

Viet Nam Australia Development Cooperation Strategy

2003–2007



Australian Government
AusAID

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EXECUTIVE SUMMARY

Analysis

Viet Nam has made impressive gains in the past decade through rapid economic growth following the *doi moi* reforms of the late 1980s. Poverty has more than halved and GDP/capita has doubled (\$US200 in the late 1980s to \$US400 in 2000). Viet Nam's high level of human capital (demonstrated in generally good social indicators) relative to its level of economic development, suggests that Viet Nam has significant potential for further growth and poverty reduction.

However, returns from the initial reforms are diminishing. Further promised reforms (accompanied by full implementation of the first round) will need to be delivered in full if Viet Nam is to realise its growth and poverty reduction potential. The second round of reforms will be more difficult, as they involve the creation of appropriate market-oriented institutions. Political commitment and leadership will be essential to delivering the Government of Viet Nam's (GoV) commitments, as will further human resource development for strengthening of key institutions. This paper assumes continued reform along 'transition economy' lines during the Strategy period.

Agricultural diversification and generating off-farm rural enterprise will be a critical challenge, given the need to create jobs for 1.2 million labour market entrants per year. Improved land and capital mobilisation will be essential to this objective. Also necessary is the creation of competitive markets which will, in turn, require continued state owned banking and enterprise reform.

Those who remain poor face circumstances which suggest that both economic growth and more targeted interventions will be necessary to achieve further poverty alleviation. Viet Nam's poorest are predominantly rural, poorly educated and live in remote, inaccessible locations with few services. They include

ethnic minorities at disproportionate levels. The extent of their links into the broader economy is uncertain. Vulnerability emerges as a key theme from our poverty analysis.

Issues include:

- Viet Nam is heavily affected by natural disasters, especially floods, and increasing environmental stress;
- Many Vietnamese who have moved just above the poverty line in the past decade are vulnerable to shocks which could push them back into poverty; and
- GoV social protection and poverty reduction programs are not sufficiently targeted or effective to mitigate this high level of vulnerability.

Viet Nam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) provides appropriate policy settings for effective development assistance with a twin focus on governance measures to retain high growth rates, and sectoral interventions to address poverty. The CPRGS, however, will need ongoing prioritisation. While donor coordination, led by the GoV, is improving and donors are focussing and specialising more, Viet Nam has many donors and projects and large ODA flows, creating a complex operating environment.

The My Thuan Bridge has been the highest profile activity of the ten years of Australia-Viet Nam bilateral development cooperation to date, but notable successes have been achieved in a range of sectors and through different forms of aid, including:

- an emerging influence of Australian Development Scholarship (ADS) graduates in economic policy-making;
- a successful bilateral water supply and sanitation project which has served 400,000 people in five towns; and
- NGO activities such as the highly effective AFAP dengue fever project.

Lessons learned during the period include the importance of allocating time, effort and resources to scaling-up initiatives once they have proven successful on the ground, and the value of further consolidating the program in geographic and thematic terms.

Australia has national interest and humanitarian reasons for providing aid to Viet Nam. Its centrality in the region means that a stable and growing Viet Nam will be good for regional cooperation, security, trade and prosperity. The prospects for poverty reduction are good. Australia has a valuable contribution to make by building on the successes and lessons learned from the past 10 years of bilateral development cooperation.

Strategy Response

The objective of the program is to *advance Australia's national interest by assisting Viet Nam to reduce poverty and achieve sustainable development*. This goal will be achieved through two strategic objectives and six operating principles:

STRATEGIC OBJECTIVES

- 1 **Broad based economic growth** by strengthening the governance of the institutions required for a competitive market economy; and
- 2 **Improved productivity and links to markets for the rural poor** in the Mekong Delta and Central Coast regions.

OPERATING PRINCIPLES

- 1 support human resource development by delivering high quality human capacity building and technical assistance (ideas) through the program, supported by appropriate capital investment;
- 2 actively pursue synergies within the program and with GoV and other donor activities;
- 3 build on lessons learned, and look for opportunities to replicate successful models;

- 4 participate constructively in the emerging partnership between the Government of Viet Nam and the donor community;
- 5 base program interventions on sound analysis and a common understanding of the issues to be addressed - undertake research and policy dialogue as appropriate to encourage mutual understanding on key strategy and program issues; and
- 6 address the quality of governance, gender equality, environmental sustainability, HIV/AIDS prevention and integration of information and communication technologies as cross-cutting concerns for the program.

Implementing the Strategy

An objective tree and results framework approach has been used to identify intermediate Strategy objectives and program outcomes. Program outcomes are accompanied by performance measures and means of verification, as a basis for periodic Strategy and program review. Testing assumptions and identifying constraints in strategy logic and the operating environment will be a key Strategy review task. Program outcomes will be achieved through a tailored mix of implementation approaches. Options include: (i) new activities; (ii) building on successful and relevant ongoing activities; (iii) analytical work; and (iv) policy engagement.

A range of delivery mechanisms is available for new activities, according to requirements and opportunities. These include: (a) stand-alone bilateral projects; (b) co-financing with multilateral or other bilateral donors; (c) multi-donor pooled funding; and (d) NGO cooperation agreements. Support for direct GoV execution of projects or sector-wide approaches is not envisaged during this Strategy period. It is estimated that the current Strategy and program will require the design and implementation of 8-11 new activities, including 2-3 NGO partnership areas, plus a substantial program of analytical work, during the five year Strategy period.

The Strategy provides a conducive framework to integrate bilateral, regional, multilateral and NGO aid flows. In particular, the planned focus on economic integration and natural disaster mitigation provide excellent opportunities to closely align the program's directions with those of the Asia Regional Program. Key implementation approaches and tasks are to:

- work within the GoV/donor framework provided by the CPRGS
- support the harmonisation of aid processes and procedures
- work closely with other donors, including identifying co-financing opportunities
- implement new partnership arrangements with Australian NGOs
- better align Australian Development Scholarships to the strategy
- integrate information and communication technologies in program delivery, and
- involve the Australian community, key institutions and Australian expertise.

Australia and Viet Nam will jointly manage a rolling program of analytical work in support of one (or more) of four objectives:

- 1 to support the identification of appropriate program outcomes and performance measures;
- 2 as a specific activity contributing to the achievement of a program outcome;
- 3 to improve program quality by addressing operational or cross cutting issues for the program; and/or
- 4 as a basis for strategy and program review, including by testing assumptions underpinning strategy choices.

Viet Nam is assumed in this strategy to be a low to moderate risk environment for a development cooperation program. The tight thematic and geographic focus of the new Strategy provides a platform to deliver AusAID corporate change towards a more analytical and focussed agency, supported by strengthened strategy and activity design processes and a transition to in-country management of activities.

1 BACKGROUND

Viet Nam has achieved remarkable economic success since the *doi moi* (renovation) process began in 1986, and especially over the last decade. Per capita GDP doubled (from \$US200 to \$US400) during the 1990s and poverty levels halved. Nevertheless, about one third of the population – 26 million of 78 million – is still classified as poor by international measures (the Government of Viet Nam [GoV]

measures classify 11% of the population as poor). However, it appears that the returns to Viet Nam from the initial round of economic policy reforms are rapidly diminishing and external competitive pressures increasing, creating new challenges if Viet Nam is to maintain high growth and poverty reduction rates in the first decade of the 21st century.

Box 1: Viet Nam Country Facts

Political system:	Socialist republic, one party rule.
Levels of Government:	57 provinces and 4 municipalities, each divided into districts and communes (rural) or wards (urban).
Population:	78.7 million in 2001 (1.4% annual growth rate)
Life expectancy at birth:	70.9 years: 68.0 m 74.5 f (1999)
Infant mortality rate:	33 per 1,000 live births (1999)
GDP/Capita:	\$US400 (2000)
Key exports:	Crude oil, textiles, marine products, footwear, rice.
Exports % of GDP:	46% (2001)
Key imports:	Machinery, petroleum, textile and leather materials.
Imports % of GDP:	48.5% (2001)

Box 1 sets out key country facts, while Attachment 1 details Viet Nam's current economic, policy and institutional environment.

2 VIET NAM: DEVELOPMENT CHALLENGES AND RESPONSES

Poverty analysis

AusAID commissioned a poverty analysis to underpin the Viet Nam Program Strategy 2003–2007.¹ Preparations for the development of Viet Nam's Poverty Reduction Strategy Paper (titled the *Comprehensive Poverty Reduction and Growth Strategy - CPRGS*) contributed to greatly enhanced data availability and analysis, and enhanced the poverty reduction focus of the GoV and donors. Nevertheless, the data is often aggregated to provincial or even regional levels, and scope exists for more detailed local analysis prior to specific aid interventions.

As outlined in Box 2, poverty in Viet Nam is predominantly a rural phenomenon. Viet Nam's poorest are typically: engaged in agriculture; poorly educated; and live in remote, inaccessible locations with few services. They include ethnic minorities at disproportionate levels. They are highly vulnerable to environmental and economic shocks.

Viet Nam's social indicators are generally good, despite its low income. In part, this is a legacy of the centralist state. As the country's social and political structures change, however, the challenge of maintaining and improving social indicators will increase. Already, there are signs of rising inequality and vulnerability for the poorest.²

The extent of the links of the poor into the broader economy is uncertain. The success of *doi moi* raises the possibility that continued reform and economic growth will have a similarly dramatic impact. That is, those who are now poor will, as a result of continued high rates of economic growth, eventually escape poverty. An alternative view is that those who are poor after the 1990s reforms live in poverty because there are barriers to their participation. Certainly, the preponderance of ethnic minorities, some

regions and locations, aged and less able-bodied suggests that structural factors underlie persistent poverty.

Both arguments have merit in Viet Nam: continued high rates of economic growth are necessary, but not sufficient, for poverty reduction. Specific, poverty targeted interventions are also required.

Generating continued growth

Given Viet Nam's good social indicators relative to other countries at similar income levels and its strong human capital base (and other assets), Viet Nam has substantial potential for further economic growth.

Nevertheless, with the returns on the original *doi moi* reforms largely harvested, maintaining the high growth rates of the 1990s will prove challenging. The initial reforms involved the straightforward task of removing the regulations associated with a socialist command economy. The new reforms will necessarily focus on improving governance and specifically the deepening and strengthening of the institutions required for a competitive market economy. Increased international integration and strong competitive pressure, make these tasks all the more important, but they will be onerous and complex to deliver.

The key challenge for Viet Nam, in terms of international competitiveness, job creation for the 1.2 million annual labour market entrants and the local (largely rural) economy, will be the creation of an improved private sector operating environment. Recent and proposed legislative improvements, such as the 2000 Enterprise Law and the upcoming Competition Law, are yet to be matched by consistent implementation, especially at provincial and local levels, or by the range of necessary complementary measures.

¹ *Vietnam Poverty Analysis*, prepared for AusAID by the Centre for International Economics, 22 January 2002.

² *Viet Nam Human Development Report 2001*, p.8.

Box 2: Key Characteristics of Poverty in Viet Nam

Ninety percent of the poor derive the majority of their income from agriculture and 45% of the rural population is poor. Just 9% of urban dwellers are poor according to official statistics (although this may be an under-estimate due to the effects of 'registration' laws for rural migrants). There are also disproportionate numbers of female-headed households, households with a large number of dependants, poorly educated people, and people living in remote locations amongst the country's poor.

Ethnic minorities are particularly disadvantaged. They represent 14% of the population but account for 29% of poor people. In part because the regions in which they live feature the slowest economic growth, their proportion among Viet Nam's poor is expected to rise to over one third by 2010.

Women in rural areas also suffer disproportionately. Employed mainly in agriculture, they earn less, work longer hours, suffer more health problems, have lower education levels and less access to decision-making authority than their male counterparts.

Poverty incidence varies significantly between regions. The Northern Uplands, Central Highlands and North Central regions have the highest incidence and severity of poverty. However the densely-populated Mekong Delta contains 21% of Viet Nam's poor, second in number only to the Northern Uplands. Projections suggest this will rise to 27% by 2010.

Viet Nam's social indicators are generally good. Education enrolments, infant and maternal mortality, life expectancy and access to social services are all better than or equal to similar indicators for other countries in the Asia Pacific region. The two key exceptions are infant malnutrition (for complex reasons) and access to clean water and sanitation, which at 36% is lower than all countries in the region except Cambodia.

Nevertheless, the poor are by far the most likely to miss out on these good indicators and services, especially as official and unofficial user charges have recently become the norm. The quality of services is also a concern for Viet Nam, especially in remote locations.

Vulnerability is a critical issue when assessing poverty in Viet Nam. Frequent natural disasters, especially storms and flooding on the central coast and Mekong Delta, and increased production pressure on the environment are substantial risks that impact most on the poor. Vulnerability is also growing with farmers' greater exposure to world markets, which brings important benefits but also new risks that have been experienced, for example, by coffee growers in the Central Highlands when *Robusta* prices crashed. Furthermore, living standards studies show that many of those who escaped poverty during the past decade exist just above the poverty line. Shocks can plunge them back into poverty.

These complementary measures include substantial reform of the legal framework and justice system, public administration reform and the twin issues of improved capital mobilisation (especially of domestic capital) and State Owned Enterprise (SOE) reform. SOEs actually increased their share of the Vietnamese economy in the late 1990s and some are performing quite well. However, they are able to succeed in large part due to preferential treatment, especially in terms of access to land and capital. Of course, the many poorly performing SOEs have equal access to capital from the four state-owned banks which comprise 80% of the banking system. As a consequence, a large stock of 'bad' loans to SOEs remains unresolved. Along with unfamiliarity in State-owned banks with risk-based lending to the private sector, these non-performing loans severely constrain private sector credit.

GoV is using increased international integration both as a means to deliver increased growth and as a driver for domestic reform. Competitive pressure is expected to accelerate both SOE reform and private sector dynamism.

From the point of view of poverty, employment generation and social stability, Viet Nam's biggest challenges lie in the rural economy. The need for change from a previous ('food security' inspired) focus on intensification of rice production supplemented by areas of industrial or cash crop specialisation towards more diversified, market-oriented agricultural production, is increasingly recognised. However, the necessary policies and institutions to support this change are not yet fully in place. Land markets and regulation, rural credit provision, quality of production and post-harvest handling, market efficiency and market information are important constraints.

Strong private sector growth in agricultural processing and service industries will be critical from three points of view. First, these activities are central to addressing the identified constraints in agricultural marketing and production. Second, agricultural productivity

increases are expected to lead to substantial surplus rural labour entering the formal labour market. These industries will be central to rural employment generation. The third and related issue is that while rural to urban migration is therefore expected to be significant, the GoV is concerned to minimise pressure on the major cities by developing province and district level towns. Rapid expansion in agricultural processing and service industries will be key to this endeavour.

Governance issues

No significant change to Viet Nam's political system is foreseen, with the Communist Party maintaining a single party state. This does not mean, however, that Viet Nam's governance is unchanging. Governance reforms in Viet Nam are clearly underway, driven by economic and social stability objectives. The amendment of the constitution in 1992 to place government within the framework of the rule of law has also generated changes that are yet to fully unfold.

At the national level, the increased mandate and activity of the National Assembly have lead to greater scrutiny of Executive government performance, senior appointments, draft legislation and the budget. The recent appointment of (some) full-time legislators may boost this trend. Government policy making has also become more open and consultative, with key policy frameworks finalised after consultation with a range of stakeholders, including the private sector. Budget processes are becoming more transparent and decentralised. The recently revised budget law calls for a simplified budget cycle, a greater role for local governments and increased transparency to tackle corruption. Effective implementation of this law remains a key challenge. Greater independence of the courts has been pledged, though not yet effectively delivered. This would have significant governance implications.

A gradual but deliberate decentralisation of authority and responsibility has been a feature

of Vietnamese governance in the late 1990s and is likely to continue. The major strands of decentralisation are devolution of management and decision-making authority to the provinces; allocation of planning, implementation and accountability for selected national anti-poverty programs to the communes; and fiscal decentralisation. However the quality and extent of implementation is mixed at this stage, with problems including lack of clarity of legal authority among different levels of government; dual accountabilities for many provincial and local government agencies; poor inter-departmental coordination; limited attention to capacity building; and weaknesses and anomalies in fiscal arrangements. Nevertheless, the decentralisation process and related Grassroots Democracy Decree offer substantial opportunities to increase people's participation and government accountability at all levels and, ultimately, to improve human rights in Viet Nam.

Government of Viet Nam policies and programs

KEY POLICY SETTINGS

Viet Nam has released a number of key national policy and planning documents in the past two years that provide an encouraging picture of general policy directions and a broad 'roadmap' for GoV and donor programs³. Key targets and priorities are to maintain high economic growth rates (7.5% per annum), accelerate economic restructuring, improve competitiveness, provide appropriate social infrastructure and further reduce poverty.

The GoV Socio-Economic Development Strategy (SEDS) 2001-2010, which provides Viet Nam's over-arching policy framework, outlines the intention of the Government to 'eliminate the category of hungry households

and to reduce quickly the number of poor households'. The Hunger Eradication and Poverty Reduction Strategy (2001-2010) developed more specific targets that have been carried forward into the CPRGS. These include:

- by 2005, to eliminate chronic hunger and to reduce the level of poverty to below 10 per cent according to the national poverty line; and
- by 2010, to reduce the level of poverty to below 5 per cent according to the national poverty line.

THE COMPREHENSIVE POVERTY REDUCTION AND GROWTH STRATEGY (CPRGS)

Vietnam's CPRGS (a Poverty Reduction Strategy Paper [PRSP] in World Bank/IMF terminology) was approved by the Prime Minister on 21 May 2002 and endorsed by the World Bank Board on 2 July 2002. The CPRGS is intended to be a practical action plan for poverty reduction and economic growth within the broader framework of its SEDS (2001-2010) and 5 year Socio-Economic Development Plan (2001-2005).

Strategic objectives of the CPRGS are to develop: (i) an environment for growth; and (ii) sectoral policies and measures for the poor. Themes under the first objective are: (a) legal environment for business; (b) macroeconomic stability; and (c) social environment (including 'grassroots democracy'). The 'legal environment for business' theme encompasses many of Viet Nam's most ambitious and difficult reforms: legal system reform, state-owned enterprise reform, business/ small to medium enterprise support, promoting foreign direct investment and public administration reform.

Sectoral and 'poverty' policies cover the key economic and social sectors, income

³ These include the SEDS 2001-2010 (authored by the Communist Party); a more applied Socio-Economic Development Plan 2001-2005; the CPRGS; a Hunger Eradication and Poverty Reduction Strategy; a Public Administrative Reform Plan; Legal Needs Assessment; and Public Financial Management Reform program.

generation programs, social safety net programs (including emergency relief) and policies aimed at narrowing the gap in terms of regional differences, ethnic minorities and gender equality.

A potential weakness of the CPRGS and other policy framework documents is that they do little to recognise and address the institutional and capacity constraints, including weak inter-agency coordination, which may prevent policies from being fully implemented.

GOVERNMENT OF VIET NAM POVERTY REDUCTION PROGRAMS

To a greater extent than most governments at a similar level of development, the GoV funds and manages a range of poverty reduction and social safety net programs from its own resources. These are listed at Attachment 2.

There has been limited direct donor engagement with these programs to date. The major programs tend in practice to deliver small-scale infrastructure in poor communes rather than direct assistance to the poor. Information on their success (or otherwise) is relatively sparse. The Poverty Task Force noted that a major issue with the Hunger Eradication and Poverty Reduction program (Program 133) is the absence of any objective evaluation of effectiveness, which is now being conducted.

There is a judgement to be made by the GoV and donors about whether and, if so, when and how to integrate ODA with these GoV programs. In Australia's view, long term engagement would be necessary before we would provide untied support to these programs. Nevertheless, such engagement may represent an effective way forward in a country in which domestic revenues are likely to grow and aid graduation is a reasonable longer term objective.

Donor operations in Viet Nam

THE ENVIRONMENT FOR DONORS

GoV Decree 17/2001, titled *Regulation on the management and utilisation of ODA* provides the regulatory framework for donor operations in Viet Nam. It lists six GoV priority areas for grant ODA (not necessarily in order of priority):

- hunger and poverty alleviation, especially in rural, isolated and remote areas;
- health;
- education and HRD;
- social infrastructure;
- protection of the environment and natural resources; and
- governance.⁴

Viet Nam is a World Bank pilot country for the Comprehensive Development Framework (CDF) approach. The focus in Viet Nam on partnerships and enhanced dialogue between the GoV and donors has contributed to an increasingly favourable environment for the effective delivery of aid. Culminating in the release of its CPRGS, Viet Nam now has a conducive, highly ambitious, policy environment for poverty reduction.

In addition to the CPRGS, an initial outcome of the CDF approach has been the establishment of about 30 sectoral and thematic working groups. While of variable quality and effectiveness, the working groups have led to improvements in the depth and quality of GoV/ donor dialogue. They have also, to varying degrees, supported sectoral coordination.

The beginnings of change in operational aspects of GoV/donor engagement are also evident. Vietnam is also a pilot country for harmonisation. The GoV and six EU bilateral donors plan to move ahead with an aid harmonisation agenda and other donors, including Australia, are invited by the GoV to participate. Pooled funding of donor

⁴ By contrast, the four priorities for loan ODA are hunger and poverty reduction; transport and communications; energy & social infrastructure; and balance of payments support.

contributions, managed by a coordinating donor such as UNDP, has emerged, in the view of some donors, as the best response to key GoV policy initiatives. In some cases the GoV has also come to this conclusion.

The 'new ways of doing business' or 'partnership issues' are not without their risks and constraints. Broad policy formulation is a good start, but the prospects for effective, coordinated implementation of ambitious policies and programs are less certain. This will be a major challenge for the GoV and donors during the Strategy period. The numerous GoV/donor partnership groups are placing substantial transaction costs on the GoV and donors alike, over-stretching them in some cases and raising questions regarding the return on investment in others. And while the operating environment in Viet Nam has improved, the practical implications of genuine operational partnerships are still being worked through, with increased transparency and accountability required by both the GoV and donors.

ODA FLOWS TO VIET NAM

Relatively large aid volumes and a large number of donors and donor projects are striking features of the development cooperation environment in Viet Nam.⁵ Annual pledges of ODA have risen to US\$2.5 billion for 2003, and actual disbursement rates have steadily improved to stand at 80 percent in 2001. Concessional loans, as opposed to grant ODA, made up 72 per cent of total ODA in 2000. This ratio is expected to further increase in the medium-term if the GoV successfully implements policy-based loans agreed with the World Bank, bilateral co-financiers and the International Monetary Fund (IMF), agreed in 2001.

While the speed of ODA disbursements is not a good measure of ODA effectiveness, it reflects the level of national capacities to identify, formulate, manage and implement major projects and programs. In 2002, annual

ODA disbursements could reach as high as US\$1.5 billion, up 9% from US\$1.36 billion in 2001, mainly due to the shift of some major donors towards quick disbursing ODA loan facilities. The share of public resources, including ODA, will need to be decentralised considerably more to achieve better targeted and effective poverty reduction. The effectiveness of ODA will also depend increasingly on the overall quality of general public expenditures. In 2001, Japan remained the largest donor, despite a significant decline in disbursements, followed by the World Bank, ADB and the IMF. These were followed by France, Denmark, the United Nations, Republic of Korea, Sweden and the United Kingdom. Bilateral donors as a group provided some 50% of ODA disbursements.

Although the large number of donors and projects makes for a complex environment, donor coordination is improving as a result both of the improved dialogue outlined above and of donors more carefully and strategically defining their priorities and intervention points. A degree of sectoral and geographic 'specialisation' by donors is emerging. Improved GoV leadership of this process has been important.

⁵ A detailed overview of donor activities and priorities in Viet Nam is available in *Viet Nam Poverty Analysis*, CIE, 2002.

3 AUSTRALIAN DEVELOPMENT COOPERATION OBJECTIVES IN VIET NAM

Why have a development cooperation relationship?

Australia has a development cooperation program with Viet Nam because poverty remains a substantial problem in the country, the prospects for alleviating poverty are good, Australia can make a valuable contribution and because poverty alleviation in Viet Nam is in Australia's national interest.

The key to Viet Nam's remarkable success in attacking poverty in the 1990s has been its transition to a market economy. This transition has done much to unleash the enormous potential of Viet Nam's people. ODA has been effective, for example, in supporting the rehabilitation of Viet Nam's dilapidated infrastructure. However, the mobilisation of domestic resources and private foreign investment has been equally or more important. Most significant has been the opening of Viet Nam to new ideas, skills, approaches and institutional arrangements. Australian aid, provided in grant form, can play a particularly valuable role during the Strategy period by focussing on new ideas, skills, approaches and institutions as the key to ongoing growth and poverty alleviation.

Australia's national interest

Australia has both a humanitarian and a practical interest in ensuring that Viet Nam achieves long-term stability and prosperity. Viet Nam is a key regional partner for Australia. Given its centrality within South East Asia, a stable and growing Viet Nam will be highly beneficial to regional security and prosperity. Viet Nam is a key partner in regional efforts to address a range of trans-boundary issues, including people and drug trafficking, HIV/AIDS and trans-national crime. These are areas in which Australia is increasing its focus through regional development cooperation programs.

We have a joint interest in progressing regional trade and economic arrangements, such as the AFTA-CER closer economic partnership. Trade and development issues are likely to occupy increased attention more broadly during the Strategy period, both in the context of our shared interests in Doha world trade negotiations and Viet Nam's own negotiations to join the WTO.

Recent developments in a healthy bilateral relationship include the establishment of a nascent security relationship, formalisation of ongoing human rights dialogue and a more diverse trade relationship. Australia has an interest in gaining further access to Vietnamese markets, and in those markets growing. For example, Australia has emerged as a primary destination for the growing number of privately funded international students from Viet Nam.

Australian development cooperation policies

AUSTRALIAN AID: INVESTING IN GROWTH, STABILITY AND PROSPERITY

In September 2002 the Australian Minister for Foreign Affairs, the Hon Alexander Downer, released a new policy framework entitled *Australian Aid: Investing in Growth, Stability and Prosperity*. It reaffirms the objective of Australian Development Cooperation as being:

To advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development and it also retains a geographic focus for the program on the Asia/Pacific. The policy emphasises the critical importance of good governance as the basis for successful poverty reduction and development. Governance, it notes, 'cuts across all elements of the international development agenda, and underpins all of our aid investments'.

The policy statement sets out a range of priorities for making Australian aid even more effective, including: working increasingly within the development frameworks of partner countries; strengthening the aid program's relationships with key international organisations, NGOs and professional expertise; and making more of use of incentives to reward good performance, as a means to reinforce our focus on good governance and continuing reform.

AUSTRALIA'S POVERTY FRAMEWORK

A key document for Australian development cooperation program strategies is *Reducing poverty – the central integrating factor of Australia's aid program* (2001). It defines the poor as 'those who suffer a level of deprivations such that they are unable to meet minimum standards of well-being'. Critical aspects of well-being include:

- adequate resources to attain the basic necessities of food, water, shelter and clothing;
- access to acceptable levels of health and education;
- accountability from state institutions and civil society; and
- freedom from excessive vulnerability to adverse shocks.

Australia's poverty framework is based on four pillars:

- strengthening frameworks for sustainable and inclusive economic growth that will benefit the poor;
- supporting interventions that enable the poor to increase their productivity;
- encouraging governments, institutions and donors to be more accountable to the poor; and
- reducing vulnerability.

Ten years of bilateral development cooperation

Attachment 3 provides an overview of the key lessons learned during the past 10 years of bilateral development cooperation between Viet Nam and Australia. While major projects such as the My Thuan Bridge and Provincial Water Supply Project have generated the highest profile, it is clear that notable successes have been achieved in a range of sectors and activity types and scales. Strong GoV support has been a common ingredient in all of the successful projects, as has been the demonstration of a practical, effective and timely model that was able to produce early results. Other lessons learned relate to the appropriateness of the institutional environment of the project (which can be complex to assess), and the need to focus on and pay careful attention to the conditions for successful dissemination and/or replication of project models.

The 1998/2001 program Strategy represented the start of an effort to sharpen the focus of the program, with three key strategies and four sectors (education and training, rural development, health and governance) identified. Sectoral frameworks were developed in three of the sectors to guide project identification and development. The beginnings of a geographic focus emerged during the period. This new Strategy represents an opportunity to build on and sharpen the focus of the 1998/2001 Strategy.

4 THE STRATEGY AND FUTURE PROGRAM

Strategy objectives

The goal of the Viet Nam – Australia Development Cooperation Program is to:

Advance Australia's national interest by assisting Viet Nam to reduce poverty and achieve sustainable development.

This goal will be achieved through two strategic objectives and six operating principles:

STRATEGIC OBJECTIVES

- 1 **Broad based economic growth** by strengthening the governance of the institutions required for a competitive market economy, and
- 2 **Improved productivity and links to markets for the rural poor** in the Mekong Delta and Central Coast regions.

OPERATING PRINCIPLES

The Strategy operates on principles aimed to:

- support **human resource development** by delivering high quality human capacity building and technical assistance (ideas) through the program, supported by appropriate capital investment;
- actively pursue **synergies** within the program and with GoV and other donor activities;
- build on **lessons learned**, and look for opportunities to replicate successful models;
- participate constructively in the emerging **partnership** between the Government of Viet Nam and the donor community;
- base program interventions on **sound analysis** and a **common understanding** of the issues to be addressed: undertake research and policy dialogue as appropriate to encourage mutual understanding on key strategy and program issues; and
- address the quality of governance, gender equality, environmental sustainability, HIV/AIDS prevention and integration of

information and communication technologies as **cross-cutting concerns** for the program.

OBJECTIVE TREE

Figure 1 sets out an objective tree approach through which a series of Strategy intermediate objectives have been identified. By setting out and making choices among the necessary conditions to achieve the strategic objectives, these intermediate objectives provide a specific focus for the Strategy. The intended outcomes of the program can then be defined in terms their contribution (ie: level and type of impact) to the achievement of Strategy intermediate objectives.

A management objective of effective and efficient management of the Viet Nam program has also been specified and detailed sub-objectives developed.

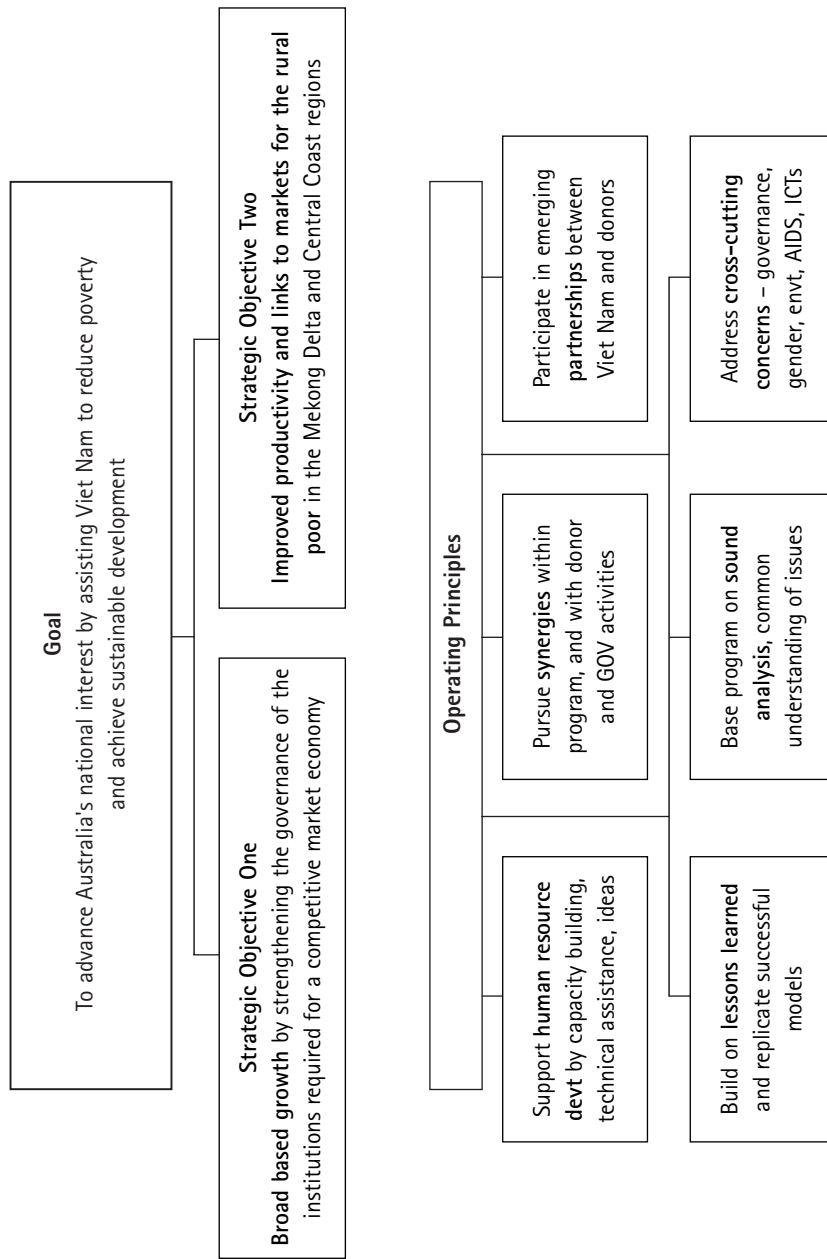
Strategy selection – rationale and approach

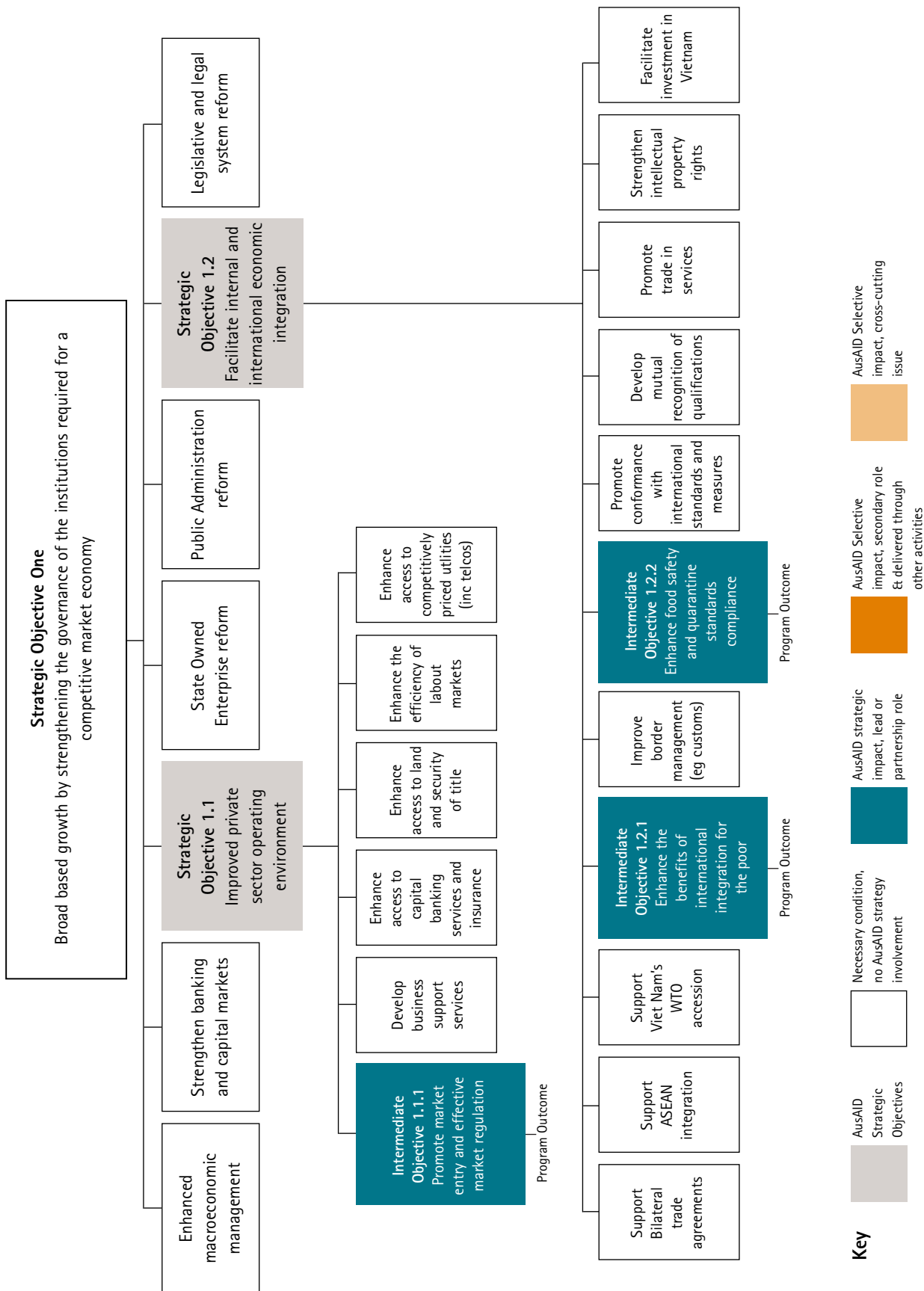
AusAID has identified the critical importance of more focussed and selective strategies based on quality analysis to improved aid effectiveness. This strategy uses an objective tree (Figure 1) and results framework (Attachment 4) approach in order to:

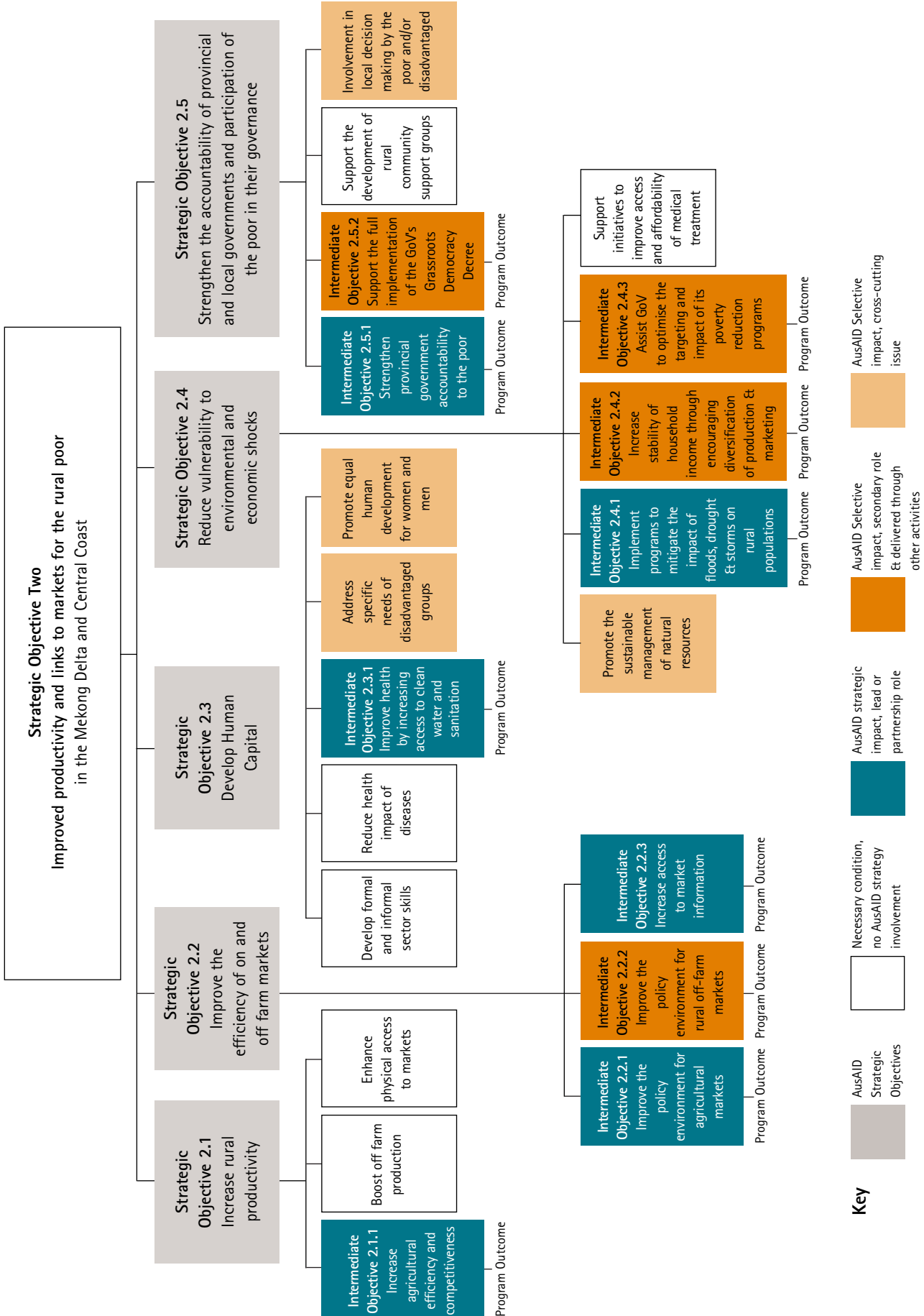
- articulate the thinking and logic of the Strategy;
- highlight the range of options available in strategy selection and facilitate decision making within those options;
- develop a clear hierarchy of objectives from higher order strategy to activity level; and
- link strategic objectives to resource requirements and performance measures.

More information on the approach used is presented in Attachment 5.

Figure 1: Viet Nam Strategy Objective Tree







STRATEGIC OBJECTIVE SELECTION

The selection of the two strategic objectives has been driven by key conclusions from the preceding analysis. These include:

- economic growth has been central to poverty reduction in Viet Nam. Its high level of human capital (demonstrated in generally good social indicators) relative to its level of economic development suggests that Viet Nam has significant potential for further growth and poverty reduction;
- the GoV will pursue continued, though gradual, reform towards international integration and along 'transition economy' lines during the Strategy period;
- strengthening the institutions for a competitive market economy is the key reform challenge for Viet Nam if it is to retain current high growth rates (Strategic Objective One); and
- nevertheless, there is a significant portion of the population who are not benefiting from the current economic growth. The poor face a range of structural barriers to full participation in the broader economy. They will require targeted support to overcome these barriers (Strategic Objective Two).

GEOGRAPHIC FOCUS

While Strategic Objective One has a national focus, there are clear advantages for the program, in terms of impact and building expertise, in defining a clear geographic focus for Strategic Objective Two. Dialogue with the GoV in the context of the previous (1998-2001) Strategy resulted in an agreement that the program would focus on water supply and sanitation in the Mekong Delta and rural development in the central coast region. Resulting commitments mean that we will be substantially committed to these two regions during the Strategy period. While not the poorest regions in relative terms, the Mekong Delta and central coast are comparatively under-served by donor assistance and the poverty analysis provides clear evidence that a geographic focus on these two regions would be appropriate. The central coast remains one

of the poorer regions in Viet Nam, with deep and widespread poverty in selected provinces and a high level of vulnerability to natural disasters. The Mekong Delta has a relatively low proportion of poor (18%) but, due to its population, many people living in poverty (around 3 million). It has recorded weaker poverty reduction than other regions in the past decade: a concern that requires further analysis.

IDENTIFYING INTERMEDIATE OBJECTIVES

Within the two broad strategic objectives, the selection of appropriate intermediate objectives and program outcomes has been carried out by weighing up a range of factors and identifying the key 'drivers' in each case. Critical among the factors for consideration are:

- **identified need**, based on the poverty analysis and the CPRGS;
- evidence of **GoV commitment to address an objective**, and agreement between the two Governments on appropriate measures;
- availability of **partnership opportunities**, in which the GoV wants to work closely with donors (as a group or individually) to jointly implement a commitment;
- **avoiding duplication of effort** by identifying objectives which are not being adequately addressed by the GoV or other donors;
- **assessing the change model** and supporting activities which are likely to promote timely and effective change in Viet Nam;
- **supporting successes**: the program and its constituent activities should build on previous successful experience from bilateral, regional and NGO programs;
- **looking for synergies** within the program: different elements of the program should support each other, making the impact of the program greater than that of its component parts; and
- **demonstrated Australian capability**: while notions of Australian 'comparative advantage' are difficult to capture precisely, it is important to ensure that

Australia has relevant expertise and capacity to work with Viet Nam in the fields chosen and that AusAID can draw on a range of sources to ensure that this expertise can be made available in the right place at the right time.

STRATEGIC OBJECTIVE ONE

Within Strategic Objective One, the chosen sub-objectives ('Improved private sector operating environment' and 'Facilitate internal and international economic integration') are areas in which the GoV, with donor support, has placed high priority, already demonstrated good progress and where scope for further progress is clearly evident. Importantly, progress in these areas is likely to promote other key reforms (eg: public administration reform, the legal system and SOE reform).

Intermediate Objective 1.1.1 ('Promote market entry and effective market regulation') has been selected on the basis of identified need, GoV commitment, Australian expertise and partnership opportunities. There is a history of effective GoV/donor coordination in the drafting of the Enterprise Law (2000), and we have been approached through our Capacity Building for Effective Governance facility to undertake additional work in this area. There is also potential for synergy through our current relationships with selected provinces: many regulatory responsibilities are held by provincial governments.

Avoiding duplication while addressing identified need is the key consideration in selecting intermediate objectives for the economic integration sub-objective. A range of donors is active in this field, largely in support of bilateral, regional or WTO negotiations and agreements. Capacity to analyse the distributional impacts of economic integration and to develop policy responses which enhance the positive impacts for the poor (Intermediate Objective 1.2.1) has been recognised by key GoV institutions (eg: the Ministry of Agriculture and Rural Development) and external economic experts

a critical gap for Viet Nam. Addressing this constraint could yield substantial development gains.

As a major agricultural producer and exporter, addressing global trends towards stricter food safety and quarantine standards in international trade (Intermediate Objective 1.2.2) will be a challenge for Viet Nam in the coming decade with major implications for the rural economy. This is an area in which Australia has demonstrated expertise and delivered successes through AusAID regional programs (eg: the ASEAN Australia Economic Cooperation Program).

STRATEGIC OBJECTIVE TWO

The selection of a larger number of intermediate objectives for Strategic Objective Two, albeit with varying degrees of program impact anticipated, reflects the multi-dimensional nature of poverty. Nevertheless, a strong program focus is required at both Strategy and program implementation level if maximum impact is to be achieved with limited resources. The primary emphasis on 'rural productivity' and 'markets' helps to guide that focus.

At the Intermediate Objective level, demonstrated Australian expertise and supporting successes in the program to date are key considerations, because the operating principle of replicating successful models will need to be central to the achievement of real impact given the ambitious scope of the Strategic Objective. Intermediate Objectives 2.1.1 (agricultural efficiency and competitiveness), 2.3.1 (water supply and sanitation) and 2.4.1 (natural disaster mitigation) have been selected on this basis.

Intermediate objectives relating to market efficiency (2.2.1-2.2.3) and strengthening governance at the provincial level (2.5.1) address identified priorities for rural development in Viet Nam and provide good opportunities for synergy across the program, including with outcomes under Strategic Objective One.

REVIEWING ASSUMPTIONS AND IDENTIFYING CONSTRAINTS

An ongoing task for the two Governments in delivering this Strategy will be to assess whether the sub-objectives and intermediate objectives not being addressed through the program are being adequately addressed by other means or, at the very least, are not presenting critical constraints to the attainment of higher level strategy objectives. (For example, critical constraints in the banking system might imperil the private sector environment sub-objective of the strategy, which the program seeks to advance by promoting market entry and regulatory issues.) This assessment should be undertaken through ongoing analysis and policy dialogue, drawing on the rich material available from a range of sources on Viet Nam's reform process. The identification of any critical constraints should trigger a joint process of Strategy review.

Implementing the Strategy

DEVELOPING PROGRAM OUTCOME STATEMENTS AND PERFORMANCE MEASURES

Articulating program-level outcome statements and indicators is a pre-requisite to Strategy implementation. Program outcome statements indicate the intended contribution of the program to the selected Strategy intermediate objectives. Different levels and types of program impact should be captured by the statements.

As for the higher level strategic choices described above, the definition of intended program outcomes involves assumptions about the most appropriate contribution of the program based on GoV policies, other donor programs and partnership opportunities, the nature of Australian expertise, previous experience in Viet Nam and resource availability. A separate Working Paper on Program Outcomes (available from AusAID) sets out these assumptions.

For some selected intermediate objectives sufficient information has been available at the time of Strategy formulation to allow program outcomes to be specified. In other cases, further information and consultation is required before this is possible. In the latter cases, analytical work in year one of the Strategy will lead to program outcome statement formulation in time for the first annual Strategy review. Box 3 lists both cases. The results frame (Attachment 4) sets out performance measures and means of verification for each program outcome specified to date.

IMPLEMENTATION OPTIONS

Program outcomes will be achieved through a tailored mix of implementation mechanisms. Options include: (i) new activities; (ii) building on successful and relevant, ongoing activities; (iii) analytical work; and (iv) policy engagement. Option (ii) should involve an evaluation of activities in terms of new Strategy objectives and re-design or fine-tuning as appropriate.

A further range of delivery options is available for new activities, including: (a) stand-alone bilateral projects; (b) co-financing with multilateral or other bilateral donors; (c) multi-donor pooled funding; and (d) NGO cooperation agreements.

Support for direct GoV execution of projects or sector-wide approaches is not envisaged during this Strategy period. That said, the proposed work on GoV/donor harmonisation of procedures (discussed below) should improve the environment for these types of arrangements in the longer term by gradually strengthening GoV delivery systems.

IMPLEMENTATION PLANNING AND OPERATIONAL PIPELINE

A draft implementation work plan has been developed, will be updated regularly and will provide the basis for consultation between the two governments on Strategy implementation. The plan notes relevant ongoing activities

Box 3: Strategy Intermediate Objectives and Program Outcomes

Intermediate Objective 1.2.1: Enhance the benefits of international trade for the poor

Program Outcome 1.2.1: *Improved GoV capacity to analyse and develop policies that consider the distributional effects of trade liberalisation.*

Intermediate Objective 2.1.1: Increase agricultural efficiency and competitiveness

Program Outcome 2.1.1: *Increased capacity in Vietnamese agricultural institutions to address smallholder agricultural constraints.*

Intermediate Objective 2.2.3: Increase access to market information

Program Outcome 2.2.3: *Rural poor and traders have predictable and low-cost access to timely, accurate and relevant market information.*

Intermediate Objective 2.3.1: Improve health by increasing access to clean water and sanitation

Program Outcome 2.3.1: *Policies, institutional arrangements and technologies that meet the health, water and sanitation needs of the poor demonstrated and widely adopted.*

Intermediate Objective 2.4.1: Implement programs to mitigate the impacts of floods, droughts and storms on rural populations

Program Outcome 2.4.1: *Improved planning and management for natural disaster mitigation demonstrated and widely adopted.*

Intermediate Objective 2.4.2: Increase stability of household income by encouraging diversification of production and marketing

Program Outcome 2.4. 2: *Strengthen (i) policy advice to government and (ii) availability of information and technologies for the rural poor regarding diversification of production and marketing.*

Intermediate Objective 2.5.1: Strengthen provincial government accountability to the poor

Program Outcome 2.5.1: *Selected provincial governments reflect the views of the poor in budget allocations and improvements in service delivery outcomes.*

Intermediate Objectives for which program outcome statements will be developed in Strategy Year 1:

- 1.1.1 Promote market entry and effective market regulation
- 1.2.2 Enhance food safety and quarantine standards compliance
- 2.2.1 Improve the policy environment for agricultural markets
- 2.2.2 Improve the policy environment for rural off-farm markets
- 2.4.3 Assist the GoV to optimise the targeting and impact of its poverty reduction programs
- 2.5.2 Support the full implementation of the GoV's grassroots democracy decree

(from bilateral and regional programs) and lists required new activities and analytical work towards the achievement of each program outcome. It underpins the development of the program operational pipeline document at Attachment 6, which matches new tasks with anticipated resource availability and sets out the proposed sequencing of the new tasks required to successfully deliver the Strategy.

The necessary management tasks to fully implement the strategy and program are set out in the Management Objectives section of the Results Frame (Attachment 4).

PROGRAM FEASIBILITY

A key test in developing the draft implementation work plan and operational pipeline is the feasibility of delivering the set of activities required by the proposed Strategy intermediate objectives and program outcomes. Indeed, the current intermediate objectives and program outcomes have been revised on two occasions to address feasibility. We estimate that the current Strategy and program will require the design and implementation of 8-11 new activities, including 2-3 NGO partnership areas, plus a substantial program of analytical work, during the five-year strategy period.

The feasibility of this pipeline of new activities is impossible to determine precisely, due to uncertainty over annual program allocations, likely variability in the timing of outlays for current activities and the likely budgets of new activities. In addition, full implementation will only be possible if current activities that are not aligned to the new Strategy are progressively removed from the program and if expenditure levels for all current activities are kept in check. Nevertheless, our current assessment is that the pipeline of new activities is likely to be feasible, and therefore the Strategy deliverable.

This assessment will need to be kept under ongoing review. Should the Strategy review process determine that the activity pipeline is not deliverable, contingency options are to: (i) reduce the number of intermediate objectives and program outcomes; (ii) reduce the level of impact proposed by 'downgrading' program outcome statements; or (iii) delay and spread out the implementation timeline. This decision is best made through the review process, but we note that option (i) should, in-principle, deliver greater impact for a given level of available resources.

PROGRAM FLEXIBILITY

While the approach described above may appear rigid and mechanical, it is recognised that flexibility to respond to whole-of-government priorities in both countries, new developments and changed circumstances will need to be an important attribute of the Strategy. A two-tiered response to this requirement is possible:

- First, it is intended that, with the agreement of the GoV, two facility mechanisms in the program – the Capacity Building for Agricultural and Rural Development (CARD) facility and the Capacity Building for Effective Governance (CEG) facility – act as rapid response mechanisms to agreed requests for priority small-medium scale assistance; and
- Second, the annual Strategy review process, followed by bilateral High Level Consultations, should provide a forum for genuine program flexibility, especially in the context of a longer term Strategy than has previously been the case. The Strategy objective tree and results frame should be modified as necessary through the review and consultation processes. In these circumstances, particular attention will need to be paid to removing existing objectives and program outcomes in response to new additions, in order to retain the feasibility of the Strategy.

A specific issue to be monitored and which may require a flexible response is support for the new bilateral human rights dialogue. AusAID has agreed to facilitate wide-ranging Vietnamese participation in the second dialogue in 2003, and will need to be sensitive to the pace of potential growth of both the dialogue and related technical assistance opportunities.

INTEGRATING AUSTRALIAN AID FLOWS

The Strategy provides a conducive framework to integrate Australian bilateral, regional, multilateral and NGO aid flows. In particular, the planned focus on economic integration, natural disaster management and, to a lesser extent, the private sector, provides excellent opportunities to closely align the program and Asia Regional program directions. Directly relevant regional activities on economic integration and the private sector include the ASEAN Australia Development Cooperation Program (AADCP), IFC Mekong Project Development Facility and proposed WTO and Sanitary/Phytosanitary (SPS) capacity building activities. Because these regional activities will commence before new bilateral activities on economic integration, it is envisaged that they will play a useful 'search' role, helping to identify specific bilateral interventions which will add most value. The regional Thailand Australia Social Protection Facility may also play this role to some degree in support of Intermediate Objective 2.4.3 ('Assist the GoV to optimise the targeting and impact of its poverty alleviation programs').

On natural disaster management, a bilateral program focus on managing the impact of flooding in the Mekong Delta, including the North Vam Nao water management project, will be directly supported by regional program engagement in Mekong River Commission activities, including but not limited to the upgrading of the hydrometeorological network.

Viet Nam is now the world's largest IDA-only (World Bank) borrower and also a recipient of

substantial Asian Development Bank (ADB) funds. Australia's solid history of cooperation on analytical work with the World Bank and our respective strategies are likely to be increasingly complementary in the context of the CPRGS framework. As such, Australian direct contributions to the multilateral development banks (MDBs) provide valuable support to the achievement of broad Strategy objectives. Our intention to actively pursue coordination and co-financing opportunities with both MDBs (discussed below) further enhances this complementarity.

The current collaborative relationship with the Australian Centre for International Agricultural Research (ACIAR) can be further built on as current and new rural development programs develop, with a particular joint focus on agricultural competitiveness, diversification and research, extension and take-up issues.

A key implementation feature of the new Strategy will be a direct alignment of support for Australian NGO programs to the new program outcomes. We will replace the current large number of disparate NGO projects under an NGO 'window' with a smaller number of long term cooperation agreements. Each agreement will set out the intended contribution of the NGO to the achievement of a specific program outcome and will provide flexibility, within the agreed framework, through an annual planning process. Two initial program outcomes have been agreed as partnership areas as a result of AusAID/NGO consultations during 2002:

Intermediate Objective 2.3.1: Policies, institutional arrangements and technologies that meet the health, water and sanitation needs of the poor demonstrated and widely adopted; and

Intermediate Objective 2.4.1: Improved planning and management for natural disaster mitigation demonstrated and widely adopted.

A further partnership area may be considered following the selection process for the above

partnerships and the completion of the current Mekong Delta poverty analysis.

ALIGNING AUSTRALIAN DEVELOPMENT SCHOLARSHIPS

A review of Australian Development Scholarships (ADS) was undertaken in late 2002 with the objective of delivering better alignment of the ADS program with Strategy objectives while maintaining support for the GoV's HRD objectives. Subject to joint agreement, ADS objectives will be to:

- strengthen selected key GoV institutions relevant to the market economy;
- build Viet Nam's capacity to improve the lives of the rural poor;
- support the sustainability of development activities by training selected personnel working on strategic projects/programs; and
- enhance the contribution to Viet Nam's development of highly talented individuals working in areas relevant to country program objectives.

Full implementation of review recommendations will see 60% of awards directly allocated to GoV institutions with a mandate for strategy objectives.

INTEGRATING INFORMATION AND COMMUNICATION TECHNOLOGIES

In August 2001 Australian Foreign Minister Downer and World Bank President Wolfensohn announced a joint initiative, the Virtual Colombo Plan, which aims to use the opportunities presented by information and communication technologies to enhance access to knowledge in developing countries. AusAID program areas are mainstreaming this initiative through their Strategies and programs. In Viet Nam's case the Strategy operating principle of delivering high quality human capacity building and technical assistance (ideas) is highly conducive to the use of ICTs across range of program outcomes and activities.

In addition, program outcome 2.2.3 ('Rural poor and traders have predictable and low-cost access to timely, accurate and relevant market information') has been identified as being especially suited to exploring the opportunities provided by ICTs. Developing a new activity targeting both this program outcome and Virtual Colombo Plan objectives will be a priority Strategy implementation task.

Strengthening partnerships

THE CPRGS AS A COMMON FRAMEWORK

At the level of broad objectives the CPRGS and this Strategy are highly complementary, with both adopting a two track approach focussing on reforms for economic growth and specific measures to attack poverty. Both documents have a strong focus on strengthening market institutions, international integration, private sector-led growth and poverty-focussed rural development. Relevant CPRGS policies and/or measures have been identified for each of the intermediate objectives in the strategy results frame and relevant current activities can also be demonstrated to contribute to the CPRGS.

Given that the CPRGS is wide-ranging, other donors are also expected to come to similar conclusions, making the CPRGS a broad rather than applied donor coordination vehicle. However, further action by the GOV to prioritise the implementation of certain sectors and measures within the CPRGS would be significant and should prompt action to re-prioritise within the existing program and better coordinate with other donors.

HARMONISATION OF AID PROCESSES AND PROCEDURES

There are several good reasons to actively engage in the harmonisation agenda in Viet Nam. It presents practical opportunities to effect significant improvements in the quality and accountability of governance in Viet

Nam. It has the potential to decrease the administrative burden on the GoV from the many donors and projects. Australia can also contribute good practice ideas from its own experience, while drawing on the best approaches of other donors. Importantly, the program has a key stake in the issue through the Viet Nam Australia Monitoring & Evaluation Strengthening (VAMES) project, which will continue into a second phase during the Strategy period.

While progress on harmonisation is likely to be slow and complex, the agenda is not likely to be especially resource-intensive and the risks of involvement are not great so long as expectations are modest. Australia will actively engage with the GoV/donor working group on this process.

In addition to VAMES, a small practical start has been made on harmonisation through our agreement in-country with the Netherlands aid program to use common selection criteria and a single assessment process for our Small Activities Schemes.

WORKING WITH OTHER DONORS

The development of co-financing arrangements and other, looser partnership approaches makes sense for a bilateral grant donor with limited resources in a large country and experienced in providing technical assistance. The mix of instruments brought together by co-financing with the MDBs has obvious complementarities (as well as some practical risks). There is also considerable scope in Viet Nam, in addition to the harmonisation agenda outlined above, to blend approaches with other bilateral donors. An assessment of other donor strategies and priorities yields the following tentative conclusions about possible partnership areas with other donors. They will need further assessment as part of the Strategy implementation process and it is not expected that all would be pursued:

- Private sector environment: UNDP, IFC, World Bank, Germany

- Rural Water Supply and Sanitation: World Bank, Denmark, France, Germany
- Natural Disaster Mitigation: Netherlands, Denmark, UNDP
- Rural development: ADB, World Bank
- Provincial level governance: UNDP, Sweden, World Bank
- Mekong Delta: World Bank, Japan
- Central coast: ADB, World Bank.

Selective AusAID participation in GoV/donor thematic working groups in Hanoi has also been identified as a key strategy to enhance partnerships with GoV and other donors. A differentiated approach is planned during the Strategy period, driven by the new Strategy focus. The approach will involve withdrawal from some groups in which Australia currently participates; a low-resource, minimalist 'watching brief' for others; and a deliberate strategy of proactive AusAID engagement in four groups that are closely aligned to Strategy directions. These are trade, water, aid harmonisation and the Ministry of Agriculture and Rural Development International Support Group (MARD ISG). Original material for discussion in these fora will be periodically contributed by Australia. This approach to the range of working groups will be subject to ongoing review, depending on the continued utility of the groups.

INVOLVING THE AUSTRALIAN COMMUNITY, KEY INSTITUTIONS, AND AUSTRALIAN EXPERTISE

The creation of new NGO cooperation agreements (described in Section 4[iii] above), will be a key mechanism to more directly involve the Australian community in Strategy delivery. NGOs are expected to participate in AusAID policy and technical discussions in their fields, join GoV/donor discussions as appropriate, contribute to Strategy review and to respond flexibly (within agreed frameworks) to new developments during the Strategy period.

Viet Nam has hosted a relatively large number of Australian Youth Ambassadors and volunteers in recent years, a trend that is

likely to continue. There is expected to be considerable scope to identify approaches to more effectively involving volunteers in Strategy implementation. An initial example, based on a positive experience to date and which might be considered elsewhere, is a proposal to proactively involve young Australian agricultural professionals in the delivery of Phase II of the CARD facility.

Australian institutions such as universities, agricultural research bodies and state and federal government agencies bring particular values, a collegiate approach and contemporary expertise to the delivery of Australian development cooperation programs in the Asia Pacific region. There is substantial scope to actively involve these institutions in program delivery, especially through the CARD and CEG facilities.

Australia has recognised technical expertise in rural development, especially agricultural policy, trade, research and extension and integrated natural resource management approaches, which can be adapted to Viet Nam's circumstances. In governance areas trade policy, fiscal decentralisation, public sector reform and market regulation are examples of acknowledged relevant expertise. Other AusAID bilateral programs also offer valuable lessons and insights, eg: on decentralisation.

In addition to the institutions noted above, the depth and availability of appropriate expertise available through the private sector will need to be both carefully assessed and actively facilitated (eg: through early warning of potential opportunities) when developing detailed program implementation strategies.

Analytical work in support of the Strategy

Australia and Viet Nam will jointly manage a rolling program of analytical work in support of Strategy objectives. Potentially ranging from significant published research through to day-to-day policy discussion via program

activities or GoV/donor working groups, analytical work in support of the Strategy will serve one (or more) of four objectives:

- to support the identification of program outcomes and performance measures;
- as a specific activity contributing to the achievement of a program outcome;
- to improve program quality by addressing operational or cross cutting issues for the program; and/or
- as a basis for Strategy and program review, including by testing assumptions underpinning Strategy choices (as described at Section 4(ii) above).

In addition, analytical work supported by the program should, where possible, be disseminated widely, in order to advance and broaden knowledge on Viet Nam's development challenges and opportunities (see Management Objective 2.7, Results Frame, Attachment 4). Achievement of this objective will require careful attention to presentation and dissemination strategies, along with a deliberate focus of resources on the tasks that are likely to have the greatest development impact.

A workplan of analytical and policy engagement tasks has been developed and will be updated regularly, in close consultation with the GoV.

Examples of analytical work currently underway are a poverty analysis for the Mekong Delta region, a desk study on rural development policies and institutions and a study on the practical implications of administrative decentralisation in Viet Nam. The former is intended to lead to an important publication and to initiate a substantive debate in the Delta region on appropriate policy responses. Further steps for the latter two studies will depend on an assessment of their potential contribution to the objectives for analytical work set out above.

5 PERFORMANCE MEASUREMENT

The Strategy results framework (Attachment 4) provides the basis for Strategy and program performance measurement. It is expected to be the primary Strategy and program review tool.

The performance measures at program outcome level will provide key performance information on program-level impact. The higher level monitoring indicators in the results frame describe the program's operating environment and thereby allow an assessment of the continued relevance and appropriateness of the Strategy. The articulation of a hierarchy of program performance measures and Strategy-level monitoring indicators is also intended to assist program managers and reviewers to develop an assessment of the cause and effect

linkages, and therefore the contribution of the program to Viet Nam's development.

Importantly and more specifically, references in the results frame to relevant CPRGS targets and actions will provide a key reference point in identifying Australia's contribution to CPRGS implementation.

A first step in the performance measurement process during 2003 will be to establish a monitoring indicator and performance measures baseline. This first 'field testing' of the feasibility and practicality of the current indicators and performance measures may identify practical reasons to modify the indicators.

6 RISK ASSESSMENT

This paper assumes political stability and continued improvement in the Vietnamese policy environment throughout the Strategy period. Notwithstanding a likely increase in external competitive pressures, Viet Nam is also likely to continue on an economic growth path and is therefore assumed in this Strategy to be a low to moderate risk environment for a development cooperation program. Any change to this assessment should trigger a Strategy review.

A risk matrix at Attachment 7 sets out this assessment in more detail. It analyses three categories of risk: external, country level risk and program level risk. Although none of the identified risks are considered to be more than medium level, the greatest number of risks exist at the country level. It is also possible

that the country-level risks, if realised, could fuel each other (eg: weakened governance and corruption leading to greater inequality and social instability). In addition to Strategy review and bilateral consultation processes, we note that the high quality of the Consultative Group dialogue, including the analytical work informing these discussions, provides a suitable vehicle for the ongoing assessment of country-level risk.

The Strategy review process and, specifically, review of the management objectives of the Strategy (set out in the results frame), provides an appropriate process for the regular review of program-level risks.

ATTACHMENTS

Attachment 1: Viet Nam's economic, policy and institutional environment

CURRENT SITUATION – POLITICS

The Vietnamese Constitution places the elected National Assembly (NA) as the supreme legislative body, responsible for supervising observance of the Constitution, laws and resolutions by the other arms of the State (President, Government, Supreme People's Court and Supreme People's Procuracy).⁶ In practice, the NA does not make policy, but in recent years the balance of power has altered somewhat in its favour as evidenced by the fact that delegates now have power to approve the Budget. The Government, whose Ministers are elected by the NA and are subject to its scrutiny, is the executive arm of the State and guides the work of ministries and other government agencies at national, provincial, district and commune levels.⁷

The 1992 Constitution nominates the Communist Party as the leading force in State and society, and its presence is felt at all administrative levels. It is, however, required to operate within the framework of the Constitution and the laws. While policy debates within the Party are not open to public view, the development of the ten-year Socio-Economic Development Strategy endorsed by the 9th Party Congress in May 2001 involved a considerable amount of consultation.

One of the major intentions of Vietnamese reforms is to transform Viet Nam into a law-governed state by enhancing the oversight

role of the NA. Recent amendments to the Electoral Law increased the number of delegates to 500, of whom one quarter serve on a full-time basis. According to a Politburo directive, 'an appropriate number of seats must be granted to ethnic minorities, women, youth, non-party members, religious believers and different social classes'. New candidate selection processes place a high premium on formal qualifications and ethical probity.⁸

In recent years, moves to strengthen the role of the NA, decentralise power to the provincial level, and introduce 'grass roots democracy' at the lowest administrative levels, along with an improved climate for debate and criticism of policy, have resulted in a government which is more responsive to the views of its population. However, concerns remain about corruption and other forms of misbehaviour by officials. The Master Programme for Public Administration Reform (PAR), approved by the Prime Minister in September 2001, is extremely critical of the public administration system, including the level of corruption and lack of responsiveness among civil servants.

Two civilian disturbances in disadvantaged provinces occurred in recent years, and the Government has responded swiftly to reinstate order, while also seeking to redress underlying grievances and strengthen participatory processes at the grassroots.

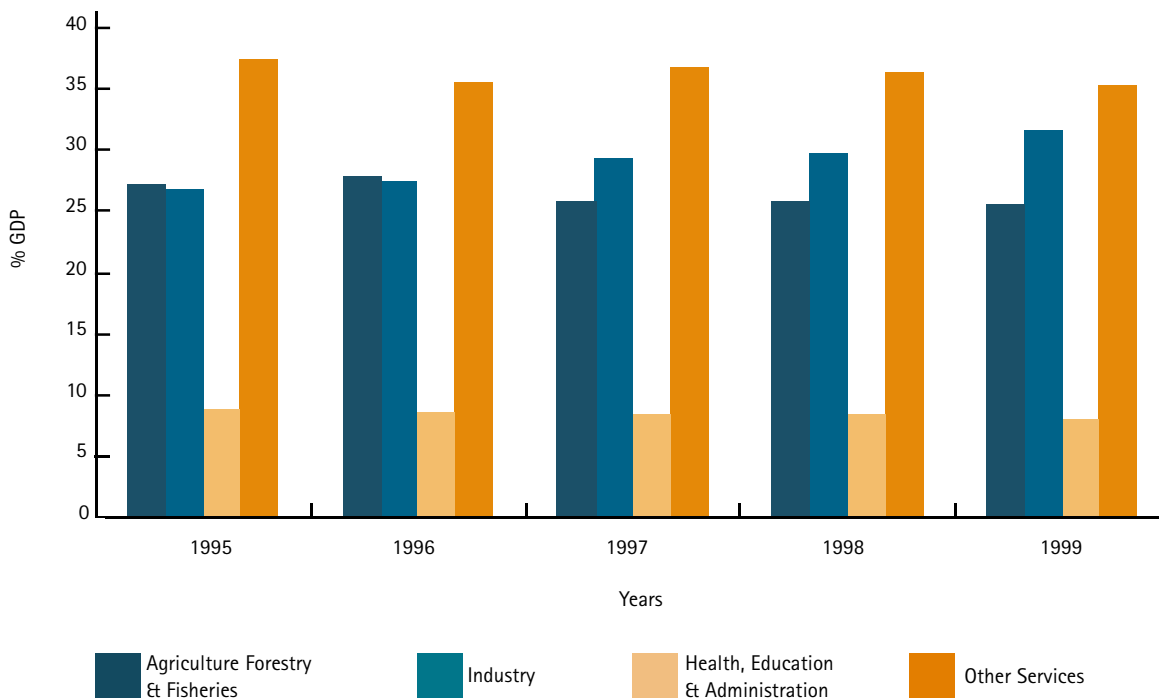
A Legal Needs Assessment (LNA) in 2001 assessed the current legal system and made

6 Assembly delegates are elected by universal suffrage, and secret ballot for a five-year term. The Assembly's role is replicated at provincial, district and commune levels of administration by elected People's Councils. Local People's Committees are supervised by the local People's Council, as well as being subordinate to higher people's committees, the national government, ministries and state committees.

7 This does not mean that the Government has absolute hierarchical power over local agencies, but these need to accommodate both local and central interests.

8 Carlyle A. Thayer, *Recent political developments: Viet Nam in 2002* (Paper presented at ANU Viet Nam Update Conference, 28-29 November 2002).

Viet Nam: GDP by Sector



Source: *Vietnam Development Report 2002*, World Bank, 2001.

sweeping reform proposals. An Action Plan has also clarified the scope, depth and pace of reforms to flow from the LNA. Legal reform has been given a clear direction and urgency by economic integration imperatives. The Party and State have displayed a commitment to legislative and institutional reform. However, the NA currently faces a huge legislative backlog and the daunting task of regularizing Vietnam's laws to bring them in compliance with provisions of the Bilateral Trade Agreement signed with the United States. Failure to meet this challenge will potentially have serious implications for Vietnam's bid to join the World Trade Organisation by 2005.

CURRENT SITUATION – ECONOMY

Viet Nam's economy is still in transition from 'central planning' to a 'market-based economy with a socialist orientation', and many of the institutions required for market-led economic growth are missing or embryonic. The new Constitution approved in December 2001 contained the important principle that the private sector shall be treated on an equal basis to the state sector, with no restrictions on the size of private enterprises or the sectors in which they operate.

In 2001, the state-owned sector accounted for 38 percent of GDP (but only 4-5 percent of the total labour force).⁹ Despite a rapid rise in the number of registered enterprises (50,000 since January 2000) the formal domestic private sector in Viet Nam is still very small, accounting for 7-8 percent of GDP in 2000, while the foreign-invested sector accounted for 11 percent. The vast bulk of the private

⁹ *Vietnam Development Report 2002*, World Bank, 2001, Statistical Appendix Table 1.3

Economic Growth in East Asia, 1998–2002 (Annual per cent change)

Country	1998	1999	2000	2001	2002
China	7.8	7.1	8	7.3	6.8
Vietnam	3.5	4.2	5.5	4.7	4.8
Indonesia	-13	0.8	4.8	3.2	3.5
Philippines	-0.6	3.4	4	2.9	3.2
Malaysia	-7.4	6.1	8.3	0.3	2.5
Thailand	-10.2	4.3	4.4	1.5	2

(a) Forecast for 2002. Source: IMF, *World Economic Outlook*, December 2001.

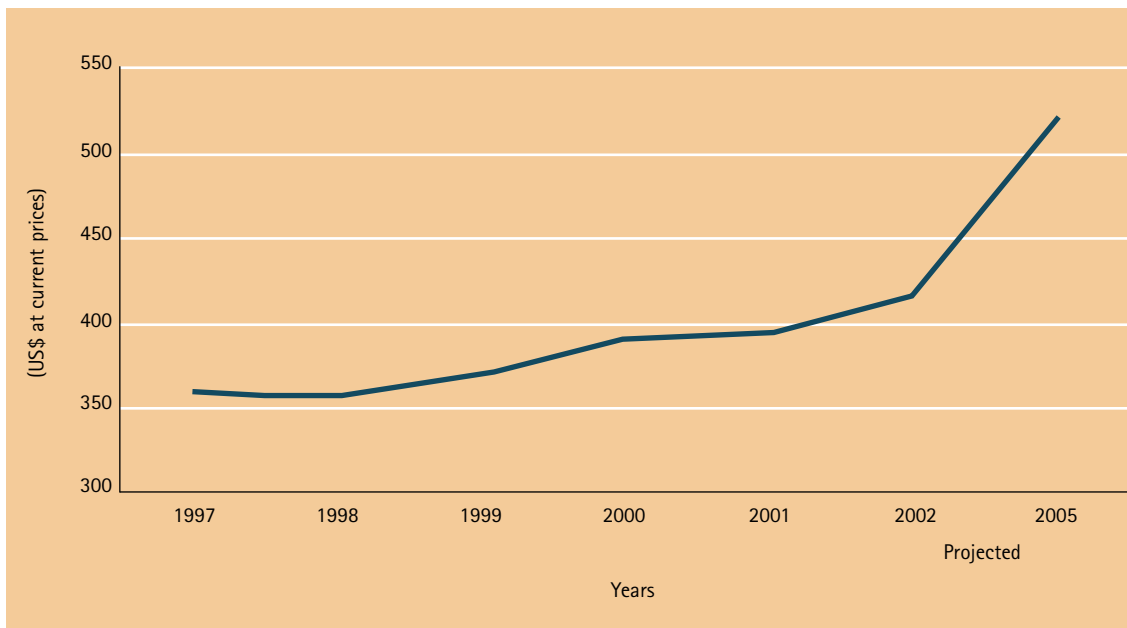
sector consists of household enterprises, including farmers, and contributed about 33 percent of GDP in 2000.

Similarly, Viet Nam's economy is gradually shifting from a heavy reliance on agriculture to a more diversified base. Between 1993 and 1998, the share of the workforce employed in agriculture dropped from 71 to 66 percent, while those in the services sector rose to just over 20 percent, and other industries' share grew marginally to about 12 percent. Formal sector underemployment is a significant issue for the economy, however, at around 60 percent in rural areas (where 80 percent of the population resides), and 40 percent in urban areas.

The Vietnamese economy has performed above expectations since the 1997 regional financial crisis. Despite a decline in 2001, Viet Nam's economy has performed well in 2002, showing a marked improvement on the previous year despite a difficult external environment, with GDP expected to grow at 6 percent. This is well above the level forecast in 2001 (see table below). The World Bank, in its Viet Nam Development Report (VDR) 2003, attributes this performance to a combination of sound macroeconomic fundamentals, the adoption of structural reforms, and strong domestic confidence and consumer demand.

Exports have been a major source of growth in recent years, having expanded enormously in volume and nearly doubled in value between 1996 and 2000, despite falling prices for many commodities. Viet Nam is a major world exporter of rice and coffee (both of which have seen price declines). Price declines notwithstanding, the positive trend in expanding economic output has been translated into a steady and gradual increase in the level of GDP per capita. From 1997 to 2001, GDP per capita has risen by almost 10 percent to around US\$400 (at current prices). The World Bank forecasts that over the next four years to 2005, GDP per capita will increase by a further 32 percent (see graph below).

Viet Nam: GDP per Capita



Source: *Vietnam Development Report 2002*, World Bank, 2001.

However, this optimistic forecast is threatened by the pronounced slowdown in the major world economies (USA, Japan, Europe) in 2002, resulting in an aggregate falling off in demand for Viet Nam's exports. Export performance has nevertheless been helped by the Viet Nam-US Bilateral Trade Agreement (BTA), with the US now Viet Nam's second most important market (after the European Union) in garments and textiles. Conversely, Viet Nam's exports to China and Japan shrank this year, pointing to problems of competitiveness.

After a rapid rise from a low base in the early 1990s, foreign direct investment (FDI) in Viet Nam slumped in the late 1990s due to slow progress in implementing the structural reforms needed to facilitate foreign investment, as well as the regional investment downturn following the East Asian Economic Crisis. Viet Nam's FDI target for the period 2001-2010 is therefore relatively modest at \$US10 billion, significantly less for example than ODA expectations of \$US22 billion for

the same period. However, the low rate of domestic savings in formal institutions (especially in comparison with its neighbours) means that FDI will remain an important component of Vietnamese domestic investment. Total domestic investment will be limited unless currently untapped domestic savings can be mobilised.

At about 40 percent of GDP, Viet Nam's medium and long-term public debt is considered to be manageable, especially since much of the hard-currency debt is at concessional interest rates, or connected with foreign-invested projects. Debt servicing currently consumes less than 10 percent of annual export earnings, and is expected by the IMF to fall to about 5 percent by 2005. The management of debt is of concern, however, given its current fragmentation among several government agencies. Viet Nam may be eligible for further assistance under the heavily indebted poor countries (HIPC) initiative, but this will not be clarified for some time.¹⁰

10 Economist Intelligence Unit, *Vietnam Country Profile 2001*, p. 42

INSTITUTIONAL CHALLENGES

It is clear that the *doi moi* reforms are producing significantly diminished returns as time goes on. A new generation of reforms will therefore be essential if Viet Nam is to maintain high growth rates, create employment for those entering the workforce as well as the underemployed, and reduce poverty in the new millennium. This is especially true in the face of global economic uncertainty, and regional competition from countries such as China. In particular, to establish itself as a safe and productive place to invest, Viet Nam needs to overcome perceptions of slow decision-making, and lack of transparency.

If Viet Nam is to gain from trade liberalisation, its products will need to compete in world markets. This represents a substantial challenge in most areas. In 2002, the World Economic Forum's *Global Competitiveness Report 2002-2003* ranked Viet Nam 65th out of 80 countries (compared with China's ranking of 33rd) on a competitiveness index, largely because of low rankings for perceptions of corruption, limited information and communications technology, and creditworthiness. (On the other hand, it ranked 6th for macroeconomic stability, just after China, and also did well on government expenditure, and technology transfer).

Progress will need to be accelerated in sensitive areas such as SOE reform and the banking and finance sectors. Agreements made with the IMF and World Bank in 2001 will provide momentum in this direction. However, recent improvements in 'grassroots democracy' and openness of public debate on policy issues may paradoxically make some reforms, especially those involving job losses, more difficult to implement.

Public finance reform will play a pivotal role in pursuit of poverty reduction. This is because of its linkages with both broader growth and social service delivery aspirations of the GoV's poverty reduction plan. There have been some important improvements in

public expenditure management and budgetary systems in recent years. The Budget Law enacted in 1997 established a clearer definition of expenditure responsibilities and revenue powers between central and local administrations, and budget transparency was introduced for the first time in 1999. Following a joint government – donor public expenditure review in 2000, a program of reform in public finance has been developed.

Other aspects of public administration also require considerable improvement. The machinery of government is extremely complex and inefficient, and poorly defined relationships between different levels of government create room for significant local variation in the levels of service received by members of the public. The Prime Minister's approval of the Master Programme for Public Administration Reform (PAR) in late 2001 signals high-level political commitment to this important process, but further work is needed on the implementation details of the Programme.

Strengthening the capacity of local communities to participate in the development, implementation and review of policies and programs, as signalled in the Grassroots Democracy Decree, will be an important way of ensuring the effectiveness of key reforms such as those outlined in the Legal Needs Assessment and PAR processes.

Attachment 2: Government of Viet Nam Poverty Reduction Programs

NATIONAL HUNGER ELIMINATION AND POVERTY REDUCTION (HEPR) PROGRAM:

Also known as Program 133, HEPR was established in 1996 to integrate a range of anti-poverty programs within a wider framework. Components include micro-credit for the poor; basic infrastructure works in poor communes; health care; education and vocational training; social security; legal assistance, etc. The majority of HEPR funds have been devoted to credit and infrastructure development. Eligible poor households are determined by Ministry of Labour, War Invalids and Social Affairs (MOLISA) officials at a district or commune level.

MORE TARGETED PROGRAMS:

Program on Socio-economic Development in Especially Disadvantaged Communes in Mountainous, Isolated and Remote Areas: Also known as Program 135, this program focuses on providing essential basic infrastructure to poor communes in mountainous and isolated areas. The program provides funding for roads, small-scale irrigation works, clean water, electric power, school, health clinics and markets. The Committee for Ethnic Minorities in Mountainous Areas (CEMMA) is responsible for identifying eligible communes. Currently, there are 2325 poor communes in which basic infrastructure works will be funded. It is estimated that these communes cover 46 to 53 percent of all rural poor households and the GoV is considering inclusion of a further 700 communes.

National Target Program on Employment Generation: Established in 1992 to alleviate the negative impact of restructuring state enterprises, this program aims to promote employment opportunities through provision of severance payments, subsidised credit and training.

Project on 5 Million Ha Reforestation: Also known as Program 661, this program expands the scope of an earlier project (Project 327 – Re-greening the Barren Hills) that provided direct payments to households in exchange for protecting specific tracts of forest and also paid State Forest Enterprises to plant areas of forest. The Program includes land use planning, forestland classification, allocation and tenure; sustainable farmer support services for technology and farm income improvement; farmer financing and investment support; State Forest Enterprise restructuring; and institutional capacity building from province to commune level.

SOCIAL SAFETY NET PROGRAMS:

MOLISA manages benefit schemes for war veterans, widows, orphans and the disabled. The GoV also funds substantial disaster response programs as required, organised through provincial and local authorities.

Attachment 3: Viet Nam – Australia Development Cooperation – past and present achievements and lessons learned

Australia was one of the first donors to resume a major aid program in 1991 and the commitment has substantially increased since then, to the point where Viet Nam now receives the third largest share of Australian aid to any single country. This reflects Viet Nam's importance in the region, its continuing need for ODA, and the fact that the development cooperation partnership has been a productive one. In 1999, the GOV acknowledged this when it held a workshop for international donors and exemplified the Australian bilateral program as a model of effective partnership, with the My Thuan Bridge and Provincial Water Supply Projects as specific examples. Significant achievements for the program have arisen across a range of sectors and a range of activity types and sizes:

SELECTED ACHIEVEMENTS OF THE TEN-YEAR PROGRAM

- The **My Thuan Bridge** was the largest single infrastructure project delivered through Australian development cooperation, with an Australian contribution of \$60 million. Its successful completion in early 2000 was achieved within budget, ahead of schedule, and with an exemplary safety record. The bridge now provides a key transport linkage that benefits up to 17 million farmers in the Mekong Delta, providing better access to markets, including Ho Chi Minh City, and to health and education facilities. Annual traffic flow across the bridge is much higher than originally forecast and is increasing by 20 per cent every year; it saves users around 15 million hours and \$10 million per year thanks to substantial cuts in travel time and lower vehicle operating costs and it has sparked the development of three new industrial zones in the Mekong Delta. Vietnamese engineers and other workers were trained in a range of skills including design, construction and project

management. The Vietnamese Government's commitment to the partnership (demonstrated by its provision of one third of total project costs – \$31 million) was a major factor in the successful outcome. Social and economic impact assessments will be ongoing, and a related project safeguards the joint investment in the bridge by stabilising and continuing to monitor the upstream river banks.

- The **Provincial Water Supply Project**, also completed in 2000, benefits approximately 400,000 people in five provinces by ensuring access to clean water and environmental sanitation. This is an important basic health measure, and has been reinforced by a strong component of community participation and education.
- Around 1,700 postgraduate and undergraduate students from Viet Nam have by now received **scholarships** for study at Australian universities and technical colleges in fields relevant to their country's development. Very high successful completion rates have been achieved. An impact study of 280 recently returned scholars in 2002 showed that:
 - of the 264 who could be located, 80% are living in Viet Nam, while 14% are studying overseas, mainly for Masters degrees;
 - of those now in Viet Nam, 94% are currently employed, with over three quarters of these working as specialist managers or professionals; and
 - the vast majority are using the skills and knowledge gained from their ADS course and continuing to develop these skills further. They are also passing on their knowledge and skills to others through both formal and informal means.

- In the early 1990s, AusAID provided \$1m in support for the International Rice Research Institute (IRRI) to work with Vietnamese agricultural researchers. Technical collaboration and training were mainly in the areas of integrated pest management, integrated nutrient management, and improved water management. With such support, the quality and hence the price of Viet Nam's rice exports grew significantly, cementing its position as a major world rice exporter. IRRI's contribution was recognised by the awarding of Vietnam's First Class Friendship Order to IRRI in 1994.
- The innovative Dengue Control Project (Phase I), implemented by an Australian NGO and involving the use of biological control measures with strong community participation, resulted in 100 per cent reduction in dengue-carrying mosquitoes in three of the six participating communes within 2 years (and 99.7% in the rest). Around 50,000 people benefited from this reduction, with dengue fever infection rates 8 to 18 times lower than in non-participating communes. This was a substantial achievement by global standards. Scaling up this initial success is a critical and ongoing challenge for all stakeholders.
- More recently, Australia has cooperated with other donors to assist with key aspects of the Government of Viet Nam's **reform agenda**, including support for:
 - the new Enterprise Law, which has resulted in a marked rise in registration of new home-grown businesses in Viet Nam;
 - preparation of the ten-year Socio-Economic Development Strategy, endorsed by the 9th Party Congress in May 2001;
 - extensive financial audits of five major Vietnamese state-owned enterprises;
 - a major assessment of Viet Nam's legal development needs; and
 - effective management of Viet Nam's external debt.

LESSONS LEARNED

- Viet Nam is a very complex operational environment and a sound understanding of administrative structures/ processes at national, provincial and local levels is needed. Thorough and detailed situation analyses are absolutely necessary at the national level and before going to work in a particular province, district or commune. This needs to include an analysis of both the policy environment and power structures.
- Project effectiveness is enhanced by using existing networks, organizations and decision-making bodies, linking program activities with current government agendas and utilising existing mechanisms.
- Established policies that are centrally determined may be difficult to change except at the highest central levels.
- Decree 17 on ODA management, and the broader decentralisation agenda, have now made it possible to work directly with provincial counterparts. However, the precise nature of central-local relations requires further investigation to better understand its impact on activity implementation.
- Change involving institutional and management issues needs a common vision of all concerned, and the structural capacity to do it within the national-level setting of policy and targets. This means that it cannot be assumed that 'successful pilots' initiated at provincial/district level will automatically be acknowledged by higher administrative levels and contribute to reform of policy or practice. Among the requirements for successful replication are appropriate institutional arrangements, a strong and influential 'champion', openness among partner institutions to experimentation and learning and a specific objective and plan for extension in the project design.
- Spreading assistance across Viet Nam's regions may have dissipated the impact of the Program. It has also made projects difficult to deliver, given Viet Nam's size

and relatively weak transport infrastructure.

- Participatory development is not yet well understood. However, it can succeed if well managed. The involvement of all levels of government in the design and implementation of community initiatives is important for the progress and sustainability of community-based activities.
- In view of the complexity of Vietnamese decision-making processes, it is essential that design teams, and activity managers, have a solid basis of experience in Viet Nam. It is also essential that design teams spend enough time in the field to develop a clear picture of local institutional arrangements.
- The quality of policy research could be improved, and evidence with respect to the recent passage of the Enterprise Law shows that good research and analysis can be powerful in helping to achieve good legislative outcomes.
- Counterpart commitment and ownership is essential to project success. Specific strategies to engender ownership should be identified. Appropriate effort and resources should be allocated initially to recognition of the expectations and requirements of the partner agency and where necessary assistance should be provided to the partner agency to identify and clearly articulate their expectations and requirements.

Attachment 4: Strategy and Program Results Framework

Vietnam Program Strategy 2003–2007

Results Frame – Strategic Objective One

Level	Objectives	Monitoring Indicators/Performance Measures	Means of Verification	References
Goal	To advance Australia's national interest by assisting Vietnam to reduce poverty and achieve sustainable development			
Strategic Objective One	Broad based economic growth by strengthening the governance of the institutions required for competitive market economy	<ol style="list-style-type: none"> Increase in GDP/Capita, compared across provinces Reduction % of population below the international standard poverty line 	GSO/CPRGS CPRGS/WB	<p>GoV targets: double 2000 GDP by 2010; reduce (int.) poverty rate by 2/5ths from 2000 to 2010.</p> <p>GoV targets: double 2000 GDP by 2010; reduce (int.) poverty rate by 2/5ths from 2000 to 2010.</p>
Strategic Objective 1.1	Improved private sector operating environment	<ol style="list-style-type: none"> % increase in the value of private sector production Number of business registrations 	GSO/CPRGS GSO/CPRGS	<p>GoV target: ??</p> <p>CPRGS ref: Pt III, Sect I, pp 46-51.</p> <p>Ref GoV Legal Needs Assessment?</p> <p>Other laws, decrees?</p>
Intermediate Objective 1.1.1	Promote market entry and effective market regulation	<ol style="list-style-type: none"> % increase in business registrations Implementation of competition policy 	GSO/CPRGS CIEM CPRGS	<p>CPRGS refs: App 3 AI, 1 p 126 & AI4, 9th action, p 129. GoV programs: Enterprise Law review</p> <p>Other donors: UNDP, GTZ.</p>
Program Outcome 1.1.1	Strategic impact against IO 1.1.1	<i>To be developed</i>	<i>To be determined</i>	
Strategic Objective 1.2	Facilitate internal & international economic integration	<ol style="list-style-type: none"> Imports plus exports as a % of GDP % change in \$ foreign direct investment Share of services in GDP (proxy for internal integration) WB CPIA Trade & Forex policy indicator 	GSO GSO GSO WB Pol.& Insts Assessment	<p>GoV target: export rate to more than double GDP growth rate</p> <p>CPRGS ref: Part III, Sect I4 & Sect II3, pp 52 & 60-61.-38.</p>

Intermediate Objective 1.2.1	Enhance the benefits of international integration for the poor	1. Compare the provincial \$ value average of national imports + exports against the \$ value average for the North, Central and South.	?	CPRGS ref: App 3, All, 4, esp 13th action, pp 129,130. GoV programs: MARD, MOLISA studying. Donors: Trade WG.
Program Outcome 1.2.1	Improved GoV capacity to analyse and develop policies that consider the distributional effects of trade liberalisation.	<i>Number of appropriate personnel in key GoV agencies competent in trade policy analysis.</i>	1. Surveys of key GoV agencies and individuals resp. for trade policy analysis. 2. Competency assessment of program beneficiaries.	
Intermediate Objective 1.2.2	Enhance food safety and quarantine standards compliance	1. Compliance with international food standards 2. Compliance with Vietnam food standards 3. Growth in the value of agricultural exports	GoV reporting against CODEX standards To be investigated GSO/CPRGS	CPRGS ref: App 3, BI, 1, 9th action, p131. GoV programs: ?? Other donors: ??
Program Outcome 1.2.2	Strategic impact against IO 1.2.2	<i>To be developed</i>	<i>To be determined</i>	Note: GSO is General Statistics Office

Note: Italics indicate performance measure

Level	Objectives	Monitoring Indicators/Performance Measures	Means of Verification	References
Goal	To advance Australia's national interest by assisting Vietnam to reduce poverty and achieve sustainable development			
Strategic Objective Two	Improved productivity and links to markets for the rural poor in the Mekong Delta and Central Coast regions	<ol style="list-style-type: none"> 1. Rate of poor households living below the poverty line based on international standards 2. Poverty gap 	CPRGS	<p>GoV targets: reduce (int.) poverty rate by 2/5ths from 2000 to 2010.</p> <p>Reduce food poverty (2,100 kCals/day) by 3/5ths. Ed., health and vulnerability targets set.</p> <p>CPRGS ref: Part II, Sect II2, pp 38–43</p>
Strategic Objective 2.1	Increase rural productivity	<ol style="list-style-type: none"> 1. Value and volume of total food production 2. Private investment in agricultural processing 3. Rural employment 	CPRGS/WB GSO/CPRGS	<p>GoV targets: agriculture to grow 4–4.5% per annum from 2001–2010; industry and basic construction to grow by 10–10.5%; value-added of services to grow 7–8%.</p> <p>CPRGS ref: Part IV, Sect I1, pp 66–73</p>
Intermediate Objective 2.1.1	Increase agricultural efficiency and competitiveness	<ol style="list-style-type: none"> 1. Value added growth rate of agriculture, forestry & fishing 2. % of food-based poor households living below the international standard poverty line 	GSO GSO/CPRGS	<p>CPRGS ref: App 3, B11, esp 2nd, 7th, 9th, 10th, 11th, 13th and 14th actions.</p> <p>GoV programs: (ref. key MARD policies/programs). Other donors: ??</p>
Program Outcome 2.1.1	Increased capacity in Vietnamese agricultural institutions to address smallholder agricultural constraints	<p><i>Effective solutions to identified smallholder constraints disseminated through a wide range of extension channels and agents.</i></p>	<ol style="list-style-type: none"> 1. output reporting, monitoring and ex-post evaluation of program-supported research activities. 2. Surveys of a cross-section of extension agents working with smallholders. 	

Strategic Objective 2.2	Improve the efficiency of on-farm and off-farm markets	Private investment in transport, storage and communications	GSO
Intermediate Objective 2.2.1	Improve the policy environment for agricultural markets	WB CIA for Factor and Product Markets	WB Pol.Ét Insts Assessment
Program Outcome 2.2.1	Strategic impact against IO 2.2.1	<i>To be developed</i>	<i>To be determined</i>
Intermediate Objective 2.2.2	Improve the policy environment for rural off-farm markets	WB CIA for Factor and Product Markets	WB Pol.Ét Insts Assessment actions. Other donors: many- see GTZ (Mallon) report.
Program Outcome 2.2.2	Selective impact against IO 2.2.2	<i>To be developed</i>	<i>To be determined</i>
Intermediate Objective 2.2.3	Increase access to market information	1. Market information available to farmers and sellers which meets their information needs	Survey of farmers and sellers in target areas CPRGS ref: App 3, BI1, 11th action. Ref. current IMARD programs. Other donors: ?
Program Outcome 2.2.3	Rural poor and traders have predictable and low-cost access to timely, accurate and relevant market information.	<i>Client surveys among target groups indicate enhanced awareness of key market variables (eg: seasonality of prices, quality requirements and freight rates).</i>	Activity-level monitoring and evaluation systems.
Strategic Objective 2.3	Develop Human Capital	1. Increase in the Vietnam National Human Development Report (UNDP/GoV) index	Annual Gov/UNDP Vietnam Human Development Report GoV targets: numerous for health, education, infrastructure, including 85% of rural population to have access to safe water by 2010. CPRGS ref: Part IV, Sect I4-6, pp 79-84 and Sect II, pp 89-92.
Intermediate Objective 2.3.1	Improve health by increasing access to clean water and sanitation	1. % change in morbidity due to sanitation related illnesses 2. % of households with access to clean water	MOH statistics CPRGS/IMARD Other donors: Water sector group
Program Outcome 2.3.1	Policies, institutional arrangements and technologies that meet the health, water and sanitation needs of the poor demonstrated and widely adopted.	<i>Extent of adoption of effective policies, institutional arrangements and technologies.</i>	Surveys of GoV and donor WSS programs.

Strategic Objective 2.4	Reduce vulnerability to environmental and economic shocks	1. Increase in expenditure of the lowest expenditure quintile.	GSO	GoV targets: expand the official social safety net and diversify the voluntary safety net; by 2010 reduce by half the rate of poor people falling back into poverty due to natural disasters. CPRGS ref: Part IV, Sect III, pp 93-95
Intermediate Objective 2.4.1	Implement programs to mitigate the impact of floods, droughts and storms on rural populations	2. Reduce the rate of poor falling back into poverty due to natural disasters. 3. % change in food poverty depth 1. Cost of disaster relative to intensity 2. Time taken to return to normality	MOLISA, CPRGS prepared data GSO, MOLISA, To be determined	CPRGS ref: App 3, Bill2. GoV and donor Nat Disaster Mitigation partnership.
Program Outcome 2.4.1	Improved planning and management for natural disaster mitigation demonstrated and widely adopted.	<i>Extent of adoption of program-supported planning and management approaches.</i>	To be determined	Surveys of GoV and donor natural disaster mitigation programs.
Intermediate Objective 2.4.2	Increase stability of household income through encouraging diversification of production and marketing	1. Decrease in rice production as a % of GDP	GSO/MARD	CPRGS ref: App 3, B11, esp 7th action. Check key MARD policies/programs, eg: cessation of rice triple cropping in Mekong Delta. Other donors:?
Program Outcome 2.4.2	Strengthen (i) policy advice to government and (ii) availability of information and technologies for the rural poor regarding diversification of production and marketing.	1. Instances of relevant policy-level engagement by program w. key policy makers. 2. public awareness of relevant information and technologies.	1. Activity level monitoring & eval. 2. Impact assessment of program-supported analytical work.	
Intermediate Objective 2.4.3	Assist the GoV to optimise the targeting and impact of its poverty reduction programs	1. % of people using health insurance 2. % of poor people receiving essential support	MOLISA, MOF MOLISA, MOF	CPRGS ref: App 3, A III, 4th action and Bill4. GoV programs 133, 135 and 143.
Program Outcome 2.4.3	Selective impact against IO 2.4.3	<i>To be developed</i>	<i>To be determined</i>	

Strategic Objective 2.5	Strengthen the accountability of provincial and local governments and participation of the poor in their governance	1. % of ethnic peoples working in governing bodies at various levels 2. % of women representatives in elected agencies. 3. % of communes with staff to monitor 4. Number of coaching and propagating courses on State laws and policies	CPRGS CPRGS CPRGS CPRGS	GoV targets: ensure grassroots democracy and budget transparency at commune level. (No targets for provincial level, incl. PAR) CPRGS ref: Part III, Sect III, pp 62-65.
Intermediate Objective 2.5.1	Strengthen Provincial Government accountability to the poor	1. % of Communes that publicise their budget 2. Total number of households receiving support from/by province	CPRGS reporting	Elements of Public Administration Reform Master Plan relevant (see also CPRGS pp 52-54) Other donors have undertaken provincial PAR work: f/u re outcomes
Program Outcome 2.5.1	Selected provincial governments reflect the views of the poor in budget allocations and improvements in service delivery outcomes.	Evidence of consultations with or representations from the poor being reflected in resource allocations	Surveys of selected target groups and provincial government planning and service delivery agencies.	
Intermediate Objective 2.5.2	Support the full implementation of the GoV's Grassroots Democracy Decree	1. % progress in meeting the objectives of the decree 2. % of Communes that publicise their budget	To be determined CPRGS	CPRGS ref: App 3, AllI (generally, nothing specific). GoV program to ensure decree implementation?? Other donors, incl. NGOs: ?
Program Outcome 2.5.2	Selective impact against IO 2.5.1	<i>To be developed</i>	<i>To be determined</i>	

Note: Italics indicate performance measure
Note: GSO is General Statistics Office

Level	Objectives	Performance Indicators	Means of Verification
Goal	To advance Australia's national interest by assisting Vietnam to reduce poverty and achieve sustainable development		Country Program (Strategy and Portfolio) Evaluation
Management Objective	Effective and Efficient Management of the Viet Nam Program	% satisfactory attainment of indicators for individual management objectives	Annual Country Program Strategy and Portfolio Review
Management Objective 1	Develop and maintain an effective strategy		
Management Objective 1.1	Develop & maintain a quality strategy	Appropriateness, relevance, effectiveness, coherence, consistency. Full definition of each criteria is provided in additional advice on strategy review process	Annual Strategy Review. Minutes of Peer Group & Executive meetings approving strategy
Management Objective 1.2	Follow good practice for strategy development and review	Country Strategy & subsequent review submissions approved by peer/exec (NB: adherence to toolkit guide on good practice)	Minutes of Peer Group & Executive meetings
Management Objective 1.3	Ensure that the portfolio of activities is aligned with strategy	% of CFY \$ & projected CFY+1 aligned to strategy objectives	Annual Strategy Review
Management Objective 1.4	Ensure that an appropriate level of forward pipeline commitment is maintained	1. % program commitment for CFY, CFY+1 & CFY+2. 2. Number of programming/activity identification missions conducted in the past year.	Annual Portfolio Review
Management Objective 1.5	Deliver a quality program	1. Intermediate indicator - 75% of activities rated satisfactory or better. 2. Distribution of AMB ratings for all activities in program similar to norm of Agency.	AMBs, Annual Portfolio Review
Management Objective 2	Meet Operational Policies and Business Rules		
Management Objective 2.1	Implement a strategy for policy engagement with partner government	1. Intermediate indicator - Policy engagement strategy in place and updated regularly. 2. Intermediate indicator - cable reporting of policy engagement outcomes. 3. Reported policy engagement contributes to achievement of strategy	1. Minutes of Peer meetings approving policy dialogue strategy and assessing achievement of strategy. 2. Cables sent on outcomes of policy dialogue. 3. Annual Strategy Review

Management Objective 2.2	Promote improved PG development programs through modelling and demonstrating good practice	Number of examples of policy and program synergies established with PG programs. % of PG funds agreed to under MOUs actually provided for CFY & CFY-1.	Annual Portfolio Review. Activity Annual Reports should report % PG funds provided.
Management Objective 2.3	Implement a strategy for policy engagement with selected other donors screen.	<p>1. Intermediate indicator - Policy engagement strategy in place and updated regularly.</p> <p>2. Intermediate indicator - cable reporting of policy engagement outcomes.</p> <p>3. Reported policy engagement contributes to achievement of strategy</p>	<p>1. Peer Group meeting minutes approving the multilateral engagement strategy. AidWORKS activity management</p> <p>2. Cables sent on outcomes of policy dialogue.</p> <p>3. Annual Strategy Review.</p>
Management Objective 2.4	Select the most appropriate form of aid	<p>1. Intermediate indicator - evidence of consideration of a range of forms of aid prior to feasibility/design phase</p>	Annual Portfolio Review.
Management Objective 2.5	Gauge Australian "Whole of Government" interests and integrate priority objectives into the strategy	<p>1. Intermediate indicator - Regular inter-departmental consultations.</p> <p>2. Priority WoG interests appropriately supported through the aid program</p>	<p>1. Annual review (identify consultations)</p> <p>2. Head of Mission response</p>
Management Objective 2.6	Contribution to the agency's international and/or Ministerial commitments (e.g., Food HIV/AIDs, VCP, De-mining)	<p>1. Intermediate indicator - Develop and maintain a clear statement of program's response to these commitments.</p> <p>2. \$ programmed in CFY towards commitments articulated in the current statement</p>	Executive approval of Country Strategy and its response to these Agency-wide obligations . Annual Strategy Review. Annual Program Review.
Management Objective 2.7	Contribute to understanding of Vietnamese poverty and development issues	<p>1. Intermediate Indicator - Policy and Research Plan includes a dissemination strategy and is actioned</p> <p>2. Articles on Vietnam published by AusAID.</p> <p>3. Papers presented to PG/Donor thematic working groups.</p>	Annual Program Review. Donor peers agree with the "value" of the completed studies.

Management Objective 2.8 Capture, analyse and apply lessons learnt from delivering the program

1. Intermediate indicator - Review and evaluation plan prepared and implemented. Annual Program Review. (existence of CRAMP, review & evaluation & lessons learned documents).

2. Intermediate indicator - Review and update paper "Lessons Learned from 10 Years of Aid in Vietnam"

3. Recommendations from reviews and evaluation are applied in future activities

Management Objective 3 Apply AusAID Program Management Systems

Management Objective 3.1 Meet AusGUIDE activity identification and design requirements

Management Objective 3.2 Comply with Commonwealth Procurement Guidelines and meet legal obligations in contracts

Management Objective 3.3 Comply with Commonwealth Financial Management Act and AusAID's Chief Executive Instructions

Management Objective 3.4 Ensure joint program management with PG

Management Objective 3.5 Meet AusGUIDE monitoring system requirements

Management Objective 3.6 Ensure generic policy and activity management issues arising from activities are systematically addressed

Attachment 5: Using the Results Frame Approach

In developing the results frame and supporting material, the following process was applied:

1. **Develop an objective tree.** This iterative process:

- stems from the issues paper and identifies **two or three strategic (high level) objectives** the program will address. Developing the objective tree includes:
 - identification of all necessary conditions to achieve the strategic objective, and selection of those the program will focus upon, expressed as **sub-objectives**;
 - similarly, showing the necessary conditions to meet the sub-objectives and selecting those the program will focus upon, as **intermediate objectives**; and
 - articulating the **program outcome**, which is a statement of the intended contribution of the program towards the achievement of the intermediate objective. **This is the key level in terms of AusAID attribution and measurement of the program's performance**;
- demonstrates the cause-effect logic from goal to program outcome;
- is undertaken in conjunction with the development of the results frame to ensure the objective statements at each level are achievable, measurable and have realistic assumptions; and
- considers the intensity of impact the program outcome will have on the whole problem in the partner country. To assist in framing intended program outcome statements these intensities might usefully be categorised as follows:
 - **significant impact** (lead role) whereby AusAID's intervention is intended to make a substantial contribution to resolving the intermediate objective;
 - **strategic impact** (lead role or partnerships role) in which the strategy intervention will be designed for

leverage on a much bigger problem; and

- **selective impact** (secondary, through other activities or as a cross cutting issue) the program will contribute, as and where possible within the framework of other objectives, to the work being done by the partner government and others in resolving the problem.

2. **Develop a results frame including indicators and means of verification.** The higher order strategic objectives, sub-objectives and intermediate objectives provide the context in which the program achieves its outcome. These **higher order** indicators are **monitoring indicators**, testing the strategy operating environment, causality and tracking whether program outcomes are making the intended difference. The intended program outcome (shown in blue on the results frame) represents AusAID's attributable intervention and hence the indicators here are **program performance measures**.

3. **Identify what combination of activities, analysis and policy dialogue, including current and new activities, will be required to deliver the strategy.** This is represented in the form of an operational pipeline. Pay particular attention to the alignment of current activities to the new strategy. The analysis enables an assessment of what additional activities are required to deliver the strategy given fixed financial and non-financial resources. If too many additional resources are required the strategy is too ambitious.

4. **Workshop the package of material with the stakeholders** as broadly as deemed appropriate. In the Vietnam example this included: the section; peer review group; post; key recipient agencies; and, AMCs. These consultations should lead to further iterations of the objective tree, results frame and operational pipeline.

Attachment 6: Risk Matrix

Risk	Source	L	C	R	Risk treatment
1. Significant deterioration in regional/global trade and economic environment	External	2	3	2	General monitoring. Review strategy and program composition through annual strategy review process if necessary.
2. Failure to improve Viet Nam's competitive position, in a more open & 'integrated' environment, undermines growth and stability	External/ country	3	3	2	Monitor private sector operating environment, SOE performance and banking system, using WOG, GoV and other donor data. Review strategy and program and, if necessary, make provision for specific new/additional measures on the private sector environment.
3. Macroeconomic instability	Country	1	4	1	Policy dialogue, jointly with other donors, if necessary. Review strategy.
4. Inappropriate sequencing or inadequate implementation of announced reform programs leads to weakened governance, corruption and reduced growth potential	Country	2	3	2	Monitor, using WOG, GoV, other donor and AusAID field data. Policy dialogue, including jointly with other donors, if necessary. Review strategy.
5. Banking sector crisis due to failure to manage non-performing loans and reform SOEs	Country	2	3	2	Monitor, using WOG, GoV, other donor and AusAID field data. Policy dialogue, with other donors, if necessary. Review strategy.
6. Failure to successfully integrate through regional and global trade agreements (esp. WTO)	Country	3	2	2	Monitor, using WOG, GoV, other donor and AusAID project data. Review strategy and program and, if appropriate, make provision for specific new/additional measures to support the integration process.
7. Increased inequality of income and living standards leads to social instability	Country	2	3	2	Monitor, using WOG, GoV other donor and AusAID field data. Policy dialogue, including jointly with other donors, if necessary. Review strategy and program and, if necessary, make provision for specific new/additional rural poverty and/or social safety net measures.
8. Major natural disaster(s) and/or environmental deterioration set back development	Country	2	2	2	Monitor, using WOG, other donor and AusAID field data, including through natural disaster mitigation partnership. For disasters, adjust scope and objectives of relevant program activities as appropriate.
9. Disadvantaged groups (incl. but not limited to ethnic minorities) unable to benefit from growth and development	Country	2	2	2	Monitor, using WOG, GoV, other donor and AusAID field data. Policy dialogue, including jointly with other donors, if necessary. Review strategy and program and, if necessary, make provision for tailored new/additional rural poverty and/or social safety net measures.

Risk	Source	L	C	R	Risk treatment
10. Capacity limitations, especially at provincial level, and/or failure or incomplete implementation of GoV public financial management and public administration reforms, causes incomplete delivery of Go V policies and unsustainable donor activities	Country/ program	3	3	2	Monitor, using GoV, other donor and AusAID field data, especially on province level impact. Analytical work may be appropriate. Policy dialogue, including jointly with other donors, if necessary. Review strategy and program and, if necessary and feasible, make provision for additional support to provinces.
11. Inadequate or ineffective GoV/donor coordination reduces ODA impact	Country/ program	2	2	1	Support further work to make the CPRGS a 'hands-on' donor coordination tool. Monitor through contribution to ODA M&E system for GoV. Policy and technical dialogue, with GoV and other donors, if necessary. Review strategy and program if necessary.
12. Inability of program activities to 'scale up' and replicate interventions reduces program impact.	Program	2	3	2	Dialogue with GoV on role and objectives of program and specific activities. Build from lessons learned in Viet Nam to date. Make scaling up a specific objective of key activities and dedicate resources for the purpose. Monitor program performance measures relating to dissemination and replication.
13. Program interventions based on incorrect or unrealistic strategy assumptions/dependencies	Program	1	4	1	Review strategy assumptions in annual strategy review and at HLCs. Analytical work program to specifically address.
14. Insufficient or inappropriate AusAID and GoV human and/or financial resources in place to manage the program	Program	2	3	2	Continue to refine and streamline program to minimise administrative burden. Develop skills for program analysis and in-country management. Support MPI, line agency and provincial government capacity building for ODA management and monitoring.
15. Inadequate activity selection, design and contracting processes reduce program quality	Program	2	3	2	Activity selection and design preceded by extensive analytical work and consultation with GoV and other donors. Design teams spend more time working closely with counterpart personnel. More flexible, outcome-oriented contracting approaches.
16. Australia unable to provide timely and appropriate expertise to address Viet Nam's challenges	Program	2	3	2	Focus program in areas of Aust. comparative advantage and depth of expertise. Test the market prior to large-scale commitments. Period contracts and agreements with Aust. public sector agencies to provide enhanced and timely access to expertise. Review consultant performance regularly, esp. in consultation with GoV.

Attachment 7: Key References

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