

**EC-VIETNAM**  
**COUNTRY STRATEGY PAPER**  
**2002 – 2006**

**(the EC-Vietnam NATIONAL INDICATIVE PROGRAMME 2002-2004 is attached)**

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## VIETNAM AT A GLANCE

**Population:** 78.5 million (2000)                      **annual population growth:** 1.3% (2000)

**President:** Mr. Tran Duc Luong  
**Prime Minister:** Mr. Phan Van Khai  
**CPV Secretary General:** Mr. Nong Duc Manh.  
**Next national election:** April 2002

### Selected economic indicators

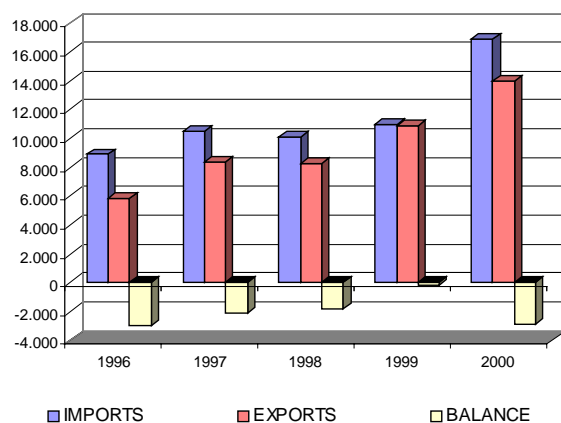
GDP per capita: 419 € (2000)  
 GDP growth rate: 5.5% (2000)  
 Rate of inflation: minus 1.7% (2000)  
 Gross reserves: 3.2 billion €, equivalent to 2.2 months of imports (2000)

### Selected social indicators

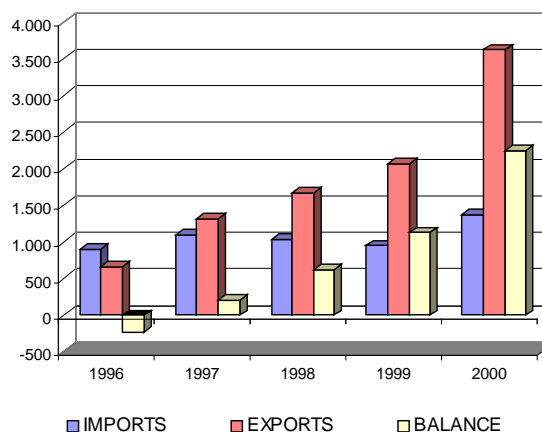
Life expectancy at birth: 69 years (1999)  
 Infant mortality rate: 36.7 per thousand births (1999)  
 Child malnutrition: 36.7% ( prevalence underweight under 5 years old, in 1999)  
 Net enrolment in primary education: 91% (1998)  
 Completion of 5<sup>th</sup> grade in primary education: 75.5% ( 1998-1999)

### Vietnam trade in million Euro with the

#### WORLD



#### EU



## LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
ALA	Asia - Latin America
APEC	Asia Pacific Economic Co-operation
ARF	Asian Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEM	Asia - Europe Meetings
BTA	Bilateral Trade Agreement
CEPT	Common Effective Preferential Tariff
CGPRS	Comprehensive Growth and Poverty Reduction Strategy
CGPRS	Comprehensive Growth and Poverty Reduction Strategy
COMECON	Council of Mutual Economic Assistance
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CPV	Communist Party of Vietnam
CSP	Country Strategy Paper
DIPECHO	Disaster Preparedness ECHO
ECHO	European Community Humanitarian Office
EIB	European Investment Bank
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HDI	Human Development Indicators
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
ISG	International Support Group
MUTRAP	Multilateral Trade Policy Assistance Programme
NGOs	Non-Governmental Organisations
NIP	National Indicative Programme
NIP	National Indicative Programme
ODA	Overseas Development Aid
PMNR	Pu Mat Nature Reserve
PMU	Project Management Unit
PRSC	Poverty Reduction Support Credit
RAP	Returnee Assistance Programme
SEDS	Socio-Economic Development Strategy
SFNC	Social Forestry and Nature Conservation
SMEDF	Small and Medium Sized Enterprise Fund
SMEs	Small and medium-sized enterprises
SOEs	State-Owned-Enterprises
SPS	Sanitary and Phytosanitary
SVSV	Strengthening of Veterinary Services in Vietnam
SWAp	Sector Wide Approach
TBT	Technical Barriers to Trade
TRIPs	Trade Related Intellectual Properties
UNDP	United Nation Development Programme
UNHCR	United Nations' High Commissioner for Refugees
WTO	World Trade Organisation

## SUMMARY

Vietnam is a Socialist Republic of about 80 million people, of whom 30 million live below the national poverty line and around 25 million are unemployed or underemployed. GDP per capita is € 419.

After decades of war and a difficult reunification struggle, Vietnam launched in 1986 "Doi Moi", a renovation policy that embraced economic reform, the reshaping of foreign policy and renovation of the internal political system.

Since 1986, the country has gone through various stages of economic growth that led to the doubling of its GDP between 1991 and 2000. Though reform has progressed at uneven speed, it is perceived as irreversible. A new breed of managers is taking over from the previous generation of leaders in the political system.

The Communist Party of Vietnam discussed at its 9<sup>th</sup> Congress in April 2001 a strategy for the socio-economic development of Vietnam for the period 2001-2010, aimed at transforming a rural society into an industrialised one by 2020. Vietnam has little time to modernise its socio-economic system before it has to compete on equal terms with other countries in the region where reforms have been ongoing for decades. Non-implementation or ineffective implementation of reforms is -by and large- the major risk Vietnam is facing.

Key factors to monitor include agricultural development, a sensitive sector given that 90% of the poor live in rural areas working mainly in agriculture and the external sector. Exports represent 44% of GDP, and AFTA, Vietnam's planned accession to WTO and implementation of the US-Vietnam BTA will have a direct impact on Vietnam's exports and investment performance. Structural reform, facilitating private sector development, is also a major issue, as SMEs face stiff and largely unfair competition from SOEs.

Principal challenges faced by Vietnam therefore lie in transforming its rural economy, enhancing its human capacity (e.g. through better access to health and education), creating a supportive climate for enterprise, providing efficient infrastructure services, improving environmental quality, enhancing human rights and civil society participation in decision making processes, and building modern governance.

Many of the challenges faced by Vietnam are similar to those of other developing countries. For Vietnam to overcome them effectively, it is likely to need to develop a more responsive, open and participatory decision-making system.

Special attention is being paid in Vietnam to ensuring a high level of co-ordination among the EU Member States and the Commission to maximise coherence of strategies and complementarity of actions. Government-donor co-ordination and co-operation are relatively effective, assisted by an increasingly inter-active Consultative Group Meeting, a poverty working group, and sectoral partnerships for development.

In the light of the above considerations, the overall aim of European Commission co-operation with Vietnam is to facilitate and accelerate the reduction of poverty in a sustainable manner. EC co-operation (for the period 2002-2006) will have an indicative budget of 162 million € and will focus on the following two priorities:

- Enhancement of human development. This will be done in particular, through integrated rural development targeting some of the poorest provinces, and through support in the education field;
- Integration of Vietnam into the international economy, by assisting reform towards a market oriented economy, and Vietnam's integration into world and regional economic structures.

Crosscutting themes, as an integral part of EC-Vietnam co-operation, will include environmental protection, culture and education, gender equality, the promotion of human rights, and good governance.

In the framework of the three-year rolling National Indicative Programme for 2002-2004 an indicative EC grant of 101 million € is earmarked to implement the proposed co-operation strategy:

- Focal point 1, (55 million €) "human development": an integrated rural development action in the Northern Uplands and two actions in education, one supporting the Ministry of Education and Training, and another on vocational training.
- Focal point 2, (46 million €) "Vietnam's integration into the international economy": three complementary actions aiming to provide support to institutional reform in public administration, and good governance; to the private sector; and to integration into global and regional economic arrangements.

## 1. EUROPEAN COMMUNITY COOPERATION OBJECTIVES

Article 177 of the *Treaty of the European Communities* sets out the three broad objectives for Community development co-operation. These are: fostering of sustainable economic and social development; the smooth and gradual integration of the developing countries into the world economy; the fight against poverty. This article also states that Community policy should contribute to the general objective of developing and consolidating democracy and the rule of law and encouraging the respect for human rights and fundamental freedoms.

Further to the Commission's Communication on "*The European Community's Development Policy*" <sup>(1)</sup>, the Joint Council and Commission Declaration on Development Co-operation of November 2000 states that Community development policy is grounded in the principle of sustainable, equitable and participatory human and social development. Promotion of human rights, democracy, the rule of law and good governance are integral elements of EC policy.

Against this background, other key parameters helping to set the co-operation objectives are the *EU-Vietnam Co-operation Agreement* of 1 June 1996 and the broader regional and global co-operation frameworks, such as *ASEM* <sup>(2)</sup> or *EC-ASEAN* <sup>(3)</sup>, where both parties are partners and share their common objectives.

The table below compares objectives for EC co-operation with Vietnam as stated in the Co-operation Agreement of 1996 and with Asia, as in the Commission's Communication "*Europe and Asia: a strategic framework for enhanced partnership*" <sup>(4)</sup> of 2001. This comparison illustrates how some of the objectives coincide and how others are complementary and mutually reinforcing.

<b>Two sets of complementary objectives</b>	
EC-Vietnam Co-operation Agreement (1996)	Europe and Asia: A Strategic Framework for Enhanced Partnerships (2001)
<ol style="list-style-type: none"> <li>1. To secure the conditions and to promote the increase and development of bilateral <i>trade and investment</i> between the two parties in their mutual interest taking into account their respective economic situations;</li> <li>2. To support the <i>sustainable economic development</i> of Vietnam and the improvement of living conditions of the poorer sections of the population;</li> <li>3. To enhance economic co-operation in the mutual interest of the parties, including support to the Government of Vietnam's ongoing efforts to restructure its economy and to move towards a <i>market economy</i>; and</li> <li>4. To support environmental protection and the sustainable management of <i>natural resources</i>.</li> </ol>	<ol style="list-style-type: none"> <li>1. Contribute to <i>peace and security</i> in the region and globally, through a broadening of our engagement with the region</li> <li>2. Further strengthen our mutual <i>trade and investment flows</i> with the region;</li> <li>3. Promote the <i>development of the less prosperous countries</i> of the region, addressing the root causes of poverty;</li> <li>4. Contribute to the protection of <i>human rights</i> and spreading of <i>democracy, good governance and the rule of law</i>;</li> <li>5. Build <i>global partnerships and alliances</i> with Asian countries, in appropriate international fora</li> <li>6. strengthen the <i>awareness</i> of Europe in Asia (and vice versa)</li> </ol>

Another point of reference is the *UN millennium development goals*, to the definition of which the Community contributed and which will be taken into account in the definition of priority areas for co-operation with Vietnam.

An enhanced Community and Member State co-ordination in search of increased efficiency and complementarity, concentrating on a more limited number of sectors, will be a guiding aim for EC co-operation in Vietnam.

<sup>(1)</sup> COM (2000) 212 final, of 26.04.2000

<sup>(2)</sup> COM 2000 (241), 18 April 2000

<sup>(3)</sup> Council Regulation (EEC) 1440/80 of 30 May 1980

<sup>(4)</sup> COM(2001) 469 final "Europe and Asia: A Strategic Framework for Enhanced Partnerships"

## 2. THE POLICY AGENDA OF VIETNAM

In April 2001 the "strategy for accelerated industrialisation and modernisation along socialist lines, laying the foundations for Vietnam to become by 2020 basically an industrialised country" was presented to the 9<sup>th</sup> National Congress of the Communist Party of Vietnam (CPV) and later endorsed by the Party Congress. The "*Socio-Economic Development Strategy 2001-2010*" (SEDS) has been taken as a point of reference for the setting of EC-Vietnam co-operation objectives and priorities.

The strategic goals of SEDS are to:

- bring Vietnam out of underdevelopment;
- improve people's material, cultural and spiritual life;
- lay the foundations for a modern-oriented industrialised country by 2020;
- enhance human resources, scientific and technological, infrastructure, economic, defence, and security potentials;
- establish the institutions of a socialist-oriented market economy;
- heighten the status of Vietnam on the international arena.

To meet these goals, SEDS proposes that Vietnam should evolve from an economy mainly based on agriculture, to one primarily based on industry and knowledge. The specific goals of SEDS are to ensure that by 2010, GDP will have be at least double over the 2000 level; to raise substantially Vietnam's Human Development Index; best utilisation of endogenous scientific and technological capacities; progress in infrastructure to meet socio-economic needs; enhancement of the leading role of the State economic sector in key domains of the economy.

Based on the comprehensive joint report "*Vietnam 2010 – Entering the 21<sup>st</sup> Century* (<sup>5</sup>)" by World Bank, Asian Development Bank and UNDP the table below summarises the main social and economic objectives of SEDS as set out in the report.

<i>Socio-Economic Development Strategy (SEDS) 2001-2010</i>	
Main quality of life goals	Main economic goals
1. Eradication of hunger and hard-core poverty	1. Annual average growth of 7% to double present GDP by 2010
2. Universalisation of lower secondary education	2. Investment to increase from the current 25% of GDP to 30%
3. Malnutrition rate of children to be reduced from a third to 15-20%	3. Exports to grow at more than twice the rate of GDP (to around 15%)
4. Life expectancy to increase from 68 to 70-71 years	4. GDP structure to change the share of agriculture in GDP to decline from 25% to 16-17%; industry to increase from 35% to 40-41%; and services to increase from 40% to 42-43%;
5. Access to clean water in urban areas to rise from 65% to 90%	5. Rural employment to decline from about two-thirds to half
6. Forest coverage to rise from 28% to 43%.	6. Rural migration to the cities, increasing urban population from 25% to 33%.

The government of Vietnam has prepared an Interim Poverty Reduction Strategy paper (I-PRSP). A Comprehensive Growth and Poverty Reduction Strategy (CGPRS) 2001-2010 is planned for Spring 2002.

While the I-PRSP contributes to drawing the attention of authorities, society and the donor community to Vietnam's more pressing needs, further prioritisation is needed to focus efforts from all partners in order to meet the very ambitious challenges described in SEDS.

The I-PRSP, in addition to some macroeconomic policies that are examined in point 3.2.3 of the present paper, proposes a series of sectoral policies to support the poor and reduce their vulnerability. In particular, in order to create opportunities for poor families, it highlights the

(<sup>5</sup>) Throughout the present paper the WB/UNDP/ADB report "Vietnam 2010 – Entering the 21<sup>st</sup> Century" is frequently used as a source of information.



need to: invest in essential infrastructure; increase productivity in agriculture and diversify the rural economy; increase the income of the urban poor; protect the environment; strengthen the ability of the poor, especially women, to access credit and enhance training on how to do business; raise the living standards of ethnic minorities; create conditions for the poor, especially women and children, to better access social, education and health care services.

### **3. COUNTRY ANALYSIS**

Stretching along a 3,200 km section of the South China Sea, the Socialist Republic of Vietnam extends over 300,000 km<sup>2</sup> of which about 23% is under cultivation and 29% is classified as forest or woodland (*see map in annex*). The most intensive cultivation is in the main rice-growing deltas, the Red River in the north and the Mekong in the south. The population (nearly 80 million) is almost 80% rural and is concentrated in the two Delta regions. One ethnic group, the *Kinh* represents 87% of the total population, while there are some 53 minority ethnic groups, mostly in the mountainous areas.

#### **3.1 Political situation**

The political structure of the Socialist Republic of Vietnam is based on a single party system, where the Communist Party of Vietnam (CPV) holds the monopoly of the political process and does not tolerate direct challenges to its authority.

Since reunification in 1974, Vietnam has been governed by a troika composed of the President of the State, currently Mr. Tran Duc Luong, the Government Prime Minister, Mr. Phan Van Khai, and the CPV Secretary General, Mr. Nong Duc Manh. Key decisions are taken by consensus within the troika.

The general political framework extends to the Party Congress and the Politburo. The Head of State is responsible for the army and internal security. The Government is the most visible external face of the system, being in charge of the execution of political decisions, particularly relating to social and economic development, and is answerable to the elected National Assembly. The balance of power between the Party, the Government and the State representations is being altered by an increasingly assertive National Assembly, which may become a driving force in the country's democratisation process.

Considerable progress has been made under the "Doi Moi" reform programme launched in 1986, in particular with elements of economic and foreign policy reform. Some progress has been made with political reform – and "Doi Moi" is seen to be irreversible.

A new breed of managers is taking over from the previous generation of leaders in the political structures. Mr. Manh's election was widely regarded as a victory for the reformist faction within the Party. While in his previous post as Chairman of the National Assembly, Mr. Manh was credited with revitalising this institution, the inertia of the vast Party structure will assure that the pace of change remains modest.

Although it remains largely hidden from the public view, there is an intense internal debate between reformist and conservative elements in the Communist Party of Vietnam, which was apparently intensified by the impact on Vietnam of the Asian Financial Crisis. The issue of corruption has been an important element of this debate and in 1999 the Party launched a "campaign of self criticism" to fight corruption among its members, with limited results.

While pre-eminence of the CPV has clearly made of Vietnam one of the most stable countries in South East Asia, it has also hampered the emergence of an independent media or civil society through the lack of open political debate.

The issue of Public Administrative Reform (PAR) in the framework of the Government and the Party has been overtly on the political agenda since 1995. Although progress has been somewhat piecemeal, the objective of promoting decentralisation, as well as greater transparency and accountability in local government, has been adopted.

In May 1998 the “Grassroots Democracy Decree” was promulgated, together with the Law on Complaints and Denunciations of December 1998. Whilst this decree has the potential to improve local accountability, as the December 2001 Consultative Group Meeting recognised, implementation remains patchy.

Although the Government has shown increasing willingness to engage in dialogue on Human Rights issues with its foreign partners, progress in this field is still limited. While the number of crimes punishable by the death penalty was reduced from 44 to 29 in July 2000, the death penalty still applies to a wide range of crimes, from drug-related to economic. Independent human rights organisations <sup>(6)</sup> are denied entry to the country and access to prisoners. The Vietnamese Government strongly denies the existence of any prisoners of conscience, stating that those imprisoned have been found guilty of breaking the law. During 2001, numerous institutions and organisations outside Vietnam (including the European Parliament) criticised Vietnam's human rights record -in general- and in particular the detention and imprisonment of a number of religious leaders, due to their outspoken demands for political reform.

Other focuses of internal tension in the country have been the uprising in 1997 of several rural communes (mainly requesting land and economic reforms at the grass-roots level), which was reportedly ignited by local government corruption, and the protests in February 2001 by some members of the ethnic minorities "Montagnards" in the central highlands. Several of these hill tribes people subsequently crossed into Cambodia and requested political refugee status. The UNHCR granted some of them the status of “person of concern”.

Following difficulties over the implementation of a tripartite agreement of January 2002 between the UNHCR, the Government of Cambodia and the Government of Vietnam for the voluntary repatriation of those Montagnards in camps in Cambodia, the Government of Cambodia authorised the departure to the United States of those Montagnards willing to be resettled there. This action could not be regarded as a final solution to the problems that brought about the flight of the Montagnards to Cambodia. The EU has therefore called upon Vietnam to take appropriate action to deal with these problems in particular in the context of the country's reform programme and to ensure that the rights granted under the Constitution are fully applied to all Vietnamese citizens.

During the last few years, Vietnam has substantially reshaped its foreign relations away from its past isolationism and is now an active member of ASEAN (since 1995), ARF, ASEM, APEC (formally since 1999) and other regional and multilateral fora. Its only international dispute of significance is over the contested sovereignty of the Paracel and Spratly islands in the South China sea.

Vietnam is expected to continue its policy of external engagement, while closely monitoring and restraining internal dissent. The likely outcome of increasing integration

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<sup>(6)</sup> i.e. Amnesty International, Human Rights Watch, etc

in the international arena and the necessary changes to implement AFTA and future WTO commitments will be a relaxation of internal controls, evolution towards a level playing field for business, improved application of the rule of law, and increasing, but moderated, political demands from a nascent middle class.

## 3.2 Economic and social situation

### 3.2.1 Structure and performance

Since 1986 when Vietnam launched its economic reform process the country has gone through various growth stages that led to the doubling of its Gross Domestic Product between 1991 and 2000, to attain an average per capita income of € 419.

From 1992 to 1997 Vietnam achieved annual rates of growth of over 8%. The Asian financial crisis hit Vietnam despite its non-convertibility policy, growth slowed to 4.0 % in 1998 but rebounded to 5.5 % in 2000.

As the positive effects of the first round of economic *reforms* - liberalisation of agriculture, small scale services and foreign investment – have ceased to be felt, total *investment* has fallen from 30 % to 20 % of GDP, mainly due to a fall in foreign investment. GDP for 2001 is expected to have grown by 4.8 % <sup>(7)</sup>, significantly below the 7% objective of SEDS <sup>(8)</sup>.

Despite the fact that, in the last decade, agricultural and industrial contributions to GDP have inverted <sup>(9)</sup> Vietnam remains a predominantly *agricultural* country <sup>(10)</sup>, with three quarters of the population living in the countryside.

*State-Owned-Enterprises* (SOEs) still represent a substantial part of the economy. In 1999 they contributed to 30 % of GDP, 40 % of industrial output and 50 % of exports. Nevertheless, most SOEs are not competitive and, since they absorb half the bank credit available, they deprive the private sector of growth opportunities. Also, not being able to service their debts, SOEs have weakened the position of the *banking* sector. SOEs remain one of the major weaknesses of Vietnam's economy.

Since the dissolution of COMECON, Vietnam has accelerated the opening of its economy to the world's markets, with *exports* representing 44 % of its GDP, compared to an average of 27 % for developing countries as a whole. Vietnam has succeeded in promoting the participation of the private sector in the export drive. But by applying a distorted trade regime, it has encouraged investment in highly tariff-protected sectors of the economy, such as steel, cement and telecommunications, thus creating serious *competitive disadvantages* for its businesses in relation to other countries in the region.

*Key Factors to monitor:*

Agricultural development: The agricultural sector is a sensitive <sup>(11)</sup> one, in urgent need of further modernisation. Over the last five years Vietnam has suffered a number of calamities. Many of these have been due to acts of nature –such as flash floods- others have been the result of inappropriate policies. The sector needs to

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<sup>(7)</sup> Vietnam Economic Monitor – Autumn 2001. World Bank

<sup>(8)</sup> Doubling GDP in 10 years calls for an average annual increase of 7%

<sup>(9)</sup> From of 32% (agriculture) and 25% (industry) in 1990, to 24% and 34% in 1999 respectively.

<sup>(10)</sup> The agriculture sector represents 24% of GDP, 66% of employment and 30% of export revenues This includes aquaculture. Source: Vietnam 2010 – Entering the 21<sup>st</sup> Century. World Bank.

<sup>(11)</sup> Over 90% of the poor live in rural areas, mainly work in agriculture and have few off-farm employment opportunities

increase its *productivity* and encourage *diversification*, without introducing further distortion.

Exports: Vietnamese exports increased spectacularly from €1.07 bn. in 1990 to €15.44 bn. in 2000 <sup>(12)</sup> and contribute significantly to the local economy, although relying heavily on a limited number of products, many of which are vulnerable to competition from new, cheaper suppliers. Failure to *reduce protection* over recent years has led to some investment misallocation. Rapid accession by Vietnam to the *WTO*, the implementation of the BTA (Bilateral Trade Agreement) with the US, and an early coming into force of *AFTA* will be crucial to maintaining export growth.

Structural Reforms: The Vietnamese private sector, in particular small and medium-sized enterprises (SMEs), faces stiff and largely unfair competition from SOEs, which have access to preferential treatment (both by the administration and other SOEs) and to credit lines with favourable conditions. For the period 1997-1999, the cost of keeping the SOE system (only 40% of SOEs are profitable) was 2.2% of GDP per annum. Reform of the *SOEs* and of the banking sector, as well as the establishment of policies and legislation to support *SMEs*, are essential.

### 3.2.2 Social Developments

Progress made by Vietnam during the last decade in improving the well-being of its population, as shown by the Human Development Indicators, has been considerable. But, while the number of people living in poverty has been cut by half in 10 years, almost *30 million people* (37 % of population) still live in *poverty* <sup>(13)</sup>. Moreover, 60% of the workforce is either unemployed or underemployed, and each year in the coming decade, more than one million people will be added to the labour market.

Poverty remains a mainly *rural* phenomenon (*see illustration in Annex 2*), the poorest provinces being mainly located in the Northern Uplands and Central Highlands <sup>(14)</sup>. Poverty has a particular impact on *ethnic* minorities, as in 12 out of the 13 poorest provinces - located in remote, mountainous areas - ethnic minorities represent at least half of the population (as against the 15 % average nationally).

The *gap* between the rich and the poor is *widening* <sup>(15)</sup> and progress in improving living conditions of the poor is slow, particularly in relation to access to basic social services.

Vietnam has a good record in providing *health care* to the whole of the population, with a comprehensive public health structure reaching down to commune level. However, a heavy bias towards curative care, budgetary constraints and the decision to shift more responsibility for health care financing to the provinces have contributed to a fall in the numbers of nurses, midwives and hospital beds per capita in recent years. The health insurance scheme only *partly covers lower income groups*, with supplementary payments representing a major barrier to access to treatment.

The lack of public funds for the improvement of *sanitation and water supplies* threatens to contribute to the spread of malaria, dengue fever, typhoid and cholera, the most prevalent infectious diseases. While still at a pre-epidemic stage, the spread

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<sup>(12)</sup> In 2000 Vietnam exported € 4 bn to the EU while it imported € 1.2 bn of EU products.

<sup>(13)</sup> WB country brief: Vietnam

<sup>(14)</sup> WB: provinces with poverty headcount over 60% of individuals

<sup>(15)</sup> the gap between the richest and poorest quintiles increased from 7.3 times in 1996 to 8.9 in 1999

of HIV/AIDS, mainly through prostitution and drug abuse, is a matter for serious concern. It is open to debate whether the current policy of prosecuting “social evils” will have a significant impact in preventing further spread of the disease.

In basic *education* Vietnam outperforms comparable developing countries, with relatively high levels of school registration <sup>(16)</sup>. But while 94% of the population over 15 years old is literate, this figure conceals *pockets of illiteracy* in some *ethnic minority groups*. Access to higher education (117 students per 10,000 population) is limited. All citizens have the right to education, and primary education is free in theory, even if in practice parents may have to contribute “voluntary” donations and provide teaching materials for their children. There are inequalities in access to education, with teacher shortages, especially in the remote provinces, and frequently large classroom sizes.

Furthermore, the current education and training system is often perceived as not supportive of economic development because it does not cater to the trained manpower requirements of the workforce. Raising the number of workers with vocational training to 30% by 2005 is one of the targets in Vietnam's five year socio-economic plan (2001-2005) <sup>(17)</sup>.

Gender inequality in Vietnam is modest when compared to other countries. However, gender inequalities vary significantly between groups of society and across the country. The gender gap is wider amongst the poor and in rural areas. Among five selected indicators (skilled labour, employment, education <sup>(18)</sup>, life expectancy and human development), only in life expectancy, women score better than men.

Although the “Doi Moi” process has promoted the household economy and empowered many women in economic terms, the traditional role of women has in many ways been maintained, particularly in the rural areas. The percentage of females in full time education declines as pupils progress from Primary to Secondary levels and is very low at the higher education level.

### 3.2.3 The reform process

Since the start of Doi Moi, reforms have proceeded at an uneven speed. Lack of effective implementation of essential reforms is at the root of current difficulties. This reflects the inconsistent nature of the balance between the internal political debate within the CPV and socio-economic and demographic pressures. Such pressures, alongside the large development gap with most other ASEAN members, exert a major force in favour of the acceleration of reforms, which is now an urgent priority.

Reform priorities are <sup>(19)</sup>:

- To create a fair and *efficient business environment*, promote competition and strengthen the confidence of enterprises and people. To continue reform of SOEs; to create favourable conditions regarding land, support business activities and

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<sup>(16)</sup> 90% of primary, 74% of lower secondary and 38% of upper secondary school age children are registered in state schools

<sup>(17)</sup> Ministry of Planning and Investment

<sup>(18)</sup> Gender inequalities in education have narrowed. Presently, enrolment rates at primary and lower secondary schools are similar for boys and girls, but the gender gap is still significant at higher levels of education in spite of some improvement between 1993 and 1998

<sup>(19)</sup> Interim-Poverty Reduction Strategy Paper

promote SMEs, co-operatives and agricultural farms; to make available skills vital to development at this crucial stage; to encourage foreign investment.

- To maintain *macroeconomic* stability. To improve fiscal policy, consolidate the tax system and expand the tax base; to implement an appropriate monetary policy to maintain stability, control inflation and support economic development; to accelerate the process of integration into international trade flows.
- To mobilise and use efficiently *resources for the poor*. To mobilise all possible resources to finance economic, cultural and social development in poor areas, with special attention to family planning and community health care; to improve mechanisms to allocate funds for hunger eradication, to offset the impact of the widening urban-rural gap; to strengthen decentralisation and the efficient use of ODA financed projects; to integrate and gradually merge targeted programmes in the same region.
- *Administrative* reform. To establish a transparent, effective and efficient public administration by identifying the functions proper to government; to implement decentralisation of administration; simplifying procedures, particularly dealing with business procedures and import-export activities; accountability and transparency of government agencies and effectiveness of the judiciary; effectively implement grass-root level democratisation; to enhance two-way information flows.

### 3.2.4 Public finance and sectoral policies

Macroeconomic performance has mostly been adequate and stable. The Vietnamese non-convertible *currency* has largely maintained its value against the US dollar. The spread with the non-official exchange rate has been very small so far. The strength of the currency might have cost the country in terms of exports vis-à-vis its Asian neighbours, yet it has enabled the country to project an image of stability.

Domestic demand has been largely fuelled by industry and construction, making it difficult to separate organic growth from that resulting from a loose monetary policy. Despite major growth in *credit* in the last three years, (up by 20% in 1999, 38% in 2000 and 29% in 2001), *inflation* has been kept in check, thanks mainly to the falling prices of food products.

Budget *deficit* is kept to a manageable level (3-4% of GDP) and, after Vietnam's successful re-negotiation of its foreign debt, servicing should not pose a problem. *Tax revenues* have not been in line with expectations and have fallen by 4 percentage points of GDP since 1996.

During the early nineties, the main objective of *agricultural policy* was to provide food security. After the government allowed households to cultivate their own plots of land and sell excess production freely, rice shortages gave way to surpluses and considerable exports. While rice still represents 60% of agricultural production, other products - with better profit margins - have emerged in the last few years, mainly coffee, rubber, pepper, tea and cashew nuts. Overproduction has pushed international prices of these commodities down, which (coupled with the limited use of agricultural insurance) has endangered the livelihood of farmers <sup>(20)</sup>, pushing them into debt.

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<sup>(20)</sup> Other issues negatively affecting farmers incomes are: poor post-harvest treatment and storage, which diminish quality and price; overpopulation of rural areas; lack of technology and research, leading to low

In order to address these issues, SEDS sets a series of goals (see table in point 2), namely the decline of the agricultural share of GDP to 16-17%, the reduction of rural employment from about two-thirds to half of total employment, and rural migration to the cities, increasing the urban population to 33%. SEDS also calls for an increase of industrial participation in GDP to 40-41%. In order to reach this objective, the government relies both on *private companies* and on an active *industrial policy*. Meeting these goals entails specific risks. See 3.3 and 3.4.

### 3.2.5 External environment

Vietnam has adopted an “open door” foreign policy. The country took its place as a full member of ASEAN in July 1995 and was in the Chair of ASEAN in 2000/2001. It became a member of APEC (Asia Pacific Economic Co-operation) in 1998. Vietnam is an active member of the United Nations, and was elected to the UN Human Rights Commission in July 2000.

Vietnam has worked hard to develop constructive relations with its neighbours, including China, as well as with the United States and the European Union. However, its long struggle for independence has defined the primary objective of Vietnam’s external policy as to “firmly maintain national independence in regional and international integration [through] equitable and mutually beneficial co-operation on the basis of mutual respect”<sup>(21)</sup>, which often translates into strong opposition to any hint of perceived interference in its domestic affairs.

Since the boom years of the mid-nineties, when Vietnam was perceived as a potential new “Asian Tiger”, disbursed Foreign Direct Investment (FDI) has steadily fallen from around €2.2 bn per annum to €550 m. The sharp decrease highlights the need to recover investor confidence and the need to speed up economic reform. Vietnam must compete for investments in a world with a worsening economic outlook and where other countries in the region could be more attractive, for example China, in particular after accession into WTO. Furthermore, when the AFTA comes into force, Vietnam will have to compete directly with other ASEAN countries for foreign investment.

Three major external events mark Vietnam’s immediate path to integration into world’s economic flows:

- AFTA. The Common Effective Preferential Tariff (CEPT) mechanism of the ASEAN Free Trade Area (AFTA) calls for an average import tariff in Vietnam of 0% to 5% by 2006 <sup>(22)</sup>. This is the agreement with the highest potential to influence the economic development of Vietnam in the short term, since it may create price competition by good quality substitute products for Vietnam’s main export earners. Furthermore, the recent (5 November 2001) decision on the establishment of a free trade area agreement between ASEAN and China <sup>(23)</sup>, to be implemented within 10 years, adds further pressure for reform of Vietnam’s economic structure.

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productivity; lack of basic infrastructure (i.e. access to clean water and roads); scarcity of alternative (non-farm) sources of income.

<sup>(21)</sup> Quotation from the Communist Party Secretary General’s address on the 110<sup>th</sup> Anniversary of the birth of Ho Chi Minh (19 May 2000).

<sup>(22)</sup> It is likely that the 0%-5% tariff rate becomes in most cases an effective 0%, since in many cases the administrative costs of enforcing such tariff would be higher than the collected revenue. Tariffs above 20% had to be cut to 20% on 1/1/2001, tariffs of 20% or below will be reduced to 0-5% on 1/1/2003.

<sup>(23)</sup> A similar offer by Japan may be soon made public

- WTO. Vietnam has applied for membership of the World Trade Organisation and should present its offer in a number of sectors in early 2002. Non-membership of the WTO prevents Vietnam from profiting from access to markets on most beneficial terms, from having recourse to dispute and settlement mechanisms and, in particular, from defending its interests during the next round of WTO negotiations. Countries outside the WTO are likely to lose FDI too, since international investors would favour countries with a common framework agreement on trade and investment.
- US-Vietnam BTA. A US-Vietnam bilateral Trade Agreement was concluded in July 2000 and was ratified in 2001. This Agreement provides significant access to the Vietnamese market for US goods (mainly agricultural) and services, including financial and telecom. The Government of Vietnam has confirmed through an exchange of letters that the Agreement with the US will not lead to any discrimination against EU companies.

Vietnam's exports remain heavily dependent on imported equipment and intermediate goods. The traditional trade pattern is reflected in an increasing deficit with the ASEAN countries, balanced by surpluses with Japan and the EU. The main traditional exports to Asian countries are raw materials and commodities, while those to the European Union are mainly manufactured goods. Although the EU is the second largest investor in Vietnam, it is largely absent in Vietnam's imports of intermediate goods, possibly reflecting the relevant absence of EU investment in the fastest growing sectors of the Vietnamese economy.

### 3.3 Sustainability of current policies

There is a large gap between current economic performance and the SEDS objectives. *Investment* is one of the areas where SEDS could fall short of its target. Growth in investment will have to come from domestic sources and FDI. As the whole south-east Asia region is suffering a decrease in FDI, domestic investment should become an important source of growth. A reform programme to encourage this is overdue in its execution. At the same time, adequate policies aimed at strengthening a non-discriminatory, stable and transparent framework in order to facilitate foreign investment should be developed, as a matter of urgency.

An increase in domestic investment requires that *private sector development*, particularly through SMEs, and the *liberalisation of services* become *top priorities* for the government. The labour market situation in Vietnam can be summarised in three basic facts: roughly 25 million workers are either underemployed or unemployed; there are around one million annual additions to the workforce; and the workforce is characterised by a particular population pyramid<sup>(24)</sup>. These factors lead to the conclusion that natural retirement and the current pace of job creation are not enough to absorb the yearly additions to the labour market. It is essential to promote investment in *labour-intensive industries*, where SMEs are particularly strong, and to overcome shortages of *specific qualified manpower* that could dampen economic development.

Given the continued key role to be played by *exports*, all efforts must be made to reduce their vulnerability by enhancing quality, broadening markets and diversifying export

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<sup>(24)</sup> Given the long years of war, the bracket of 40 to 60 year old represent little over 15% of the population, while about 45% are 0-19 years old.



products. Special attention should be given to all economic and social aspects involved in WTO access negotiations.

The *agricultural* sector needs urgent attention if social tensions are to be averted. Rural *migration* to the cities and to rural-based non-agricultural jobs results from the need to double agricultural productivity. Ideally, enough work opportunities should be created to absorb the 6 million people that could be moving away from agriculture. The creation of sufficient jobs and social services for those who resettle, as well as dealing with environmental concerns related to *urban growth* (incl. water and sanitation, pollution, energy consumption, traffic), will be a significant challenge and will put considerable strain on the budget.

Rapid economic growth, industrialisation and continuing population expansion is putting an increasing pressure on Vietnam's *environment and natural resources* <sup>(25)</sup>. This, coupled with a weak institutional capacity to address environmental concerns adequately, a low level of public awareness on environmental issues, as well as limited financial resources allocated to environmental protection, and disaster preparedness and prevention activities, contributes to a wide range of environmental problems (*see environmental brief in Annex 5*).

Promotion of enhanced gender equality is also needed. This includes improving women's economic status and living standards, mainly by implementing women's equal rights in the area of labour and employment, education and training opportunities, access to high quality health care services and family planning services for women, and, probably most importantly, to promote increased participation of women in leadership and decision-making <sup>(26)</sup>.

*Institutional reform* cannot be delayed, as it constitutes a building block of many other essential reforms. The *legal system* must evolve to ensure consistent implementation of the rule of law. *Governance* programmes must be introduced to rein in corruption and wasteful spending. Ministries often lack the *trained human resources* necessary to carry out their own policies.

The Government will also increasingly face the problem of how far to allow *liberalisation of the political system*. Its very welcome policy of promoting grass roots democracy and a more active role for the National Assembly may conflict with the desire to maintain the leading role of the Communist Party. The readiness of the authorities to allow the expression of divergences of view both inside and outside Party channels will determine the extent to which these issues may impact on Vietnam's relations with its international partners.

### **3.4 Medium Term Challenges**

Even though Vietnam has been successful in economic growth and poverty reduction rates in relation to comparative countries, the country still has 37 % of its population living in poverty and 60% of its workforce unemployed or underemployed. SEDS objectives for 2001-2010 seem particularly difficult to achieve given that the international context, in terms of trade-competitiveness and foreign investment, is less favourable.

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<sup>(25)</sup> Vietnam entering the 21<sup>st</sup> Century report: "in the last 5 decades, natural forest cover has shrunk from 43% to 29% of land area and the country is facing an acute shortage of arable land. Over-fishing and destruction of coral reefs and mangroves have reduced fishing yield.

<sup>(26)</sup> National Human Development Report Report 2001. National Centre for Social Sciences and Humanities, Hanoi 2001

Benefits from the Doi Moi process are showing diminishing returns and the type of reforms needed now are, technically, politically; and socially more difficult, but still necessary.

Vietnam has little time to modernise its socio-economic system before it has to compete on equal terms with other countries in the region where reforms have been ongoing for decades. Non-implementation or ineffective implementation of reforms is -by and large- the major risk Vietnam is facing. The result of this could be economic stagnation and social instability. Vietnam's principal challenges are:

- Transforming the *rural economy*. This involves agricultural intensification and diversification, off-farm employment, remote and upland area development and enabling a free and efficient internal market. It constitutes a formidable challenge for the government of Vietnam in terms of the amount of resources needed. Many international donors are involved, in particular several EU Member States. These are areas fully consistent with EC sustainable development objectives and the EC has experience in rural development in Vietnam, particularly in the Northern Uplands, as well as in other countries in the region.
- Enhancing *human capacity*. This comprises improving the quality of social services, basically education, vocational training, health care, and social safety nets, as well as improving the level and allocation of public expenditure. Vietnam's needs are again enormous. Major donors are involved in these areas, including EU Member States. The EC supports this particular poverty reduction objective, but given the amount of resources needed it will have to focus on a limited number of priorities.
- Creating a *supportive climate for enterprise*. Main areas to target are private sector development, SOE and banking reform, and trade policies. The legal system and the judiciary need urgent modernisation. Ministries need assistance to be better equipped to analyse and define policy suited to a global, open, and fast-changing environment. In all of these areas, Vietnam will need technical advice. These reform areas are fully commensurate with the EC's own objectives. In addition, the EC has already been active in providing support in trade policy, promotion of the private sector and banking. In SME development, the EC could offer further know-how and technical assistance as appropriate.
- Providing efficient *infrastructure* services. This includes transport, energy, water and sanitation. This is an area where the EC has contributed indirectly via its rural development projects, targeting the poorest sectors of society and on a broader level, through its regional horizontal programmes. Some EU Member States are particularly active in this area.
- Improving *environmental* quality. This includes mainstreaming environmental protection in all sectors. This would specifically include integrating environmental considerations into economic decision-making, changing human behaviour and production practices, involving citizens and communities, improving the institutional effectiveness and increasing the level of investment in environmental protection. These priorities are fully in line with EC objectives for a sustainable development. The EC will continue its support in this area and will co-ordinate its efforts with other major donors
- *Human Rights and Civil Society*. The EC includes human rights issues in its regular dialogue with Vietnam and it is ready to continue its co-operation in both human rights and support to civil society. The European Parliament has highlighted on several occasions the need for Vietnam to improve the level of human rights

protection. A modern nation needs a dynamic and independent civil society that can freely contribute to the social and political debate. Thus, improving application of the Grass-roots Democracy Decree at the local level, increasing freedom of expression and better information on citizen's rights will help maintain social stability and improve participation and local accountability. As with other developing countries facing similar challenges, solutions could entail an enhanced participation of civil society in decision-making, promotion of the rule of law, and the promotion of economic, social and political rights.

- Building modern *governance*. This involves more transparent and accountable civil service, transparent and professional financial management systems, a predictable and comprehensible legal system, and greater autonomy for the three branches of the State. The Commission has increasingly voiced its concerns regarding corruption and good governance in the region, and is ready to contribute to Vietnam's efforts in an area where an increasing number of donor agencies are involved.

#### 4. OVERVIEW OF PAST AND ONGOING EC CO-OPERATION

##### 4.1 Overview

In the year 2000, total ODA disbursements of EU Member States' and the EC in Vietnam amounted to € 246 million, accounting for close to 20% of the total ODA during that year. In terms of total cumulative EU aid disbursements, the EU is the second largest donor in Vietnam.

By the year 2000, total cumulative commitments for EC-funded projects in Vietnam amounted to €238.6 million, constituting 9.24% of total EU commitments (Member States plus Commission) of €2,580.6 million. The initial focus of EC-Vietnam Co-operation was on support for the return and reintegration of refugees following the end of the US-Vietnam war. Between 1989 and 1996, grant aid of more than €110 millions was provided for this purpose.

The holding of the first EC-Vietnam Joint Commission in September 1996 was the occasion for a complete assessment of EC-Vietnam Co-operation, leading to agreement on a framework strategy document<sup>(27)</sup>. This led to the launch over the subsequent period of seven major bilateral Development Co-operation projects (see Annex 3) and two projects under bilateral Economic Co-operation.

Year	Total Cumulative EU Commitments	Total Cumulative EU Disbursements	EU Disbursements 2000
2000	€2,581 million	€1,120 million	€246 million

##### 4.2 Past and Ongoing EC Co-operation: Lessons learned

The principal objective of the EC-Vietnam co-operation strategy agreed in 1996 was the consolidation of the ongoing transition to a market economy launched by Vietnam's 'Do Moi' programme, while contributing to the mitigation of the social costs of the transition. Taking into account the most essential needs, the involvement of other donors and the EC's ability to deliver, the strategy was focused on:

- development of the least favoured rural and mountainous areas of the country.

<sup>(27)</sup> EC-Vietnam Strategy (1996-2000): Towards a Comprehensive Co-operation Partnership

- social sectors affected by the transition to the market economy;
  - activities to ensure that environmental concerns would be taken into account;
  - on-going economic and administrative reforms;
  - conditions for the transfer of European technology;
  - conditions for the development of two-way trade and European investment;

Based on evaluation reports and joint EC-Vietnamese assessments, it is possible to draw some general conclusions on the implementation of EC-funded projects in Vietnam.

First, the projects are perceived as fully relevant to the objectives of the agreed 1996-2000 Co-operation Strategy. Second, ongoing projects are in general making satisfactory progress, taking account of the realities of Vietnam's situation as a country in transition. However, many of the projects have suffered delays and difficulties in implementation.

It may be noted that experience to date demonstrates that the Commission's model for individual project preparation and implementation, which is designed to ensure a genuine partnership and to achieve full ownership of the completed project by Vietnam is clearly more demanding on local resources than a simple budgetary contribution. In particular, the EU and Vietnamese Co-directors of the Project Management Unit (PMU) are the key to successful project implementation and must be selected with great care. All the more so, because EC-assisted projects are often ground-breaking for the Vietnamese institutions involved, which may have little or no previous experience of active co-operation with a foreign partner. The EU Co-director is selected by competitive tender, the Vietnamese Co-director is appointed by the responsible Vietnamese Agency). Equally important is the autonomy of the PMU, operating within the terms of the project Financing Agreement and under the policy guidance of the project Steering Committee.

Future project development, management and implementation is expected to improve with the recent creation of the new EuropeAid Office and, in particular, with the de-concentration of the external service. Direct responsibilities for aid management are expected to be transferred from Commission headquarters in late 2002. This devolution is designed to result in speedier and more efficient aid delivery as most decisions regarding the implementation of projects will no longer need to be referred back to Commission Headquarters. The Delegation will also be in a position to tender for technical assistance, to sign contracts with contractors, and to make related payments.

*Specific lessons can be derived from the following main EC co-operation instruments:*

**Financial and technical co-operation projects.** This is the most important development instrument in budgetary terms, with seven projects approved since 1994 totalling € 119 million. The focus of support has been in the areas of rural development, environmental protection/nature conservation and social sectors, mainly health and education.

The only project that has been subject to a final review is the EC Returnee Assistance Programme (RAP). That evaluation indicated that through that programme and its predecessors, the EU had been able to make a significant contribution to the return and sustainable resettlement of many thousands of Vietnamese refugees after the end of the US-Vietnam war and, in this way to assist Vietnam to deal effectively with its most immediate and potentially divisive socio-economic problem of that time. The RAP has also been described as the first example in Vietnam of an externally assisted socio-economic development programme carried out in a partnership of equals between the Government of Vietnam and a foreign donor. An incidental benefit of the programme

was the training given 'on the job' to a large cohort of local Vietnamese employees in the programme, many of whom are now directly employed by donor agencies or in other donor-assisted programmes.

A recent mid-term review for the Social Forestry and Nature Conservation in Nghe An Province (SFNC), started in 1997, considered this project as highly relevant given the exceptional bio-diversity value of the Pu Mat Nature Reserve (PMNR). The PMNR is a priority bio-diversity conservation area, as it is the most extensive forested area in *northern Vietnam* and of highest significance in conserving the ecosystem of the Annamite mountains, including a high number of species threatened or near-threatened with extinction. It should also be noted in this context that the SFNC project has contributed to the conversion, in November 2001, of Pu Mat Nature Reserve to a National Park. A lesson from the implementation of this project is the need to pay greater attention to the *inception phase* in order to improve preparation of local partners and collection of progress and impact indicators.

A Mid-term review of the Strengthening of Veterinary Services in Vietnam (SVSV) took place in 2001. Since its initiation in 1998, this project has suffered from serious difficulties in implementation. Although implementation of project activities has advanced, further progress could likely have been achieved if increased efforts to involve local partners during the preparatory phase had been undertaken so as to enhance the level of project ownership.

**Environmental co-operation.** Most of the EC contribution to address environmental protection concerns has been included as an integral element (eg. agro-forestry) in the rural development projects in Cao Bang-Bac Can and Son La-Lai Chau in the mountainous regions in Northern Vietnam, as well as in the SFNC project.

In terms of EC horizontal co-operation instruments in the environmental sector, five projects have been approved since 1996 for a total amount of € 5,5 million. These projects have focused, among others, on capacity building for environmental management and support to the expansion of the protected area network in Vietnam. The materials produced from these projects are being used in wider development planning in Vietnam and the latter project contributed to the establishment of several new nature reserves in the country.

**NGO projects.** EC support through NGO's has either been channelled through NGO co-financing programme or through thematic budget lines (eg. tropical forests and environment). In terms of NGO co-financing the EC has supported over 180 projects since 1991 for a total amount of € 23,5 million.

NGOs can offer innovative and locally tailored development options that enhance the participation of local communities, particularly vulnerable groups such as women and children. Furthermore, NGO projects have contributed to strengthening institutional capacity in the sectors most affected by economic reforms. The impact of NGO projects, however, has been somewhat restricted and EU visibility has also been limited, in part to due the limited distribution of project information materials. In general there has also been an insufficient level of co-ordination and networking between the NGO projects and few links have been established with the larger EC funded bilateral projects. Future project appraisal will pay particular attention to ensuring that adequate mechanisms for co-ordination and networking are included in NGO project design and implementation. Furthermore, interventions following programmatic approach will be promoted, preferably through the involvement of several NGOs in partnership, rather than single projects implemented in isolation.

**Humanitarian assistance and disaster preparedness.** Since 1996, the European Community Humanitarian Office (ECHO) has provided humanitarian assistance of almost €3.7 million in response to natural disasters in Vietnam. In addition, 7 disaster preparedness projects in Vietnam for a total amount of €1,895,000 have been funded under DIPECHO since 1999. There is scope for increased integration between different EC instruments and more co-ordination among donors and the relevant government agencies in order to achieve a higher impact in the field of humanitarian assistance and disaster preparedness. This will likely be improved with the establishment in 2001 of the Government-donor Natural Disaster Mitigation Partnership, of which the EC has become a formal partner.

**Economic co-operation.** In the area of economic co-operation the main focus has been on supporting Vietnam in its transition towards a market economy and the promotion of small and medium sized enterprises. Since 1994, a total of 7 projects have been implemented for a total amount of € 43 M.

The Technical Assistance Programme for Transition to a Market Economy in Vietnam (Euro-TAP Viet) was the largest single technical assistance intervention ever undertaken by the EC in Asia. The EC-ALA Economic Co-operation Programme evaluation report indicated that this programme was very well designed to serve the specific European Co-operation Programme objective of creating an environment more favourable to investment and development in the partner country. Overall, the programme appears to have had significant impact in raising awareness of the regulatory and institutional needs of a market economy and in helping to lay the groundwork for the necessary legislative changes. However, it is clear from the Euro-TAP Viet evaluation that the failure so far to translate this increased understanding into substantial changes in legislation or other needed institutional changes, means the outcome has fallen short of the results implied by the programme's objectives. On the other hand, the project did contribute to the approval in 2000 of the Vietnamese Law on Insurance Business. Another important bonus seems to have been a more visible EU profile in Vietnam.

In having small and medium sized enterprises (SMEs) as the final beneficiaries, the Small and Medium Sized Enterprise Fund (SMEDF) was perfectly in line with the Vietnamese Government's economic reform programme. At the beginning of the SMEDF project a number of national institutions and donor-financed projects provided support to SMEs, but there was a need for more long-term funding and general financing to SMEs. SMEDF established a revolving fund to meet their needs. Given the way SMEDF was designed, it was concluded that the project did not improve the financial services to SMEs in general, but only to a selected segment, which was nevertheless a considerable achievement.

**Regional co-operation.** Vietnam is an active participant in several regional EC-funded programmes. For example, ten projects worth € 4,3 M have been approved for Vietnam under the Asia-URBS Programme. Whilst that programme has fostered important linkages between European and Vietnamese cities in various areas of urban planning, the experience has shown that success is very much dependant on the quality and background of the European technical assistance.

In the environmental sphere, Vietnam is actively participating in the project ASEAN Regional Centre for Biodiversity Conservation, as well as the programme promoting best practices and business in environment, Asia EcoBest. The mid-term evaluation of the Asia-EcoBest programme concluded that the programme was successful in creating an opportunity for European SMEs in the environmental area to start up operations in Asia and improve their immediate chances for conducting business in the region. A new

follow-on project entitled EU-Asia ProEco will provide additional opportunities for Vietnam to participate in regional cooperation in the environment field, as will the new regional EC-UNDP Small Grants Programme to Promote Tropical Forests. Vietnam has further benefited from this kind of co-operation by participating actively in the Asia-Invest programme, which also targets the creation of EU-Asian business linkages, with 44 project proposals involving Vietnam as lead applicant, partner organisation or target country, presented so far. It is further needed to link these activities with the bilateral co-operation projects.

### **4.3 EU Member States' and other donors' programmes**

Total ODA disbursements to Vietnam during the period 1996-2000 amounted to € 6,670 M<sup>(28)</sup>, which can be compared to FDI figures during the same period of approximately € 6,200 M<sup>(29)</sup>.

Eleven European Union Member States are represented in Vietnam, and a number of them have been engaged in development co-operation with Vietnam since the early 1990s (see Annex 4). Among the EU Member States, France was the largest donor in 2000, followed by Sweden and Denmark. It should be noted also that, apart from the bilateral development co-operation by the EU Member States presented in this report, EU Member States also channel sizeable ODA funds to Vietnam through their substantial contributions to the multilateral financial institutions and other organisations, such as NGOs.

In terms of disbursements in 2000, the five largest sectors for the EU Member States and EC development co-operation were Energy, Human Resources Development, Agriculture, Forestry and Fisheries, Natural Resources and Health. The sectoral distribution of the development co-operation reflects strongly the European Union's firm commitment to poverty alleviation in Vietnam through support to economic, administrative and social reform.

The *European Investment Bank (EIB)* signed a Framework Agreement in 1997 with the Government of Vietnam. This set the stage for the approval of the first investment project financed by the EIB in Vietnam, namely a € 55 M loan for the Nam Con Son Pipeline. This project was deemed eligible because of (i) its importance for the national economy by establishing a gas market in Vietnam, (ii) promoting the use of environmentally friendly fuel, and (iii) transfer of technology from major European partners to PetroVietnam. The EIB continues to support projects presenting a mutual interest for Vietnam and the European Union, particularly to private-sector undertakings involving subsidiaries of EU companies and EU-Vietnamese joint ventures. EIB is trying to structure a global loan facility through one or more EU banks established in Vietnam, the proceeds of which are primarily meant to support small and medium size enterprises.

*Austria* provides support for both technical and scientific co-operation, through post-graduate scholarships and research projects in academic co-operation. In 2000, a total disbursement of €1.5 M was made on a direct bilateral basis.

*Belgium* concentrates its co-operation on poverty alleviation, focusing on five sectors: primary health care, education and training, agriculture and food security, basic infrastructure and conflict prevention. Cross-sector themes are: gender, environment, social economy. Special attention is given to respect for human rights, democracy and good

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<sup>(28)</sup> Investment projects in Vietnam to the year 2000 (Vietnamese Statistical Publishing House 2001)

<sup>(29)</sup> Vietnam 2010 – Entering the 21<sup>st</sup> Century report

governance. The annual average value of ODA disbursements from 1996 to 1999 was €9.978 M.

*Denmark* emphasises support to fisheries, water resources and agriculture, with a geographical focus on central highlands and the central coastal provinces. In addition, it contributes to improvement of the reform process, mixed credits for commercial operations and environment. The annual average value of assistance from 1997 to 2000 was €32.8 M.

*Finnish* co-operation covers poverty alleviation in rural areas, sustainable management of natural resources and public administration and public utilities. Support to urban development has continued. The annual average value of disbursements (both loans and grants) to Vietnam during the period 1997-2000 was €6.6 M

*France's* four major priority sectors for co-operation are: 1) legal and political transition, assisting in the legal reform process and in the definition of economic and development policies; training of executives and students; 2) research and educational system; 3) modernising rural economy and controlled urbanisation; promoting the emergence of a modern private sector and competitive public sector. and 4) social benefits in rural area supporting the medical sector. The annual average value of ODA disbursements (both loans and grants) to Vietnam during the period 1997-2000 was €60.8 M.

*Germany's* priority sectors are the support to reform policies, promotion of private enterprises, vocational training, preservation and sustainable use of natural resources, water supply, waste water, solid waste disposal and health (family planning / reproductive health, and HIV/AIDS prevention, hospital equipment, etc.). The annual average disbursements of this leading donor (both loans and grants) to Vietnam during the period 1996-2000 was €43 M.

*Italy's* co-operation focused on poverty reduction. Main priorities are basic social services (water and sanitation, basic health, human resources). Italy plans to support the modernisation of industrial system and the opening of the economy, targeting SMEs. The annual average value of disbursements (grants only) to Vietnam during the period 1998-2000 was €1.1 M.

*Luxembourg's* co-operation since the early nineties has focused on the tourism sector. Currently, it is concentrating on fight against poverty particularly the social sector (health and integrated rural development). Environmental aspects will receive increased attention. In collaboration with Singapore support is provided to administrative and financial sector reforms. Total disbursements in 2000 have been 5.2 M, all of which have been grants.

*The Netherlands'* co-operation concentrates on three sectors: forestry and bio-diversity conservation, water management and transport, and health. In addition support will be provided to some cross-cutting issues related to these sectors, such as institution building and gender and macro economic reforms. The Netherlands is exploring with Vietnamese partners possibilities a sector-wide approach in multi-donor partnerships in the three sectors. The annual average disbursements (both loans and grants) during the period 1998-2000 was €30.9 M.

*Spain's* co-operation priority is to help to release the productive potential of Vietnam and to address direct social needs, mainly in health and education. Co-operation is widely distributed across Vietnam. The annual average disbursements (both loans and grants) during the period 1996-2000 was €8.2 M.



*Sweden's* priorities for its co-operation are poverty reduction in an environmentally sustainable manner, and the promotion of democracy and human rights. Five main sectors of co-operation are: a) economic, administrative and social reform processes, b) specifically disadvantaged areas and groups, c) environmentally sustainable development, d) democracy and human rights, mainstreaming transparency, popular participation and gender equality and e) energy sector, focused on disadvantaged areas. The annual average disbursements (both loans and grants) during the period 1994-2000 was €34.3 M.

*The United Kingdom's* co-operation goal is to promote pro-poor growth. Specific objectives are: 1) stronger collaboration between government and donors in poverty elimination; 2) greater understanding of the causes, characteristics and consequences of poverty; 3) improved capacity of government to implement reforms; 4) improved income opportunities for rural poor. Annual average assistance during the period 1995-2000 was € 9 M. The level of financial assistance is expected to grow substantially in the next few years.

In terms of *co-ordination*, the *EU Member States and the EC* meet on a regular basis to enhance collaboration and exchange of information. The regular Consultative Group (CG) meetings co-organised by the World Bank and the Government of Vietnam offer a framework for co-ordination among the international donor community.

In addition, more than twenty Government-donor *partnerships* have been established for a variety of sectors. The EC has been active particularly in the forestry, environment and natural disaster mitigation partnerships. The development of these partnerships is likely to have a number of effects on development assistance in Vietnam, including a move towards more programmatic and sector-wide approaches to aid delivery; broader coalitions in the fight against poverty; less overlap and fewer gaps between programmes; more informed planning for all partners; more efficient use of resources and, ultimately, better development outcomes for Vietnam<sup>30</sup>.

At the December 2001 *Consultative Group* meeting, the Chair announced total pledges of assistance in 2002 amounting to US \$ 2.4 billion. (Total annual pledges have averaged over US \$ 2 billion since the early 1990s).

Forthcoming *World Bank* support is expected to include budgetary (lending) support of US \$ 250 millions under its new Poverty Reduction Support Credit (PRSC) facility, in which several EU Member States are participating, to help cover the fiscal costs of structural reforms in five areas: banking, State Owned Enterprises, private sector, trade and public expenditure. The International Monetary Fund (IMF) approved in principle in April 2001 a three year arrangement for lending Vietnam about US \$ 368 millions in balance of payments support under its Poverty Reduction and Growth facility, which is also linked to the structural reform programme.

The World Bank has also supported development programmes in Vietnam, including a US \$ 75 million programme addressed at the 1,600 poorest communes, and has provided extensive technical assistance. Total commitments in 2000 were US \$ 286 million.

The *Asian Development Bank (ADB)* has provided support for policy and institutional reforms, and for capacity building in the areas of rural development, financial sector development, enterprise development and human development, as well as governance and the legal framework. A new country operational strategy for Vietnam is expected to be anchored in the Government's medium-term development plans and the ADB's

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<sup>30</sup> Vietnam 2010: Entering the 21<sup>st</sup> Century: Partnerships for Development

overarching goal of poverty reduction, with a particular focus in the North Central Coast and the Central Highlands. Continued agricultural liberalisation and the development of the rural private sector will be supported. Assistance is by way of loans and the provision of technical assistance. Loan assistance in 2001 is expected to have totalled US\$ 210 million, with an additional US \$ 10 million in Technical Assistance.

Traditionally, *Japan* has been – and continues to be – the largest single donor to Vietnam. In recent years, Japan's bilateral aid has been reinforced by a special programme of assistance to the countries most affected by the Asian Financial Crisis. Japan's assistance to Vietnam includes soft loans for infrastructure projects – power generation and distribution, irrigation, roads and bridges – and grants for human resource development.

## 5. THE EC RESPONSE STRATEGY

### 5.1 Principles and objectives for co-operation

Vietnam's SEDS first goals are to bring the country out of underdevelopment and improve noticeably the people's lives. In this connection, supporting Vietnam's efforts to reduce poverty *in an economically, socially and environmentally sustainable manner* will be the EC's *overarching co-operation objective*.

To meet the SEDS goals, Vietnam needs to undertake a vigorous market-oriented reform and to integrate further its economy into the international trade and investment flows. Assuming the Government's continued and enhanced determination to implement the necessary socio-economic reform measures, the EC is ready to assist Vietnam's efforts. Reforms include, among others, transforming the rural economy, enhancing human capacity, providing a supportive climate for enterprises, the provision of better infrastructure, and improving the quality of the environment. Reforms also need to address the improvement of human rights and civil society participation in decision-making, as well as building modern and accountable governance.

Economic growth should, however, be equitable and therefore, specific policies aimed at reducing the increasing gap between the richest and poorest quintiles of the population may be needed.

In consequence, the *two main areas of concentration* for EC co-operation will be assistance to improve Vietnam's *human development*, targeting the poor, and to facilitate *integration of Vietnam into the international economy*. *Cross-cutting* themes that will receive particular attention during implementation of activities within the above-mentioned areas of concentration are: *environmental protection and disaster preparedness; human rights and democracy; culture and education; and good governance*.

An indicative budget of € 162 M for bilateral co-operation for the period 2002-2006 is foreseen. The following general considerations will be taken into account when selecting initiatives for support:

- Whenever possible, sector-wide approaches will be favoured over individual projects. Close co-ordination with other donors' activities, particularly those of the EU Member States, must be ensured to maximise the impact of the EC's contribution and to ensure complementarity;
- There must also be complementarity and links among different EC-supported initiatives. Budgetary constraints compel concentration of activities and enhanced linkages

between poverty reduction and progress in Vietnam's integration into the world economy.

Specific project selection will be subject to a detailed identification and appraisal to be undertaken by the Commission. EC initiatives should encourage and support the development of civil society actors such as indigenous non-governmental organisations.

Efforts will be made to further enhance ownership and accountability of Vietnamese partners in the design of the co-operation interventions. Integral and essential objectives of all Community co-operation will be raising the EU's profile and the visibility in Vietnam of EC co-operation instruments, and increasing mutual understanding between Vietnam and the European Union.

## **5.2 Main areas of concentration**

### **5.2.1 Focal point 1: Improvement of human development**

Assistance will be targeted on either a geographical or thematic basis to contribute towards Vietnam's efforts to improve human development. Particular attention will be paid to providing support to the most vulnerable sectors of society and ensuring the sustainable use of natural resources. Priorities for development co-operation are:

- *Integrated rural development.* Activities will aim to reduce poverty in some of the poorest provinces in Vietnam. Priority will be given to areas with concentration of ethnic minorities. Targeted areas will take into account other donors' interventions, local absorption capacity and EC experience in the zone. Northern Uplands provinces could be considered as an example.

People living in this type of areas, are generally less educated and less skilled than the national average. They have more children, but less land. They have less access to credit, but have to pay more for it. They also have limited access to health services, and lack earning opportunities. EC support may have three components: rural development, basic health and basic education.

In order to design, deliver and monitor its assistance as efficiently as possible, the EC will focus its support in order to contribute to the improvement of Vietnam's Human Development *Indicators* <sup>(31)</sup> in the targeted provinces.

- *Rural development.* This activity aims to increase self-sufficiency and income. In particular, it will support the sustainability and replicability of co-operation actions already being undertaken by the EC in these areas in rural development.

In that context, specific components that have succeeded in alleviating poverty but that need further support to ensure their sustainability will be targeted. Increased attention will be paid to assisting alternative off-farm activities, supporting the establishment and development of household enterprises, and promoting the sustainable management of natural resources.

- Enhanced *access to health services.* This possible intervention will aim to give increased access to basic health services. A specific intervention to be explored could target, on a pilot basis, the health insurance scheme.

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<sup>(31)</sup> For example, it could target, according to the availability of information in the provinces: income level; agricultural product diversification; unemployment rate; clean water access; irrigated land; forest coverage; births attended by skilled personnel; under-five mortality rate; underweight children; enrolment in primary education; until 5<sup>th</sup> year schooling, ratio of girls to boys in primary.

- *Primary education.* A targeted intervention in primary education to enhance quality of delivery and children's participation could be examined.
  - *Education.* An intervention in education on a sectoral basis or, alternatively on a complementary basis with other major donors, could be explored. Components of this approach could be:
    - as the experience of co-operation with the Ministry of Education and Training illustrates, there is broad scope for assistance in improving the quality and efficiency of the educational delivery process. The possibility of further co-operation at *policy and implementation* levels will be examined.
    - *vocational training* is a likely area for intervention in the education sector as scarcity of *specific skills* at this crucial stage in socio-economic *transition* could dampen development efforts. This intervention could contribute to the development of the professional and technological skills needed to assist the expansion of the SME sector and to promote Foreign Direct Investment. This intervention is also linked to focal point 2, "human development".
    - On a focused geographical basis (see point above, for integrated rural development), targeted interventions in *primary education* for the poorest segments of population, such as some ethnic minorities in remote areas, could be examined.
  - *Health.* The principal intervention foreseen in the short term is in relation to the integrated rural development, as mentioned above. Any other possible bilateral co-operation in this sector should take account of previous EC experience in malaria control, drug abuse, HIVS/AIDS and health systems development, as well as progress made by co-operation in this sector by the donor community.

The main EC instrument to support development co-operation is the "financial and technical budget line". Various other EC horizontal instruments could reinforce the financial and technical instrument to facilitate the attainment of goals, through enhanced linkages with existing development projects. Examples of such horizontal instruments are Environment and Tropical Forest Regulations, the HIV/AIDS programme and particularly, the NGO co-financing programme.

### **5.2.2 Focal point 2: Integration into the international economy**

Two complementary areas are targeted. First, assistance to the essential internal reforms Vietnam needs to undertake and second, to assist in the opening of its market to the international flows of trade and investment in the framework of its planned accession to WTO and existing commitments with AFTA:

- *Reform towards a market oriented economy.* The deep transformation that the social and economic structure of Vietnam is undergoing, and the need to accelerate progress involve some of the following aspects <sup>(32)</sup> that will be explored for co-operation.
  - *Human development.* Human resources are put under particular strain, both in the public and private sectors, as new types of education, know-how, training and skills are needed to implement the transition;

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<sup>(32)</sup> see also point 3.4 "Medium Term Challenges" in the present paper.

- *Policy-making and implementation.* As the successful Euro-Tap-Viet Programme has illustrated, the transition to a market oriented economy needs not only appropriate policies, laws and regulations to direct the process, but also assistance in their application by government and in both the public and private sector. A properly functioning judiciary system is also essential for effective implementation of the regulatory framework;
- *Promotion of the private sector.* The reform of State-Owned Enterprises and the anticipated migration of people away from the land will result in a more pressing need for employment creation. Increased numbers of small and medium-sized enterprises will be required to drive the modernisation of Vietnam's economy and to maximise export and industrial co-operation opportunities <sup>(33)</sup>.
- *Alleviation of the social consequences of reform.* In particular, migration problems linked to important segments of rural population migrating to urban centres will be addressed;
- Promotion of *good governance and best administrative practices* is an essential for the success of the reform process and the EC is ready to support Vietnam's efforts as appropriate. One particular area to be explored will be corporate governance which could assist in the framework of SOE reform.
- *Integration into the international and regional economic structures.* The analysis throughout the paper has highlighted how important it is for Vietnam to accelerate its integration into international trade and investment flows. Therefore co-operation may involve the following:
  - *Trade policy* formulation and accession to the World Trade Organisation. Experience of the EC-funded Multilateral Trade Policy Assistance Programme (MUTRAP) will be taken into account to continue support for the negotiations, policy decisions and implementing measures that will follow to adapt the regulatory framework to the new context. It is possible that Vietnam may need assistance to adapt its economic policy to meet the AFTA deadline. In that case the EC stands ready to provide assistance if requested.

Possible areas where trade-related technical assistance may be appropriate include customs reform, market access for industrial goods – to identify export interests, negotiation techniques, tariffication, trade facilitation - through simplification of import and export procedures- as well as assistance with the SPS, TBT, and TRIPS agreements, and help to develop understanding of investment and competition issues.

  - A number of technical measures are also involved in facilitating *access of Vietnam products into the world markets and attracting foreign investment.* Among them, are enhanced quality of Vietnam's products and the international recognition of its *quality assurance system.* In addition to industrial products, particular attention will be paid to the quality (*phytosanitary specifications*) of its agricultural products. Strengthening

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<sup>(33)</sup> Possible areas for EC technical assistance could be: SOE reform; promotion of financing for start-up and development costs; training for SMEs in, for example, quality control, marketing; establishment and development of trade and industrial associations; establishment of an institutional framework for the development of SMEs; helping SMEs to internationalise their activities.

implementation of the *intellectual property rights* protection system can assist to encourage *technology transfer* to Vietnam.

EC assistance in the implementation of reforms will be conditional upon Vietnam's continued commitment to necessary reforms, and upon demonstrable progress in this field. The main EC instrument to support this focal point is the "political, economic, and cultural budget line" that finances horizontal and bilateral programmes. Activities aiming to foster better mutual understanding and business-to-business co-operation are generally supported through horizontal programmes, such as Asia-Invest, which provides support through a range of different schemes.

### **5.2.3 Cross-cutting themes**

As established in the EC's development policy, *cross-cutting* themes such as *environment protection and disaster preparedness; gender equality; promotion of human rights and democracy; culture and education; and good governance* will be an integral part of the EC-Vietnam co-operation. When appropriate, specific co-operation actions can be developed to promote such themes on an ad-hoc basis. An example of integration of various cross-cutting themes -environment protection and disaster preparedness and prevention- could be the persistent flooding in the central provinces, linked to deforestation, that has led to repeated humanitarian crises and that could be the subject of a specific intervention with a social forestry approach.

In addition to the above-mentioned EC instruments, horizontal ones such as the "environment and tropical forest protection", "human rights" budget lines and the EC co-financing of NGOs can be utilised. The opportunities offered by horizontal programmes in the fields of higher education, science & technology or energy to support the above mentioned objectives should also be noted.

### **5.3 Coherence and complementarity**

In November 2000, the Council and the Commission endorsed a Development Policy Declaration which firmly defined poverty reduction as the overarching objective of the EC's development policy. The Declaration identified six core areas for EC Development Co-operation: trade and development, regional integration and co-operation, macro economic reform and social programmes, transport, food security and rural development, and institutional capacity strengthening. The Trade Policy of the EU is founded in the development of a fair and open, rule-based international trading system.

The priorities for EC-Vietnam co-operation identified above are therefore fully consistent with the European Community's Development and Trade Policies. They are also consistent with the Community's specific policies for relations with Vietnam and with ASEAN. It is nevertheless important that the actions supported by the Community are planned and implemented in a manner which is coherent and complementary with the policies of the Government of Vietnam and the actions of the European Union Member States and other donors.

In this respect, it is to be noted that considerable progress has been made in Vietnam in developing Government-donor co-ordination. The annual Government-donor Consultative Group Meeting has become increasingly inter-active in recent years, and it is supplemented each year by a Private Sector Forum and by a mid-term Consultative Group Meeting. A Poverty Working Group was established in February 1999. Recent years have also seen the establishment of "partnerships for development" - sectoral fora where evolving programmes and policies are discussed between the responsible Government Departments and donor representatives. Other "partnerships for

development“ include the Environment Support Group, the Partnership Support Programme for Vietnam’s Five Million Hectare Reforestation Programme, the Central Provinces Initiative to Mitigate Natural Disasters in Vietnam, the Education Forum and the International Support Group (ISG) and partnership group on health. The European Commission is represented by its Hanoi Delegation in all of the Government and donor partnerships relevant to the EC-Vietnam co-operation programme.

Particular attention is paid in Vietnam to ensuring a maximum level of co-ordination of co-operation work among the EU Member States and the Commission, and the Development Counsellors of the EU Member States embassies and the Commission Delegation meeting on a monthly basis to exchange information on ongoing projects, planned initiatives, and future priorities. Such co-ordination contributes significantly to coherence of strategies and complementarity of actions. At the Consultative Group meeting in 2001 an EU statement was presented for the first time, allowing the EU to speak with one voice on a range of key issues. The statement had been drafted and agreed by the Development Counsellors of all Member States present in Vietnam and the Commission. Each year a comprehensive directory of EU co-operation projects is produced and widely circulated, resulting both in better co-ordination of Member State/Commission initiatives, in reduced risk of duplication, and in enhanced visibility for the combined EU effort. The Member States and the Commission have agreed on local cost norms to be applied to all co-operation projects. Member States and the Commission are keen to explore possibilities for using the forthcoming Comprehensive Growth and Poverty Reduction Strategy (CGPRS) as a reference point for future co-operation with Vietnam and for co-ordination among themselves. The opportunity for enhanced co-operation through the application of SWAPs is also to be explored. This would provide possibilities of co-financing by the Commission and Member States.

The coherence and complementarity of EC actions in Vietnam with Government policy and the activities of other donors is also assured by the methodology used by the Commission to prepare its actions. First, the overall strategy is discussed with the EU Member States and the Government of Vietnam before being presented in a strategy paper. A similar process is followed in programming co-operation actions in the National Indicative Programme.

Proposals for individual interventions, programmes or projects, within the framework of the Country Strategy and National Indicative Programme will include *impact and implementation progress indicators* to facilitate their follow up. Impact indicators will be linked as far as possible to the specific socio-economic objectives established in Vietnam's SEDS and in its Poverty Reduction Strategy Paper, and should be extended as to assess the impact of the CSP / NIP. A summary of SEDS objectives can be found in the table in point 2 of the present paper (e.g.: malnutrition of children, forest coverage, scholarisation, etc.). The use of such indicators for early targeting of the nature and extent of the intervention objectives, will enhance focus during the design of the EC action and consistency with the EC's aim to assist Vietnam to achieve its defined goals.

Specific EC interventions are agreed in principle with the Government before the launch of an expert project preparation mission, which is instructed to share with the Government and interested donors its thinking before presenting detailed proposals to the Commission and the Government for their consideration.

Financing Agreements for the projects are then negotiated and signed with the Government of Vietnam. These agreements, and the Terms of Reference for the

implementation of the projects normally contain specific provisions for consultation and co-operation with other relevant projects.



## ANNEXES

# Vietnam Map



Source: <http://www.pmgeiser.ch/images/vietnam/maps/vietnam.jpg>

**ANNEX 1**  
**DEVELOPMENT INDICATORS**

INDICATOR	VALUE	YEAR	SOURCE
<b>Economic well-being</b>			
Incidence of Extreme Poverty: Population below \$1 Per Day	na		
Proportion of people with per capita expenditures under the total poverty line VND1.8 million=US\$128	37%	1997-1998	World Bank, Vietnam attacking poverty, p.2
Inequality: Poorest Fifth's Share of National Income or Consumption	8%	1998	World Bank, World Development Indicators database, 2001
Child Malnutrition: Prevalence of Underweight under 5 years old	34%	1998	World Bank, Vietnam attacking poverty, p.4
	36.7%	1999	World Bank, World Development Indicators database, 2001
<b>Social Development</b>			
Net Enrolment in Primary Education	91%	1998	World Bank, Vietnam attacking poverty, 1999
	100%	1997	The World Bank Group, For Schools
Completion of 5 <sup>th</sup> Grade of Primary Education	75.5%	1998-1999	The EFA 2000 Assessment: Country Reports (www.unesco.org)
Literacy Rate of 10-64 year olds	na		
Infant Mortality Rate	3.8 %	1998	Gvt-donor-NGO Poverty Task Force, Nov. 2001
	3.4 %	1998	EDSD, Poverty database - SDDBS
	3.7 %	1999	World Bank, World Development Indicators database, 2001

Under 5 Mortality Rate	4.8 %	1998	Gvt-donor-NGO Poverty Task Force, November 2001
	4.6 %	1997	HNP/Poverty Thematic Group of the World Bank, May 2000
	4.2 %	1999	World Bank, World Development Indicators database, 2001
Maternal Mortality Ratio	100 per 100,000 births	2000	Gvt-donor-NGO Poverty Task Force, Nov. 2001
Births Attended by Skilled Health Personnel	77%	1998	World Bank, World Development Indicators database, 2001
Contraceptive Prevalence Rate	75.3%	1998	World Bank, World Development Indicators database, 2001
HIV/AIDS prevalence among adult population	0.29%	2001	Gvt-donor-NGO Poverty Task Force, Nov. 2001
Simple literacy ratio, females (91%= 100%- 9% illiteracy rate) to males (95%=100%-5% illiteracy rate)	0.96	1999	The World Bank Group, For School
Ratio of occupied elected positions, females (22.5%) to males (77.5%)	29%		Committee on Elimination of Discrimination against Women, Twenty-fifth Session, 518 and 519 meetings, 11 July 2001
<b>Environmental sustainability and regeneration</b>			
Population with access to an improved water source- Total	56%	1999	World Bank, World Development Indicators database, 2001
Population with Access to safe water:			
- Total	36%	1990-1996	The World Bank Group, For School
- Rural	29%	1998	World Bank, Vietnam attacking poverty, 1999
- Urban	75%	1998	World Bank, Vietnam attacking poverty, 1999

Biodiversity: Land Area Protected	4.03%	1996	UNEP World Conservation Monitoring Center, 1996 Global Protected Areas Summary Statistics, p.5
	3%	1996	World Bank, World Development Report 2000/2001, p.290
Carbon Dioxin Emissions	0.5 metric tons/capita	1995	World Bank, World Development Report 2000/2001, p.292
Forest Area as % of Land Area	35.2%	2000	VN Statistical Yearbook 2000, p.16
	30.2%	1999	World Bank, World Development Indicators database, 2001
Mangrove Areas	0.4%	1992-1993	UNEP Land cover assessment: 1992-1993
	0.11%	1995	Report of Vietnamese delegation at the fourth conference of the parties to the convention of biological diversity, Bratislava, Slovakia, May 4-15, 1998 (mangrove forest=34,700 ha)/ total area (32,924,100ha – VN Statistical yearbook 2000)

<b>General Indicators</b>			
GNI per Capita	US\$ 390	2000	The World Bank and Vietnam, Vietnam at a Glance - 2000
Adult Simple Literacy Rate	91%	1998	World Bank, Vietnam attacking poverty, 1999
	93.1%	1999	UNDP Human Development Report 2001
Total Fertility Rate: Births per woman age 15-49	2.3	1997	HNP/Poverty Thematic Group of the World Bank, May 2000
Life Expectancy at Birth (years)	69	1999	World Bank, Vietnam at a Glance - 2000

External Debt as % of GNI	(estimated at) 51.3	2000	World Bank, Vietnam data profile, 2001
Investment as % of GDP	18.7	1999	World Bank Macroeconomic update 2000, p.1
	27.2	1999	Asian Development Outlook 2000
	25.4	1999	World Bank, World Development Indicators database, 2001
Trade as share of GDP	95.3%	1998	World Bank, World Development Indicators database, 2001

## ANNEX 2

### AN ILLUSTRATION OF THE URBAN / RURAL SPLIT <sup>(34)</sup>

The table below illustrates the gap in access to some basic services between urban and rural areas.

<b>The lack of basic services in the well-off and poor provinces, 1998</b>			
<b>Province/city</b>	<b>Percentage of people lacking clean water</b>	<b>Percentage of people lacking sanitation</b>	<b>Percentage of people lacking electricity</b>
<b>Big cities</b>			
Hanoi	1.4	2.8	0.1
Ho Chi Minh City	1.2	2.3	1.5
<b>Remote provinces in Northern Uplands</b>			
Ha Giang <sup>(35)</sup>	63.5	37.9	60.0
Lai Chau	76.7	57.4	69.1
Source: Estimated based on VLSS98			

In addition, richer regions provide cheaper healthcare. A single visit to a hospital in the South East region may cost three times less than in the Northern Uplands.

According to some sources, over 50% of public financing in education has been invested in recent years in urban areas.

<sup>(34)</sup> Source: Social Watch "Economic growth and social development" at <http://socialwatch.org>

<sup>(35)</sup> 90% of the population of Ha Giang province is comprised of ethnic minorities

## ANNEX 3

### ONGOING EC CO-OPERATION PROJECTS

Since 1994, seven major bilateral Development Co-operation projects have been launched – the Vietnam national component of the regional Malaria Project (€15.935 millions) and the Health System Development Programme (€27 millions), a project for Support to the Ministry of Education and Training (€7.6millions), the project for Strengthening of Veterinary Services in Vietnam (€9 millions), two Rural Development projects in the poorer northern region, covering the provinces of Cao Bang/Bac Can (€19.5 millions) and Son La/ Lai Chau (€20 millions) and a project on Social Forestry and Nature Conservation in Nghe An Province (€19.5 millions). A project to establish lending facilities for SMEs, the Small and Medium-sized Enterprise Development Fund (SMEDF), was also established with funds recycled from the Returnee Assistance Programme.

Under Economic Co-operation, a contribution of €5 millions has been made to the multi-donor Mekong Project Development Facility managed by the International Finance Corporation (IFC) in support of the development of SMEs in the private sector, and the Multilateral Trade Policy Assistance Programme (MUTRAP) has been launched at a cost of €3.1 millions to provide training and technical assistance to key economic Ministries involved in the preparation of Vietnam's accession to the World Trade Organisation (WTO).

The current total financing commitment to ongoing and pipeline projects under bilateral co-operation is approximately €165 millions. In addition, Vietnam has benefited from the Regional Malaria Project for Cambodia, Laos and Vietnam (€4.87 millions) and from the Asia Invest Programme (11 projects selected in Vietnam), the ASIA Urbs Programme (6 Vietnamese projects selected from the first call for proposals), and the EC/UNFPA Asia Initiative for Reproductive Health (8 NGO projects financed in Vietnam), as well as the EC/FAO Integrated Cotton Pest Management in Asia project. Vietnam has also participated in EC-ASEAN co-operation projects, including the COGEN and AEEMTRC energy programmes and the Junior EU-ASEAN Managers (JEM) Programme.

Vietnam is a participant in the Commission's International Science and Technology Research and Development Programme, INCO-DC. Since 1992, 25 research projects have been financed in Vietnam. Other horizontal programmes of the Commission have also provided support for Vietnam, including the NGO co-financing programme, where 13 projects currently receive support amounting to a total of over €3.7 millions. Two projects in Vietnam are currently assisted under the Commission's programmes in support of Environmental Management and Tropical Forests and one is currently receiving support under the Commission's HIV/AIDS programme. ECHO (the European Commission Humanitarian aid Office) has contributed almost €3.7 millions to assist flood victims in Vietnam in the last years and has also awarded in 2000 a total of just over €1.2 millions to four projects in Vietnam dealing with disaster preparedness and prevention issues.

All of these projects complement and support the over-arching objective of the agreed EC-Vietnam Co-operation Strategy – support for the consolidation of Vietnam's ongoing transition to a free market economy, while contributing to the mitigation of the social costs of the transition.



**ANNEX 4**

**EU Development Co-operation with Vietnam by Member State**

**Table: European Development Cooperation Activities in Vietnam**

<b>Sector</b>	<b>Austria</b>	<b>Belgium</b>	<b>Denmark</b>	<b>Finland</b>	<b>France</b>	<b>Germany</b>	<b>Italy</b>	<b>Luxembourg</b>	<b>The Netherlands</b>	<b>Spain</b>	<b>Sweden</b>	<b>United Kingdom</b>	<b>European Commission</b>
<b>Average value of ODA disbursements in million Euro (period)</b>	1.5 (2000)	10.0 (1996-99)	32.8 (1997-2000)	6.6 (1997-2000)	60.8 (1997-2000)	43.0 (1996-2000)	1.1 (1998-2000)	5.2 (2000)	30.9 (1998-2000)	8.2 (1996-2000)	34.3 (1994-2000)	9.0 (1995-2000)	21.3 (1998-2001)
<b>Economic management</b>													
<b>Development Administration</b>													
<b>Natural Resources</b>													
<b>Human Resources Development</b>													
<b>Agriculture, Forestry, Fisheries</b>													
<b>Area Development</b>													
<b>Industry</b>													
<b>Energy</b>													
<b>International trade in goods and services</b>													
<b>Domestic trade in goods and service</b>													
<b>Transport</b>													
<b>Communication</b>													
<b>Social Development</b>													
<b>Health</b>													
<b>Disaster preparedness</b>													
<b>Humanitarian aid</b>													
<b>Gender</b>													
<b>Mixed credit</b>													
<b>Others</b>													

Source: European Union Development Cooperation Activities in Vietnam 2000

**Austria** aims at promoting sustainable economic development, which has direct effects on the “*campaign against poverty*” in the partner countries. Furthermore, *the promotion of democracy, gender equality and the protection of the environment* are principles of Austrian development co-operation world-wide. Austria supported measures of technical and scientific co-operation, which promised to have a high multiplier effect, and could substantially contribute to the solution of national and regional development problems. The pertinent measures are implemented by means of established instruments such as post-graduate scholarships for the education and advanced training of experts as well as contributions to relevant research projects in the area of academic co-operation both within the region and in Austria. In addition to these initiatives a remission of debts has been undertaken. In 2000, a total disbursement of €1.5 M to Vietnam was made on a direct bilateral basis.

The **Belgian** development co-operation policy has been under review since 1996 and consequent changes has been introduced. Belgium currently concentrates on poverty reduction and poverty alleviation and focuses on five sectors: primary health care, education and training, agriculture and food security, basic infrastructure and conflict prevention, as well as on three cross-sector themes: gender, environment and social economy. Special attention is given to respect of human rights, democracy and good governance. In 1996, approximately 14 million euros was made available on a grant basis for projects initiated during the triennial period 1996-98. At the Joint Commission of July 2000, a new commitment was made for the years 2001 - 2003 amounting to the equivalent of €30 M. The average annual level of ODA disbursements from 1996 to 1999 was €9.9 M. In 1996 Belgium ODA disbursements in Vietnam amounted to €11.2 M and € 13.1 M in 1999.

Indirect grants are available for Belgian institutions such as universities and NGOs based on the programme approach of these organisations. Furthermore, several projects executed in Vietnam by international organisations are financed by Belgium. Emergency relief can be allocated through NGOs on a “case-by-case” basis.

**Denmark** provides assistance to poverty alleviation in consideration of crosscutting issues such as gender issues, environment, democracy and human rights. Danish development co-operation with Vietnam is targeting the following sectors: fisheries, water resources and agriculture. In addition to this, Denmark supports improvement of the reform process, mixed credits and environment. The total budget of a programme for environmental assistance is of approximately US\$ 80 million for the years 1999-2002. The assistance is concentrated within three areas 1) Capacity and awareness, 2) Sustainable management of natural resources, 3) Sustainable development of urban areas and industry. Under an agreement on mixed credits, the economic frame has been set at US\$ 40 million, covering the period 1999-2001. Mixed credits are “soft loans,” interest free and with a grant element of at least 35% of the total credit. They finance development projects executed in co-operation between Danish and Vietnamese companies. DANIDA also initiated a Private Sector Development Programme (PS) in Vietnam of which the objective is to contribute to the development of Vietnam by rendering financial aid to support long-term commercial co-operation between Vietnamese and Danish companies. The sector focus is supplemented by a geographical focus (10- 15 of Vietnam’s 61 provinces), mainly in the central highlands and the central coastal provinces. Efforts in the target sectors are designed to complement each other in these provinces. Since 1989 all Danish development assistance has been provided on grant terms. In the case of Vietnam the average annual level of assistance from 1997 to 2000 was €32.8 M, being €28.0 M and €38.2 M in 1997 and 2000 respectively.

**Finland’s** development cooperation is guided by three documents: Decision-in-principle on Finland’s Development Cooperation from 1996, Finland’s Policy on Relations with Developing Countries from 1998, and Operationalisation of Development Policy Objectives from 2001. The goals of Finnish development cooperation are: (a) alleviation of widespread

poverty, (b) prevention of global environmental threats and (c) promotion of equality, democracy and human rights. In addition to these, increasing global security as well as economic interaction are stated as objectives in the relations between Finland and developing countries. In future, Finland will focus on fewer and larger efforts.

Vietnam is one of Finland's long-term partner countries. For about 20 years, from the middle of the 1970's, Finland's support was mainly focused on urban development and especially on urban water supply and sanitation. Since then, assistance has been provided, among others, to the areas of integrated rural development, forestry, capacity building of public utilities, child health care and culture. Discussions on the future priority sectors, no more than three, have been initiated between the two governments. A concessional credit scheme was started in 1995. So far four credits have been granted in energy sector and urban water supply and several new credits are being prepared in the fields of energy, transport and urban water supply.

The average annual disbursements (both loans and grants) to Vietnam during the period 1997-2000 was €6.3 M, with the disbursement for the years 1997 and 2000 being €5.9 M and €4.9 M respectively.

**France's** four major priority sectors are 1) supporting Vietnam in its legal and political transition, by assisting the Vietnamese legal reform process and participating in the definition of economic and development policies; training of executives and students; 2) supporting research and educational system modernisation, paying specific attention to linguistic and cultural diversity, by adopting a strategic position in terms of education policy; promoting linguistic pluralism and French speaking training programmes; supporting transformation of the Vietnamese research institutions; promoting cultural co-operation based on know-how transfer; 3) supporting economic transition by modernising rural economy; assisting implementation of a controlled urbanisation; promoting the emergence of a modern private sector and competitive public sector. and 4) working for poverty alleviation and improving social benefits by alleviating poverty in rural area and supporting the medical sector.

French Development Aid also aims at strengthening the reliable partnership between France and Vietnam and together with contributing to Vietnamese sustainable development.

French intervention is multiform and co-operation activities are implemented in several sectors. Each stakeholder develops specific activities related to its own capacities and know-how. Credits managed by the Economic and Commercial Service of the French Embassy are mainly allocated to equipment and infrastructure projects in the need for heavy investments. The Cultural and Development Co-operation Service of the French Embassy focuses at supporting human resources development throughout several training activities (primary, secondary, vocational and postgraduate training programmes). Education sector represents 22% of disbursements for 2000 (14.2 millions Euros) and are only financed by grants. Loans from the French Development Bank, which are mainly allocated to rural development sector, are strongly diversified among infrastructures, vocational training and water resources sectors.

The average annual disbursements (both loans and grants) to Vietnam during the period 1997-2000 was €60.8 M, with the disbursement for the years 1997 and 2000 being €50.9 and €63.6 M respectively. The sector distribution is balanced. French ODA includes an important share of technical assistance, which is one specificity of the French system.

**Germany** aims is to promote economic and social development in developing countries to improve living conditions of the poorer strata of the population in its development policy. Political criteria for evaluating the framework conditions in recipient countries determine

type and scope of ODA, e. g. respect for human rights, participation of the people in the political process, the guarantee of security under the law and creation of a market-oriented economy. Germany has more than ten years of experience in planning and implementing technical co-operation projects in Vietnam, especially in the fields of agriculture and forestry, education, promotion of SME, financial; sector, transportation, health and water supply. Several projects once supported by the former German Democratic Republic are being successfully continued or were the basis for new programs.

Today's priority sectors of German-Vietnamese Development Co-operation are – as agreed between both governments – the support of reform policies, promotion of private enterprises, vocational training, preservation and sustainable use of natural resources including forestry, sewerage and solid waste management, health, especially family health care and HIV/AIDS prevention and hospital equipment. The average annual disbursements (both loans and grants) to Vietnam during the period 1996-2000 was €43 M, with the disbursement for the years 1996 and 2000 being €50.7 M and €19.6 M respectively.

**Italy** intends to support Vietnam's effort in the areas of poverty reduction and social sustainability. As main priority sectors within the overall poverty reduction strategy, Italy proposes to concentrate on projects aimed at improving the Basic Social Service (Drinkable Water and Sanitation, Basic Health Care, Human Resources Enhancement) for the poor, at improving the use of water resources, at supporting sustainable productive activities to the benefit of poor communities. In this context, Italy emphasises its desire to assist Vietnam in its efforts to modernise the industrial system and to open the economy to a variety of actors creating the conditions for the development of a strong Small and Medium Sized Enterprise sector.

In consideration of the significant economic losses incurred in Vietnam as a consequence of the recent devastating floods, Italy announced its decision to cancel the Vietnamese debt arising from Italian soft loans accorded under previous development co-operation Protocols for an amount at least equal to 40 billion Liras. The Government of Italy was considering the inclusion of Vietnam in the list of countries in its Poverty Reduction Programme. The average annual disbursements (grants only) to Vietnam during the period 1998-2000 was €1.1 M, with the disbursement for the years 1998 and 2000 being €0.6 M and €1.3 M respectively.

**Luxembourg** started its development co-operation with Vietnam in the early nineties. Whereas the first major investments had been done in the tourism field, the programme gives now more importance to the fight against poverty by concentrating on the social sectors, notably health and integrated rural development, including aspects of infrastructure, education, environment and income generating activities. Environmental aspects shall be given increased importance. Luxembourg is implementing its projects through its implementing agency Lux-Development. Luxembourg seeks also to promote the multilateral co-operation, mainly in fields complementary to the bilateral projects, or in close co-operation with other donors. This is particularly true for the health sector. Luxembourg also gives assistance, in collaboration with Singapore in the field of administrative reforms, as well as the reforms of the financial sector.

Furthermore, Luxembourg encourages NGOs to be more active in the target countries of its development assistance. The identification of such projects remains a NGO responsibility. The support by the government for such actions is given on a case by case basis. Emergency relief is regularly attributed. With other partners Luxembourg is contributing to a better management of natural disaster that regularly hit Vietnam. Luxembourg is also giving contributions for nationals working as JPOs in international organisations in Vietnam. Total disbursements in 2000 have been €5.2 M, all of which have been grants.

The **Netherlands'** principal objective of development assistance is sustainable poverty reduction. The Netherlands government is increasing its efforts to foster a combined

economic and social approach to poverty reduction via three channels: bilateral, multilateral and non-governmental/civil society organisation. The bilateral co-operation is concentrated in three sectors of priority: forestry and biodiversity conservation, water management and water transport, and health.

In addition support will be provided to some cross-cutting issues for these sectors, such as institution building and gender, as well as to an enabling environment like macro economic reforms. Activities in other sectors are being phased out. In order to further increase aid effectiveness the Vietnamese government and the Netherlands are exploring the possibilities to shift away from isolated projects to a more sector-wide approach in multi-year and multi-donor partnerships in the three sectors of co-operation. As a first step efforts are being made to jointly develop programmes in sub-sectors within the three sectors of co-operation, thus trying to establish the closest possible link between government policies and programmes in the sectors and Dutch aid allocation. The average annual disbursements (both loans and grants) to Vietnam during the period 1998-2000 was €30.9 M, with the disbursement for the years 1998 and 2000 being €33.4 M and €35.9 M respectively.

**Spain:** Poverty alleviation, Private Sector development, Governance, Women in development and State reform are at the core of ODA policies and targets. Spain's Bilateral Co-operation in Vietnam is still recent. A Financial Programme (FCP-I) valued at US\$ 80M started execution in 1996. A second Programme (FCP-II) valued at US\$ 102M was signed in 1997. They gave rise to 17 projects mainly through soft loans with an additional portion of grants for project reparation. The main objective of this bilateral co-operation is to help releasing the productive potential of the country and to address direct social needs, mainly in health and education. Projects and programmes are widely distributed across Vietnam. A Financial Working Group manages the soft loan packages. Smaller projects have also been financed since 1997, mostly through Spanish NGOs. Health care and rural development are its main sectors of attention. Grants through NGOs neared US\$ 1,1M in 2000. The average annual disbursements (both loans and grants) to Vietnam during the period 1996-2000 was €8.2 M, with the disbursement for the years 1996 and 2000 being €5.1 M and €7 M respectively. In 2001 Spain has adopted a third (FCP-III) programme for an amount of € 122 M.

**Sweden's** development co-operation shall contribute to improving the living standards of the poorest groups as well as to creating fairer living conditions for poor people. To this end, the Swedish Parliament has laid down six goals for the co-operation: (i) economic growth, (ii) economic and social equality, (iii) economic and political independence, (iv) democratic development, (v) environmental care and (vi) gender equality.

The objectives and priorities of the development co-operation with Vietnam are 1) to promote opportunities for Vietnam to increase the country's prosperity and to reduce poverty, in a long-term and environmentally sustainable manner, and 2) to promote transparency and development towards democracy and increased respect for the human rights.

The co-operation focuses on five main sectors and areas: a) support to strategic projects within the economic, administrative and social reform processes in order to promote the transformation to a market economy, b) projects directed towards specifically disadvantaged areas and groups, c) support to the promotion of an environmentally sustainable development, d) promotion of democracy and human rights, through dialogue, direct projects, and through mainstreaming into all projects and programmes of transparency, popular participation and gender equality, and e) projects within the energy sector, focused on disadvantaged areas. The average annual disbursements (both loans and grants) to Vietnam during the period 1994-2000 was €34.3 M, with the disbursement for the years 1994 and 2000 being €16.4 M and €42.1 M respectively.

The **United Kingdom's** development policy focuses on mobilising the international development system to meet the internationally agreed 2015 development targets. The most important of these targets is to lift one billion people out of abject poverty by 2015. The goal of DFID in Vietnam is to promote pro-poor growth in order to reduce the proportion of people living in poverty in line with the international development targets. Specific objectives are: 1) More effective collaboration between government and donors in seeking poverty elimination; 2) greater understanding of the causes, characteristics and consequences of poverty; 3) improved capacity of government to implement reforms; 4) improved income opportunities and human development for the rural poor. The main elements of the current programme include: Co-financing the second rural transport project with the World Bank; Funding the core UNICEF programme in rural water supply and sanitation; Co-financing the Ha Tinh Poverty Alleviation Programme with the Ha Tinh PPC as well as the NGOs ACTIONAID; Save the Children (UK) and Oxfam (GB); Support for Poverty Analysis Capacity in the World Bank office in Hanoi; SoE reform English Language Teacher Training. The average annual level of assistance to Vietnam during the period 1995-2000 was € 9 M, with the disbursement for the years 1995/96 and 2000 being €10.3 M and €8.8 M respectively.

## **ANNEX 5:**

### **Country Environmental Brief**

#### **1. Introduction**

The rapid changes in Vietnam in the last few decades in terms of rapid economic growth, industrialisation and continuing population growth have had adverse impacts on the natural environment. This, coupled with a weak institutional capacity to adequately address environmental issues, as well as a limited technical infrastructure and financial resources allocated to environmental protection, has contributed to a wide range of environmental problems.

The macroeconomic policies of Vietnam, as all other countries, must strike a balance between economic development, improvement of life quality and protection of the environment. In this context, it should be noted that environmental protection has a very strong connection with priority areas of sustainable development, such as reduction of poverty, public health, agriculture and other crosscutting themes such as gender. In the last years environmental issues have received increased recognition in Vietnam, but more efforts still need to be made to mainstream and integrate environmental protection into economic and development planning across all sectors.

#### **2. Background**

Vietnam is situated on the east coast of the Indochina peninsula, in the tropical and temperate zone. It is characterised by a strong monsoon influence. The total area of the country is 331.114 sq km. It borders with China to its north, the Lao PDR to the west and Cambodia to the southwest and the ocean to its east and south. It is a long and narrow strip of land dominated by semi-arid plateaus and austere mountains, with stretches of tropical rain forest. The coast stretches more than 3200 km and its territorial waters are as large as 1 million square kilometres.

As regards national economic development, Vietnam is in the transition from a centrally planned, bureaucratic and subsidised economy to a market oriented economy. This process has resulted in economic growth, industrialisation and high population growth, especially in the urban areas. Vietnam is today among the most densely populated countries in the world, with an estimated population of 78.5 million in 2000, growing at an annual rate of 1.5 percent, 4.5 percent in urban areas. A quarter of the population live in the urban areas, mainly in along the coastal plains and deltas of the Red river in the northeast, and the Mekong in the south.

In comparison with the other countries of Southeast Asia, Vietnam's education system is rather developed. Following the launching of environmental protection policies in the early 90's, environmental awareness has increased, although a lot still remains to be done to raise public environmental awareness.

#### **3. State of the Environment**

In the last few decades Vietnam has witnessed a striking destruction of its natural resources, including an increasing rate of deforestation, biodiversity loss, reduction of fishing yields, rapid deterioration in environmental quality and natural resources, and water and air pollution.

For a poor mountainous and disaster prone country such as Vietnam, which is also highly dependent on irrigated-agriculture, forest cover has a specifically strong impact on sustainable development. An increase in forest cover contributes to limit soil erosion, provides a better catchment for rainwater, supplies fuel and building material for local communities and increases job opportunities in forestry. Vietnam is therefore working

actively to increase the forest cover, particularly within the context of the Five Million Hectares Reforestation Programme<sup>i</sup>. One important issue to keep in mind in this context, however, is that whilst the *quantitative* targets are likely to be achieved, the *quality* of the resulting forest cover, for example in terms of biodiversity, is less certain.

Furthermore, Vietnam's 3,200 km long coastline and corresponding marine and coastal natural resources represents a significant opportunity in terms of providing local income, export revenues and food. More than 50 percent of the protein intake of the Vietnamese comes from fish harvest of more than one million ton each year, of which approximately 70 percent comes from the sea<sup>ii</sup>. However, Vietnam's 29 coastal provinces are uniformly experiencing a decrease in productive coastal and marine natural resources, including degradation of highly productive habitats. More specifically, near shore fisheries are heavily exploited and are harvested at unsustainable levels, while inshore fish stocks have collapsed and catch per unit effort is also decreasing. Coastal aquaculture could replace natural capture as a principal source of protein, but degradation of coastal habitats, especially wetlands and mangrove forests caused by unsustainable aquaculture practices, threatens even this potential. Weak coastal zone management and planning is a contributing factor.

Vietnam ranks 18th among the top 20 countries with largest number of threatened mammal species and bird species respectively, and 6th among the top 20 countries in terms of threatened reptile species<sup>iii</sup>.

Finally, insufficient wastewater treatment and waste management from both domestic and industrial sources, are causing severe problems of water and air pollution.

#### **4. Environmental Policy, legislative and institutional framework**

In connection to the economic renovation, the government issued in 1991 a National Environmental Protection Strategy (1991-2000) that recognized the urgency of the problem and set out programs for action. A variety of policies and legislation regarding natural resources management and environmental protection were formulated, including the Law on Environment Protection (1994) and a Biodiversity Action Plan (1995). The National Environment Agency (NEA) was created in 1994 under the Ministry of Science, Technology and Environment (MOSTE), as the lead agency responsible for environmental protection, including Environmental Impact Assessments (EIA). Following the launching of NEA, local government arms of MOSTE, called DOSTE, were established in all 61 provinces, and from 1995, environment divisions have been set up in every DOSTE.

Other Ministries and government authorities also have responsibilities relating to the environment, including, among others, the Ministry of Agriculture and Rural Development (MARD), Ministry of Fisheries, National Centre for Science and Technology (NCST), ministry of Education and training (MOET) and the Ministry of Planning and Investment (MPI).

Vietnam is party to the following Multilateral Environmental Agreements (MEAs): Biodiversity, Climate Change, Desertification, Endangered Species, Environmental Modification, Hazardous Wastes, Law of the Sea, Ozone Layer Protection, Ship Pollution, Wetlands and has signed on, but not yet ratified the Kyoto Protocol.

The effectiveness in the implementation of environmental policies is not yet satisfactory. The governmental agencies involved in environmental issues, as the Ministry of Science, Technology and Environment (MoSTE) and the National Environment Agency (NEA), among others, need to strengthen their capacity both at central and local levels and to decentralise their functions. Furthermore, possibilities for public participation in decision making related to, for example, environmental impact assessments and planning, should be enhanced.



Finally, environmental protection must be adequately addressed and mainstreamed in all economic sectors. Some sectoral line ministries, such as the Ministry of Industry (MOI), are strengthening their environmental planning capacity. However, the communication between the line ministries and NEA is often weak and the role and status of NEA as a regulatory body should be strengthened. Furthermore, because of the wide-ranging nature of the sources and consequences of environment destruction, institutional co-operation is vital in responding to the problem. Effective communication and co-ordination within and between relevant departments and institutions should be encouraged.

To address some of these issues in a comprehensive manner, a new draft National Environmental Protection Strategy (2001-2010) has been prepared, with an Action Plan for the next five years.

## **5. EC and other international development assistance**

The EC has provided significant support in the area of environment and natural resources management. The emphasis has so far been on forestry and biodiversity conservation, mainly through the projects '*Social Forestry and Nature Conservation in Nghe An Province*' and the project '*Expanding the Protected Area Network in Vietnam for the 21<sup>st</sup> Century*' (EC/BirdLife International). Furthermore, the project '*Capacity Building for Environmental Management*' (EC/VUB), which was completed in 2000, aimed at increasing the capacity for environmental and natural resources management. That project produced series of EIA guidelines, including specific guidelines for tourism development and urban planning. The project also contributed in the development of a Strategic Environmental Assessment (SEA) of Ha Long City Master Development Plan. A new '*Small Grants Programme to Promote Tropical Forestry*' (EC-UNDP/GEF), will contribute to create grass roots capacity sustainable management of forest resources.

Several EU Member States are actively supporting the environment and natural resources sectors. In terms of institutional strengthening of NEA, Sweden has provided significant support. Several EU Member States are supporting the forestry sector, including the Netherlands, Germany, Finland, Sweden and Denmark. In terms of biodiversity conservation, the Netherlands, Denmark, Spain, United Kingdom and Sweden, among others, have provided significant support. France, Germany, Sweden and Denmark are providing support to urban environmental planning and industrial pollution control. Several EU Member States are also providing support to coastal zone management and the fisheries sector, including Denmark, Sweden and the Netherlands<sup>iv</sup>.

Others donors that are supporting the environment and natural resources sectors include, the United Nations Development Programme (UNDP), the World Bank (WB), the Asian Development Bank (ADB), several NGOs (WWF, IUCN, FFI, BirdLife International etc), and the Governments of Switzerland, Canada, USA, among others.

With regard to donor co-ordination, the EC has taken an active participation in various donor-government partnership groups, specifically in the areas of forestry, environment and disaster mitigation. In the forestry sector, the EC is a partner to the Forest Sector Support Programme (FSSP). The FSSP will address the forestry sector in a broad sense and not be limited only limited to reforestation. The EC is also part of the International Support Group on the Environment (ISGE). These partnerships all aim at sector wide approaches to aid delivery.

## 6. Recommended priority actions.

In terms of priorities, the following general actions should be mentioned<sup>v</sup>: (a) mainstream environmental considerations into all relevant sectors and overall Government strategies and plans (e.g. 10 year Socio-Economic Development Strategy); (b) strengthen institutional capacity at all levels, from central to local level and across sectors, to enable adequate implementation of ambitious targets presented in draft National Environmental Strategy and Action Plan; (c) enhance public environmental awareness and accountability to promote public and NGO participation in environmental stewardship, (d) improve environmental monitoring and enforcement; (e) promote sub-regional collaboration (eg. disaster prevention, trans-boundary pollution and natural resource conservation); (f) increase effectiveness in the use of specific tools, such as Environmental Impact Assessment (EIA) and land-use planning- with broadened public participation; (g) develop a system to monitor the implementation of the draft National Environment Strategy and Action Plan; and ensure and diversify funding sources for environmental protection and natural resources management (eg. Government budget, ODA, private sector, user fees etc)

Specifically concerning future EC support to the environment and natural resources sector, actions can be taken on several fronts. First of all, environment should be mainstreamed and integrated into present and future development and economic cooperation projects. This would include, among others, making sure that rural infrastructure is subject to adequate EIAs, promoting environmental integration into, for example, tourism development projects, small and medium size enterprise development etc. The horizontal budget lines (Environment and Tropical Forests) can serve as an important targeted complement to these actions.

Future EC support in this sector should, in general, focus on natural resources management in poorest regions in Vietnam, building on the experiences of the on-going rural development (CBBCRDP and SLLCRDP) and integrated conservation and development projects (SFNC). In this context, the link between environment, poverty and sustainable livelihoods should be considered; especially considering the detrimental effects environmental degradation has on poverty in terms of lost endowments and increasingly vulnerable livelihoods.

In addition, institutional strengthening in the area of environmental planning and management, both at the central level and decentralised level (eg. urban planning), is another priority cross-cutting area that could be considered for possible future EC support. Possibilities could also be explored to provide support to enhance the environmental sustainability in the productive sectors relevant for Vietnam-EU trade relations (eg. fisheries sector). Consideration could also be made to help Vietnam fulfil its obligations in the Multilateral Environment Agreements (MEA), within the context of supporting Vietnam's efforts to integrate into the international economy.

Finally, it should be noted that for any future support, efforts have to be made to ensure complementarity with other donors, particularly EU Member States.

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- i Vietnam 2010: Entering the 21st Century. Partnerships for Development. Vietnam development report 2001, WB in partnership with ADB and UNDP.
  - ii Environments in Transition: Cambodia, Lao PDR, Thailand, Vietnam. ADB 2000
  - iii IUCN Red List of Threatened Species, 2000.
  - iv European Union Development Co-operation Activities in Vietnam 2000.
  - v According to the main priorities highlighted during the Consultative Group Meeting, Hanoi, December 2000

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**NATIONAL INDICATIVE PROGRAMME  
(2002 – 2004)**

**VIETNAM**

<b>Country/Region</b>	<b>:</b>	<b>Vietnam</b>
<b>Budget Years</b>	<b>:</b>	<b>2002 – 2004</b>
<b>Budget Line</b>	<b>:</b>	<b>B7-300, B7-301</b>
<b>Legal Base</b>	<b>:</b>	<b>ALA Regulation (Council Regulation 443/92 of 25/02/92)</b>
<b>Cost of Order</b>	<b>:</b>	<b>€ 101 M</b>
<b>Programming Service</b>	<b>:</b>	<b>DG RELEX H/5</b>
<b>Head of Unit</b>	<b>:</b>	<b>Winston McColgan (Acting)</b>
<b>Co-Ordinator</b>	<b>:</b>	<b>Enrique Buatas-Costa</b>

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## 1. EC-Vietnam Country Strategy

The EC-Vietnam Country Strategy Paper takes into account the goals of European Community co-operation policy, the Vietnamese policy agenda and the country analysis, as well as past and ongoing co-operation experience. The CSP states that the *overarching objective* of EC co-operation will be to *support Vietnam's efforts to reduce poverty in a economically, socially and environmentally sustainable manner*. The *two main areas of concentration* for co-operation will be assistance to improve Vietnam's *human development* and facilitation of the *integration of Vietnam into the international economy*.

All interventions will be screened to ensure that horizontal issues such as environmental protection and disaster preparedness, gender equality, human rights (particularly of vulnerable groups), good governance, disaster mitigation, culture and education, among others, are adequately addressed and integrated into co-operation design and implementation.

Moreover, coherence with EU policies and complementarity within the EU and with other donors will be pursued in all areas of co-operation. In particular, the present indicative programme will aim to complement and support where appropriate projects which are financed by EU Member States.

Specific project selection will be subject to a detailed identification and appraisal to be undertaken by the Commission. In the preparation of EC interventions, particular efforts will be made to ensure that the socio-economic objectives of Vietnam as stated in the SEDS, I-PRSP, and (when available) the CPRGS (<sup>v</sup>), as well as various documents produced by the government-donors Poverty Task Force in the context of the "Strategies for Achieving the Vietnam Development Targets" are taken into account in the project-programme design and its follow-up, so as to ensure maximum impact on Vietnam's own development goals.

An integral aspect of all Community co-operation will be raising the EU's profile - concept, values, culture - and visibility in Vietnam. A particular effort will be made to integrate development and economic co-operation approaches.

EC assistance will be conditional upon Vietnam's continued commitment to the development strategy and the necessary reforms, as well as to demonstrable progress in the field.

## 2. Indicative Budget

During the period covered by the National Indicative Programme, from 2002 to 2004, a total EC grant of € 101 M can be committed to support the total budget for EC-Vietnam co-operation activities. The following is the breakdown of this aggregated grant amount (more details in annex 1):

### **2.1 Focal point 1: Vietnam's human development € 55.0 M**

Action 1:	Integrated rural development in the Northern Uplands	€ 25.0 M
Action 2:	Support to the Ministry of Education and Training	€ 20.0 M
Action 3:	Vocational Training	€ 10.0 M

### **2.2 Focal point 2: Vietnam's integration into the international economy € 46 M**

Action 1:	Public administration, institutional reform, and good governance	€ 30 M
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Action 2:	Support to the private sector	€ 10 M
Action 3:	Integration into global and regional economic arrangements	€ 6 M

### **3. Priority: Improvement of Vietnam's human development (Focal Point 1)**

#### **3.1 Strategy Context/Justification**

##### **3.1.1 Integrated rural development in the Northern Uplands**

Activities under this focal point aim to reduce poverty in some of the poorest provinces in Vietnam. While Vietnam is a developing country with high levels of poverty in large areas of the country, provinces in the region of the Northern Uplands, as illustrated in annex 2 to the EC-Vietnam Country Strategy paper, have a very high concentration of ethnic minorities, are among the poorest in Vietnam and have the lowest percentage of population with access to clean water, sanitation, electricity, basic education and health in the country.

Support under this Focal Point will also build on the experience of the 1996-2000 EC-Vietnam Co-operation Programme and therefore, it will continue to concentrate on integrated development and natural resource management in the disadvantaged and remote provinces of the Northern Uplands, providing assistance to the poorest members of society.

*Definition of target Human Development Indicators (') will be made in the early stages of project-programme design so as to define its components with maximum efficacy and facilitate implementation and impact monitoring.*

The lessons learned from the ongoing EC-funded projects in the Northern Provinces - *Cao Bang/Bac Can Rural Development Project* and *Son La/Lai Chau Rural Development Project* - will be applied in the preparation of new actions, and consolidation of achievements will be sought. Effective integration of conservation and development, based on the experience of the project '*Social Forestry and Nature Conservation Project in Nghe An Province*' will be replicated where appropriate. Support to the decentralisation process will be given through training and capacity building at local level. Sustainability will be ensured, by using a participatory approach to ensure better informed interventions and greater ownership of project initiatives by the beneficiaries. Environmental protection, gender and ethnic minority issues will be common cross-cutting concerns for all co-operation activities. Attention will also be paid to increasing non-farm employment in the rural areas, to supporting the establishment and development of household enterprises, and to encouraging and facilitating the involvement of the private sector, both in infrastructure works and the provision of services and supplies.

In order to define the specific EC intervention appropriate account will be taken of other government funded or donors ongoing or planned interventions in the region, such as government poorest communes programme or WB led Northern Mountains poverty reduction programme.

Increased access to basic education and health services to enhance the well-being of the poorest in these targeted provinces is an identified need that will be further explored for possible EC support. The experience of the co-operation with the Ministry of *Education* and the two major EC-funded *health sector projects* in the fields of Malaria and particularly Health Systems Development, will also be assessed, as will that of initiatives supported by other donors in this field. In addition, the preparation of an activity involving

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street children, aiming to palliate the problems created by migration of children from rural to urban areas will be built on.

### **3.1.2 Support to the Ministry of Education and Training; Vocational Training**

While Vietnam achieves good results in terms of scholarisation, the quality of education around the country is extremely mixed. The Ministry of Education and Training lacks the capacity to upgrade standards and the quality of education delivered. Curriculum planning and teacher training are weak.

As Vietnam's economy develops and as new industries are established, the need for skilled labour becomes more acute. As people migrate from the country to the cities and as State Owned Enterprises are rationalised, more and more people will come onto the labour market and they will require skills in order to find employment. Increased access to, and enhanced quality of, vocational training are required.

The results of the project "*Support for the Ministry of Education and Training*" (which was designed to test alternative methodologies for the improvement of primary education) will be fully evaluated and taken into account, together with the actions of other donors. Also, the preparatory work for possible support for a *Labour Market Observatory* and subsequent re-orientation resulting from the other donors interventions, particularly the ADB, will be fully taken into account in the design of specific EC support to vocational training. EC interventions in the sector of education will take properly into account the government's education strategy 2010 and the Ministry of Education and Training plan to achieve education for all.

## **3.2 Action: Integrated Rural Development in the Northern Uplands**

### **3.2.1 Objectives (')**

The objective of this Action is to assist improve Human Development in provinces of the Northern Uplands. EC intervention will take into account its impact on provinces' HD indicators. The EC contributions will aim to:

- consolidate and expand the achievements of the EC-supported *rural development* and integrated conservation and development projects in the mountainous areas in northern Vietnam, in order to improve their prospects for sustainability and to generate greater impact;
- specific support in the primary education sector, as well as in the creation of sustainable employment;
- provide support to the poorest members of society through an intervention in the health sector, recognising that the high incidence of poverty has a direct effect on access and use of *health* services.

Special attention shall be paid to the most vulnerable groups.

### **3.2.2 Expected Results**

The Action is expected to result in the following:

- Sustainable reduced levels of poverty and of deprivation. These will be defined according to appropriate indicators, in agreement with relevant HDI;
- A sustainable leading role for local communities as the driving force behind poverty alleviation and economic and social development;



- 
- Increased institutional capacity and improved co-ordination between central and local government agencies;
  - To ensure the sustainability of interventions initiated and carried out by those co-operation actions;
  - The internalisation (ownership) of successful rural development models/practices drawn from EC-supported rural development and integrated conservation and development co-operation actions by the GOV, local authorities and rural development stakeholders. This should enable the beneficiaries to replicate those models in similar circumstances in the same or neighbouring areas, either on their own or with other donors.

### **3.2.3 Activities**

Three types of activities are foreseen under this integrated action: consolidating rural development co-operation, increasing access to the education system/enhancing the quality of education, and improving access to basic health services.

The first set of activities aims to consolidate support already provided by EC rural development and integrated conservation and development co-operation projects, including, among others, rural infrastructure - such as market access roads, clean water supply, irrigation-, agriculture, forestry, environmental protection and disaster mitigation.

The other two sets of activities, in the education and health sectors, will also be examined. In education sector, initiatives to enhance quality and access to primary education will be examined, as well as a possible targeted intervention to upgrade vocational training needed in the selected provinces. In the health sector, the feasibility of supporting a health insurance scheme for the poorest segment of the population should be explored. Enhancing food safety systems could also be explored. To this aim, studies will be undertaken with a view to selecting specific activities to be supported in both sectors.

### **3.2.4 Implementation**

Each set of activities will have its own independent preparation phase. In particular, the consolidation of rural development will be prepared in time for the completion of the ongoing projects in the region, which takes into account the absorption capacity of Vietnamese partners.

Identification missions for the other two sets of activities, increased access to health and education services, may begin early in 2002 and implementation should start as soon as possible, likely in 2003, to supplement the impact in the region of the ongoing rural development projects.

The implementation modalities of these interventions, which will be defined during the formulation stage, could take account of the following main principles:

- Fitting within the principles of Government-donor partnerships in the areas of poverty reduction, forestry etc;
- Decentralised management;
- Best use of local human resources, in particular those that have been developed during the implementation of EC projects;
- Maximum involvement of civil society.

### **3.2.5 Risks and Assumptions**

The field-level activities will strongly depend on the political will of the concerned local authorities to support programme activities.

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### **3.2.6 Performance/Outcome Indicators**

Performance and outcome indicators will be defined at the formulation stage.

### **3.2.7 Financial Envelope**

The EC grant for the integrated action is estimated to be € 25 million EC grant. The budgetary commitment could take place in two parts: one early in 2003 for the specific health and possibly education components with an indicative amount of € 10 M and a second in 2003 or early 2004 for the remaining € 15 M for the rural development consolidation.

### **3.2.8 Indicative timeframe**

The interventions should be implemented over a period of 4 years. Activities in health and education sectors could start early in 2003 to support the ongoing rural development activities. The component on consolidation of rural development could be launched in 2004, on completion of the ongoing rural development co-operation activities.

## ***3.3. Support to the Ministry of Education and Training***

### **3.3.1 Objectives (')**

The objective of this action is to enhance the quality and efficiency of the educational delivery process in Vietnam so that its children have access to higher quality schooling that will prepare them for a role in the country's rapidly modernising and industrialising economy. As stated in the CSP, an EC intervention on a sectoral basis or, alternatively, on a complementary basis with other major donors shall be explored.

### **3.3.2 Expected Results**

The Action is expected to result in the following:

- Better planning and organisational capacity within the Ministry of Education and Training, and provincial Education Departments;
- Enhanced education of children through more appropriate systems for education delivery;
- Increased numbers of children going on to vocational training and secondary education;

### **3.3.3 Activities**

Institutional support in order to improve the delivery of education to children;

### **3.3.4 Implementation**

The implementation modalities of the interventions will be defined during the formulation stage. The forthcoming Mid-Term Review of the ongoing EC-supported project "Support to the Ministry of Education" will provide important input. Implementation modalities could take account of the following main principles:

- Fitting within the principles of Government-donor partnerships in the area of education;

- 
- Best use of local human resources, in particular those that have been developed during the implementation of EC co-operation actions.

### **3.3.5 Risks and Assumptions**

The success of the action will depend on the willingness and absorption capacity of the partner ministries, provincial authorities and educational establishments.

### **3.3.6 Performance/Outcome Indicators**

Performance and outcome indicators will be defined at the formulation stage.

### **3.3.7 Financial Envelope**

The EC grant is estimated to be € 20 million EC grant to be committed in 2003.

### **3.3.8 Indicative timeframe**

The intervention should be implemented over a period of 4 years starting in 2004.

## **3.4 *Vocational Training***

### **3.4.1 Objectives (v)**

The objective of this action is to enhance the quality and availability of vocational training in Vietnam so that its young adults have access to training that will prepare them for a role in the country's rapidly modernising and industrialising economy.

The action aims at three different possible areas of support:

- Labour Market Observatory. Assisting current efforts to better identify vocational training needs at national level;
- National policy. Providing advice on policy at national level to translate identified needs into adequate training curricula and delivery systems;
- Pilot scheme to assist policy implementation. A limited number of vocational training centres (not only in the major cities, but also in smaller towns) could be targeted for a pilot scheme in assisting implementation of curricula development and feeding back to the national policy for possible adjustment.

### **3.4.2 Expected Results**

The Action is expected to result in the following:

- Better quality of training delivered;
- New areas of vocational training delivered in different parts of Vietnam;
- Increased numbers of young people trained to carry out technical jobs in the growing number of Vietnamese and foreign-owned companies that are operating in sectors of industry that may be new to Vietnam;
- Reduced levels of unemployment, particularly as the reduction in the size and numbers of State-owned companies and the migration of people to cities puts more people onto the job market.

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### **3.4.3 Activities**

Support for the setting up and/or strengthening of institutions to deliver vocational training, including apprenticeships, at a post-school (but lower than university) level. The specific type of training needed will be reviewed during preparation of the EC support, in the light of the experience gained during the preparation of the Labour Market Observatory project proposed at an earlier stage.

### **3.4.4 Implementation**

The implementation modalities of the interventions will be defined during the formulation stage. Implementation modalities could take account of the following main principles:

- Fitting within the principles of Government-donor partnerships in the area of vocational training;
- Decentralised management;
- Best use of local human resources, in particular those that have been developed during the implementation of EC co-operation actions;
- Maximum involvement of civil society, in particular, of the private sector.

### **3.4.5 Risks and Assumptions**

The success of the action will depend on the willingness and absorption capacity of partner ministries and other organisations.

### **3.4.6 Performance/Outcome Indicators**

Performance and outcome indicators will be defined at the formulation stage.

### **3.4.7 Financial Envelope**

The EC grant is estimated to be € 10 million to be committed in 2002.

### **3.4.8 Indicative timeframe**

The intervention should begin in 2002 with a duration of 4 years.

## **4. Priority: Facilitate Vietnam's integration into the international economy (Focal point 2)**

### **4.1 STRATEGIC CONTEXT/JUSTIFICATION**

A variety of structural problems impede Vietnam from successfully achieving sustainable economic growth and interacting with the global community.

The CSP has identified potential areas to target for supporting Vietnam's socio-economic *reform process* that needs to be accelerated: human development; policy-making and implementation; promotion of the private sector; alleviation of the social consequences of reform; good governance and best administrative practices.

In this context, key priorities include: (a) the establishment of a transparent, effective and efficient public administration and institutions, (b) the creation of a fair and efficient

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business environment, including the promotion of competition and strengthening of the private sector, and (c) enhanced commercial exchanges with the international community.

Assisting Vietnam adapt its economy to the external environment with the immediate challenges of accessing WTO and the ASEAN Free Trade Area deadline, as well as the opportunities offered by the free trade agreement between ASEAN and China, have been identified in the CSP as areas for EC co-operation. The Commission has in the past contributed to a number of initiatives supporting Vietnam's efforts to restructure its economy and to *integrate in the regional and global economy*. These include the European Technical Assistance Programme for Transition to a Market Economy (Euro-TAP-Viet), the Small and Medium Enterprise Development Fund (SMEDF) and the Multilateral Trade Policy Assistance Programme (MUTRAP). Future support will build on these experiences.

## **4.2 Action: Public administration, institutional reform, and good governance**

### **4.2.1 Objectives (\*)**

The general objective is to support Vietnam in its efforts to allow a properly functioning market economy and to create fair conditions for a transparent, predictable, and competitive investment and business environment by establishing a transparent, effective and efficient public administration and institutions. Also, interventions under this action will aim to assist the government of Vietnam to alleviate the social consequences of reform.

### **4.2.2 Expected results**

Focusing on areas considered as bottlenecks that constrain progress in reform, this action is expected to result in a more transparent, effective and efficient public administration. Specific policy, legislation, regulation or administrative instructions will be identified during the preparatory stage for each of the activities described below.

### **4.2.3 Activities:**

Activities covered by this action aim to respond to the various potential areas described in point 4.1 and could tentatively include (non-exhaustive list):

- taxation;
- customs;
- statistics, companies registration, country information systems;
- accounting and auditing;
- standards and quality assurance (particularly sanitary and phytosanitary)
- intellectual property rights;
- agricultural policy advice;
- telecommunications;
- banking;
- corporate governance;
- foreign investment;
- management training;
- urban and environmental planning;
- street children integration;

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Detailed activities and the selection of sectors would be subject to further review and priority screening during the formulation phase.

Specific assistance under this action could aim not only at public sector administration, but also private sector economic entities, such as associations, chambers of commerce and leading companies on a pilot basis. The assistance could take one of the two following approaches:

- **Policy advice and institutional support**. Technical assistance including inter alia for preparation of legislation and regulations to be provided at both central and local levels.
- **Capacity building and training**. To support reforms and to ensure smooth implementation of new policies and regulations, assistance could be provided for skills upgrading, through, for example, training, seminars and workshops aiming to the producing, processing or receiving organisations of the policies.

#### **4.2.4. Implementation:**

The modalities of implementation of the action will be defined during the formulation phase.

Some of the potential activities are in an advanced stage of definition and could be ready for launching in 2002. In particular co-operation in assisting the transition to market economy (<sup>v</sup>):

- by assisting in *policy making and implementing* enhancement of quality and reliability of Vietnamese products and services, supporting co-operation in "standards, quality assurance and conformity assessment", including in the phytosanitary field, and facilitating the transfer of technology by assisting to strengthen the "intellectual property rights" protection. Tentatively € 2.5 and 1.5 M respectively;
- by contributing to *alleviate the social consequences of reform*, including the massive transfer of population from rural areas to urban centres, by supporting "urban environmental planning" and assisting integration of "street children". Tentatively € 10 M and 1 M respectively.

Remaining potential co-operation activities will take into account experience learned from the Euro-TAP-Viet programme and the identification mission completed in view of the preparation of the second phase of Euro-TAP-Viet project, as well as new needs stemming from the government reform programme. The activities will be defined during 2002 and commitments should take place in 2002 and 2003. Therefore, given the variety and importance of this action for Vietnam's reform process, maximum flexibility will be adopted for the launching and implementation of the activities described in point 4.2.3 above.

#### **4.2.5. Risks and Conditionalities**

The most important risk is lack of political will in the Government and lack of ownership of the reform process among counterpart agencies.

#### **4.2.6. Performance/ Outcome Indicators**

Detailed performance indicators will be defined during the formulation phase. However, the following tentative indicators are foreseen:

- legislation and policies drafted with EC-support are adopted by the Government
- capacity in selected ministries, agencies and institutions increased

#### **4.2.7. Financial Envelope**

The total EC grant is estimated at € 30 million. About € 22 M should be committed in 2002 for activities already identified (urban environmental planning, assistance to street children

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and Euro-TAP-Viet follow-up/support to government reform) and the remaining € 8 M could be committed in 2003.

#### **4.2.8. Indicative Timeframe**

The proposed duration of activities under this action is 4 years starting in 2002. The budgetary commitment would take place in 2002 by different stages, according to the readiness of the activities proposed.

### **4.3 Action: Support to the Private Sector**

#### **4.3.1 Objectives (v)**

The objective of this Action would be to help create a dynamic private sector in Vietnam, contributing to develop employment and sustainable small and medium size enterprises.

#### **4.3.2 Expected results**

The establishment, consolidation and internationalisation of small and medium sized companies.

#### **4.3.3 Activities**

Detailed activities would be subject to further review and priority screening during the formulation phase, but are likely to focus on the creation and development of SMEs aiming to increase their productivity and competitiveness, through the provision of:

- an extension of the financing facility (SMEDF) aiming to strengthen the capacity of the relevant lending institutions by enhancing their ability to assess risks related to projects presented by SMEs and reducing the practice of asking for excessive collateral and / or a risk premium. This specific intervention would facilitate access to existing SMEDF lending facility by SMEs;
- other financial support to SMEs to be further examined, such as guarantees;
- technical assistance to improve performance in for example marketing and quality assurance, access to business co-operation opportunities with economic operators outside Vietnam;
- accompanying services for innovative start-ups to ensure their feasibility ;
- assistance in the development of chambers of commerce and trade/industrial associations, promoting access to EU regulatory industrial requirements;
- assistance to reform of a selected group of State Owned Enterprises.

#### **4.3.4. Implementation**

The detailed implementation arrangements for the programme will be defined during the formulation stage.

Some of the potential activities are in an advanced stage of definition. In particular the institutional strengthening of SMEDF should be ready for launching in 2002. Other possible activities will be defined in 2002-2003.

#### **4.3.5. Risks and Conditionalities**

The activities foreseen under this Action are highly dependent on the progress made in legal and

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policy reform and the political will of the Government to develop a fair and competitive market economy.

#### **4.3.6. Performance/ Outcome Indicators**

The main performance indicator for this Action will be the creation of a dynamic and competitive private sector.

#### **4.3.7. Financial Envelope**

The EC Grant is estimated at a total of € 10 million. A budgetary commitment of € 1 M could take place in 2002 for the first activity described under 4.3.3 (SMEDF extension). The rest of the activities could be committed in 2003.

#### **4.3.8. Indicative Timeframe**

The initially proposed duration of the programme is 4 years starting in 2002.

### **4.4 *Action: Integration into international and regional economic structures***

#### **4.4.1 Objectives (')**

The objective of this Action is to support Vietnam in its efforts to integrate into the international trade and investment flows.

#### **4.4.2 Expected results**

The action is expected to result in enhanced integration of Vietnam's economy in the global community by:

- early entry of Vietnam into the WTO,
- appropriate adaptation of the regulatory framework to the conditions negotiated and its efficient implementation.

#### **4.4.3 Activities**

Detailed activities would be subject to further review and priority screening during the formulation phase, but are likely to centre on policy and regulatory advice, judicial and commercial capability building and implementation. This would include assistance to the Government in areas relating to:

- among others, implementation of the actions involved in Vietnam's accession to multilateral trade agreements, in particular the World Trade Organisation (WTO);
- implementation of Doha Development agenda;
- in preparing its economy to adapt to the requirements of AFTA;
- in training conference interpreters, a specific need to assist Vietnamese representatives in conducting the necessary negotiations.

#### **4.4.4. Implementation**

The detailed implementation arrangements for the programme will be defined during the formulation stage. The opportunity to implement part of the activities through a small project facility to facilitate quick reaction to identified needs will be explored.



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The training of conference interpreters activity is in an advanced stage of definition and could be ready for launching in 2002. The other possible activities to be defined in 2003 could be launched in 2004.

#### **4.4.5. Risks and Conditionalities**

The activities foreseen under this Action are highly dependant on the progress made in the legal and policy reform and the political willingness of the Government to develop a fair and competitive market economy.

#### **4.4.6. Performance/ Outcome Indicators**

The main performance indicator for this Action will be Vietnam's early entry into the WTO.

#### **4.4.7. Financial Envelope**

The EC Grant is estimated at a total of € 6 million. € 1 M should be committed in 2002 for the interpreters activity and the rest could be committed in 2004.

#### **4.4.8. Indicative Timeframe**

The initially proposed duration of the programme is 4 years starting in 2002.

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## Annex 1

### INDICATIVE ACTIVITIES TABLE

<b>Action (NIP point) / <u>Million euro</u> to commit in year</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>TOTAL</b>
<b>1.1 (3.2.7) Integrated development in Northern Uplands</b>		<b>10</b>	<b>15</b>	<b>25</b>
<b>1.2 (3.3.7) Support to Ministry of Education &amp; Training</b>		<b>20</b>		<b>20</b>
<b>1.3 (3.4.7) Vocational Training</b>	<b>10</b>			<b>10</b>
<b>2.1 (4.2.7) Public administration, institutional reform &amp; good governance</b>	<b>22</b>	<b>8</b>		<b>30</b>
<b>2.2 (4.3.7) Support to private sector</b>	<b>1</b>	<b>9</b>		<b>10</b>
<b>2.3 (4.4.7) Integration into global economy and regional arrangements</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>6</b>
<b>TOTAL</b>	<b>34</b>	<b>50</b>	<b>17</b>	<b>101</b>

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## ANNEX 2

### BACKGROUND INFORMATION

#### 1. Urban Environmental Planning co-operation.

This project was first discussed at the EC-Vietnam Joint Commission meeting in 1998. An indicative amount of Euro 10 M has been allocated to assist Vietnam to strengthen the municipal capacities in up to three provincial cities to address the environmental challenges of urban growth. It is hoped that the experience to be drawn from this project will be applied to urban environmental planning in other small and medium-sized cities in Vietnam. A preparation mission is to be launched in early 2002. Whilst the GoV is insisting that the programme mainly strengthen the institutional capacity at the central level to deal with urban growth (e.g. Ministry of Construction, Ministry of Science, Technology and Environment etc), it should be noted that most of the decisions involving environmental planning are in fact being taken at the municipal or regional level. In this context, it should also be noted that an EC-funded programme would need to take into account what several other donors (incl., among others, Denmark, Germany and France) are already supporting in this area.

#### 2. Labour Market Observatory and Development of Human Resources

An identification mission was carried out at the end of 2000 on the potential for an intervention and for supporting other actions designed to enhance Vietnam's ability to face up to the labour market demands of a developing economy, such as vocational training. That study recommended allocating a budget of Euro 10 M to finance the project. The sector is considered of crucial importance for Vietnam's economy, and, consequently, characterised by a significant number of donors involved. The difficulty is not so much to justify an EC involvement in the sector as to clearly identify the scope for an intervention that will bring added value to the activities of other actors in the field. Of particular importance is an ADB-led initiative (around US\$120 M), which contains i.a. also a labour market observatory component and support to several technical colleges. Given the involvement of other donors in this sector and rapid developments in the labour field, it was agreed at the EC-Vietnam Joint Commission meeting of November 2001 that Vietnamese and EC officials should meet to review requirements and to decide in principle what form the EC's assistance in this area should take. In this context, it will be important to ensure that the two concerned Government authorities in this sector, MOLISA and MOET, are adequately involved in the intervention in a co-ordinated manner. In this context it should be noted that GTZ is currently engaged in an initiative to enhance the communication between these two ministries on this topic.

#### 3. Small and Medium Sized Enterprise Development Fund - SMEDF extension

Following the successful completion of the first phase of the project, which established lending facilities for SMEs making use of revolving funds established under the refugee assistance programme, an Identification Mission was fielded in 2001 to prepare a new intervention to consolidate and further develop these facilities. Based on the recommendations of the Identification Mission report, it was agreed at the EC-Vietnam Joint Commission meeting in November 2001 that further consultation would be needed between Vietnamese and Commission officials with regards to specific co-operation needs, with a view to launch this intervention as soon as possible during the first half of 2002. In

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this context, it should be noted that an amount of approximately Euro 20 M is still available in the existing revolving Fund that can be used during a follow-up phase. Since the operation of the fund generates revenues, and since these can be used to finance the fund's management, new EC assistance could be limited to the provision of institutional support to better assess project risks and avoid excessive collateral demands on the SMEs, and could remain in the area of Euro 1 M. It should also be noted that after project completion, the funds would have to be integrated (as equity) into the formal banking system in order to achieve sustainable ownership of the funds. A proposal has been made to have the Development Assistance Facility (DAF) as the implementing agency for a new intervention. The proposed Euro 1 M EC contribution for institutional support could therefore be used to strengthen DAF as well as provide training in banking skills for staff of selected intermediary banks.

#### **4. Training conference interpreters for Vietnamese Ministries**

A Financing Agreement was signed for this initiative in 1998, but the project was delayed due to insufficient qualified interest in the tender the Commission launched. The Financing Agreement has now been cancelled and a new project is to be designed (end of 2001 or early 2002) with the European Community interpreting service (SCIC) providing the necessary technical assistance. Training of trainers would be an important element in a possible intervention.

#### **5. Euro-TAP-Viet**

Following successful completion of the EuroTAP Viet project, which provided technical assistance for a number of key elements in Vietnam's Economic Reform programme, an Identification Mission was fielded in 2000 to prepare a new co-operation action. However, changes that have occurred since that Identification Mission may have rendered some components irrelevant or in need of revision. It was agreed at the Joint Commission meeting in November 2001 that a new identification mission should be launched early in 2002 to make a clear assessment of Vietnamese needs in a range of horizontal fields.

#### **6. Intellectual property project**

Whilst the Vietnamese side has urged that consideration be given to providing bi-lateral rather than regional assistance, the EC has indicated that it could, for example, be an advantage for Vietnam to implement a national Intellectual Property Rights (IPR) project within the framework of the regional IPR programme, in view of maximising national implementation and gaining regional co-ordination. The objective of this project would be to enhance investment and trade between the European Union and Vietnam by upgrading intellectual property protection in Vietnam in line with European Union standards and practices. The project would enhance the institutional capacity of the National Office for Industrial Property (NOIP), the Copyrights Office (COV) and other related authorities in Vietnam to adequately deal with matters relating to Intellectual Property Rights. The project would also increase the public awareness and knowledge about intellectual property, its rights and the consequence of infringement. The EC contribution is estimated at Euro 1.5 M to be committed in 2002.

#### **7. Support to the Ministry of Education and Training**

The current project is due to end in April 2003. On the basis of the progress made, the EC should envisage a continued support to the sector, which is also in line with the EC view to split the initial co-operation activities in this sector into two phases (the on-going project is the first phase). This phased approach would take into account the complexity of the Vietnamese education system and the need to get a better insight of the sector before embarking into a larger scale project. The first phase was designed to implement pilot activities to conciliate

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practical programming with a strategy of innovation, adaptation and experimentation. A Mid-term Review for the project will take place in early 2002. Based on the recommendations from the MTR, the EC would support the replication and expansion of the activities into a comprehensive framework of sector development. In this context, the budgetary commitment of about 20 million Euro should be made in 2002 to ensure continuity between the two phases while taking into account the assessment of the on-going project.

#### **8. Assistance to Street Children**

This project was first discussed at the EC-Vietnam Joint Commission Meeting in 1998. It was then decided that the revolved funds from the credit component of the RAP Project would be used to finance the activities of an intervention aimed at tackling the street children problem in Vietnam. A first identification mission took place in 2000, followed by a preparatory mission 2001. The main objective of the project would be to assist Ministry of Labour, Invalids and Social Affairs (MOLISA) to implement programmes related to disadvantaged street children. The project would be initiated in 2002 and the EC would finance the technical assistance with an approximate amount of Euro 1 M.

#### **9. Vietnam-Europe Centre for Economics and Management**

The Vietnamese side renewed at the EC-Vietnam Joint Commission Meeting in 2001 its request to the Commission for financial support for this institution. The EC responded that as the infrastructure elements of this request would fall outside the realm of economic co-operation, it rather recommended that a study be launched in early 2002 under the Bangkok based regional ASEAN-EU University Network Programme (AUNP) to assess potential support for the centre.