



Australian Government
AusAID



Australia's strategic approach to aid in Vietnam 2010–2015

December 2010

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1. Context

This document outlines Australia's proposed strategy for its aid program in Vietnam for 2010-2015.¹ This strategy sets out how Australian aid will assist Vietnam achieve the Millennium Development Goals (MDGs) and navigate the challenges of the middle income years to become an industrialised country by 2020.

Underpinning this strategy is the high-level Comprehensive Partnership between Australia and Vietnam, signed in September 2009. This partnership lays out a framework to strengthen the bilateral relationship by building cooperation on trade, defence, security, education, science, research and development assistance. It is based on mutual respect, transparency and accountability and reinforces Australia's commitment to being a reliable, long-term partner for Vietnam.

1.1 Impressive gains but challenges remain

Since the mid 1980s, Vietnam has adapted the export-led growth model and - through judicious and pragmatic management - used it to deliver impressive economic growth and poverty reduction. Poverty fell from 58% (41 million people) in 1993 to 12.3% (10.5 million people) in 2009. Rapid progress has been made on almost all MDG indicators. The two remaining areas of concern are HIV/AIDS (MDG 6) and sanitation (MDG 7). Halting and reversing the spread of HIV/AIDS will require the Government of Vietnam to invest more in prevention, treatment and care, and support services. Greater investment is also needed to achieve progress towards MDG 7, given that less than 55% of Vietnam's rural population has access to adequate sanitation.

1.2 An economy in transition

The next 5 to 10 years will be important in determining if Vietnam can maintain its impressive record of poverty reduction while realising its full potential as an industrialised country. Its challenge is to move beyond a simple, low value-added, export-orientated economy to a sophisticated higher value-added economy and carve a niche for itself in a highly competitive region. Maintaining economic stability, while pursuing the rapid economic growth to which Vietnam has become accustomed, will become increasingly challenging in the middle income years.

The most critical constraints to Vietnam becoming an industrialised country are infrastructure, human resources and institutional weaknesses. These constraints have been repeatedly identified by the Government of Vietnam, donors and the international business community.

In regard to infrastructure, the World Economic Forum's 2008 Global Enabling Trade report rated Vietnam 100 out of 118 countries for availability and quality of transport infrastructure.

In the area of human resources, Vietnam is on track to meet the numerical MDG targets for education. However, the quality of education, particularly at tertiary level, remains low. Only about

¹ This strategy updates a previous program strategy on Australia – Vietnam development cooperation. Australia's final strategy will be released in early 2011 following agreement between the governments of Australia and Vietnam, embodied in a Statement of Commitment.

12% of tertiary-level academic staff have doctorates. Foreign investors report a serious lack of graduates with skills matching market demands. Without a shift in the quality of labour, Vietnam risks becoming trapped as a low-income, low-cost, manufacturing-based economy.

Vietnam needs to modernise its institutions so they can support the reforms necessary to progress through the middle income years. Overly bureaucratic institutions discourage investment and impede the dynamism needed to further integrate with the global economy in a way that allows it to manage the risks of this integration.

1.3 Environmental sustainability

Incorporating environmental sustainability (MDG 7) into policy and planning is critical to Vietnam's socio-economic development.

Climate change poses a serious threat for Vietnam. Home to 23% of the country's population, Vietnam's coastal zone is particularly vulnerable. Effective management of the Mekong River and its valuable resources is critical to sustaining the lives and livelihoods of many millions of people in the Mekong Delta. Increasingly erratic and variable rainfall, higher temperatures and more intense, frequent extreme weather events will have serious impacts on the livelihoods of the poor.

As rapid urbanisation continues, and domestic and industrial energy consumption rises, Vietnam needs to lock in low-carbon growth, including by improving energy efficiency, public transport and cleaner power generation. Achieving a balance between environmental and economic sustainability is a significant challenge. As regional energy consumption rises, so too do greenhouse gas emissions and the potential for destructive climate change.

1.4 Corruption

Corruption is present to varying degrees at all levels of government in Vietnam. The causes are complex, but opaque processes, low civil service salaries and a culture of sharing rewards contribute to an environment in which corruption can take root. At the 10th Party Congress in April 2006, convened in the aftermath of a high-profile scandal involving government officials, the Communist Party of Vietnam described corruption as 'the most serious threat' to its legitimacy over the next five years. This recognition of the corrosive impacts of corruption on both Vietnam's future prosperity and the Party's own legitimacy is an important milestone in the fight against corruption. A national anti-corruption strategy has now been approved by the Prime Minister of Vietnam but much remains to be done to turn this strategy into effective action.

1.5 Civil society

Many of the functions of civil society in Vietnam have, to date, been carried out by Communist Party mass organisations like the Fatherland Front and the Women's Union, as well as professional organisations and research institutes. Dealing with the new challenges that will come as Vietnam moves to its next phase of development will likely encourage the development of a broader-based civil society that can help inform Government decision making by enriching its knowledge base and stimulating debate. Donor support for organisations in areas such as service delivery, socioeconomic analysis, and policy dialogue, will support this development of civil society.

1.6 Gender equality

Relative to other countries in the region Vietnam performs well in the area of gender equality. However, some important challenges remain. Women are over represented in non-wage or low-wage employment. Women are also disadvantaged in asset ownership. Only one-third of land-use certificates are issued with either a woman's name or both spouses' names. This undermines women's asset security and affects their ability to get finance. Also, many women are vulnerable to domestic violence. The trafficking of women and girls continues to be a problem.

The passage of the gender equality law (2006) and the development of the domestic violence law (2007) are positive signs in terms of commitment to gender equality. Putting these laws into practice across government, however, requires greater levels of political commitment as well as improved quality of information on and analysis of progress. This will help decision makers improve policy outcomes.

1.7 Donor relations

Aid makes up only 4% of gross domestic income in Vietnam. Australia ranks as Vietnam's sixth largest development cooperation partner. A significant portion of aid provided to Vietnam is in the form of low interest loans from the Asian Development Bank (ADB), the World Bank, and the Japanese and Korean development banks. With Vietnam's transition to middle-income country status, its access to highly concessional ADB and World Bank loans is diminishing. However, it will remain eligible for concessional borrowing from the International Bank for Reconstruction and Development and ADB ordinary capital resources. Some European bilateral donors will withdraw from Vietnam before 2015. Against this background Australia will need to engage effectively with non-traditional donors whose presence in Vietnam is on the rise.

An important consideration for Vietnam is to continue improving the way loans are deployed, for example, into quality infrastructure where financing is most needed. It is important for donors and the Government of Vietnam to work closely on this to maximise the effectiveness of future investments.

2. Lessons from experience

The lessons learned from the experience of other middle income countries, where the achievement of middle-income country status has been followed by sluggish growth and increasing inequality, demonstrate the importance of getting the transition right. Critical issues that could inhibit Vietnam's progress from middle income through to a modern high income country include:

- an inappropriately or under-skilled workforce
- infrastructure bottlenecks
- under-developed institutions
- inappropriate policy and price settings for resource use, leading to destruction of ecosystems, undermining future development
- corruption
- income inequality
- environmental degradation
- gender inequality.

Another lesson relates to development financing. When countries reach Vietnam's current stage of development, the composition of this financing changes—some bilateral donors begin to leave and concessional loans from development banks decrease. In this environment, how Vietnam uses its resources will become increasingly important to its continued development.

These changing circumstances require adjustments to how remaining donors, like Australia, operate. A shift from supporting direct service delivery towards long-term partnerships and policy discussion on emerging challenges will be an important part of this. Donor investments must target reforms in areas that threaten to constrain future prosperity. For example, the rapid emergence of climate change as a key policy issue that will impact on Vietnam's future development provides opportunities for donors to engage with the Government in climate change policy discussions.

The implications for how Australia will adjust its program delivery—what it will focus on, and who it will work with—are outlined in the next section.

3. Program delivery

This strategy sets out how Australian aid will assist Vietnam achieve the Millennium Development Goals (MDGs) and become an industrialised country by 2020. As a significant partner in Vietnam's development, Australian aid will be given appropriate recognition in order to strengthen the people-to-people links that have been built between our two countries.

Current program delivery reflects influences that are expected to grow in importance over the strategy period, in particular the Government of Vietnam's strong leadership of the development agenda. The program will build on these foundations while recognising that some changes in emphasis and direction will be required to meet emerging challenges. Four guiding principles will underpin Australia's aid to Vietnam. These are:

1. **High-level policy engagement:** Engagement in key policy areas underlying Vietnam's vision to become fully industrialised by 2020 will help build stronger, more effective institutions. Consistent with the Comprehensive Partnership, Australia will become more engaged in policy areas like public financial management and economic reform, infrastructure policy, gender equality and environment policy. In moving to higher value-added policy work Australia recognises the need to support the development of a stronger core of Vietnamese analytical and technical specialists.
2. **Fostering relationships:** People-to-people and institutional links between Vietnam and Australia will grow in importance. These relationships will form the bedrock of the partnership and they will remain relevant long after the transition from a traditional aid partnership. Both countries recognise that fostering relationships will require significant time and effort.
3. **Gender equality:** A focus on gender is not only aimed at achieving good gender outcomes per se but also as an essential element to achieving good development outcomes more broadly. This approach ensures that gender is an integral part of efforts to improve broader aid effectiveness.
4. **Results focus:** The achievement of development results is paramount for program success. The identification of realistic gender disaggregated development targets will allow us to demonstrate the value-added of the aid program. The harmonisation of Australia's support with other donors and our alignment with Vietnam's systems and programs will continue to define the way Australia delivers its assistance in Vietnam.

4. Program focus

The Comprehensive Partnership between Australia and Vietnam guides the direction of our engagement. Australia's strategic approach to aid in Vietnam is tightly focused. This focus is essential if we are to achieve strong results from a program of moderate size. The strategy will target three core areas where progress is needed if Vietnam's ambition of becoming an industrialised country by 2020 is to be realised. These three core areas are:

1. human resource development
2. economic integration
3. environmental sustainability.

Underpinning the focused thematic engagement outlined below will be an intensification of efforts to help the Vietnamese Government modernise its institutions so they are able to support the next stage of Vietnam's development.

1. Human resource development

Human resource development will remain a flagship of our development cooperation. Our scholarship program will build on a strong record of more than 35 years of investment in improving the credentials of Vietnam's workforce. Scholarships are most effective in countries, like Vietnam, with a thirst for ideas and information. The scholarship program will focus its support on the three strategic priority areas. This will be complemented by investments to build closer partnerships between Vietnamese and Australian public and private institutions to facilitate knowledge exchange and long-term linkages.

2. Economic integration

Australia will assist Vietnam find innovative solutions to finance and construct the hard infrastructure necessary for strong regional economic integration.

The Mekong Delta will be the geographic focus of this work. Cooperation on the Cao Lanh Bridge, as part of the wider Central Mekong Delta Region Connectivity project, will be a high priority for Australia's aid program. Australia will support the design and construction supervision for the entire project, and finance a significant portion of the construction of the Cao Lanh Bridge. The bridge will be a key transport link from Ho Chi Minh City through the Delta, linking to the Southern Coastal Corridor which leads through to Thailand. In addition to supporting improvement of Vietnam's major transport corridors, Australia will continue to assist in upgrading rural transport infrastructure (canals, rural roads and bridges) that connect farms to markets to improve the incomes of the rural poor.

Australia's hard' infrastructure investments will be complemented by support for soft infrastructure policy and institutional reform to maximise employment, reduce poverty and thereby help Vietnam further integrate with the global economy. In the area of trade this means support for evidence-based policy and legal/regulatory reforms in areas that will improve Vietnam's competitiveness and productivity, supporting its ongoing transition to a market economy. Australia's flagship investment in this area is the Beyond WTO Program. Other Australian investments will promote greater regional integration, in areas such as trade, investment and finance, through regional programs delivered under the auspices of Association of

Southeast Asian Nations (ASEAN), the ASEAN – Australia –New Zealand Free Trade Agreement, the East Asia Summit and Asia-Pacific Economic Cooperation.

On infrastructure, Australia will strengthen advocacy around opportunities for greater private sector involvement in delivering necessary infrastructure. Australia's infrastructure support will incorporate key priorities such as climate change resilience, environment and gender equality; and use of innovative financing arrangements, such as public – private partnerships.

At the regional level, Australia will continue to cooperate with the ADB and the governments of the Greater Mekong Subregion to improve Mekong trade and transport facilitation. This builds on support to the Cross Border Transport Agreement, designed to free up the legal movement of people and goods across borders in the subregion by streamlining licensing, customs, quarantine and immigration procedures. Australia will also support work to address the serious issues of people trafficking and HIV/AIDS transmission. If these issues are not dealt with in parallel with investments and reforms aimed at improving regional integration, improved integration could actually exacerbate these problems as movement of people and goods throughout the region increases.

3. Environmental sustainability

Sound investments in ensuring environmental sustainability (MDG 7) will help Vietnam navigate through its middle-income years. Australia's environmental sustainability work covers water and sanitation, climate change, and agricultural research. Climate change is also a cross-cutting issue affecting many aspects of society, economy and the environment.

- a. **Water and sanitation:** Australia has invested heavily in water and sanitation for more than two decades with positive results. While much progress has been made, challenges remain. More work is needed to reach the MDG 7 targets set by the Government of Vietnam— increase the proportion of the rural population with access to clean water to 85% and with access to basic sanitation to 70%. Australia will continue to focus on improving financial management, planning and oversight in this sector. If Vietnam is to reach its water and sanitation targets efforts in this area will need to be increased.
- b. **Climate change:** Australian assistance will help Vietnam adapt to a changing climate and reduce greenhouse gas emissions in line with global efforts. On adaptation, Australia will build on previous success in disaster risk reduction in Vietnam; and continue to work with Germany in the Mekong Delta to preserve biodiversity and help communities establish sustainable livelihoods. On mitigation, Australia will support Vietnam's transition to low-carbon development, to reduce emissions and improve energy security and the sustainable use of resources. On policy reform in the energy and infrastructure sectors, Australia will apply its knowledge and experience to help Vietnam 'get the settings right' for low carbon development.
- c. **At the regional level** Australia will continue to work with regional governments and multilateral organisations, including the Mekong River Commission, to help improve management of the Mekong River Basin's resources. The intersection of climate change and river basin management is important to this work.

- d. Agricultural research: The Australian Centre for International Agricultural Research is highly regarded in Vietnam. The Centre will continue to focus on technical and agribusiness research to increase smallholder incomes from high-value agriculture, aquaculture and forestry. Activities include:
- i. helping farmers in the Mekong Delta adapt their rice-based farming systems to meet climate change challenges
 - ii. improving the way resources are used in south-central coastal Vietnam to maximise profitability and sustainability
 - iii. helping smallholder farmers (temperate crops and livestock) in the northern and north-western highlands to improve their incomes by moving beyond subsistence farming to profitable engagement with markets
 - iv. developing high-value aquaculture industries
 - v. increasing the value of plantation forestry products (availability of germ plasm, management for solid wood products and processing).

Table 1 (page 11) identifies the objectives and 2015 targets (columns 2 and 3) for this strategy, outlining expected development progress to 2015. Achievement of the strategy objectives is also expected to help progress a number of higher-level development goals as articulated by the Government (column 1). A more detailed description of strategy objectives and 2015 targets will form part of the delivery strategies that will be prepared to guide program implementation.

Table 1: Indicative objectives for Australia’s strategic approach to aid in Vietnam and associated Vietnam development goal

| Vietnam development goal | Strategy objective | Strategy objective targets 2015 |
|--|---|---|
| 1. HUMAN RESOURCE DEVELOPMENT | | |
| Meet human resource needs associated with progression to industrialised country by 2020. | 1. Improve the quality of Vietnam's human resources | <ul style="list-style-type: none"> ○ deliver 1380 scholarships and 300 fellowships ○ increase number and strength of links between public sector institutions ○ increase contribution of scholarship alumni and institutional links to meeting Vietnam development challenges |
| 2. INFRASTRUCTURE FOR DEVELOPMENT | | |
| Increase economic activity in targeted regions (including cross-border). | 2. Develop better transport infrastructure and policy to support economic integration | <ul style="list-style-type: none"> ○ total length of road and bridge works connecting Mekong communities to markets ○ higher traffic volume, lower operating costs and travel time on targeted transport corridors ○ evidence-based policy approaches enhance opportunities and address challenges associated with economic integration |
| 3. ENVIRONMENTAL SUSTAINABILITY | | |
| Reduce incidence of water-borne diseases. | 3. Increase rural access to clean water and hygienic sanitation | <ul style="list-style-type: none"> ○ target 85% rural clean water access ○ target 70% rural hygienic sanitation access |
| Reduce human, economic and environmental losses associated with climate change, including natural disasters. | 4. Advance climate change adaptation and mitigation(focusing on Mekong Delta) | <ul style="list-style-type: none"> ○ nationwide implementing community based disaster risk management plans in 2500 communes ○ Support construction of 100 km of quality sea-dykes in the south-west Mekong Delta ○ increase in coastal mangrove area in the southwest Mekong Delta by 10% ○ incorporate climate resilience into all infrastructure support activities |
| Increase smallholder incomes. | 5. Develop more sustainable and resilient systems in agriculture, forestry and fisheries | <ul style="list-style-type: none"> ○ a suite of improved farming practices available: climate change adaptation in rice cropping in the Mekong Delta; profitable and sustainable agriculture systems in the south central coast region; temperate crop and livestock systems in ethnic minority areas of the North West Highlands ○ technology and pathways demonstrated to produce high-value solid wood products from smallholder acacia plantations ○ fish farmers using more sustainable feeds and improved nutrition for high-value aquaculture |

5. Program partners

To achieve this strategy's objectives, AusAID will continue to work with Australian Government bodies, education and research institutions, the private sector, and non-government organisations (NGOs). Together these partners have built a wealth of knowledge and experience based on a long history of cooperation. They will continue to help Vietnam achieve its goal of industrialisation by 2020 through further reforms in the public sector, the private sector and civil society. Strengthening the partnerships between Australian and Vietnamese counterparts across these three sectors will be critical to the effectiveness of Australia's aid in Vietnam in this rapidly changing environment.

Box 1: Public Sector Linkages Program

Australian state/territory and local governments and universities wishing to partner with Vietnamese Government agencies may apply for funding through the Public Sector Linkages Program. This program helps build long term relationships between the Australian and Vietnamese public sectors.

Targeted use of NGO capacity: International NGOs have long been active in Vietnam's development, including by working with local civil society to deliver projects at community level. Throughout the period of this strategy, there will be further scope for engaging international and local NGOs on policy issues and in program implementation. A new NGO cooperation program will be developed to engage Australian, international and local NGOs to partner in implementation of Australia's aid program in Vietnam. An important aspect of this is to help Vietnamese civil society prepare for the challenges of moving towards full industrialisation.

Working closely with other donors: Australia supports a number of international partnerships with bilateral and multilateral development organisations working in Vietnam. Australia provides funding to specific projects of some partners such as the World Bank and the ADB and also has formal agreements with bilateral donors such as the United Kingdom, Denmark and Germany. By working closely with other multilateral and bilateral donors, Australia is reducing the administrative burden on the Government of Vietnam of working with individual bilateral donors and enabling it to access the highest quality technical expertise available.

6. Program management

Australia and Vietnam are committed to transparency and mutual accountability in delivery of Australian aid in Vietnam. The quality of Australia's assistance will be reviewed every calendar year. These reviews will form the basis of annual meetings between Australia and Vietnam to discuss progress towards this strategy's objectives. The results, agreed to by both governments, will be made public. A joint review of the strategy will be undertaken midway through implementation.

7. Risk management

There are five main risks that might prevent or inhibit delivery of this strategy's objectives. The risks, and measures for managing them are:

- 1. Effectiveness of the reform process:** International economic instability may stymie Vietnam's reform process. Weak capacity in certain parts of government, particularly at local level, may inhibit the progress of critical reforms. Australia will manage these risks by keeping up-to-date on the evolving context in which the development program is being implemented. This will include regular updates of analyses on Vietnam, and international events. Australia will also work in partnership with other donors and government agencies to directly strengthen government programs and systems.
- 2. Australia unable to meet the challenges of implementing a larger and changing aid program:** As Australia's development partnership with Vietnam matures and expands this increases demand on AusAID resources. AusAID will maintain program quality by balancing management resources and technical expertise (local, Australian and international).
- 3. Implementation of environmental safeguards on major infrastructure activities does not comply with Australian obligations under the Environment Protection and Biodiversity Conservation Act:** AusAID will work closely with the Government of Vietnam and development partners like the World Bank and the ADB to ensure environmental safeguards are given due attention during design, implementation and monitoring of all major infrastructure projects with Australian financing. The program will draw on the expertise of AusAID's Sustainable Development Group to educate those involved in implementation about Australia's obligations under the Act.
- 4. Increased incidence of corruption:** Controlling the risk of corruption is important for the effectiveness and accountability of Australia's aid program in Vietnam. Australia will regularly review its own systems and processes to identify weaknesses and reduce opportunities for corruption. Technical expertise in public financial management will be provided where appropriate and joint fiduciary risk assessments undertaken with multilateral and bilateral partners at national and provincial levels. In cooperation with other donors, Australia will also engage with the Government of Vietnam on implementing its National Anti-Corruption Strategy to 2020.
- 5. Donor partner effectiveness:** Donor partnerships are an important feature of the Australian aid program in Vietnam. There is a risk of deterioration in the multilateral and bilateral engagement of these donor partners. This could reduce the effectiveness of the aid program and damage the reputation of Australia and Vietnam. Australia will mitigate this risk by working closely, and in a timely manner, with development partners to establish clear roles and responsibilities and lines of communication. The lessons learned from previous partnership arrangements will inform this cooperation.

8. By 2015

This strategy sets out the role of aid in helping to achieve the objectives of the Comprehensive Partnership between Australia and Vietnam. Progress against this strategy's objectives and associated development targets is the principal measure of success.

By 2015:

1. Human resources capacity will be stronger: An additional 1380 Vietnamese will have received tertiary education in Australia. New partnership links will have been established and old links strengthened between Vietnamese and Australian institutions.
2. Vietnam will be more closely integrated with the region: The Mekong Delta will have better transport infrastructure, lowering the operating costs of and travel time needed to get to key local and regional markets. The underlying policy framework required to maximize the employment and poverty reduction benefits of economic integration will be in place.
3. Access to water and sanitation will have steadily improved: The incidence of water-borne diseases will have decreased and actions to address the impacts of climate change will be progressing. Also, Vietnamese farmers will have higher incomes from increased productivity and from working the land in a more sustainable way.
4. The relationship between Vietnam and Australia will have matured further. With the Government of Vietnam much better equipped to implement its own development plans, the people-to-people links and institutional relationships established over this strategy period will provide an even stronger foundation for the ongoing partnership between Australia and Vietnam.

9. References

Vietnam has been the subject of much research and analysis. Sources informing the development of this strategy include:

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