

*Evaluation of the European Commission's  
Cooperation with Vietnam*

Final Report

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Development  
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Aide à la Décision Economique  
Belgium



PARTICIP GmbH  
Germany

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Deutsches Institut für  
Entwicklungspolitik

German Development  
Institute

Deutsches Institut für  
Entwicklungspolitik  
Germany



Overseas Development Institute  
United Kingdom



European Institute for Asian Studies  
Belgium



ICEI Instituto Complutense  
de Estudios Internacionales  
Istituto Complutense de Estudios  
Internacionales  
Spain

A consortium of  
DRN, ADE, PARTICIP, DIE, ODI, EIAS & ICEI  
c/o DRN, leading company:

**Headquarters**

Via Ippolito Nievo 62  
00153 Rome, Italy  
Tel: +39-06-581-6074  
Fax: +39-06-581-6390  
[mail@drn-network.com](mailto:mail@drn-network.com)

**Belgium office**

Square Eugène Plasky, 92  
1030 Brussels, Belgium  
Tel: +32-2-732-4607  
Tel: +32-2-736-1663  
Fax: +32-2-706-5442  
[bruxelles@drn-network.com](mailto:bruxelles@drn-network.com)

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## **Evaluation of European Commission's Cooperation with Vietnam**

**Final Report**

**10/2009**

The evaluation is managed by Particip GmbH within a  
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# Evaluation of European Commission's Cooperation with Vietnam

## Country Level Evaluation

### Final Report

The report consists of two volumes:

Volume I: FINAL REPORT

Volume II: ANNEXES

#### VOLUME I: FINAL REPORT

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3. EC strategy and the logic of EC support
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## EXECUTIVE SUMMARY

### ***I. Objectives of the evaluation***

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

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

The scope of the evaluation was the European Commission's co-operation with Vietnam and its implementation for the period 1996-2008, allowing at the same time for conclusions and recommendations to be forward looking.

### ***Country context***

#### Economic and social trends

Vietnam, a country of 86 million, is a one-party state, but one which since the introduction of the *doi moi* (reformation) programme in 1986, has been slowly transforming into a market economy and experienced continual improvement in its economic basis. Gross Domestic Product (GDP) has more than doubled in the last decade, leading to an average per capita income of USD 1,024 in 2008. International trade and inflows of foreign direct investment (FDI) – mainly into export-oriented manufacturing – have been the main drivers of growth. This economic success has led to remarkable decreases in poverty. Both the Vietnam Development Goals (VDGs), which are a localised version of the Millennium Development Goals (MDGs) and the MDGs, show a consistent improvement of social indicators, from education enrolment to infant mortality. However, progress is uneven. Poverty remains much higher among the ethnic minorities than among the Kinh and Chinese majority. Inequality is growing, not only between the majority Kinh and ethnic minorities but also within the Kinh majority. Nor has Vietnam been immune to the international economic crisis that emerged in force in 2008. FDI commitments flagged, and actual disbursements plummeted in 2008. Exports have declined and many urban construction projects have been abandoned. Several international firms shut down their operations in Vietnam completely, and others have scaled back. The most recent economic reports (e.g., *The Economist* for 25.09.09) suggest that Vietnam has weathered the worst of the storm, but is now vulnerable to overheating, in addition to which, a number of Vietnamese policy makers doubt the need for continued aggressive reform. In short, the Vietnamese economic miracle is vulnerable. While data, particularly on the social side, are slow to appear and not entirely reliable, there is anecdotal evidence that progress against poverty is suffering and ambitious MDG goals will not be met.

#### The role of ODA

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

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

	2001	2002	2003	2004	2005	2006	2007
All donors	1,431.2	1,274.5	1,765.2	1,832.4	1,905	1,845.5	2,496.8
of which							
DAC countries/members	819.5	746	967.7	1,184.8	1,252.8	1,306.3	1,488.4
of which							
EU DAC countries/members	282.5	280	361.8	429.5	505.8	579.3	658.8
Multilateral	574.9	508.6	785.5	615.1	632.5	526.5	979.2
<b>EC</b>	<b>21.3</b>	<b>18</b>	<b>30</b>	<b>27.9</b>	<b>42.4</b>	<b>41.8</b>	<b>67.7</b>
share of total	1.5%	1.4%	1.7%	1.5%	2.2%	2.3%	2.7%
share of EU DAC	7.5%	6.4%	8.3%	6.5%	8.4%	7.2%	10.3%

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

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

The EC's cooperation engagement with Vietnam

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



In pursuit of enhanced effectiveness, the EC has contributed to joint funding arrangements such as general budget support and sector budget support initiatives, as well as participating in development partner harmonisation and alignment activities. In 2004, the EC co-financed the third World Bank Poverty Reduction Support Credit (PRSC 3) along with six other donors and has continued to give general budget support through this mechanism, providing support for PRSCs 3 to 7. Total funds provided have been USD 19.9 million for PRSC 3, USD 20.3 million for PRSC 4, USD 12.4 million for PRSC 5, USD 28.9 million for PSRC 6 and approximately USD 23.9 million for PRSC 7 in 2008. The PRSC is designed to support key areas of the Government of Vietnam (GoV) reform programme and is aligned with the objectives of the SEDP 2006-2010.

## ***II. Methodology***

### Structuring stage

During the Structuring Stage of the evaluation, the EC's intervention logic for the period 2006-2008 and most important areas of cooperation were identified. Preliminary evaluation questions (EQs), judgement criteria (JCs) and related indicators were specified based on the intervention logic.

### Desk phase

During the Desk Phase, document review (50 documents and 74 Results Oriented Monitoring Reports) and consultations with Reference Group members were employed to prepare preliminary answers to EQs, identify data and information gaps, and specify hypotheses to be explored during the Field Phase.

### Field phase

During the Field Phase, the Evaluation Team conducted 111 interviews with persons concerned with EC cooperation. See Annex 6a for details. Six small focus group discussions (see Annex 6b) were held in the areas of rural development, and support to civil society. Six "Special Focus" case studies (see Annex 8) were prepared. Eight project field site visits (see Annex 6c) took place in the rural development and education sectors, and the trade and economy expert had the opportunity to take part in the final evaluation debriefing of a major project in this sector.

### Draft final report

Following the field stage, a draft final report was prepared. Based on that draft, a consultative seminar was held in Hanoi on 16 June, 2009 in which EC officials from the Hanoi Delegation, officials from DG Relex and EuropeAid in Brussels, the Evaluation Manager, representatives of Government, and representatives of international and national civil society organisations took part. Feedback from that seminar was reflected in the drafting of this final report.

### *III. Overall assessment*

**The overall assessment of EC strategy in Vietnam is positive. EC's strategy in Vietnam was assuredly relevant to country needs. The EC cooperation programme has been effective in attaining poverty-reduction impacts and, in moving towards joint approaches and aligning with the aid effectiveness agenda, efficiency has improved. The programme was, in addition, coherent with EC strategic priorities and added value in support for trade integration, civil society development and governance, and in coordination.**

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

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

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

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

#### **IV. Conclusions and Recommendations**

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

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

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

1	Configure strategic processes and implementation modalities for nimble reaction; ensure that planning processes are adapted to a world of discontinuities, surprises, and structural shifts; address data needs.
2	Continue to participate in general budget support while attempting to acquire more EC Delegation capacity in Public Financial Management. Ensure that support for civil society development includes support for a more independent monitoring role. Consider what, in the longer term, will come after general budget support.
3	Sector budget support should, where possible, be truly sector-wide, rather than supporting only national target programmes. Financial management capacity and a fully-owned sector strategy are prerequisites.
4	The EC should tighten links between its programme and poverty. Some specific actions (see page 42) could contribute to this.

#### **Acknowledgements**

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



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## ACRONYMS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AI	Amnesty International
ALA	Asia and Latin America
ASEAN	Association of South East Asian Nations
ASEM	Asia Europe Meeting
CCF	Country Cooperation Framework
CIDA	Canadian International Development Agency
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CPV	Communist Party of Vietnam
CRIS	Common Relex Information System
CSO	Civil Society Organisation
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DCI	Development Cooperation Instrument
DfID	Department for International Development
DG	Directorate General of the EC
EC	European Commission
ECHO	EC Humanitarian Aid Department
EEC	European Economic Community
EIB	European Investment Bank
EMIS	Education Management Information System
EQ	Evaluation Question
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FSDP	Forest Sector Development Project
GDP	Gross Domestic Product
GMS	Greater Mekong Region
GNI	Gross National Income
GoV	Government of Vietnam
GSP	EU General System of Preferences
HCS	Hanoi Core Statement
HDI	Human Development Index
HE	Higher Education
HSDP	Health Sector Development Programme
IFIs	International Financial Institutions
IMF	International Monetary Fund
INGO	International Non-Governmental Organisation
ISP	Institutional Support Programme
JC	Judgement Criteria
JCC	Joint Cooperation Committee
JEU	Joint Evaluation Unit
JSG	Joint Study Group
MDG	Millennium Development Goal
MDTF	Multi-donor Trust Fund

MFN	Most Favoured Nation
MIC	Middle Income Country
MOET	Ministry of Education and Training
MOH	Ministry of Health
MOLISA	Ministry of Labour, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
MTEF	Medium-Term Expenditure Framework
MTR	Mid-term Review
MUTRAP	Multilateral Trade Policy Assistance Programme
NGO	Non-governmental Organisation
NIP	National Indicative Program
NSA	Non-State Actor
NTP	National Target Programme
NTPE	National Targeted Program for Education
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OVI	Objectively Verifiable Indicator
PAR	Public Administration Reform
PCA	Partnership and Cooperation Agreements
PCI	Pacific Consultants International
PEM	Public Expenditure Management
PGAE	Partnership Groups for Aid Effectiveness
PMU	Project Management Unit
PPP	Purchasing Power Parity
PRAG	Practical Guide to Contract Procedures for EC External Actions
PRSC	Poverty Reduction Support Credit
READI	Regional EC-ASEAN Dialogue Instrument
RG	Reference Group
RIP	Regional Indicative Programme
ROK	Republic of Korea
ROM	Results Oriented Monitoring
RSP	Regional Strategy Paper
SAARC	South Asian Association for Regional Cooperation
SEDP	Vietnam's Socio-Economic Development Plan
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprises
SMOET	Support to the Ministry of Education & Training
SPF	Small Project Facility
SPSP	Sector Policy Support Programme
SWAp	Sector Wide Approach
TA	Technical Assistance
TBS	Targeted Budget Support
ToR	Terms of Reference
TREATI	Trans-regional EU-ASEAN Trade Initiative
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	The United Nations Children's Fund
USA	United States of America
USAID	US Agency for International Development



USD	United States Dollar
VCP	Vietnamese Communist Party
VDGs	Vietnam Development Goals
VET	Vocational Education and Training
VHLSS	Vietnam Households Living Standard
VSS	Vietnam Social Security
WB	World Bank
WHO	World Health Organisation
WTO	World Trade Organisation



## 1 INTRODUCTION

The evaluation of the EC's cooperation with Vietnam is part of the 2008 evaluation programme as approved by External Relations and Development Commissioners and aiming at ensuring accountability for the management of the allocated funds as well as the promoting of a lesson-learning culture throughout the organisation.

In the context of the programmes of the Relex Family of Directorates-General<sup>1</sup> and of greater concentration of external cooperation and increasing emphasis on result-oriented approaches, particular attention needs to be paid to the provision of the reliable evaluation of impact.

We understand that the main objectives of the evaluation are:

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

The scope of the evaluation was the European Commission's co-operation with Vietnam and its implementation for the period 1996-2008, allowing at the same time for conclusions and recommendations to be forward looking.

## 2 EVALUATION PROCESS AND METHODOLOGY

### 2.1 Evaluation process

The evaluation follows a detailed methodological design, based on the evaluation guidelines set forth by the Joint Evaluation Unit. As the Launch Note and Inception Report describe in greater length, the evaluation process is divided into a number of phases, each of which entail the implementation of a number of pertinent methodological steps, and culminates in a report.

During the Structuring Stage, the principle foci of this evaluation were identified. This was achieved through a review of pertinent policy documents, the elaboration of the context of EC cooperation in the country, a short exploratory field visit, a look at relevant funding flows, and the careful reconstruction of the EC intervention logic. Preliminary evaluation questions (EQs), judgement criteria (JCs) and, to some extent, potential related indicators were drafted based on the intervention logic, and then discussed with members of the Reference Group (RG) and the Evaluation Manager. The resulting redrafted EQs and JCs provide a clear direction to the evaluation, allowing for a focussed investigation into the most important areas of cooperation.

The core of the methodological approach employed is the rigorous hierarchy of EQs, JCs, and indicators:

- EQs were designed to achieve the objectives of the evaluation (see WHICH Section 1.1 above) in accordance with the EC's intervention logic as established by the review of strategic documents.
- Each EQ was answered based on the assessment of several Judgement Criteria. There was no attempt to explicitly weigh or rank JCs, but taken as a whole, they provided a sound basis for answering the EQ.
- Each JC was assessed based on a number of indicators identified. Again, there was no explicit weighting of indicators, but taken as a whole, they provide a reasonable basis

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<sup>1</sup> Directorates General of External Relations, (RELEX), Development (DEV), Enlargement (ELARG), Trade (TRADE) and the EuropeAid Cooperation Office (AIDCO)

for assessing each JC. In a few cases where the Evaluation Team felt that the indicator was providing little useful information, it noted this.

The relationship between, indicators, JCs, and EQs is made explicit in the Information Matrix presented in Annex 7, Volume 2. This Annex presents the entire evidence base on which EQs were answered, together with information on the sources used to measure the indicators.

During the Desk Stage, efforts were made to gather as much documentary evidence and information as possible, to provide preliminary assessments of the JCs and preliminary answers to the EQs. A detailed literature review was carried out, taking into account all available policy documents, implementation and evaluation reports, mid-term reviews, Results Oriented Monitoring (ROM) reports and a variety of further sources. Missing documentation was identified and noted and gaps were filled where possible.

Consultations with RG members provided valuable information on the EQs, and helped to identify and at times fill gaps in the data available up to this point. They have also been useful in identifying contacts for further interviews that were carried out during the field phase.

The field visit, carried out between the 13<sup>th</sup> and 27<sup>th</sup> February aimed at analysing the validity of hypotheses developed at the end of the Desk Stage, probing preliminary answers to EQs, and gathering additional information to address lacunae. At the beginning and end of the field visit, the Team Leader conducted briefings at the EC Delegation. To successfully conduct the visit during a relatively short period of time, careful planning and coordination with the EC Delegation, as well as thorough logistical support through the National Expert, were necessary.

During the Field Phase, the Evaluation Team conducted over 111 interviews (see Annex 6a) with persons concerned with EC cooperation, in the form of relevant EC Delegation staff in Hanoi, multilateral agency officials, bilateral agency officials, officials of the Government of Vietnam at the central and provincial levels, and representatives of national and international NGOs. Six small focus group discussions (see Annex 6b) were held in the areas of rural development and support to civil society. 8 field site visits in the areas of education and rural development were undertaken. The trade and economy expert had the opportunity to participate in the final evaluation debriefing of a major project in that area. Six "Special Focus" case studies (see Annex 8) were prepared to probe areas that were identified as being of special significance.

Shortly after the field mission, there was a debriefing of the Reference Group in Brussels, at which preliminary answers to EQs (i.e., findings) were presented. On the basis of discussions at this meeting, the first draft final report was prepared. Based on the answers to the EQs, the draft final report proposed two sets of conclusions and recommendations. Global conclusions are typically grounded in findings related to more than one EQ and relate to overall issues in EC cooperation with Vietnam. Each global conclusion gives rise to a global recommendation. Specific conclusions typically arise from the answer to a single, or sometimes two, EQs and are more sector-specific than global conclusions. Each specific conclusion gives rise to a specific recommendation.

On 16<sup>th</sup> June, a dissemination seminar was held in Hanoi, to discuss the findings, conclusions and recommendations of the evaluation with the EC Delegation, Vietnamese stakeholders and other donors and members of civil society. This Final Report reflects the discussions that took place as well as final comments by the Reference Group.

## **2.2 Limitations and lessons learned**

The evaluation was not constrained by the limited number of field days, a testimony to good logistical arrangements by the local consultant and excellent cooperation with the EC Delegation.

One disappointment was the inability to pay a site visit to the flagship HEMA health project, but since this project is still in its early stages, all actors concerned felt that this was not a fatal loss.

One fact that deserves to be mentioned is that because of the programme cycle, this evaluation had to be carried to the first Draft Final Report stage with unprecedented speed. Due to the excellent performance and professionalism of Team Members, this did not impinge on quality. One lesson to be taken away is that tight deadlines, if the team is strong and the partners in the Joint Evaluation Unit, the Reference Group, and the EC Delegation, are responsive, need not be an impediment to quality.

Many of the indicators turned out to be difficult to measure, or irrelevant; or Judgement Criteria were realised to have left gaps. Nonetheless, the overall discipline of the Indicators - Judgement Criteria - Evaluation Question approach of the Joint Evaluation Unit, conscientiously but flexibly implemented, has stood up well and helped to achieve the desired output.

The key roles of the Reference Group and EC Delegation in the evaluation process cannot be overemphasised. At each step, they have spurred the Team to take its job seriously by assuring it of the relevance and importance of its findings.

At a number of points in this report, we will draw attention to the fact that timely and accurate data are sometimes difficult to find in Vietnam. In many cases, the most recent year for which we are able to present data is 2006 and, for more recent estimates, we are forced to rely on speculation, anecdotal evidence, etc. We also cite, in several places, instances in which doubt has been cast on the accuracy of official information regarding, e.g. school enrolments or immunisation rates.

### **3 EC STRATEGY AND THE LOGIC OF EC SUPPORT**

#### **3.1 Global EC development policy strategic objectives and priorities**

Article 177 of the Amsterdam Treaty (entry into force on 1<sup>st</sup> May 1999) defines the EU development policy priorities, as follows:

- Sustainable economic and social development in favour of developing countries, with a particular emphasis on the most disadvantaged countries.
- Progressive and harmonious integration of developing countries in the world economy.
- Fighting poverty in developing countries.

The European Consensus on Development signed 20<sup>th</sup> December 2005 and intended to guide both Community and Member State development cooperation, sets out common objectives and principles for development cooperation. It reaffirms the EU commitment to poverty eradication, ownership, partnership, delivering more and better aid and promoting policy coherence for development. The primary and overarching objective of EU development cooperation is the eradication of poverty in the context of sustainable development, including pursuit of the Millennium Development Goals (MDGs).<sup>2</sup>

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<sup>2</sup> The European Consensus on Development, 20.12.2005, p. 4

**Table 1 Common Principles and Objectives of European Consensus on Development**

Common Objectives	Common Principles
Poverty Eradication	Ownership, partnership
Achieving other (seven) MDG objectives	An in-depth political dialogue
Sustainable Development (incl. good governance, human rights and political, economic, social and environment aspects) <sup>3</sup>	Participation of Civil Society
Promotion of policy coherence for development	Gender Equality
Assist development objectives agreed at the UN major conferences and summits	Addressing State Fragility

Recognising that poverty results from many factors, the Community and Member States are called upon to support poverty reduction strategies which integrate these many dimensions and are based on the analysis of constraints and opportunities in individual developing countries.

As well as more aid, the Consensus commits the EU to providing better aid. Transaction costs of aid will be reduced and the global impact will improve. Development assistance can be provided through complementary modalities (project aid, sector programme support, sector and general budget support, humanitarian aid and assistance in crisis prevention, support to and via civil society, approximation of norms, standards and legislation, etc.). The EU has adopted a timetable for Member States to achieve the internationally agreed target of aid equal to or exceeding 0.7% of Gross National Income (GNI) by 2015, with an intermediate collective target of 0.56% by 2010 and calls on partners outside the EU to follow this lead. These commitments will see annual EU aid double to over € 66 billion in 2010.<sup>4</sup>

### 3.2 ALA regulations (1996-2006)

The main legal basis for cooperation with Vietnam over the evaluation period was EC Regulation 92/432, the “Asia-Latin America” or ALA regulation.<sup>5</sup> This covered financial and technical assistance and economic cooperation. ALA included partnerships with states, regions (e.g., Asia regional programmes), decentralised authorities, regional organisations (e.g., Association of South East Asian Nations or ASEAN), public agencies, local or traditional communities, private institutes and operators, including cooperatives and non-governmental organisations. Whereas reducing poverty did not become official EC development policy until 2000, the ALA regulation highlighted that aid should target primarily the poorest sections of the population and the poorest countries in the two regions. The Regulation specified a long list of priority sectors, from drugs to the environment, to rural development, to democracy and human rights. The main interventions specified were economic cooperation and technical and financial assistance, both taking the form of grants. The Regulation specified that economic cooperation should be in the mutual interest of the EU and the partner country or organisation. No similar requirement was stated for financial and technical assistance.

Economic cooperation and financial and technical assistance to countries under the Regulation was evaluated in 2002.<sup>6</sup> The main conclusions of the evaluation were that the detailed strategic content of the regulation had largely been rendered obsolete by the deep changes in EC strategy in the regions since 1992, resulting in a loss of relevance. When combined with the small amount of money available relative to needs and the size of the populations in the region, the evaluation

<sup>3</sup> In the discourse of European Consensus on Development “development is a central goal by itself”

<sup>4</sup> The European Consensus on Development, 20.12.2005

<sup>5</sup> <http://europa.eu.int/eur-lex/lex/LexUriServ/LexUriServ.do?uri=CELEX:31992R0443:EN:HTML>

<sup>6</sup> [http://ec.europa.eu/europeaid/how/evaluation/evaluation\\_reports/2002/951614\\_docs\\_en.htm](http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/2002/951614_docs_en.htm)

recommended focus on a small number of priority sectors and a more transparent mechanism for allocating resources. Other recommendations, which the EC took into account in preparing an updated ALA regulation, had to do with removing strategic guidelines from the Regulation (on the argument that these were better suited to strategy documents) and increasing transparency and predictability by the establishment of five to seven year programming cycles and financial envelopes. These and other recommendations were taken into account in drafting COM(2002) 340<sup>7</sup>, which replaced Regulation 443/92 and was in force in 2003-2006, at the end of which a new streamlined instrument, the Development Cooperation Instrument or DCI, replaced the ALA instrument.

### 3.3 DCI regulations (2007-2013)

The regulation establishing the DCI was adopted on 18 December 2006. The geographic part of it replaces the ALA regulation for developing countries in Asia. The instrument is valid for the period from 2007 to 2013.

The overall goal of the instrument is the eradication of poverty in partner countries and regions in the context of sustainable development, including pursuit of the Millennium Development Goals (MDGs), as well as the promotion of democracy, good governance and respect for human rights and for the rule of law.

Cooperation is intended to:

- consolidate and support democracy, the rule of law, human rights and fundamental freedoms, good governance, gender equality and related instruments of international law;
- foster the sustainable development - including political, economic, social and environmental aspects - of partner countries and regions, and more particularly the most disadvantaged among them;
- encourage their smooth and gradual integration into the world economy;
- help develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural resources, in order to ensure sustainable development including climate change and biodiversity;
- and strengthen the relationship between the Community and partner countries and regions.

In Asia, priorities stated by DCI are: pursuing MDGs in the field of health, including HIV/AIDS, and education; as well as addressing governance issues to help build an active and organised civil society, and to enhance the protection of human rights, including the rights of the child.

Priorities are country-specific. Funds are allocated following country strategy papers which include multi-annual indicative programmes specifying the priority objectives and the indicative multi-annual financial allocations.

Further, the European Commission prepares annual action programmes which specify the objectives pursued, the fields of intervention, the expected results, the management procedures and total amount of financing planned. They contain a description of the operations to be financed, an indication of the amounts allocated for each operation and an indicative implementation timetable.

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<sup>7</sup> [http://ec.europa.eu/external\\_relations/la/doc/com02\\_340en.pdf](http://ec.europa.eu/external_relations/la/doc/com02_340en.pdf)

The DCI defines a non exhaustive list of 26 different types of actions over ten major areas of cooperation. The regulation establishing the DCI allows a broad range of actors to access the DCI funds and particularly non-state actors.

### 3.4 Regional strategic objectives and priorities

There are three types of multi-country programmes in Asia<sup>8</sup>:

- Asia-wide horizontal programmes
- Regional programmes for ASEAN and SAARC
- Asia Europe Meeting (ASEM).

In this evaluation, we consider all except the South Asian Association for Regional Cooperation (SAARC) programme, which is not relevant to Vietnam. The NIP 2002-2006 estimated that the EC contribution to regional projects involving Vietnam has been between € 5 and € 15 million per annum.<sup>9</sup>

It is important, by way of introduction, to understand. The best statement of the rationale behind multi-country programmes is to be found in the 2003 Communication on relations with ASEAN, which is valid for other multi-country programmes, as well:

“Most of EC development assistance shall be implemented through bilateral channels. Regional approaches will, however, be chosen when economies of scale are evident, where the development of country-neutral toolboxes makes sense or in support of dialogue conducted at a regional level. Regional programmes will have to include specific provisions to favour the participation of the less prosperous countries of the region.”

#### Asia-wide

The legal basis for development assistance to Asia over all but the final year of the evaluation period was the ALA Regulation 443/92, which notes the need for a regional element in the Commission's cooperation strategy. Basic strategy is elaborated in COM (2001) 469 “Europe and Asia: a Strategic Framework for Enhanced Partnerships,” which remains valid. Objectives identified for EC-Asia cooperation were:

- Contribute to peace and security in the region and globally;
- Further strengthen mutual trade and investment flows;
- Promote development of the less prosperous countries in the region by addressing the root causes of poverty;
- Contribute to the protection of human rights, spreading of democracy, good governance (including management of international migration) and rule of law;
- Build global partnerships and alliances with Asian countries, in appropriate international fora, to help address challenges and opportunities offered by globalisation and to strengthen joint efforts on environment and security issues;
- Help strengthen awareness of Europe in Asia (and vice versa).

The EC's 2001 regional strategy for Asia recognises that most strategic objectives will be attained through bilateral cooperation with individual countries. However, recognising that some

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<sup>8</sup> Countries eligible for assistance under the ALA regulation are Afghanistan Bangladesh, Bhutan, Burma / Myanmar, Cambodia, China, East Timor, India, Indonesia, Laos, Malaysia, Maldives, Mongolia, Nepal, North Korea, Pakistan, Philippines, Sri Lanka, Thailand, Vietnam

<sup>9</sup> NIP Vietnam 2005-2006, p. 4.



objectives are inherently regional or cross-border, and that effective responses must sometimes involve more than one country, the Communication called for multi-country approaches to be implemented as required.

Starting in the mid-1990s, a number of Asia-wide horizontal programmes were put in place:

- Asia Invest, promoting business-to-business contacts and partnerships;
- Asia Urbs, promoting local government partnerships;
- Asia Pro Eco, promoting EU-Asia sustainable technology partnerships;
- Asia IT and C, promoting partnerships aimed at achieving compatible standards in IT and C;
- Asia-Link, promoting sustainable partnerships between higher education institutions in the two regions.

In addition to geographical scope and focus, all of these programmes share the goal of promoting closer links between local governments, civil society organisations, and private sector firms. The programmes are demand driven (i.e., characterised by open calls for proposals) and directly benefit institutions in partner countries without the involvement of the government.

In its 2005-2006 “Strategy Paper and Indicative Programme for Multi-country Programmes in Asia” (hereafter, the “Regional Strategy Paper” or RSP 2005-2006), the EC called for multi-country programmes to be consolidated under headings corresponding to three main priorities. These were:

- Trade and Investment, to develop common approaches and support integration by supporting formation of partnerships, exchange of experience, and networking. The RSP calls for special attention to small and medium size enterprises (SMEs);
- Higher education, to strengthen human resources and reinforce institutional networking;
- Environmental management, to establish and strengthen networks of institutions. The RSP calls for special attention to local governments.

As the RSP notes, these consolidated priorities largely correspond to existing Asia-wide programmes.

In “Regional Programming for Asia Strategy Document 2007-2013” (the RSP 2007-2013), the EC identified three priority areas:

- Support to regional integration (through ASEAN / SAARC and ASEM);
- Policy and Know How based Cooperation in
  - Environment, energy, and climate
  - Higher education and support to research institutions
  - Cross-border cooperation in animal and human health;
- Support to uprooted people.

The need for cross-border approaches was noted in all cases save higher education and research, where the regional approach was justified on grounds of efficiency.

## **ASEAN<sup>10</sup>**

EC-ASEAN cooperation has a long history. The European Economic Community (EEC) was the first dialogue partner to establish informal relations with ASEAN in 1972 and in 1975 the

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<sup>10</sup> Members of ASEAN are: Brunei Darussalam, Burma / Myanmar, Cambodia, Indonesia, Lao PDR, Malaysia, Philippines, Singapore, Thailand, Vietnam.

ASEAN-EEC Joint Study Group (JSG) was formed to look into collaborative endeavours between the two regions. Subsequently, the 1<sup>st</sup> ASEAN-EEC Ministerial Meeting was held in Brussels in September 1978. The links with the EEC were institutionalised on 7 March 1980 with the signing of the EC-ASEAN Cooperation Agreement at the Second ASEAN-EEC Ministerial Meeting in Kuala Lumpur. Under the Agreement, objectives for commercial, economic and technical cooperation were established and a Joint Cooperation Committee (JCC) was formed as a mechanism to monitor ASEAN-EEC cooperation. When the ASEAN-EC Cooperation Agreement was signed in 1980, technical assistance was one of the three areas emphasised, the other two being commercial cooperation and economic cooperation.

The 1994 Communication “Towards a New Asia Strategy” (COM (94) 314) sought to achieve a more comprehensive and balanced framework for cooperation. In recognition that, while renegotiation of the 1980 Agreement was not feasible, EC-ASEAN relations needed to be revitalised, the Commission issued COM (2003) 399/4 “A new partnership with Southeast Asia.” The ASEAN Communication identified six key priorities:

- Supporting regional stability and the fight against terrorism;
- Human rights, democratic principles, and good governance;
- Mainstreaming justice and home affairs issues;
- Injecting a new dynamism into regional trade and investment relations;
- Continuing to support the development of less prosperous countries;
- Intensifying dialogue and cooperation in specific policy areas.

With the 2003 Communication in hand and based on an analysis of lessons learned, the EC's ASEAN RSP 2005-2006 called for a focus on policy dialogue in areas of mutual interest where the EC could support ASEAN's goal of regional integration (and other key sectors). Two instruments for dialogue were proposed: Trans-regional EU-ASEAN Trade Initiative or TREATI, devoted to trade issues; and Regional EC-ASEAN Dialogue Instrument or READI, devoted to all other policy areas. Four action areas were identified: support for the ASEAN Secretariat (continuation of an ongoing programme of capacity building), statistical cooperation, the fight against terrorism and drugs (in the event, this was transposed into a border management programme), and a “New Partnership” visibility programme (in the event, this latter initiative was abandoned).

Three of these broad outlines of cooperation were maintained in the RSP 2007-2013: regional capacity building and support to region-to-region dialogues (having been proposed as stand-alone activities in 2005-2006, the 2007-2013 RSP put support to TREATI and READI under the cooperation umbrella), statistical cooperation, and cooperation and policy reform in the field of security (border management).

The March 2007 Nuremberg Declaration on an Enhanced EU-ASEAN Partnership, issued at the 16<sup>th</sup> ASEAN-EU Ministerial Meeting, citing the 30<sup>th</sup> anniversary of ASEAN-EC dialogue, the fortieth anniversary of ASEAN, and the fiftieth anniversary of the Treaty of Rome, re-committed the partners to dialogue and cooperation across a broad front and at the highest level. Specific areas for action were identified in the accompanying Plan of Action.<sup>11</sup>

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<sup>11</sup> [http://ec.europa.eu/external\\_relations/asean/intro/2007\\_16\\_nuremberg\\_declar.pdf](http://ec.europa.eu/external_relations/asean/intro/2007_16_nuremberg_declar.pdf)

## ASEM<sup>12</sup>

The Asia Europe meeting (ASEM) is an informal dialogue process started in 1996. The 2001 Asia Communication recognised its special role in promoting EU-Asia mutual understanding and awareness. While mainly a facility to promote dialogue in areas requested by Asian countries, the EC has contributed to some concrete ASEM initiatives. Those of relevance over the evaluation period are

- ASEM Trust Fund (1998-2006). This financed technical assistance to Asian countries coping with the Asian financial crisis;
- Trans Eurasia Information network (2003-present). This aims to promote data and information exchange between Asian and European institutions;
- Asia Europe Foundation (1998-present). Fosters cultural and intellectual activities and people-to-people exchange.

Vietnam has been affiliated with ASEM since 2004, and some activities have taken place in the country.

### 3.5 EC Strategic Objectives and Priorities in Vietnam

#### Pre-1996 Cooperation

Bilateral EC cooperation with Vietnam began in 1989 with a programme to support the return and re-integration of refugees following the end of the US-Vietnam war. Between 1989 and 1996, grant aid of more than € 110 million 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 Cooperation, leading to agreement on a framework strategy document.

Diplomatic ties between Vietnam and the EC were established in October 1990. The Delegation of the European Commission to Vietnam was officially opened in 1996.

#### The EC-Vietnam Framework Cooperation Agreement of 1996

A Framework Cooperation Agreement was signed between the EC and Vietnam on 17 July 1995 and entered into force on 1 June 1996. This has since provided the legal basis for cooperation.

The principal objective of the EC-Vietnam cooperation strategy of 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. The Agreement comprises four specific objectives:

1. To secure the conditions and to promote the increase and development of bilateral trade and investment between the two parties in their mutual interest taking into account their respective economic situations;
2. To support the sustainable economic development of Vietnam and the improvement of living conditions of the poorer sections of the population;
3. To enhance economic cooperation 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 market economy;

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<sup>12</sup> Members of ASEM are all ASEAN members, EU members, the EC, the ASEAN Secretariat, China, Japan, South Korea, India, Mongolia, and Pakistan.

4. To support environmental protection and the sustainable management of natural resources.

Instruments foreseen for reaching these objectives included the granting of most favoured nation (MFN) status to Vietnam for trade purposes, and the implementation of EC development aid programmes in Vietnam. The Agreement created the EC-Vietnam Joint Commission, a forum for high-level discussions on political and economic developments in the EU and Vietnam, including the continued progress of Vietnam's economic, administrative, legal and judicial reforms and the implementation of the EU cooperation programmes. The Joint Commission meets once every two years. The Joint Commission's meetings are prepared by three subordinate working-level bodies dealing with specific areas.

In June 2008, the first round of negotiations for a new Partnership and Cooperation Agreement (PCA) between Vietnam and the EC took place in Brussels. The PCA, which builds on the 1996 Framework Cooperation Agreement, is a comprehensive agreement covering a broad range of subjects for dialogue and cooperation in the political, economic, development cooperation, social and cultural fields.

### Cooperation between 1996 and 2001

The Framework Cooperation Agreement formed the basis for the launch of seven major bilateral and two smaller development cooperation projects over the subsequent period.

**Table 2 EC-Vietnam bilateral Cooperation 1996-2001**

Sectors/Project's Title	DURATION		COMMITMENTS	
	Starting	Ending	TOTAL (Euro)	C.E. (Euro)
Social Forest Conservation in Nghe An	mai-97	déc-04	18.700.000	17.500.000
Strengthening of Veterinary Services in Vietnam	mars-98	mars-04	9.500.000	9.000.000
Health System Development Programme	oct-98	mars-05	30,095,195	23,095,195
Cao Bang/Bac Can Rural Development Project	févr-99	déc-04	21.250.000	19.350.000
Support to the Ministry of Education and Training	janv-00	avr-04	7.943.000	7.600.000
MUTRAP - Multilateral Trade Policy Assistance	août-00	mars-04	3.100.000	3.100.000
Son La/Lai Chau Rural Development Project	nov-00	nov-05	21.450.000	19.940.000
EC-Vietnam Cooperation in the Audio-Visual Sector	oct-01	oct-04	1.500.000	950.000
European Studies Programme - ESP	nov-01	nov-04	1.078.000	998.000

Source: Vietnam NIP 2005-2006, p. 24.

Overall the pre-2002 EC strategy focused on:

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

However, project implementation faced some challenges, as outlined in a critical reflection of the CSP 2002-2006 (p. 16).

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 the Vietnamese Co-directors of the Project Management Unit (PMU) are key to achieve 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 cooperation with a foreign partner.

### **The First Country Strategy Paper, 2002-2006**

Based on lessons learned since 1996, the CSP 2002-2006 favoured sector-wide approaches over individual projects ("Whenever possible," in the words of the CSP). It aimed at close coordination with other donors' activities, particularly those of the EU Member States, to maximise the impact of the EC's contribution and to ensure complementarity. Furthermore, the CSP stated the need for complementarity and links among different EC-supported initiatives, and - due to budgetary constraints - concentration of activities in key strategic sectors and enhanced linkages between poverty reduction and progress in Vietnam's integration into the world economy.

The CSP strove for an enhancement of ownership and accountability of Vietnamese partners in the design of the cooperation interventions and was directed at the strengthening of the EU's profile and visibility in Vietnam while also trying to increase mutual understanding between Vietnam and the EU.

During the 2002-2006 phase, EC support focused on two priorities, which reflected the two principle challenges facing Vietnam:

- The enhancement of human development, carried out in particular through integrated rural development targeting some of the poorest provinces, and through support in the education field;
- The 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.

These two focal areas were complemented by cross-sector support activities.

The CSP mid-term review (MTR) of 2003 identified the provision for a large number of predominantly small individual actions under the two focal sectors of the CSP as a weakness of the NIP 2002-2004, especially because interventions were exclusively designed as "traditional" projects. These stretched the implementation capacities of the EC as well as of the Vietnamese counterparts, notably the Ministry of Planning and Investment. Following the specific recommendations of the MTR, the NIP was subsequently modified allowing the EC:

- to provide support in the Central Highlands, an area of importance politically and in the context of poverty reduction;
- to do groundwork in the rural development and education sectors to prepare for a sector approach prior to putting such support in place (which was done only in the education sector in the NIP 2005-2006); and

- to strengthen natural resources management through contribution to a Multi Donor Forestry Trust Fund.

Moreover, a € 2 million Small Project Facility (SPF) was added to the initiatives anticipated by the initial NIP 2002-2004, in line with the EC's policy to establish SPFs in Asian partner countries, as a flexible tool enabling EC Delegations to finance small actions that are in keeping with the priorities of the CSP, particularly in the area of governance and civil society development.

The NIP 2005-2006 concentrated on fewer priorities and actions than its predecessor, based on an intensified policy dialogue with the Government to enhance aid effectiveness, depending on the availability of budget resources. The NIP also envisioned a higher degree of coordination and harmonisation with other donors, particularly the EU Member States.

Based on the CSP focal points (enhanced human development, integration of Vietnam into the international economy), the findings of the MTR and the dialogue with partners, the NIP 2005-2006 outlined a focus on three priorities:

1. education, with the overall objective of expanding access to universal basic education and improving the quality of education;
2. support to the Poverty Reduction Support Credit (PRSC) process with the general objective of ensuring satisfactory progress in the implementation of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS);
3. cross-sector support for institution building, administrative reform and improved governance, where a small amount will be reserved for possible activities while retaining flexibility to meet emerging new priorities relating to trade-related technical assistance needs.

Up to and including 2006, the EC committed a cumulative total of € 299 million for Vietnam of which € 152 million were committed under the NIP 2002-2004 (€ 128 million) and NIP 2005-2006 (€ 34 million).

**Table 3 NIP 2002-2004 and NIP 2005-2006**

<b>Revised NIP 2002 – 2004</b>		<b>€ million</b>
<b>Focal point 1</b>	<b>Vietnam's Human Development</b>	<b>60</b>
Action 1	Integrated Rural Development and natural Resources Management	20
Action 2	Support to Rural Health in the Northern Uplands and Central Highlands	18
Action 3	Support for Improved Sector Management of Education and Training	12
Action 4	Vocational Training	10
<b>Focal point 2</b>	<b>Vietnam's Integration into the International Economy</b>	<b>46</b>
Action 1	Public Administration, Institutional Reform and Good Governance	30
Action 2	Support to the Private Sector	10
Action 3	Integration into Global and Regional Economic Arrangements	6
<b>Focal point 3</b>	<b>Cross-sector Support</b>	<b>22</b>
Action 1	Support for the Poverty Reduction Support Credit	20
Action 2	Small Projects Facility	2
<b>Total</b>		<b>128</b>

<b>NIP 2005 – 2006</b>		<b>€ million</b>
<b>Focal point 1</b>	<b>Education</b>	<b>16 – 18</b>
<b>Focal point 2</b>	<b>Poverty Reduction (PRSC IV and V)</b>	<b>14 – 16</b>
<b>Focal point 3</b>	<b>Support for Institution Building, Administrative Reform, Governance and Human Rights</b>	<b>1 -2</b>
<b>Total</b>		<b>34</b>

Source: EC-Vietnam CSP 2007-2013, p.35

### **The second Strategy Paper (SP) 2007-2013**

Based on one of the general lessons learned from the CSP 2002-2006, namely “the effectiveness of EC aid to Vietnam would be enhanced if there were a narrower sectoral focus”<sup>13</sup>, the overarching objective of EC support to Vietnam under the CSP 2007-2013 is the sustainable reduction of poverty, in line with the “European Consensus on Development”. This objective is to be achieved mainly by providing support to the implementation of Vietnam's Socio-economic Development Plan and support to the health sector. EC Assistance in these two focal sectors will be complemented by a limited range of actions and support received through various thematic and regional budget lines.

<sup>13</sup> EC-Vietnam CSP 2007-2013, p. 13.

**Table 4 Focal Sectors of the CSP 2007-2013**

Focal sector 1 Support for Vietnam's Socio-economic Development Plan
Focal sector 2 Support for the Health Sector
Additional actions: Trade-related Assistance, Support to the EC-Vietnam Strategic Dialogue

Vietnam's Socio-Economic Development Plan (SEDP) 2006 to 2010,<sup>14</sup> approved by the Party Congress and subsequently the National Assembly in 2006, reflects the progress made since 2001 in economic development, poverty reduction, and the reform agenda and reflects newer challenges such as World Trade Organisation (WTO) accession. Donors were given ample opportunity to discuss and comment the draft SEDP, and a joint analysis of the September 2005 draft was carried out by the EU and the "Like-Minded Donors Group"<sup>15</sup>.

The EC also intends to fund additional actions in the field of Trade-Related Assistance and to provide support to the EC-Vietnam strategic dialogue under the bilateral Cooperation Agreement. The European Commission places great emphasis on increasing aid effectiveness through alignment and coordination in the context of the Hanoi Core Statement, which is the localised version of the Paris Declaration on Aid Effectiveness and was developed with support from the EC Delegation. In addition, an EU Roadmap for closer coordination among EU donors in Vietnam has been developed, which concentrates on a limited number of actions where the EU brings about clear added value. This is of particular importance in Vietnam, where the EU (the EC and EU Member States combined) is the biggest grant donor.

Under the DCI an indicative allocation of € 304 million has been earmarked for Vietnam for the period 2007-2013. This will be divided as follows:

- Multi-annual Indicative Programme I, covering 2007-2010: € 160 million
- Multi-annual Indicative Programme II, covering 2011-2013: € 144 million

Furthermore, the European Investment Bank (EIB) signed a framework agreement with Vietnam in 1997 and has since funded a number of projects. In June 2005, it approved a € 30 million contribution to the Ministry of Finance in view of establishing an SME credit line. In June 2009 it broke new ground by signing a € 100 million agreement in the emerging area of climate change.

### **The EC and the evolving "mix of initiatives" in Vietnam**

Since 2004, the EC Delegation in Vietnam has moved from a traditional project-based approach towards using a mix of initiatives that involve more coordinated ("joined up") ways of working with development partners and use government systems and processes. This has primarily occurred through the EC contributing to joint funding arrangements such as general budget support and sector budget support initiatives, as well as participating in development partner harmonisation and alignment activities.

In 2004 the EC co-financed the third World Bank Poverty Reduction Support Credit (PRSC 3), along with six other donors and has continued to give general budget support through this mechanism, providing support for PRSC 3 to 7. Total funds provided have been USD 19.9

<sup>14</sup> [http://gfdrr.org/docs/GP\\_PRSP\\_Vietnam\\_2006\\_2010.pdf](http://gfdrr.org/docs/GP_PRSP_Vietnam_2006_2010.pdf)

<sup>15</sup> EC-Vietnam CSP 2007-2013, p. 10.



million for PRSC 3, USD 20.3 million for PRSC 4, USD12.4 million for PRSC 5, USD28.9 million for PSRC 6 and approx USD 23.9 million for PRSC 7 in 2008. The PRSC is designed to support key areas of the Government of Vietnam reform program and is aligned with the objectives of the CPRGS and the SEDP 2006-2010. The EC has focused its activities and engaged in PRSC dialogue in areas linked to its main programmes. These areas are integration into the global economy, education, health, legal development, public administration reform and fighting corruption. It has also aligned some of its technical assistance to support PRSC prior actions. An example of this is the EC support to strengthen public financial management.

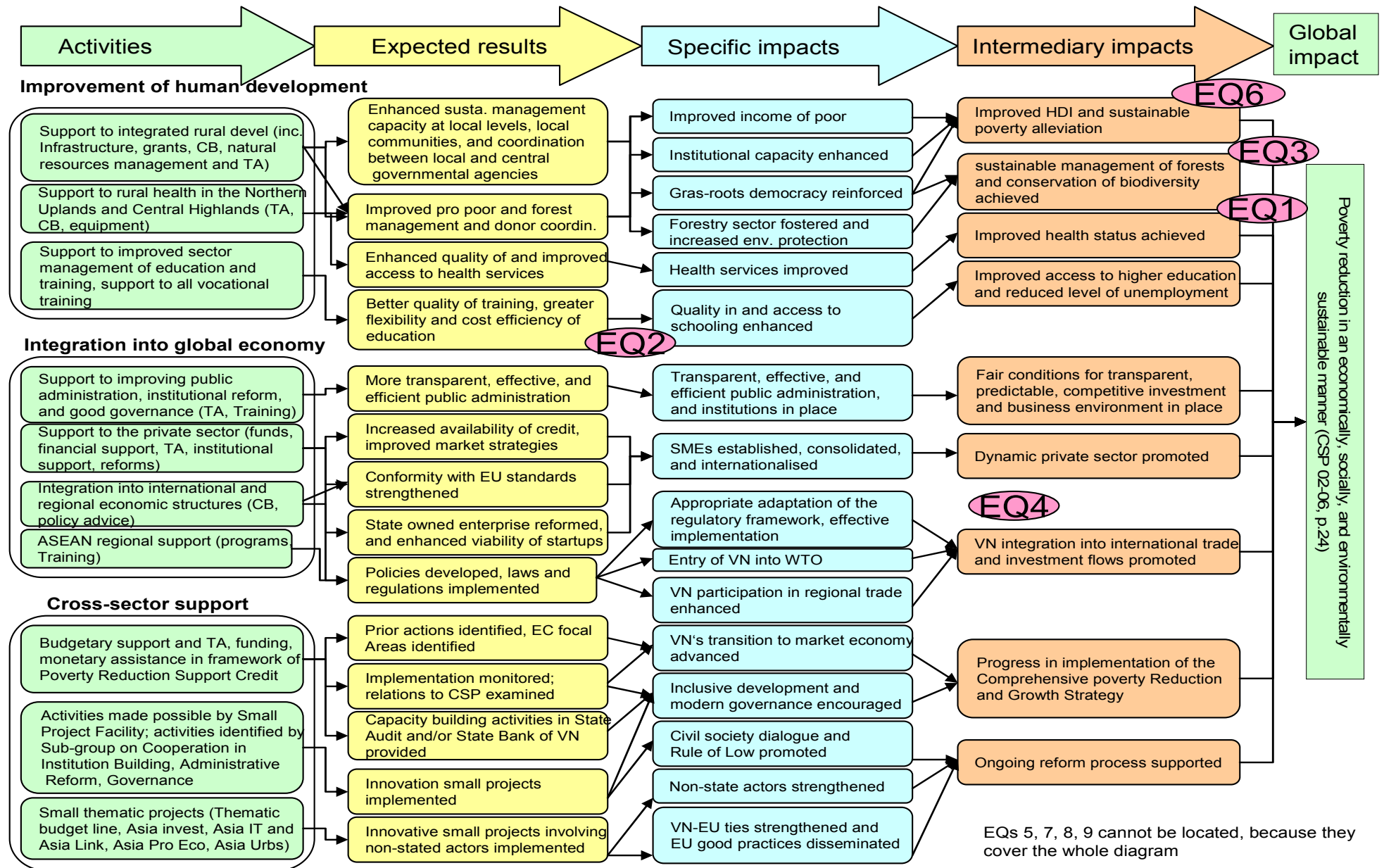
In the education sector the EC gave sector budget support from 2006-2008 to support Vietnam in the implementation of the National Education for All Plan. Funding was provided for selected sub-components of the National Targeted Program for Education (NTPE), in order to enhance the quality of basic education, including the strengthening of the administration of the NTPE. This involved a joint initiative with other donors including the World Bank, United Kingdom, New Zealand, Canada, Belgium, and Spain. Funding was channelled through the Government of Vietnam budget and Ministry of Education and Training (MOET) systems and procedures were used.

Other joint initiatives that the EC has on-going or under preparation are a Multi-donor Trust Fund for Public Financial Management (with the Netherlands, Denmark, Sweden, United Kingdom, Norway, Canada and Switzerland), institutional support to the National Assembly (with Germany) and support to the forest sector (with the World Bank, the Netherlands, Germany). Consideration is now being given to using a pooled funding mechanism in the health sector, and a multi-donor capacity building project to pave the way for such support is in its take-off stage.

In 2002, the EC nominated Vietnam as a pilot country for EU harmonisation of policy and procedures. This was implemented by a Road Map developed by all EU development partners who agreed to adopt more joint ways of working and increase alignment with government policies and systems. As part of this process, the EC has participated in a variety of donor working groups and harmonisation initiatives. It is a member of the Partnership Group for Aid Effectiveness (PGAE) which was instrumental in drawing up the Hanoi Core Statement providing a framework for implementing the Paris Declaration on Aid Effectiveness. It has also funded an advisor to the Ministry of Planning and Investment on aid harmonisation and been active in developing cost norms.

### **EC Overall Intervention Logic**

In order to provide a general framework for designing EQs, the evaluation team prepared an impact diagram illustrating the overall intervention logic of the EC's evolving partnership with Vietnam over the evaluation period 1996-2008. The diagram is strictly based on the CSPs and NIPs available for Vietnam during the evaluation period.



## 4 FINDINGS

This section presents findings for all EQs. For each EQ, we give a very brief answer in a text box, then a somewhat longer assessment in the paragraphs following. For full-length EQ answers, plus the assessments of Judgment Criteria informing the answers, and for information on the indicators which informed the assessments of the Judgment Criteria, see Annex 7 in Volume 2, the “information matrix.” It is at the level of indicators that citations to source documents and field interviews are to be found.

### 4.1 EQ1 - To what extent has EC support in the area of health contributed to sustainable improvements in the health of the poor?

*Little to date apart from two very successful regional projects in the early years of the assessment period, but the situation is progressing in the right direction. Of two major projects in health, the one that has been finalise,d provided infrastructure and equipment, but with long delays and with an emphasis on secondary and tertiary facilities. The second, ongoing and more promising because it is focused on grassroots integrated primary health care, had a late start and it would be too early to judge it. However, it shows promise. All donor support in health is hampered by the lack of an effective health care financing system and lack of capacity at all levels of the health care policy making establishment. In recognition of the lack of capacity, the EC is participating in a multi-donor capacity building project to lay the foundation for sector budget support.*

The EC has supported two major project interventions in health, the Health Sector Development Programme (HSDP; 1995-2008) and Health Care Support to the Poor of the Northern Uplands and Central Highlands Project (HEMA; 2006-2010). The HSDP project concentrated on the provision of infrastructure and equipment. While there were positive impacts in terms of strengthening provincial health teams and training, the main component was widely judged to have performed poorly, with serious delays. Much of the benefit went to secondary and tertiary facilities, and there was little demonstrable impact on health facility utilisation in the two target provinces. HEMA, by contrast, is oriented towards the provision of primary health care services at the district and commune levels, rather than procurement, and aims to deliver an integrated programme of community-based health interventions. It is too early to judge results, as the project experienced significant delays in implementation and is only now beginning to gear up. Despite being in its early stages, the project is already contributing to impacts on access to health care by the poor in the regions targeted.

As promising as the HEMA project is, the main current development is that the EC is engaging, together with other donors, in the strategic planning necessary to design and launch sector budget support in health, and is participating in a capacity building project at the Ministry of Health (MoH) and in three provincial-level Health Departments, designed to lay the groundwork for budget support. A working group including EC officials with long experience in the social sectors has been formed and lessons derived from sector budget support in education (see EQ 2) are being applied.

It should also be pointed out that, in the early years of the evaluation period, the EC financed two important and generally well-appraised regional health projects: one on malaria (Regional Malaria Control Programme) and one on reproductive health (Asia Regional Initiative on Reproductive Health for the Youth).

The EC is heavily involved in coordination in the health sector through chairing the EU donor's group, which produces the Joint Annual Health Review, seen by some as a precursor to a sector plan, and coordinates a European position prior to meetings of the Partnership Group in health.

Given the recent start up of the HEMA Project and the acknowledged problems of the HSDP project, it would not be possible to attribute any of the recent health trends in Vietnam to the EC (save, perhaps, improvements in access to HIV/AIDS treatment made possible by the Global Fund, supported in significant part by the EC and EU Members States). All basic health indices have experienced dramatic improvement in Vietnam over a ten year time frame (1995 – 2005). For example, the infant mortality rate declined from 45 to 18 per 1000; the under-five mortality rate from 62 to 28 per 1000; and the maternal mortality ratio from 110 to 80 per 100,000 live births. While all groups in society have experienced improvements, some groups have experienced greater improvement than others. Hence, there are growing disparities between rich regions and poor ones, cities and the countryside, ethnic Vietnamese and minority ethnic groups. Moreover, it is striking that the *least* progress has been in those mortality indices (such as the maternal mortality ratio and neonatal mortality rate) which are most closely related to access.

Access to health care of reasonable quality at the grass roots level remains low in Vietnam, contributing to overcrowding at District and, more particularly, Provincial level facilities. The quality of health care at the commune level is so low that many, even of the poor, go to private clinics. While there is evidence that the Health Care Fund for the Poor increased poor people's utilisation of health facilities, there remain serious coverage gaps for the poor under the (successor) Health Insurance Fund. Serious health events are a cause of impoverishment, with an estimated 8 percent of households having experienced catastrophic health expenditure in 2004. Reasons for low access include the following factors:

- Provincial governments systematically fail to allocate needed funds to the health sector;
- Health staff has clustered at provincial level facilities due to low salaries at the district and commune level;
- In some regions, geographical remoteness is an issue;
- Particularly important because it affects all the proximate causes, there is a lack of an effective health care financing system.

The financing of health, to which we devote Special Focus 1, is not only inadequate; it is complex to the point of being opaque. The MoH only directly controls funds for National Target Programmes (NTPs) and a few other budget lines (national hospital, teaching facilities, administration). 75 percent of spending on health is out of pocket, 13 percent is financed via Vietnam Social Security (VSS) insurance, and public budget resources represent only about 12 percent (although it should be remembered that a significant amount of VSS spending is GoV subsidised). Perhaps 40 percent of the total population is covered by VSS insurance, one-quarter of them poor persons totally subsidised by the GoV. However, many poor fall through the net because of difficulties of identification and affiliation, as well as other problems. A public half-subsidy for the "near poor" does not work well, for the same reasons. Capacity at VSS is low and there is inadequate communication between VSS, responsible for implementing health insurance, and the department of the MoH responsible for making policy.

Many of these problems derive from low capacity of health agencies to make policy, prioritise goals, and estimate resource needs. While the EC has contributed to capacity building for service delivery through both HSDP and HEMA, a critical mass of capacity for policy making is nowhere near achieved. Central MoH capacity for sector wide, holistic policy making and prioritisation is low despite many years of donor support. Provincial-level capacity is almost non-existent. The Ministry of Health remains service-delivery oriented and guards its privileged access to donor support. At the same time, the low share of donor support in total spending (3 percent of total, 10 percent of GoV health spending) gives the donors only limited policy leverage. The EC's current emphasis on capacity building to lay the groundwork for sector support is appropriate to the context, relevant to needs, and well timed.

#### 4.2 EQ2 - To what extent has EC support in the area of education effectively addressed Vietnam's needs at the national and provincial levels?

*A number of EC-supported NGO implemented projects on primary education in regions predominantly inhabited by members of ethnic minority groups have been extremely relevant, effective, and efficient. Technical Assistance to the Ministry of Education and Training has failed, however, to make operational an Education Management Information System (EMIS) to an acceptable international standard. Sector budget support in education was not successful as had been hoped.*

Progress in the management of the education system, in which EC support plays an important role, has been made. However, the progress to date is insufficient to consider the Ministry of Education and Training (MoET) as having sufficient capacity to effectively run nation-wide implementation projects such as a Sector Policy Support Programme (SPSP).

Management of information is fundamental for the whole management process in the education sector: data collection, planning, financial and personnel allocations, monitoring, etc. The EC played a crucial role in the institution of an education management information system (EMIS), but the extent to which this system has been effectively implemented for reporting appears to be limited. An extended and improved version of the system is initially being implemented in only 5 percent of the schools. Without further donor support beyond the implementation period of the present technical assistance, the implementation of the revised EMIS runs a high risk of ending in a failure. The use of data from the EMIS is at this point also well under the level that would be considered minimal standard.

Both technical assistance projects in support of education management on central level (SMOET and SREM) contributed to the drafting (in the first case) and improvement (in the second) of medium-term education sector development strategic documents, of which the MoET took complete ownership. However, other important conditions for a sector approach are still missing today: an active Education Medium Term Expenditure Framework, as well as compatible, effective and transparent public expenditure management systems.

The EC embarked with other donor organisations in 2005 on a SPSP, to which we devote Special Focus 2 on budget support to the education sector. With hindsight, the start of an SPSP, with budget support as the chosen modality, was premature and did not address needs, and the approach has not worked as well as was hoped. With an opaque financing system it could have been anticipated that reporting would be problematic, which was in fact the case. Topping-up of the education sector budget by the GoV, as well as the generation of lessons learned by the use of national systems, while significant positive developments, cannot obscure the fact that sector budget support did not reach the anticipated success and effectiveness in education. In response to lessons learned, the EC is now more cautious in embarking on new sector budget support initiatives in Vietnam. Among the lessons learned is the need for better coordination between ministries and between central and provincial level, as well as the need for more attention to capacity building prior to commencement of budget support. Sector budget support in education had only limited impact on sector policy, a disappointment that may not be relevant in all sectors.

On a brighter note, very successful examples of EC support were the two education projects being implemented by NGOs in poor regions in the North of Vietnam. With the relatively low budgets they have a considerable impact in the sense of providing schooling for children who without the projects would not have been enrolled in education at all. They supported, in addition to infrastructure in the respective regions, an improvement of the quality of the education in the schools by provision of teaching materials and in-service training. The approach of recruiting aspiring teachers from the local ethnic minority, giving them a certified training as teachers for the schools in their native region is very successful. This way the children do not

enter a world where a language incomprehensible for them is spoken. Also reported to have been effective was a small NGO-implemented project on education of street children.

In the sub-sector of Vocational Education and Training (VET) the recent start of the Labour Market project, managed by the Ministry of Labour, Invalids and Social Affairs (MoLISA) seems to be chosen at the right moment – exactly at a point in time that the GoV is taking up VET as one of the priorities for the further development of the education system. However, it is too early to expect any impact of this project. Also of significance is VET occurring under the recent tourism project (discussed under EQ 6 below).

In the area of Higher Education (HE), the results of the initial European Studies Project were mixed. It is true that EU visibility increased in Vietnam due to the project activities, but results in the sense of establishing partnerships of Vietnamese HE institutions with European or other foreign ones did not materialise, at least not immediately. After 2004 a significant increase in participation of students of Vietnamese universities in Erasmus Mundus and in Asia-Link is observed. Also in the Framework Programmes for Research and Technological Development and the ASEAN-EU University Network Programme, Vietnam's active participation is growing. Vietnam has clearly benefited from EC-supported links in higher education.

Major cross-cutting issues, gender and ethnic minorities, are explicitly addressed in EC cooperation in the education sector in Vietnam. The SREM project produced an Issue Paper on the improvement of the position of women at various levels in the system, especially to increase the involvement of women in education management. The two projects implemented by NGOs deal explicitly with inclusion of minorities into the education system. The SPSP in support of the Education For All initiative targets the poorest areas of the country, which have an over-representation of ethnic and linguistic minorities.

#### **4.3 EQ3 - To what extent did EC support to rural development, including support to the poverty reduction strategy through General Budget Support, help households escape poverty traps, including environmentally destructive farming and forestry practices?**

*The EC's support in rural development has contributed to improved food security and income, in part by helping households to manage renewable natural resources more sustainably. Sustainability of impacts has, however, been impaired by short implementation periods and, especially, by the EC's withdrawal from the sector, withdrawal for which blame must be shared by the EC and the Government of Vietnam. Opportunities to build on past successes have been missed. We note, however, the EC's recent decision to provide support for the important sector budget support Program 135, which supports rural development in the poorest areas of the country. This represents a flexible, pro-poor response to the difficult economic conditions accompanying the global financial crisis. While there has been some progress against environmentally destructive forestry practices, these have been insufficiently joined up along the central-to-local axis.*

EC-supported rural development and forestry projects have succeeded in creating benefits that allow households to escape poverty traps without engaging in destructive farming and forestry practices. There is solid evidence of increased sustainable food production, improved food security (albeit somewhat weaker evidence in this case), increased income and productive assets at household level, and – to a lesser extent – of strengthened institutions that have the capacity to further support the rural development process while safeguarding natural resources and the environment.

Most EC support in the area of rural development and environment has been directed to the poorest areas of the country, often disproportionately occupied by members of ethnic minority populations. No specific analyses have, however, been conducted to assess the differentiated

effects of the projects on majority and minority groups, and on women and men. Various EC supported projects have also succeeded in introducing environmentally, socially and economically sustainable forestry practices, mostly via grassroots initiatives but also via a sector programme providing institutional support to the forest sector. Poor and marginalised communities, often belonging to ethnic minorities, have been among the main beneficiaries of the initiatives at the grassroots. Yet, by not explicitly incorporating ethnic minority (and gender) into projects, it is possible that in some areas benefiting, gaps actually widened, i.e. the entire population benefited, but the well-to-do (or moderately poor) more than the very poor.

There are concerns regarding the sustainability of project benefits, related, among other things, to the EC's withdrawal from the rural development sector and despite serious efforts by many projects to address benefit sustainability during project implementation. This withdrawal was due to the closure of a single large project (see second bullet point below), an unfortunate development for which blame must be shared. Poor national implementation meant delays, which in turn caused the project to run up against the wall of a rigid EC "guillotine" clause. With hindsight, the lack of EC flexibility may be questioned; the policy has since been loosened.

While there have been concerted efforts by beneficiaries, village level institutions, and local authorities to ensure benefit continuity after project closure, these efforts have not been able to maintain the level of benefits that was reached at the end of the projects, in particular in the highlands. Several factors play a role in this regard:

- Project implementation periods have been too short (5 years, often only 4 years of effective work) to ensure benefit sustainability in view of local constraints: marginalised and poor population groups with low levels of capacity, living in geographic isolation, depending on vulnerable eco-systems. Only comprehensive and long-lasting efforts can lead to sustainable changes in such situations.
- GoV agencies (Ministry of Agriculture and Rural Development at the central level, Department of Agriculture and Rural Development at the provincial level) implicitly assumed that the EC would opt for continued support, although the EC never made any commitment in this regard. The EC's decision to withdraw from the rural development sector came as a surprise; in addition, one major project (Initiatives for Pro Poor Development in the Northern Uplands) that had been conceived to build on the results of a major rural development project in Cao Bang and Bac Kan provinces was terminated by the EC in its inception phase, apparently due to mismanagement at the decentralised level. Local and national authorities were ill prepared to comprehensively ensure benefit continuity and did not dispose of the necessary resources to do so (e.g. to maintain the newly constructed roads).

While the decision to concentrate on a limited number of sectors can be understood, when withdrawing from the rural development sector, the EC did not have a clear strategy and approach to ensure that the continuity of benefits of its projects would be assured and the rich expertise and experience in the RD sector safeguarded and shared with other actors. We note, however, that the EC has recently decided to participate in Program 135, an important sector budget support programme providing resources to one of Vietnam's most important National Target Programmes -- the Program for Socio-Economic Development in Communes Facing Extreme Hardship in Ethnic Minority and Mountainous Areas, providing basic infrastructure, production and livelihood support services, and capacity building support to predominantly ethnic minority communities living in Vietnam's poorest and most remote communes and villages. This programme should contribute to narrowing the poverty gap between these areas and the rest of the country. The decision represents a good example of the EC flexibly responding to the need for pro-poor support in the context of the global financial crisis and its impacts on Vietnam.

All rural development and forestry projects had a strong environmental focus and contributed to the introduction of sustainable forestry practices, in particular by initiating approaches of community involvement in forestry management. The Support to the Forest Sector Development project (FSDP) to some extent complements these efforts. However, actions to encourage sustainable resource management are localised and not solidly embedded (in the case of rural development projects), or are not linked with consistent and comprehensive efforts at lower levels (in the case of the FSDP). As such, they only to a limited degree constitute an effective answer to the process of environmental degradation in Vietnam's forest areas, in particular in areas that experience severe pressure, such as the Northern Highlands.

#### **4.4 EQ4 - To what extent has the EC's cooperation programme, trade-related technical assistance, and trade dialogue, strengthened Vietnam's economic reform process and accelerated the country's integration into the regional and global economies?**

*A great deal. The EC's multi-dimensional support to trade and economic reform has substantially contributed to Vietnam's integration into the regional and global economies; the first via ASEAN integration and the second via WTO accession. The interventions that were most successful were those that were most flexible and were most closely aligned to existing policy decisions rather than aimed at developing policies. This underscores the fact that GoV ownership of EC support in trade and economy was extremely high. EC support to the PRSC has also coupled strong government ownership with support for the reform agenda.*

EC interventions have been explicitly aimed at Vietnam's economic reform process and the country's integration in the regional and global economy/trading system and have effectively responded to the Government's and the emerging private sector's capacity needs. There is ample evidence for aid effectiveness and the high impact of projects such as the Multilateral Trade Policy Assistance Programme (MUTRAP), the Vietnam Private Sector Support Programme (VPSSP), and the Tourism project, particularly because for most of the assessment period the cooperation programme was conducted parallel to trade negotiations and thus created important synergies for Vietnam's WTO access. Lessons learned were consistently incorporated, e.g. in the case of MUTRAP, which is now being formulated in its third phase and has been consistently strengthened throughout. Yet, there were shortcomings too. For example the ETV2 capacity project, where despite some positive activities, it proved difficult to establish a clear signal along the axis of national needs – donor response, largely for reasons internal to the Ministry of Finance.

Overall, the policy dialogue between the GoV and donors, including the EC, has been focused primarily on influencing the implementation of existing pro-market reform policies, rather than introducing or designing new ones. This had the result of ensuring very high GoV ownership of support provided. While it is difficult to quantify and qualify the specific impact of EC-funded interactions on legislative and policy-making processes, linkages clearly do exist; for example, the Institutional Support Programme (ISP) provided a great deal of support to the National Assembly on matters related to WTO. However, the EC support for the PRSC has probably been the most significant contribution in this regard. Through the soft conditionality implicit in its policy matrix, general budget support for PRSC has been providing important incentives to keep the macroeconomic reform programme on track while supporting reform-minded political actors.

The EC was instrumental in the development of Vietnam's WTO accession strategy and Post WTO Action Plan. As a very visible manifestation of support to Vietnam's WTO entry, in October 2004 the EU became the country's first major partner to conclude bilateral accession negotiations, a step which gave significant impetus to the overall accession process.



In addition to ISP, the Small Project Facility (SPF) made a significant contribution to strengthening governance aspects of trade and economic integration. SPF was a flexible and effective way of responding to emerging and immediate needs among Vietnamese stakeholders, although the administrative costs to the EC were admittedly high. SPF, to which we devote Special Focus 3, strengthened the capacity of small and medium-sized enterprises (SMEs), local government agencies and emerging civil society organisations and also increased the voice of non-state actors (or semi-independent groups) in the policy-making process. Furthermore, and probably most importantly for a country that is in the process of forming a robust research infrastructure, the involvement of academic institutions in many SPF projects provided a valuable contribution to the training and capacity building of young academic researchers in areas related to trade and economy.

An important part of the EC's support for Vietnam's economic integration into the regional and global environment was via ASEAN-level EC cooperation programmes. These ran on a double-track, support to the ASEAN Secretariat through the APRIS project and support to ASEAN Member States through regional programmes such as the EC-ASEAN Economic Cooperation Programme on Standards, Quality and Conformity Assessment (2003-2005), ECAP I and II (devoted to intellectual property rights), as well as Asia-level programmes such as Asia ProEco, AsiaInvest and the Asia Trust Fund. All regional programmes have stated the fostering of ASEAN integration as one of their overall objectives. Vietnam has participated in and benefitted significantly from all programmes.

**4.5 EQ5 - To what extent has the EC integrated governance broadly considered (e.g., public sector accountability and transparency, civil society, rule of law, human rights, corporate social responsibility, gender) into its cooperation programme both in terms of strategy and implementation?**

*The EC tackled problems of governance, including civil society development, rule of law, and human rights. However, while their field of action is steadily widening, national NGOs / CSOs and non-state actors are nowhere near fulfilling a watchdog role in Vietnam. Human rights remains a difficult area in which to work, but the EC remains engaged through innovative means such as the new "Support for strategic dialogue ..." initiative. Less sensitive areas, such as governance aspects of the environment, have been reasonably incorporated into project logframes. On gender and ethnic minority issues, the picture is mixed; these were well incorporated into education sector activities, but poorly in rural development. While the EC has addressed issues of public administration reform and public financial management, notably through support for PRSC and participation in a multi-donor task force, progress is acknowledged to be slower than needed. Integration of lessons learned in cooperation into governance policy related dialogue proceeded relatively well due to good lines of communication at the EC Delegation. EC consultation with NGOs / INGOs on strategy has been excellent.*

The EC has supported national NGOs, academic institutes, businesses, and professional associations, in large part through the Small Projects Facility (SPF); less effectively through EIDHR, and (just now starting) the Non-state Actors / Local Authorities budget line. There have been impressive EC consultations with International Non-Governmental Organisations (INGOs) / national NGOs on strategy, and effective partnership with the European private sector via Eurocham. Moving forward, the MUTRAP 3 project contains flexibility to support activities that would formerly have been candidates for SPF. Still, national NGO capacity to generate funding in the absence of international partnership is limited. Some national NGOs who have experience of partnering with INGOs have been able to assemble funding applications on their own, but this is only in a handful of cases. Short project implementation periods, which

mean that the implementing partners have to change the name of the project and re-apply, are an annoyance.

As we discuss in Special Focus 4 on the role of civil society in Vietnam, while there is increased room for NGOs and other non-state actors, their role is still limited. Civil society in the European “watchdog role” does not exist, nor does the EC have the ability to determine its development. However, there has been increasing involvement of civil society in PRSC dialogue, and, as noted, the EC Delegation has recently been exemplary in consulting with national and international NGOs on strategic issues.

The Institutional Support Programme (ISP) addressed political governance issues including rule of law, although evaluators pointed to problems of project design and overlap with efforts funded by other donors. The end result, though, is that at least one beneficiary, the office of the National Assembly, benefited tangibly and one significant impact, the Law on Laws, was achieved. Broader impacts, in particular the de-politicisation of issues on which consideration continues, were more diffuse but are nonetheless significant; for example, the issue of state compensation (for, e.g., accidents or eminent domain). A follow-up to the ISP is being formulated in partnership with other donors in order to minimise overlap and improve coordination. The emphasis of the EC's support is shifting from legislation to implementation.

The success of the SPF Project (the subject of Special Focus 3) is broadly acknowledged, but so is the fact that this and similar interventions are labour intensive and hence expensive from the EC Delegation's point of view. As mentioned, MUTRAP3 includes aspects that should make it possible to keep SPF-type partnerships alive.

Not surprisingly, human rights have proven to be the most difficult area of support. However, the governance component of SPF supported national actors in sensitive areas, and similar work can be supported through the new additional activity “Support for strategic dialogue ...” A number of small initiatives in areas such as corruption and refugees have already qualified for support under this initiative.

A review of logframes suggested that governance issues were reasonably integrated into projects/programmes. Many logframes introduce governance related objectively verifiable indicators (OVIs), yet actual monitoring reports rarely rise above project-level governance issues (relations between agencies, etc.). Education, health, and rural development projects appropriately incorporated themes such as gender and ethnic minorities at the design stage; at least in the case of rural development, however, there is no evidence that these issues were taken into account at the stage of implementation. While gender and ethnic minority issues were well integrated into the EC's education and health sector activities, they were poorly integrated into rural development projects. Forestry projects explicitly incorporated governance issues having to do with property rights, integrated rural development projects less effectively. Trade related assistance covered governance issues having to do with IPRs.

Through PRSC budget support, EC has been able to engage in dialogue related to public financial management (PFM); and the EC contributed to the Multi-donor Trust Fund (MDTF) on PFM (discussed in much more detail under EQ 7). Yet, progress on PFM and the closely linked issue of Public Administration Reform (PAR) remains slow, especially at decentralised level.

The EC has supported the United Nations Development Programme (UNDP) in strengthening the GoV fight against corruption; however, the GoV is more interested in large “whistle blower” corruption than endemic corruption at lower levels of society, which has a greater impact on poverty. While transparency and accountability figure prominently in cooperation rhetoric, concrete steps and results have been limited. Overall trends are positive (for example, the budget is now a public document) but resource allocation decisions remain opaque (there is no

consolidated budget and the National Assembly has limited oversight over budgetary allocations). Independent civil society organisations play little role in monitoring and oversight of budget support and poverty reduction (although they do participate in related policy dialogue).

Governance-related risks could have been better incorporated into selection of strategic approach. In the education SPSP implemented via sector budget support, there was lack of transparency in financial administration and no Medium-Term Expenditure Framework (MTEF) in place. In the health sector, there needs to be further consideration of PFM issues including the complexity of central-provincial relations, governance issues in health insurance, and lack of transparency in the financing of the health sector. However, budget support and use of national systems in general is good from the standpoint of generating insight and lessons.

Communication between programme officers responsible for projects / sectors and EC Delegation officials involved in policy and political dialogue appears to have been good, with projects like the new "Support to strategic dialogue ..." offering concrete opportunities for pursuing themes raised in dialogue.

#### **4.6 EQ6 - To what extent has the design and implementation of EC interventions adequately privileged the needs of the poor?**

*The picture is mixed. The commitment of the GoV to tackle poverty through the SEDP is strong, and the EC's general budget support via the PRSC has a poverty reduction impact. Sector budget support in education, and now in health, has enabled the EC to express its special concern with poverty reduction through social sector development while aligning, through general budget support, with the GoV's approach. At the project level, there are concerns in the case of rural development projects that the needs of the poorest have not been met and that, while there may have been poverty reduction impacts, gaps may actually have widened as a result of EC projects. In health, the HEMA Project focuses on grassroots health needs of the poor, but the main health-poverty link is the lack of an effective health care financing system. Data, analysis, and planning systems are not timely enough, nor are instruments flexible enough, to deal with the current economic crisis. The EC's evolving support for P135 represents an example of a strongly pro-poor intervention flexibly implemented in the face of a rapidly evolving situation, namely the global financial crisis.*

The GoV's commitment to poverty reduction is unquestioned, even as poverty becomes concentrated in remote areas and among ethnic minority groups. Hence, by aligning with the Social and Economic Development Plan (SEDP) through general budget support, the EC has supported one of the most effective poverty reduction programmes in the world. There are still wide disparities along the axes of rural-urban, lowlands-highlands, and Vietnamese – ethnic minority populations. The current global economic crisis almost certainly means (see comment below on data uncertainty) that poverty will rise in 2009, and certainly means that targets for poverty reduction will not be met. The laudably aggressive programme of the GoV in the fight against poverty will pose some public relations problems in the months ahead as expectations will need to be managed.

The main aggregate issues that have arisen in poverty reduction concern recent trends and data issues. The best poverty trend estimates appear to be ones produced by Vietnam Academy of Social Sciences (under contract from the World Bank) based on Vietnam Households Living Standards (VHLS). Data are available only with a significant time lag – at the time of this writing, the VHLS data for 2007 were eagerly anticipated, and the impact of food price inflation and global economic downturn during 2008 was essentially *terra incognita*. Current concerns include unemployment (as export-oriented industries have contracted), declining FDI, especially in construction (a driver of urban employment), and the scaling back or outright departure of foreign manufacturing firms. Tales of declining remittances and migrants returning from cities

(or abroad) to their villages abound, but the international community, and GoV are in the dark because of the lack of good tracking data. Data deficiencies have also led to tension between the GoV and the donor community.

At the project level, the picture is mixed. Rural development projects would have been better suited to poverty reduction if interventions had been longer term. Most projects have not been fully successful in designing and implementing approaches and strategies that deal effectively with the specific situation of the poorest communities in their working areas (often ethnic minorities living in upland areas). The major problem has been the incapacity to design and develop specific approaches that take local particularities (in terms of culture, capacities, natural resources endowments, etc.) into account. The fact that projects have been implemented via GoV institutions is an issue in this regard. By benefiting the relatively better-off (who may themselves be poor) more than the very poorest, EC projects may have actually increased disparities.

Education has only a long-term impact on poverty, but the NGO projects analysed in the process of answering EQ 2 closely aligned with needs of the poor. Gender and ethnic minority issues were well integrated, not only at the project level, but at the level of support provided advice to the Ministry, as well. In health, there are some concerns that substantial amounts of the equipment provided by the HSDP project were allocated to provincial hospitals. The HEMA Project, just starting to result in impacts, is more closely aligned with poverty reduction. However, the key poverty-health nexus is out-of-pocket payments, which can be dealt with only through putting in place a reasonable system of health care finance. The EC has yet to really come to grips with this issue because it has followed the traditional orientation towards improving service delivery via infrastructure, equipment, and training. The evolving sector support programme in health offers a good opportunity for dealing with the health care financing issue.

The link between cooperation targeted at the economic reform process/international integration and poverty reduction is not as clear as it should be. While project documentation and monitoring/evaluations reports frequently mention the impact of projects on poverty reduction, very little – if any – specific, indicator-based evidence is presented to back up the claim. None of the available documents sustain the link between the support for “stronger integration” and poverty alleviation beyond the general notion that trade integration always eases poverty. Vietnam is a competitive economy in most sectors, and the “losers from economic integration” theme finds little traction in the Vietnamese context. However, while it can safely be assumed that the trade/economy-focussed projects have indeed contributed to poverty reduction in a general sense, the paramount importance of poverty alleviation as the cardinal aim of the cooperation programme would require a more direct and explicit strategic approach and elaboration on this link.

While we recognise that activities on the Human Resources Development in Tourism project did not begin until 2008, this important initiative deserves a few remarks. The €10.8 million project provides support to upgrade the standard and quality of human resources in the tourism industry and to enable the Vietnamese government and industry to sustain the training quality and quantity at the project's completion. There are some early indications that the project has the potential of making an important contribution to poverty reduction. By offering advanced vocational training for a large number of Vietnamese employers in the ever-growing tourism sector, there is a good chance that these workers – many of whom have on-the-job experience, but lack formal qualifications and training – can escape poverty on a sustainable basis.

Also falling outside the evaluation period strictly considered but important to mention is the EC's decision to begin participating in the P135 programme, which supports a crucial pro-poor target programme (see answer to EQ 3 above).

#### 4.7 EQ7 - To what extent was the EC mix of approaches, in the form of projects, General Budget Support, and SWAPs appropriate to the national context and EC cooperation objectives?

*The EC's main strategic shift, from project-based approaches to General Budget Support (GBS) in support of the GoV's poverty reduction strategy, has been largely successful. Transaction costs for the GoV have been reduced, GoV ownership and capacity have been increased, and policy influence has been gained. Although disappointingly slow, improvements in public financial management through budget support-based policy dialogue provide leverage to the entire cooperation programme. Sector budget support, especially as we judge from the education sector, has been less successful, not only because of low financial management capacity, but because (at least in this sector) support for the national target programme was not a very effective way of improving sector-wide capacity, especially for policy making and prioritisation. Nonetheless, sector budget support has increased donor harmonisation and alignment in the education sector and such programmes can result in lessons learned which can inform the design of more effective subsequent programmes.*

Overall, the EC mix of approaches has been appropriate to the national context and EC cooperation objectives. The EC has aligned with GoV objectives and has, whenever the opportunity arose, moved from using a project-based approach to general budget support, sector budget support, multi-donor trust funds (MDTFs), and other joined-up approaches. The move towards using new aid modalities and joint ways of working has been very positive and is the right approach in an environment such as Vietnam where there are many donors, implying high transaction costs for the GoV. Also, given Vietnam's accession to Middle Income Country (MIC) status, strengthening GoV ownership, capacity and systems is more likely than a stand-alone project approach to leave a sustainable legacy of EC support. The EC's recent decision to support Vietnam's response to climate change through a € 100 million European Investment Bank (EIB) loan is a noteworthy step in the evolution of the EC's cooperation towards what may be a less ODA-based approach.

The PRSC has allowed the EC to engage in high-level policy dialogue and raise issues such as strengthening public financial management which affect the entire government programme and whose improvement leverages all cooperation. The commitment of the GoV to poverty reduction via the SEDP supported by PRSC budget support is strong, and budget support has thus contributed to achieving the EC's core objective of poverty reduction. That having been said, the EC has a special commitment to the social sectors (education and health), and sector budget support has helped (in the first case) and will help (in the second) the EC to re-affirm that focus on equity while still participating in overall poverty reduction aligned with economy-wide national strategies.

When working through national systems, concerns arise regarding fiduciary management and accountability. Yet against these concerns that the EC is being too accommodating must be balanced the concerns of some EU Member State agencies that the EC is being too rigid. Ultimately, each donor must work within its national rules and regulations, and the convergence of all donors at one extreme of the spectrum, namely working entirely through national systems, is very unlikely to be realised soon.

Some important issues arise in the review of sector budget support, which in the sector most intensively studied, education, has not lived up to expectations. Sector budget support is typically in support of a National Target Programme or NTP (of which there are a plethora in Vietnam, ranging from education to health to a new NTP in climate change). In the case of education, the NTP was a vertical program and so had a narrow impact on sector policy and coordination. There were also issues with opaque financial systems and a lack of capacity in the Ministry of Education and Training (MoET) that were not anticipated. In the health sector, where sector

budget support is just starting, the support will not be for a single NTP. The challenge will be that there are a number of target programmes, and intra-ministerial coordination is weak.

On the brighter side, SPSP in education was the first support programme of its type and donors overestimated what could be achieved in three years, when institutional change is a long-term process. There was a positive impact on donor harmonisation and alignment with GoV systems and there were also many valuable lessons learned on how GoV systems work (and do not work). The EC made the right decision not to continue with sector budget support in education, however, the lessons learned have the potential to improve the effectiveness of future sector programmes, e.g. in health.

In the case of the Forestry Sector Support Programme (FSSP), the EC parallel-funded as there were concerns about joining the joint funding mechanisms. However, EC support through FSSP was aligned with support to the forestry sector as a whole and was been effective in funding forestry studies and supporting the forestry sector reform process overall.

Most fundamentally, sector and general budget support are funding modalities which are a means to an end rather than the end in itself. They are only as good as the strategies which they support and will not be effective unless the underlying strategy is appropriate. Therefore, they should not be used just for the sake of it, but only if they are likely to be workable. There is a need to ensure that a coherent and feasible sector strategy is in place and that PFM systems are transparent (especially regarding procurement). The putting-in-place by the EC Delegation of a working group of social sector experts to strategise carefully in the area of budget support to the health sector, drawing lessons learned from experience in the education sector, is a prudent step.

#### **4.8 EQ8 - To what extent has the EC coordinated and cooperated with EU member states ' cooperation agencies, international financial institutions, and non-member state bilateral donor cooperation agencies to achieve improved aid effectiveness in line with the Paris Declaration and Vietnam's status as a pilot country?**

*The EC has acted to promote aid effectiveness through coordination and harmonisation as much as possible within the limits of its procedures. This has resulted in a number of successes; for example, EC coordination has scored tangible successes in the area of health, however, the aid coordination picture in Vietnam is not as positive as is widely perceived. The GoV still accepts too many projects and donors still compete.*

Vietnam is regarded as a leading country in implementing the aid effectiveness agenda commonly identified with the Paris Declaration of 2005, concretised in the form of the Hanoi Core Statement (HCS, to whose elaboration the EC Delegation in Hanoi contributed significantly). The GoV, and the Partnership Group on Aid Effectiveness (PGAE) are proud of progress that has been accomplished.

The EC has fully participated in the drive for aid effectiveness in Vietnam. It has moved towards joint donor initiatives, not only general budget support, but other programme based approaches, as well. It has, by pooling its analysis with that of other donors, and through limited but significant progress in joint missions and policy assessments, exploited synergies and reduced transaction costs for the GoV. Concretely, the EC was active in partnership groups on education and health, chaired the EU Working Group on health whose Joint Annual Health Review lays the groundwork for something approaching a sector strategy, coordinated joined-up EU analysis of progress on the SEDP, and is exploiting opportunities for joint actions in, e.g., in the area of governance with Denmark and Sweden. EC participation in the Multi-donor Trust Fund for Public Financial Management has been successful, and by not using its typical fixed tranche-variable tranche approach to general budget support, the EC has been able to harmonise its

contribution with other donors and reduce transaction costs. By participating in the Vietnam Trust Fund for Forests, (TFF) the EU supported a mechanism that pools funding and supports the implementation of the Vietnam Forest Development Strategy. TFF has been contributing to the Paris Declaration objectives/principles of ownership, alignment, harmonisation, managing for results and mutual accountability; however, EC support for TFF was small relative to the whole programme and was earmarked for parallel sub-projects.

However, this largely favourable analysis must be tempered by considerations on both the EC and GoV side. The positive analysis of the PGAE is not credible because all of the indicators favourably assessed are based on aggregate statistics that are dominated by a handful of major donors such as the World Bank and Japan. Use of national systems, for example, is nowhere near as widespread as the analysis in that document makes it appear. EC procedures impose tighter limits on the use of national systems than the rules of other EU donors such as the UK and Denmark, making it difficult to join up. Data uncertainties, in particular problems of double-counting, abound.

The limits to coordination must also be set in the context of the GoV's mixed views on the subject. Ultimately the Division of Labour / Code of Conduct has to be enforced by GoV, which still accepts too many offers of assistance. There is reluctance to co-mingle donor and GoV funds because of the consequences for oversight and audit, and there are fundamental incompatibilities in the incentives faced by line ministries, the Ministry of Finance (MoF), and the Ministry of Planning and Investment (MoPI). However, one area where GoV commitment is assured is in increasing disbursement rate. Moreover, the GoV itself is not entirely satisfied with the performance of the donors in the area of coordination, complaining about donor competition. If, as seems likely in the long term, ODA declines and donors increasingly phase out their traditional cooperation programmes in favour of trade and economic cooperation, these problems may gradually be reduced on their own. Yet, as ODA becomes scarcer, the issue of how to use it most effectively will assume growing importance.

#### **4.9 EQ9 - To what extent, in its cooperation programme, has the EC effectively used its unique position as a supranational European institution?**

*The EC added value most conspicuously by pursuing the role of lead donor in the area of trade integration, its area of greatest comparative advantage. More broadly, however, EC support to civil society added value, as did the EC's coordination activities. There is no evidence that the EC exploited its role as a supranational organization to address issues that bilateral donors, including European MSs found too sensitive.*

This EQ is closely related to the concept of EC value added, itself a close relative of the principle of subsidiarity.

Areas closely related to European value added include trade and economic integration and dealing with sensitive issues which Member States (MSs) might be reluctant to grapple with. We conclude that there is some evidence that considerations of comparative advantage played a role in the evolution of the EC's strategic engagement between the CSPs of 2002-2006 and 2007-2010. Our strongest conclusion is that the EC explicitly and aggressively exploited its comparative advantage in the area of trade. GoV officials, as well, conspicuously referred to EC value added in regional trade integration. In the area of civil society, stakeholders also expressed very positive views of the EC, and project beneficiaries had a positive view of their experience of gaining familiarity with EU Member State legislative structure and processes. The EC supported civil society work on sensitive issues through the SPF and civil society groups specifically stated that the EU Member States were a source of inspiration in the area of human rights. GoV officials also expressed the view that the EC's work in institution building through, for example

the ISP, was in some senses more in line with national aspirations than the work of major non-EU donors. However, there was no evidence that the EC speaks out on sensitive issues which European MSs would be reluctant to raise on their own.

Coordination is often singled out as an area in which the EC adds value. The EC's participation in the aid effectiveness agenda, closely related to coordination, was examined at length in EQ 8. We have detailed the EC's close participation in coordination efforts, joint initiatives, and the like. From the standpoint of this EQ, probably the most important contribution of the EC to adding value was in coordinating Member States, where the EC Delegation has made a substantial and appreciated contribution.



## 5 CONCLUSIONS

### Global

Global conclusions are given in decreasing order of priority.

#### **Conclusion cG1 (from all EQs, particularly EQs 4 and 7)**

*The recent economic crisis has caught the EC cooperation programme (and no doubt other donors') by surprise, and the lack of planning for extreme uncertainty and timely data is evident. The aid landscape in Vietnam is undergoing fundamental shifts, and the GoV and donors are just coming to grips with this.*

“The greatest error in strategic planning”, economist Thomas Schelling once said, “is assuming that the future will look pretty much like the present.” Strategic planning by all the donors, including the EC, in Vietnam may have fallen victim to that country’s own success because it appears to have been based on an extrapolation of benign conditions and trends. We now know that this was not justified. Data which would permit real-time tracking of economic events is unavailable, and social sector data (poverty, health, and education, in particular) are slow to appear and, to judge from questions that have recently arisen, of questionable validity. Much planning is now being done in the dark, with decision making awaiting data that will take months to materialise.

At least with regard to the economic reform process and Vietnam’s integration into the trading system, strategies are based on the assumption that the reform process will continue at – more or less – its current pace without the danger of any significant backsliding and generally intervening domestic or external factors. While it seems unlikely that the reform could come to a sudden halt or even be reversed, the risk of a serious, prolonged global economic downturn still exists, given the opaque policy-making processes, ongoing policy debates, the threat of markedly declining FDI inflows, etc.

#### **Conclusion cG2 (from EQs 1, 2, 3, 5, and 7)**

*The move to greater use of general budget support has been successful overall and the quality and professionalism of the modality is still improving. However, it implies a different mix of capacities at the EC Delegation and a significant involvement of civil society in the monitoring process.*

General budget support in Vietnam has attracted wide praise, even from donors who do not participate in it. It has reduced transaction costs, promoted harmonisation and coordination, and has put in place a forum for dialogue focused on mutually agreed goals and milestones and has supported the SEDP and poverty reduction goals. Progress on Public Administration Reform (PAR) and Public Financial Management (PFM) has been less than needed, but there has been progress nonetheless.

Budget support requires a skill set different than that of the traditional programme officer – more analytical, more at home in critical policy debate and negotiations, more willing to “let go” of implementation issues, and more attuned to working in multi-donor groups with Government. At the same time, it requires the keen sensitivity to implementation issues that are clearly already part of the traditional skill set.

Within the EC Delegation, specialised expertise on budget support is confined to a limited number of staff, with most staffers continuing to handle project files in the traditional manner. Training needs are continually assessed, all staff has had at least one training course in budget support, and all staff are involved in preparing policy dialogue. However, in critically short supply, because of EC human resource policies rather than lack of effort on the part of the EC

Delegation, is expertise related to Public Financial Management – repeatedly cited as a weak link in the budget support process. Budget support also requires the strong involvement of civil society in monitoring and oversight. While civil society has developed rapidly in Vietnam, and despite occasional adverse developments there is an overall move towards greater freedom of the press, the independent monitoring role of civil society is little in evidence as regards budget support and the PRSC.

### **Conclusion cG3 (from EQs 2 and 7)**

*The experience with sector budget support in Vietnam, especially in education, raises a number of issues. In addition to the need for sufficient financial management capacity and a clearly articulated and GoV-owned sector strategy, one of the main issues is that most central ministries are fully responsible only for a limited part of the sector budgets, including National Target Programmes. To the extent that sector budget supports NTPs, it may fail to enhance sector wide coordination and policy making. There is also need for better coordination between ministries with overlapping responsibilities. At the same time, we recognise that sector budget support has not been an outright failure; it has generated useful information and lessons learned, and has the capacity to strengthen national systems in ways that traditional projects cannot.*

In the education sector, where the major experience with sector budget support in Vietnam lies, the central Ministry has the responsibility of only approximately 5 percent of the total sector budget, including NTPs. The other 95 percent is the responsibility of authorities (the Peoples Committees) on provincial/district levels. For other Ministries these figures will not differ significantly. This means that supporting an NTP will not necessarily enhance the ministry's ability to prioritise objectives, allocate resources appropriately, and assess human resource and other capacity needs, etc. – in other words, to engage in effective, holistic policy making. The experience in education, and experience being accumulated in health, suggests that substantial capacity building may be required before proceeding with a sector approach. Finally, care is needed to ensure adequate coordination between ministries in areas that are inherently cross-cutting.

### **Conclusion cG4 (from EQs 1, 3, 4, 5, and 6)**

*Despite close alignment with the GoV's SEDP and the undoubted commitment of the GoV to poverty reduction, there remained a need to better ensure linkages between the EC programme and poverty reduction.*

The EC's support of the PRSC has represented an important contribution to poverty reduction in Vietnam. We also acknowledged that the EC has financed major rural development projects in the poorest parts of the country, that the HEMA project is beginning to improve access to health care for the poor, and that the decision to participate in Program 135 represents a flexible response to the likely worsening of poverty in the poorest areas of the country as a result of the economic crisis.

At the same time, we believe there is still a need to ensure explicit poverty linkages in the EC's cooperation programme in Vietnam. Linkages between trade and poverty, broadly assumed, have not been well enough articulated in the EC's support for trade and economy (although MUTRAPIII did include a social impact assessment of trade negotiations). Some obvious vulnerable groups, such as the aged, have been targeted through small NGO projects, but have not been consistently thematised in the EC programme. We have documented the failure of rural development projects to come to grips with the problems of the poorest groups, often members of ethnic minorities, and the fact that the relatively well-to-do (who may nonetheless be themselves poor) benefited more than the very poorest populations. In health, while the HEMA

project is expanding access of the poor to health care, the EC has not really addressed the clearest health-poverty linkage, namely the need to put in place a sustainable health care financing system in order to reduce out-of-pocket payments. The evolving sector support programme in health will offer an excellent opportunity to address this gap.

## **Specific**

Specific conclusions are given in order of the EQs from which they are derived.

### **Conclusion cS1 (from EQ 1)**

*In the health sector, improved project interventions may lead to significant impacts in areas and among populations benefiting, but broad sustainable improvement in the health of the poor requires addressing structural issues, especially those related to health care finance. While progress is being made, the pre-conditions for sector budget support are not yet met and the capacity building project now being formulated will have much to accomplish before they are.*

The EC has correctly identified health as a sector lagging far behind Vietnam's successful development and one in which it can add value. The proposed approach to provide capacity building as precursor to budget support is sound. Experience with sector budget support in education suggests that the minimum requirement would be that the beneficiary have the required financial management capacity and that there be clear ownership and a clear vision in the form of an articulated sector strategy (surely) and MTEF that is actually being used for decision making (preferably). The health sector has far to go before these conditions are met. Despite years of donor support, the Ministry of Health remains highly service delivery oriented and lacks capacity for holistic policy making and priority setting. The budgetary process is complex, particularly at the grass roots level. When health authorities engage with the Ministry of Finance and provincial governments on funding issues, they do not engage as equals. The national policy on health care finance, namely compulsory health insurance subsidised for the poor, has the potential to work, but is not integrated in any way with health sector policy, and there are no lines of communication between the responsible agencies (Ministry of Health, Ministry of Finance, and Vietnam Social Security). Progress is, however, being made, in the form of the Statement of Intent on improving aid effectiveness in the health sector adopted by the Ministry of Health and donors in 2009 and in the commitment to produce a costed sector plan by December 2010.

### **Conclusion cS2 (from EQ 2)**

*In the education sector, small NGO projects have proven a very effective means of achieving significant impacts, albeit only in areas and among populations benefitting. At the national level, there is still need for capacity building and sector budget support did not perform as well as anticipated.*

Impact from NGO projects such as (but not limited to) those examined, has been high, although transaction costs to the EC Delegation were not inconsiderable. Two NGO-implemented projects to help street children, while not examined in detail by the evaluators, are also reported to have been effective. By contrast, it is hard to see substantial impact from the two national capacity building projects implemented in the MoET, and the sector budget support provided was not as successful as expected. There were some positive contributions, such as an increase of GoV funds for the primary education sub-sector and an improved harmonisation of donor assistance with GoV aims and objectives. Primary educational outcomes in Vietnam are slowly improving, however, it is not clear how much of the improvement can be attributed to the National Targeted Programme in education that was supported. Basic organisational and management issues remain to be addressed in the MoET and in its relations with provincial departments. The Education Management Information System or EMIS still fails to perform up to reasonable standard, and the persistence of different expectations / demands among different

stakeholder groups hampers any attempt to improve sector-wide capacity for policy making, priority setting, and resource allocation. With hindsight, not all of the problems encountered could have been anticipated at the time the sector programme was put in place, but the important lesson to be learned is that budget support approaches (whether sector-specific or general) are only as good as the approach supported and that, when working through national systems, one works at the pace of the agency concerned. In the case of education, the lack of a fully-fledged MTEF and of a consistent, credible sector approach, were impediments.

### **Conclusion cS3 (from EQ 3)**

*While rural development projects raised incomes, more attention to sustainability and disparities was needed. The EC's withdrawal from rural development impaired sustainability and resulted in the loss of opportunities to build on previous successes. In the area of forestry and development, there is a lack of vertical integration.*

While it may have not been a strategically bad choice, the manner and form in which the EC withdrew from rural development led to disruption and a loss of momentum in the sector. Even in the best-performing project, (the SLLC Project) where sustainability was taken into account, the final evaluation raised concerns about sustainability. Among the opportunities lost were the possibility to up-scale interesting and often innovative practices so that these could be mainstreamed at a higher level; as well as the opportunity to use local lessons and experiences as an input for policy formulation (also in a context of sector wide approaches), in particular with regard to poverty reduction in marginalised rural areas. We note the EC's flexible decision to provide support for Program 135, which supports a key National Target Programme helping the very poorest, a decision that is particularly appropriate at a time when the economic crisis may be worsening poverty. We also note that much of the apparent withdrawal from the sector actually reflected the early closure of a single project, which occurred due to the unfortunate combination of poor Government implementation and an entirely rigid EC financial procedure rule.

In the area of environmental sustainability (essentially sustainable forestry), there has been a lack of connection between policy making at the central level, capacity building at the provincial and district levels (especially for enforcement), and community-level projects.

### **Conclusion cS4 (from EQ 4)**

*EC support in trade and economy has been successful because of its flexibility in response to clearly expressed needs; that is to say, GoV ownership and commitment have been extremely high.*

Over the course of the MUTRAP project, from Phase 1 to 2 to 3, there has been a consistent increase in the flexibility and rapidity of response (of particular importance is the small project facility of MUTRAP III that sets an example on how to increase the flexibility of large projects), which has been reflected in greater stakeholder satisfaction and increased impact. The key to support in this area where national needs and priorities are clear is in serving as a rapid response force bringing European expertise in economic integration, to bear on nationally identified problems. The ETV2 project, while it implemented some valuable activities (for example, in the area of Sanitary and Phyto-sanitary Standards), was less successful because the process of deciding on, gearing up for, and delivering technical assistance in a given area became bogged down in politics and procedures.

### Conclusion cS5 (from EQ 5)

*The most effective, albeit perhaps not from the EC Delegation's point of view always most efficient, governance interventions, especially in controversial areas, were small, targeted, short-term interventions through the SPF. While civil society has developed rapidly in Vietnam, there is still an absence of civil society organisations playing an autonomous watchdog role. We acknowledge, at the same time, that the EC does not have the leverage to impose this.*

Through the SPF, the EC was able to address a wide range of issues, including some fraught with controversy such as labour rights and the treatment of prisoners, in a format that built capacity at local NGOs and academic institutions, and built upon the EC's partnership with groups such as Eurocham. EC interventions were especially effective in building capacity at academic and research institutions. This is of crucial importance for a country that is in the process of forming a robust research infrastructure. SPF funding enabled civil society organisations to establish communication channels with the government and empowered NGOs to provide at least a small input to the policy-making process through seminars, workshops and policy briefs under the SPF umbrella. In short, despite large human resource costs to the EC Delegation, and some doubts about impact expressed in the SPF final evaluation, the programme made a significant contribution. While the relatively new Non-state Actors / Local Governments instrument shows promise, national civil society organisations still have a hard time identifying opportunities and applying for funding on their own.

It is clear that the EC, let alone the EC Delegation, cannot impose a path of civil society development in Vietnam. One area in which there may be scope for increasing independent oversight of government is in the National Assembly, where there is scope for increased involvement in the budgetary process. Through its support for the ISP, the EC laid the groundwork for perhaps giving the National Assembly a more robust role.

### Conclusion cS6 (from EQ 8)

*Aid coordination, and enhancing aid effectiveness agenda in general, continue to be problematic in Vietnam, and the EC's most successful initiatives in this area have been sector-specific, e.g. In health.*

In answering EQ 8, we pointed out that on both sides, there continue to be problems, with donors continuing to compete in attractive, high visibility areas and the Government of Vietnam accepting too many projects. The credibility of some of the more optimistic assessments of progress on aid effectiveness is low. Yet, some EC actions have been extremely successful. We cite, as an example, health, an area popular with donors where the EC participated in the Partnership Group, chaired the EU Working Group, and pooled its efforts with other Member States in the form of a joint capacity building project to lay the foundation for sector support. Prospects for further progress on using national systems are constrained by EC rules (some of which may need to be reviewed, but this is outside the EC Delegation's scope of responsibility) as well as by incentive structures that do not always encourage national agencies to welcome the use of national systems as eagerly as might be anticipated. The EC's coordination efforts appear to have had greatest impact where they were rooted in a specific sector in which Member States were significant donors.

### Conclusion cS7 (from EQ 9)

*EC value added has been greatest in two areas where the EC was recognised to have a comparative advantage and where its uniquely European perspective had earned the trust and respect of local partners: trade integration and civil society development.*

As a mid-ranking donor, the EC needs to leverage its assets, which consist in large part of the relationships of trust that has been built up with national partners and other stakeholders. In no areas is the EC regarded more positively in Vietnam and in the region as a whole than in trade integration and in civil society development. In trade, European integration is looked upon as a source of experience and indeed inspiration, as it achieved not only integration in the technical sense but reduced gaps while fuelling broad economic growth. In the area of civil society, Europe's commitment to rule of law and human rights while at the same time recognising the importance of a strong state and the continuity of institutions are in tune with the cautious philosophy of political decision makers in Vietnam and the region. The fact that independent civil society development in much of Europe itself is a relatively recent development – essentially post-1989 in many of the new Member States and post-1968 in the rest of Continental Europe – is significant. Frictions in the area of human rights, freedom of the press, etc., persist, but there are frictions between Vietnam and other international partners in these areas as well; it is the degree of friction and the willingness to engage in constructive dialogue that are the key variable, not disagreement itself.

Not emergent from this evaluation, but found in the recently completed evaluation of EC support to ASEAN, another area in which the EC within the regional as a valued source of experience is environmental policy, and specifically climate change.

## 6 RECOMMENDATIONS

### Global

#### **Recommendation rG1 (from Conclusion cG1)**

*Configure strategic processes and implementation modalities for nimble reaction; ensure that planning processes are adapted to a world of discontinuities, surprises, and structural shifts; address data needs.*

In all sectors, strategic planning and monitoring appear to have been based on the assumption of a relatively benign and predictable state of the world extrapolated from recent years. The events of recent months have shown that this approach is not suited to a world of surprises and unintended consequences. This calls for a philosophy in both, strategy and implementation, one that places emphasis on, above all, real-time monitoring, flexibility and responsiveness. In designing projects such as MUTRAP3, the EC has properly built in numerous capabilities for immediate, rapid response mechanisms, as well as small flexible facilities for providing near-term technical assistance and capacity building. While particularly relevant in the case of trade and economy, they may prove equally valuable in issues that may arise, e.g., when Vietnam's obligations under international law, or commitment to various environmental conventions, are in question. In view of the likely negative impacts on poverty, the EC has moved flexibly to participate in Program 135, a national target programme to support the very poorest regions. This is the type of flexibility that needs to be promoted, in programmes and projects. The "Support for strategic dialogue..." project also offers an example of an intervention that can react quickly to emerging needs.

As a first step, the EC Delegation could engage in a moderated scenario planning exercise – a weekend retreat, in effect - to study the optimal strategic response of its cooperation programme to various states of the world. One dimension is the transition to MIC status, another is the global economic crisis.

One scenario might involve a situation in which Vietnam is facing a situation where there will be persistent problems of poverty, a continuing willingness of the donor community to be involved in cooperation, and yet a shortage of ODA resources including, possibly, the end of budget support. The preferred approach to dealing with poverty might, under some circumstances, be the GoV's own systems, such as social security, social insurance, and social safety net programmes. IDA will no longer be available following the transition to MIC; Vietnam will have abundant access to IBRD loans, but will probably wish to use these for infrastructure projects that generate a more reliable economic return.

Under these circumstances, whither poverty reduction in Vietnam, and whence the finance? The landscape of poverty reduction in Vietnam may come to resemble less that familiar from the MDG era, but rather that of today's developed countries in the 1950s where major industrial and infrastructure interventions sought to promote regional development (in Puerto Rico, in the Mezzogiorno, in the Tennessee Valley, etc.). Tourism is another area in which Vietnam might reasonably expand. Ensuring the link between IBRD infrastructure borrowing and poverty reduction will be an issue of increasing importance.

Lack of necessary data, especially in the social sectors, is a cross-cutting issue. A broad effort is required to increase the timeliness, the accuracy, and the consistency of data related to the economic situation, as well as poverty and the MDGs, in Vietnam. VHLSS data appearing in



early 2009 for 2007 are useless for tracking the impact of the economic crisis. In some sectors, notably education, but in other areas related to the MDGs, as well, inconsistencies have developed between statistics judged accurate by the international community and those judged acceptable by the GoV. In health, there is a striking absence of reasonably up to date data on basic indicators.

This situation not only hampers policy making and interferes with the flexibility and rapid response called for above, it leads to tension between international and national partners, slowing down the entire process of poverty reduction.

We recognise that many donors provide support for ministries in data collection and analysis and that this has not been a focal area for the EC. Nor, if it is being well covered, should it be. However, to a significant degree, the problem is not lack of capacity, but rather the political willingness of the GoV to provide timely, accurate, unbiased data. As the recent controversy over education data has shown, this is a sensitive subject. The EC, in coordination with other donors, should strongly communicate to the GoV that it regards accurate, timely, and unbiased data to be a vital and necessary complementary input to cooperation support provided.

### **Recommendation rG2 (from Conclusion cG2)**

*Continue to participate in general budget support while attempting to acquire more EC Delegation capacity in Public Financial Management. Ensure that support for civil society development includes support for a more independent monitoring role. Consider what, in the longer term, comes after general budget support.*

Budget support, as we wrote above, requires a skill set that includes the ability to negotiate complicated policy issues in multi-stakeholder groups with the required amount of sector expertise as well as an understanding of the budget process and the overall philosophy of budget support. It is not reasonable to expect someone with a wealth of project experience to become adept at budget support issues without training. There has been improvement in the professionalism of the EC Delegation staff regarding budget support, and all staffers have received basic training in GBS. However, human resource policies within the EC have resulted in a dearth of expertise in Public Financial Management (PFM), one of the weakest areas of budget support. The experts in post have done excellent work, but there is need for more specialised expertise. The EC Delegation, and where appropriate, the relevant EC agencies at Headquarters, should attempt to address this need.

Budget support should be closely linked to civil society development to ensure that there is effective, independent monitoring outside of the international community. The overall move in recent years to greater freedom of the press (despite occasional setbacks along the way) suggests a reasonably conducive atmosphere. Where monitoring by groups explicitly dedicated to advocacy appears too sensitive, the EC can help to support monitoring by academic research institutions that have already benefited from significant capacity building through programmes such as SPF and would be eligible for support under MUTRAP 3 or the additional activity "Support for strategic dialogue ..." In making this recommendation we are cognisant of the fact that budget support requires working in a multi-donor environment and that the EC is not endowed with the power to enforce the development of autonomous civil society in Vietnam. We are also cognisant, though, of the value added by EC support of civil society development, the large amount of good will regarding the EC that has been developed, and the increasing capacity of national civil society organisations. There is clearly room for increased involvement of civil society organisations (CSOs) in the preparation, implementation, and evaluation of programs and projects related to the SEDP.

Consideration should also be given to what comes next after general budget support, along the lines of broad thinking and scenario planning described in Recommendation rG1. It is possible that the PRSC may not continue and, even if it does, there may not be a large financing gap that donors need to fill, so other interventions may be more appropriate – such as supporting the provincial level for example where capacity is weak.

### **Recommendation rG3 (from Conclusion cG3)**

*Sector budget support should, where possible, be truly sector wide, rather than supporting only national target programmes. Financial management capacity and a fully-owned sector strategy are prerequisites.*

Due to the very limited responsibility of the line Ministries in the financial management of their respective sector budgets it cannot be assumed that from support to an NTP there will result any influence on a general sector policy and strategy. Financial support to NTPs thus can miss an important aspect of a truly sector-wide approach. To reach a full sector approach in Vietnam, relevant stakeholders with responsibility for financial management of the sector budget on decentralised level need to be actively involved. The GoV should be encouraged and supported to create structures of coordination within the different sectors that allow for a full sector support of ODA. Issues of public sector management in the sector will need to be carefully assessed, as will the degree of government ownership of the sector policy that is in place. Sector budget support (as well as general budget support) is a means to an end, not an end in itself, and is no stronger than the sector policy it supports.

### **Recommendation rG4 (from Conclusion cG4)**

*The EC should tighten links between its programme and poverty. Some specific actions could contribute to this.*

The EC generally scores high on the pro-poor orientation and impacts of its engagement with Vietnam. However, there are opportunities for improvement. Among these are:

- Make more explicit, relying on secondary analysis if necessary, the links between poverty and trade, especially in the context of the current economic crisis;
- Particularly as Vietnam accedes to MIC status, the proper way of addressing poverty will not be directly via projects, or even general budget support, but by the normal functioning of GoV safety nets in place. These are weak in Vietnam (as elsewhere in Southeast Asia), and GoV has only limited capacity to reform these in line with international experience and best practice. This represents an opportunity for the EC, especially with its wealth of experience in the various variants of the European Social Model and expertise in the implementation of social policy.;
- Set up, preferably in coordination with other donors, mechanisms to assess the effects of present support on poverty and disparity. Examine critically the extent to which project strategy and implementation are benefitting ethnic minority groups;
- Where the needs of the poorest are not being met, work through NGOs and community-based groups rather than GoV.

## **Specific**

### **Recommendation rS1 (from Conclusion cS1)**

*The EC should continue to re-orient its health support in the direction of sector-wide reform, not provision of infrastructure, and training. It should come to grips with the key question "How do we get more resources into the health system while protecting the poor?" The progress of the capacity building programme now being formulated should be carefully assessed before commencing sector budget support in health.*

The EC has correctly identified health as a lagging sector in which it can add value. However, it has also realised that institutional requirements for successful sector budget support are not yet in place. In Recommendation rG3 we have suggested that, at a minimum, these are reasonable financial management capacity (especially procurement) and a well-articulated sector-wide strategy with a strong sense of government ownership. The proposed capacity building project in the central Ministry of Health and three pilot provinces is a step in the right direction.

A range of specific actions could support this recommendation. The capacity building exercise should attempt to forge links with and build capacity in Vietnam Social Security (VSS), as well, which serves a key role yet is "out the loop" as far as MoH is concerned. A series of capacity building and awareness raising exercises which bring together the entire range of officials involved on the two sides of the equation – one responsible for formulating requests for resources, the other for deciding on budget allocations – at various levels could result in valuable progress. Methodologies for tracking the sources and uses of resources in health are well developed, are not subject to ideological disputes, and have already been used in Vietnam, yet their current application to priority setting and resources planning appears to be low. European experience in health care finance spans several traditions, from National Health Service approach in the UK through social insurance on the continent; the EC has a wealth of experience to offer and could serve as a one-stop shop of policy advice in the area. If Vietnam is serious about its commitment to mandatory national insurance, the German model will be useful; if there is still a possibility to institute a national insurance approach, UK experience would be valuable. European countries also have a long tradition of social security schemes to address the special needs of the rural farm population, a subject of great interest in Vietnam.

### **Recommendation rS2 (from Conclusion cS2)**

*Considering the success of the two projects implemented by NGOs in poor regions and the still-remaining needs for these interventions in Vietnam, the EC should continue its involvement in support of this type of project. Conditions should be set on continued support of EMIS.*

High level of ownership, high numbers of beneficiaries for relatively low costs, and effective integration of ethnic minority concerns were all in evidence in projects studied. The approach of recruiting aspiring teachers from the local ethnic minority population is a guarantee for high impact. There are still several areas populated by ethnic minorities that are in need of support to reach sufficient enrolment figures. Consequently, support to this type of projects should be continued and if possible, increased. We note that the EC Delegation has launched a number of calls for proposals in this area the latest one under the new Non-state Actors / Local Authorities' instrument.

The development and implementation of a functional EMIS proved to be a complicated issue. But an EMIS is an important tool to have access to up-to-date and reliable data for the

implementation, and monitoring of an education sector strategy. Though the frustrations within the EC Delegation in the implementation of an EMIS are understandable, as well as is the decision not to support a next phase in this endeavour, there is a strong risk that the inputs given in the present and previous EMIS projects will be lost. Guidance in and capacity development for the implementation of the updated and enlarged system will contribute to the sustainability of the EMIS. However, continued donor support for EMIS should be conditional, at a minimum, on the MoET producing a clear, “costed” roadmap for the implementation of EMIS with roles and responsibilities for each of its departments as well as for the decentralised authorities and the schools.

### **Recommendation rS3 (from Conclusion cS3)**

*If the EC really considers re-entering the rural development sector, it should focus on those areas that got previous support, attempt to restore previous benefits, include actions that promote farmers' access to markets, and work out a mechanism to ensure longer term commitment so that sustainable progress can be achieved at the level of marginalised groups. In forestry and environment, a combination of a high-level (policy formulation), meso-level (awareness raising of local officials, investments in enforcement and supervision,) and community-level (further expanding community based forest and natural resource management, and the allocation of forest land titles to villagers) should be put in place.*

The EC still has an opportunity to leave a lasting legacy in rural development, but the window of opportunity is closing as time goes by. Projects were too short to accomplish sustainable impacts, and the needs of the very poorest, especially ethnic minorities, were not well integrated in project implementation. Yet, good work was done and can be picked up upon. The EC should give particular thought to working through NGOs and community-based groups that can address the needs of the very poorest and most marginalised.

While P135 is not a rural development programme, it has a strong pro-poor impact in the poorest rural regional of Vietnam and represents a flexible response to as-yet not well understood risks of the poverty impacts of the economic crisis. As we have pointed out at several places, the team recognises and supports the EC's initiative to support P135.

### **Recommendation rS4 (from Conclusion cS4)**

*Unforeseeable endogenous and exogenous developments and factors as the current global financial crisis place particular demands on flexibility and responsiveness. The EC should consider ongoing interventions, such as its MUTRAP project and “Support to strategic dialogue ...” as a “rapid response force” providing exceedingly quick support, in the form of analyses, technical assistance, and capacity building, to very specific issues as they arise.*

MUTRAP is already working as a rapid response force, and can address bilateral EU-Vietnam issues as they come up. The “Support to strategic dialogue ...” project is already providing capacity building in highly focused areas.

Furthermore, as we stressed in Recommendation rG1, more explicit, scenario-based planning for alternative futures would be advisable. At least with regard to the economic reform process and Vietnam's integration into the trading system, strategies are based on the assumption that the reform process will continue at – more or less – its current pace without the danger of any significant anti-reformist backlashes and disruptive domestic or external factors. While it seems unlikely that the reform could come to a sudden halt or even be reversed, the risk of serious downturns still exists – given the opaque policy-making processes, the ongoing policy debate in

Vietnam between those who see the outlook as relatively benign and those who see the need for deep, accelerated structural reforms; the real threat of markedly declining FDI inflows, and the current global economic crisis.

Given its comparative advantage in economic integration, especially at the regional level, the EC should position itself as a “one stop shop” for policy advice, especially in implementation. The existence of the EC's ASEAN regional-level cooperation programme offers strong opportunities for focusing bilateral assistance, including Trade Related Technical Assistance, on the ASEAN integration agenda and exploiting synergies with the ASEAN cooperation programme.

**Recommendation rS5 (from Conclusion cS5):**

*Ensure that small, highly flexible instruments similar to SPF are included in other projects. The EC should consider whether the follow-up to the ISP can strengthen the National Assembly's role in budget oversight.*

While funds to civil society organisations for small projects are now available under MUTRAP 3, they do not offer the same degree of thematic flexibility as the former SPF and the application and administration procedures are more complicated. A growing number of civil society organisations in Vietnam are at the stage that they do not need partnerships so much as they need learning by doing. Increased involvement in service delivery is one such route, but this also is a “safe area” for NGO operations, as well as one that is reasonably covered by mass organisations which are, anyway, becoming less Party-dominated. If the EC wishes to encourage autonomous civil society, it needs to give support to fledgling groups to exploit the general trend towards greater openness by supporting them in well-defined, real-time activities, in the spirit of SPF. In designing the next phase of the ISP, despite the fact that the strategic orientation is shifting to implementation and despite the fact that a number of donors are supporting the National Assembly, the EC should give consideration, to strengthening the budget oversight capacity of that institution. This would strengthen civil society and the rule of law, as well as making a contribution in the priority area of public financial management. We have also into Recommendation rG2 the sentiment that there is increasing room for the involvement of CSOs in the preparation, implementation, and evaluation of programs and projects related to SEDP specifically recommended. Implicit in this judgement is that the EC should support CSOs to play these constructive roles. Another possibility, closely related to rG6, would be to focus on environmental NGOs, specifically those involved with climate change (which would by extension, include those dealing with weather-related disasters). In making this recommendation, we are aware that the relatively high costs of instruments such as ISP impose significant opportunity costs.

**Recommendation rS6 (from Conclusion cS6):**

*While continuing to participate in ongoing coordination efforts implicating the entire donor community, and the GoV, ensure that a significant share of its coordination work is anchored in specific sectors. Climate change may offer an attractive opportunity.*

Coordination is not costless, and must ultimately be judged by the same criteria of impact and effectiveness as other areas of engagement. Given the weakness that characterises some of the higher level, more ambitious areas of coordination in Vietnam, the EC may wish to pick up another sector, in addition to health, where it plays a lead role.

Some of the reasons why climate change could be an attractive sector are discussed at the end of Special Focus 6. To summarise, it is a cross-cutting sector where a great deal of inter-ministerial coordination is needed. As concluded in a recent evaluation of The Forestry Fund, forestry is a

sector lacking a coordinated strategy, let alone a broader multi-sector strategy, integrating forestry into a climate change agenda. Through its experiences in education and, especially, health, the EC is well aware of the challenges involved in working in sectors where coordination needs are great and policy making capacity is low. Through its involvement in ASEAN-level cooperation in energy, sustainable consumption, and forestry law enforcement and governance, higher education and research, and support for civil society, the EC has instruments and programmes available that are especially important in the climate change field. Climate change is an area in which there is a well articulated EU policy and in which the Member States are keenly interested. It is an area in which civil society has an important role to play and one in which higher education and research are key.

We note that a coordination role might, but need not necessarily, involve participating in the evolving programme to support the climate change National Target Programme, although the EC's experience in sector support in education (and to some extent in forestry) might prove relevant. Finally, as at many points in these recommendations, we note that capacity constraints at the EC Delegation need always to be kept in mind.

### **Recommendation rS7 (from Conclusion cS7)**

*Concentrate activities apart from support for poverty reduction through general budget support on a few areas where the EC has demonstrable expertise and has accumulated a large amount of trust. We believe that the climate change coordination role suggested above may represent a good opportunity for the EC to add value.*

Since the EC has demonstrated comparative advantage in trade and civil society development in Vietnam, it stands to reason that these should figure prominently in its basket of activities outside of overall support for poverty reduction in the context of general budget support. Not apparent from the EC's experience in Vietnam, but clear from a recently completed evaluation of EC ASEAN-level cooperation is that there is a high degree of trust in the EC as a source of experience and insight in the area of environmental policy. The approaches taken by European policy makers appear more in tune with the priorities and political values of policy makers in the region than the more laissez faire approaches advanced by other major international players.

Keeping in mind, as well, the points made above in Recommendation rS6, climate change appears to be an area in which the EC can add value. However, the possibly problematic nature of the NTP needs to be kept in mind and set beside the need for a multi-sectoral approach. It is because of the EC's experience across such a broad front of issues related to climate change – trade, civil society, environmental policy and governance, etc. – that the EC may add value best through playing a coordination role with regard to climate change. Again, however, we note that capacity at the EC Delegation will have to be taken into account if the EC wishes to play a more active role in this field. In assessing this recommendation, the EC should keep in mind that climate change is an inherently long-term issue. It is entirely likely that emission targets that have been set will not be met and that clear scientific evidence will continue to accumulate on the anthropogenic nature and adverse consequences of climate change. Under such conditions, the issue will assume steadily growing significance.

## 7 OVERALL ASSESSMENT

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

**The overall assessment of EC strategy in Vietnam along Development Assistance Committee (DAC) lines is positive. The EC's strategy in Vietnam was assuredly relevant to country needs. The EC cooperation programme has been effective in attaining poverty-reduction impacts and, in moving towards joint approaches and aligning with the aid effectiveness agenda, efficiency has improved. The programme was, in addition, coherent with EC strategic priorities and added value in support for trade integration, civil society development and governance, and in coordination.**

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

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

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

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