The CDF and the PRSP Process in Vietnam, and their Implications for CIDA Programming

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LIST OF ABBREVIATIONS AND ACRONYMS

AusAID	Australian Agency for International Development
CDF	Comprehensive Development Framework
CDPF	Country Development Program Framework
CEA	Canadian Executing Agency
CG	Consultative Group
CIDA	Canadian International Development Agency
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
DFID	Department for International Development (Government of the U.K.)
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoV	Government of Vietnam
IFI	International Financial Institutions
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
MDG	Millennium Development Goal
MPI	Ministry of Planning and Investment
ODA	Official Development Assistance
NGO	Non-Governmental Organization
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSU	Program Support Unit
PTF	Poverty Task Force
SOE	State-Owned Enterprise
SWAP	Sector-Wide Approach
UNDP	United Nations Development Programme
US	United States
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

January 9, 2002

The CDF and the PRSP Process in Vietnam, and their Implications for CIDA Programming

A Report Prepared by CIDA's Mainland South East Asia Division and Policy Branch

> *"The Interim Poverty Reduction Strategy Paper makes concrete the Government's policy stance with respect to economic growth, hunger eradication and poverty reduction, in order to guide the donor community's support in this process."*

Socialist Republic of Vietnam, *Interim Poverty Reduction Strategy Paper*, 14 March, 2001.

1. INTRODUCTION

The Poverty Reduction Strategy Paper (PRSP) process has met with some resistance in Asia[1]. Vietnam is alone among Canadian International Development Agency's (CIDA) seven core countries in Asia in having prepared an interim PRSP and committed itself to producing a full poverty reduction strategy -- called the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) there -- in 2002. The Government of Vietnam (GoV) embraces most of the principles which underlie the Comprehensive Development Framework (CDF) and the PRSP process -- the definition of a long-term vision of Vietnam's future with a better life for ordinary citizens at the center of that vision, country ownership of the development process, country-led coordination of donor assistance, and a focus on results. But the GoV's commitments to these principles are not new -- some predate the introduction of the CDF and the PRSP process by many years -- and the efforts of some donors to support Vietnamese development through coordinated partnerships also predate the CDF.

The importance of the CDF and the PRSP process in Vietnam is that they added significant impetus to GoV-donor work which was already moving in CDF/PRSP

[1] Most large Asian countries have the analytical capacity to prepare development plans, and have not wanted to pile another planning exercise on to what they are already doing. Both China and India have refused to prepare PRSPs on grounds of principle and sovereignty. There is no PRSP process underway in the Philippines, whose existing poverty reduction planning work is accepted by the World Bank as being fully satisfactory for its purposes. Indonesia may or may not prepare a PRSP. Pakistan is developing a PRSP, but there appears to be little real country ownership in the process. Bangladesh has reluctantly agreed to produce a PRSP, but the process is not moving quickly. V. R. Carvell, *Memorandum to Roger Ehrhardt*, 31 August 2001.

directions, and they acted as bridges to the GoV's and the Communist Party's long-established planning processes. Assuming that the timetable currently envisaged is met, by mid-2002 Vietnam's CPRGS will become the central implementation plan for its own Socio-Economic Development Strategy for the 10-year period 2001-2010.

This is country ownership writ large, with major implications for the future of development assistance in Vietnam. All current indications are that the CPRGS will be an exemplary model of the kind of national development strategy the donor community hoped to see emerge from the PRSP process initiated in 1999. The onus is now falling on donors in Vietnam, including CIDA, to align their programming with the CPRGS and increase the effectiveness with which they deliver Official Development Assistance (ODA).

CIDA's Mainland South East Asia Division believes strongly that the Vietnam Country Development Program Framework (CDPF) must be revised in light of the CPRGS. The purpose of this paper, a collaborative effort between the Division and the Agency's Policy Branch, is to provide a basis for a discussion of possible new programming directions and modalities.

The paper has four more sections. The next section summarizes the highlights of Vietnam's transformation from a closed and extremely poor society in the mid-1980s, to a less poor and more open and dynamic country 15 years later. Section 3 reviews the CDF and the PRSP process: the evolving relationship between the GoV and the donor community during the 1990s; the relationship between the CDF and the PRSP process and the GoV's own planning processes; the specifics of the Interim Poverty Reduction Strategy Paper (I-PRSP) and the emerging CPRGS, and their importance. Section 4 examines the implications of all this for CIDA's development assistance in Vietnam. The final section summarizes our conclusions.

2. STRUCTURAL REFORM, ECONOMIC GROWTH, AND POVERTY REDUCTION

Following its military victory in 1975 and the reunification of the country a year later, Vietnam remained a closed society with a centrally planned economy. It was a very poor country, unable to feed its people. Virtually its only trade partners and sources of developmental assistance were the Union of Soviet Socialist Republics (USSR) and the communist countries of Eastern Europe. Its invasion of Cambodia in 1978 and its subsequent occupation of the country seriously strained its international relationships. It was subject to a tight American economic embargo.

By the mid-1980s severe macroeconomic and structural problems -- manifest in hyperinflation, large trade and fiscal deficits, and food and other shortages -- had created intense internal pressures for reform. In late 1986 the Sixth Communist Party

Congress approved an initially tentative plan for economic liberalization called *doi moi* (renovation). This was more a statement of principle and intent then a concrete set of initiatives. However, in response to both continuing and new problems (including a drought-induced near famine in the north in 1988, and the collapse of Communism in Eastern Europe and the USSR which eliminated Vietnam's main external sources of support)[2], the reform program was accelerated sharply beginning in 1989. The army was withdrawn from Cambodia at the same time.

Initial reforms focused on the agricultural sector. The Vietnamese household rather than the collective farm was designated the basic productive unit, and security of land tenure was improved. Most price controls were eliminated; a liberalized foreign investment regime was established; the first steps in prodding the country's thousands of State-Owned Enterprises (SOEs) towards the discipline of market forces were taken; the exchange rate was devalued to the market level; barriers to internal and external trade began to be lowered.[3] Large-scale oil production and exports began in 1989.

The intensified and increasingly generalized effort to promote and encourage private sector development was reflected in the new Constitution of 1992, with the formal recognition of private property rights and market economy principles. The new Clinton administration ended the American embargo in early 1994; with the Cold War over and East Asia experiencing an economic boom, the United States (US) Government did not want to remain cut off from the rapidly evolving situation in Vietnam. The lifting of the embargo led to a massive influx of Foreign Direct Investment (FDI), most of it from Asian countries; FDI inflows in the mid-1990s amounted to over 10 per cent of Gross Domestic Product (GDP), making Vietnam one of the world's largest FDI recipients in relative terms. The surge in foreign investment was a major contributor to a very rapid increase in the country's investment share of GDP and to its overall growth rate during the 1990s.

The initial series of structural reforms was accompanied by successful efforts to establish macroeconomic stability. Hyperinflation ended abruptly as budget deficits were brought under control and a central bank established. The inflation rate dropped to 35 per cent in 1989 and to the 15-20 per cent range in the early 1990s, then continued to fall at an uneven rate, turning slightly negative by the end of the decade.

The reforms unlocked a portion of the Vietnamese economy's potential, positioning it to take advantage of the boom years of the early and mid-1990s in South East Asia. Property rights, market incentives, and the GoV's support for high-yield technologies transformed the country from being a rice importer into the world's third largest exporter by 1995 (and the second largest today). Exports overall grew at an annual average rate

[2] Assistance from the USSR and Eastern Europe fell dramatically between 1989 and 1991. Ministry of Planning and Investment, Socialist Republic of Vietnam, and the United Nations Development Programme, *Vietnam's Development Partners*, Hanoi, December 1999, p. vi.

[3] Operations Evaluation Division, World Bank, Vietnam: *Country Assistance Evaluation*, 1 October 2001, p. 11.

of 25 per cent from 1992 through 1997. Led by this powerful trade performance, real GDP grew at an average annual rate of 8.5 per cent during these same years. Under the impact of the East Asian crisis growth slowed in 1998 to about 3.5 per cent, recovering marginally in 1999 and increasing to 5.5 per cent in 2000; over the decade of the 1990s, GDP increased at an average annual rate of 7-7.5 per cent.[4]

Per capita income growth was dramatic. Between the mid-1980s and the late 1990s real per capita GDP grew at an average rate of 5-6 per cent annually.[5] Per capita GDP was barely US $ 200 in 1990; ten years later it was nearly twice that level.[6]

The effect of these rates of growth on poverty in Vietnam was equally dramatic. The incidence of poverty defined according to World Bank criteria (the proportion of the population living on less than US $ 1 per day) was estimated as being more than 70 per cent in the mid-1980s. It fell to an estimated 58 per cent in 1993 and to 37 per cent in 1998. Thus in the space of about a dozen years, Vietnam's incidence of poverty was cut in half, with each percentage point increase in per capita GDP resulting on average in a one-per-cent drop in the poverty rate.[7] Recent Bank simulations suggest that the incidence of poverty has fallen to about 32 per cent in 2001.[8]

It would be hard to find many better examples of the critical role which sustained economic growth can play in poverty reduction. Between the mid-1980s and the late 1990s, the GoV instituted no major nor particularly successful programs directed explicitly towards poverty reduction.[9] Its first big-targeted programs (the 1,715 Poor Communes and the Five Million Hectare rural development programs) date from 1998.[10] The reduction of poverty in Vietnam drove almost entirely off the investment - and export - led surge in growth; these in turn drove off the GoV's economic reforms which targeted the agricultural sector first and then were broadened in scope.

This is not to suggest that targeted poverty reduction interventions are unnecessary. The highly regarded and widely endorsed 1999 report *Attacking Poverty* (prepared through a collaborative process involving the Bank, donors, and Non-Governmental Organization (NGOs)) argued that the poverty remaining in Vietnam had major

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4 Estimates of GDP growth for 1998 through 2000 are from International Monetary Fund, *IMF Approves US $ 368 Million PRGF Arrangement for Vietnam*, News Release, 6 April 2001, p. 4. These estimates are sharply lower than those which appear in Socialist Republic of Vietnam, *Interim Poverty Reduction Strategy Paper (I-PRSP)*, Hanoi, 14 March 2001, pp. 2, 25.

5 An Economic Report of the World Bank Consultative Group Meeting for Vietnam, *Vietnam: Rising to the Challenge*, 7-8 December 1998, p. 11.

6 The World Bank Group, *Vietnam at a Glance*.

7 Thus the elasticity of poverty reduction with respect to per capita income growth was about one -- an impressively high figure. *Vietnam: Rising to the Challenge*, p. 11.

8 The World Bank, *Vietnam Development Report 2002: Implementing Reforms for Faster Growth and Poverty Reduction*, draft, December 2001, p. 4.

9 *Ibid.*, p. 33.

10 *Chairman's Closing Statement*, Consultative Group Meeting for Vietnam, 7-8 December 1998, p. 4.

structural characteristics, and that targeted programs would have to be a key feature of future successful poverty reduction strategies.[11] The points worth stressing, and which are widely agreed among donors in Vietnam, are that strong economic growth remains crucial to ongoing poverty reduction there, and that it provides the environment in which targeted interventions are most effective.

3. THE CDF AND THE PRSP PROCESS

3.1 The GoV/Donor Relationship in the 1990s

From 1975 until the latter part of the 1980s, the only donors active in Vietnam were the United Nations system and Sweden. The donors entered the country in force in the late 1980s and early 1990s; large-scale bilateral ODA inflows started in late 1992. (CIDA began working in Vietnam in 1991, country programming began in 1992-93, the first CDPF was approved in 1994. Responsive programming was substantial from the beginning of the Agency's involvement there.) The Bank and the International Monetary Fund (IMF) worked quietly with the GoV for several years before their first structural adjustment programs were implemented in 1994-96 following the US's withdrawal of its veto on multilateral lending. Bank and Fund staff used the period prior to the commencement of lending activities to learn about the country, and develop and provide non-lending services including technical assistance.[12] The first Consultative Group meeting was convened by the Bank in 1994. By late 1999, 45 official donors (and about 350 international NGOs) were working in Vietnam; about 1,400 ODA-financed projects were underway.[13]

The early years of donor involvement were a period of uncoordinated and sometimes duplicative activity. Donors for the most part had little knowledge of or experience in Vietnam; almost all of them had to go through a substantial learning process. Several of them hoped to use ODA to position themselves for trade and investment opportunities. For its part, the GoV had little experience in coordinating ODA inflows, which grew rapidly in size. In 1993 ODA disbursements totaled about $ US 250 Million; six years later they were five times as large.[14] During the same period the value of signed donor commitments was on average about twice as large as the level of disbursements,[15] an indication of how severely the GoV's capacity to manage ODA was being strained.

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[11] *Statement by the Canadian Delegation*, Consultative Group Meeting on Vietnam, Hanoi, 14-15 December, 1999.

[12] *Vietnam: Country Assistance Evaluation*, p. 14.

[13] United Nations Development Programme, *Overview of Official Development Assistance in Vietnam*, December 1999, p. 1.

[14] *Vietnam's Development Partners*, p. vii

[15] *Overview of ODA in Vietnam*, p. 13. Commitments from 1993 to mid-1999 exceeded $ US 10 Billion, disbursements totalled about $ US 5 Billion.

Through the sometimes difficult initial years, the United Nations Development Programme (UNDP), the Fund, and the Bank played strong positive roles, providing good analysis and advice to both the GoV and the other donors. Many of Vietnam's senior politicians and bureaucrats had been educated in Russia or Eastern Europe, and had little understanding of governance and economic management concepts which are the stuff of everyday life for most donors. The UNDP and the International Financial Institutions (IFIs) helped "translate" across an often wide cultural gap between GoV officials and bilateral donors. The Bank's leadership in promoting collaboration and coordination was particularly important. Vietnam became a pilot for a Bank program to support ODA partnerships even before the CDF approach was launched in 1999. The main sectors the Bank supported through its successive Country Assistance Strategies were all priority areas for the GoV, and the Bank worked hard to promote aid coordination and a focus on poverty reduction issues.[16]

In part due to the Bank's considerable efforts, a growing emphasis on GoV-donor collaboration on thematic and sectoral issues was emerging by the end of the decade. The GoV made progress in organizing itself to manage ODA more effectively: for example, a 1997 decree clarified the roles and responsibilities of ministries and agencies in ODA management, identified the GoV's ODA priorities, and introduced simplified procedures for project approval and implementation.[17] Partly because of the traditional importance of consensual decision-making in Vietnam, the GoV quickly came to regard annual and mid-year Consultative Group (CG) meetings as useful. Donors as well found them to be high-value-added exercises.

3.2 The CDF, the CPRGS, and the GoV's Planning Processes

In 1998 in the wake of the East Asian crisis, Vietnam's exports slumped, GDP growth fell, and FDI plummeted (although this latter shock was offset in part by continuing increases in ODA). Concern grew within the donor community that the momentum of Vietnam's economic progress would be lost unless the GoV undertook further major structural reforms, including a more comprehensive restructuring of the SOEs, the creation of an improved regulatory regime for the banking sector and the ending of state-owned-bank lending to SOEs, more encouragement and regulatory support for small business, and intensified trade liberalization measures. The view put forcefully by the Bank and endorsed by most donors was that structural inefficiencies were the main impediment to continued growth and poverty reduction.[18] Therefore the GoV should pull

[16] *Vietnam: Country Assistance Evaluation*, p. 15.

[17] *Vietnam`s Development Partners*, p. x.

[18] See for example the World Bank, *Report and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Poverty Reduction Support Credit of SDR 197.2 Million (US $ 250 Million Equivalent) to the Socialist Republic of Vietnam*, 23 April 2001, p. 18. This was a recurrent theme running through Bank documents following the Asian crisis.

hard and quickly on the structural reform policy levers under its control, in order to stimulate growth in the same way the first accelerated set of reforms had done a decade earlier.[19]

The GoV was not prepared to be rushed into a second and considerably more complex set of reforms. It presided over a one-party system of government which too-rapid reform could threaten. It worried about the vulnerability of market economies to external shocks which the Asian crisis had demonstrated. It was proceeding slowly in negotiating a bilateral agreement normalizing trading relations with the US, and was concerned about the degree of liberalization and new commitments (e.g., very large tariff cuts, and the protection of intellectual property rights) the agreement would mean. It wanted to understand thoroughly what a broad new structural reform package would entail, and it was prepared to take the time necessary to build internal consensus in both government and Party around such a package.[20]

As well, the GoV had its own planning cycle. It was beginning work on its 10-year Socio-Economic Development Strategy for 2001-2010, a Hunger Eradication and Poverty Reduction Strategy for the same period, and a five-year Socio-Economic Plan for 2001-2005, all of which would be presented to the Ninth Party Congress in April 2001 for final approval. And despite some initial progress made on donor coordination, the GoV remained concerned about donor overlap. In its view too much ODA was still ad hoc and donor-driven in nature, and was not fitting very well within the framework of a coherent national strategy.[21] Expressing this concern during the 1998 mid-year CG meeting, Vietnam's Prime Minister appealed to donors "to work with Vietnamese authorities in a greater spirit of partnership".[22]

This was the context in which a Vietnam CDF was established as one of the Bank's 12 original CDF pilots. The 1999 mid-year CG meeting agreed "to support the [GoV's] five-year planning exercise and develop a 'shared vision' for each of the main sectors of development". It is worth underlining the importance of this critical milestone. Several months before the general PRSP process was launched by the Bank and the Fund, donors in Vietnam had agreed to work collaboratively with the GoV and each other, and plan their development strategies within the broad parameters of the GoV's own established planning framework. The CG meeting in December 1999 confirmed this donor commitment.[23]

From the standpoint of moving the development agenda forward in Vietnam, the CDF could hardly have come at a better time. Its emphasis on a long-term vision, country

[19] *Vietnam: Rising to the Challenge*, pp. 16-45.

[20] *Report and Recommendations*, p. 10.

[21] *Overview of ODA in Vietnam*, p. 15.

[22] Mainland Southeast Asia Program, *The Comprehensive Development Framework Approach: The Vietnamese Experience*, 9 December 2000, p. 5.

[23] *Ibid*.

ownership, and donor coordination added force to the GoV's efforts to establish a process through which donors supported its priorities more directly. Most although not all donors were ready by this time to experiment with enhanced partnership approaches.[24]

The establishment of the CDF thus reinforced what the GoV and much of the donor community were starting to do, and along with the subsequent PRSP process gave the effort added organizational impetus. For example, 25 GoV-donor-NGO sector-working groups had been created as an outcome of the December 1998 CG meeting, i.e., before the CDF pilot was launched.[25] The CDF and subsequently the PRSP process provided substantial focus for the work of these groups. By late 2000, they had produced nearly two dozen theme notes on the GoV's vision for each sector, including what would be required to achieve that vision, what roles the different partners should play in the process, and how progress should be monitored. These were presented to the 2000 CG meeting as joint GoV-donor submissions,[26] and contributed to the PRSP process which by this time was well underway.

Work on the I-PRSP began in April 2000, and proceeded in parallel with the final stages of the work on the GoV's five-year plan and 10-year strategy. The I-PRSP and the five-year plan are thus very similar documents. The I-PRSP was written by the GoV, with the Ministry of Planning and Investment coordinating the process. Other ministries and agencies, donors, international and local NGOs, and other organizations provided input and support to the process during its developmental stages. Much of this input came from the Poverty Task Force (PTF), one of the sector working groups referred to above which included membership from 14 ministries, six donors, four international and four local NGOs. The donor community saw drafts of the five-year and 10-year plans and discussed the I-PRSP at the December 2000 CG meeting.

The I-PRSP is a short, essentially point-form, and quite powerful document. While noting Vietnam's achievements of the previous decade, it is candid in recognizing that the country remains very poor, particularly with respect to things such as access for ordinary citizens to basic public services. It puts great emphasis on high and sustainable growth as the key to achieving ambitious poverty reduction targets; its tightly written section on the GoV's growth and poverty reduction objectives returns to this theme repeatedly. It is also candid in recognizing that repeating the success story of the 1990s will be difficult:

[24] Japan and the European Union (EU) remain reluctant to see the visibility of their ODA diminished through participation in pooled funding or other partnership approaches. The Asian Development Bank has strong reservations about the usefulness of the CDF.

[25] *Vietnam: Country Assistance Evaluation*, p. 23.

[26] Veronica Guzman, *The Comprehensive Development Framework Approach: The Vietnam Experience*, 9 December 2000, pp. 5-6.

> The quality of growth is low; the efficiency and competitiveness of the economy is not high, and international trade competitiveness for many sectors and products is weak. The pace of change in production techniques, technologies and management styles is slow.[27]

The program of action which the rest of the document sketches out is heavy on structural reform; the signing of the bilateral trade agreement with the US in July 2000, shortly after work began on the I-PRSP, perhaps signaled the emergence of a clear GoV-Party consensus on the need for major reform initiatives. Measures proposed in the I-PRSP include the improvement of the legal framework regulating private enterprise, continued reform of the SOEs and the banking system, the encouragement of small and medium-sized enterprises, trade liberalization including the removal of quantitative restrictions, and the promotion of foreign investment.

In fact, the list of reforms in the I-PRSP which the GoV undertakes to pursue in coming years is virtually identical in broad outline to the program the IFIs and other donors urged it to undertake in 1998. And despite its initial caution, the GoV had begun to implement measures in these areas by the time the I-PRSP was written. For example, in mid-1999 it revised the rules governing foreign investment to make the climate for such investment more attractive; in 2000 its New Enterprise Law removed a number of business licensing requirements and made the process of registering new businesses much simpler and nearly automatic; as of late 2001 some 500 SOEs had been "equitized" and a social safety net program to facilitate further SOE reform had been established.[28]

In April 2001 the Bank recognized the GoV's wisdom in proceeding with caution:

> While progress was much slower than we had initially hoped, in retrospect we need to acknowledge that the building of knowledge and consensus was probably essential for the successful implementation of the agenda, and that – given Vietnam's starting point – this could not have occurred quickly.[29]

The Bank continues, however, to stress the need for the reform agenda to be implemented quickly now that it has been largely agreed upon.[30] So does the Fund. In a recent press release, it stressed that, "It will be important to make up for the delays in SOE reform, so as to achieve the original program targets."[31] It appears as though the

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[27] *I-PRSP*, p. 3.

[28] *Vietnam: Country Assistance Evaluation*, p. 27; International Development Association, *Vietnam: Country Assistance Strategy Progress Report*, 3 October 2001, p. 9.

[29] *Report and Recommendations*, p. 10.

[30] *Vietnam: Country Assistance Strategy Progress Report*, p. 2.

[31] IMF News Brief, *IMF Completes First Review of Vietnam's PRGF Program and Approves $ 52 Million Disbursement*, 21 November 2001.

GoV is increasingly in agreement with the need for quick action, particularly given China's recent accession to full membership in the World Trade Organization (WTO) and the pressure this puts on Vietnam to liberalize its international trade and finance regimes.

The I-PRSP's summary program of action also stresses the importance of the maintenance of macroeconomic stability and the reform of the tax system, as well as the need for administrative reform more generally in order to improve efficiency, accountability and transparency. As an indication of how far the GoV has moved in these directions, in 1999 it published budget information and prior-year accounts for the first time. This was the culmination of a substantial amount of work on fiscal transparency it had done with the Fund and the Bank; it was a large step forward for a government which until that time had treated its budgets and its accounts as state secrets.[32] The GoV continues to make improvements in budgetary control and fiscal transparency; a new GoV-donor working group on public financial management was established in 2001 to help drive this process.[33]

Finally, the I-PRSP outlines briefly the GoV's intentions with respect to poverty reduction interventions. These are grouped under several main headings -- "Mobilize and Use Efficiently Resources for the Poor"; "Sectoral Policies and Resolutions to Create Opportunities, Reduce Vulnerability and Support the Poor"; "Develop Social Safety Nets for the Poor and for Victims of Natural Disasters."

It is striking how many of the specific proposals under these headings come back in one way or another to the principle of empowering people to help themselves. For example, the GoV proposes "[t]o ensure the allocation of capital to key sectors affecting strongly and directly the poor, such as investment for agricultural and rural development, spending on … irrigation, agro-processing activities, education, training …". It wants to "encourage shop owners and production workshop owners to increase investment to expand their production in order to absorb local labor …". Several of the social-safety-net measures propose helping the poor to participate more effectively in market activities, and to take preventive measures to help mitigate the impacts of natural disasters.[34]

The I-PRSP was endorsed by the Boards of the Bank and the Fund, and approved by the Ninth Party Congress, in April 2001. The approval of the document by the Ninth Congress clearly confirmed the GoV's and Party's acceptance of the need for a vigorous reform agenda. The Congress also approved the 10-year Socio-Economic Development Strategy, which calls for the eradication of hunger, a reduction in the incidence of extreme poverty by 70 per cent, and a generally improved quality of life for

[32] Joint IMF/World Bank Report, *Vietnam: Towards Fiscal Transparency*, June 1999, p. 2.

[33] An Informal Report for the Consultative Group Meeting for Vietnam, December 7-8, Hanoi, *Putting Partnerships to Work in Vietnam*, pp. 11-12.

[34] *I-PRSP*, pp. 15-16, 20-21.

Vietnam's population. The strategy emphasizes the need for rapid export-led growth driven by structural reform and the modernization of the economy.[35]

Meanwhile, the preparation of the CPRGS under the leadership of the Ministry of Planning and Investment (MPI) is well advanced. The GoV-donor-NGO Poverty Task Force (PTF) has worked very closely with MPI. It has drafted eight detailed papers on target setting and monitoring of results in different thematic and sectoral areas (access to health care and education, the promotion of ethnic minority development, etc.), in the process adapting the Millennium Development Goals to Vietnam's context and circumstances. For example, with the rapid pace of poverty reduction in recent years, Vietnam has already achieved the poverty reduction and hunger alleviation Millennium Development Goals (MDGs); its infant mortality rate is already it a level so low that a further two-thirds reduction in it by 2015 (the MDG for infant mortality) would be an unrealistic target.[36]

The PTF has proposed 10 broad goals (e.g., the eradication of poverty and hunger, better education for all, good governance for poverty reduction) and 23 specific outcome targets (e.g., a 40-per-cent reduction in the incidence of poverty between 2001 and 2010, 100 per cent enrolment in primary school and 80 per cent enrolment in junior secondary school by 2005) as well as a range of intermediate indicators and monitoring mechanisms.[37]

One of the most common criticisms of the various I-PRSPs and the PRSPs which have been reviewed by the Boards of the Bank and the Fund since 1999, is that they have tended to more or less ignore the MDGs, and have failed to link poverty reduction strategies with the attainment of those goals. Vietnam's CPRGS will almost certainly not suffer from this weakness, given the extensive and sophisticated effort which has been made to articulate goals and targets, and the work now underway to identify the actions necessary to achieve them.

With its ongoing work feeding directly into the CPRGS process, the PTF is playing a pivotal role in facilitating communication between the GoV and the donor community, and in coordinating donors' inputs. In a recent document the Bank notes one very important outcome of the dialogue: "The debates surrounding the preparation of the [CPRGS] are changing the way the [GoV] thinks about poverty -- from an approach of adopting only targeted means to assist the poorest of the poor, to one where poverty will be mainstreamed across all policies and investments."[38]

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[35] *Vietnam: Country Assistance Strategy Progress Report*, pp. 1-2.

[36] *Vietnam Development Report 2002: Implementing Reforms for Faster Growth and Poverty Reduction*, pp. 4, 11, and Annex 1.1. The MDG for poverty is to "halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day"; for hunger, to "halve, between 1990 and 2015, the proportion of people who suffer from hunger."

[37] *Ibid.*, pp. ii-v.

[38] *Vietnam: Country Assistance Strategy Progress Report*, pp. 4-5.

A very early draft of the CPRGS, which will cover the same 10-year period as the Socio-Economic Development Strategy, was presented at the CG meeting in 2000; a progress report on the draft CPRGS was reviewed at the December 2001 CG meeting.[39] The target date for the paper's completion is late spring 2002, for submissions to the Boards of the Bank and the Fund in July or August 2002.

3.3 Conclusions on the I-PRSP and CPRGS Processes in Vietnam

The GoV embraced the PRSP process for what appear to have been two main reasons. The first was that preparing an I-PRSP was the price to pay for access to concessional funds from the Bank and the Fund. Immediately after its I-PRSP received Bank/Fund Board endorsement, the GoV received a Poverty Reduction and Growth Facility (PRGF) of US $ 368 Million from the Fund; two months later the Bank's Board approved a Poverty Reduction Support Credit (PRSC) of US $ 250 Million. This funding is supporting the agenda of structural reform which the GoV has agreed is necessary to the success of its new five- and 10-year plans, and which it is now implementing.[40]

The second reason was long-term and strategic. With the CDF and then the PRSP process, the donor community in late 1999 was offering a new development paradigm, based on country ownership and donor program coordination centered on the long-term vision and priorities of national governments. This was precisely the paradigm which the GoV saw as necessary to maximizing aid effectiveness and speeding development. It was determined that donor assistance should be directed to the priorities it established; both the I-PRSP and the CPRGS progress report reviewed at the December 2001 CG meeting made the point very clearly.[41] By demonstrating leadership and engaging fully in the PRSP process, and by linking that process to its own planning framework, the GoV has positioned itself very well to challenge donors to deliver the kind of development partnership they themselves have been advocating for several years.

There is widespread recognition that the costs to the GoV of managing ODA remain too high,[42] and the GoV is pushing donors to change the ways they do business. It wants harmonized donor programming which supports its priorities, streamlined procedures, untied aid, more Sector-Wide Approach (SWAPs), more pooled funding, more direct budgetary support. In the past year it and six donors prepared a report reviewing these kinds of options.[43] It has established a new ODA management framework which is

[39] Ministry of Planning and Investment, *Progress Report on Preparing the Comprehensive Poverty Reduction and Growth Strategy Paper (CPRGSP)*, 7-8 December 2001.

[40] *Ibid.*

[41] *Ibid.*, and Socialist Republic of Vietnam, *I-PRSP*, p. 1.

[42] *Putting Partnerships to Work in Vietnam*, p. 3.

[43] Consultative Group Meeting for Vietnam, Hanoi, 7-8 December 2001, *Chairman's Closing Statement*, pp. 11-12.

intended to facilitate project approval, monitoring and evaluation, and to harmonize some GoV procedures with those of major donors.[44] By the time the CPRGS is completed and endorsed, the pressure on donors to match their rhetoric with concrete action may be intense. It will also be hard to resist, given the GoV's considerable degree of ownership in the planning process.

The PRSP process has involved considerable collaboration and dialogue among the GoV, the donors, and NGOs. Much of this collaboration has occurred within the work of the 25 thematic and sectoral groups referred to above. Among other things, this appears to have led to at least some acceptance on the part of the GoV, that NGOs have a legitimate role to play in policy debate.

Participation in the technical group work has often strained the capacities of donors (and the GoV) alike. A recent Bank report notes that:

> Transactions costs for most donors and NGOs are high: among donors, only the Bank has a sizeable Resident Mission and is therefore much better equipped in staff and expertise to participate in the various working groups and to lead several of them. Even donors supportive of the new partnerships have had trouble finding the resources to participate actively.[45]

Strain notwithstanding, the work has produced major positive results. There is broad GoV-donor agreement on the country's development vision and many of its details, and the analytical underpinnings of the planning documents are much stronger than they would have been in the absence of the joint technical work of the PTF and other groups. The process has taken time -- too much time in the view of a number of donors. But the payoff has been the development of a broad consensus at the senior levels of the GoV and the Party on the pressing need for widespread structural reform.

Thus with the exception of the measures relating to SOEs, the structural reform agenda being supported by the Bank and the Fund through the PRSC and the PRGF, and by other donors as well, is being implemented on or ahead of the agreed upon timetables. Trade liberalization is well ahead of schedule, reflecting the urgency which China's WTO accession has brought to the file -- for example, the GoV removed quantitative restrictions from seven import items in 2001 rather than the two items on which it had made commitments. With the support of donors, it has undertaken a major Legal Needs Assessment to support the reform of the country's legal system which the transition to a market economy demands. More generally, it has recognized that the administrative machinery of the state must be modernized, and in September 2001

[44] The World Bank Group, *Vietnam: A Government-Donor Mid-year Review*, Press Release, 19 June 2001, and *Vietnam: Country Assistance Strategy Progress Report*, p. 18.

[45] *Vietnam: Country Assistance Evaluation*, p. 24.

approved a 10-year Master Program for public administration reform; implementation, which will require substantial ongoing donor support, is to begin in 2002.[46]

In some cases, the greater degree of GoV-donor collaboration has brought sharp differences in donor views on appropriate sector policies out into the open, where they can be debated and have the chance of being resolved. Some of the practical limitations of donor collaboration have also been exposed. For example, Japan (by far the largest bilateral donor, and one which is highly committed to Vietnam) agrees with the overall direction of the CPRGS, but is unwilling to accept the reduction in visibility which participation in pooled funding projects would mean.

As well, it appears that the process has led to a more shared view as to what results can reasonably be achieved within what time frames in Vietnam.[47] There is growing awareness of some unique capacity constraints within the GoV. While its senior officials know that reform is crucial and are committed to it, many of the specifics remain outside the range of their own education and experience. This is even more the case below the senior ranks, where understanding of the scope of transformation required is very limited. Recognition of these and other constraints is important, given the unrealistic expectations which have so often bedeviled development efforts.

4. THE IMPLICATIONS OF VIETNAM'S CPRGS FOR CIDA

A number of donors will be aligning their programming with Vietnam's CPRGS; the extensive joint analytical work they have done in the past few years has put them in the position to do so effectively. The Bank, for example, is currently redoing its Country Assistance Strategy in parallel with the final work on the CPRGS.[48] Growing emphasis is going to be put on SWAPs and pooled funding. Several SWAPs, such as for example the Forest Sector Support Program and Partnership, are already underway or under development.[49]

This section briefly reviews CIDA's experience in Vietnam since the early 1990s, assesses CIDA's current strengths and weaknesses there, and examines the main options for future programming.

4.1 CIDA's Experience in Vietnam

As we noted above, CIDA's first CDPF was approved in 1994, and formed the basis for projects aimed at supporting the economic reform process by building public sector

[46] *Vietnam Development Report 2002*, pp. 37-38, 51-52, 59, 64-65.

[47] *Vietnam: Country Assistance Evaluation*, p. 24.

[48] *Vietnam: Country Assistance Strategy Progress Report*, p. 16.

[49] *Putting Partnerships to Work in Vietnam*, p. 49.

capacity, increasing the productive capacity of poor people and their access to social services, supporting private sector development, and promoting improved governance, human rights, and a strengthened civil society.

The CDPF was updated in 1999, following a review and assessment of the projects initiated under the 1994 program, and in the context of the improved processes of GoV-donor coordination which had developed by this time. In consultation with the GoV, CIDA agreed to focus its programming in support of better governance including ongoing capacity building, rural poverty reduction, and private sector development. Crosscutting themes in the revised CDPF included gender equality and the environment.

The programming directions enunciated in 1999 were intended to build on good project results, and knowledge and expertise accumulated in areas such as capacity building and rural credit and micro-finance. They also tried to tighten the links between the CDPF, on the one hand, and projects actually funded -- the review of the first five years of CIDA's work in Vietnam identified a significant number of projects which did not in fact relate closely to 1994 CDPF objectives -- and shift programming focus where required. In particular, CIDA's first efforts to promote private sector development were based on the assumption that important facilitating links could be established between Canadian and Vietnamese businesses. Experience showed that this assumption was not valid, and the 1999 CDPF focused on measures required to improve the climate for business in Vietnam.[50]

As we also noted above, CIDA has had a large and active responsive program in Vietnam since the early 1990s. Two Partnership Branch channels -- institutional cooperation and industrial cooperation -- have been very popular and heavily used, particularly by Canadian colleges and universities. In 1999/00 and 2000/01, $ 8.8 and $ 7.8 Million respectively were disbursed through the various partnership channels. These are large amounts, roughly half the size of the bilateral program's budget. Thus far there has been no requirement for the responsive programming to be aligned with the bilateral program's thematic focus.

4.2 CIDA's Strengths and Weaknesses in Vietnam

Should CIDA decide to align its programming more directly with Vietnam's CPRGS, it brings some advantages to the process:

- The Agency has been actively involved in the partnership/CDF/PRSP process, participating in 11 of the 25 working groups and supporting several partnership initiatives, including providing a "partnership coordinator" for the World Bank office. It has also, for example, cooperated with the Bank, the UNDP, Australia, Denmark, and Japan to establish the Vietnam Development Information Centre. The Centre

[50] *Vietnam: CDF Update.*

promotes capacity building and the dissemination of knowledge about development and participation in the Global Distance Learning Network; CIDA is a full member of the network.

- As a result of the 1999 CDPF update exercise, the bilateral program has achieved greater program focus in the areas of governance, rural poverty reduction, and the environment. Both the GoV and the donor community see CIDA as one of the lead donors in governance and the environment, with a level of policy influence considerably greater than our status as a small donor would suggest.
- The bilateral program's principal effort to align CIDA programming to Vietnam's poverty reduction strategy -- the $ 30 Million Rural Poverty Reduction program which is geographically concentrated in two of Vietnam's 6l provinces, Thanh Hoa and Soc Tranh -- is now fully operational. Increasingly, efforts at donor coordination in these two provinces, such as with the World Bank's Community-Based Infrastructure program, are proceeding well.
- Unlike the situation in the program's early years when it was very Hanoi-centric, it is now much more national in scope, with program interventions in north, central and south Vietnam. It has become heavily engaged with the GoV's capacity-building and decentralization efforts in Thanh Hoa, Soc Tranh, and Tra Vinh provinces, as well as in Ho Chi Minh City.

But CIDA also faces serious constraints. First and foremost, the bilateral program's $ 18 Million annual budget has not been adjusted since 1997. In addition, for the last two fiscal years the program's contributions to the funding of CIDA corporate initiatives, such as technological upgrades, have reduced its annual cash ceiling to less than $ 17 Million. In comparison, the total ODA pledge for Vietnam for 2001 was roughly US $ 2.4 Billion, not including funding provided under the PRGF and the PRSC. The largest donor, Japan, commits close to US $ 1.0 Billion annually. By 2001, Canada's program was the tenth largest amongst bilateral donors (a decline from eighth in 1999), behind those of Japan, Australia, Germany, Sweden, Denmark, the Netherlands, the United Kingdom, France, and Spain.

Similarly, while we have put considerable effort into increasing CIDA field resources in Vietnam -- this has resulted in the addition of two local staff members, the creation of a new, larger and more autonomous Program Support Unit (PSU) which was opened in May 2001, and an increase from two to three Canada-based officers in September 2001 -- these resources remain thinly stretched given the demands of the CPRGS process. In this respect, CIDA's problem is not unlike those of other donors, most of which have found the new processes difficult to manage.

Modest financial and human resources have led the bilateral program to focus on equally modest programming niches -- where, as we noted earlier, it has had some successes. As well, however, and in contrast to the changes which other donors such as Department for International Development (DFID) are making, CIDA has continued to use mainly the traditional program delivery modes, delivering projects with Canadian

executing agencies and experiencing the usual delays and difficulties associated with Canadian Executing Agency (CEA) selection and contracting. But our recent experiments with program-level management and multi-donor projects (as in the Mekong Project Development Facility which seeks to encourage SME growth) and pooled funding for sector or sub-sector wide approaches (as in the program for Basic Education for Disadvantaged Children discussed in more detail below) point towards a path to greater program effectiveness.

4.3 Implications for CIDA Programming in Vietnam

Given CIDA's current budget in Vietnam, maintaining a useful and influential presence there demands that we use the resources we have more effectively. The development of the full CPRGS, with its concomitant emphasis on a higher level of country-led donor collaboration and coordination, offers us a unique opportunity to experiment with a range of alternative programming modalities to try to achieve that objective. Indeed, the Vietnam program could serve as a pilot for experimentation with new programming, for both Asia Branch and the Agency as a whole.

Here are our suggestions as to how we could make best use of this opportunity.

1. As other bilateral and multilateral donors are doing, CIDA should revise its Vietnam CDPF, beginning now and finishing the work once the CPRGS has been completed. This process would include the following:
    - Detailed consultations with the Ministry of Planning and Investment (the lead ministry on the CPRGS), key line ministries and, where appropriate, provincial governments.
    - Joint preparatory work with other donors examining contextual issues in areas in which we wish to program, within our respective post-CPRGS strategies and frameworks. It would be particularly useful for us to work with DFID, the most flexible and "leading-edge" of the bilateral agencies, and Australian Agency for International Development (AusAID), a more traditional but major donor. Our working relationships with both agencies are good.
    - Intensive collaboration with other donors, to ascertain how they will adjust their program frameworks to the CPRGS, and to identify those areas requiring multi-donor and/or pooled funding and budgetary support. This would require us to give serious consideration to adjusting the mix between traditional tied projects and more liquid pooled funding arrangements. At present the mix is approximately 90/10 in favor of projects, but we may have to look at a mix of 50/50 or more in favor of pooled funding, if we wish to be credible and constructive players in the new ODA environment emerging in Vietnam. We return to the issue of program modalities in Point 2 below.
    - A strong internal initiative to align Partnership Branch's $ 7-8 Million of annual commitments in institutional, NGO, and industrial cooperation much more closely with the new Vietnam CDPF, and not just with the CPRGS. This

would take a substantial management effort, but if the exercise were successful it would increase CIDA's overall programming effectiveness considerably.

2. The importance of using a range of programming modalities in order to participate effectively in the CPRGS environment in Vietnam cannot be over-emphasized. For example, despite its sometimes small budgets DFID appears to have increased its effectiveness through coordinated sector approaches, particularly with the World Bank, in areas of high government priority. In cooperation with the Bank and varying groups of other donors, it is involved in education projects, the development of a biennial Multi-Purpose Household Survey for monitoring purposes, and two major decentralized and participatory rural development projects.[51] It provides a substantial amount of short-term technical assistance using its own field staff. It has agreed to co-finance the current PRSC (along with Denmark, the Netherlands and Sweden) -- providing grant money to complement the basic loan, supporting technical assistance, and participating in the accompanying discussions of policy issues.[52]

   These are very useful models, and the bilateral program has started to employ them. Our participation in the establishment of the Vietnam Development Information Centre noted above was an early example. The bilateral program has just established a $ 1.5 Million CIDA Trust Fund at the World Bank to support basic education in Vietnam. And in collaboration with the World Bank, DFID, and AusAID, we are now engaged in the joint development of a sub-sector SWAP, a US $ 250-350 Million program for Primary Education for Disadvantaged Children. This program will focus on improving the quality of education available to street children, children with physical or intellectual disabilities, children living in poor and remote areas, and ethnic minority children.

   While the proposed CIDA contribution of $ 10 Million to this SWAP is modest, it has allowed for our full participation in pre-appraisal and appraisal processes, and in the development of the program management structure. These are important benefits for us, giving us experience in these new programming directions. However, it will be critical to our ability to participate fully and credibly in this venture, and in similar ones in the future, for our contribution to be fully untied and pooled rather than tied and complementary.

3. The agenda being fleshed out in the CPRGS is one of structural reform with a human face, heavy on the governance, regulatory reform, and other issues including poverty reduction programs, in which the bilateral program and CIDA more generally have considerable expertise. There appears to be plenty of scope to pick sectoral or theme niches so as to maximize our effectiveness.

[51] *CIDA, DFID in Asia: An Analytical Review*, 24 August 2001, *mimeo.*, and *Vietnam: Country Assistance Strategy Progress Report*, pp. 5-8.

[52] *Report and Recommendations*, p. 37.

As we noted above, the 1999 update of the Vietnam CDPF resulted in a sharper focus to programming; the question now is whether the focus should be sharpened further. The answer to that question depends at least in part on how we interpret Vietnam's poverty-reduction experience since the mid-1980s. The argument of this paper (and many others, including some which the bilateral program has produced[53]) is that reform-induced economic growth is what halved the incidence of poverty in the space of a dozen years. This suggests than the bilateral program could be most effective through concentrating on the ongoing structural reform effort, while continuing with its package of poverty reduction interventions.

We will have to work smarter. Our staff should be dedicated more directly to knowledge building and knowledge management, networking, and participating in policy dialogue with the GoV -- particularly in those areas where our programming experience has given us an investment base. We will have to delegate "project administrativia" to our CEAs, monitors, and contracted specialists. We will have to place greater emphasis on:

- Strengthened CIDA participation in the key GoV-donor working groups on poverty reduction, governance, legal reform, and economic integration (WTO accession).
- Participation in the second phase of the ongoing harmonization exercise being carried out by a like-minded group of bilateral donors. The objective of this work is to standardize a wide range of donor procedures and reduce the administrative burden on the GoV.
- Emulating other donors, such as DFID, in changing the way we work and the way we program.

4. If indeed we learn to work smarter, the recent additions to CIDA's field presence in Hanoi in both the Embassy and the PSU should have given us enough staff to manage a more focused and relevant country program. It may be possible to improve our field effectiveness further by continuing to invest in the recruitment and retention of a broader range of local professionals in the PSU, and by adopting another of the practices which some donors, most notably DFID, are now using. Accompanying its withdrawal from traditional project interventions, DFID is deploying its own staff as well as cooperants and consultants to policy development assignments in GoV ministries and the World Bank office. These assignments involve work on clearly identified and high priority policy issues in areas such as poverty reduction, SOE reform, and public expenditure review.

5. CONCLUSIONS

CIDA has expressed strong general support for the PRSP process since it began, and is continuing to do so in the context of the Bank/Fund review of the process currently

[53] See for example CIDA, *CIDA's Rural Poverty Reduction Strategy Framework for Vietnam*, 22 June 1999, p. 1.

underway. It has also committed itself to strengthening the effectiveness of Canadian ODA through changing a number of the ways it does business -- by engaging in more programmatic approaches to development, for example.

Vietnam's CPRGS offers CIDA the opportunity to translate its general support for the PRSP process into concrete country programming, at the same time as it offers the opportunity to increase the effectiveness of our ODA effort there. This means redoing the CPDF for Vietnam to take advantage of the positive features of the development assistance environment which now exists in the country -- real and strong national ownership, the very effective leadership role the Bank is playing, the willingness of several major donors to innovate, to program collaboratively, to pool funds. It means working smarter at headquarters as well as in the field. It means forging a new relationship between the bilateral program and Partnership Branch, one which maximizes the effectiveness of CIDA's overall programming in Vietnam.

Failure to make these kinds of changes in the way CIDA operates in Vietnam would be costly. Put simply, the Agency would find itself increasingly out of step with the thrust of the development assistance effort there, and increasingly marginalized.