

Vietnam - European Community

Strategy Paper

for the period 2007 to 2013

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LIST OF ACRONYMS

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of South East Asian Nations
ASEM	Asia Europe Meeting
CG	Consultative Group
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CPV	Communist Party of Vietnam
CSP	Country Strategy Paper
EC	European Commission
EFA	Education for All
EIDHR	European Initiative for Democracy and Human Rights
EMIS	Education Management Information System
EU	European Union
FDI	Foreign Direct Investment
FLEGT	Forest Law Enforcement, Governance and Trade
FSQL	Fundamental School Quality Level
GDP	Gross Domestic Product
HLF	High Level Forum
HSDP	Health System Development Programme
JAI	Justice and Home Affairs
MDG	Millennium Development Goal
MEA	Multilateral Environment Agreement
MIP	Multi-annual Indicative Programme
MPI	Ministry of Planning and Investment
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
ODA	Official Development Assistance
PGAE	Partnership Group for Aid Effectiveness
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
ROK	Republic of Korea (South Korea)
SARS	Severe Acute Respiratory Syndrome
SEDP	Socio-Economic Development Plan
SEDS	Socio-economic Development Strategy
SME	Small and Medium-sized Enterprise
SOCB	State-Owned Commercial Bank
SOE	State-Owned Enterprise
SP	Strategy Paper
SPF	Small Projects Facility
TRA	Trade-Related Assistance
UNICEF	United Nations Children's Fund
USD	United States Dollar
VDG	Vietnam Development Goal
VND	Vietnam Dong
WB	World Bank

WTO

World Trade Organisation

EXECUTIVE SUMMARY

This Strategy Paper (SP) covers the seven-year period 2007 to 2013. It summarises the challenges faced by Vietnam, the context in which assistance is to be provided, and sets down corresponding objectives and priorities for European Community support for Vietnam together with an indication of the means to be used to provide aid. **Under the Development Cooperation Instrument (DCI) an indicative allocation of € 304 million has been earmarked for Vietnam for the period 2007-2013. This will be divided as follows:**

Multi-annual Indicative Programme I, covering 2007-2010: € 160 million

Multi-annual Indicative Programme II, covering 2011-2013: € 144 million

The overarching objective of EC support to Vietnam is the sustainable reduction of poverty, in line with the "European Consensus on Development". This objective will be achieved mainly by providing support to the implementation of Vietnam's Socio-economic Development Plan and support to the health sector. EC Assistance in these two focal sectors will be complemented by a limited range of actions and support received through various thematic and regional budget lines. The EC also intends to fund additional actions in the field of Trade-Related Assistance and to provide support to the EC-Vietnam strategic dialogue under the bilateral Co-operation Agreement. The latter activity would be implemented through the continued funding of the Small Projects Facility (SPF) which will complement other implementation mechanisms. The two focal sectors are:

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

EC support thus responds to some of the principal challenges facing Vietnam as its economy continues to grow rapidly and as it implements a wide-ranging reform agenda. It reflects EC competences and takes account of anticipated activities of other donors. With inequalities among different sections of the Vietnamese population growing, considerable efforts need to be made to ensure sustained poverty reduction and improved access to social services, productive employment and decent work among the most vulnerable members of society. At the same time, Vietnam needs to consolidate its integration into the international economy as it continues its transition to a market economy and accedes to the World Trade Organisation, while ensuring its WTO obligations are met and that the benefits of economic growth are available to all. Economic transition, international integration, and sustained poverty reduction need to be accompanied by progress and reforms in a range of governance-related fields, such as the judiciary and the law, decentralisation, public financial management, social security reform and an enhanced role for the National Assembly. Adequate attention also needs to be paid to cross-cutting issues such as the improvement of governance, environmental protection, and the position of women in society, and EC support will reflect this, as well as addressing human rights issues. Activities carried out in the field of higher education will be financed within the context of the regional programming for Asia.

The SP is fully aligned to the Government of Vietnam's Socio-economic Development Plan 2006 to 2010. EC assistance will be provided wherever possible through budget and sector support, so as to

assure sustainable, effective policy dialogue, Government ownership and leadership and co-ordination with other donors, while keeping transaction costs as low as possible. The SP takes account of the experience of, and lessons learnt, by the EC and other donors in the delivery of past assistance. It allows the European Commission to consolidate its strong role in the co-ordination policy and the harmonisation of procedures among EU donors in the context of Government-led efforts to improve aid effectiveness.

1. COUNTRY ANALYSIS

1.1 Analysis of the political situation

Vietnam is a one-party state, with power vested exclusively in the Communist Party of Vietnam (CPV), which does not tolerate direct challenges to its authority. The CPV holds ultimate responsibility for all important policy decisions. While the National Party Congress is formally the CPV's highest organ, the real decision-making body within the Party is the 14-member Politburo. The current Politburo, appointed by the National Party Congress held in April 2006, is headed by a triumvirate composed of the CPV General Secretary (Nong Duc Manh), the State President (Nguyen Minh Triet), and the Prime Minister (Nguyen Tan Dung). The Government executes and administers policy decisions, and is answerable to the National Assembly. The National Assembly, elected directly every five years, has become more and more assertive over the last decade. Its public debates cover a growing range of issues, and it increasingly holds the government to account.

Considerable progress has been made under the *doi moi* (renewal) reform programme launched in 1986, in particular as regards economic and foreign policy reform. While these reforms now seem irreversible, progress on the political front has been limited and while the pre-eminence of the CPV has made of Vietnam one of the most stable countries in South East Asia, the lack of open political debate is hampering the emergence of an independent media or civil society. The recent National Party Congress has left these principal orientations untouched.

Although the Government has shown some willingness to engage in dialogue on human rights issues with foreign partners, progress in the field notably of individual, civil and political rights is still limited and concerns remain on the denied access of independent human rights monitors. Freedom of expression, media, religion and association continue to be issues of concern. The death penalty is still applied to a wide range of crimes, including economic ones, and the number of death sentences and executions remains high. Although the Vietnamese Government strongly denies the existence of any prisoners of conscience, a considerable number of persons are imprisoned under loosely defined "national security" provisions.

Large-scale protests by members of the ethnic minorities in the Central Highlands ("Montagnards") took place in 2001 and 2004, motivated by grievances over land rights and religious freedom, as well as discrimination by local authorities. Trafficking of persons is also a significant and largely unreported problem in Vietnam. It is estimated that thousands of Vietnamese women are trafficked to China each year, with one in six girls being under the age of 18. UNICEF reports that the women sold in China range from 15 to 45 years of age, the most vulnerable group being unmarried, divorced or widowed women. Vietnam recently introduced measures to reduce the incidence of irregular migration by its own nationals and issued a directive for several of its agencies to help curb the flow of those attempting to enter and remain in foreign countries without authorisation. The issue of domestic and international migration originating from Vietnam, including to the EU where there is a worrying trend towards stronger linkage between Vietnamese illegal migration and organised crime, has become more acute. Despite the fact that the government has traditionally enforced policies aimed at controlling the domestic migration flux, those are becoming more and more substantial, with an increase in illegal domestic

migration. Moreover, human trafficking is becoming a pressing problem as more and more poor and undereducated women and children are being lured abroad and forced to marry or to work as prostitutes or domestic slaves.

While Vietnam is not a country directly affected by terrorist activities, it should be seen as vulnerable to exploitation of its weakness from without rather than from indigenous activity. In particular, Vietnam's weak financial institutional and legislative framework, taken with the country's close proximity to regional terrorist hotspots, leaves Vietnam exposed to possible terrorist financing.

Since the early 1990s, Vietnam has substantially reshaped its foreign relations away from its past ideological focus and its resulting isolation. Motivated in the first place by its wish to maintain a stable and peaceful environment in which its domestic renovation could take place, its new "*multi-directional foreign policy*" led Vietnam to join ASEAN (in 1995), ARF, ASEM, APEC and other regional and multilateral fora, in which it has become progressively more active, culminating in its hosting of the ASEM 5 Summit in 2004 and the APEC Leaders Summit in 2006. Vietnam applied to join the World Trade Organization in 1995 and is expected to accede by late 2006 or early 2007.

1.2 Analysis of the economic situation

Since 1986 when Vietnam launched its economic reform process the country has gone through various growth stages, with GDP more than doubling in the last decade, to attain an average per capita income of USD 640 in 2005. The annual growth rate since 2000 has averaged at 7.4%, one of the highest in the region. International trade and inflows of foreign direct investment – mainly into export-oriented manufacturing – have been main growth drivers (see 3.3 below). *FDI* has been increasing by an average of 16.6% since 2000 to reach USD 5.8bn in 2005¹, without, however, coming close to the 1996 high water mark of over USD 9bn. Growth has equally been driven by strong *domestic investment* and *private consumption*.

As a result of strong domestic investment, taken together with growing imports of inputs for exports production, the *trade deficit* reached 6-8% of GDP in the last years, despite Vietnam's strong export performance and the *current account deficit* widened to 4.4% of GDP in 2005. *Inflation*, which had averaged only 1.3% between 2000 and 2003 reached 9.5% and 8.4% year-on-year in 2004 and 2005 respectively. This was due mainly to external supply shocks – high world market prices for petroleum products and other key imports – as well as rising food prices in the wake of the 2004 avian influenza outbreak. Core inflation remained at a more reasonable 5-6%. The Vietnamese *currency*, which is not yet fully convertible on the capital account, is aligned to the USD by a crawling peg. This has kept the VND/USD exchange rate largely stable², helping Vietnam in projecting an image of stability. After hovering around the 5% government threshold in previous years, the *budget deficit* decreased to a very manageable 3.8% of GDP in 2005. This was due mainly to increased budget revenues, which as a result of a robust growth in domestic tax collection and revenue from crude oil attained 24.5% of GDP, surpassing the 1995/1996 high point.

Vietnam remains a predominantly *agricultural* country, with almost three quarters of the population living in the countryside. The agricultural sector is a sensitive one, as rural areas account for over 90% of the poor and provide few off-farm employment opportunities. It is also prone to natural disasters such as flash floods and droughts.

In spite of these impressive achievements, Vietnam's process of transition to a market economy is still on-going. State-owned enterprises (SOEs) still represent a substantial part of the economy. The process

¹ MPI. new licensed capital.

² The depreciation was about 11% between the start of 2000 and mid-2004.

of SOE reform, whose centrepiece is “*equitisation*”, the partial divestment and transformation of SOEs into joint stock companies has slowed down in recent years. SOEs today account for 39% of both GDP and industrial output and 35% of non-oil exports (but only 10% of employment). While the SOE sector is becoming more profit-oriented and its economic performance has improved overall, it is consistently outperformed by the non-state sector, not least as a result of ineffective corporate governance. Since SOEs absorb a good third of the bank credit available and enjoy other types of preferential treatment from the authorities, e.g. as regards land allocation, they deprive the *non-state sector* of growth opportunities. SOEs also account for the lion’s share of Vietnam’s non-performing loans, resulting in contingent liabilities for the government estimated at 8% of GDP³, and thus weaken the position of the *banking* sector. The latter is dominated by four large state-owned commercial banks (SOCBs), which account for about three quarters of total credit. The efforts of the SOCBs to improve the quality of their loan portfolios so far have had limited success.

Continued reform of the SOE and the banking sector are thus essential, as are the creation of a true ‘level playing field’ between the state and the non-state sector and the improvement of the enabling framework for SMEs. Vietnam has recently put great efforts into trying to obtain Market Economy Status which has not been granted yet by the EC. The full implementation of new WTO-related legislation, including of the new Unified Enterprise Law, will be crucial in this respect.

The EU and the US are Vietnam’s biggest *export* destinations, accounting in 2005 for 17-18% of total exports each. While the EU’s share has been relatively stable over the last decade, exports to the US increased six-fold since 2001 when a bilateral trade agreement was signed. ASEAN, Japan (both with a declining share) and China (growing strongly) follow. The integration of Vietnam into the global economy has accelerated sharply in recent years. *Exports* now represent 64% of GDP, compared to 34% in 1994. They are concentrated in six product groups – crude oil, textiles and garments, footwear, seafood, wood products and electronic goods – which together account for around two thirds of total exports. Vietnam’s exports remain heavily dependent on imported equipment and intermediate goods. This traditional trade pattern is reflected in an increasing deficit with ASEAN countries, China and South Korea, balanced by surpluses with the EU and the US. The main traditional exports to Asian countries are raw materials and commodities, while those to the European Union and the US are mainly manufactured goods, notably textiles and footwear. In *imports*, excluding ASEAN, China is Vietnam’s biggest partner, followed by Japan, ROK, and the EU. The EU’s share in 2005 decreased to 7% of total imports, from a pre-Asian Crisis record of 11.5%.

1.3 Analysis of Social Developments

Vietnam demonstrates continuing strong achievements in poverty reduction⁴. A decade ago, 58% of the Vietnamese population had an expenditure level that was insufficient to support a healthy life. By 2004, the proportion of the population below this poverty line had fallen to 19.5%, implying an average decline of 3.5 percentage points per year. Almost a third of the total population, the equivalent of more than 20 million people, were lifted out of poverty in less than 10 years. Both the Vietnam Development Goals (VDGs), which are a localised version of the Millennium Development Goals (MDGs) and the MDGs, show a consistent improvement of social indicators, from education enrolment to infant mortality. An overview of Vietnam’s progress in achieving the MDGs can be found in Annex 3. But while poverty continues falling, there are increasing disparities between rural and urban areas. Ethnic minority populations in remote areas in the Northern Uplands and Central Highlands continue to be

³ World Bank estimate – source: Vietnam Development Report 2006.

⁴ “Concept note for World Bank Vietnam Country Partnership Strategy 2006-2010”. October 2006

particularly affected by poverty, as well as by limited access to health, education and to productive employment and decent work. Moreover, recent poverty assessments also point to pockets of deep poverty within cities, particularly associated with migrants, as an area of increasing concern. There will be considerable difficulty in maintaining the rate of poverty reduction, especially in more marginalised and endowment-deficient communities.

The World Bank "Vietnam Development Report 2005" also confirms that the coverage of education continues to increase at all levels. Net enrolment rates for primary education reached 91% in 2002, compared to 88% in 1998. But reaching the last 10% is proving difficult. Moreover, improving the quality of education will require a major effort in order for all schools to obtain Fundamental School Quality Level (FSQL) standards, especially in the remote, mountainous areas. Vietnam is committed to the implementation of its National Education For All (EFA) Plan and has increased its overall budget for education to almost 4.6% of the GDP (17% of public expenditure). In general there are no aggregate differences in enrolment rates for primary education between boys and girls. However, the more remote, mountainous and poorer areas possess notably lower enrolment rates, especially for girls. Schooling is difficult for children from poor families but girls experience significantly fewer opportunities than boys. Statistics show that girls make up about 70% of primary school dropouts.

Vietnam's health indicators⁵ are better than would be expected for a country at its development level. Vietnam has continued to make progress in terms of life expectancy, reducing infant mortality and under-five mortality rate, although there is some controversy regarding the current level of those indicators. Progress in controlling vaccine-preventable diseases, such as measles, diphtheria and tetanus, has been rapid as well; polio was completely eradicated in 1996. Improvements are considerable in reproductive health too. The total fertility rate fell from 3.8 in 1998-1992 to 2.7 in 1992-1996. Estimates for 1998-2002 put it at 1.9, below replacement level. Meanwhile, Vietnam is going through rapid demographic and epidemiological transitions, raising the population share of the elderly and of those affected by chronic diseases. At a time when health costs are bound to increase substantially, public spending remains modest and out-of-pocket expenditures represent an increasingly heavy burden on poor households. While important initiatives have been undertaken to develop health insurance and cover the health costs of the poor, a coherent approach backed by sufficient resources is still missing. With regard to HIV/AIDS, the Government of Vietnam put in place in 2004 a cross-sectoral strategy to fight the disease, which remains at a pre-epidemic level. Recent health challenges to Vietnam include SARS and avian influenza. The latter presents an unquantifiable risk to Vietnam. Many cases of infection in humans have been registered and there is the possibility of a future pandemic, which is increasingly attracting the attention of the international community, both in terms of preventive measures as of mobilisation of assistance. The sustained control of Avian Influenza in Vietnam is a priority. The Commission will ensure that this issue is given due attention in its Support for Vietnam's Socio-economic Development Plan, in its Support for the Health sector as well as in its trade-related assistance.

Vietnam continues to face an increasingly complex drug situation that could have substantial consequences for social security and the on-going development processes. According to the Standing Office on Drug Control (SODC)'s report there are currently 170,400 drug abusers countrywide - an increase of 9,700 drug abusers or 6 % as compared to 2003. In a significant policy shift over the past three years, the Government of Vietnam has recognised that the drug issue is both a domestic and an international concern, and one that requires a national plan. To this end, Vietnam is firmly committed to

⁵ "Vietnam Development Report 2005"

implementing a comprehensive and multifaceted national drugs control programme, including an HIV/AIDS strategy.

During the past five years, 7.5 million jobs have been created, equivalent to an average of 1.5 million additional jobs annually. Non-State economic sectors remain the most dynamic source of job creation, with 90% of new employment in the entire economy created through non-state sectors. At the same time, labour emigration has aggravated as a response to missing employment opportunities. The capacity for further economic development, economic integration and poverty reduction is hampered by persisting problems of low productivity, under-qualification and lack of professional and technical staff. Rural unemployment rates remain high and above 20%, and urban labour markets are under strain, not least due to the continued restructuring of state enterprises.

1.4 Analysis of the environmental situation

The rapid changes in Vietnam in the last few decades in terms of rapid economic growth, industrialisation and continuing population growth have had an adverse impact on the natural environment. This, coupled with a weak institutional capacity to adequately address environmental issues, as well as limited technical infrastructure and financial resources, has contributed to a wide range of environmental problems. Recently environmental issues have received increased recognition in Vietnam, but more efforts still need to be made to mainstream and integrate environmental protection into economic and development planning across all sectors. The *"Vietnam National Strategy for Environmental Protection until 2010 and vision toward 2020"* identifies eight priority programmes in the environmental field. Moreover, Vietnam's Agenda 21 states that *"Protection and improvement of environment quality are to be considered as inseparable factor from the development process"*⁶. The revised Law on Forest Protection and Development approved by the National Assembly in November 2004 provides the overall framework for the move towards more social and community-based forestry. In parallel, key stakeholders have also started the consultation process to revise the Forest Sector Development Strategy, which is expected to produce a long-term positive impact not only on poverty reduction but also on sustainable management of forest, land, water and environment in upland areas. More information on the environment is included in the Country Environmental Profile in Annex 8.

2. AN OUTLINE OF VIETNAM'S POLICY AGENDA

In April 2001 the "strategy for accelerated industrialisation and modernisation along socialist lines, laying the foundations for Vietnam to become by 2020 basically an industrialised country" or the Socio-economic Development Strategy (SEDS) 2001-2010 was endorsed by the 9th National Congress of the Communist Party of Vietnam (CPV).

The strategic goals of the SEDS which are reflected in the Socio-Economic Development Plans (SEDP) 2001 to 2005, and 2006 to 2010, are to:

- bring Vietnam out of underdevelopment;
- improve people's material, cultural and spiritual life;
- lay the foundations for a modern-oriented industrialised country by 2020;
- enhance human resources, scientific and technological, infrastructure, economic, defence, and security potentials;
- establish the institutions of a socialist-oriented market economy;

⁶ Summary of the Vietnam Agenda 21, 2002:4.

- enhance employment creation, skills and labour productivity;
- heighten the status of Vietnam on the international arena.

Vietnam's Poverty Reduction Strategy Paper (PRSP), the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), was approved by the Prime Minister in May 2002. It was a major improvement on earlier planning documents, leaving behind a "command and control" view of the economy and ambitions based on detailed sector-by-sector production targets. The CPRGS focuses on poverty reduction and other development outcomes, and sets down a reform agenda structured around three main pillars: completion of the transition to a market economy, ensuring social inclusion and environmental sustainability, and building modern governance. The CPRGS has guided the bulk of donor support to Vietnam.

The Socio-Economic Development Plan (SEDP) 2006 to 2010, approved by the Party Congress and subsequently the National Assembly in spring 2006, reflects the progress made since 2001 in terms of economic development, poverty reduction, the reform agenda and reflects newer challenges such as WTO accession.

Donors were given ample opportunity to discuss and comment the draft SEDP, and a joint analysis of the September 2005 draft carried out by the EU and the "Like-Minded Donors Group" is found in Annex 4; this analysis, including areas of concern, have been presented to the Consultative Group Meeting in December 2005.

A participatory approach has been adopted to prepare the SEDP, which focuses much more on outcomes than its predecessor, with a strong use of indicators. It is established in the framework of the SEDS and is designed to replace the CPRGS. All Vietnam's development partners, in line with the Paris Declaration on Aid Effectiveness of 2 March 2005 and the Hanoi Core Statement (which adapts the provisions of the Paris Declaration to the Vietnamese context), are committed to aligning their support to Vietnam to the SEDP (see also section 3.4).

Assessing the Process of Reform⁷

The reform agenda in Vietnam is guided by the CPRGS, the 10-year SEDS and the two SEDPs (2001-2005 and 2006-2010). The CPRGS focuses on achieving a number of targets on equitable growth, institutional strengthening and transition to a market economy marking a shift from a command and control system of planning to a more outcome-focused, consultation-based approach. Poverty reduction underpins the agenda through a focus on the Vietnam Development Goals. The Government has incorporated these principles in the next SEDP 2006-10, which aims at replacing the CPRGS. However, much remains to be done to make it an operational tool for alignment. In order to contribute to this process, the annual Vietnam Development Report (VDR) for 2006, prepared by the World Bank, pays particular attention to identifying policy actions to be undertaken in each area so as to actively implement the SEDP. For the first time, the preparation of the VDR has been broadened so as to involve the entire donor community, thus enhancing donor harmonisation. The main forum for donors to interact with Government on the design and progress of reform is the World Bank's Poverty Reduction Support Credit (PRSC), which is EC co-financed, and the Consultative Group (CG) Process.

A number of areas have seen considerable progress with much still to be done:

⁷ Vietnam Development Report 2005: PRSC 4 programme documents

Public Finance and Administration Reform: Legislation (e.g. 2004 revised State Budget Law) has accelerated decentralisation improving the efficiency and effectiveness of public spending (50% now at sub-national level). Block grants to provinces coupled with retained own revenue has resulted in large equalising transfers from rich to poor provinces. However, the allocations to lower levels of government (districts and communes) are not yet sufficiently transparent or poverty focused. More autonomy to spending units has improved efficiency with more patients treated and children in schools, but concerns remain that core services are compromised in favour of fee-raising activities, particularly to finance increased salaries, to the detriment of the poorest beneficiaries.

Planning and budgeting: Multi-annual planning in budget preparation is being introduced through four pilot sector Medium Term Expenditure Frameworks. It is hoped that this, together with better project appraisal and co-operation between the Ministries of Planning and Finance, will redress the imbalance between state capital and recurrent expenditure⁸.

Investment climate: Driven by WTO accession and the need to level the playing field for state and privately owned enterprises, numerous commercial and legal reforms are being prepared and implemented, including: the new enterprise development and common investment laws; a new Land Law; a new Customs law focusing on trade facilitation rather than control, a new framework for the restructuring of microfinance institutions; an electricity law (2004) to restructure the power sector and measures to restrict the sectors in which state intervention is justified. However, state-owned enterprise and commercial bank reform (notably *equitisation*) is progressing slowly, with sales of SOEs by the government equivalent to only 10% of total state capital at the end of 2004.

3. AN OVERVIEW OF PAST AND ONGOING EC CO-OPERATION

3.1 Overview of past and ongoing EC co-operation

Bi-lateral EC co-operation with Vietnam began in 1989 with a programme supporting the integration of returning refugees. Up to and including 2006, the EC has committed a total of € 299 million for Vietnam. The principal objective of the EC's first co-operation strategy for Vietnam, agreed in 1996, was the consolidation of the on-going transition to a market economy launched by Vietnam's *doi moi* programme, while contributing to the mitigation of the social costs of the transition. The EC's Country Strategy Paper 2002 to 2006 had the overall aim of facilitating and accelerating the reduction of poverty in a sustainable manner. The budget for this period was €162 million and the EC's support focused on two priorities, which reflected the two principle challenges facing Vietnam:

- **The enhancement of human development (€78 million).** This was carried out in particular through integrated rural development targeting some of the poorest provinces, and through bilateral projects in the education and health sector aimed at supporting the government's agenda at national, regional and community level.

- The main outcomes of the support to the Ministry of Education project are that the education law was amended and that the Government recognised the Education Management Information System (EMIS) developed under this project as the national system. In addition, a support programme for the renovation of educational management, and an education Sector Policy Support Programme have started in which the EC participates with several other donors.

⁸ In 2005, operations and maintenance constituted only 17% of the state budget and were worryingly under-funded in the agriculture and transport sectors.

➤ The Health System Development Programme (HSDP) contributed to raising the quality of health care services in three provinces through technical support (equipment and training for the health care staff); the implementation of a Health Programme for the Northern Uplands and Central Highlands, targeting in particular ethnic minorities, has started in 2006.

- **The integration of Vietnam into the international economy (€46 million)**, by assisting reform towards a market-oriented economy, and Vietnam's integration into world and regional economic structures. Actions include SME and private sector development, institutional development of among others the National Assembly, the Ministry of Justice and the Ministry of Finance, governance-related activities and trade-related assistance.

Cross sector support (€ 38 million) is also provided, through contribution to the **Poverty Reduction Support Credit (PRSC) and accompanying capacity-building measures**, which has the general objective of providing global budget support to the Comprehensive Poverty Reduction and Growth Strategy, and a "Small Projects Facility", providing grants for small-scale activities. The priorities of the National Indicative Programmes 2002-2004 and 2005-2006 and the amounts allocated to each focal area are summarised in a table in Annex 6.

In addition to lending support to Vietnam through its bilateral co-operation programme, the European Commission also provides assistance through a wide range of initiatives financed through thematic budget lines (for non-governmental organisations) and Asia-wide grant programmes such as Asia-Invest (providing grants to joint projects of European and Asian business organisations), Asia ITC (to support the Information Society), Asia Urbs (support to co-operation and networking between cities), Asia-Link (for higher education institutions), and Asia Pro-Eco (for environmental projects). The Commission seeks to ensure linkages and synergies between these and bilateral projects. It is estimated that, from all budget-lines combined, the EC has made available on average around €40 million per year to Vietnam between 2002 and 2005. A full list of past and ongoing EC-supported initiatives in Vietnam is attached in Annex 7.

Humanitarian assistance and disaster preparedness: in Vietnam ECHO has provided around € 4 million to 15 projects in the field of disaster reduction since 1998. DIPECHO has currently 5 partners in Vietnam mainly helping vulnerable communities enabling them to prepare for floods, typhoons and droughts that regularly strike the same regions. Projects are carried out by humanitarian organisations in close co-operation with the local authorities and communities. They put ECHO's strategic orientations for EC policy in South East Asia into practice, focusing on a geographically concentrated design and addressing a specific type of hazard. To improve their sustainability and aid effectiveness, the EC will integrate 'disaster preparedness' as a standard component in development policy in Vietnam.

It should be noted that the EIB signed a framework agreement with Vietnam in 1997 and has since funded a number of projects. In June 2005 it approved a € 30 million contribution to the Ministry of Finance in view of establishing an SME credit line.

3.2 Lessons Learned from Past EC co-operation

The following can be concluded from an independent review of the CSP 2002 to 2006⁹, from evaluations of individual projects and from shared EC-Vietnamese assessments:

⁹ Vietnam Final Report of the Strategic Review and Programming Mission for the Country Strategies for Cambodia and Vietnam (Framework Contract EuropeAid/116548/C/SV, Letter of Contract No. 2004/97094), 15th July 2005

- the Country Strategy and the initiatives implemented in its framework have been aligned to the strategy of the Government of Vietnam (e.g. the Comprehensive Poverty Reduction and Growth Strategy);
- in general projects have been successful in meeting the bulk of their objectives in terms of assisting human development or in progress towards full integration into the world economy;
- although some projects have suffered considerable delays in start up, for a number of reasons, performance has largely improved with devolution of responsibilities for aid management from Brussels to the EC Delegation in Hanoi;
- the effectiveness of EC aid to Vietnam would be enhanced if there were a narrower sectoral focus;
- initiatives with a high level of local/Government ownership have been more successful in meeting their objectives and their activities more sustainable than projects that have not been fully integrated into Government systems. Local ownership is enhanced through a move towards decentralised management and increased counterpart financial and contractual responsibilities;
- the European Commission in Vietnam has successfully begun a transition away from more traditional stand-alone technical assistance projects towards sector approaches and general and targeted budget support. A successful future strategy would involve a combination of technical assistance and budget/sector support;
- during the duration of the CSP, the EC in Vietnam has increasingly co-ordinated the planning and implementation of co-operation with other donors, particularly the EU Member States;
- devolution, with management by the EC Delegation in Hanoi of both bilateral projects and those financed through NGO budget lines and Asia-wide programmes (e.g. Asia-Invest), has allowed stronger linkages to be established between the two.

Specific lessons have been learnt from evaluations and experiences of EC co-operation initiatives in different fields:

Rural Development. Two major rural development projects, one in Cao Bang and Bac Kan provinces, and the other in the province of Nghe An (Social Forestry and Nature conservation Project) finished at the end of 2004. Final evaluations indicated that the latter had been able to achieve its objectives more comprehensively, as it was better embedded in local government. The Cao Bang Ban Kan initiative, with a comprehensive programme in the fields of agriculture, forestry, and small scale infrastructure, had suffered from behaving as external to the provincial authorities, and, while overall results were satisfactory, sustainability of some activities was questionable. Another integrated rural development project in the Son La and Lai Chau provinces was closed in October 2005 and proved quite successful, notably in its agricultural, basis education and forestry components; assurances were obtained from provincial authorities as regards the sustainability of the programme; results for the road network were less re-assuring.

Social Sectors. One major project in health, the Health Systems Development Programme (HSDP), and another in education, Support to the Ministry of Education and Training (SMoET), were also concluded at the end of 2004/early 2005. Final evaluations found that the latter, concentrating on capacity building, had achieved comprehensive results in terms of strengthening management in a sustainable way and had acted as a powerful agent for change, while HSDP had been successful in supplying large amounts of hospital equipment but had dubious levels of sustainability as it had not been adequately embedded in Government systems.

The Environment. EC support to Vietnam in the environmental field has principally been both through bi-lateral projects (e.g. Social Forestry and Nature Conservation project) and through regional and Asia-wide programmes (e.g. the EC-UNDP Small Grants Programme for Tropical Forests and Asia Pro-Eco).

Grants have also been made available through NGO financing. The EC is active in the Government-donor Forest Sector Support Programme and Partnership (FSSP and P), and in 2005 began providing support to Government-led multi-donor activities (the basis of a sector approach) anchored in the FSSP and P. As in other areas, EC activities have achieved greater degrees of success when truly integrated into Government policy and structures.

Economic Co-operation. Evaluations of EC support in the field of economic co-operation have centred on the Small and Medium-sized Enterprise Development Fund (SMEDF) and MUTRAP. They suggest that the EC has been able to provide relatively effective support in Vietnam thanks to its strengths and competence in these fields. TRA projects often place high emphasis on the institutional strengthening of the agency charged with their implementation, on increasing awareness of trade policy issues among Vietnamese officials in different line ministries. Moreover, they clearly have contributed to the quantum leap in Vietnam's WTO accession negotiations, thus affecting the Vietnamese trade policy and regulations reform process and helping to identify the requirements to be reached with a view to the increasing compliance with the regional and international trade agreements to which Vietnam is a party. Broadly speaking projects have aligned themselves with the evolving Economic and political reform agenda, notably the Poverty Reduction Support Credit III and the Private Sector Support Project (PSSP). In addition Successful synergies have been developed between EC projects and those of other donors.

3.3 EU Member States' and other donors' programmes

Vietnam receives around 6 % of its GDP in grants and concessional loans. Between 1994 and 2004, donors pledged a total of 26 billion USD to Vietnam in aid. ODA commitments have shown steady growth over the past decade from 1 billion USD per year to 3.7 USD per year. ODA consists mostly (85%) of concessional loans, mainly from three players (Japan/WB/ADB). There is a large gap (40%) between commitments and disbursements. In financial terms, the sectors receiving the most support in Vietnam are major infrastructure, policy and institutional support, rural development, and human development.

In 2003, 25 bi-lateral donors in addition to the World Bank, the Asian Development Bank, the UN agencies and other multilateral organisations provided support to Vietnam. Total disbursements in 2003 amounted to just over 2 billion USD. The top four donors were Japan, the World Bank, the ADB, and France. The European Union (all Member States and the EC) was the third largest donor, and remains by far the biggest grant donor. Thirteen European Union Member States and the European Commission provide development assistance to Vietnam. EU donors together disbursed a total of € 492 million in 2005¹⁰. In that year the largest EU donor in terms of disbursements was France, followed by the United Kingdom, Denmark, Germany, the European Commission and the Netherlands. Brief descriptions of the focus and activities of different EU donors and other leading donors can be found at Annex 10.

3.4 Aid Effectiveness, Co-ordination, and Harmonisation

Efforts to increase aid effectiveness in Vietnam, in particular through harmonisation and co-ordination, are intense and progress has been good. In the light of the first High Level Forum (HLF) in Paris in 2003, the Government of Vietnam established a comprehensive Harmonisation Action Plan, with its implementation supported by various donors and donor groups. The Partnership Group for Aid

¹⁰ Source: "EU Blue Book" 2004

Effectiveness (PGAE) was set up in early 2004, bringing together the government, donors, and groups of donors (e.g. the EU) with a view to accelerating progress.

Following HLF II in Paris in March 2005, the PGAE drew up the Hanoi Core Statement¹¹, anchored in the Paris Declaration on Aid Effectiveness and formally endorsed by the Government and the donors at the Mid-Term Consultative Group meeting in June 2005, committing donors and government to specific achievements in the following areas: ownership, alignment, harmonisation and simplification, managing for results, and mutual accountability.

Vietnam was nominated a pilot country to EU co-ordination of policy and harmonisation of procedures in 2002. EU donors subsequently agreed on an Action Plan on May 2003. This was replaced by a Road Map in February 2005, which reflects the conclusions of the EU General Affairs and External Relations Council of November 2004 and embeds the EU harmonisation and co-ordination process firmly in Government of Vietnam-led efforts. The Road Map, which, *inter alia*, describes EU achievements in harmonisation and co-ordination, provides for alignment of EUMS/EC donor strategies to the SEDP 2006 to 2010, joint analysis of the SEDP 2006 to 2010 and the definition in this framework of common priorities and areas of concern; the delivery of EU support to Vietnam in a co-ordinated and harmonised way, both within the EU and the broader donor community, i.a. by providing pooled financing in different sectors (notably in the health sector) and budgetary support (e.g. through the Poverty Reduction Support Credit - PRSC). In addition to the SEDP, sectoral and provincial strategies are at different stages of preparation, and will provide valuable additional steer in view of donors' alignment.

The EU plays a major role in broader harmonisation work, with co-chairmanship by the European Commission on behalf of the European Union of the PGAE in the first half of 2005 and sponsorship (by the EC) of an Adviser on ODA Harmonisation to the Ministry of Planning and Investment (MPI) and the PGAE. The EC and EUMS are also deeply engaged in different working groups for actual implementation of the Hanoi Core Statement, notably in the areas of Public Financial Management and harmonisation of local cost norms. The European Commission has several initiatives on-going or under preparation jointly financed with EU and other donors. These include the PRSC (with the Netherlands, UK, Denmark, France, Canada, the World Bank, Japan, and the ADB, and possibly, Spain, Belgium, and Germany), Targeted Budget Support for Education (with UK, Belgium, Spain, Canada, New Zealand and the World Bank), a Multi-donor Trust Fund for Public Financial Management (with the Netherlands, Denmark, Sweden, United Kingdom, Norway, Canada and Switzerland), institutional support to the National Assembly (with DK), support to the forest sector (with the World Bank, the Netherlands, Germany).

3.5 Policy Mix

The EC-Vietnam Co-operation Agreement sets the framework for EC- Vietnam co-operation while ensuring coherence of all Community policies. In implementing the present strategy, particular attention will be paid to developments in other EU policy areas such as trade, investment, employment, social policy, equal opportunities, education and culture, R&D, environment, justice and home affairs in order to ensure coherence.

EC support to Vietnam is coherent with a range of Community policies outside the direct framework of the country programme. EC co-operation with Vietnam is in line with the priorities agreed at the Johannesburg Summit on Sustainable Development and with the 2005 UN Summit conclusions on

¹¹ Endorsed by Prime Minister Phan Van Khai on 28 September 2005

human and social development and the promotion of productive employment and decent work as key instruments for poverty reduction.

The cross-cutting nature of sustainable resource management is a key concern in the context of rural development as well as in the framework of the alleviation of the social consequences of reform.

Against the background of the trade-related assistance foreseen in this SP, developments in trade policy will be closely monitored, in particular those concerning WTO negotiations, the progress of the TREATI regulatory dialogue process, and the implementation of recommendations for enhancing the EU-ASEAN economic partnership, including the possibility of an FTA, from the high-level "Vision Group". The EC will also ensure that EC support to Vietnam is coherent with action taken at the regional level in the context of the 1980 EC-ASEAN Co-operation Agreement and the 2003 Communication on a "New Partnership with South East Asia".

With regard to employment, social policy and equal opportunities, a particular focus should be on the strengthening of the social dimension of globalisation and the promotion of decent work as a global objective. Some related issues are dealt with through regional EC co-operation of ASEM (e.g. social issues of globalisation). In addition, related themes could be introduced into the policy dialogue and co-operation with Vietnam.

Civil aviation is a concrete element of the Community's external relations with third countries with a specific focus on security and safety issues, both having concrete impact on passengers travelling from and to the European Union. The Commission initialled in 2006 an air service agreement with Vietnam in order to bring existing bilateral agreements into conformity with Community law.

With regard to Justice and Home Affairs (JAI) issues, some of these are dealt with through regional EC co-operation of ASEAN and ASEM (e.g. migration and combating terrorism). In addition, the Commission introduced these themes into the policy dialogue with Vietnam at the Joint Commission (JC) meeting of 2003 and agreed with the Government of Vietnam on further consultations and on the exploration of enhanced dialogue and co-operation.

Regarding Governance and Human Rights, several projects (Institution Building Support, EIDHR, Small Projects Facility) are underpinning the EU-Vietnam dialogue in this area.

The Commission presented the EU Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT) at the EC-Vietnam JC meeting of 2003, when both sides agreed that further dialogue on FLEGT should take place in the framework of the Forest Sector Support Partnership. FLEGT is now an integral part of the EC's support to the forest sector.

4. THE EUROPEAN COMMUNITY RESPONSE STRATEGY 2007 - 2013

4.1 Justification of the response and of the choice of focal sectors

Vietnam is in a process of transition and, if current growth rates persist, is likely to graduate out of lower income country status towards the end of the period of validity of this Strategy Paper. However, despite its remarkable progress towards reaching MDG's, Vietnam remains a poor country (GDP per capita of 635 USD in 2005), with massive investment needed in basic infrastructure to meet its population's essential needs. The response strategy is geared towards the overarching objective of reducing poverty, while allowing for a graduation policy, shifting focus gradually from support that concentrates primarily on poverty reduction to more emphasis on sustaining economic and governance reform as well as global

integration. The EC's response strategy therefore aims at strengthening the government's own systems so that resources can be channeled through them to enhance growth and promote poverty reduction and the achievement of the MDGs and the Vietnam Development Goals.

The response strategy provides for full alignment with Government Strategy (SEDP 2006 - 2010) respecting donors commitment in the Hanoi Core Statement, for assisting Vietnam in progress towards meeting the Vietnam Development Goals (localised MDGs), for close co-ordination with other donors and a continuing commitment for the EC and EU in government-led co-ordination and harmonisation, for the provision of a large proportion of aid through budget and sector support (in the interests of aid effectiveness, sustainability, reductions in transaction costs, effective policy dialogue and government ownership, and co-ordination with other donors). In addition to the SEDP, sectoral and provincial strategies will be taken into account for defining actions which will receive EC support.

The response strategy has been prepared in close consultation with EU Member States and other donors, which were consulted at several stages in its preparation. Consultations have also been held with civil society. A co-ordination meeting with NGOs to discuss the strategy was organised through the NGO Resource Centre in Hanoi. A meeting was also held with the Fatherland Front which is an umbrella group of "mass movements" in Vietnam.

The response strategy provides added value by taking account of EC comparative advantage in linking trade, aid, and development. In its actual aligning with Government strategies, it is encouraging EUMS to do likewise. It builds on programmes and projects launched under the first CSP, notably in the areas of education, health and trade and also on first experiences with sector approaches and global budget support (the PRSC process). It also reflects the EC's involvement and track record in governance issues. In view of greater impact and effectiveness, it focuses on a more limited number of fields than at present allowing concentrating expertise in key areas of support.

Bearing in mind the strong poverty focus of the SEDP, appreciated and recognised by the donor community, the response strategy complies with the overall objective of poverty alleviation laid down in the November 2000 Joint Commission and Council Declaration on Development Cooperation, and with the declared objectives of the EC Asia strategy, the South East Asia Strategy, and the bilateral EC-Vietnam cooperation agreement (for further details, see Annex 5).

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

Multi-annual Indicative Programme I, covering 2007-2010: € 160 million

Multi-annual Indicative Programme II, covering 2011-2013: € 144 million

The EC-Vietnam strategy for 2007-2013 will be concentrated on: (i) Support for Vietnam's Socio-economic Development Plan and (ii) Support for the Health Sector.

Actions in the field of trade-related assistance and to support to the EC-Vietnam strategic dialogue, including support to activities identified in the EC-Vietnam sub-group on "Co-operation in institution building, administrative reform, governance and human rights" are also foreseen in the period of the SP.

The strategy also responds to the Communication "New Partnership with South East Asia" which the European Commission adopted in July 2003 and which sets out a comprehensive strategy for EU relations with the region. In particular the Communication identifies a number of strategic priorities including the development of less prosperous countries and intensifying dialogue and co-operation in specific policy areas which are specifically addressed in this strategy.

4.2 Cross-cutting Issues

Gender will be mainstreamed in all the sectors covered by the SP. As is already the case in the policy dialogue related to the PRSC process, gender will feature prominently in the policy dialogue related to financing the SEDP and will constitute one of the “triggers” for continued and possibly increased donor support. The recruitment and assignment of female staff at all levels will be encouraged. Gender trainings will be implemented at all levels. In the health sector the EC will, through sector policy dialogue, raise the awareness among policymakers so that new health strategies will include gender issues. Through the programmes specific activities will be implemented so that women will be aware of their right to quality health care and their control over their physical and psychological well-being. Women will also be encouraged to participate in the consultation process at all levels of decision-making in relation to Reproductive Health issues, nutrition and socio-cultural / gender related barriers to access health services.

Combating HIV/AIDS has been mainstreamed as a cross-cutting issue in the programming process by analysing the government's policy agenda on HIV/AIDS and sexual and reproductive health in particular. A particular attention will be given to risks and opportunities for combating HIV/AIDS in individual programmes in the focal sectors of the EC response strategy.

Adequately mainstreaming of the **environment** is also part and parcel of the SEDP-related policy dialogue. The pilot strategic environmental assessments for selected sectors which are conducted under PRSC will be further expanded and become the general rule, in addition to more specific requirements in the legislative and capacity-building fields. In relation to the health sector, environmental issues such as access to safe water and treatment of medical waste will be mainstreamed, where appropriate. Finally, in the context of supporting Vietnam's efforts to integrate into the international economy, consideration could be given to supporting Vietnam fulfill its obligations in the Multilateral Environment Agreements (MEAs). The EC will also provide support in the environmental field through specific thematic budget lines.

Democracy, good governance and human rights, including the rights of ethnic minorities/indigenous peoples, will be mainstreamed in all the sectors covered by this SP.

4.3 Risks Affecting the Strategy

With regard to risks that may jeopardise the successful implementation of the Strategy Paper, these include the following:

- backtracking by the Government of Vietnam in relation to the reform agenda;
- waning support for the harmonisation and co-ordination agenda;
- the fiduciary context;
- popular discontent caused by growing inequalities;
- health pandemics (SARS, avian influenza).

To mitigate against these risks the European Commission will continue to provide support for the implementation of Vietnam's reform agenda, with particular attention for the public administration reform and public financial management, for the harmonisation and co-ordination agenda, for the reduction of social exclusion and poverty, and for reforms in the health sector.

4.4 Main sectors of concentration

4.4.1 Focal Sector 1: Support for Vietnam's Socio-economic Development Plan

As outlined in Section 1, the command and control approach to Socio-Economic Development in Vietnam manifests itself in broad rolling 10-year Strategies (presently 2000-10) with 5-year component implementation Plans (presently moving to Socio-Economic Development Plan 2006-10). These planning tools have traditionally focused on growth and requisite structural reform, crystallising the Government's vision of industrialisation and modernisation towards developed country status by 2020. However, the social-economic reform agenda has been gradually influenced by a more poverty focused and outcome based planning approach resulting in the 2002 Comprehensive Poverty Reduction and Growth Facility (CPRGS).

The new SEDP incorporates the contents of the CPRGS and aims at maintaining economic growth, promoting productive employment and decent work and strengthening the country's industrial competitiveness, while taking due care of the need for social inclusiveness, thus reducing economic and social disparities, and building a modern, accountable and efficient administration. Donors acknowledge that the Plan tackles poverty issues better than previous plans. However, linkages between economic growth, job creation and improving living standards need further clarification, as is the case for industrial priority-setting, and how reforms of SOE's and the banking and financial sectors should be accelerated, creating more space for private sector development.

In the interests of effectively supporting the implementation of Vietnam's reform agenda, of ensuring inclusive and sustainable development and strong government ownership and leadership, and of strengthening government systems in a sustainable way, the EC may continue to provide support through the Poverty Reduction Support Credit (PRSC).

This is a World Bank-led, performance-based, result-oriented global budget support instrument the overarching objective of which will be to improve aid-effectiveness as prescribed in the Hanoi Core Statement and support poverty reduction. The PRSC addresses the three main pillars of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), namely Transition to a Market Economy, Social Inclusion and Environmental Sustainability, and Modern Governance. PRSC will from 2006 be based on the SEDP 2006-2010.

PRSC funds, which follow an annual cycle, are disbursed subject to the successful completion of a range of reform-related prior actions by the Government. The prior actions are established in agreement with the Government by the donors supporting the PRSC. Funds are provided in the form of loans (by e.g. the World Bank) and grants (by e.g. bilateral donors such as the UK, the Netherlands, Denmark, and the EC).

PRSC 1, a two-tranche operation for USD 250 million in June 2001 supported the I-PRSP and focused mainly on the economic structural reform agenda, notably: liberalising trade, reforming SOEs, strengthening the banking sector, improving the environment for the private sector, and improving management and transparency in public finances. PRSC 1 was co-financed by four donors (Denmark, Netherlands, Sweden and UK) with the equivalent of USD 43 million in grants.

PRSC 2, a one-tranche operation for USD 100 million in June 2003 supported the CPRGS and broadened the focus beyond PRSC 1 to policy actions aimed at keeping development inclusive and building modern governance including measures related to: education and health sectors, environmental

sustainability, land management, legal development and public financial management. PRSC 2 was co-financed by three donors (NL, DK, UK) with the equivalent of USD 31 million in grants.

PRSC 3 and, most recently 4 have followed the trend towards a broader reform agenda (now 19 policy areas grouped by the CPRGS main pillars); more co-financing donors (15 for PRSC 4); and growing amounts (approximately US\$ 1000 million in co-financing).

The Commission began supporting the PRSC in 2004 (PRSC 3) and may continue to be a co-financier, subject to satisfactory progress by the Government in the implementation of reforms. Involvement in the PRSC has increased EC involvement in policy dialogue with government and has helped to develop strong co-ordination with EU and other donors.

The Government of Vietnam also makes available funds for targeting the poorest communes through a number of poverty reduction programmes (such as Programme 135 and the Hunger Eradication and Poverty Reduction Programme). The government targeted programmes cover a range of initiatives designed to reduce poverty (e.g. small infrastructure works, social safety nets, income-generation initiatives). Evaluation of past HEPR and Programme 135 activities has suggested high success rates with targeting and reasonably equitable approaches to resource allocation – which are in the process of being refined as part of a re-design process.

In light of further positive assessments of these programmes, the – so far limited - experience of other donors and the EC's own experience with sectoral targeted programmes (e.g. in health and education), the EC may also give consideration to providing support through these government targeted programmes. As some of these programmes specifically target the Central Highlands, EC participation could be considered in view of a specific EU initiative for the Central Highlands which several Member States and the EC are in the process of studying.

4.4.2 Focal sector 2: Support for the Health Sector

Although Vietnam is a low income country, its vital health indicators are comparable to those of middle-income countries. Nevertheless, it still faces important challenges and new challenges are emerging with Vietnam's rapid economic development. Relative to education, the government has been less successful in tackling the problems affecting Vietnam's healthcare system.

Government spending on the health sector is well below perceived necessary levels: out of 1.5 billion USD total health expenditure in 2000 (latest figures available so far), only 400 million USD (1.5% of GDP) came from public spending, the remaining 1.1 billion USD coming from private contributions. Economic achievements have led to increased inequalities in Vietnamese society, with a significant reduction in access to basic health care for the poor, in particular ethnic minorities and others living in rural areas. Adequate supply of health facilities exists, but poorer patients cannot pay for services while those with financial resources go to better accessible and equipped hospitals in big cities.

There is therefore a growing need for change in the Vietnamese health system. It is of fundamental importance that Vietnam defines the role of the state and the role of the market concerning future health care financing. Health insurance was introduced ten years ago in Vietnam, but the system only covers a small proportion (around 10 million people in 1998) of the Vietnamese population (government employees, SOE staff and Vietnamese hired by foreign owned firms and international organisations). In the SEDP, due attention is paid to health care and health protection, but the actual translation of this priority into increased public spending remains to be seen. Poor health reduces income and generates poverty, and in Vietnam high medical costs are also forcing sick people into poverty. Considerable

disparities in health status exist between different geographical regions and population groups. In general, health indicators in the Mekong River Delta, the Central Highlands and the Northern Uplands are considerably worse than in the rest of the country. Maternal and infant mortality rates among ethnic groups can be as much as four times higher than the national average, and in remote and mountainous areas, maternal and infant mortality rates among the poorest 20% of the population are increasing.

The EC has provided considerable support in the health sector in Vietnam in the past, through for example its Malaria Control Programme, and the Health Systems Development Programme (HSDP). The € 16 million Vietnam national component of the Regional Malaria Control Programme, supporting a Government malaria eradication strategy was very successful, while the € 27 million HSDP, not firmly enough embedded in Government structures and policies, was less so. The EC is beginning to provide support, in collaboration with the World Bank, directly through the Government's Health Care Fund for the Poor, targeting the Northern Uplands and Central Highlands, with accompanying technical assistance to upgrade the functioning of the fund and to begin reforming the healthcare system. The EC, along with certain EU Member States (the Netherlands, France, and Sweden), remains one of the key donors in the health sector and is working closely with EU partners to improve donor-government co-ordination in the sector and to establish conditions for a sector programme.

Building on its experience in providing assistance through the Healthcare Fund for the Poor, the EC will favour providing assistance, if conditions allow, through sector budget support, in the framework of the Government's strategy. Technical assistance may be provided, in collaboration with other donors, to help perform the necessary groundwork in advance of a sector programme and/or to assist in its implementation. The EC will seek to maximise the potential of transferring the benefits of positive experiences in the EU in relation to healthcare financing. Special focus will be given to Avian Influenza, and, taking into account the extent of coverage by other donors, HIV/AIDS.

4.5 Additional Actions

In addition to the two focal sectors mentioned above, **trade-related assistance**, with a strong focus on sustainable development and poverty reduction through economic reform, while supporting further opening of the Vietnamese economy and its deeper integration into the global trading system, will enable the EC to maximise the potential of its competence in the trade field. This will establish a strong correlation and coherence between the EC's work in development co-operation and the EC's role as a main player in the international trade system.

Trade related assistance has the scope to be pivotal in reducing the social, economic and environmental costs of trade liberalisation by supporting the Government of Vietnam *simultaneously* in fulfilling its commitments deriving from international agreements and making the best use of the *rights* guaranteed to national governments by the WTO framework, including national regulations aimed at tailoring trade openness to country needs. Activities in this area may focus on supporting Vietnam in implementing WTO commitments and ensuring that it is able to obtain full advantage of WTO membership, helping Vietnam to participate effectively in and benefit from multilateral and potential EU trade negotiations, including assisting stakeholders to participate in trade policy making and improving impact assessment of trade liberalisation measures, facilitating Vietnam's economic integration process within ASEAN, strengthening the capacity of government and enterprises to cope with evolving health, hygiene, security, core labour standards and environmental requirements to access the EU market, and supporting the enabling environment for the development of the private sector and the labour market. Assistance is also required to help the Government and provinces of Vietnam to anticipate, and mitigate against, negative consequences of trade reform on the poor and the environment, and to establish proactive

measures to enhance the participation of the poor in trade. Assistance will be provided in collaboration with other donors in the framework of a Government-led programme, based on a comprehensive Trade Needs Assessment carried out with EC support that will ensure flexibility and rapidity of response to rapidly changing needs and circumstances. Activities will be based upon the trade needs assessment undertaken in 2005. The EC will continue to provide directly assistance to Vietnam to share European experiences including transition experiences from new member states and to strengthen the economic ties with Europe.

The EC will support the **EC-Vietnam strategic dialogue** under the bilateral Co-operation Agreement. In particular, the **sub-group on “Co-operation in institution building, administrative reform, governance and human rights”**, which has been created under the EC-Vietnam Co-operation Agreement, will provide suggestions for future co-operation activities to improve Vietnam’s track record in these fields. Other governance-related actions could also be foreseen. The EC will also continue its constructive co-operation with Vietnam in a number of other areas covered by the agreement. In addition, the **Masterplan on Vietnam – EU relations** recently adopted by the Vietnamese Government could also provide suggestions for co-operation activities. The main implementing mechanism for these actions may be the **Small Projects Facility (SPF)**, a facility which aims at supporting smaller actions with high visibility.

4.6 Regional and Thematic programmes

In the context of the co-operation with Vietnam, along with the interventions foreseen under this SP, the Commission intends to pursue thematic interventions in the following areas:

- **Democracy and Human Rights:** Activities under the sub-group on “Co-operation in institution building, administrative reform, governance and human rights” will be complemented by activities funded under this thematic programme.
- **Non-State Actors in Development:** assistance will be provided to NGOs and other civil society organisations working in Vietnam including organisations and communities representing ethnic minorities/indigenous peoples in a number of strategic sectors.
- **Migration and Asylum:** migration and trafficking issues are becoming increasingly important in Vietnam.
- **Human and Social Development:** There will be a need to complement activities carried out under the health focal sector with smaller-scale initiatives in this field.
- **Environment and Sustainable Management of Natural Resources Including Energy:** a number of programmes were funded in this area under the previous CSP. This thematic programme could provide support under the following broad lines: working upstream on MDG7: promoting environmental sustainability; promoting implementation; better integration by the EU; strengthening environmental governance and EU leadership, and support for sustainable energy options in Vietnam.
- **The main objective of higher education in Asia** is to enhance international cooperation capacity of universities in third countries by facilitating transfer of know-how and good practices in the field of student and academic staff mobility. The European Commission will contribute to financing a mobility scheme between European universities holding an Erasmus Charter and third country universities that will complement existing programmes in the field of higher education.

These thematic activities are complementary to the strategic objectives pursued by the Commission under the SP and form part of the policy dialogue with Vietnam. The financing of these thematic

activities will be additional to financial resources provided under MIPs. In addition, Vietnam will also benefit from activities funded under the Asia-wide programme (e.g. Asia Invest, higher education instrument) and may also benefit from activities funded under the Instrument for Stability.

ANNEX 1: VIETNAM AT A GLANCE

The status of the country as to the likely achievement of the Millennium Development Goals at a glance

In October 2006, *United Nations Economic and Social Commission for Asia and the Pacific UNESCAP*, the *United Nations Development Programme UNDP* and the *Asian Development Bank ADP* have issued a report "Millennium Development Goals: Progress in Asia and the Pacific 2006". This report is the latest update on the progress towards MDGs in Asia and the Pacific. It highlights the region's achievements and exposes issues on which much work remains to be done. The report looks in a more holistic way at overall country progress by assessing absolute MDG indicators in addition to MDG targets.

The report classifies the progress made by each country into 4 categories

- ★ *Early achiever* — Has already met the target
- ▲ *On track* — Expected to hit the target by 2015
- *Off track — Slow* — Expected to hit the target, but after 2015
- ▼ *Off track — Regressing* — Slipping backwards, or stagnating

Goal	1	2	3	4	6	7
	\$1/day poverty Underweight children Primary enrolment Reaching grade 5 Primary completion rate Gender primary Gender secondary Gender tertiary Under-5 mortality Infant mortality HIV prevalence TBC prevalence TBC death rate Forest cover Protected area CO ₂ emissions GDP/CFC consumption Water urban Water rural Sanitation urban Sanitation rural					
Viet Nam	★	▼	●	●	▼	●

Land area	Population	Population density
325,000 sq Km (=)	80.7 (2003)	236 per sq km
Population of main town (Ho Chi Minh City): 5.3 million		
Annual population change (% per year)		
Year 1998: 1.92%	Year 1999: +1.51%	Year 2000: +1.36% Year 2001: +1.35%

Political and economic situation

Vietnam is a low income, developing country with a population of approximately 80 million people. Although the country has witnessed some marginal political liberalisation since the implementation of the *doi moi* reforms in 1986, Vietnam remains a one-party state under the direction of the Communist Party of Vietnam. On the economic front, Vietnam has grown at an explosive rate through the late 1990s to date, recording a GDP growth rate of 7.2% in 2003. Trade and FDI inflows continue to grow at a healthy pace, due to Vietnam's increased economic liberalisation as it prepares for WTO accession. Development indicators for Vietnam have demonstrated a generally positive trend since 1999. Overall, GDP growth has averaged around 7% annually since 2000 while there has been a consistent fall in the proportion and absolute number of people living in poverty in the country in recent years. According to the 2003 UN Progress Report on the Millennium Development Goals for Vietnam, the country's national poverty rate has fallen from 58% in 1993 to 37% in 1998 and 29% in 2002. The poverty rate continues to decrease at the annual rate of 2%, and is expected to stand around 24-25% in 2004.

Economic Summary

Indicator	2000	2001	2002	2003	2004
Real GDP growth (%)			7.0	7.2	7.5
GDP USD millions (p.p.p.)			35.1	39.2	
GDP per capita (\$)				385	
Inflation % CPI			4.0	3.0	9.5
Exports USD millions			16,706	20,176	
Imports USD millions			21,179	26,490	
Fiscal deficit (% GDP)					

Selected Social Indicators (* data source: “ WHO – ‘Vietnam – Country Health Information Profile’ – revision 2005)

Indicator	1999	2000	2001	2002	2003
Adult literacy rate over 15s %	93.9 (m) 86.9 (f)	n/a	n/a	94.50 (m)* 90.90 (f)*	n/a
Primary school enrolment %	96.3	97.0	94.0	90.1	n/a
Secondary school enrolment %	61.4	n/a	n/a	n/a	n/a
Life expectancy at birth	n/a	n/a	n/a	71.30*	70
Underweight children <5 (%)	n/a	n/a	n/a	30	28.40*
<5 mortality rate (per 1,000 live births)	n/a	n/a	n/a	n/a	32.80*
Maternal mortality rate (per 100,000 live births)	n/a	n/a	n/a	130	85*
Births supervised by trained personnel (%)	77% (1990-99)	n/a	n/a	n/a	79%*
Households with access to safe water (%)	n/a	74 (rural) 95 (urban)	n/a	n/a	70.10*

ANNEX 2: MAP OF VIETNAM

Source: <http://pmgeiser.ch/images/vietnam/maps/vietnam.jpg>

ANNEX 3: OVERVIEW OF VIETNAM'S PROGRESS IN ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS

The following MGD achievements¹² are noteworthy:

Goal 1 - Eradicate extreme poverty and hunger: the poverty rate in Vietnam, fell from 58.1% in 1993 to 24.1% in 2004 with nearly 60% of poor households moving out of poverty, well ahead of the 2015 target.

Goal 2 - Universal primary education: during the 2003-2004 school year, the net primary enrolment rate was 94.4%. Vietnam will achieve the MDG of universal primary education, and will have eliminated gender inequality in primary education by 2015.

Goal 3 - Promote gender equality and empower women: The Gender Development Index (GDI) increased from 0.668 in 1998 to 0.687 in 2003 and 0.689 in 2004.

Goal 4 - Reduce the child mortality rate: Encouraging results have been achieved in reducing the under-5 mortality rate, from 58% in 1990 to 42% in 2001 and 31.5% in 2004. The under-1 year mortality rate has declined from 44.4% in 1990 to 21% in 2003 and to an estimated 18% in 2004.

Goal 5 - Improve maternal health: Maternal mortality rate decreased from 120/100,000 live births in 1990 to 85/100,000 in 2004.

In support of MDG and to meet the country's development needs, Vietnam developed its own 12 development goals (VDGs):

- reduce by 50% the percentage of people living below an international accepted poverty line between 2001 and 2010 that means from 32% in 2000 to 15-16% in 2010.
 - increase net enrolment in primary education to 97% by 2005 and to 99% by 2010.
 - eliminate the gender gap in primary and secondary education among ethnic minorities by 2010.
 - reduce the infant mortality rate to 20 per 1,000 live births by 2010.
 - reduce, by 2010, the maternal mortality rate to 70 per 10,000 live births.
 - slow the increase in spread of HIV/AIDS by 2005 and halve the rate of increase by 2010.
 - increase the percentage of forest cover to 43% by 2010.
- ensure that 85% of the rural population and 95% of the urban population have access to clean and safe water by 2010.
 - ensure that, by 2010, 85% of the rural population has access to safe water.
 - provide jobs to 1.6 million people per annum.
 - preserve culture of ethnic minority groups.
 - reduce vulnerability and develop social safety nets to support the poor and the disadvantaged.
 - promote further public administration reform.

¹² 'Vietnam Achieving The Millennium Development Goals', August 2005

ANNEX 4: JOINT ANALYSIS BY THE EUROPEAN UNION (EU) AND LIKE-MINDED DONOR GROUP (LMDG) OF THE DRAFT SOCIO-ECONOMIC DEVELOPMENT PLAN (SEDP) 2006-2010

This note summarises the main conclusions of meetings held by development counsellors from the EU and LMDG on the 19th and 25th of August. The note highlights the strengths of the SEDP and also suggests both presentational as well as substantive areas where there is scope for improvement. Overall many of the issues raised are about deeper integration of the agreed CPRGS principles in the SEDP and a greater recognition of the concept of socially and environmentally sustainable development.

A. Strengths

- *Good Participation and Consultation.* The draft SEDP for 2006-10 is a big step forward in comparison to the previous five-year plan. The government has adopted a participatory approach in developing the plan. Wide-ranging regional and community consultations have been held – including academics, NGOs and business groups – reflecting government interest in the views of a wide variety of stakeholders. An opportunity for consulting the international donor community is planned for early September. The EU-LMDG donors are willing to participate in this process with a view to aligning their development assistance programmes with the Government of Vietnam's SEDP.

The draft SEDP reflects *strong ownership by the GOV of the development process*. The SEDP will be presented to the next session of the National Assembly. The five year plan is part of the mainstream Vietnamese planning processes. The SEDP is not a "parallel" plan for donor approval.

- *The SEDP has a pro-poor orientation* within an overall framework for economic growth and industrial development. The poverty data is based on internationally comparable methods for measuring poverty. Poverty analysis is included in some of the sector and provincial plans. The plan has clear targets for eliminating hunger and reducing poverty, developing a social security system and ensuring social equity and equality. The plan has subsections that focus on ethnic minorities and gender.
- *The SEDP goals/tasks are comprehensive* and capture key cross-cutting issues with a focus on growth, inclusive development and institutional reforms.
- *The development targets are consistent with the Millennium Development Goals (MDGs) and the localised Vietnam Development Goals (VDGs).* The targets offer a prioritised set of economic, social and environmental indicators. Most of these targets focus on development outcomes and some appear ambitious.

B. Priority areas for improvement

Overall structure and style:

Clearer links between problems and solutions. A number of issues are raised in Part 1 that are not subsequently addressed in Part 2. It is important to set out the lessons of past experience and describe how new sets of policies and programmes will deal with the main development challenges.

A clear statement of the main policy actions in relation to the main challenges will clarify the process of prioritisation and sequencing. This may take the form of a "road map" or "matrix".

Results-based Monitoring. In order to track progress towards the SEDP goals and targets, and to enable the development of more effective future interventions, a results-based monitoring framework for the five-year plan should be included as part of the main SEDP document.

Specific substantive areas for improvement

Matching Plan Targets with Resources. We would like to see a more detailed costing of the plan and a better match between outputs and the inputs required to reach them. It is unclear how the plan will be sustainably financed. This costing should be derived from a meaningful dialogue between the Ministries of Planning and Finance as well as the Ministries and agencies responsible for SEDP Implementation. Such a dialogue will facilitate a more open assessment of priorities and the nature of the "trade-offs" that may exist between plan objectives. It is not clear that there is adequate provision for recurrent expenditure and operations and maintenance in particular – a general concern raised by the recent government-donor Public Expenditure Review (PER). The plan should provide sufficient detail to inform budget allocations and ODA allocations.

More coherence across the institutional and governance dimensions of reform and clearer prioritisation and sequencing. There is a need to strengthen the relation between Public Administration Reform (PAR) and other areas where reforms have been agreed such as the PER. Other areas such as legal and judicial reform, the promotion of judicial independence, the implementation of the legal system development strategy and increased access to legal justice need stronger references. The SEDP should refer to a more comprehensive programme to fight corruption including the necessary links to PAR and the development of an independent media.

Multiple mechanisms for poverty reduction. The SEDP gives strong emphasis to the National Targeted Programmes for poverty reduction and hunger eradication and the reform of social security. But the SEDP should also address more systematically the strong poverty impacts of more mainstream policies. Examples include socialisation costs in education, the registration of urban migrants, the rights of workers, the rights of women, environmental legislation etc. Anti poverty policies and programmes need to be built in to sector and provincial plans as well as the SEDP. In addition, because of the reforms needed to join WTO and the social and economic impact of increasing global integration, the SEDP needs to tackle growing inequality in development outcomes especially for ethnic minorities, women, the rural poor and the new and emerging poor such as urban migrants. Finally, the plan should also be clearer in its promotion of a progressive Vietnamese culture reflecting the values of a multitude of ethnic groups.

Integration of the concept of Sustainable Development throughout the SEDP. Rapid economic growth incurs social and environmental costs that are not currently being addressed and, in the longer term, will have a severe negative impact on economic growth. Vietnam has already agreed with the sustainable development concepts set out in "Agenda 21". Environmental and social impacts of rapid development need to be considered more systematically, not just in certain sectors such as water resource management, forestry and agriculture.

The role of civil society needs clarification in relation to delivering plan priorities, implementation of the Grassroots Democracy Decree, and the participation of the poor in programme implementation and monitoring. The development of a comprehensive legal framework for civil society would facilitate the ability of local NGOs to participate in the implementation of the SEDP.

The SEDP should make specific reference to *private sector participation* in all economic sectors, especially key industrial sectors. The plan should confirm that the private sector has equal access to production inputs such as land and credit and that this treatment is ensured at all levels, from national to provincial and lower levels of Government.

Integration of gender equality issues should occur throughout the SEDP. Gender objectives need to be prioritised and an assessment of progress with the Plan of Action for the Advancement of Women (POA II) - which includes VDG targets - should be undertaken. Some key areas of the SEDP where gender equality should be addressed include governance (implementation of the Gender Equality Law); economic integration and its implications for labour; macro-economic planning and budgeting; HIV/AIDS and health.

A urgent multi-sector response to fight HIV/AIDS. Vietnam is currently experiencing a rapidly growing localised HIV/AIDS epidemic. The complexity of social and behavioural issues surrounding the spread and transmission of HIV/AIDS means that a concerted multi-agency, multi-sector effort is needed to contain the epidemic.

Approaches such as linking HIV to “social evils” may be ineffective in comparison to more open approaches to HIV prevention and the provision of care and treatment for people living with HIV/AIDS. The SEDP needs a more comprehensive analysis and more realistic set of proposed actions to deal with HIV/AIDS.

ANNEX 5: EU/EC CO-OPERATION OBJECTIVES

1. The EU Treaty Objectives for External Co-operation

In accordance with **Article 177 of the Treaty Establishing the European Community**¹³, community policy in development co-operation shall foster:

- Sustainable economic and social development of developing countries;
- Smooth and gradual integration of developing countries into the world economy;
- The campaign against poverty in developing countries.

The Community's development policy shall contribute to the **general objective** of developing and consolidating democracy and the rule of law, and encouraging respect for human rights and fundamental freedoms. Development co-operation is a multidimensional process covering broad-based equitable growth, capacity and institution building, private sector development, social services, environment, good governance and human rights.

2. Objectives of the EU as laid down in other applicable documents

Commission Communication COM(2001)469 "Europe and Asia: A Strategic Framework for enhanced partnerships" with the following 6 objectives: (i) contribute to peace and security in the region and globally, through a broadening of our engagement with the region; (ii) further strengthen our mutual trade and investment flows with the region; (iii) promote the development of the less prosperous countries of the region, addressing the root causes of poverty; (iv) contribute to the protection of human rights and to the spreading of democracy, good governance and the rule of law; (v) build global partnerships and alliances with Asian countries, in appropriate international fora, to help address both the challenges and the opportunities offered by globalisation and to strengthen our joint efforts on global environmental and security issues; (vi) and help strengthen the awareness of Europe in Asia (and vice versa).

On 9 July 2003, the European Commission adopted a Communication on a "New Partnership with South East Asia", setting out a comprehensive strategy for future EU relations with the region. The strategic priorities identified in the Communication include (1) Supporting regional stability and the fight against terrorism, (2) Human Rights, democratic principles and good governance, (3) Mainstreaming Justice and Home Affairs issues (4) new dynamism into regional trade and investment relations (5) development of less prosperous countries, and finally (6) intensifying dialogue and co-operation in specific policy areas, such as economic and trade issues, justice and home affairs matters, science and technology, higher education and culture, transport, energy, environment, and information society.

Vietnam is signatory to the 1980 Co-operation Agreement between the European Community and the ASEAN countries. The Agreement covers trade, economic co-operation and development as a basis for institutionalised dialogue. The EU and Indonesia have initiated negotiations for a new Bilateral Co-operation and Partnership Agreement. This agreement aims at establishing a relationship based upon a modern policy agenda, with an appropriate institutional framework and enabling a policy dialogue on a wider range of issues, including political issues such as human rights and counter-terrorism.

An EC-Vietnam Co-operation Agreement¹⁴ was signed in 1995 and entered into force on 1 June 1996. The Agreement confirms in its Article 1 that "*respect for human rights and democratic principles is the basis for the*

¹³ <http://europa.eu.int/eur-lex/lex/en/treaties/dat/12002E/htm/12002E.html>

¹⁴ [http://europa.eu.int/smartapi/cgi/sga_doc?smartapi:celexapi!prod!CELEXnumdoc&lg=en&numdoc=21996A0607\(01\)&model=guichett](http://europa.eu.int/smartapi/cgi/sga_doc?smartapi:celexapi!prod!CELEXnumdoc&lg=en&numdoc=21996A0607(01)&model=guichett)

co-operation between the Parties and for the provisions of this Agreement, and it constitutes an essential element of the Agreement”.

Vietnam is eligible to participate in cooperation programmes financed under the DCI [European Parliament and Council Regulation (EC) No. 1905/2006 of 18 December 2006 establishing a financial instrument for development cooperation].

This Regulation underlines the importance that the Community attaches to eradication of poverty in the context of sustainable development, including pursuit of the Millennium Development Goals, as well as the promotion of democracy, good governance and respect for human rights and for the rule of law. Cooperation shall also encourage integration into the world economy and aim to strengthen the relationship between the Community and partner countries through an increasing dialogue on political, economic and social issues conducted in mutual interest.

3. The EU's Development Policy

On 20 December 2005 the Presidents of the European Commission, the European Parliament and the EU Council signed the joint Development Policy Statement (DPS). This “European consensus” will provide the Union with a common vision of values, objectives, principles and means for development. The revised statement is intended to take account of changes both within the EU and internationally since the first statement on the European Community's development policy was adopted by the Council and Commission in November 2000. The new joint statement is structured in two parts, which set out:

- in the first part, “the EU vision of development”, the objectives, principles and methods by which the EU at Community and member state levels implement their development policies;
- in the second, “the European Community's development policy”, guidance for implementation at Community level.

The 2005 Communication on Policy Coherence for Development:

In its 12 April 2005 Communication on Policy Coherence for Development, the Commission has defined coherence commitments in the overall framework of the EU sustainable development strategy and identified the following priority areas with high potential of attaining synergies with development policy objectives: trade; environment; security; agriculture and fisheries; social dimension of globalisation, employment and decent work; migration; research and innovation; information society; transport and energy. These commitments were endorsed by the Council (GAERC) on 24 May 2005. The Communication further calls on non-development policies to respect development policy objectives and on development cooperation to also contribute, where possible, to reaching the objectives of other EU policies.

- **Aid Effectiveness. Harmonisation and co-ordination**

Vietnam was nominated a pilot country to EU co-ordination of policy and harmonisation of procedures in 2002. EU donors subsequently agreed in May 2003 on an Action Plan, which was replaced by a Road Map in February 2005.

The Road Map reflects the conclusions of the EU GAERC of November 2004, and builds on previous achievements, such as the annual Blue Book of EU development activities, the EU local cost norms, joint EU statements and pledging at Consultative Group meetings. It takes a practical approach and includes commitments such as alignment to the Vietnamese socio-economic development plan for 2006 to 2010, joint analysis of this plan, definition in this framework of common priorities and areas of concern, and delivery of EU support to Vietnam in a co-ordinated and harmonised way, *inter alia* by providing pooled financing in different sectors and budgetary support. Moreover, it acknowledges the value added of EU working groups, which were established in order to improve policy coherence, streamline operations, and strengthen partnership within the EU and the larger community, in pilot areas including health, education, private sector development and the central Highlands (and subsequently governance).

In the light of the first OECD/DAC High Level Forum (HLF) in Rome in February 2003, the Government of Vietnam established a comprehensive Harmonisation Action Plan (HAP), with its implementation supported by various donors and donor groups. The Partnership Group for Aid Effectiveness (PGAE) was set up in early 2004, bringing together the government, donors, and groups of donors (e.g. the EU) with a view to accelerating progress. Following the HLF II in Paris in March 2005, the PGAE drew up the Hanoi Core Statement, anchored in the Paris Declaration on Aid Effectiveness, approved by donors in June and formally endorsed by the Vietnamese Prime Minister in September 2005, committing donors and government to specific achievements in the areas of ownership, alignment, harmonisation and simplification, managing for results, and mutual accountability.

The EU co-ordination and harmonisation initiative is to be seen in the framework of the broader Government and donor harmonisation and aid effectiveness agenda. The implementation schedule of the EU roadmap shares many ambitions with the Government's Harmonisation Action Plan and close co-ordination between the two initiatives, which are interlinked, is to be assured.

ANNEX 6: SUMMARY OF THE NATIONAL INDICATIVE PROGRAMMES 2002-2004 AND 2005-2006

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

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

ANNEX 7: LIST OF EC-VIETNAM CO-OPERATION INITIATIVES

Name of Projects	Decision No.	Date of Decision	FDC	FDI	Committed Amount
Bilateral Projects					
Social Forestry and Nature Conservation in Nghe An (finished)	ASIE/1994/002-967	25.11.94	n/a	31.12.06	17,500,000.00
Cao Bang-Bac Can Rural Development Project (finished)	ASIE/1997/002-732	26.11.97	n/a	31.12.07	19,327,089.05
Support to Ministry of Education and Training (finished)	ASIE/1998/002-961	04.05.98	n/a	31.12.06	7,592,179.80
Son La-Lai Chau Rural Development Project (finished)	ASIE/1997/002-655	10.12.98	n/a	31.12.07	19,925,299.55
Strengthening of Veterinary Services in Vietnam (finished)	ASIE/1996/002-969	19.09.97	n/a	31.12.05	7,649,493.59
Health System Development Programme (finished)	ASIE/1997/002-652	06.11.97	n/a	31.12.06	23,085,243.92
Assistance for Street Children	ASIE/1999/002-963	24.09.02	31.12.08	31.12.08	990,000.00
Urban Environmental Planning Programme	ASIE/2003/002-473	09.12.03	09.12.06	30.06.11	10,000,000.00
Support to the Renovation of Education Management	ASIE/2004/016-841	12.11.04	15.11.07	-	12,000,000.00
Health Sector Support in the Northern Uplands & Central Highlands	ASIE/2004/016-810	12.11.04	31.12.07	31.12.12	18,000,000.00
Initiative for Pro-poor Development in the Northern Uplands	ASIE/2004/016-828	19.11.04	22.11.07	31.12.12	17,000,000.00
Support for Forest Sector Development in Vietnam (Formerly Forestry Trust Fund)	ASIE/2004/016-879	13.12.04	14.12.07	30.09.11	3,000,000.00
Sector Policy Support Programme (SPSP) To Achieve Education for All (EFA) Fundamental School Quality Level (FSQL)	ASIE/2005/ 017-598	16.09.2005	31.12.08	-	16,000,000.00
Small and Medium-Sized Enterprise Development Fund (Phase II)	ASIE/2000/002-466	10.12.02	31.12.08	31.12.08	995,000.00
European Studies Programme (finished)	ASIE/1997/002-662	04.12.98	n/a	31.12.07	998,000.00
European Technical Assistance II	ASIE/2002/002-474	18.12.02	31.12.08	31.12.08	11,034,800.00
Human Resource Development in Tourism	ASIE/1997/002-667	06.11.97	31.06.08	31.12.08	10,800,000.00
Audio-Visual Project	ASIE/2001/002-595	12.06.01	30.06.07	30.06.07	950,000.00
Multilateral Trade Policy Assistance Programme (Phase I & Extension)	ASIE/1997/002-734	06.11.97	n/a	30.06.06	2,423,279.17
European Business Information Centre	ASIE/2000/002-587	02.07.01	31.12.04	31.12.04	993,080.00
Multilateral Trade Policy Assistance Programme - (Phase II)	ASIE/2003/005-711	28.11.03	26.11.06	30.06.10	5,100,000.00
Institutional Support Programme	ASIE/2004/004-339	17.12.04	17.12.07	30.06.11	8,000,000.00
Support to the Poverty Reduction and Growth Strategy (Formerly Poverty Reduction Support Credit)	ASIE/2004/016-769	30.09.04	04.10.07	31.12.09	20,000,000.00
Private Sector Support Programme	ASIE/2003/005-885	08.12.03	08.12.06	31.12.10	9,050,000.00
Small Project Facilities	ASIE/2003/005-814	15.12.03	12.12.06	31.12.09	2,000,000.00
Support to the Poverty Reduction and Growth Strategy (PRSC4)	ASIE/2005/017-664	-	-	-	8,000,000.00

Name of Projects	Contract No.	Date of Decision	Decision No.	FDC	FDI	Committed Amount
Thematic Budget Lines						
Creating Agarwood supplies in VN (phase II)	ENV/2000/054-430	27.12.00	ENV/2000/003-837	-	30.06.07	1,731,850.00
Community based conservation of the Hoang Lien Son Mountain Ecosystem	ENV/2001/059-146	01.01.00	ENV/2001/004-668	31.12.06	01.03.08	834,940.00
Assistance to street children and prostitution prevention in HCMC - finished	DDH/1999/056-267	-	-	-	20.02.06	442,345.00
NAPA Quang Binh (Income and Employment Generation Project, Quang Binh Province) - Second Phase (2001-2005) - Vietnam	ONG/PVD/2001/011-765	NA	NA as it is an individual commitment	NA	28.02.08	998,553.00
Développement institutionnel et associations locales pour l'organisation et la gestion des services collectifs	ONG/PVD/2002/011-845	21.11.02	ONG/PVD/2002/001-092	31.12.03	01.11.06	2,649,389.00
An Integrated community based development strategy in Phu Tho Province, Vietnam	ONG/PVD/2003/019-880	09.12.02	ONG/PVD/2002/001-092	NA	01.05.09	748,969.00
Early Childhood Development in remote mountainous ethnic minority communities in Northern Vietnam	ONG/PVD/2003/020-019	09.12.02	ONG/PVD/2002/001-092	31.12.03	01.05.09	1,495,771.00
Health services Initiative in four Re-Education schools for adolescents in conflict with the law in Vietnam	ONG/PVD/2003/020-200	09.12.02	ONG/PVD/2002/001-092	31.12.03	01.05.08	524,765.00
Programme Fasevie : Amélioration De L'état Nutritionnel Des Groupes Vulnérables Au Vietnam Par L'éducation Nutritionnelle Et La Promotion D'aliments Fortifiés Accessibles	ONG/PVD/2004/061-878	25.06.03	ONG/PVD/2003/001-562	31.12.04	01.07.08	512,584.84
L'électrification Rurale Décentralisée Pour Le Développement Durable De Communautés Villageoises Montagnardes Isolées, Vietnam	ONG/PVD/2004/061-883	25.06.03	ONG/PVD/2003/004-562	31.12.04	01.02.08	146,360.00
Community-Managed Development Among Poor Ethnic Minority Communities In Central Vietnam	ONG/PVD/2004/062-872	25.06.03	ONG/PVD/2003/004-562	31.12.04	31.08.09	1,472,718.00
Market Access Programme (MAP) VIETNAM	-	-	-	-	-	390,727.00
Son La Women's Economic Collaboration for Development, Vietnam	ONG/PVD/2005/114868	12.12.05	ONG/PVD/2005/008-239	31.12.06	31.05.10	737,778.00
Programme d'aide aux enfants handicapés - Province de Ca Mau (Enfants du Monde - Vietnam)	ONG/PVD/2005/114001	12.12.05	-	-	01.07.08	331,000.00
Asia Wide Programme						
Asia Invest 2						
Strengthening the capacities of Philippine and Vietnamese business organisations in preparing enterprises for doing business with the EU	ASIE/2004/078-742	28.11.02	ASIE/2002/004-032	31.12.11	01.04.08	195,405.86
Asia Challenge - Euro-Vietnam Business Excellence Phase I	ASIE/2004/078-929	28.11.02	ASIE/2002/004-032	31.12.11	01.11.07	159,282.61
Boosting Vietnamese Expertise in "International Business Law"	ASIE/2004/094-522	28.11.02	ASIE/2002/004-032	31.12.11	15.12.08	197,614.00
Asia Invest Alliance Investment Promotion Vietnam	ASIE/2004/094-812	28.11.02	ASIE/2002/004-032	31.12.11	15.06.09	109,556.50
Technical Assistance, Strengthening Vietnam Garment Sector Competitiveness and Export Capabilities	ASIE/2003/071-731	28.11.02	ASIE/2002/004-032	31.12.11	15.07.07	109,383.96
Technical Assistance/Setting up a welding training institute in Vietnam according to the guidelines of the German Welding Society with an affiliated testing laboratory for destructive and non-destructive material testing	ASIE/2004/084-116	28.11.02	ASIE/2002/004-032	31.12.11	11.01.08	124,526.00
Asia-Invest Alliance - Export action: effective provision of export services and assistance for the Vietnam Chamber of Commerce	ASIE/2004/084-349	28.11.02	ASIE/2002/004-032	31.12.11	16.01.07	91,203.32
Vietnam-EU IT Business Encounters		28.11.02				To be contracted
Business to business meetings of the seafood industry		28.11.02				To be contracted
Promotion of Foreign Trade and Investment between the Mekong Delta Region in Vietnam and Europe		28.11.02				To be contracted

Investment Promotion Training Vietnam (IPTV)		28.11.02				To be contracted
Alliance for the Promotion of Tourism as Key Economic Sector in Europe and Asia		28.11.02				To be contracted
Asia IT&C 1						
Transfer of European graduate-level IT e-learning technology and development methodology to an Asian context	ASIE/1997/051-859	18.06.98	ASIE/1997/003-152	31.12.09	31.12.09	200,000.00
Promoting Internet Policy and Regulatory Reform in Vietnam	ASIE/1997/051-877	18.06.98	ASIE/1997/003-152	31.12.09	31.12.09	200,000.00
Vietnam Crop Information System (VICIS)	ASIE/2003/071-552	18.06.98	ASIE/1997/003-152	31.12.09	01.07.08	193,896.00
Asia IT&C 2						
HUCE ICT Policy Implementation	ASIE/2004/092-042	03.11.03	ASIE/2003/005-627	31.12.04	01.01.09	395,028.38
ISLAND	ASIE/2004/088-121	03.11.03	ASIE/2003/005-627	31.12.04	30.04.09	400,000.00
Developing the Virtual Transport Community in Vietnam – Assessment of the use of Automated Data Interchange ICT for optimising the Maritime and Air Freight Supply Chain in Vietnam (VTC Vietnam)	ASIE/2004/094-145	03.11.03	ASIE/2003/005-627	31.12.04	09.07.08	178,408.59
FOSS Conference	ASIE/2004/091-773	03.11.03	ASIE/2003/005-627	31.12.04	30.06.08	119,333.00
Application of Information Technology in the Field of Health Management in Bac Giang Province	ASIE/2004/091-755	03.11.03	ASIE/2003/005-627	31.12.04	01.10.08	400,000.00
Asia Link						
Project Cycle Management and Participatory Methodologies	ASI/B7-301/98/679-20	29.11.00	ASIE/1998/002-571	28.11.05	28.11.08	297,572.00
Development of Training Material on Low-cost and Sustainable Sanitation	ASI/B7-301/98/679-24	29.11.00	ASIE/1998/002-571	28.11.05	28.11.08	283,665.49
Strengthening Existing Partnerships between South East Asian and EU Universities in the Field of Rural Economics	ASI/B7-301/98/679-33	29.11.00	ASIE/1998/002-571	28.11.05	28.11.08	280,190.20
Curriculum Development and Human Resource Development for Training Key Public Servants at Municipal Level on Economic Management under the Market-Oriented Economy of Vietnam	ASI/B7-301/98/679-42	29.11.00	ASIE/1998/002-571	28.11.05	28.11.08	296,701.00
Asia Link – Medicinal Chemistry	ASI/B7-301/98/679-43	29.11.00	ASIE/1998/002-571	28.11.05	28.11.08	300,000.00
Postgraduate Training in Reproductive Health in South East Asia	ASI/B7-301/98/679-56	29.11.00	ASIE/1998/002-571	28.11.05	28.11.08	300,000.00
Computational Logic as a Foundation for Computer Science and Intelligent Systems	VN/ASIA-LINK/001	29.11.00	ASIE/1998/002-571	28.11.05	28.11.08	300,000.00
Project CONE : Collaborative Open Network for Education. Set up of an academic network specialised for exchange, sharing out, and management of all-purpose multimedia and multilingual data.	VN/ASIA-LINK/002	29.11.00	ASIE/1998/002-571	28.11.05	28.11.08	300,000.00
Development of Human Resource Capacity for all-embracing stocktaking of urbanistic-architectural cultural heritage in Asia and Europe.	VN/ASIA-LINK/003	29.11.00	ASIE/2003/005-753	31.12.04	31.12.07	300,000.00
University network for Sustainable Architectural Design and Urban Planning	VN/ASIA-LINK/004	06.11.03	ASIE/1998/002-571	28.11.05	28.11.08	299,325.00
Introduction and Adoption of International Systems and Standards for the Inspection and Supervision of Bridges for Vietnam and Laos.	VN/ASIA-LINK/005	29.11.00	ASIE/1998/ 002-571	28.11.05	28.11.08	297,401.46
Upgrading the Skills of University Teaching Staff in Welding to Qualify Welding Personnel in Accordance with International Standards and Curriculum Development in Postgraduate Welding Education Program	VN/ASIA-LINK/006	29.11.00	ASIE/1998/ 002-571	28.11.05	28.11.08	284,922.43
Curriculum Development for an Interdisciplinary M.A. in Asian European	VN/ASIA-LINK/007	29.11.00	ASIE/1998/ 002-571	28.11.05	28.11.08	299,479.76
SAVE: Study and prevention measures on traffic Accident in Vietnam an Europe	VN/ASIA-LINK/008	29.11.00	ASIE/1998/ 002-571	28.11.05	28.11.08	296,679.51

Postgraduate psychosocial training for medical doctors	VN/ASIA-LINK/009	29.11.00	ASIE/1998/002-571	28.11.05	28.11.08	300,000.00
Design, production and processes of modern containerhips and tankers for inland water	VN/ASIA-LINK/010	11.8.2004	ASIE/2004/006-130	31.12.05	31.12.08	348,471.00
Development of Executive Advanced Masters Programmes in Environment and Energy Project Management	VN/ASIA-LINK/011	11.8.2004	ASIE/2004/006-130	31.12.05	31.12.08	300,000.00
Development of Teaching and Training Modules for Higher Education on Low-Cost Wastewater Treatment	VN/ASIA-LINK 012	11.8.2004	ASIE/2004/006-130	31.12.05	31.12.08	691,085.75
Restructuring higher education in resource and environmental economics in East-Asian transition economies	VN/ASIA-LINK/013	11.8.2004	ASIE/2004/006-130	31.12.05	31.12.08	385,644.00
AUNP						
Creation of a curriculum in Health System Research in Vietnam and Laos	ASIE/2003/065-222	20.01.00	ASIE/1997/002-663	-	19.07.07	198,328.78
Integration of Solid Waste Management Tools into Specific Settings of European and Asian Communities (ISTEAC)	ASIE/2003/074-016	20.01.00	ASIE/1997/002-663	-	19.07.07	199,016.28
Pro Eco						
Establishing scientific support for environmental management for ports in Vietnam and Cambodia	ASIE/2004/091-168	14.12.01	2598-ASIE/2001/0137	31.12.08	01.07.08	145,492.20
Animal production intensification in Vietnam and environmental protection: A diagnostic GIS to promote a sustainable pig production development.	ASIE/2004/091-211	14.12.01	2598-ASIE/2001/0137	31.12.08	01.09.08	249,948.47
Development of guidelines, for the bioremediation of shorelines contaminated by marine oil spills, for Vietnam, including a workshop and a training course whose results are disseminated and integrated into the curricula	ASIE/2004/079-067	14.12.01	2598-ASIE/2001/0137	31.12.08	05.10.06	291,035.29
Hanoi Eco Trans	ASIE/2005/104-522	14.12.01	2598-ASIE/2001/0137	31.12.08	16.02.09	499,344.00
Feasibility study for evaluating the client application of the membrane bioreactor technology for decentral municipal waste management	ASIE/2005/104-759	14.12.01	2598-ASIE/2001/0137	31.12.08	31.03.08	224,371.51
Biowaste reuse in South East Asia cities	ASIE/2005/104-872	14.12.01	2598-ASIE/2001/0137	31.12.08	16.03.08	221,845.00
Sound chemicals management for a healthier environment in India and Vietnam	ASIE/2005/115522	18.11.04	ASIE/2004/016-684	31.12.05	18.08.09	355,711.57
Healthcare Waste Management in Bac Giang province (Vietnam)	ASIE/2005/115064	18.11.04	ASIE/2004/016-684	31.12.05	31.10.09	745,004.62
Capacity building to implement scientific instruments for port's environmental management in Vietnam and Cambodia	ASIE/2005/115176	18.11.04	ASIE/2004/016-684	31.12.05	31.08.08	194,516.96
Asia Urbs 1						
Balancing development: Promote a balanced socio-economic development in the northern province of Vietnam, Thai Nguyen, through the adaptation of vocational training to labour market needs	ASIE/1995/048-816	02.01.98	ASIE/1995/002-544	-	31.12.07	498,778.67
Hanoi Towards the Future	ASIE/1995/048-820	02.01.98	ASIE/1995/002-544	-	31.12.07	481,054.00
Collection, transport and treatment of solid waste with the technology of waste sorting at their sources	ASIE/2003/075-832	02.01.98	ASIE/1995/002-544	-	31.12.07	500,000.00
HANOI 2010: Heritage and Cultural Identity	ASIE/2003/075-844	02.01.98	ASIE/1995/002-544	-	31.12.07	490,892.04
ASIATRANS: Improving Urban Transport in Hanoi through three model bus lines	ASIE/1995/048-807	02.01.98	ASIE/1995/002-544	-	31.12.07	499,063.35
Green City Can Tho- Sustainable Urban Management	ASIE/2004/095-294	27.11.03	ASIE/2003/005-732	31.12.04	17.07.09	528,276.92
Study on municipal promotion for a high-quality tourism in Madrid and Hanoi	ASIE/2004/091-749	27.11.03	ASIE/2003/005-732	31.12.04	01.01.08	24,954.00

NEX 8: COUNTRY ENVIRONMENTAL PROFILE Summary

The rapid changes in Vietnam in the last few decades in terms of rapid economic growth, industrialisation and continuing population growth have had an adverse impact on the natural environment. This, coupled with a weak institutional capacity to adequately address environmental issues, as well as limited technical infrastructure and financial resources allocated to environmental protection, has contributed to a wide range of environmental problems. Recently environmental issues have received increased recognition in Vietnam, but more efforts still need to be made to mainstream and integrate environmental protection into economic and development planning across all sectors.

2. State of the Environment¹⁵

Vietnam is a developing country and among the most densely populated countries (245 persons/ km²) in the world, with an estimated population of 81.3 million in 2003, growing at an annual rate of 1.3 % (2003). One quarter of the population lives in the urban areas, mainly along the coastal plains and deltas of the Red river in the North East, and the Mekong River in the South. The remainder of its population lives in rural areas and the livelihood of 70% of the rural population is based on the exploitation of natural resources.

The Government of Vietnam's **National Strategy for Environmental Protection (NSEP) until the year 2010 and Vision toward 2020** recognises that there is a rapid deterioration in environmental quality and natural resources. In the last five decades, Vietnam has witnessed significant destruction of its natural resources, including an increasing rate of deforestation, biodiversity loss, and rapid deterioration in environmental quality. High rates of rural under-employment, land shortages, and industrialisation, have contributed to migration to cities. Burgeoning urban populations are overwhelming municipal infrastructure and services and causing environmental problems such as unmanaged landfills, transport-related air pollution, untreated hospital and hazardous waste, and raw sewage flowing in open channels.

Land resources: Vietnam has a total land area of about 33 million hectares (mha), of which 25 mha comprises mountainous and hilly regions. Unfortunately, land degradation tends to become prevalent in the whole country and is typically seen in the forms of erosion, washing, loss of organic materials, drought, desertification, inundation, salinisation and acidification. Other causes of land degradation include urbanisation, insecure land tenure, poor logging practices, expansion of aquaculture into areas of acid sulphate prone soils, and acidification. About 50 percent of Vietnam's land area has been identified as having poor quality soils as a result of human activity.

The overuse of agrochemical and pesticides and improper farming practices are causing pollution and degradation in numerous areas. In addition, some areas are contaminated with Agent Orange/dioxin as a consequence of the war. Land degradation has resulted in a large number of barren and uncultivable areas and increasingly desertified areas. Cultivated land per capita, therefore, has declined over the past decade.

Forestry: For a poor mountainous and disaster prone country such as Vietnam, which is also highly dependent on irrigated-agriculture, forest cover has a specifically strong impact on sustainable development in terms of soil erosion, rainwater catchments, fuel and building material for local communities and job opportunities in forestry. Despite recent increases in forest area, closed canopy forests make up only 13 percent of total forest area, while poor and regenerating forests make up 55 percent of total forest area. Whilst quantitative targets are likely to be achieved, the quality of the resulting forest cover, for example in terms of biodiversity, is less certain.

Biodiversity: Vietnam is one of the world's 10 most biologically diverse countries containing about 10 percent of the world's species, even while covering less than one percent of the earth's surface. The high species diversity and endemism is under threat from habitat losses caused by population growth, legal and illegal logging, dam and road construction, and agricultural expansion. Demand both from within Vietnam and outside fuels a major wildlife trade.

¹⁵ Sources: (1) *Vietnam Environment Monitor 2002*, the World Bank & *Vietnam Environment Monitor 2004: Vietnam at a Glance*, the World Bank: 77; (2) *Vietnam: State of the Environment 2001*, the UNEP:

Water Resources: About two thirds of Vietnam's water resources originate outside the country, making Vietnam susceptible to water resources decisions made in upstream countries. Vietnam is ranked low in Southeast Asia's water availability per capita. Irrigation constitutes the largest part of the demand on water resources. In 2001 water consumption for agriculture was about three times higher than for other water uses¹⁶.

Most dams and reservoirs in Vietnam have been constructed for multiple purposes, including flood control, irrigation, hydropower, water supply and other flow management uses. Most are more than 20-30 years old. There are about 3600 reservoirs of various sizes. The storage of water in reservoirs may affect the availability of water downstream. In addition, sudden releases may cause flooding problems, river erosion downstream and other effects on the water ecosystem. Therefore, the operation of hydropower plants requires co-ordination with the needs for water by other sectors.

Trends in the country's nine river basins indicate good upstream water quality, while downstream sections are often polluted. Groundwater quality is showing some contamination. Water supply falls short of demand in urban and rural areas due to inadequate infrastructure and confusing jurisdictional responsibilities.

Marine and Coastal Natural Resources: Vietnam's rich and diverse 3,200 km long coastal and marine ecosystems are also under threat.¹⁷ Over the last five decades, Vietnam has lost more than 80 percent of its mangrove forests with shrimp farming one of the leading causes for this destruction. It was estimated that the annual loss in terms of forgone benefits of mangrove functions (e.g., fishery, forestry, and erosion) could be in the range of 10-32 million USD per year¹⁸.

While gross output from fisheries more than doubled from 1990 to 2001, the growth of the fishing fleet, combined with an increase in the size of vessels, led to a sharp decline in the catch per unit. Coastal fisheries' output has reached or surpassed sustainability limits.

Off-shore fishing is still within allowable levels.¹⁹ About 96 percent of Vietnam's coral reefs are severely threatened by human activities, including destructive fishing methods, over-fishing, and pollution.

Rapid urbanization and industrialization in the interior, port and marine transport development, expansion in coastal tourism, and rise in oil spills contribute to the deterioration of coastal water quality.

Waste management: Insufficient wastewater treatment and waste management from both domestic and industrial sources are causing severe problems of water and air pollution. Wastewater and run-offs from urban areas, industrial centres, and agricultural land, pollute surface, ground, and coastal waters of Vietnam. Untreated sewage from households, effluents from industrial enterprises and seepage from garbage dumps or landfills are the main causes of organic pollution of surface water. Ninety percent of the enterprises established prior to 1995 have no wastewater treatment facilities, and use obsolete equipment. Most of the collected waste in Vietnam is disposed in dumps and open landfills, and there is no separate treatment for hazardous waste.

Air quality in nearly all urban and industrial areas is affected by particulates, lead and nitrous oxides, sulphur dioxide and carbon monoxide emitted by sources including vehicles, factories, power plants, and households. Fine particulates are an emerging problem in urban areas. Sulphur dioxide emissions near some factories occasionally exceed the standard by several fold. Lead levels at major traffic intersections in main cities are starting to decline following the government's decision to ban leaded gasoline.

¹⁶ Vietnam Environment Monitor 2003, the World Bank:16

¹⁷ Vietnam 2010: Entering the 21st Century. Partnerships for Development. Vietnam development report 2001, WB in partnership with ADB and UNDP

¹⁸ The Quang Ninh and Hai Phong Coastal Region: *Options for Comprehensive Development. Seminar on Options for Comprehensive Development in the Quang Ninh and Hai Phong Coastal Region*, World Bank. 1999.

¹⁹ Vietnam Environment Monitor 2003. the World Bank:17

Climate change: Vietnam is one of the most disaster-prone countries in the world. Disasters occurring in Vietnam are mainly related to severe weather conditions. In the past years typhoons, floods and droughts cause death, injury, loss of property (i.e. agriculture land, livestock etc.) and infrastructural damage. The existing vulnerability might be further increased as previous studies indicate that Vietnam will be severely affected by climate change. Moreover, in a decade (1990-1998) the amount of carbon dioxin emission doubled and continuously increased. Sectors which contributed the most to the total amount of carbon dioxin emission are manufacturing industry, construction and transportation.

Influence of the War on the Environment²⁰: The Vietnam War involved an unprecedented assault on the environment. Vast quantities of bombs, cluster bomb units ("bomblets"), napalm, landmines, toxic chemicals, etc. have had lasting effects on soils, water systems, biological diversity, and perhaps even climate. Life forms at many levels of the evolutionary scale have been significantly affected, from primitive plants and animals to human beings. Nearly three decades later, many of the affected ecosystems have still not recovered. The long-term consequences include loss of habitat and biological diversity, severe and persistent problems of public health, enormous economic losses, and severe constraints on human development.

The affected populations have made some progress in restoring the environmental damage from the war. But much more remains to be done and available resources are very limited. It is an enormous task that will require substantial resources, long-term commitments and appropriate corrective measures.

3. Environmental Policy, Legislative and Institutional Framework

3.1. Environmental Policies and Legislation

In connection with the economic renovation, the Government of Vietnam has put in place a sound legal framework for environmental protection and natural resources conservation which include many laws, regulations, and directives. The environmental policies for the sustainable development of Vietnam were first systematically presented in the "*National Plan of Environmental Protection and Sustainable Development (1991-2000)*". This plan recognises the urgency of the problem and set out programmes for action. A variety of policies and legislation regarding natural resource management and environmental protection are now included in Vietnam's Agenda 21 (2004)²¹: *Law on Environment Protection (1994)*, a *Biodiversity Action Plan (1995)*, *Five Million Hectares Reforestation Programme (1998)*²², *National Strategy for Environmental Protection until 2010 and Vision toward 2020 (2003)* and *Oriented Strategy for Advancing Towards Sustainable Development*.

In November 2004 a Resolution "*Environmental Protection in the period of Industrialisation and Modernisation Enhancement*" has been endorsed followed by a governmental *Action Plan* in February 2005. MONRE is currently preparing a five-year plan 2006-2010. The Law on Environment Protection is under review and the Law on Biodiversity Conservation will be drafted and submitted to the National Assembly in late 2005. These laws will form the legal framework for environmental protection in the future.

3.2. Environmental Institutional Framework

Ministry of Natural Resource and Environment (MONRE) is Vietnam's central environmental authority. It has an overall mandate for environmental strategy, legislation and policy formulation, environmental institution building, environmental impact assessment, environmental research, environmental quality standards, data collection and management. It also supervises and supports the provinces in environmental management and the implementation of national policy and regulations. **Vietnam Environmental Protection Agency (VEPA)** is an

²⁰ Long-term Consequences of the Vietnam War, Copyright ©2002 by Föreningen Levande Framtid; www.nnn.se/vietnam/environ.htm

²¹ *The Strategic Orientation for Sustainable Development* – Vietnam's Agenda 21 is a framework strategy, composed of broad strategies, which are the legal foundations for ministries, sectors, localities, organisations and relevant individuals to follow during their implementation and co-operation activities in order to ensure the sustainable development in Vietnam in the 21st century.

²² *Five Million Hectares Reforestation Programme* is a major management initiative to meet forest product needs in a sustainable manner, protecting the environment and increasing social and economic benefit.

executive department for environment within MONRE. At the provincial level, **departments of Natural Resource and Environment (DONRE)** have been established in all 64 provinces. The environmental management divisions are part of DONRE offices.

Ministry of Agriculture and Rural Development (MARD) is responsible for the state management over activities relating to agriculture, forestry, water resources and rural development, terrestrial national parks and protected areas, including coastal wetlands.

National Protected Area System: To conserve biodiversity resources, the Government has adopted policies on the localisation of the typical ecosystems for protection purposes and development of special use forests. There are presently 17 national parks, 60 nature reserves, and 39 protected landscape areas which cover around 7.7% of total country area²³.

Environmental expenditure²⁴: About 5 percent of environmental ODA has targeted institutional strengthening including environmental policy co-ordination, environmental impact assessment (EIA), and increasing public awareness. In natural resource projects, focus areas have been watershed protection in upland forests, income generation in hill areas, and mangrove and inland marshes. A preliminary analysis indicates that core environmental expenditure hovers just under one percent of the total public spending (except for 2000).

Vietnam Environmental Fund was established in June 2002 and is financed under the State Budget and from different sources such as compensation from damages caused to the environment, fees for environmental protection, voluntarily contributions from national and international institutions and individuals. This fund aims at providing investors in environmental projects low interest loans as well as subsidies and/or co-financing if they borrow from other official sources.

Vietnam's Environmental Monitoring System²⁵: The National Environmental Monitoring Network, managed by MONRE, was established at the end of 1994. By 2001, the Network had expanded to 20 stations, which carry out monitoring at 72 locations in 40 provinces, including environmental hotspots. The monitoring parameters are the basic quality parameters of air, water, land, coastal environment, solid waste, noise, acid deposition, radioactivity, and working environment. The monitoring frequency is six times a year. The Network also manages six automatic air monitoring stations that run 24 hours/day. The data obtained by the National Network are used effectively in compiling annual state of environment reports and also for environmental protection managerial activities.

Strategic Environmental Assessment (SEA): SEA is required to assist the government in the formulation of future development strategies. There is little experience with SEA in South East Asia and Vietnam in particular. In 1994, EIA was formally introduced in Vietnam with the Law on Environmental Protection. Decree GD 175/CP states that EIA should be conducted for specific projects but also for overall strategies for regional development, strategies and plans for provinces and cities and strategies for urban and population development.

There is a high interest in SEA in Vietnam. Four representative case studies were selected to evaluate the potential of SEA in Vietnam namely: (1) The Development of Mekong Delta; (2) the Protected Areas Network System in Vietnam; (3) the Tourism Sector in Vietnam; and (4) the Master Development Plan of Ha Long City. The most significant may be the latter, which was supported by the EC and undertook an experimental SEA.

Together with the National Plan of Environmental Protection and Sustainable Development and the establishment of a draft SEA for the development of coastal areas of Quang Ninh province, they are positive examples for Vietnam progressing towards a rigorous Strategic Environmental Assessment (SEA) framework.²⁶ The Ministry

²³ Vietnam Environment Monitor 2004, the World Bank:77

²⁴ Vietnam Environment Monitor 2002, the World Bank:36

²⁵ Vietnam Environment Monitor 2002, the World Bank, box 9:37

²⁶ Capacity Building for Environmental Management project (B7-6200/IB/96/05)

of Planning and Investment (MPI) actively supports the incorporation of environmental considerations into higher levels of decision-making. However, influence of SEA on the government planning process is still quite modest.

International Environmental Agreements: Vietnam is party to the following Multilateral Environmental Agreements (MEAs)²⁷: Conventions on Biodiversity Conservation, Climate Change, Endangered Species (CITES), Wetlands (RAMSAR), Control of Trans-boundary Movement of Hazardous Waste and Their disposal (Basel Convention), Ozone Layer Protection (Montréal Protocol), Prevention of Pollution from Ships (MARPOL), Law of the Sea (UNCLOS), Desertification, Stockholm Convention on Persistent Organic Pollutants (POPs conventions), and Kyoto Protocol and Clean Development Mechanism (CDM).

Implementation of Environmental Policies and Legislation in Vietnam: Over time, an institutional system of environmental protection together with a compatible legal framework has been established. Achievements in environmental management have, on one hand, helped reduce pollution, deterioration and other incidents and on the other hand, improved noticeably the quality of the environment.

However, despite the initial success, there remain a lot of unresolved issues and weaknesses in environmental management. All in all, there are **10 ministries and 15 committees**, and several local-level agencies, whose actions influence the environment. These ministries and agencies are highly segmented with limited co-operation between them. Some sectoral line ministries, such as the Ministry of Industry (MOI) and Ministry of Construction (MOC), are strengthening their environmental planning capacity. However, there are significant functional overlaps, making co-ordination time consuming and resource intensive, and accountability difficult²⁸. The communication between the line ministries and VEPA is often weak. A preliminary staff review of the above mentioned ministries and departments indicates inadequate capacity and over-extended staff.

The effectiveness in the implementation of environmental policies, therefore, is not yet satisfactory. The governmental agencies involved in environmental issues need to strengthen their capacity both at central and local levels and to decentralise their functions. Effective communication and co-ordination within and between relevant departments and institutions should be encouraged. Furthermore public participation in decision making related to, for example, environmental impact assessments and planning should be enhanced.

4. European Commission and other international development assistance

The EC's bilateral support to natural resource management and environmental protection has been included as an integral element (e.g. agro-forestry, nature conservation) in the rural development projects in Cao Bang-Bac Kan and Son La-Lai Chau provinces in the mountainous regions in Northern Vietnam, as well as in the Social Forestry and Nature Conservation project in Nghe An province. These projects provided valuable support in strengthening local authority management capacity as well as raising awareness of community and their participation in nature conservation and forest management. A new Urban Environmental Planning Programme expected to start in mid 2005 will provide support to the medium sized cities in Vietnam in the area of urban environmental planning by providing integrated approaches to environmental planning and facilitating action to develop and implement relevant solutions.

These bilateral initiatives are complemented by a number of projects funded under the thematic budget line "Tropical Forests and other Forests in Developing Countries Programmes" (Budget Line B7-6201). They include capacity building for environmental management, strengthening dialogue on biodiversity policies and community driven sustainable forest management. Up to May 2005, under the EC's horizontal programme Asia Pro-Eco, six projects with activities in Vietnam were approved to foster the adoption of policies, technologies, and practices that promote cleaner, more resource-efficient solution to environmental problems.

Several EU Member States and other donors are actively supporting the environment and natural resource sectors. In terms of institutional strengthening of VEPA and MONRE, Sweden, Canada and Denmark are the lead donors

²⁷ Vietnam Environment Monitor 2004: Vietnam at a glance, the World Bank: 77

²⁸ Vietnam Environment Monitor 2002, the World Bank:31

and have provided significant support. Several EU Member States are supporting the forestry sector, including the Netherlands, Germany, Finland, Sweden and Denmark. In terms of biodiversity conservation, the Netherlands, Denmark and Sweden have provided considerable support. France, Germany, Sweden and Denmark are providing support to urban environmental planning and industrial pollution control. Several EU Member States are also providing support to coastal zone management and the fishery sector, including Denmark, Sweden and the Netherlands²⁹. Others donors supporting the environment and natural resources sectors include, the United Nations Development Programme (UNDP), the World Bank (WB), the Asian Development Bank (ADB), several International environmental NGOs (WWF, IUCN, FFI, BirdLife International etc), and the Governments of Australia, Canada, Japan, Switzerland, USA, among others.

The EC has taken an active participation in various government-donor initiatives, in particular the Forest Sector Support Programme (FSSP) and the International Support Group on the Environment (ISGE). These partnerships all aim at sector wide approaches to aid delivery.

5. Recommendations

In terms of priorities, EC's assistance will be based on the eight priority programmes identified in the Vietnam National Strategy for Environmental Protection until 2010 and vision toward 2020³⁰. Moreover, one of the main principles for sustainable development in Vietnam is for the "Protection and improvement of environment quality to be considered as inseparable factor from the development process".³¹

Mainstreaming the environment into development and economic co-operation³² can be done best in Vietnam when ensuring that environmental issues are discussed at an early stage of the government's plan. Furthermore, investment projects should undergo a Social and Environmental Impact Assessments. Environment, poverty and sustainable livelihoods will also be streamlined into EU-funded programmes. The Tropical Forests budget line, the ECHO programme and other Asia Wide Programmes (such as Asia Pro Eco) will serve as an important complement to bilateral co-operation.

Possible future EC support of this kind might include: (1) promoting energy efficient and non-polluting technology with provision of better energy services for the poor e.g. through EAEF; and (2) regional integration and co-operation in river basin management, biodiversity conservation, and wildlife trade. They can help sustain and enable access to good quality natural resource and environmental services including forest, soil and water in supporting the livelihood of the poor as a contribution to the poverty reduction.

The EC could also consider helping the government in the area of Tax Reform in order to eliminate adverse incentives and environmentally harmful subsidies, to create economic incentives for the provision of environmental services, to possibly introduce the polluter-pay principle. Other possibilities would be support to enhance the environmental sustainability in the productive sectors relevant for Vietnam-EU trade relations (e.g. fisheries and/or forestry sectors) through the promotion of certification modalities, such as the Forest Stewardship Council (FSC) and environmental quality control of goods and services, as well as the improvement of environment friendly production methods. Promoting the EU Forest Law Enforcement on Governance and Trade (FLEGT) in Vietnam would be an appropriate action in this direction. Supporting Vietnam to fulfil its obligations in the Multilateral Environment Agreements (MEAs), within the context of supporting Vietnam's efforts to integrate into the international economy should also be considered.

²⁹ European Union Development Co-operation Activities in Vietnam 2003

³⁰ The Vietnam National Strategy for Environmental Protection until 2010 and vision to 2020, Annex, 2003: 118. Priorities are: (1) Shutting down industries that seriously pollute the environment; (2) National hazardous waste treatment; (3) Medical waste treatment; (4) Remedy of environmental consequences caused by chemical warfare; (5) Basin Environmental Protection of three rivers CAE, Hue and Dong Nay; (6) Implementation of the Five Million Hectares Reforestation Programme; (7) Strengthening of the governance of environmental protection at central local and sectoral levels; and (8) Improvement and enforcement of the environmental legal system.

³¹ Summary of the Vietnam Agenda 21, 2002:4.

³² The EC Policy and approach to Mainstreaming the Environment, sheet 9

ANNEX 9: DONOR MATRIX

SUMMARY OF EXTERNAL ASSISTANCE DISBURSEMENT BY DONOR (in thousands of US\$)

DONOR	2000	% Change 2000-2001	2001	% Change 2001-2002	2002	% Change 2002-2003	2003
1. MULTILATERAL							
1.1 UNITED NATIONS SYSTEM							
FOOD AND AGRICULTURE ORGANIZATION (FAO)	839	-56.10	368	4.6	385	78.7	688
GLOBAL ENVIRONMENT FACILITY (GEF)	423	606.6	2.989	-26.4	2.201	-64	793
INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA)	609	42.0	865	10.6	957	-44.4	532
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)	7.71	23.2	9.500	9.3	10.381	-74.9	2.603
INTERNATIONAL MONETARY FUND (IMF)	-	-	105.000	-46.4	56.283	-	-
UNITED NATIONS (UN)	75	-	-	-	-	-	-
UNITED NATIONS PROGRAMME ON HIV/AIDS (UNAIDS)	-	-	-	-	-	-	82
UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)	660	-3604	420	-	-	-	-
UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)	11.718	-21.6	9.183	-48.8	4.702	12.1	5.271
UNITED NATIONS EDUCATIONAL SCIENTIFIC CULTURAL ORGANIZATION (UNESCO)	325	-20.3	259	-38.2	160	126.3	362
UNITED NATIONS POPULATION FUND (UNFPA)	5.098	-35	3.316	-17	2.753	89.1	5.206
UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES (UNHCR)	75	20	90	-93.3	6	-	-
UNITED NATIONS CHILDREN'S FUND (UNICEF)	10.899	-0.5	10.843	-18.7	8.810	0.8	8.883
UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO)	-	-	-	-	65	6.2	69
UNITED NATIONS OFFICE ON DRUGS AND CRIME (UNODC)	168	-62.5	63	-	-	-	-
UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)	45	-	-	-	-	-	-
UNITED NATIONS VOLUNTEERS (UNV)	300	-35	195	-45.1	107	-18.7	87
WORLD BANK (WB)	138.770	125.8	313.370	-17.3	259.140	122	575.224
WORLD FOOD PROGRAMME (WFP)	9.329	-	-	-	2	-	61
WORLD HEALTH ORGANISATION (WHO)	3.790	6.9	4.051	62.1	6.567	-26.9	4.800
TOTAL	190.833	141.3	460.512	-23.5	352.519	71.5	604.661
1.2 NON-UNITED NATIONS SYSTEM							
ASIAN DEVELOPMENT BANK (ADB)	226.268	-19.2	182.827	30.6	238.563	5.5	252.076
MONTREAL - PROTOCOL	224	157.6	577	-93.1	40	62.5	65
TOTAL	226.492	-88.6	183.404	30.2	238.603	24.4	252.141
2. BILATERAL							
AUSTRALIA	31.400	-13.3	27.233	34.8	36.704	76.4	64.736
AUSTRIA	1.401	-	-	-	1.562	9.4	1.709
BELGIUM	19.593	-38.5	12.049	15.7	13.935	-0.5	13.865
CANADA	12.041	27.1	15.300	9.3	16.717	9.9	18.375
CZECH REPUBLIC	368	21.5	447	-71.6	127	-	1.935
DENMARK	52.210	-9.1	48.373	8.7	52.601	16.2	61.124
EUROPEAN COMMISSION	13.721	74.9	23.992	6.3	25.722	73.7	44.680
FINLAND	4.567	-3.5	4.407	50.6	6.637	18.5	7.863
FRANCE	57.884	15.8	67.015	35.2	90.588	17.3	106.265
HUNGARY	-	-	18	-5.6	17	-	-
GERMANY	20.700	8.0	22.351	55.9	34.845	15.4	40.207
ITALY	1.165	-14.8	993	-13.2	5.533	408.0	28.110
JAPAN	869.842	-63.1	320.860	-1.8	315.186	89.9	598.594
KUWAIT	2.666	-	-	-	-	-	-
LUXEMBOURG	2.321	-26.2	1.712	189.6	5.112	79.0	9.153
NETHERLANDS	13.869	65.9	23.015	17.1	26.949	58.6	42.742

DONOR	2000	% Change 2000- 2001	2001	% Change 2001- 2002	2002	% Change 2002- 2003	2003
NORWAY	4.514	25.5	5.665	52.3	8.629	30.4	11.251
NEW ZEALAND	1.592	1.4	1.615	66.6	2.690	24.1	3.339
REPUBLIC OF KOREA	12.009	212.1	37.486	-37.8	23.314	35.2	31.518
SINGAPORE		-	53	1.9	54	65.8	91
SPAIN	6.940	22.1	8.476	31.6	11.151	-38.9	6.811
SWEDEN	38.786	-20.3	30.896	-3.8	29.737	8.1	32.142
SWITZERLAND	8.901	23.3	10.979	-23.3	8.424	62.4	13.681
THAILAND	206	41.7	292	-52.4	139	-	-
UNITED KINGDOM	8.984	209.5	27.807	12.8	31.374	21.5	38.107
UNITED STATES OF AMERICA	5.566	82.8	10.173	74.5	17.040	-32.6	11.967
TOTAL	1,192,538	-42.5	701,205	8.4	760,116	56.3	1,188,265

Source: Vietnam Development Report, UNDP-Vietnam - Hanoi 2005.

ANNEX 10: OVERVIEW OF THE FOCUS AND ACTIVITIES OF EU AND OTHER DONORS TO VIETNAM

Austria (€1.4 m. disbursed in 2003) provides support for both technical and scientific co-operation, through post-graduate scholarships and research projects in academic co-operation.

The co-operation policy of Belgium (€10.9 m.) is closely connected to the poverty alleviation strategy of Vietnam, as it is embedded in the Socio-economic Development Strategy 2001-2010 and the CPRGS. Consequently Belgium's government-to-government programme aims to support the objectives of the three pillars of the CPRGS: completing the transition to a market economy, making development "inclusive, and building modern governance. Belgium also supports the reform of the health sector, including health sector financing.

The current priorities for Czech assistance to Vietnam (€0.7 m.) are the health sector and environmental technology. The tradition of Czech support to Vietnam began in the 1960's.

Denmark's development co-operation with Vietnam (€48.6 m.) targets the following sectors: fisheries, water and sanitation, agriculture, and the business sector. Denmark also provides budgetary support through the Poverty Reduction Support Credit (PRSC).

Finland's support to Vietnam (€6.3 m.) centres on water and sanitation, forestry and rural development, with poverty reduction as the overarching objective. Support is also provided to build capacity in public utilities and in the implementation of Vietnam's Grassroots Democracy Decree.

Corresponding to Vietnam's priorities in economic and social development, France's support to Vietnam (€85 m.) covers five main sector priorities: 1. Vietnam's legal and political transition, 2. the modernisation of the education and research system, 3. the promotion of cultural co-operation based on the exchange and transfer of know-how, 4. supporting changes in the economy by developing interactions with French companies, 5. the reduction of poverty and the improvement of social rights.

Germany (€32.4 m.) and Vietnam have agreed upon the following three priority areas for development co-operation: 1. support to economic reform policies, the promotion of small and medium-sized enterprises and vocational training, 2. preservation and sustainable use of natural resources including forestry, sewerage and solid waste management, and 3. health, especially family healthcare and HIV/AIDS prevention.

The main objective of Italy's development co-operation with Vietnam (€23.3 m.) is to assist Vietnam in implementing the CPRGS and in integrating into the world economy. Specific programme objectives include improving basic social services for the poor and supporting sustainable productive activities for poor communities.

Luxembourg's "Indicative Co-operation Programme" with Vietnam which covers the period 2002 – 2005 amounts to € 35 million. Luxembourg disbursed an average of € 9 million per year in 2004 and 2005, concentrating in particular on rural development, health, education, and human resource development.

Development assistance from the Netherlands to Vietnam (€23.6 m.) focuses on three priority sectors: forestry and bio-diversity, water management, and health. Support to these three sectors is complemented by cross-cutting issues, such as (economic) reform.

Vietnam is one of three priority countries in Asia for Spanish development co-operation (€5.4 m.). Goals in Vietnam are to contribute to the fight against poverty, to reinforce social and economic infrastructure, and to support the ongoing reform process.

Sweden's development co-operation with Vietnam (€22 m.) focuses on: a. promoting Vietnam's ability to reduce poverty on a long-term and environmentally sustainable basis, and b. promoting openness and development towards democracy and increased respect for human rights.

The goal of **the United Kingdom's** development co-operation programme with Vietnam (€30.7 m.) is to promote pro-poor growth in order to reduce the proportion of people living in poverty in line with the international development targets. Specific objectives are: a. to promote the efficient, effective, and equitable use of public financial resources, b. to strengthen the Government's efforts to achieve socially inclusive development and accountability to citizens, and c. to support economic and social transition.

With regard to other principal donors, the objectives of **the World Bank's** Country Assistance Strategy 2003 to 2006 mirror the three pillars of Vietnam's CPRGS: to support Vietnam's transition to a market-economy (the central focus for the Bank's activities), to enhance equitable, inclusive and sustainable development, and to promote good governance. The World Bank disbursed 575 million USD in 2003.

The Asian Development Bank (252 million USD disbursed in 2003), also bases its co-operation with Vietnam on the CPRGS, and will align its next Strategy Paper to the Government's 5-year SEDP. Target sectors include health, education, water supply and sanitation, and rural development.

Japan, principally through JBIC, disbursed 599 million USD in Vietnam in 2003, principally for large-scale infrastructure projects. In 2005 Japan is lending funds for the first time for budget support, in the framework of the PRSC.

AusAID provided around 65 million USD in 2003. Main priorities are: rural development, human development and natural resource related projects.