter outlines the major structural reforms which have to be carried out to create a framework conducive to growth and poverty reduction:

- ?? Legal environment for fair and competitive businesses
- ?? SOE reform
- ?? Private sector and FDI promotion
- ?? Public administration reform, legal reform and pro-poor good governance.

The maintenance of macroeconomic stability is stressed, along with related policy measures to be taken in fiscal, monetary and trade policy.

Furthermore, empowerment and governance issues are highlighted as elements of the framework

<sup>27</sup> See Socialist Republic of Vietnam (2002d), pp. 43-45.

conditions conducive to growth and poverty reduction:

1. Create the conditions needed for people to fully participate in the development process and to have equal opportunities.
2. Enhance grassroots democracy and strengthen dialogue between local governments and poor communities.
3. Provision of legal support to the poor.

Box 6 (p. 39) gives an overview on how issues related to governance and public administration reform have been dealt with throughout the drafting process.

#### **Part IV: Major Policies and Measures to Develop Sectors and Industries to Promote Sustainable Growth and Poverty Reduction**

This section extracts and reformulates poverty-related sections of national sector strategies. Measures in the sector *agriculture and rural development* centre on ensuring food security, intensifying agriculture, diversifying production, building processing facilities, providing demand-driven extension services, accessing capital and developing a disaster prevention strategy. Activities in the *industry and urban development* sector concentrate on exploiting the comparative advantage of labour-intensive consumer goods and agricultural engineering. Urban poverty is to be reduced by providing credit, creating supportive legal, institutional and physical infrastructures, increasing skills, creating jobs and resolving problems of urban migration. Measures in the *education and training* sector target the quality and universalisation of education. *Health* measures focus on providing basic health care services that are accessible to the poor. *Cultural* activities emphasise facilitating the dissemination of information and preserving the cultural heritage. The section on *environmental protection* focuses on the implementation of the respective national strategy, though without fully embracing the concept of

‘sustainable development’. One section focuses on reducing the *gap* between different regions and population groups, including the factors of ethnicity and gender, and the last section deals with the development of *social safety nets*.

Box 7 (p. 40) shows, how the cross-cutting issue *gender* has been dealt with throughout the drafts of the CPRGS.

#### **Part V: Mobilising and Allocating Resources for Economic Growth and Poverty Reduction**

This chapter allocates *resources* to the measures suggested in the CPRGS. It is projected that in the period 2001-2005 about \$60 – 70 billion in investment funds will have to be mobilised, one third of which will be accounted for by foreign capital (FDI and ODA). Two thirds will come from domestic sources, with the private sector accounting for only 26 %. The proposed investment allocation reads as follows in the fourth draft of the strategy:

In the final version of the strategy, the link between planned overall capital allocation – which can only partly be influenced by the government – and state budget expenditure is reinforced by adding estimates for recurrent expenditures (which are not part of the Five-year Plan) from the state budget.

Furthermore, as a result of the ‘costing mission’ of the World Bank, which supported the Government in the development of a medium-term expenditure framework (MTEF), a projection on state spending priorities covering investment and recurrent expenditures for core poverty-related objectives for the years 2003-2005 was added in the final version. It has to be noted, however, that this MTEF covers less than 20% of projected budget expenditures for 2001-2005, in this way revealing that only a small part of the budget is clearly prioritised and related to the CPRGS targets.

**Table 6:** Estimated Allocation of Resources in the Period 2001-2005 According to the Five-year Investment Plan

	Investment capital allocation		State Budget Expenditure (excluding debt payment)	
	Billion US\$	Percent	Billion US\$	Percent
<b>Total</b>	<b>60</b>	<b>100</b>	<b>45.1</b>	<b>100</b>
<i>Of which:</i>				
Agriculture, forestry, fishery and irrigation	7.8	13	4.7	10.4
Industry and construction	26.4	44	n. d.	n. d.
Transportation and post	9.0	15	5.2	11.5
Housing, water, public infrastructure and services	8.4	14	2.0	4.4
Science, technology and environment	0.4	0.6	1.0	2.2
Training and education	2.2	3.7	8.2	18.2
Health	1.2	2.0	8.5	18.8
Culture, sports	1.0	1.7	n. d.	n. d.
Public administration	1.9	3.2	n. d.	n. d.
Others	1.7	2.8	n. d.	n. d.

Source: Socialist Republic of Vietnam (2002c), pp.75-80

## Part VI: Implementation, Monitoring and Evaluation of the Poverty Reduction and Growth Strategy

A Steering Committee will guide the Prime Minister in implementing the CPRGS. Furthermore, an Inter-ministerial Working Unit under the leadership of the MPI will be responsible for coordinating implementation, integrating the CPRGS into the national development plans, as well as for the monitoring and evaluation of the CPRGS. Indicators (see Annex 1) will be used to measure progress towards the objectives; on this basis the Steering Committee and the Inter-ministerial Working Unit will recommend corrective measures when necessary.

It is stated that the following implementation steps are to be pursued:

?? Line ministries, government agencies and provinces will, within their sphere of functions, concretise and incorporate the objec-

tives of the CPRGS into their annual plans for implementation.

- ?? Every year, based on the funding capacity of the state budget and the progress made in implementing the CPRGS, the MPI, the MoF, government agencies and provinces must arrange for expenditures to implement the strategy.
- ?? There should be a duty assignment to relating line ministries, provincial and local authorities in the monitoring and evaluation of CPRGS implementation and other activities of their respective sectors within the strategy framework.
- ?? Institutionalisation of the consultation process for CPRGS in line ministries, poor communities, enterprises, domestic and international social organisations and local community-based organisations, etc. in order to improve

**Box 6: Public Administration Reform and Governance in the PRSP Process**

In the **I-PRSP**, administrative reform has a sub-chapter dealing specifically with roles and responsibilities of the public and private sectors, decentralisation and capacity-building, simplifying administrative procedures and improving efficiency, transparency and accountability, increasingly ensuring participation, and implementing the *Grassroots Democracy Decree* (GDD). However, the attached **I-PRSP Policy Matrix** does not explicitly mention administrative reform. Regarding sectoral policies aimed at ensuring equity, the Matrix calls for improving access to legal support services and knowledge of legal rights and obligations. Furthermore, it calls for full implementation of the GDD and improvement of participation at the local level. Access to basic social services for the poor, such as education and basic health care, is also mentioned.

In November 2001, the **Poverty Task Force (PTF)** proposed eight indicators for **good governance** that localise the **International Development Targets (IDTs)** in the Vietnamese context: First, the level of information publicly available; second, the extent of access of the poor to basic government services; third, the level of budget transparency at the provincial and local levels; fourth, national expenditure targeted to pro-poor purposes; fifth, public availability of decisions and verdicts of courts and tribunals; sixth, responsiveness of local governments; seventh, implementation of the Grassroots Democracy Decree; eighth, effective laws aimed at combating corruption.

The **CPRGS First Draft** extends the set of policies regarding governance issues as compared with the I-PRSP. It calls for a reform of the legal system (including law enforcement) as well as for participation in the process of law- and policy-making. One of its demands is to "*bring democracy into play*." The local level is dealt with in a sub-chapter of its own calling for implementation of the GDD, enhanced participation and information dissemination. Another sub-chapter concerns *legal support to the poor* and deals with legal information, compliance with the law, law-making, legal education, and access to the judicial system. The **Output and Outcome Indicators** of the **First Draft**, however, are not very detailed. Regarding governance issues, indicators are rather input-oriented, in that they call for the implementation of decrees and action plans like the GDD, the Legal Needs Assessment, the Action Plan for Public Administration Reform, the Action Plan for Public Expenditure Reform, and the anti-corruption strategy. These decrees and action plans refer to areas mentioned in the PTF list of indicators, but they are no more than means to achieve outcomes. The desired results are not specified with reference to precise targets and indicators.

The policies mentioned in the **Second Draft** are the same as those in the First Draft. But the Second Draft has a more detailed list of **Development Objectives**. However, the objectives regarding governance are limited to ensuring the GDD and budget transparency. Indicators exclusively refer to the communal level. The draft contains no assignment of responsibilities or time frame.

The policies mentioned in the **final version of the CPRGS** are basically the same as in the Second Draft. The list of **Development Objectives** regarding governance is also incomplete, in that it is limited exclusively to the commune level (including one indicator for budget transparency - *at the commune level*). Annual revisions are provided for and responsibilities are defined, but not in a very detailed manner. The final version also contains a **Policy Matrix** that mentions Public Administration Reform. It requires an acceleration of the reform, especially concerning agencies which directly relate to the poor as well as improved information dissemination. Regarding the local level, it contains the same text as the I-PRSP Policy Matrix.

In consequence, the policies on administrative reform and governance laid out in the CPRGS are wide-ranging but imprecise. Targets and indicators regarding governance are limited to the commune level, and thus they do not reflect all the policies mentioned in the strategy's main text and in the policy matrix. The first draft had integrated the broad PTF list of targets and indicators, but the subsequent drafts contained a much more limited range of indicators, referring to democracy at the commune level only and not mentioning corruption.

Source: Socialist Republic of Vietnam (2001), (2002a), (2002b), (2002c), (2002d); PTF (2001c)

the quality of the monitoring and evaluation of the CPRGS.

well as trends with respect to economic growth and poverty.

?? Independent research organisations (NGOs, universities etc.) are to organise consultations with the people, collect and analyse data as a means of assessing the present situation as

**Box 7: Gender in the PRSP Process**

The importance of the cross-cutting issue *gender* increased during the CPRGS drafting process. This box focuses on changes made regarding goals in both the section directly related to gender equality and the education sector.

**1. I-PRSP**

The gender component in the I-PRSP is weak. Promotion of gender equality appears only twice in the strategy: first in the section on mobilising resources and second in the policy matrix at the end, in which participation of women at all levels of leadership is also called for. Women only appear as subgroups of the poor. The I-PRSP states very generally that favourable conditions should be created to enable the poor, especially women and children, to access training, employment opportunities, social services and credits.

**2. First Draft – Gender Equality and Enhancement of the Role of Women**

The gender issue enjoys greater importance in the First Draft. It is more specific about the participation of women in decision-making processes. It aims at increasing the proportion of women in Party Committees and in the National Assembly, as well as in elected bodies. It further targets a higher proportion of female leaders in the government. The First Draft also includes the objective that land use titles should be granted equally to both women and men. Monitoring progress in education is to include measurement of the ratio of children in education to illiterate adults, disaggregated by gender.

**3. Second Draft – Gender Equality and Enhancement of Women’s Role**

The second draft specifies the aims outlined in the First Draft. It states that the number of women in elective and government bodies is to be increased at all levels. It also quantifies a target for the increase in participation of women in agencies: more than 3-5% in the next 10 years. The Second Draft includes a new aim: to reduce the vulnerability of women to family violence. Women are also accorded greater importance in the education sector. Two new goals are added: “*Eliminate the gender gap at primary and secondary education by 2005*” and “*Eliminate illiteracy for 95% of under 40 year-old women by 2005 and 100% by 2010*”.

**4. Final Version – Gender Equality and Advancement of Women**

The final version adds the target of increasing the number of female entrepreneurs. The goal “Job Creation” includes the statement that the share of female workers is to raise to 50% of total new jobholders by 2010.

The increasing importance of the gender issue in the different CPRGS versions can be explained by the commitment and efforts of the National Committee for the Advancement of Women (NCFAW). The NCFAW formed a task force responsible for strengthening the gender equality focus of the CPRGS. Members of the Task Force participated in regional CPRGS consultations and provided some summarized comments on gender issues to the Drafting Committee. They undertook a consultation process that included eleven Committees for the Advancement of Women, National Assembly Deputies and provincial representatives of the Women’s Union. They collected and analysed feedback from the consultation and wrote specific recommendations.

Their “state of the art” consultation, as one interview partner put it admiringly, led to the growing importance of the gender issue in the CPRGS. An international workshop (South-East Asia) on the issue of gender and PRSP held in Hanoi on March 13-14 and organised by the World Bank, added further to the growing importance of gender in the CPRGS.

Source: Socialist Republic of Vietnam (2001), (2002a), (2002b), (2002c), NCFAW, 2002

**Appendix**

Appendix 1 lists Vietnam's development objectives. Whereas Part A comprises the Economic Objectives, Part B covers the Social and Poverty Reduction Objectives. For each goal, the targets and indicators are defined and reporting frequency and responsible agencies are identified. Appendix 2 gives an overview over the Medium-term Macroeconomic Framework for the period of 2002-

2004. Finally, Appendix 3 consists of the Policy Matrix and Time Frame for Implementation.

## 5.2 Content Assessment on the Basis of the Principles: Comprehensive, Based on a Long-term perspective, Results-orientated and Prioritised

### Is the Strategy Comprehensive and Based on a Long-term Perspective?

The CPRGS is a comprehensive strategy in that it recognises the *multi-dimensional nature of poverty* and embraces all policies relevant for poverty reduction. It covers all three dimensions of poverty outlined in Chapter 2: opportunity, empowerment and security.

In Part II of the CPRGS, the strategy provides the conceptual basis for pro-poor growth. Economic growth is linked to social equity through the integration of the adapted Millennium Development Goals. As outlined in Part III, policies related to economic *opportunities* include creation of a favourable business environment by strengthening the legal system, promotion of SOE-reform, public administrative reform and maintenance of macroeconomic stability. Fiscal policies are to be improved by implementing an active monetary policy and pursuing global economic integration. In Part IV, human development policies are outlined to achieve *social equity*. These include policies in the areas of basic infrastructure, education, health and the environment. *Empowerment* of the population is sought at the grassroots level through measures aiming at increasing participation. *Security* is to be achieved by developing social safety nets. This focuses on developing policies to ensure equal access to basic social services, to expand social protection, to enable the poor to participate in product and labour markets, to help children and the elderly in especially difficult circumstances, to develop an effective system of emergency and social relief solutions, and to increase participation.

The strategy also takes cross-cutting issues into account. Gender equity and environmental protection are specific goals in the CPRGS: *Environmental Protection* and *Gender Equality and Women's Empowerment* (Part II of the strategy).

Specific sections in the strategy are dedicated to both issues. They are also integrated into other parts of the strategy, though only gender empowerment is an integral part of sectoral policies to be measured by gender-specific indicators: “*Raise the share of female labours to 50 % in total new jobs by 2010; eliminate gender gap at primary and secondary education by 2005; eliminate illiteracy for 95 % of illiterate under-40-year-old women by 2005 and 100 % by 2010.*”

Furthermore, the strategy is embedded in a *coherent policy context*. The overarching plan currently in effect is the Ten-year Socio-Economic Development Strategy 2001-2010, which lays out Vietnam's development path, with the Poverty Alleviation Strategy as the subsequent strategy for targeted poverty reduction.

The CPRGS was developed in addition to these existing plans because the latter did not qualify as a basis for concessional loans from the World Bank and IMF. The plans do either not focus sufficiently on poverty reduction or fail to integrate poverty alleviation targets that can be quantified and monitored.

All strategies are linked, but tensions exist within strategies, and these are also reflected between strategies. The tensions identified - not surprising for a country with a legacy of central planning and pursuing a concept of ‘Socialist Market Economy’ - are the following:

#### *Economic protection versus economic integration*

All three strategies state that further integration into the international economy will be sought. However, the Socio-economic Development Strategy also sets out the goal of building an independent, autonomous economy. There is a contradiction between protection of national industries on the one hand and foreign trade liberalisation on the other.

#### *State Economy versus Market Economy*

Although both strategies, the Socio-economic Development Strategy and the CPRGS, aim at developing the private sector, they also target

selective investments in sectors<sup>28</sup> in which the Socio-economic Development Strategy assigns a leading role to state-owned enterprises. The role of the state – market regulator or producer of goods and services – remains unclear.

#### *Social Equity versus Economic Growth*

The Poverty Alleviation Strategy prioritises social equity, the Socio-economic Development strategy places economic growth at the centre of development. The CPRGS seeks to balance economic growth and social equity by adapting and integrating the Millennium Development Goals.

#### *Top-Down versus Bottom-Up*

The targeted Poverty Alleviation Strategy subscribes to a top-down approach. By comparison, the CPRGS adopts a bottom-up approach. It aims at directly strengthening the role of local authorities and the population in allocating resources and implementing poverty alleviation projects.

Given that the CPRGS is linked to the Socio-economic Development Strategy and the Poverty Alleviation Strategy, which cover a ten-year period, it may be concluded that the CPRGS is based on a *long-term perspective*.

### **Is the Strategy Results-oriented and Prioritised?**

Four complexes have to be considered with regard to the principle of results orientation: First, goals and indicators have to be stated clearly; second, the strategy's policies as well as its goals and indicators have to be linked; third, a monitoring and evaluation system has to be established; fourth, responsibilities have to be defined.

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28 The related expressions in the CPRGS are more carefully worded and have changed throughout the drafting process. The fourth draft states: "Selectively build some heavy industry facilities (oil and gas, metallurgy, manufactures, basic chemicals, fertilizer, construction material...), information technology and telecommunication industries." (p.76), the final draft avoids sectoral targeting altogether.

*First*, the strategy includes clearly formulated goals, targets and indicators<sup>29</sup> which define the results to be achieved. The CPRGS comprises two sets of development goals. The first is a set of economic goals, whereas the second is a set of social development objectives based on MDGs adapted to the Vietnamese context. By integrating the two sets of goals, links are forged between macroeconomic development and poverty reduction in the CPRGS. The general linkages between growth and poverty reduction are explained in the CPRGS. The social impact assessments of proposed measures are, however, still weak. In the interviews, potential negative impacts of trade liberalisation or SOE reforms on poverty were noted as examples in this context.

Vietnam was able to use recent poverty assessments and thematic studies as a basis for formulating the CPRGS goals (see Chapter 4.3.2). Our interviews with different stakeholders confirmed that this material facilitated and improved the setting of goals, targets and indicators, and consequently contributed to improved orientation towards results.

*Second*, the goals have to be linked to policy measures if they are to be reached. The Policy Matrix in Appendix 3 of the strategy lists the proposed measures. However, the Policy Matrix does not include measures for each goal formulated in Appendix 1. Furthermore, the measures are not always reflected in the indicators. For example, in the area of environmental protection policy measures are linked to poverty reduction outcomes. They target a healthy environment for the poor, including wastewater and rubbish treatment stations, latrines in rural areas, and developing natural resource management with respect to the poor. However, the indicators used to measure progress towards the goal of environmental protection do not reflect the policy measures and refer only generally to forest coverage and levels of biodiversity.

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29 See Socialist Republic of Vietnam (2002c), pp.27-32, Appendix 1, pp.90-97.

*Third*, progress towards the set objectives is to be tracked and ensured by introducing a monitoring and evaluation system. CPRGS indicators are to be used to monitor and evaluate policy implementation and progress in poverty reduction. The monitoring system will make it possible to collect quantitative and qualitative data, which, when analysed, can be fed back into the decision-making process. Hence, monitoring and evaluation will help to improve the implementation and reformulation of the CPRGS to achieve the desired results. (For an assessment of the indicator framework and the prospects for implementing the monitoring and evaluation system see Chapter 6.3.1.)

*Fourth*, results orientation was improved by developing an institutional framework for implementing the CPRGS. Different institutions will be responsible for implementing the CPRGS: line ministries, provincial governments and overarching co-ordinating bodies that still have to be set up. Nevertheless, not all of the competences of the newly established bodies are defined clearly, and this could negatively affect the achievement of results.

To ensure a realistic and feasible strategy, measures to achieve the stated goals have to be costed. Hence, results orientation is closely linked to the last content principle, prioritisation.

Only in the fourth draft and in final version of the CPRGS are *prioritisation* and costing included in detail. The chapter on 'Resource Mobilisation and Allocation' is divided into three parts. Whereas parts one and two relate to the Five-year Development Plan 2001-2005, the third part attempts to estimate overall medium-term budget expenditures and, finally, expenditures for 2003-2005 for selected poverty-related sectors, based on the support provided by the World Bank's 'costing mission'.

It appears that insufficient progress has been made in linking the Five-year Development Plan with the state budget and the development of an MTEF. The figures are obviously incomplete and not consistent. Five-year Plan and budgetary data

have never been systematically linked in Vietnam, and medium-term budgetary planning is still in an early stage. Obviously, the budgetary data available are not sufficient to establish a meaningful MTEF. The World Bank 'costing mission' was unable to close this gap within the few weeks of its work. Much more systematic work on public expenditure planning and management is required (see Chapter 6.1.3).

## 6 Challenges for Implementing the CPRGS

Implementation of the CPRGS will require development of a series of action programs that are to be elaborated in the near future. In some areas, these action programs have already been developed, in other areas the CPRGS (as well as the Ten-year-Socio-economic-Strategy) mention only the targets to be achieved, but not the ways and means in which they are to be achieved. We have identified four critical areas in which we see bottlenecks to the implementation of the strategy:

- ?? Implementing structural reforms
- ?? Institutionalising participation
- ?? Monitoring and feedback of results
- ?? Harmonising donor contributions

All four areas are covered in the CPRGS. However, it appears that more work has to be done to clarify the concrete steps that need to be taken in these areas, both by the GOV and the donors, to achieve the ambitious targets for growth and poverty reduction.

## 6.1 Implementing Structural Reforms

### 6.1.1 SOE Reform and Private Sector Promotion

This area is critical for the achievement of growth and employment, and thus poverty reduction targets, because of its close link to further integration of Vietnam into the world economy, i.e. to trade and FDI policies. Vietnam is no longer in a position to pursue 'self-reliant' growth policies without regard to their effects on its integration into the world market. The question of the competitiveness of Vietnamese goods and services in local as well as in export markets is pivotal. In view of its planned accession to the WTO, Vietnam has little time left to adjust its legal and political framework as well as the structure of its enterprises. In some sectors, Vietnamese products and services are competitive. In many other sectors, however, Vietnamese enterprises still have a long way to go to achieve international competitiveness.

Despite recent successes in the creation of new enterprises, based on the new *Enterprise Law* adopted in 2000, Vietnam lags behind most competitors in terms of the numbers, size and technological standards of enterprises, state and private alike. Stepped-up international competition will pose a severe threat to the existence of enterprises and thus to employment creation as well.

The SOE reforms outlined in the CPRGS and the more detailed action plan of the government as well as the government's recent activities in private sector promotion (Resolution of the fifth Plenum of the CPV in April 2002) do not fully grasp the challenges ahead. As yet there is no clear strategy on how to achieve competitiveness in critical sectors in the medium term. The government's drive for modernisation concentrates on investments in state enterprises, which are supposed to play a leading role in core sectors of the economy. However, there are no clear targets as to when these enterprises are to achieve competitiveness. In the private sector there is a severe lack of the resources needed to finance modernisation. It will not be sufficient to multiply the number of

SMEs and household enterprises for the sake of employment creation, as in the past, because the environment in which these enterprises have to operate will be more competitive than in the past.

The CPRGS does not set out clear guidelines on how to reconcile the multiple targets of integration, competitiveness and employment creation. This incoherence will most probably lead to delays in the implementation of measures related to those targets.

### 6.1.2 Banking Reform

Reform of the banking system is not an end in itself. Modernisation of enterprises, growth and employment generation require a smoothly functioning financial sector capable of mobilising private savings (which are now to a large extent channelled into the real estate sector) as well as provision of enterprises with short- and long-term funds. Due to a large volume of non-performing loans and an under-developed culture of commercial lending in the banking sector, this function cannot as yet be met.

Furthermore, despite advances made in the rural finance system in recent years, rural areas are still not yet sufficiently supplied with banking services, and this is an urgent prerequisite for the development of disadvantaged rural areas, and in particular for the establishment of rural SMEs that can create increased off-farm employment.

The government's banking reform programme, as laid out in the CPRGS and agreed on with the IMF and the World Bank in the framework of the PRGF/PRSC-credits, is advancing with some delays, particularly as regards reform of the four state-owned commercial banks. Insufficient progress in this area will slow down the development of urban enterprises as well as the rural economy. This will make Vietnam more dependent on the mobilisation of foreign capital to meet growth and poverty reduction targets.

### 6.1.3 Public Expenditure Reform

One important bottleneck for the implementation of the CPRGS, and, more generally, for further poverty reduction in Vietnam is the lack of transparency and accountability of the Vietnamese public expenditure system. An efficient system of generating public revenues will expand the government's capacities to invest in poverty alleviation activities. A fair and predictable system of taxation will reduce the financial burden for poor people. Public expenditure has to be prioritised in such a way as to maximise its effects. This is a necessary first step to prioritise expenditures for the CPRGS. Thus, a transparent and accountable fiscal system will make it easier to base the strategy on realistic and precise costing.

A large number of international donors emphasise that the current lack of accountability and transparency could be an important bottleneck for the implementation of the CPRGS. Most donors still do not consider budget funding a realistic option for the near future.

### Overall Budget Transparency

In 1999, the Vietnamese Government published, for the first time, its financial accounts (from 1997) along with the 1999 budget plan. The budget data are still in a highly aggregated form and do not contain several off-budget accounts. Financial transactions between SOEs and the banking sector, which are future liabilities to the public sector, are also included either. Furthermore, little information from sub-national levels of government is available at the centre, and not all communal expenditures are included in the national budget. There are estimates that, at best, 75% of de facto budgetary transactions are covered by the budget. All in all, it can be said that "Vietnam has still some distance to go to meet the minimum standards of the IMF Fiscal Transparency Code."<sup>30</sup>

### Revenue Sources at Different Administrative Levels

Government revenues as share of GDP have fallen in recent years, partly because of a slowing economy, but also because of weaknesses in tax administration. Since lower revenues constrain pro-poor expenditures, reforming the tax system is essential for poverty reduction. Measures aimed at broadening the tax base and making the system of taxation more simple, fair and transparent are announced in the CPRGS. A strengthened tax administration may reduce revenue losses by applying taxes consistently and avoiding discretionary exemptions.

A fundamental problem of the Vietnamese public revenue system is its lack of fiscal decentralisation. Sub-national administrative levels have de facto no revenue-raising power of their own. Taxes are assigned to lower levels, but only in an accounting sense. The centre determines the rate structure of all taxes and collects taxes through the General Taxation Department (GTD). There is an incentive for provinces to underestimate revenues, because provinces are able to retain collections in excess of budget estimates. This system favours better-off provinces, since the latter have better capacities to broaden the gap between estimates and reality. So poor provinces are even more disadvantaged, and their options to decide on investments are limited. The resources for districts and communes in poor provinces hence often fail to cover the costs of delivering social services. At the Quang Binh consultation workshop, participants criticised the limited power of communes to influence the allocation of resources.

National Programmes and support from international donors play an important role funding poverty alleviation activities in poor provinces, whereas province investment resources are very limited. National Programmes cover services considered to be of national importance, such as hunger eradication and poverty reduction (Programme 133, the former HEPR, now called the Poverty Alleviation Strategy), family planning, provision of clean drinking water, etc. Local governments are responsible for implementing National Pro-

30 GoV-Donor Working Group on Public Expenditure Review (2000), p.10.

grammes, though the allocation of resources remains at the central level.

One of the measures proposed by the Ministry of Finance is to increase untied budget allocations and support through National Programmes so as to strengthen provincial autonomy. But this kind of measure would even further increase dependency on the centre. Furthermore, it could lead to an non-transparent "money bidding" mechanism and "*contract implementation [that] are often discussed and decided in secret rooms,*" as the MPI has already noted critically with regard to National Programs 133 and 135.<sup>31</sup> Currently, the GoV does not appear to be willing to assign real revenue raising powers to the provinces through locally based taxes. The CPRGS does not provide for any such step, calling instead merely for "increasing the sense of initiative and creativity at sectoral and local levels in the task of managing their finances with their assigned budgets".<sup>32</sup>

Due to the lack of fiscal decentralisation, local governments, especially from poor provinces, depend to a large extent on local fees and so-called "voluntary" contributions for local services, such as water supply, electricity or education. In some communes, these charges account for more than 50% of overall revenues.<sup>33</sup> The 1997/98 VLSS suggests that in poorer communes those fees and contributions are higher than elsewhere. The 1999 PPA of Ha Tinh calculated the taxes for three hypothetical households, noting that "poor" households contribute 39%, "middle" households 35% and "rich" households 28% of their income.<sup>34</sup> Instead of being levied progressively, some contributions are levied per head, a fact which under-

lines the assumption of a disproportionate tax burden, as the PER points out.<sup>35</sup>

### Expenditure at Different Administrative Levels

There are inconsistencies in the CPRGS public expenditure data provided by the MoF, the MPI, and sector ministries because of differences in estimates of capital spending and the classification of capital and recurrent expenditures. Moreover, sector ministries do not classify expenditures from ODA according to budget codes. Different classification systems are used for budget allocations and treasury releases on the one hand and actual expenditures by spending agencies and the MoF on the other, and this makes it impossible to compare budgeted and actual spending at a disaggregated level. More co-operation and information sharing between line ministries, the MoF and the MPI on a uniform classification for recurrent and capital spending would improve budget transparency and make possible a realistic costing of the CPRGS.

Prioritising public expenditure is difficult, because the MPI is in charge of prioritising capital spending, whereas the MoF is responsible for recurrent spending. Insufficient co-operation between the two ministries aimed at ensuring an appropriate balance still seems to be an important problem. Too low recurrent expenditures lead to bottlenecks in operation and maintenance, e.g. a significant proportion of irrigation capacity is not used and routine maintenance of roads is insufficient.

The separation of recurrent from capital spending hinders any consistent prioritisation of the annual plans of sector ministries. Sector ministries have to submit planning for recurrent expenditures to the MoF, whereas planning for capital expenditures are submitted to the MPI. Hence, finalisation of annual sectoral plans demands close co-operation between the three ministries involved.

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31 MPI: "Residents' participation in State management", handout of the presentation at the Quang Binh consultation workshop, February 2002.

32 CPRGS, Second Draft, part 3, II.1.

33 See: GoV - Donor Working Group on Public Expenditure Review (2000), p.23.

34 See Action Aid Vietnam (1999), p.46.

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35 See GoV - Donor Working Group on Public Expenditure Review (2000), p.23.

Since the sector ministries do not receive reports on actual expenditures in their sectors, they are unable to evaluate and review policies. These problems in prioritising public expenditure in general highlight the difficulties that occur in prioritising policies of the CPRGS and linking it to a realistic expenditure plan.

Inefficient and non-transparent allocation of resources was repeatedly mentioned by participants of the Quang Binh consultation workshop. This criticism points to weaknesses in the system of redistribution between poorer and better-off provinces. One representative of a poor province stressed that rich provinces receive more money from the central level, because the budget allocation mechanisms leave room for negotiations, and "*rich provinces speak loudly*." The criteria for redistributing funds among provinces are indeed unclear, and apart from official norms, other criteria may be used by the MoF during the budget-negotiating process. The need for a new redistribution system between poorer and better-off provinces was emphasised in several interviews. The CPRGS, however, is not very specific on this issue.

### **Lack of Fiscal Transparency and Accountability: a Focus on the Local Level**

At local administrative levels, *Decree 29*, the Grassroots Democracy Decree, requires publication of the estimate and the final budget as well as of receipts and expenditures of various funds and projects that may not occur in the budget itself. *Decree 225* provides for a mechanism for households to raise questions about communal financial issues.

Despite these requirements set out in *Decree 29*, none of the six communes in which surveys were undertaken for the Public Expenditure Review (PER), have published its budget or actual revenues and expenditures. The Poverty Task Force's paper on Governance estimates that 40% of communes show very good performance and in around 17% of communes implementation has not gone far beyond formality. The MoF acknowl-

edges these shortcomings and stresses that ensuring the implementation of *Decree 29*, a governance indicator in the CPRGS, will be one of the next steps in public expenditure reform.

One reason for insufficient fiscal transparency may simply be a lack of capacity. Often, local level administrations are just not able to provide all of the budgetary information required. There are no paid civil servants at the commune level, and part-time employees without any specific training are in charge of the task.

### **6.1.4 Public Administration Reform**

Reforming public administration is an important contribution toward removing bottlenecks in the implementation of the CPRGS. After all, it is to a large extent public administration that has to implement the CPRGS. Ideally, public administration can be held accountable for its actions, operates on the basis of transparent decision-making processes, bases its activities not on arbitrary measures but on the rule of law, and enables civil society to participate in public affairs. Ensuring *accountability, transparency, predictability* and *participation* would considerably strengthen the prospects for successful implementation of the CPRGS.<sup>36</sup>

### **Achievements of Public Administration Reform to Date<sup>37</sup>**

In 1995, measures aimed at reforming the public sector in Vietnam were announced for the first time as a "Public Administration Reform" (PAR). Administrative reform is led by the Government Committee on Organisation and Personnel

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36 Transparency, accountability, predictability and participation are four main pillars of good governance the Poverty Task Force refers to; see: Poverty Task Force (2001c), p.1.

37 See Mc Carty (2001); Franz (2001); UNDP (2001b); Poverty Task Force (2001c).

(GCOP), an organ with ministerial rank. Few achievements have been made thus far in reform of the legal basis for administration, public service, and the ministerial system. A reform of the *Enterprise Law* has made licence procedures and other administrative procedures for enterprises more efficient. A modern definition of 'public service' has replaced the term 'cadre'. Furthermore, ministries have been reduced in number from 28 to 23, and the number of committees with ministerial rank has been reduced to 6. The number of provincial government departments has been reduced accordingly.<sup>38</sup>

A "PAR Master-Programme" was adopted in September 2001, identifying several shortcomings that need to be redressed: an inappropriate and sometimes contradictory legal framework, unclear assignment of responsibilities (between public and private sectors, but also within different administrative levels) and unclear organisational structures, as well as slow and inefficient performance, and in part reluctance, to fulfil assigned responsibilities.<sup>39</sup> As past experiences show, it may be expected that reforming the public administration will be a very slow process; in some areas this might even be a question of generations. Thus, the role played by PAR in the CPRGS – mentioned as important policy area, but without targets and indicators – may be too weak to ensure appropriate implementation.

### **The Leading Role of the Communist Party and the Concept of Consensus Governance**

According to the Vietnamese constitution, the Communist Party of Vietnam (CPV) is the "guiding force of the State and society." Even though the former central planning system has gradually been abolished, all control remains focused in the CPV. It exercises this control within a decision-making paradigm that may be termed "consensus

governance."<sup>40</sup> Theoretically, the Party stands above particular interests within society and State institutions and concentrates on maximising national welfare. Since the Party decides, following extensive consultations, what is best, no competition is necessary. With a view to embedding interest groups in this system, the latter are allowed to act within a monopoly structure, with the Party at the top. This system works as long as there is only one interest group per issue-area. This may be one reason why there is still no legal place for independent Vietnamese NGOs alongside the traditional mass organisations. Thanks to consensus governance, no single institution wants to stand out with a clear opinion that might challenge a consensus. In consequence, clear responsibilities of single institutions, or even individuals, are mostly avoided in favour of collective decision-making. Consensus governance means not iron control but a slow and careful decision-making process involving and assigning equal responsibility to many stakeholders. On the one hand, this has made Vietnam's fundamental economic and societal change possible, without challenging the leading role of the Party. On the other hand, unclear responsibilities and decision-making processes make it difficult to implement ambitious strategies like the CPRGS.

The leading role of the CPV has a direct impact on decision-making processes within administrations. There are actually two hierarchical structures within each administration: the official one and a 'real' one which reflects Party membership and rank of officials. The speed and quality of administrative procedures are deeply influenced by the Party rank of the officials involved. Various documents record the need for CPV consultation or approval. Senior government officials, almost without exception, are at the same time CPV members. "The government is viewed as the structure through which Party agreed policy is implemented."<sup>41</sup>

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38 See Franz (2001), p.4.

39 Idem.

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40 Mc Carty (2001), p.4.

41 Mc Carty (2001), p.4.

### **Weakness of Law Enforcement**

As yet there is no comprehensive legal system to synchronise and co-ordinate the making and implementation of law, jurisdiction, legal education, legal information and legal dissemination activities. For example, Vietnam has neither a comprehensive administrative law nor an administrative court. This leads to uncertainties as to whether one can rely on a decree or a law, even if it has passed the National Assembly. To be enforced, a law must be accompanied by implementation guidelines of the responsible ministry. But even in this case, consistent implementation and application cannot be assured, since law-making or the goal definitions are rarely linked to clear responsibilities for their implementation. How set goals are to be reached and what instruments are called for – e.g. by enforcement of a regulation – are issues that are often not addressed. Because of these shortcomings in the legal system, civil servants sometimes are unable to act in accordance with the rule of law, as is required of them.

### **Unclear Responsibilities and Inefficient Organisational Structure at the Central Level and at Sub-national Levels**

Currently, there are 23 ministries, 6 organs of ministerial rank and 25 central offices under the direct authority of the Prime Minister. This number of institutions at the central level would call for a clear assignment of responsibilities, clear decision-making processes and a transparent power structure to function appropriately. But central institutions often lack rules of procedure, and if there are such rules, they mostly lack sufficient precision. This is also the case with regard to the assignment of responsibilities among institutions, and the consequence is that either none of the institutions feels responsible or several deal with the same task at the same time.

Since co-ordination between ministries was already weak during the PRSP drafting process (see Chapter 4), the same shortcomings may be expected when it comes to implementing the CPRGS. Nevertheless, drafting, implementing,

monitoring and feeding back results into a re-drafting of the strategy is an ongoing process that is also a learning process for every stakeholder involved. It appears that the drafting process has already changed some national stakeholders' views, as the process forces them to share ideas, to discuss and to identify inter-sectoral links and take the broader context into account. This is progress that is not measurable but nevertheless important.

At sub-national levels, the same shortcomings exist that were identified for the central level: a lack of or inadequate preciseness of rules of procedure within institutions as well as unclear assignment of responsibilities between institutions. Moreover, the lower the administrative level, the lower the level of civil servants qualifications. As mentioned above, at commune level, there are no civil servants at all but only part-time employees.

### **Lack of Adequate Decentralisation**

The relation of power between the centre and the provinces is ambiguous. Officially, provinces still have little authority, since little headway has been made with decentralisation. However, "consensus governance fosters a lack of clarity about responsibilities down to the lowest levels."<sup>42</sup> Combined with weak control mechanisms on the part of the centre, government influence on provinces is de facto limited, and this is even more the case with its influence on districts and communes. Ministerial branches at sub-national levels, so-called departments, have to report to both the People's Committee at the same administrative level and the respective ministry at the central level. This makes decision-making processes even lengthier and power relations less transparent. A clear assignment of authorities between the centre and sub-national level would make this double reporting system (the so-called double control or submission) superfluous.

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42 Mc Carty (2001), p.16.

Decentralisation that strengthens sub-national administrative levels may improve the prospects for sustainable implementation of the CPRGS. Competent and flexible provincial, district and communal administrations would be more responsive to people's needs and demands, and such administrations would be better able to adapt the strategy to local conditions and decide on priorities. However, assigning responsibilities to sub-national levels could have the opposite effect, as long as this does not go hand in hand with a strengthening of know-how and personnel and financial capacities. The CPRGS recognises the need to "implement more vigorously the decentralisation of public administration ... while strengthening the capacity of the local administrative apparatus..."

All in all, decentralisation may have a positive effect on the implementation of the CPRGS only if responsibilities between the centre and sub-national levels are more clearly defined, control-mechanisms established, and decentralisation implemented as required in the CPRGS itself.

### **Omnipresence of 'Petty Corruption'**

So-called 'petty corruption' seems to be a part of day-to-day administrative procedures. Lower-level civil servants receive very low wages, and thus it is a common practice to increase incomes by, for instance, levying contributions arbitrarily or diverting project resources. This is a heavy burden for poor people. Furthermore, it hampers implementation of the CPRGS at the local level. Since the regulatory framework is imprecise and non-transparent, it is in some cases even difficult to distinguish between corrupt and legal practices. Corruption is not taboo in the Government's list of shortcomings, but cases of corruption or disobedience to superiors are mostly dealt with through internal channels – this lack of transparency aids the State in its desire to cultivate an image of itself as leading the way in fighting corruption. Sometimes, cases of corruption and punishment are made public to set an example. But this can not be called a systematic way of fighting corruption.

In conclusion, the paradigm of consensus governance leads to unclear decision-making processes and non-transparent power relations. Inefficient and ineffective administrative procedures increase vulnerability and reduce opportunities for poor people, and they also have direct impacts on the implementation of the CPRGS. The PAR and the CPRGS's chapter on administrative reform mention shortcomings and measures to be taken. Nevertheless, it is questionable whether government will be able to reform itself, since there the need for the GoV to reform its public administration is not as urgent and direct as it was in the case of economic reforms when "*doi moi*" started out.

## **6.2 Institutionalising Participation**

Despite the fact that Vietnam is governed by a one-party system, it does have certain elements of participation. Following the sixth Party Congress in 1986, the Vietnamese Government introduced four dimensions of participation that were to enhance the country's development: *people know, people discuss, people do, people check*.

Implementing the CPRGS requires institutionalised participation for three reasons: first, participation is crucial for gathering information as the necessary basis for designing pro-poor development policies. Second, participation enables people to develop ownership in poverty alleviation programmes. Their involvement empowers them to develop their own initiatives to overcome poverty. Third, participation in policy dialogues implies exchanging information. This exchange disseminates best practices and leads to greater transparency in the decision-making process. The result will be improved government accountability. This process, in turn, will improve the governance of development activities.

The CPRGS drafting process has given rise ad hoc participatory processes in which civic engagement of different stakeholder groups at various levels can be observed. The challenge is to institutionalise these forms of dialogue to ensure sustainable implementation of the strategy.

### 6.2.1 Gaps in the System of Representation – the Limited Number of Stakeholders

Due to the dominant position of the Communist Party, the number of stakeholder groups in Vietnam is limited. The Party considers NGOs and private-sector representatives as a potential threat, since they have begun to strive for representation. As a result, the number of stakeholder groups has been restricted.

Looking at the landscape of stakeholder-groups, it becomes apparent that the government, closely intertwined with the Party, dominates development activities – followed by donors and international NGOs. The private sector and civil society are only slowly emerging among stakeholder groups. Despite the country's rapid integration in the world economy, the private sector has only recently found full acceptance. At the fifth plenary session in April 2002, the Central Committee of the Communist Party reaffirmed the important role of the private sector. It committed itself to “*encourage and facilitate the development of the private economic sector.*”<sup>43</sup> and recognized it as equal to the state sector. However, independent private sector organisations have not yet been authorised.

Vietnamese civil society organisations are limited to informal interest groups. At the local level, vocational or interest groups have been formed, including clubs for duck raising, fishery, education services, and even for female-headed households in Ha Tinh province. Their influence, however, is limited to the local level. NGOs at the national level exist, but they are forced to work on an informal basis. Vietnam lacks a legal framework for civil society organisations, and thus they can play no more than a limited role. However, the CPRGS provides for a greater role for NGOs. In Appendix 3, it states the aim to: “*encourage NGOs and socio-political organisations to take*

*part in poverty reduction by providing a legal framework for NGOs.*”<sup>44</sup>

Mass organisations such as the Fatherland Front, the Farmer's Union and the Youth Union are well represented down to the local level. However, they cannot be considered as civil society organisations since they are closely intertwined with government and Party. The interviews revealed, however, that the nature of some mass organisations can be considered as similar to civil society organisations. In particular, the Women's Union represents the interests of its members in part thanks to its ability to consult with its members at every administrative level, including the village level.

The Parliament only appears on the margin. It has only limited power in policy-making. It has no influence on the budget, it lacks professional members and is unable to rely on support units to conduct research activities in preparation for decisions set to be voted on. However, since the elections in September 2002, the number of professional staff in the parliament has increased to 20 % of its members, and the parliament has taken greater control over the budget.

Lastly, the poor themselves are underrepresented. The poor have limited opportunities to articulate their interests. As noted above, interest groups of the poor at the local level do not extend beyond the village level. Civil society organisations at the national level lack a legal basis. Furthermore, members of Parliament have no incentive to represent the poor. The poor are also underrepresented in government institutions, in particular women and ethnic minorities, who suffer disproportionately from poverty. One representative of the Committee for Ethnic Minorities and Mountainous Areas Quang Binh (CEMMA) confirmed that not a single ethnic minority worker is employed in government institutions beyond the commune level in Quang Binh Province. To counter this situation, the CPRGS aims at increas-

43 Communist Party of Vietnam (2002).

44 Socialist Republic of Vietnam (2002d), Appendix 3.

ing the representation of women and ethnic minorities in government bodies.<sup>45</sup>

Although recent changes have opened the way for new political players, one can conclude that the number of stakeholder groups is still limited. This situation leads to the exclusion of interests of weaker population groups in decision-making.

## 6.2.2 Differences in What is Meant by Participation

Before participation can be institutionalised, stakeholders need to agree on the level of participation they want to institutionalise. Different understandings of participation imply that different levels of participation are sought for. The interviews have shown that everybody agrees on the importance of participation for implementing the CPRGS, but that there are difference in what is understood under participation.

### *External Development Partners*

Some stakeholders consider participation as a useful tool in designing meaningful poverty reduction programmes for the poor, for example in the form of participatory poverty assessments. Others, especially multilateral donors, stress the fact that participation is crucial for reducing corruption. Looking in the same direction, some stakeholders, including the GTZ, understand participation as one way to further institutional reform and to advance democratisation. Yet another group, headed by international NGOs, holds position more concerned with the grassroots level. These NGOs understand participation as empowering people to fight for their rights, thereby achieving greater control over their lives.

### *Vietnamese Stakeholders*

The way in which participation is understood varies within the government. The central government is afraid of people's dissatisfaction at the

grassroots-level, which has historically endangered the government's power. It is therefore eager to increase participation at the local level in order to address people's needs. The provincial government in Son La is striving for participation because this improves governance through a better relationship between government and people. However, the traditional top-down thinking is still widespread. One representative of CEMMA at the central level stated that: "*Not every official at the provincial level understands that they must provide democracy to the people.*" This statement reveals that democracy is becoming a target that must be achieved through its *provision*. One representative of the provincial government in Ha Tinh confirms that participation "*is a very important wish from the central government.*" The mass organisations we interviewed did not have any clear concept of participation. They referred to it in the context of their organisations only and stated that participation was ensured thanks to their hierarchical structures.

Obviously, participation is not deeply rooted in official thinking. Institutionalising participation is hindered by the fact that the concept of participation has not yet been fully accepted by the administration and that there are still different understandings of participation, which extent to data gathering, democratisation and empowerment.

In a consensus-based society like the Vietnamese, the only consensus that might realistically be reached is therefore the least common denominator. Indeed, the CPRGS limits participation to the local level. Furthermore, indicators of good governance refer only to information sharing and monitoring<sup>46</sup>. The Policy Matrix in Appendix 3 of the CPRGS, however, also includes participation in implementing rural infrastructure projects. Although participation in decision-making is emphasised ("*Enhance Grassroots Democracy and Strengthen Dialogue between Local Governments and Poor Communes*"), no indicators have been developed to measure participation. Given the

45 Socialist Republic of Vietnam (2002d), Appendix 3.

46 Socialist Republic of Vietnam (2002d), Appendix 1.

legacy of central planning, participation in decision-making may for this reason not be considered as a target and, as a result, be given less attention than other policies.

## 6.2.3 Varying Levels of Participation

### 6.2.3.1 Intra-government Participation

Intra-government participation is very weak. Given the comprehensive nature of the CPRGS, many policies laid out in the strategy will have to be implemented by different line ministries at different levels. It is therefore important for them to become committed to overall national goals of poverty reduction and to develop ownership in implementing the parts of the CPRGS for which they are responsible.

However, the lack of horizontal participation (see Chapter 6.1) reduces the opportunities open to line ministries to develop ownership. At the national level, however, the lack of intra-government participation has been partly compensated for by over 20 partnership groups, including the Poverty Working Group, in which co-ordination has been taking place.

There have been hardly any mechanisms established to achieve vertical intra-government participation. Although regional consultation workshops were carried out in the context of drafting the CPRGS, they were limited to four workshops for 61 provinces and two cities; they were organised on an ad hoc basis and financed by donors. Parliamentarians have not contributed to the design of development policies through their local knowledge, and local governments have not joined the policy dialogue, for example through their representations in national fora.

### 6.2.3.2 Civic Engagement at the Local Level

Unlike to civic engagement at the central level, which is almost non-existent in Vietnam, civic engagement at the local level has been increasing

significantly in connection with the Grassroots Democracy Decree (GDD). Impressive achievements can be observed in the areas of empowerment, sustainable poverty reduction and improved governance, although significant challenges still remain.

Following openly expressed dissatisfaction with misconduct of local officials, the Vietnamese government issued Decree 29 in 1998, the GDD. It provides instructions to increase participation in decision-making processes on local planning, infrastructure works and budget matters. It establishes mechanisms for accountability and transparency (See Box 8 for contents of the Decree).

The decree has not yet been applied in the whole country. First evaluations show that provinces are implementing the Decree in different ways. Whereas the Province Son La has used the GDD to introduce Village Development Planning in the spirit of bottom-up development (see Box 9 9), Ha Tinh province has limited participation to certain programmes.

Donors attach great importance to the Decree because they see it as an important tool to reduce corruption. One interview partner even stated that the implementation of the whole CPRGS depends on the progress made in implementing the GDD.

**Box 8: The Grassroots Democracy Decree**

The Decree consists of four core-areas:

1. Information

The decree obliges local authorities to provide information on a wide range of matters, including the local budget, socio-economic and land-use plans and outcomes of investigations regarding corruption. This section also defines the means of information, such as reports, posters, mass media and meetings between the population and members of the People's Council.

2. Consultation

Before the People's Committee is allowed to decide on certain matters, citizens must be consulted. The areas in which consultation is necessary include socio-economic and land-use planning, national projects on health, potable water and sanitation and the appointment of candidates for communal elections. The means used for consultation consist of questionnaires, village meetings, meetings of the mass organisations and a box set up to collect people's opinions.

3. Decision-making

The Decree defines activities on which a majority of citizens must agree before they can be implemented. These include policies and the extent of contributions to infrastructure development, budget expenditure, rural internal laws to regulate communal life and the supervisory board for construction works. Under the leadership of the Party, the People's Committee develops a tentative project plan that is discussed at village meetings in which the heads of households participate. Decisions can only be taken if two thirds of the people (households) are present. Minutes need to be taken. When meetings are not possible, the opinions of households may be solicited on paper slips.

4. Control

The Decree extends the areas in which the People's Committee is accountable to the people. These comprise the budget, expenditure, land use and corruption. The Decree grants people the right to complain about corruption. Mass organisations are entitled to attend meetings of the People's Council, and representatives of the people are allowed to attend as observers. The People's Councils have to hold meetings to settle complaints. People's Inspection Committees have to be set up to supervise government activities.

Source: Grassroots Democracy Decree; see also KAS, 2001

The **strengths** of the GDD can be grouped around three areas:

1. *Empowerment*

The interviews have shown that an attitude of self-reliance is emerging, in contrast to the customary reliance on state allocations from the central level. One commune-level interview partner stated: *"Everything depends on the people. The development will come first from the people, second from the local government officials and third from the central government and their support programmes."* People feel that they have more power in initiatives that concern their lives. One interview partner summarised: *"The Decree changed the way decisions are made. People can participate in developing master plans. They have the right to decide what they can contribute and what assistance they need."*

2. *Sustainable Poverty Alleviation Activities*

As a result of the GDD, people's awareness of their opportunities in building and maintaining infrastructure has risen. The Village Development Planning carried out in Son La has led to a feeling of ownership that has caused people to contribute their labour to infrastructure projects. In Muong Lum, a commune in Son La, all inhabitants of the commune dedicate each 20<sup>th</sup> of the month to road-building activities. Remote villages have agreed to provide bamboo for upgrading the irrigation system, even though they will never be able to benefit from it directly. The willingness to contribute labour to commune projects increases the effectiveness of the use of government funds in the construction and maintenance of projects and leads to sustainable poverty alleviation.

**Box 9: Participatory Village Development Planning in Son La**

The Province Son La has introduced participatory Village Development Planning as part of the process of implementing the Grassroots Democracy Decree. Every year, the community assesses the present situation in the village and suggests necessary activities. Village development plans provide the basis for socio-economic development plans at the commune, district and province level, and to make this possible, funds are allocated from different sources, including National Programme 135. Institutionalising Village Development Planning has changed the planning system from the traditional top-down planning to bottom-up development.

The planning process is summed up below:

*Village level*

At village meetings, which are attended by one or two representatives of each household, people

- Evaluate the achievements of the past year
- Identify opportunities and challenges in the coming year
- Set development objectives
- Identify activities and conditions to achieve the objectives
- Prioritise activities
- Define contributions from the inhabitants that are acceptable to the village

*Commune level*

- Commune level administration integrates the Village Development Plans

*District, Province Level*

- Relevant government departments approve the plan
- Government officials assist in implementing the plan

Source: Interviews; Le Viet Thai (2001)

### 3. Better Governance

Joint decision-making processes have improved the relationship between government officials and the population. One interview partner at the province level in Ha Tinh acknowledged that both the people and the government need to work together to achieve sustainable poverty alleviation. Similarly, a local survey<sup>47</sup> found that the GDD has increased trust in the administration. Furthermore, implementation of the Decree has increased the management capacity of local officials. Enhanced relationships between the government and the people as well as improved capacity at the local level have led to better governance.

Given these achievements, the importance of the GDD becomes clear. However, implementation has revealed challenges that will need to be addressed. They are structured according to the four dimensions of participation as defined by the Vietnamese Government: people know, people discuss, people do, people check.

*People Know*

Bottlenecks arise in the areas of generating and disseminating information. Commune-level officials complained about unclear information on how to implement laws. Lack of knowledge in areas subject to consultation makes it more difficult to process information. One member at the consultation workshop in Quang Binh added: “*The responsible administration does not know how to disseminate information and to whom.*” Even if it did know, the budget lacks funds for

47 See KAS (2001).

printing information. The dissemination of information is hindered further by the remoteness of villages that do not yet have access to the electricity grid. Travel costs are not reimbursed, and the salary levels of local officials are so low that they are reluctant to travel to remote villages to pass on information. Other participants of the workshop complained about the poor quality of the mass media. Furthermore, poor areas are often inhabited by ethnic minorities who do not speak Vietnamese. Language barriers add further to communication problems.

To counter this situation, the CPRGS lists a number of measures, including improvement of the mass media, using of community' radio and video facilities, dissemination of information directly to households and increased incentives for government officials to provide information.<sup>48</sup>

### *People Discuss*

In the context of Village Development Planning in Son La, people discuss development goals in the commune and prioritise investments to achieve them. One problem is the participation of households. The level of participation varies. Language barriers and low levels of education, combined with geographical remoteness, cause some people to stay at home. They feel that they cannot contribute to the process. Government officials at the consultation workshop in Quang Binh complained that women are underrepresented in village meetings because of care responsibilities. In Son La, the participation of women varies in terms of ethnic minorities – whereas women play a strong role within the Thai community and are well presented in village meetings, the representation of women in village meeting of H'mong communities is weak. In response, the CPRGS aims at fostering gender equity and enhancing the participation of women at all levels of leadership.<sup>49</sup>

Another problem is the lack of capacity at the local level. The budget does not include funds for the training necessary to carry out participatory planning. If the relatively small sum<sup>50</sup> cannot be provided by donor projects, this puts a serious strain on the local budget. Another bottleneck is the attitude of local officials. The legacy of top-down planning makes it difficult for some officials to embrace bottom-up development as required by the GDD. Another shortcoming is the lack of knowledge among people. People need to understand the causes of their problems in order to make informed decisions. For example, if the population is suffering from health problems, their representatives may decide to upgrade the health station, even though the cause of their illnesses may be a lack of sanitary systems.

Intransparent government structures are another challenge for participatory planning. As described in Chapter 6.1, the budget is not transparent. Districts and Communes do not know how much funding is available to realise investments. This fact impacts negatively on the planning process, because stakeholders need to plan without a basis – let alone the fact that people lack the knowledge to cost projects. As a result, the list of proposed investments exceeds the budget available. In contrast to transparent decision-making processes at village level in Son La, it remains unclear what the project selection criteria of the Province are. One donor representative stated: *“If poverty reduction was to be successful, clear roles and responsibilities would need to be assigned.”* First signs of this process can be observed in the CPRGS' chapter on the GDD: *“Clarify functions and strengthen the management, monitoring and inspection capacity of government agencies.”*

In Ha Tinh, another bottleneck became apparent: the lack of confidence among people. One representative of the provincial administration said that people are unable to participate because *“they do*

48 Socialist Republic of Vietnam (2002c), p.58.

49 Socialist Republic of Vietnam (2002c), Appendix 3.

50 Le Viet Thai, 2001, estimates the training costs at 170 000 VND (approximately USD 11) for each village per year for the first years and at 100 000 VND (approximately USD 6) in the following years.

*not know how to do it.*” Participation would lead to committee meetings that are too large to decide on anything. As a result, people are excluded from participating in one of the most important programmes for poverty alleviation for poor communes, the National Programme 135. In the case of provincial poverty alleviation programmes, participation is limited to choosing items from a list of proposed infrastructure investments.

### *People Do*

Although people contribute up to 50% of the cost of infrastructure projects, they still face some difficulties in participation. The first is the lack of skills that limits job opportunities, for example in constructing roads, schools, electricity lines etc. The CPRGS aims at countering this situation by giving priority to programmes that employ the local workforce.<sup>51</sup>

The second difficulty is the limited capacity to mobilise resources. In some cases, the poor are unable to spare resources, as expressed in the PPA of Ha Tinh. The widening social gap makes it more difficult to extract the same contribution from households. In poor communes, cash is a limited resource, and thus inhabitants are unable to contribute capital. The budget of the communes is also very small. One participant at the consultation workshop in Quang Binh complained that the communal level has limited influence on the allocation of resources. *“The District and the Province could always ask for more money from the level above, the commune cannot.”* Inappropriate bureaucratic procedures divert further resources from scarce local budgets. Examples include the need to produce independent feasibility studies and construction plans and the difficult administrative procedures involved in reimbursement for the production and transport of stones.<sup>52</sup>

The third difficulty is lack of capacity on the part of local officials. Poor communes often suffering

from “brain drain,” because young people move to cities to find jobs. One communal official in Son La stated that participation in implementing projects creates new challenges for administration, which is forced to learn by doing. Without knowledge about simple things such as the composition of cement, communes can easily be cheated by contractors.

### *People Check*

One potential problem is that monitoring is limited to the commune level. If the inspection committee discovers mismanagement that has been caused by external factors, it is entitled to complain at the district level. However, it remains unclear what steps need to be undertaken by officials at levels above the commune. As a result, corruption at the district or province level are less likely to be prosecuted. One other problem may be due to the fact that the membership of the inspection committees is not defined<sup>53</sup>. As a result, some sections of the local population may be excluded from “checking” activities.

In conclusion, the main bottlenecks regarding civic engagement at the local level are lack of knowledge, lack of resources, low administrative capacity at the local level and the intransparent administrative system. In some cases, one can add lack of political will. The GCOP survey found that in around 17 % of communes implementation has not gone beyond formality. As one interview partner stressed, hierarchical top-down planning is still deeply rooted in the minds of government officials.

### **Ethnic Minorities**

The issue of ethnic minorities deserves special attention. Several factors such as language barriers, varying levels of education and geographical remoteness have prevented ethnic minorities from

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51 Socialist Republic of Vietnam (2002c), p.48.

52 Le Viet Thai (2001).

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53 The Grassroots Democracy Decree grants people the right to monitor activities of the government by establishing supervisory committees.

benefiting from or taking part in the enhanced forms of local democracy. Because most poor communes are inhabited by ethnic minorities, special attention needs to be paid to involving them in local participation, if sustainable poverty reduction is to be achieved. The CPRGS aims to encourage them to take part in the economic development process.<sup>54</sup>

Not everybody in government shares this opinion. One provincial official stated that in the case of ethnic minorities, a top-down approach is necessary. This attitude appears especially problematic because in some provinces ethnic minorities are not represented in the administration above the commune level. Ethnic minorities risk remaining excluded from decision-making processes, and this may mean they will lag even further behind the country's development.

In summary, the goals of participation will be reached only in part, because, first, participatory data-gathering is limited, second, ownership is being developed but only at the local level and among a limited number of stakeholder groups at the national level and, third, governance at the local level is improving, though significant challenges remain at higher administrative levels.

### 6.3 Monitoring and Feedback of Results

The third critical area identified for implementing the CPRGS is establishment of a monitoring and evaluation system. Monitoring comprises tracking the implementation of the CPRGS, evaluating the impact on poverty reduction and, finally, feeding the results back into the decision-making process. Hence, monitoring and evaluation is an integral part of the PRSP-cycle because it will ensure an orientation towards results. Feedback of results will improve the implementation of the strategy and provide the basis for reformulation of poverty reduction policies. Consequently, monitoring supports good governance for poverty reduction be-

cause it facilitates priority setting and increases transparency.

As outlined in the CPRGS, a monitoring and evaluation system must be developed and implemented to track the indicators listed in the strategy. In the process of drafting the CPRGS, the section on monitoring and evaluation improved considerably. Nevertheless, three main problem areas can be identified for the future implementation of the CPRGS monitoring system. They relate to the indicator framework, data collection methods and institutional arrangements.

#### 6.3.1 Establishing a Full Indicator Framework

For each goal formulated in the CPRGS, indicators are outlined on the basis of which monitoring and evaluation needs to be carried out. Consequently, establishing a fully defined and quantified indicator framework is fundamentally important for the CPRGS monitoring system. Although Vietnam has already taken important steps towards formulating indicators, especially in the process of adapting the MDGs for Vietnam, four main difficulties remain:

#### Formulating Adequate Indicators

Linkages between proposed policies and poverty reduction outcomes need to be more clearly defined and reflected in the indicators. Some indicators neither fully reflect the measures proposed to reach the goal, nor do the indicators focus on poverty reduction outcomes. The lack of adequate indicators for some of the goals limits the analysis of progress made in reaching them.

Although poverty data are available in Vietnam, ex ante social-impact analysis remains a challenge. Especially in the area of the proposed macroeconomic and structural reforms, the indicators do not reflect expected impacts on poverty reduction.

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54 Socialist Republic of Vietnam (2002c), Appendix 3.

## Formulating Quantified Indicators

Another shortcoming is that some of the indicators listed in the strategy still lack clear quantification against which the achievements can be measured. Goal 8, “Improving Living Standards, Preservation and Development Ethnic Minority Cultures,”<sup>55</sup> is an example in which neither the targets nor the indicators have been quantified.

## Formulating Disaggregated Indicators

In the Vietnamese context, future progress in poverty reduction will particularly depend on poverty reduction in disadvantaged areas and among special population subgroups. Consequently, formulating and monitoring disaggregated indicators is a very important task.

Indicators for different population subgroups like ethnic minorities or gender specific indicators have been included in the strategy, such as goal 4: “Education universalisation,” goal 7: “Develop culture and information, improve the spiritual life of people,” goal 8: “Improve living standards, preserve and develop ethnic minority cultures,” and goal 11: “Gender equality and women’s empowerment.” However, goal 10, “Reduction of vulnerability,” is one example where no disaggregated indicators have been set.

One finding of the regional consultative workshops and interviews at the province level is that the next step in implementing a monitoring and evaluation system could be the formulation of regionally adjusted indicators. Specific local impact indicators will allow for monitoring and evaluating of the implementation of the CPRGS in the specific local context, thereby helping to increase ownership of implementation. As interviews with stakeholders at sub-national levels showed, due to limited capacity at these levels, a only a limited number of indicators should be

monitored. This has to be taken into account in formulating a set of local indicators.

## Formulating a Complete List of Indicators and Clarifying the Significance of the Indicator Framework

Finally, one question that arises is the extent to which the list of indicators is complete and specifies the goals and the measures used to reach them and consequently provides a framework for implementing the strategy.

The example of goal 11: “Ensure good governance for poverty reduction” illustrates the problem: The indicators listed in the CPRGS only refer to the implementation of the *Grassroots Democracy Decree* at the commune level. The policy matrix, however, outlines the implementation of the public administration reforms as the measure needed to achieve goal 11. Implementation of the *Grassroots Democracy Decree* at the commune level is not mentioned. Obviously, the indicators only have the character of selected benchmarks, because they do not cover all measures. Activities through which the GoV or the international development partners seek to contribute to reaching goal 11 cannot only be concentrated on the commune level. In implementing the strategy, both the GoV and the donors have to clarify the extend to which the CPRGS indicator framework has to be taken into account or additional indicators have to be added.

### 6.3.2 Collecting Data

Poverty monitoring that takes all dimensions of poverty into account requires integration of complementary data collected with the aid of different methods. The CPRGS mentions the need to gather quantitative and qualitative information. Census and household surveys as well as administrative records and information systems will be used in the monitoring and evaluation system. Participatory monitoring of qualitative indicators is – in contrast to quantitative data collection – not yet institutionalised.

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55 See Annex 1.

For Vietnam, which is highly experienced in qualitative data collection and statistical analysis, the two most important issues in this context are:

### Definition of Poverty Lines

First, data collection undertaken by different institutions are based on different definitions of poverty. Vietnam has developed a Household Sample Survey with technical assistance from international donors; on this basis the GSO calculates an internationally comparable poverty line. On the other hand, the MOLISA uses a different poverty line calculated from data obtained through the administrative recording system (see Box 1).

In the interviews various stakeholders noted a need to harmonise the different poverty measurements. Since both poverty lines are used in the CPRGS, a single poverty line could be adapted only in the medium to long term. The government has not yet decided which poverty line it will use. Possibly, both will be used, according to the purpose in question: the MOLISA poverty line to allocate government assistance and the GSO survey to measure progress in poverty reduction.

Because the two poverty lines are used for different purposes, they do not necessarily conflict. However, the fact that they are used in parallel will require additional efforts to compare results and to integrate them in one single monitoring system.

### Integrating and Institutionalising Participatory Monitoring

The second critical issue is to further integrate and institutionalise qualitative and participatory data collection methods to complement the present, quantitative approach to data collection.

Using participatory tools<sup>56</sup>, it would be possible to come up with relevant monitoring and evaluation information for national goals and targets. As part of the poverty monitoring system, participatory assessments could provide qualitative data complementary to the existing household surveys, thereby increasing the scope of monitoring and focusing on the perspectives of the poor. A comprehensive understanding of qualitative changes in poverty and the impact of the CPRGS could be achieved for different locations and different population subgroups.

Understanding participatory monitoring in a wider context, participation in monitoring will assist in building ownership of the process of implementation. It is therefore not limited to using PRA tools to track qualitative indicators at the grassroots level but also includes participation in budget formulation and monitoring, expenditure tracking and delivery of public services.<sup>57</sup> INGOs emphasised that participation in monitoring has to be ensured because it strengthens empowerment of people. *“Information sharing is power sharing”* and participation in monitoring government actions will be an instrument essential to improving transparency and accountability. This will strengthen dialogue among different stakeholders, and – under the condition of institutionalised feedback mechanisms – it will consequently lead to increased capacity for civic engagement in policy-making (see Chapter 6.2).

The CPRGS recognises tracking of qualitative indicators and *“people’s consultations”* as one part of the monitoring and evaluation system. However, participatory monitoring is not yet insti-

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56 The PTF gives a detailed description of participatory monitoring, including a list of key questions, principles, management and resourcing as well as a timetable of participatory assessments of policy and programme impact on ethnic minorities. See PTF (2001f), pp.27-31.

57 For more details see: World Bank (2001c), chapter: Organizing Participatory Processes in the PRSP, pp.42–53.

**Box 10: Poverty Mapping in Vietnam – An Example for the Use of Monitoring Data as a Tool for Decision-making**

The MOLISA produced a set of district-level poverty maps based on the national poverty line and the MOLISA data collection system. These poverty maps are being already distributed in Vietnam to serve as a tool to focus discussion among policy-makers at all administrative levels about poverty and the reasons for changes in the poverty situation.<sup>a</sup>

In addition, the World Bank is planning a training project for the MARD, the MOLISA, the MPI and the GSO on poverty mapping. This project is based on the use of data from the 98 VLSS. The World Bank project has 4 objectives: First, generation of district-level poverty maps; second, identification of household-level variables, agroclimatic characteristics, and market access variables that are correlated with poverty in Vietnam; third, capacity-strengthening of the MARD, the MOLISA, the MPI and the GSO in poverty mapping and using geographic information systems (GIS); fourth, dissemination of methods and results among analysts and policy-makers aimed at increasing acceptance, understanding and use of results.

The method used combines household surveys and census data to construct a poverty map using poverty estimations for disaggregated geographical units. This approach involves two steps: first, household survey data is used to estimate poverty as a function of household characteristics such as household composition, education, occupation, housing characteristics, and asset ownership. Second, census data on these same household characteristics are inserted into the equation to generate estimates of poverty for small geographic areas.

The results of this exercise can be used for monitoring and policy analysis purposes. Policy-makers (and researchers) can in this way quantify suspected regional disparities in living standards and identify which areas are falling behind in the process of economic development. Second, it facilitates the targeting of poverty alleviation programmes. Furthermore, it may explain geographic factors correlated with poverty, such as mountainous terrain or distance from major cities.

The method is regarded as a useful tool for identifying indicators that connected with poverty and identifying trends in poverty changes, because it is updated whenever new data become available. Poverty maps can serve as a basis for discussion that facilitates the dialogue between different stakeholders. Whereas its value as a discussion basis can be easily seen, coming up with valid models for decision-making requires a large amount of high-quality data and great analytical and technical capacities. It is yet to be proven whether reliable and timely information will be able to be produced and provided to decision-makers.

As explained above, the MOLISA has already produced poverty maps using its own data base. Where and to what extent the two Vietnamese poverty maps will complement each other and efforts in this field will be able to be integrated into one monitoring and evaluation system remains to be seen.

Sources: Minot, N. / B. Baulch (2001a), (2001b), Interview with Mr. Liem, GTZ/MOLISA; Interview with Mr. Swinkels, World Bank

a MOLISA is supported by GTZ through the project *Capacity strengthening for the National Poverty Alleviation Strategy in Vietnam*

tutionalised. The question arises who will be responsible for carrying out independent participatory monitoring that takes into account the fact that civil society is still without a legal framework. The CPRGS assigns independent agencies like universities and NGOs responsibility for participatory monitoring. Some INGOs assume that mass organisations might possibly play an important role here. The MOLISA emphasises the importance of participatory monitoring to strengthen ownership and improve the results of the monitoring carried out in the administrative system at the local level, where it already provides training in participatory assessment. The MOLISA could therefore play an important role in implementing

and disseminating participatory monitoring in the future.

Bilateral donors, including Germany, assess the lack of participatory qualitative indicator tracking as a major deficit of the CPRGS monitoring system. Multilateral donors, especially the World Bank, envisage integrating participatory monitoring into the overall monitoring system in the medium term. The experiences already gained from participatory poverty assessments could be used and integrated into the poverty monitoring system. Activities could build on ongoing work and existing partnerships.

### 6.3.3 Institutional Arrangements: Responsibilities, Capacity, Data Quality and Co-ordination

Institutional arrangements have to be established to guarantee high quality, systematic monitoring, evaluation and feedback of results. To monitor progress in a comprehensive way, the different data sources of the national statistical system must be integrated in the CPRGS monitoring and evaluation system in order to generate the necessary disaggregated performance and impact data. Therefore, disseminating results and establishing feedback mechanisms at all levels is a central task within the monitoring system. Close co-ordination between the agencies involved in monitoring and evaluation is a central condition for integrating the lessons learned in the ongoing process of CPRGS implementation and policy adjustment.

Four complexes have to be considered when looking at the institutional set-up: assigning responsibilities, strengthening capacities, ensuring data quality and improving co-ordination.

#### Responsibilities

The responsibilities of different agencies are outlined in the CPRGS. In Appendix 1 the responsible reporting agency and the reporting frequency are listed for each indicator.

An inter-ministerial group will be established under the MPI in co-operation with the MOLISA, the MARD and other agencies at the central level. This working group will be responsible for supervising and co-ordinating the implementation and the monitoring system of the CPRGS. The line ministries at the central and at lower administrative levels will have to establish additional units to meet the new monitoring requirements. Some bilateral donors expressed concerns about negative effects of *parallel* monitoring structures not sufficiently integrated in the administrative system at all administrative levels. Others, however, stressed that these kinds of units are currently necessary.

The GSO will be responsible for collecting the majority of statistical macroeconomic performance data as well as for carrying out and analysing the Household Sample Survey. The GSO is to undertake its tasks in close co-operation with the MPI and other related ministries and institutions. The MPI is responsible for co-ordinating the different agencies and preparing the annual progress reports. As outlined in the strategy, the MPI will collect information regarding resource mobilisation and allocation for implementing the CPRGS on an annual basis. However, more work is required to track public expenditures and better assess the effectiveness of such spending in improving priority-setting for public action to reduce poverty.<sup>58</sup>

The *line ministries* are responsible for sectoral monitoring and evaluation. As provided for in the strategy, these agencies are to integrate the CPRGS objectives and mechanisms into their annual action plan. Monitoring results from these annual action plans will be fed back to the MPI.

*Poverty monitoring undertaken by the MOLISA* is based on the MOLISA's administrative reporting system. Because the CPRGS indicators are based on both poverty measurements, both the MOLISA and the GSO are responsible for monitoring the progress towards goal 1: "Poverty Reduction," goal 2: "Provision of essential infrastructure" and goal 3: "Job creation."<sup>59</sup>

The MOLISA is continuing to monitor its targeted Poverty Alleviation Strategy. It will be especially important to evaluate the activities carried out in the framework of the strategy in order to propose changes at achieve greater effectiveness in the new context of the CPRGS. The MOLISA plans to implement seven pilot poverty monitoring units at the provincial level. Some of the expected results are high-quality poverty data and impact monitoring

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58 See IMF / IDA (2001c), p.3.

59 See Socialist Republic of Vietnam (2002d), Appendix 1 B.

of selected government programmes as well as donor-supported projects. The information obtained will have to be fed into the national poverty monitoring system.

The role of *sub-national administrative levels* became more prominent during the development of the CPRGS. The provincial administrative level will be directly responsible for monitoring certain implementation indicators such as resource mobilisation and allocation and monitoring of the social and poverty reduction goals.<sup>60</sup> Furthermore, the province levels will be involved in sectoral monitoring through the line ministries.

If participatory monitoring is to be institutionalised, the local level would be the most appropriate

The role of *research institutions*: Building partnerships with national and international universities and other research institutions can be an integral part of the monitoring and evaluation system. A PTF study suggests the integration of in-depth sectoral studies and impact assessments carried out by national and international experts into the monitoring system<sup>61</sup>. The CPRGS mentions these potential contributions of research institutions.

As stated in the CPRGS, national and international *NGOs* could contribute to the monitoring and evaluation system by organising consultative processes with the population.

One potential role of *international donors* in the CPRGS monitoring system could be to further

**Box 11: Census and New Household Survey**

The new *Household Survey* constitutes the core component of the national monitoring system. It was developed with technical support from the World Bank (SIDA and UNDP), building on existing household surveys. It will be conducted by the General Statistics Office (GSO) biannually from 2002 to 2010. The household survey samples approximately 30,000 households and consists of a core questionnaire and special topic modules. Consumption status is estimated from the core questionnaire. The special topic modules vary from survey to survey, depending upon topics, which may change within a longer time-frame. A "special topic" could concern agriculture and household businesses, access to and utilisation of health and education services, environmental information, access to infrastructure, interaction with institutions and government.

A population *census* is carried out once every ten years, with an intermediate census being conducted every five years. The most recent census covers the situation in April, 1999. The census provides general information on household characteristics. The agricultural census provides information for rural areas only. As an important part of the national statistical system, the census provides information for policy evaluation at the aggregated national level.

Source: PTF (2001g), pp.20-21

one to carry out this task. Finally, as mentioned above, the local level will be responsible for formulating and monitoring indicators that have been adapted to the specific local conditions.

The role of the *mass organisations* in the monitoring and evaluation system is not defined in the CPRGS. As mentioned already, the mass organisations could play a role in participatory assessments since they are present at the local level.

support capacity-building and provide technical assistance for Vietnamese agencies involved. For example, the World Bank, UNDP and SIDA are co-operating with the GSO, while the GTZ is working together with the MOLISA. In addition, the international development partners could carry out participatory assessments as long as they are not institutionalised as a part in the monitoring system.

60 See Socialist Republic of Vietnam (2002d), Appendix 1, pp.90-97.

61 See PTF (2001g), p.26.

If donors align with the CPRGS, they will carry out their activities in the framework of the CPRGS goals, on the basis of which project monitoring and evaluation will have to be undertaken. Consequently, the question arises how donor-funded project and programme monitoring can contribute to the national monitoring system.

Currently, project monitoring does not contribute to overall poverty monitoring, because it is not linked with the administrative data collection system. Even if poverty impact monitoring of project activities is undertaken, the question of integration of results in the wider framework of the CPRGS monitoring and evaluation system is still unclear.

Donors will thus have to decide how to design and implement a communication system to feed lessons learned in projects at different levels into the monitoring system and the policy dialogue.

Furthermore, donors will play an important role in CPRGS monitoring and evaluation when co-operating with the GoV in Sector-Wide-Approaches (SWAs). As explained for the forestry sector in Annex 2, a sector-wide monitoring and evaluation system will be established as an important tool for co-operation within a coherent policy framework. An important challenge ahead will be to fully integrate the SWAs monitoring into both the respective line ministry (in the case of the forestry sector into the MARD) and the CPRGS monitoring and evaluation system.

## Capacity

The CPRGS calls for further decentralisation of administrative functions and service provision. Consequently, strengthening monitoring capacities at the sub-national level is very important. In addition to the weaknesses in human capacity explained above, time and resource limitations have to be considered in this context. For example, transportation costs and the time needed to reach remote areas as well as insufficient technical equipment needed for systematic data collection and processing limit monitoring capacities, especially at the local level.

## Data Quality

Closely linked to the lack of capacity is a third problem that concerns the negative incentive structure regarding data quality. Data quality is low, partly due to the limited capacities of the institutions involved, but also for structural reasons. The legacy of central planning is still manifest in the fact that individuals tend more to try to reach the targets set by the authorities than to take personal responsibility for the accuracy of data.

## Co-ordination

The fourth main bottleneck is the weak vertical and horizontal co-ordination and flow of information within the administrative system (see Chapter 6.1.4).

To monitor progress in a comprehensive way, the different data sources must be integrated in the monitoring and evaluation system. Dissemination of results and establishment of feedback mechanisms at all levels is therefore a central task that requires close co-ordination between the agencies involved in monitoring and evaluation. This is a central condition for integrating the lessons learned into the ongoing process of PRSP implementation and policy adjustment. As interview partners from a bilateral donor organisation noted, limited co-ordination is one of the main monitoring problems in Vietnam. Each ministry has its own data collection system, but information sharing is very limited.

Provincial-level officials pointed to difficulties in accessing data from other agencies. Furthermore, they articulated the concern that each project and programme has established its own data base, and each of these exist in parallel. Due to weak co-ordination among different agencies, the usability of results is limited. Institutionalising feedback of experiences from national and donor-funded projects into the decision-making process is considered to be another challenge.

In sum, a framework for the CPRGS monitoring and evaluation system has been established. Con-

siderable experience has already been gathered with regard to the national statistical system. However, challenges remain for the CPRGS monitoring and evaluation system. These concern meeting the requirements of data quality as well as the complexity of co-ordinating different agencies and integrating complementary data. The most important tasks for the future are capacity-building for the agencies involved and support for co-ordination and co-operation between the different stakeholders, which is a precondition for implementing the CPRGS monitoring and evaluation system.

## 6.4 Harmonising Donor Contributions

The alignment of donor assistance is expected to be one main outcome of the PRSP process as well as a requirement for the implementation of the PRSP. In part, the PRSP approach has been designed to overcome poor donor co-ordination, weak country ownership of aid, and the fragmentation of governmental programmes and agencies caused by frequently divergent aid delivery mechanisms, management policies and procedures.

In Vietnam, the structures and processes of ODA delivery are changing as a consequence of the

PRSP process.<sup>62</sup> Driven by both the GoV and the international donor community, development partners are increasingly willing to co-ordinate and harmonise their activities. The donor community is ready to align its assistance to the CPRGS as a means of increasing the effectiveness of donor activities, reducing the administrative burden of ODA delivery, and reducing the transaction costs of development assistance for Vietnam.

However, harmonisation, broadly defined as the alignment of donor activities, faces some chal-

lenges. The “architecture” of ODA and the ability, willingness, and speed involved in adapting it to new requirements differ widely among donors. Donor-specific procedures have evolved reflecting different needs and approaches concerning the best means of delivering, managing and controlling development aid.

### 6.4.1 Need for Harmonisation

Harmonisation of ODA can be defined as a process of increasing country-level alignment of donor activities with activities of other donors as well as with activities of the GoV. It comprises co-operation, i.e. information sharing, joint policy dialogue, joint programme planning, and, generally, fosters fewer but larger donor projects using joint funding mechanisms. In addition to co-operation, harmonisation is concerned with standardising procedures and practices regarding project design, implementation, and evaluation. Programmatic approaches such as the CPRGS are supposed to be an effective mechanism to promote harmonisation and programme-based approaches of aid delivery.

Vietnam needs programme-oriented and harmonised ODA for two reasons. First, harmonisation can lower the transaction costs of ODA delivery for Vietnam. Transaction costs of scarcely co-ordinated and project-oriented ODA have turned into a heavy burden on the administrative capacity of the GoV. Until the early 1990s, the only donors active in Vietnam – except for assistance from communist countries – were the UN system and Sweden. Large-scale bilateral inflows started at the beginning of the 1990s and rose rapidly thereafter. In 1993, ODA disbursements totalled about US\$ 250 million, six years later they were five times as large. By late 1999, 45 official donor agencies (and 350 international NGOs) were working in Vietnam. About 1,400 ODA-financed projects were underway. During the same period, the value of signed donor commitments was on average about twice as large as the level of disbursements, an indicator of how severely the

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62 These changes in ODA delivery were initiated by the CDF and supported by harmonisation efforts within the DAC and the UN.

GoV's capacity to manage ODA was being strained.<sup>63</sup> A study by UNDP<sup>64</sup> on aid transaction costs in Vietnam was unable to provide any precise measure of transaction costs, but it was able to use anecdotal information to show that they are substantial.

Second, harmonisation can raise the effectiveness of ODA. The early years of donor involvement were a period of uncoordinated and sometimes duplicative activity. Most donors had little experience in Vietnam, and the GoV had little experience in co-ordinating rapidly growing ODA inflows. Since the establishment of sector-wide partnership groups, the CDF process, and the drafting of the PRSP, a common framework for programme-oriented ODA has evolved as a basis for donors to align their activities and improve effectiveness.

The CPRGS provides a framework for program-based donor assistance. Many donors have expressed their willingness to use the CPRGS as a guide for their Country Assistance Strategies (CAS), provided it meets their expectations in terms of quality (prioritisation, costing, action orientation).<sup>65</sup> The World Bank regards its new CAS 2003-2006 as a "business plan" under the CPRGS. Other donors, i.e. the Asian Development Bank, voiced reservations during the process, arguing that the completion of the CPRGS will take more time to become a sound basis for donor CAS in the near future. They developed their CAS in consideration of an early CPRGS draft, among other existing national strategies and plans.<sup>66</sup>

## 6.4.2 Four Dimensions of Harmonisation

### Standardisation of Procedures

A group of like-minded European countries (Netherlands, UK, Finland, Norway, Sweden, Switzerland) in particular is willing to standardise donor procedures and practices of aid delivery. The same goes for a group of multilateral and bilateral Development Banks which are harmonising their procedures in Vietnam as part of a joint international effort. To enhance ownership of aid, it is their ultimate goal to adapt aid procedures to the GoV system. These initiatives could pave the way for other donors. However, several donors argue that as long as the GoV system is not suitable to be used as a basis for harmonisation, donors might first harmonise among one another at the country level. Then, accompanied by measures to increase capacity and transparency of the GoV system, donors could harmonise with the GoV system over time.

### Programme Orientation

Increasing programme orientation of aid is a first step in the harmonisation of development co-operation. This would mean that donors move aid activities away from isolated projects funded by single donors and align their assistance to a recipient country's programme. Several steps involved in advancing of aid delivery in the direction of programme orientation can be distinguished. Isolated projects are a non-harmonised form of aid delivery without programme orientation.

On the other side of the scale, Sector-Wide Approaches (SWAp) secure a high degree of programme orientation. A SWAp is a mechanism used by donors and the recipient country to support the integrated development of a sector.<sup>67</sup> In SWAp, donors align their assistance to a country-owned sector policy, which is jointly implemented

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63 See MPI / UNDP (2001), p.ii.

64 Cited in Grant Thornton (2001), p.ii.

65 CIDA (2002), p.1.

66 ADB (2002), p.1.

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67 OECD (2001), p. 69.

by the government and the donor community under the leadership of the government of the recipient country. In its most developed form, it comprises a single expenditure programme, integrating donor funds as well as common management and reporting procedures to disburse and account for all funds. Not all donors are willing to support SWAp, because they are reluctant to pool funds. However, even if fund pooling is generally desirable to increase country ownership and to fully integrate donor support into a unified budgetary framework, fund pooling is not a precondition for a SWAp. There are other forms of SWAps in which donors deliver aid in a co-ordinated but financially individual way (See the case study on the Forest Sector Support Program & Partnership, Annex 2).

However, project aid, the conventional form of aid delivery, is still widespread in Vietnam and has several advantages:

- Impact evaluations make it possible to assign specific achievements directly to a respective donor, and this is a political advantage for donors as regards their accountability to taxpayers.

- Donor-specific project design and management creates options for different solutions to a given problem.
- It makes possible better control over aid delivery and limits possibilities for corruption.
- Aid delivery can be highly independent of recipient country capacities and influence and is therefore feasible even under unfavourable framework conditions.

On the other hand, SWAps have some advantages compared to project aid:

- Increased significance of aid, compared with small, single projects.
- Higher effectiveness, since SWAps provide stronger leverage for the policy dialogue needed to assure favourable conditions for aid delivery.
- More ownership and self-responsibility of the recipient country in programme formulation, design, and management.
- Outcome orientation instead of input orientation.

<b>Box 12: Partnership Groups in Vietnam</b>	
<p><i>Broad Development Issues</i></p> <ul style="list-style-type: none"> <li>– Poverty</li> <li>– Gender</li> <li>– Environment</li> <li>– Civil Society and Community Participation</li> <li>– Urban Forum</li> </ul> <p><i>Economic Management</i></p> <ul style="list-style-type: none"> <li>– State-owned Enterprises Reform and Equitisation</li> <li>– Banking Reform</li> <li>– Trade Policy</li> <li>– Public Financial Management</li> </ul> <p><i>Human and Social Development</i></p> <ul style="list-style-type: none"> <li>– Education Forum</li> <li>– Health</li> </ul>	<p><i>Rural and Regional Development</i></p> <ul style="list-style-type: none"> <li>– Forest Sector Support Programme and Partnership</li> <li>– The Partnership to Support the Poorest Communes</li> <li>– Food Security</li> <li>– Natural Disasters Mitigation</li> <li>– Water Resources</li> </ul> <p><i>Infrastructure</i></p> <ul style="list-style-type: none"> <li>– Transport</li> <li>– Ho Chi Minh City Official Development Assistance Partnership (ODAP)</li> </ul> <p><i>Public Management and Administration</i></p> <ul style="list-style-type: none"> <li>– Public Administration Reform</li> <li>– Legal Needs Assessment</li> </ul>
Source: World Bank / Partnership Groups (2001)	

- Increased sustainability of development outcomes if parallel structures (e.g. project management units) are avoided.
- More possibilities for efficient division of labour between grassroots level project implementation and policy dialogue with the central government.

## Partnership Groups

Considerable progress in the institutionalisation of harmonisation processes, programme-orientation, joint policy dialogue and joint funding has been achieved by the establishment of partnership groups in Vietnam. They evolved after the Prime Minister appealed to the donor community at the mid-term CG meeting in 1998 to act in a greater spirit of partnership. In his view, too much ODA was still ad hoc and donor-driven, and failed to fit into the framework of a coherent national strategy. Most donors were prepared to engage in partnership groups, because they had recognised that the old approaches were not producing the expected results and that specific problems like a lack of strategic vision, gaps, duplication and high transaction costs, and focus on inputs rather than outputs were reducing the effectiveness of ODA.

Therefore, even before the PRSP process was launched, donors in Vietnam had agreed to collaborate with the GoV and with each other, aligning their assistance to the GoV's own planning framework. The PRSP process reinforced these harmonisation efforts.<sup>68</sup>

More than 20 government-donor partnership groups have been established in various sectors. Many partnership groups have broadened their membership to include international NGOs. In addition, there are also some NGO and donor fora, which may develop into formal working groups.

Partnerships develop at different speeds and have a variety of purposes. Some start with information sharing or look for common technical analyses, while other partnerships agree on principles in finding solutions, develop a shared action plan, or even result in joint tasks and funding of members. The size, leadership (GoV or donors), and success of partnerships diverge among partnerships and may change over time.

The overall assessment of harmonisation in the partnerships is encouraging. The GoV and donors agree that co-ordination has improved substantially in the recent years. In addition, improved donor harmonisation is supposed to be a main outcome of the PRSP process in the near future.

But donors note that the quality of partnership varies widely. Some miss results orientation in sector dialogues and object to the high transaction costs of co-ordination in terms of time and capacity. Some donors see room for improvement in the governments ownership, while others recognise good leadership on the Vietnamese side.

In consequence, the established partnership groups have to take notice of a number of key characteristics that influence their success.<sup>69</sup>

- ownership,
- commitment,
- wide, multi-level support: group members need support for the partnership process from all levels in their respective organisations,
- mission: a clear, agreed mission and focus that is built around the vision for a specific sector makes groups more effective and substantive,
- funding,
- technical knowledge, and
- flexibility: groups should be willing to adapt their structures and form to a changing environment.

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68 CIDA (2002), p. 6.

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69 See World Bank / Partnership Groups (2000).

There is no blueprint for a successful partnership group, but rather a variety of models suited to different circumstances. For example, degree of formalisation does not correlate with prospects for success. While the forestry partnership group works successfully with formalised structures (see case study in Annex 2), a similar degree of formalisation did not lead to satisfying results in the environment partnership. On the other hand, the partnership group on banking reform has informal structures but has made considerable progress in defining its tasks and providing funding.

The experience made since 1998 has shown that there are still challenges facing working groups and partnerships in Vietnam:<sup>70</sup>

- Deepening partnerships where appropriate: each donor should focus its capacity on a limited number of partnerships to avoid work overloads and ensure commitment. This also helps partnerships to remain small and operable,
- Maintaining a focus on development outcomes rather than the process,
- Measuring the effects of the partnership approach,
- Enabling organisations that have limited capacity to engage fully in partnerships – over-extension can lead to partnership fatigue,
- Building commitment and understanding at all levels in organisations engaged in partnerships in Vietnam,
- Rationalising/changing partnerships when they do not meet a development need. Some partnerships have even ceased to exist because they did not produce sufficient results.

A possible enlargement of the partnership approach is the development of partnerships at provincial level. The Ho Chi Minh City ODA partnership is already well formalised and is leading to co-ordinated ODA activities under a common framework.

## Fund Pooling

Fund pooling is the most critical part of harmonisation for many donors. It can increase aid effectiveness and ownership by the GoV. But the willingness and ability to pool funds vary widely among donors.

Several forms of financial collaboration can be distinguished:

1. Financing supervised by donors:
  - *individual project funding* is the conventional form of financing aid
  - *individually funded projects co-ordinated within a programme framework/SWAp* is a first step towards programme orientation (e.g. FSSP Programme Framework in Forestry Partnership, see case study in Annex 2).
  - *project co-financing/project basket funding with/without a SWAp*. This form allows larger projects to ensure the significance of aid.
  - *(sub-) sector-wide basket funds/trust funds to finance a SWAp*.
2. Financing supervised by GoV:
  - funds earmarked for special purposes
  - sector budget funds
  - general budget funds

Donor-specific project funding within a common policy framework can be a first step towards fund pooling. Many donors oppose forms of fund pooling in which the supervision of funds is beyond their control. They argue that a crucial precondition for fund pooling, accountability and transparency of the Vietnamese budgetary system, is not sufficiently met. This was confirmed by the World Bank's *Country Financial Accountability Assessment* of October 2001 which stated: "At present, there is clearly a certain degree of fiduciary risk in the use of public resources, given that the budget process is not yet transparent, public access to government financial information is lim-

70 See World Bank / Partnership Groups (2000).

ited, and effective legislative oversight is not fully in place yet.”<sup>71</sup> Therefore, only a few donors are engaged in budget funding so far, with the World Bank and the ADB taking the lead. The Poverty Reduction Support Credit of the World Bank, co-financed by several bilateral donors, is an example for general budget funding. According to its CAS 2003-2006, the World Bank is willing to increase its budget funding considerably, if the GoV shows overall good performance in implementing the CPRGS.

Donors are generally willing to co-finance activities wherever proper control of expenditures (i.e. external auditing and the application of international accountability standards) is possible. Examples for co-financed, programme-oriented aid include the Northern Mountains Poverty Alleviation Project, which is financed by the World Bank and co-financed by DFID and the Central Region Livelihood Improvement Programme of the Asian Development Bank, and also co-financed by DFID. Fund pooling, mainly for technical assistance activities, has emerged in the Public Expenditure Management Reform Program, which is led by the World Bank and has been joined by a group of like-minded bilateral donors, and for the Public Administration Reform Program, led by UNDP.

Thus, against the background of limited trust in the GoVs budgetary system, pooled funding for SWAps, managed as a trust fund applying international accountability standards which allow for greater control of expenditures, is generally considered as an appropriate financing instrument by most donors in Vietnam at present. Since reform and capacity-building measures in the budgetary system will yield results only in the medium term, and sectoral *Medium Term Expenditure Frameworks* will be developed only gradually, extra-budgetary funding mechanisms will most probably continue to serve as a basis for programmatic donor approaches.

### 6.4.3 Requirements for German Development Co-operation

The process of harmonising donor contributions, reinforced by the PRSP process, is a challenge for the forms and modalities of aid delivery of the entire donor community. PRSP requires from donors, generally speaking, not to do different things, but to do things differently.

Most donors do not plan any major changes in the sectoral distribution of aid or in the thematic focus of their assistance. The comprehensiveness of the CPRGS in terms of sectoral and thematic coverage allows most donors to continue with their priority areas. The need for alignment is seen mainly in the following aspects:

- ?? Projects and programs have to be aligned to the targets and indicators of the CPRGS, as well as to the actions as laid out in the policy matrix. Donors will have to adjust to the results orientation of the CPRGS.
- ?? Decisions will have to be made with regard to participation in partnership groups and SWAps, including the respective funding mechanisms. Only large donors will have the capacity to cover a broad range of sectors. Smaller donors will have to be selective to make a significant contribution.

Active participation in partnerships and SWAps will entail an increasing degree of harmonisation and joint procedures, from program design in a joint policy dialogue to joint monitoring and evaluation activities. It is expected that this will lead to lower transaction costs for the GoV as well as for donors. However, during the process of developing partnerships and the CPRGS, transaction costs have been in fact higher than beforehand, due to the great number of dialogue and coordination meetings required. In the medium term, the desired cost reduction effects will only materialise if fragmented donor activities are scaled down and parallel structures are avoided.

All this is also relevant for German Development Co-operation (DC) in Vietnam. Other donors see

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71 World Bank, (2001e), p.21.

German DC as rather fragmented, with its centralised decision-making structure and locking up of funds in relatively small projects leading to a certain degree of inflexibility on the ground. Furthermore, it is noted critically that the wealth of experiences gained in projects is not well communicated by German DC, its participation in joint donor activities being rather limited. This is of importance insofar as approaches to finding solutions in all kinds of areas, from community-based development to the development of M&E systems, are increasingly being discussed and shaped in the framework of joint donor-GoV dialogue. Germany is generally not well represented in these discussions, since the 'technical' and sectoral expertise in German DC is geared to project implementation and not to conceptual policy dialogues.

In terms of sectoral and thematic coverage, German DC appears to be well positioned. With its emphasis on three thematic areas (economic reform and creation of a market economy, rural development/resource protection, health), there is no general difficulty in aligning projects and programs to the targets and indicators of the CPRGS. When there is a clear link to the targets of the CPRGS, projects still have their function, as long as they are well integrated in the GoV's programs as well as in partnerships and /or SWAps.

The poverty orientation of German DC is determined by its general alignment with the CPRGS. In that sense, measures aimed at building capacities for improved public expenditure management and accountability, for example, have in principle the same degree of poverty focus as targeted poverty alleviation measures. Additional funds from German DC's 'Action Program 2015' should, therefore, be allocated to support the alignment of the country portfolio as a whole (by financing German contributions to the PTF or to joint M&E activities, for example) and not (only) for targeted poverty alleviation measures. The latter would be a misunderstanding of the 'holistic' PRSP approach.

Against this background, the following proposals relate mainly to the organisation and management

of German DC. Our interviews indicated that in this area adjustment needs with regard to a more programme-based and collaborative approach are greater than they are on thematic or sectoral issues.

*First*, the decision-making powers and capacities of the main German institutions operating in Vietnam should be enlarged. The harmonisation process reinforces the need for flexibility on the spot, because sector policy dialogue, programme design and implementation are becoming less distinct (than in the traditional project approach). In addition, country-wide donor co-ordination increases the workload for the German institutions in the Vietnamese capital. Therefore, enlarged decision-making powers as well as more professional staff in Vietnam, especially of the BMZ, would be desirable in the long run. Given the budget constraints of BMZ on the one hand and the large know-how and experience in many areas of aid implementation possessed by GTZ and KfW on the other hand, German implementing agencies in Vietnam should be given more responsibility to develop and manage sector programmes.

*Second*, the German engagement in partnerships should be selected strategically. Strategic selection of few areas can create comparative advantages in expertise visible for and appreciated by other donors. The Netherlands and Finland, for example, are recognised by other donors as providing leading expertise in the forestry sector. Even though their overall aid budget in Vietnam is small compared to Germany's, the German aid profile is less visible for many donors. In addition, a focus on a limited number of partnerships helps to keep partnerships small and operational.

*Third*, management of the participation of German institutions in partnerships and SWAps should be improved. BMZ, in collaboration mainly with GTZ and KfW, should clarify responsibilities on a case-by-case basis. A clear assignment for each selected partnership should ensure continuous and significant commitment to the work of the partnerships, including a mandate for the respective agency to speak within defined limits for German DC.

*Fourth*, project experiences should be communicated more effectively in partnerships and in policy dialogue. Many donors regret that German project experiences are not sufficiently fed into policy design processes. They regard the experience of German assistance as valuable, because its institutions often undertake pilot work, accumulate expert knowledge and are therefore in a position to provide first-hand expertise on the feasibility of new approaches.

*Fifth*, participation of German technical and financial co-operation in SWAps should be coordinated. The opportunities for co-operation between GTZ and KfW should be used to enhance the leverage of German assistance in the sector policy dialogue and design as well as to improve effectiveness and significance of German contributions.

## 7 Conclusion

In the end, the question remains whether it was worthwhile for Vietnam to embark on the extensive PRSP process, which extended over a period of more than two years and demanded considerable effort by government agencies as well as by donors. Not being a HIPC country, and having no urgent need for balance-of-payments financing from IMF and World Bank, Vietnam made this choice voluntarily.

It appears that it is still too early to answer this question. The final draft of the Vietnamese CPRGS of May 2002 is certainly a laudable document. It is broader in scope than the existing strategies in that it attempts to integrate macro-economic and sectoral policies, giving them a stronger pro-poor orientation than beforehand. It is also more outcome-oriented than previous strategies in that it contains a broad set of targets and indicators that are useful as a basis for policy evaluation. It is still an open question, however, how this strategy will be implemented and what role it will play in the Vietnamese policy process. Thus,

only after a year or two of implementation will a final judgement on its value added be possible.

The study has analysed four areas that might pose problems in the implementation process:

- continuing structural reforms,
- institutionalising participation,
- establishing a monitoring system,
- harmonising external assistance.

In all of these areas considerable challenges remain which are crucial for successful implementation of the strategy:

The pace of structural reforms has been slow in recent years and has met with considerable resistance from groups that are interested in maintaining the status quo.

Participation is still a new concept in Vietnamese policy-making. There have been some impressive innovations at the grassroots level, but only little effort has been made at higher political levels to include the emerging civil society in public affairs.

The assessment of policy implementation will require a far more elaborate monitoring system in order to be able to feed back results into the policy process and make the appropriate policy corrections.

The donor community has announced a greater effort towards better co-ordination and harmonisation of external assistance on the basis of the CPRGS. It remains to be seen whether the higher costs of donor co-ordination will finally translate out into better results in terms of higher efficiency and effectiveness.

Taking into account these potential bottlenecks, completion of the CPRGS can be seen as the first phase in a process that will have to be continued. This first phase has entailed considerable learning effects for both Vietnamese authorities and donors. The discussions in the preparatory phase of

the drafting of the document as well as during its completion have improved the understanding of poverty in Vietnam as well as of the mechanisms of policy implementation. This has increased the quality of the policy dialogue between Vietnam and the donors and thus set the stage for aligning donor contributions to the Poverty Reduction Strategy.

Against this background, the concept of *ownership*, central to the prospects for the implementation of the strategy, has to be put into perspective. Ownership is not static; it develops over time. In the early stages of the PRSP-process, only a small group of bureaucrats and donor representatives were involved in the discussions related to the strategy. During the completion phase of the strategy paper a wider group of government, non-governmental and donor representatives became involved, widening the scope of discussion and entering into a process of 'mainstreaming' the poverty focus of the strategy within the Vietnamese administration. This phase has started only recently and, as the field studies at the local level have shown, 'mainstreaming' has barely reached the sub-national levels.

It will be imperative, therefore, to develop an implementation concept for the CPRGS that includes the provincial, district and communal levels as well as the emerging civil society in Vietnam. The traditional central planning approach, some legacies of which still exist in Vietnam, is ill-suited to a strategy that will have to embrace all groups and levels of society if it is to succeed on the basis of national ownership. Thus, the CPRGS should not be misunderstood as yet another plan to be implemented on the orders of the Hanoi authorities. Its success will be based less on the achievement of, for example, quantitative FDI and ODA targets discussed in the chapter on 'resource mobilisation' of the CPRGS, than on the efficient use of resources by relying on local and private initiative. It appears that the PRSP-discussion in Vietnam has contributed to developing the awareness for such a de-centralised approach. It will be a long way, however, to translating it into practice.

One challenge involved in putting the CPRGS into practice is the strategy's comprehensiveness. Although comprehensiveness is an asset, as it outlines the linkages between policy areas and their potential effects on poverty reduction, it involves a danger of overburdening the administration with a long list of tasks without sufficient prioritisation and costing. In the next phase of implementing the CPRGS, it will therefore be necessary to concentrate on the sectoral level and to develop sectoral 'action plans' that clearly define 'road maps' for implementation as well as responsibilities for carrying out relevant activities. Only with a higher degree of action-orientation will the CPRGS be more than just a reference document for government planners.



## **Annexes**



## Annex 1: Development Objectives of Vietnam

### A Economic Objectives

Objectives, Targets	Monitoring indicators	Reporting Frequency	Reporting Agency
<b>Target 1. Growth of the Economy</b>			
GDP in 2010 to double GDP In 2000	<ul style="list-style-type: none"> <li>- Gross Domestic Product (GDP)</li> <li>- Use of Gross Domestic Product (Savings - Consumption)</li> <li>- GDP per capita</li> <li>- Income per capita of cities and provinces</li> <li>- Consumer Price Index</li> </ul>	Annual	GSO
Value-added in industry and construction to grow by 10.0-10.5 % on average during the period 2001-2010	<ul style="list-style-type: none"> <li>- Gross Production Output growth rate of industry and construction</li> <li>- Value-added growth rate of industry and construction</li> </ul>	Annual	GSO
Growth rate in agriculture, forestry and fishery to grow by 4.0-4.5 % during the period 2001-2010.	<ul style="list-style-type: none"> <li>- Gross Production Output growth rate of agriculture</li> <li>- Value-added growth rate of agriculture, forestry and fishery</li> <li>- Value and volume of total food production</li> <li>- Food production volume per capita</li> </ul>	Annual	GSO
Value-added of services to grow by 7.0-8.0 % on average during the period 2001-2010	<ul style="list-style-type: none"> <li>- Total retail sales of goods and services</li> <li>- Value-added growth rate of services</li> </ul>	Annual	GSO
Export growth rate to more than double GDP growth rate	<ul style="list-style-type: none"> <li>- Export value</li> <li>- Import value</li> </ul>	Annual	GSO
By 2010: the GDP share of agriculture will be 16-17 %; industry 40-41 % and services 42-43 %	<ul style="list-style-type: none"> <li>- GDP share of agriculture</li> <li>- GDP share of industry</li> <li>- GDP share of services</li> </ul>	Annual	GSO
By 2010: the share of the total labour force in industry will be 23-24 %; agriculture 50 %, services 26-27 %	<ul style="list-style-type: none"> <li>- Share of total labour force in agriculture</li> <li>- Share of total labour force in industry</li> <li>- Share of total labour force in services</li> </ul>	Annual	GSO

<b>Target 2. Resource mobilisation for poverty reduction</b>			
To ensure that domestic saving exceeds 30 % of GDP, to mobilize VND 840 thousand billion (US\$ 60 billion) for development investment in the period 2001-2005, of which VND 220 thousand billion (US\$ 15,7 billion) from domestic private sector and US\$ 11 billion from FDI	<ul style="list-style-type: none"> <li>- Share of saving as percent of GDP</li> <li>- Total capital investment mobilised annually</li> <li>- Total investment capital mobilized annually by economic sectors</li> </ul>	Annual	MPI
Total funding for poverty reduction	<ul style="list-style-type: none"> <li>- Total funding mobilised for CPRGS</li> <li>- Total funding from CPRGS allocated to targeted programs</li> <li>- Total funding from CPRGS allocated for provinces, in detail, down to the district level</li> </ul>	Annual	MPI
<b>Target 3. Effectiveness of Resource Utilisation</b>			
Total funding for CPRGS, breakdown by targeted program	<ul style="list-style-type: none"> <li>- Total funding for CPRGS, breakdown by province, down to commune level</li> <li>- Total households receiving support from CPRGS, breakdown by province</li> <li>- Total new jobs created for the poor, breakdown by province, down to commune level</li> <li>- Total social welfare construction (clean water tanks, health clinics...) invested from the Poverty Reduction Fund, breakdown by province down to commune level</li> <li>- Percentage of people mobilised in the program relative to the requirement, details provided for every program and province</li> <li>- Percentage of financial resources mobilised for the strategy relative to the requirement, details provided for every program and province</li> <li>- Percentage of financial resources mobilised on time for every program and province</li> </ul>	Annual	Provinces and Programs

## B. Social and Poverty Reduction Objectives

Objectives, Targets	Monitoring Indicators	Reporting Frequency	Reporting Agencies
<b>1. Poverty reduction</b>			
<p>From 2000 to 2010, reduce international and national-standard-based poverty incidence by two fifths and three fifths [?relatively].</p> <p>From 2000 to 2010, reduce international-standard-based food poverty incidence (2,100 Kcal per capita daily) by three fourths.</p> <p>By 2010, reduce national-standard-based food poverty incidence (1,800 Kcal per capita daily) by three fourths.</p>	<ul style="list-style-type: none"> <li>– Rate of poor households at the poverty line, based on international standards.</li> <li>– Rate of poor households at the poverty line, based on national standards.</li> <li>– Number of households that escape from poverty.</li> <li>– Poverty depth.</li> <li>– Share of poorest quintile in total consumption.</li> <li>– Percent of food-based poor households living below the international standard poverty line.</li> <li>– Percent of poor households having daily food-ration of less than 1,800 Kcal.</li> </ul>	Annual and every two years (Household Survey)	GSO, MOLISA and provinces
<b>2. Provision of basic infrastructure services to extremely disadvantaged groups and urban poor people</b>			
<p>Provide basic infrastructure for 80 % of poor communes by 2005 and 100 % by 2010.</p> <p>Provide essential infrastructure, especially water supply and environmental hygiene, for poor areas in cities and towns</p>	<ul style="list-style-type: none"> <li>– Percentage of poor communes with car accessible roads leading to commune centre.</li> <li>– Percentage of poor communes with small-scale irrigation works.</li> <li>– Percentage of poor communes with health stations.</li> <li>– Percentage of poor communes with primary schools, kindergartens and infant schools.</li> <li>– Percentage of poor commune-clusters with junior-secondary schools.</li> <li>– Percentage of poor communes with markets or inter-commune markets.</li> <li>– Percentage of poor communes with cultural model post offices.</li> <li>– Percentage of communes with radio stations.</li> <li>– Percentage of poor households in urban areas with access to essential infrastructure.</li> </ul>	Annual and every two years (Household living standard Surveys)	GSO, MOLISA concerned agencies and provinces
<p>Ensure that 80 % of urban and 60 % of rural population will have access to clean and safe water by 2005; 85 % of rural population to have access to clean and safe water by 2010.</p>	<ul style="list-style-type: none"> <li>– Percentage of poor households with access to clean water.</li> <li>– Percentage of poor rural communes and poor urban districts with clean and hygienic safe drinking water.</li> </ul>		
<p>Expand the national transmission grid to 900 poor commune centres by 2005.</p>	<ul style="list-style-type: none"> <li>– Percentage of poor communes with electricity</li> </ul>		

<b>3. Job creation</b>			
Provide additional jobs to 1.4-1.5 million people per annum. Raise the share of female workers of total new jobholders to 50 % by 2010.	<ul style="list-style-type: none"> <li>- Number of jobs created annually.</li> <li>- Number of new jobs created annually.</li> <li>- Ratio of female workers in total newly created jobs.</li> <li>- Number of jobs in non-state sector.</li> <li>- Number of new jobs in non-state sector</li> <li>- Percent of landless poor households that have found jobs.</li> <li>- Percent of poor households with access to credits and loans for job creation.</li> <li>- Percent of labourers by sectors (agriculture, industry and services)</li> </ul>	Annual (employment and statistical surveys)	GSO, MOLISA and Provinces
Increase the share of trained workers in the total workforce to 40 % in 2010.	<ul style="list-style-type: none"> <li>- Ratio of trained workers in total labour force.</li> <li>- Total workers trained annually</li> </ul>		
Increase the ratio of rural working time utilization of people of working age to about 80 % by 2005 and 85 % by 2010.	<ul style="list-style-type: none"> <li>- Rural labour utilization rate</li> </ul>		
Reduce urban unemployment rate to about 5.4 % in 2004 and to less than 5 % by 2010.	<ul style="list-style-type: none"> <li>- Urban unemployment rate</li> </ul>		

<b>4. Education universalization</b>			
Increase primary school net enrolment rate 97 % (junior secondary school NER to 80 %) by 2005 and to 99 % (junior secondary NER to 90 %) by 2010.	<ul style="list-style-type: none"> <li>– Primary school net enrolment rate.</li> <li>– Junior secondary school net enrolment rate.</li> <li>– Rate of kindergarten enrolment at the age of 3-5.</li> <li>– Primary education completion rate.</li> <li>– Rate of junior secondary universalisation.</li> <li>– Literacy rate among people aged of 15-24.</li> <li>– Rate of class repeat and drop-out.</li> </ul> <p><i>(These indicators are classified by gender and ethnic groups)</i></p>	Annual and every two year (Household living standard Survey)	Ministry of Education and Training GSO and provinces
By 2010, strive to improve quality of education and increase at primary level.	<ul style="list-style-type: none"> <li>– Children with full-day schooling.</li> </ul>		
Eliminate gender gap in primary and secondary education by 2005 and the gap among ethnic minorities in primary and secondary education by 2010.	<ul style="list-style-type: none"> <li>– Net enrolment rates at primary, secondary and tertiary education levels by gender.</li> <li>– Literacy Rat for females and males aged 15-24.</li> <li>– Net enrolment rate of ethnic children compared to that of Kinh children at primary and secondary levels in 2010.</li> </ul>		
Eliminate illiteracy for 95 % of illiterate under-40-year-old women by 2005 and 100 % by 2010.	<ul style="list-style-type: none"> <li>– Literacy rate for under-40-year-old women.</li> </ul>		
<b>5. Reduce Birth Rate, Child Mortality Rate and Child Malnutrition Rate</b>			
Maintain the trend reduction in the birth rate in order to reach the average substitution level for the whole country by 2005; in remote and poor areas by 2010.	<ul style="list-style-type: none"> <li>– Population growth rate.</li> <li>– Prevalence of contraceptive use/availability</li> </ul>	10 years (General Population Survey) every two years (Household living standard surveys) and annual	GSO, MOH, National Committee for Population and Family Planning and Provinces
Reduce infant mortality rate to 30 ‰ by 2005 and less than 25 ‰ by 2010; reduce under 5 year-old mortality rate to 36 ‰ and less than 32 ‰ by 2005 and 2010 respectively.	<ul style="list-style-type: none"> <li>– Infant Mortality Rate.</li> <li>– Under 5 Mortality Rate.</li> </ul>		
Reduce under 5 year old malnutrition rate to 25 % in 2005 and less than 20 % in 2010.	<ul style="list-style-type: none"> <li>– Under 5 Malnutrition Rate</li> </ul>		
Rapidly reduce the rate of children of low weight at birth (less than 2,500 grams) to 7 % in 2005 and to 5 % in 2010.	<ul style="list-style-type: none"> <li>– Percentage of births of low-weight (less than 2,500 grams) children.</li> </ul> <p><i>(These indicators are classified by gender and ethnic groups)</i></p>		

<b>6. Reproductive health, HIV/AIDS, epidemics and other social diseases</b>			
Reduce the maternal mortality rate to 80/100,000 live births by 2005 and to 70/100,000 live births in the whole country by 2010 (the rate for mountainous areas is 100/100,000).	<ul style="list-style-type: none"> <li>- Maternal mortality rate .</li> <li>- Skilled attendant at delivery.</li> </ul>	Annual and every two years (Household living standard Surveys)	MOH, GSO and Provinces
Maintain the achievement of polio eradication; minimise the number of people sickened by cholera, typhoid, hemorrhagic fever, malaria, and plague, etc.	<ul style="list-style-type: none"> <li>- Proportion of children sickened by cholera, typhoid, hemorrhagic fever, malaria, plague, etc.</li> </ul>		
Contain the rate of HIV/AIDS transmission	<ul style="list-style-type: none"> <li>- Proportion of HIV/AIDS infected people age 15-49.</li> <li>- Proportion of children infected by HIV/AIDS.</li> </ul>		
Control and move towards restraining social diseases.	<ul style="list-style-type: none"> <li>- Proportion of people infected by social diseases.</li> </ul>		
<b>7. Development of culture and information, improve the spiritual life of people</b>			
By 2005, strive for 80 % of households to attain the status of cultured family; 50 % of villages, hamlets, urban districts to attain national culture standards; 78 % of commune, districts with cultural houses	<ul style="list-style-type: none"> <li>- Percent of households attaining cultured family status.</li> <li>- Percent of village, hamlet, urban districts attaining the national culture standard.</li> <li>- Percent of communes and districts with cultural houses.</li> </ul>	Annual	Ministry of Culture and Information GSO
Ensure that more than 90 % of households can see Vietnam Television programs and that more than 95 % can hear the Voice of Vietnam radio by 2005.	<ul style="list-style-type: none"> <li>- Percent of households that can see Vietnam Television programs.</li> <li>- Percent of households that can hear the Voice of Vietnam radio.</li> </ul>		
Increase the amount of broadcasting and television time in ethnic languages.	<ul style="list-style-type: none"> <li>- Amount of time broadcasting ethnic languages.</li> </ul>		
<b>8. Improve living standards, preserve and develop ethnic minority cultures</b>			
Preserve and develop the reading and writing ability of ethnic languages.	<ul style="list-style-type: none"> <li>- Rate of ethnic language illiteracy.</li> </ul>	Annual	MOTE, General Land Office, GCOP and Provinces
Ensure the entitlement of individual and collective land-use rights in ethnic minority and mountainous areas.	<ul style="list-style-type: none"> <li>- Rate of ethnic peoples with land-use right titles for all sort of land.</li> <li>- Rate of ethnic peoples relying on shifting cultivation.</li> </ul>		
Increase the proportion of ethnic minority people in authority bodies at various levels.	<ul style="list-style-type: none"> <li>- Percent of ethnic peoples represented in elected bodies at various levels.</li> </ul>		

<b>9. Sustainable Environmental Protection</b>			
Extending forest cover to 38 % by 2005 and to 43 % by 2010.	<ul style="list-style-type: none"> <li>– Forest cover.</li> <li>– Proportion of country under protected forests (“special use”).</li> <li>– Representation of species diversity in the protected forests</li> </ul>	Annual	MARD, GSO, MOSTE and Provinces
Ensure that there are no slums and temporary houses in all towns and cities by 2010	<ul style="list-style-type: none"> <li>– Percentage of households living in slums and temporary houses.</li> <li>– Percentage of towns and cities with over 5 % of land area covered by slums</li> <li>– Percentage of towns and cities with zero % of land area covered by slums</li> <li>– Percentage of towns and cities with over 10 % of temporary houses</li> <li>– Percentage of towns and cities with zero % temporary houses.</li> </ul>		
Ensure that 100% of all waste-water is treated in towns and cities by 2010	<ul style="list-style-type: none"> <li>– Percentage of towns and cities collecting and safely disposing 100 % of solid waste</li> </ul>		
Ensure that 100% of solid waste is collected and disposed of safely in all towns and cities by 2010	<ul style="list-style-type: none"> <li>– Percentage of towns and cities collecting and safely disposing 100 % of solid waste</li> </ul>		
By 2005, air and water pollution must attain national standards	<ul style="list-style-type: none"> <li>– Water and air quality.</li> <li>– Rate of poor households with hygienic latrines.</li> <li>– Rate of poor households with access to hygienic water</li> </ul>		
<b>10. Reduce vulnerability</b>			
Improve significantly the income of the poor. By 2005, increase the average income of the lowest expenditure quintile to 140 % of that in 2000 and up to 190 % by 2010.	<ul style="list-style-type: none"> <li>– Average income of the lowest expenditure quintile in rural and urban areas.</li> </ul>	Annual and every two years (Household living standard)	MOLISA, MOF, concerned agencies and Provinces

<p>Improve the access of the poor to basic social services, production services and resources</p> <p>Expand the official social safety net (health insurance, social insurance, etc.) and diversify the voluntary safety net (school insurance and insurance of crops, diseases, production equipment, agricultural extension, etc.)</p>	<ul style="list-style-type: none"> <li>- Rate of poor people with access to basic social services in rural and urban areas.</li> <li>- Rate of poor people receiving support in production services.</li> <li>- Percent of people participating in official and voluntary insurance system.</li> <li>- Percent of the disabled, dependent elderly people living alone and other policy-qualified people receiving social welfare.</li> <li>- Percent of poor people receiving essential support (e.g. shelter, re-current and emergency relief support).</li> <li>- Number of social welfare centres.</li> <li>- Number of charity funds.</li> <li>- Percent of poor people with health insurance.</li> </ul>	Surveys)	
<p>Ensure job security</p>	<ul style="list-style-type: none"> <li>- Percent of people benefiting from unemployment insurance</li> <li>- Percent of redundant workers benefiting from support policies such as training, credit, etc.</li> </ul>		
<p>Fully resolve the problem of child labour and street children. Protect them from economic exploitation and sexual abuse.</p>	<ul style="list-style-type: none"> <li>- Percent of children cared for who are in difficult situations (orphans, disabled children, street children and child labourers).</li> </ul>		
<p>Develop strategy for natural disaster relief and prevention. By 2010, reduce by half the rate of poor people falling back into poverty due to natural disasters and other risks.</p>	<ul style="list-style-type: none"> <li>- Rate of poor people falling back into poverty due to natural disasters.</li> </ul>		
<b>11. Gender Equality and Empowerment for Women</b>			
<p>Increase the number of women in elective bodies and in government bodies at all levels (national, provincial, district and commune). Increase the participation of women in agencies and sectors at all levels by an additional 3-5 % in the next 10 years.</p>	<ul style="list-style-type: none"> <li>- Percent of females in the Party's Central Committee.</li> <li>- Percent of females in the National Assembly.</li> <li>- Percent of female representatives in people-elected agencies.</li> <li>- Percent of female leaders in ministries and central agencies and institutions.</li> <li>- Percent of female entrepreneurs.</li> </ul>	Annual and every 5 year (term of election)	National Assembly Office; Party's Central Committee Office, GCOP and related agencies
<p>Ensure that the names of both husband and wife appear on land-use right certificates by 2005.</p>	<ul style="list-style-type: none"> <li>- Percent of land titles granted in both husband and wife names.</li> </ul>		
<p>Reduce the vulnerability of women in family violence</p>	<ul style="list-style-type: none"> <li>- Gender Development Index (GDI).</li> </ul>		

<b>12. Good governance for poverty reduction</b>			
Ensure grass-roots democracy -	<ul style="list-style-type: none"> <li>- Percent of communes having staff to monitor the poverty reduction strategy</li> <li>- Percent of communes that are provided with information on poverty reduction programs.</li> <li>- Percent of communes with complaints and lawsuits. Percent of petitions to be settled.</li> <li>- Percent of communes with no social evils.</li> <li>- Percent of communes with libraries of law.</li> <li>- Number of coaching and propagating courses on State laws and policies.</li> </ul>	Annual and every 2 year (Household living standard Surveys)	GSO, GCOP, Ministry of Judiciary and Provinces
Ensure budget transparency	<ul style="list-style-type: none"> <li>- Proportion of communes that publicise their budget revenue and expenditure</li> </ul>		

## Annex 2

### **Case Study: The Forest Sector Support Programme & Partnership, an Example for a Formalised Partnership Approach**

In the Vietnamese C-PRGS the forestry sector is recognised as a productive sector contributing to poverty reduction. The forestry sector is closely linked to poverty in two ways. First, it provides income generation possibilities and supports subsistence needs. Second, reforestation slows environmental degradation and consequently improves food production and living conditions of poor people.

The Government of Vietnam (GoV) and international donors established a partnership in this sector to contribute more effectively to poverty reduction and environmental protection. This partnership has chosen a formalised approach of co-operation, that will be presented in this paper as an example for GoV-donor partnerships.

#### **Background and Institutional Arrangements**

In July 1998, the Government of Vietnam initiated the 5 Million Hectare Reforestation Programme (5MHRP). Following an agreement at the CG Meeting in 1998, a Memorandum of Agreement (MoA) was signed in December 1999 between the Ministry for Agriculture and Rural Development (MARD) and 15 representatives of the donor community, among them Germany. The MoA expresses the commitment of the partners for continued collaboration towards a common sector objective: "*Sustainable management of forests and the conservation of biodiversity to protect the environment, improve the livelihoods of people, and enhance the contribution of forestry to the national economy*". A Partnership Steering Committee (PSC) and a 5MHRP Partnership Secretariat were established.

As a separate process, MARD prepared a new Forestry Sector Strategy up to 2010. A Vietnam Forest Sector Support Programme and Partnership (FSSP&P) was developed to provide a framework and support. With an increasing number of partners joining the FSSP&P the Government has been faced with an increasing task of administration and co-ordination. Consequently, the structure has been adjusted with the formation of an independent FSSP Co-ordination Office under MARD, which is, in fact, an upgraded version of the 5MHRP Partnership Secretariat the mandate of which expired end of March 2002.<sup>1</sup>

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<sup>1</sup> See MARD / FSSP&P (2002).



## Financing

The experiences from the 5MHRP Partnership led to the establishment of a Trust Fund to finance the FSSP Co-ordination Office. It is a grant offered by the community of international donors in support of MARD (which provides between 5 - 10% of the estimated costs in cash). The budget of the FSSP Co-ordination Office will be around 250,000 US\$ per year. It is an income source of the State budget, managed and utilised in accordance with the State Budget Law by the FSSP Co-ordination Office. The office director is the account owner. The PSC selects an independent external auditor who reviews consistency between planning, budgeting, cost norm and expenditures. The auditor will carry out annual audits.<sup>2</sup>

The financial contribution from the MARD may be judged a rather symbolic act but it can be seen as an important step towards taking these arrangements seriously with a perspective to integrate the work of the FSSP Co-ordination Office into the MARD in due time. As yet, the Trust Fund has no further task than to finance the FSSP Co-ordination Office and opinions diverge whether this Fund will broaden its tasks in order to finance sectoral activities in the future.

In the opinion of Dutch and Finnish representatives, the Trust Fund will only be a first step in the process of fund pooling. For both, the ultimate aim is a non-earmarked funding feeding directly into the Vietnamese overall budget. As lack of transparency and accountability do not yet allow this step, intermediate steps could be a direct budget support of the MARD with earmarking of funds for specific purposes, or - which seems to be the most probable development - the development of a sector-wide basket fund, separated from the state budget (see figure 2). Germany has clear reservations regarding a sector-wide basket fund. Participating in a basket fund arrangement is generally not excluded by BMZ, but at the current early stage of implementation not considered as a necessary and appropriate way to proceed within the partnership. Generally spoken, the long-term aim of budget funding is not regarded as a realistic and desirable option. Not only is the Vietnamese fiscal and administrative system not transparent and accountable enough, but it is also generally questioned whether budget funding is the most effective and efficient approach of development co-operation.<sup>3</sup> Hence, it is rather the current programme framework that seems to be well suited for the German position.

## Added Value of the FSSP&P

Currently, FSSP&P is a programme framework within which every donor can contribute according to its capacities, expertise and its specific instruments of development co-operation. "Whereas the World Bank's strength lies in upscaling activities, institutions like the GTZ are strong in piloting", as van Ijssel, Dutch co-chairman of the PSC puts it. An important contribution by GTZ and KfW is the establishment of a Forest Sector Manual, one of the current core objectives of the FSSP&P. KfW is involved in an initiative to harmonise loan disbursement procedures with the World Bank, ADB and JBIC for all loans exceeding 5 Mio US \$, as called for in the FSSP&P Memorandum of Agreement. Other donor agencies head for sub-sector trust funds (a conservation trust fund, for example), co-financed projects or other forms of co-operation.

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<sup>2</sup> See MARD (2002).

<sup>3</sup> See German Embassy (2001).

The Partnership's broad goal is defined as the "sustainable management of forests and the conservation of biodiversity to achieve protection of the environment, improved livelihoods of people in forest dependent areas, and enhanced contribution of forestry to the national economy:"<sup>4</sup> This definition points to the variety of activities the sector spans: establishing an appropriate legal and institutional framework (to strengthen the commercial sector's role, for example); adopting macro and micro land-use planning systems, restructuring state-owned forestry enterprises; accomplishing planning and implementation of sustainable forest management (with special regard to different functions of different types of forests); developing sustainable use and conservation of indigenous forest flora and fauna and integrating it into biodiversity conservation; developing an appropriate research, extension, education and training system; supporting marketing and processing of forest products at a sustainable rate.

All these activities need to be co-ordinated in an appropriate policy framework on the basis of common goals and objectives to achieve synergy effects and avoid overlapping or gaps. The common framework objectives allow for more than a targeted approach as the original 5MHRP-Partnership used to be. This joint policy dialogue with the MARD increases the impact on the sector policy, whereas the influence of single donors would be more limited.

A sector-wide M&E System is an important tool for co-operation within a coherent policy framework. It provides a comprehensive picture of the forestry sector, and feeds the results of past and current activities into the policy dialogue as a basis for adjusting policy and improving future actions. The international donors sector-wide monitoring improves transparency. It is therefore a precondition for budget support. A common sector-wide M&E System should become the overall tool for MARD in forestry in the future. Under the FSSP Partnership, a common M&E system is in the process of being established. Finland finances an international M&E expert who works in the FSSP Co-ordination office.

Currently, no department within MARD would be able to co-ordinate all the activities within the FSSP Partnership and within the MARD itself. One approach to overcome this bottleneck could have been support for capacity building as a first step and development of the partnership within MARD institutions as a second step. But the 'hands on' approach that has been practised so far turns out to be successful in strengthening capacities and raising awareness during the co-operation process. All interview partners underlined that the co-operation improved considerably towards a constructive and open dialogue between the donors and the GoV.

### **Open Questions**

Nevertheless, open questions remain regarding the benefits of the formalised partnership approach in the forestry sector.

The FSSP Partnership runs the risk to be donor-driven and hence to be unsustainable in the long run. As yet, MARD's financial contribution to the forest sector financing is rather small (about 30%) and capacities within the MARD are insufficient. On the other hand, donor commitment is quite high and the partnership progresses quite fast. Instead of supporting the 10-year Forest Development Strategy of the GoV, the FSSP Partnership - driven by donors - runs the risk of setting the agenda in the sector. Hence, donors should be careful not to dominate the process and to support capacity strengthening within MARD during the process.

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4 See FSSP (2001).

Every institution set up for the partnership needs to have a clear time frame within which it can be integrated into existing governmental structures in order to avoid parallel structures.

Administrative capacity is quite low at provincial and lower levels, so involvement and ownership at these levels is still insufficient. The time-consuming and resource-absorbing co-ordination process simply overburdens some representatives at sub-national levels. Moreover, some goals appear very ambitious and it will require a huge effort to plan, implement, monitor and evaluate them, which could lead to a concentration of activities at national level. Again, this risk has to be taken into account and decentralised levels should increasingly be involved in the process.

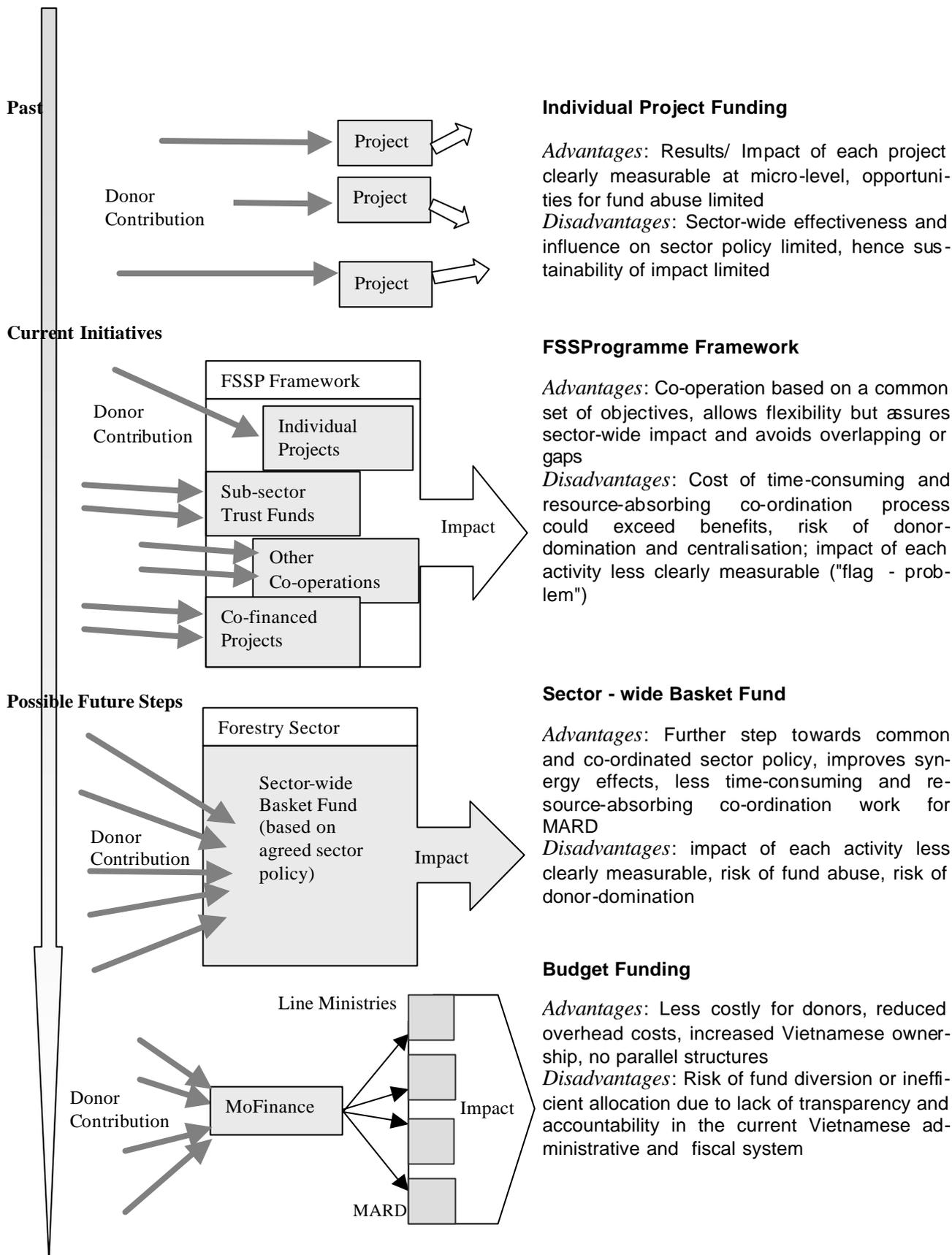
## **Conclusion**

Even though interview partners underlined FSSP&P being all in all a very successful approach, it cannot be called a model partnership for other sectors. Forestry may differ from other sectors in that it is concerned with less delicate political topics than other sectors (such as public administration reform or public financial management) and the sector is relatively clearly to define. More informal partnerships, such as in banking reform, show that individual solutions have to be found for each sector and partnership. Generally spoken, there is no such thing as the perfect partnership approach.

German development co-operation has been involved quite actively in the 5MHRP Partnership and the FSSP&P. This involvement allowed to influence the discussion and basic common agreements like the Memorandum of Agreement. The current partnership framework enables Germany to be involved in the sector policy dialogue while keeping its project-based instruments of development co-operation. Initiatives towards a sector-wide basket fund may not be favoured by BMZ but further gains in effectiveness and efficiency due to fund pooling should be considered.

However, due to the specific organisational structure of German development co-operation it is difficult to effectively co-ordinate its agencies' contribution to the Partnership. Only ministerial representatives are authorised to take part actively in a policy dialogue. But the sectoral expertise remains with the implementing agencies KfW and GTZ. A satisfactory management of the co-ordination between the BMZ and implementing agencies is still to be developed.

Figure A2: Options for Programme and Funding Design



**Individual Project Funding**

*Advantages:* Results/ Impact of each project clearly measurable at micro-level, opportunities for fund abuse limited

*Disadvantages:* Sector-wide effectiveness and influence on sector policy limited, hence sustainability of impact limited

**FSS Programme Framework**

*Advantages:* Co-operation based on a common set of objectives, allows flexibility but assures sector-wide impact and avoids overlapping or gaps

*Disadvantages:* Cost of time-consuming and resource-absorbing co-ordination process could exceed benefits, risk of donor-domination and centralisation; impact of each activity less clearly measurable ("flag - problem")

**Sector - wide Basket Fund**

*Advantages:* Further step towards common and co-ordinated sector policy, improves synergy effects, less time-consuming and resource-absorbing co-ordination work for MARD

*Disadvantages:* impact of each activity less clearly measurable, risk of fund abuse, risk of donor-domination

**Budget Funding**

*Advantages:* Less costly for donors, reduced overhead costs, increased Vietnamese ownership, no parallel structures

*Disadvantages:* Risk of fund diversion or inefficient allocation due to lack of transparency and accountability in the current Vietnamese administrative and fiscal system

- Start interview with introduction of interviewers, purpose of our study, aim of the interview

No.	Questions	Related Questions
1	What is your role in the PRSP process ?	What was your contribution and involvement? Has your contribution been sufficient arrangements for consultation and feedback (information flow)?
2	What was the role of other Vietnamese participants in developing the PRSP?	Did Vietnamese agencies take the lead? To what extent were local agencies involved?
3	What was the role of the donors?	What was the contribution of the donors? How can these contributions be improved? Was the co-ordination between donors and Vietnamese agencies?
4	What do you think about the content of the PRSP?	Is the multi-dimensional nature of poverty taken into account? Are all relevant sectors included? Are the goals realistic? Do the financial resources meet the demands? Are the indicators suitable? Are targets suited to measure poverty? What is the quality of data?
5	What have been your experiences with poverty alleviation activities in Vietnam?	What lessons have you learned through past and current poverty alleviation programmes? What are the main problems with the implementation of such programmes at the local level? Do you think they complement each other? What are your suggestions for improvement?
6	What are the next steps?	-
7	What problems do you expect regarding the implementation of the C-PRGSP?	<b>Is the current administrative system suited to implement PRSP? What role will the monitoring system make public services more responsive to local needs? How do you assess the role of the population in monitoring poverty alleviation measures? What role can local agencies play? Is the local capacity sufficient (human, financial, technical resources – data collection, analysis, reporting, decision making)? Will the monitoring system make public decision making more effective? Will the co-ordination between different agencies and sectors improve? Will co-ordination between the Vietnamese Agencies improve?</b>
8	Will the PRSP make a difference?	What will be the changes caused by PRSP? What will be the changes/the requirements?

**Annex 4: Overview of Interviews and Working Groups**

No	Date	Place	Organisation	Interview Partner
01	19.02.2002	Hanoi	German Embassy	Mr. Jost Kadel
02	19.02.2002	Hanoi	GTZ/MOLISA	Dr. Liem
03	20.02.2002	Hanoi	CIEM	Mr. Chu Tien Quang
04	21.02.2002	Hanoi	GTZ Office	Dr. Monika Midel
05	22.02.2002	Hanoi	KfW	Dr. Klaus Müller
06	22.02.2002	Hanoi	GTZ/Ha Tinh	Mr. Riethmüller
07	25.02.2002	Hanoi	KAS	Mr. Prohl
08	25.02.2002	Hanoi	JICA	Mr. Kuniaki Amatsu, Ms. Luong Mai Dzung
09	25.02.2002	Hanoi	GTZ/CIEM	Dr. Peter Sturm
10	26.02.2002	Hanoi	Action Aid	Dr. Ramesh Khadka, Mr. Pham Van Ngoc
11	26.02.2002	Hanoi	WWF	Mr. Craig Leisher
12	27.02.2002, 01.03.2002	Quang Binh	DFID	Ms. Jane Rintoul
13	28.02.2002	Quang Binh	Working Group Agriculture and Rural Development	–
14	28.02.2002	Quang Binh	Working Group Health and Education	–
15	28.02.2002	Quang Binh	Working Group Public Expenditure Management	–
16	28.02.2002	Quang Binh	World Bank	Ms. Nisha Agrawal
17	01.03.2002	Quang Binh	Working Group Governance Participation	–
18	01.03.2002	Quang Binh	Working Group Monitoring and Evaluation	–
19	01.03.2002	Quang Binh	Working Group Natural Disasters and Poverty Alleviation	–
20	01.03.2002, 02.03.2002	Quang Binh	GTZ/GFA	Mr. Wiemer
21	02.03.2002	Quang Binh	GTZ/Quang Binh	M&E Staff Member Food Security Project Quang Binh
22	02.03.2002	Quang Binh	JBIC	Ms. Hiroko Higuchi
23	04.03.2002	Quang Binh	DPI	Mr. Hung
24	04.03.2002	Quang Binh	Quang Binh Women's Union S	Ms. Hoang Thi Ai Nchien
25	04.03.2002	Quang Binh	DARD	Mr. Nguyen Xuan Dung
26	04.03.2002	Quang Binh	Committee on Ethnic Minorities	Mr. Dang Van De

27	05.03.2002	Hanoi	Plan International	Mr. Mark Mc Peak, Mr. Le Quang Duat
28	05.03.2002	Hanoi	CIDA	Mr. Dean Frank
29	05.03.2002	Hanoi	ADB	Mr. Alessandro Pio
30	06.03.2002	Hanoi	GTZ Office	Ms. Kathrin Freitag
31	06.03.2002	Hanoi	JBIC	Mr. Takao Shimokawa
32	06.03.2002	Hanoi	EC	Mr. Andrew Jacobs
33	07.03.2002	Hanoi	SIDA	Mr. Karl-Anders Larsson
34	07.03.2002	Hanoi	IMF	Dr. Susan J. Adams
35	08.03.2002	Hanoi	DFID	Ms. Cathy Welch, Mr. Steve Ray
36	08.03.2002	Hanoi	UNDP	Ms. Lisa Ng Bow et al.
37	11.03.2002	Hanoi	Catholic Relief Service	Ms. Leisher
38	12.03.2002	Hanoi	Ministry of Finance	Ms. Nguyen Thi Hong Yen
39	12.03.2002	Hanoi	World Bank, DFID	Ms. Carrie Turk
40	13.03.2002	Hanoi	MARD	Mr. Do Van Hoa-
41	13.03.2002	Hanoi	MOET	Dr. Bui Ngoc Son
42	14.03.2002	Hanoi	MOH	Dr. Nguyen Hoang Long
43	14.03.2002	Hanoi	Brot für die Welt	Ms. Martina Appuhn
44	15.03.2002	Hanoi	Allianz-Mission	Dr. med. Jochen Fiebrantz
45	15.03.2002	Hanoi	CEMMA	Dr. Le Kim Khoi,
46	19.03.2002	Hanoi	Department for International Development Co-operation Finland	Mr. Tom Tuomasjukka
47	19.03.02	Hanoi	GTZ	Mr. Klaus Kirchmann
48	19.03.2002	Hanoi	GTZ	Dr. Curt Fischer
49	19.03.2002	Hanoi	French Embassy	Mr. Philippe Orliange
50	21.03.2002	Ha Tinh	DPI	Mr. Tran Nhat Thanh
51	21.03.2002	Ha Tinh	DOLISA	-
52	22.03.2002	Ha Tinh	Women's Union	Ms. Nguyen Thi Nguyet
53	22.03.2002	Ha Tinh	DARD	Mr. Nguyen Ngoc Tuong
54	23.03.2002	Ha Tinh	Commune	-
55	25.03.2002	Ha Tinh	Youth Union	-
56	26.03.2002	Ha Tinh	District	-
57	21.03.02	Son La	Commune Muong Lung	Mr. Men
58	22. und 23.03.02	Son La	Commune Suoi To, Distrikt Phu Yen u. Provinz (in ) Son La	-

59	22. und 23.03.02	Son La	People's Committee of the Bac Yen district	-
60	24.03.02	Son La	Hong Ngai Commune in Bac Yen District	Mr. A Lenh, Mr. Guong A Thu
61	25.03.02	Son La	People's Committee of Commune Chieng Luong/ Son La	Mr. Hoi
62	25.03.02	Son La	District People's Committee – Mai Son	Mr. Ngoc
63	26.03.02	Son La	Tong Lenh People's Committee (Commune)	Mr. Hoa
64	26.03.02	Son La	People's committee of Thuan Chau District	Mr. Diu
65	27.03.02	Son La	GTZ Projekt Son La	Mr. Phan Quoc Tuan
66	27.03.02	Son La	People's committee of the province of Son La	Mr. Phong
67	09.04.2002	Hanoi	World Bank; M&E	Mr. Rob Swinkels
68	10.04.2002	Hanoi	WWF	Mr. Martin Geiger
69	10.04.2002	Hanoi	GTZ Administrative Reform	Dr. Franz
70	10.04.2002	Hanoi	GRIPS (Graduate Institute for Policy Studies), Tokyo	Prof. Izumi Ohno,
70	11.04.2002	Hanoi	Dutch Embassy; Co-chairman FSSP&P Steering Committee	Mr. van Ijssel
71	19.04.2002	Hanoi	GTZ / MoLISA Poverty Alleviation Project	Mr. Liem
72	25.04.2002	Hanoi	CIEM	Members attending the Presentation and Discussion
73	26.04.2002	Hanoi	BMZ, GTZ, KfW, DED	Members attending the Presentation and Discussion

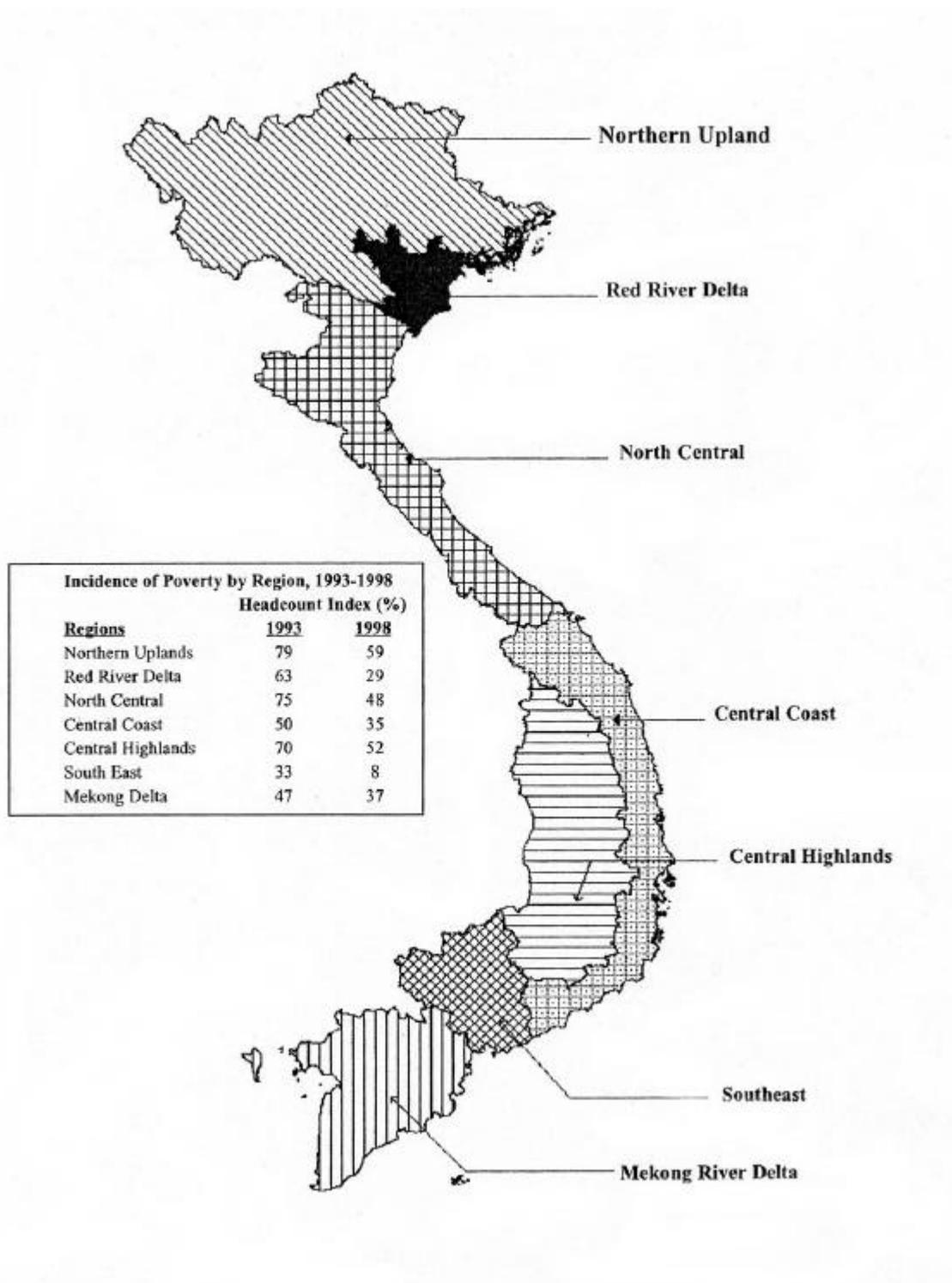
### Annex 5: Time Schedule of the Research Period in Vietnam

Time	Place	Activities
17.02.2002	Hanoi	– Arrival in Vietnam
18.02.2002 – 20.03.2002	Hanoi	– General orientation and introduction – Testing of questionnaire material with counterpart – Interviews with national and international stakeholders and experts at central level – Analysis and interpretation of interview results – Organisation of trips to provinces
28.02.2002 – 01.03.2002	Quang Binh	– Participation in PRSP consultation workshop
20.03.2002 – 28.03.2002	Provinces (Son La, Ha Tinh)	– Interviews with national and international stakeholders at province, district and commune level: one part of the group at Ha Tinh province, the other part at Son La province – Analysis and interpretation of interview results
29.03.2002 – 02.04.2002	Hanoi	– Return to Hanoi, Easter
03.04.2002 – 25.04.2002	Hanoi	– Interviews with national and international stakeholders – Analysis and interpretation of interview results – Finalising summary of findings
25.04.2002	Hanoi	– Presentation of results to CIEM and other Vietnamese stakeholders
26.02.2002	Hanoi	– Presentation of results to members of German development co-operation: BMZ, GTZ, KfW, DED
03.05.2002	Hanoi	– Departure from Vietnam
06.05.2002 – 31.05.2002	Bonn	– Final draft period
24.05.2002	Bonn	– Presentation of report at the GDI

Annex 6: Geographical Map of Vietnam



### Annex 7: Vietnam – Incidence of Poverty by Regions, 1993 and 1998



Source: PWG (1999), p. 15.

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