



Australian Government

Department of Foreign Affairs and Trade

Aid Investment Plan

Vietnam

2015-16 to 2019-20

Strategic priorities and rationale

Our strong partnership with Vietnam

Australia implements an integrated and mutually reinforcing set of foreign, trade and development policies to advance significant interests in Vietnam. Australia and Vietnam's partnership extends across political, security, economic and people-to-people activities. Australians born in Vietnam represent the fifth largest migrant community in Australia, and an average of 24,000 Vietnamese students enrol in education institutions in Australia each year. Vietnam is one of our fastest growing trade partners, and is central to regional security in South East Asia. The country's further development as a strong trade and investment partner is vital to our national interest and the region's prosperity.

Australia's commitment to development cooperation with Vietnam is ongoing. Reflecting our maturing economic partnership, we will continue to leverage Vietnam's significant domestic resources and foreign investment, and support Vietnam's efforts to enter a new phase of economic development. By helping to stimulate the private sector, upskill the workforce, and support inclusive growth, we will contribute to achieving our shared, overarching goal of promoting prosperity and reducing poverty in Vietnam.

Our strong relationship is reflected in the *Declaration on Enhancing the Australia-Viet Nam Comprehensive Partnership*, signed in March 2015. The Declaration re-affirms our commitment to trade and investment liberalisation, including through the implementation of the ASEAN-Australia-New Zealand Free Trade Agreement, and the finalisation of the Trans-Pacific Partnership Agreement and the Regional Comprehensive Economic Partnership.

Vietnam's development challenges

Vietnam experienced remarkably rapid economic growth in the two decades following the *Doi Moi* reforms of the 1980s, lifting millions of people out of poverty and becoming a lower middle-income country. Most of the population has experienced the benefits of these reforms first hand.

But growth has recently slowed, and many of the gains from the initial wave of reforms have already been realised. Vietnam now faces a challenging period as it negotiates the pitfalls of the 'middle income trap', with growth potentially faltering as wages rise and the country becomes wedged uncompetitively between economies based on cheap labour and those based on stronger institutions and higher productivity.

Firms, and international firms in particular, report a lack of skilled employees as one of the most problematic factors in doing business, reflecting a mismatch between the supply of skills and market demands. The business environment more generally remains challenging, with private

sector growth constrained by poor infrastructure and an uncertain policy environment characterised by unclear rules, overlapping legislation, and inconsistent enforcement.

Inequality remains significant and 15 million people continue to live below the national poverty line. Gender disparities still exist in access to and ownership of economic assets and women are poorly represented in leadership roles. Vietnam is one of few countries in which the gender pay gap has widened over the last decade, during which women's representation in the National Assembly has also fallen. Ethnic minorities have still not benefitted equally from economic growth – although they comprise just 15 per cent of the population, they account for around half of those living in poverty.

Vietnam's Socio Economic Development Strategy (SEDS) 2011-20 provides the country's overarching policy for responding to these challenges. It sets three high priorities – improving market institutions, promoting human resources, and infrastructure development – and highlights the need for a combination of structural reforms, macroeconomic stability, environmental sustainability, and social equity.

Implementing this strategy effectively will require far-reaching reforms, and will face challenges from political institutions and incentives that favour the status quo. Vietnam has committed to make these changes and Australia is well placed to support its efforts by sharing our own experience of the economic benefits of trade reform and liberalisation.

Our changing aid program

Like many lower middle-income countries in Asia, Vietnam no longer requires aid to subsidise the delivery of essential public services. Instead, development assistance should develop the private sector and facilitate economic inclusion. The demand from Vietnam is for an economic partnership that shares lessons from our own reform experiences, finds innovative ways to maximise the reach of limited public resources, leverages greater private investment, and promotes inclusive growth.

Our aid program will support economic reforms that enhance growth and complement this with programs that provide economic opportunities to excluded groups. We will build on our existing partnerships in key sectors where we have built influence and can make a difference – economic reform, transport infrastructure, and education. But we will also implement the recommendations of the Office of Development Effectiveness in respect of the *Australia-Vietnam Joint Aid Program Strategy 2010-15*, by strengthening our focus on the private sector and supporting more women and men to participate fully in the economy.

Concentrating on these priorities and acknowledging other donors' comparative advantage, we will discontinue our involvement in health and energy. We will not renew several standalone investments in human rights, climate change and disaster risk reduction, but will integrate these issues across all our programs. Recognising that Vietnam is vulnerable to natural disasters, disaster risk reduction will continue to be considered in existing investments and appropriate measures applied in all new designs. Our work on anti-corruption will be mainstreamed through our wider governance networks. We will shift our existing ten-year engagement with the Government of Vietnam on water and sanitation toward an approach that leverages private sector investment.

With the completion in 2017 of the Cao Lanh Bridge, we will move from direct infrastructure funding to a partnership with the Ministry of Transport that strengthens its policy-making

capacity and leverages private sector investment in infrastructure to meet Vietnam's critical gaps. This will build on the knowledge and networks we have developed through engagement in the transport sector dating back to the 1990s, and will contribute to achieving Australia's overall aid for trade target by 2020.

In education, we will build on our extensive experience to provide assistance that reflects the development of Vietnam's education sector and the diversity of our education relationship. We will also promote opportunities for women and ethnic minorities by ensuring they are better integrated into the economy, drawing on our considerable experience in the Mekong Delta, and on the experience of the Australian Centre for International Agricultural Research (ACIAR) in the northern mountains.

All of our new programs will employ a gender adviser on the design team, include a gender analysis, ensure sex-disaggregated data are collected, and incorporate gender indicators into monitoring and evaluation. Mainstreaming of gender across all of our investments will reinforce the efforts of our standalone programs addressed specifically at women's economic empowerment, ensuring that both women and men benefit from all of our work and that we make a substantial contribution to closing the gender gap.

Our objectives

Our program will be organised around three objectives:

1. *Enabling and engaging the private sector for development*
2. *Assisting the development and employment of a highly skilled workforce*
3. *Promoting women's economic empowerment, including ethnic minorities*

These three objectives mutually reinforce each other by supporting the businesses and enabling factors that will drive future employment and growth, by building the skills of the workforce, and by maintaining momentum for further reform by ensuring that new opportunities are enjoyed by all women and men.

We will achieve these objectives through an economic partnership with Vietnam that shares Australia's expertise in complex areas of public policy reform, deepens our commitment to aid for trade, and emphasises the role of innovation in developing new development solutions.

Objective 1: Enabling and engaging the private sector for development

The recent slowdown in Vietnam's growth reflects structural constraints in the economy, including weak institutions, a fragile financial sector, inefficient state-owned enterprises and poor infrastructure. The infrastructure backlog is exacerbated by poor prioritisation, underfunding at project preparation stage, inflexible approval processes, and procurement and engineering standards that do not meet international norms. Patronage networks also undermine policy-making and governance, favouring those with political connections and undermining reform. All of these issues constrain private sector growth by limiting access to capital, stifling competition and creating high input costs.

Vietnam's SEDS 2011-2020 identifies improving market institutions and infrastructure as essential to Vietnam's ongoing development. Australia is well-placed to assist in these sectors, as we have built strong networks through our long history of engagement in economic and governance reform with Vietnam. Our previous partnership on the My Thuan Bridge and our

current co-financing of the Cao Lanh Bridge have also made us a trusted partner in the infrastructure sector.

Through our strong relationship with the Ministry of Transport (MOT), we will help them to prepare high-quality projects that address transport infrastructure gaps in Vietnam. We will prioritise a small number of hard infrastructure investments that promote the benefits of new engineering or contracting approaches and that will improve efficiency. We will also provide support to MOT to increase women's engagement in a largely male-dominated sector.

Working with partners such as the Central Institute for Economic Management, the Vietnam Competition Authority and the World Bank, we will continue to support economic reform. We will draw on international experience in areas such as competition policy to help level the playing field for the private sector. We will expand this work through innovative approaches that improve firms' access to finance by reducing the cost of credit and build their capacity. We will also maintain our successful economic diplomacy flexible fund, which provides timely and targeted small grants for activities that support economic development in Vietnam, and creates opportunities to link into Australian expertise.

Objective 2: Assisting the development and employment of a highly-skilled workforce

Almost two-thirds of Vietnam's population is under 35. This youth bulge and women's low wages in factory production have contributed to an abundance of cheap labour, reinforcing a model of low-cost industry that is now threatened by other emerging sources of cheap labour in the region. Around seven million young people will enter the workforce over the next five years, and they will need education and training. The tertiary education sector cannot meet market demand, and there is a significant mismatch between the demand for and supply of particular skills.

A skilled workforce that is harnessed by successful businesses will assist Vietnam to move into a new phase of growth and invest in innovation, ensuring that domestic industries can remain competitive. These needs are recognised in the focus of Vietnam's SEDS 2011-20 on quality human resource development. Vietnam's Human Resource Development Master Plan 2011-20 also articulates plans to improve the quality of the workforce through demand-based training and enhancing capacity of policy makers, entrepreneurs and skilled workers.

We will engage closely with the private sector to ensure training meets industry's needs. Recognising that the uptake of skilled workers can be hampered by employers' limited leadership capabilities and understanding of human resources development, we will also provide technical support to improve organisational capacity for skills utilisation.

Our Australia Awards Scholarships will continue to promote both human resource development and stronger bilateral relations. We will continue to ensure that the relationships we build with our alumni extend well after individuals finish their studies, to promote continued learning and develop a mutually beneficial network of partners. We will also broaden our support for programs that target skills development and workplace productivity in priority sectors.

We will institutionalise a number of measures that promote participation among women, people with disability and members of ethnic minorities. The new Human Resource Development Facility will include a Gender Equality and Social Inclusion Adviser. We will also look to support gender equality and leadership pathways for women in the public sector.

Objective 3: Promoting women's economic empowerment, including ethnic minorities

Women, especially those from rural and ethnic minority areas, are much more likely than men to be excluded from economic opportunities, and to derive livelihoods from lower value, less skilled and less secure work. Women from ethnic minority groups in particular are much less likely to be engaged in waged employment or market activity, and Vietnamese women overall have less access than men to productive resources, skills, credit and extension services. Many ethnic minority women also have poor financial literacy, and far less influence over decisions within the home and the community.

Governments in emerging economies are increasingly recognising that if women, including rural and ethnic minority women, face barriers to economic participation, it will undermine a country's inclusive growth and social stability. Vietnam's National Strategy on Gender Equality 2011-2020 commits to narrowing the gender gap in the economy, assuring women quality jobs, and increasing the number of female entrepreneurs. It also aspires to increase the access of poor rural and ethnic minority women to economic resources and the labour market. The National Targeted Program for Sustainable Poverty Reduction 2010-2020, led by the Ministry of Labour, Invalids and Social Affairs, aims to improve living conditions for the poor, including in mountainous and ethnic minority areas.

Empowering women to participate actively in the economy is critical to reducing poverty and building a sustainable economy, and we will work to support women's economic empowerment, including for those most excluded.

We will focus our support on Vietnam's northern mountainous areas, which have a higher incidence of extreme poverty. Consistent with our economic partnership, we will complement the efforts of the Government of Vietnam by identifying, trialling and scaling-up new approaches to closing gender gaps in economic livelihoods in these areas, including by working with the private sector. We will also support programs and policies that better empower women.

The Investing in Women Initiative will work in Vietnam to promote increased employment opportunities for women in the formal sector, and the expansion of women-led small to medium enterprises, contributing to more inclusive economic growth. As part of the Initiative, we will seek to promote women's leadership and decision-making in workplaces and businesses.

Implementation approaches

Working with the Government of Vietnam

Our primary partner remains the Government of Vietnam, with which we have a long-established and highly productive working relationship. We will work closely with our main counterpart, the Ministry of Planning and Investment (MPI), which leads the development of Vietnam's Socio-Economic Development Plan (SEDP) and facilitates policy dialogue with other development partners and the Prime Minister through the annual Vietnam Development Policy Forum and the Vietnam Business Forum. We will also work closely with a range of other ministries with specific policy responsibilities.

Supporting the private sector

In our engagement with the private sector, we will work closely with the Ministry of Finance, the Vietnam Social Policy Bank, the National Agency for Technology, Entrepreneurship and Commercialisation, and the Vietnam Chamber of Commerce and Industry. We will also support a facility that broadens access to private finance, supports peer learning, and provides support services in close collaboration with Australian businesses and peak bodies.

In infrastructure, we propose to work through a direct partnership with MOT, rather than limiting our engagement to co-financing through multilateral development banks (MDBs). While the MDBs will remain important partners, Australia's streamlined approval processes enable us to be more responsive to MOT priorities, and we will capitalise on this.

Harnessing our partners' expertise

To get the best value for money in our human resource development programming, we will engage an experienced managing contractor and provide some training courses through institutions based in Vietnam. We will draw on the expertise of alumni, Australian Volunteers for International Development, and Australian industry and training institutions.

For our investments in women and ethnic minorities, we will engage with government bodies such as the Committee for Ethnic Minority Affairs and the Ministry for Agricultural and Rural Development, and work predominantly through partnerships with the German Corporation for International Cooperation (GIZ), Australian, Vietnamese and international non-government organisations, and the Vietnam Women's Union. These organisations combine practical experience and strong local networks with political insight, and are increasingly influential with government.

We will also continue to work with established partners such as the World Bank, as well as being responsive to opportunities to work with new and influential partners whenever they arise, recognising the critical role of ‘champions’ in effecting reform.

The role of regional and whole-of-government programs

Regional and global programs account for around a third of Australia’s total official development assistance (ODA) to Vietnam, and we will work to ensure these programs complement and enhance our bilateral program. Vietnam will benefit from Australia’s regional support for human security, health security, anti-corruption and economic growth, and while our bilateral program will assist Vietnam’s domestic reforms and economic competitiveness, regional programs will support cross-border and wider regional agendas, including the Association of Southeast Asian Nations (ASEAN) and the East Asia Summit (EAS).

Regional work to manage water resources in the Mekong Delta, and to combat people trafficking and promote safe migration will help mitigate some of the risks of Vietnam’s increased regional integration. The Investing in Women Initiative will work across South East Asia, and Vietnam will benefit from a strong regional engagement and exchange of effective strategies that deliver economic growth, trade and gender equality benefits.

Programs such as the Mekong Business Initiative and Shaping Inclusive Finance Transformations also support private sector development and pro-poor financial market expansion across the region. We will leverage these programs to reinforce our bilateral work given their clear complementarity.

We will also work closely with our Australian whole-of-government partners, including ACIAR, and Austrade, and continue to deliver our education support in close partnership with the Department of Education and Training. We will coordinate our investments and ensure lessons for our ongoing work are shared between agencies.

Performance management

Performance benchmarks

Performance benchmarks 2015-16 to 2018-19

		2015-16	2016-17	2017-18	2018-19	2019-20
Aid objective	<i>1. Enabling and engaging the private sector for development</i>					
Performance benchmark	<i>Value-for-money transport infrastructure demonstrated and enabled</i>	<i>60% of Cao Lanh Bridge construction complete</i>	<i>90% construction complete</i>	<i>100% construction complete; 170,000 passengers per day traffic volume; travel time from Ho Chi Minh to Long Xuyen reduced from 3 – 3.5 hours to 2.5 hours</i>	<i>170,000 passengers per day traffic volume; travel time from Ho Chi Minh to Long Xuyen reduced from 3 – 3.5 hours to 2.5 hours</i>	<i>170,000 passengers benefit daily from project; five million residents of An Giang, Can Tho and Dong Thap provinces benefit from improved regional trade</i>
Performance benchmark	<i>Promotion of innovative enterprises to enhance service delivery</i>	<i>Investment launch</i>	<i>24 enterprises receiving grants</i>	<i>24 enterprises receiving grants; 14 enterprises raising early stage finance</i>	<i>14 enterprises raising early stage finance</i>	<i>Service delivery improved; 500 new jobs created; additional sales revenue generated</i>

		2015-16	2016-17	2017-18	2018-19	2019-20
Aid objective	2. Assisting the development and employment of a highly skilled workforce					
Performance benchmark	Male and female alumni use skills and knowledge to make positive contributions to selected priority areas	75% of alumni employed in position relevant to award skills after 3 years	75% of alumni employed in position relevant to award skills after 3 years	80% of alumni employed in position relevant to award skills after 3 years	80% of alumni employed in position relevant to award skills after 3 years	85% of alumni employed in position relevant to award skills after 3 years
Performance benchmark	Stronger workplace enabling environments for improved skills utilisation in selected priority areas.	Human resource development scoping work undertaken	Women in Leadership investments developed	50 mid-career professionals (including alumni) and 2 targeted institutions demonstrate awareness of gender equitable leadership models	50 mid-career professionals (including alumni) undertake actions within their workplaces that demonstrate awareness of gender equitable leadership models	Effective gender equitable leadership models implemented by professionals of targeted institutions
Aid objective	3. Promoting women's economic empowerment, including ethnic minorities					
Performance benchmark	Rural women's livelihood security improved	Concept developed	Program design/partnership established	Greater awareness of livelihood opportunities among women; acquisition of knowledge and skills	Women's income options diversified	Increase in rural women's farm/non-farm incomes
Performance benchmark	Women's empowerment	Concept developed	Program design/partnership established	Awareness of mechanisms to improve women's participation and leadership	Greater opportunities for women's voice and empowerment realised	Evidence of informal and formal community level decisions more influenced by women's voice

Mutual obligations

Strategic direction and priorities for our development cooperation are mutually agreed every two years through High Level Consultations on Development Cooperation with the Government of Vietnam. At the most recent consultations in July 2015, we agreed the three objectives of the AIP and that all of our new investments will be contingent on the Government of Vietnam's co-commitment of its own financial or human resources.

The annual Vietnam Development Partnership Forum (VDPF) sets joint policy actions with development partners that are agreed with Vietnam's Prime Minister. The VDPF will remain a key mechanism for ensuring development effectiveness, donor harmonisation and collective, mutual obligations between the Government of Vietnam and its development partners.

The Government of Vietnam is currently developing the next SEDP 2016-20, which will set detailed priorities for the coming years and is expected to be approved by the new National Assembly in 2016. We expect it to remain focused on the challenges identified in the SEDS 2011-20, but will adapt our programming approach appropriately.

Consistent with our economic partnership, we will seek to hold the Government of Vietnam accountable for meeting its SEDP targets and funding commitments against the prospect of cancelling non-performing investments.

We will assess and report annually on performance against our obligations under the AIP in annual Aid Program Performance Reports (APPRs). The Government of Vietnam will report on progress against the SEDP annually to the National Assembly and to donors through the VDPF.

Monitoring, review and evaluation

The APPRs will include recommended actions for the program management team based on progress and identified challenges. They will also detail management's proposed responses, and actions implemented as a result of previous APPRs. A mid-term review of progress against the AIP's objectives will also allow us to assess our impact in particular sectors. This will strengthen the evidence base underpinning our sectoral choices and contribute to our future strategy.

We will build on a simple and robust set of specific, measurable performance indicators that will evolve as our program matures. These indicators will be subject to rigorous monitoring and evaluation processes, including regular staff visits to program sites. We will disaggregate results by sex and disability across all of our programs, and we will also monitor and evaluate all our programs for progress toward gender equality.

Consistent with past practice, staff external to the program will facilitate a moderation process to contest and verify our aid investment quality reporting. Poorly performing investments will be subject to remedial action and cancelled if they do not improve within one year. Independent reviews of larger investments will complement our own assessments. These will be timed so as to inform programming decisions, including whether to adjust or extend specific investments. This AIP has drawn on the review of the *Australia-Vietnam Joint Aid Program Strategy 2010-15* conducted by the Office of Development Effectiveness, and we will continue to draw on their independent advice.

Program management

Governance and resource management

Australian aid to Vietnam will principally be managed by the Department of Foreign Affairs and Trade (DFAT) in Canberra and Hanoi. Overall responsibility for strategy and the Vietnam aid budget will lie with DFAT's First Assistant Secretary, South East Asia Mainland and Regional Division. Australia's Ambassador to Vietnam will have responsibility for in-country leadership and delivery of the bilateral aid program against the objectives of this AIP.

DFAT in Canberra is responsible for policy development and guidance, drawing on the expertise of thematic specialists, as well as the Vietnam and Cambodia Section and Post. Other agencies, including the Australian Centre for International Agricultural Research (ACIAR), Austrade, the Department of Agriculture, and the Department of Education and Training, will make contributions to oversight and policy development in particular sectors.

Staff at Post will have primary responsibility for program analysis, design, management, and monitoring and evaluation, including regular field visits that enable knowledge transfer, ongoing professional development and data validation.

We will procure specialist expertise to help design our changing program. Advisers will also be embedded within our programs during implementation, maintaining our access to necessary expertise throughout the project life cycle.

Risk management

Large infrastructure projects carry a diverse array of fiduciary, reputational and other risks. In our work on the Cao Lanh Bridge, we have regularly engaged with our partners through a Project Coordination Committee to ensure issues are identified and addressed in a timely manner. Our ongoing participation in supervision missions and regular consultation with independent safeguards experts will ensure high standards are maintained. We will maintain some flexibility for funding of additional monitoring of resettled communities, should this be required.

Australia Awards Scholarships account for the majority of our human resource development support, and are delivered through well-established procedures. A transparent tender process will source an experienced contractor, with quality assurance processes in place. The more fundamental risk in scholarship programs is that alumni are unable to utilise their skills and knowledge upon return to Vietnam, and that links with Australia are not sustained. We will continue to mitigate this risk by implementing rigorous selection and reintegration processes while maintaining close engagement with alumni.

Lifting Vietnam's poorest and most vulnerable communities out of poverty and narrowing the gender gap are two of Vietnam's most intractable development challenges. Achieving these

goals will be difficult, and will be affected by many factors beyond our control. Working in innovative partnerships in new locations will require us to build new relationships with communities and governments, and to test a range of different approaches. We will set realistic objectives and timeframes, maintain our preparedness to discontinue approaches that are not proving effective, and expand on those that are.

Achieving difficult reforms will hinge upon factors outside our control, including shifting interests among Vietnam’s political leadership. We need to set realistic goals, invest expertise and political capital, and be ready to adapt and modify our approaches.

DFAT’s longstanding zero tolerance policy towards fraud requires that for all instances of alleged, suspected or detected cases, DFAT will: investigate the matter; apply appropriate administrative or contractual penalties; seek prosecution of offenders and the application of appropriate penalties; and seek the recovery of misappropriated funds or assets. The Vietnam program has internal processes for ensuring that Australian aid funds reach intended beneficiaries and support for Vietnam’s own anti-corruption efforts.

We will regularly assess, monitor and manage risks in accordance with the table below.

Risk monitoring and communication

Process	Frequency
Update the program-level risk register	Quarterly
Update the sector-level risk register	Quarterly
Post’s senior management team discuss progress of risk treatments, escalation of country aid risks and any new risks	Monthly
Senior program management team discuss progress of risk treatments, escalation of sector risks and any new risks	Monthly