

**MULTI-ANNUAL INDICATIVE PROGRAMME
(2007 – 2010)**

VIETNAM

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Programming Service	:	DG RELEX H/5
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1. Summary

As set down in the Strategy Paper (SP) 2007 to 2013, EC support 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. The SP 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 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.

The Strategy Paper and this Multi-annual Indicative Programme (MIP) 2007 to 2010 are fully aligned to the Government of Vietnam's Socio-economic Development Plan (SEDP) 2006 to 2010. EC assistance is to 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. The SP and MIP take account of the experience of, and lessons learnt, by the EC and other donors in the delivery of past assistance. It provides for 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.

The MIP is focused on two focal sectors: (i) Support for to Vietnam's Socio-economic Development Plan and (ii) Support to 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.

2. Indicative Budget

The financial allocation for the 2007-2010 period is € 160 million.

Focal Sector 1:

Support for Vietnam's Socio-economic Development Plan: 40%
(Support to the Poverty Reduction Support Credits)

Focal Sector 2:

Support for the Health Sector 40%

Additional Action 1: Trade-Related Assistance 11%

Additional Action 2: Support to the EC-Vietnam strategic dialogue 9%

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

The Socio-economic Development Plan (SEDP) for the period 2006 to 2010 is the second 5-year plan in the context of the Socio-economic Development Strategy 2001-2010. The SEDP, which will be presented to the National Assembly in October and adopted by the Party Congress in spring 2006, is intended to replace the Comprehensive Poverty Reduction and Growth Strategy (CPRGS).

In order to support the reform process and in particular the implementation of the SEDP, the EC may continue to provide budgetary support through the Poverty Reduction Support Credit (PRSC). This is a World Bank-led, performance-based, result-oriented global budget support instrument. Currently embedded in the objectives and reform agenda of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), it is planned that the PRSC will from 2006 be based on the SEDP 2006-2010. Annex 1 provides an overview of the functioning of the PRSC mechanism.

The EC may also give consideration to providing support directly through Government targeted programmes which focus on the poorest communes and cover a range of initiatives designed to reduce poverty. This involvement would take place in particular in the context of a specific EU initiative for the Central Highlands. Any decision to contribute to these programmes, however, will be made following a comprehensive assessment, the experience of other donors and the EC's own experience with sectoral targeted programmes (e.g. in health and education).

3.1 Support to the Poverty Reduction Support Credits (PRSCs)

(a) Strategy context/ justification (see also Annex 1)

Sustainable human and social development requires: (i) sustained economic growth based on sound economic management that guarantees economic stability, provides a conducive climate for economic activity and meets regional and global economic challenges; (ii) an equitable, socially inclusive and sustainable pattern of growth, with appropriate sectoral and social policies and programmes; and (iii) an equitable society that is successful in caring for all its members and in allowing them to fulfil their potential. This demands the building of a modern public administration, legal and governance systems, including public financial management, legal development, and access to information.

The EC expects that the Vietnam Socio-Economic Development Plan (SEDP) 2006-10 will lock into and build on the reforms pursued in the CPRGS in order to guarantee the above-mentioned requirements of sustainable human development and is prepared to continue to co-finance the PRSC in support of this Plan with funding of PRSC VI to IX. The draft SEDP which was made available to donors in August 2005, confirms that the Government is adopting a comprehensive, outcome-focused approach to the national planning process, targeting poverty reduction and other Vietnam Development Goals (VDGs, a localised version of the Millennium Development Goals). Furthermore, the poverty-focused SEDP, among other characteristics, should: (a) be based on extensive consultations and analysis; (b) build systems for aligning resources with policies; and (c) establish a feed-back system for monitoring development outcomes.

The increasing budget support engagement by EU and non-EU donors in Vietnam has led to more intense EC-led co-ordination with other partners in responding to the policy priorities set out in the SEDP, already helping to identify the focal areas for this SP. This strengthens the EC's

and EU's partnership with the GoV by helping to set the reform and development agenda in Vietnam through strengthened policy dialogue and the establishment of prior policy actions and in monitoring their implementation. The EC will focus its participation in key areas where maximum added value can be ensured such as education and health, trade, employment, social security, governance and public financial management. The move away from "traditional" project aid shall also reduce transaction costs of co-operation and improve enhance predictability of aid, improving ODA effectiveness.

The EC may justifiably chose to front-load its PRSC support to the next PRSC cycle as a clear statement of support for the Government of Vietnam's (GoV) accelerated policy reform efforts as well as a strong SEDP 2006-10. A poverty focused, consultative SEDP 2006-10 with an outcome-based planning approach and sound systems of monitoring and evaluation will provide a target for effective aid. The PRSC demonstration effect, with an increasing number of PRSC co-financers and higher volumes, will deliver an enhanced framework for harmonisation, coordination and alignment, further improving aid-effectiveness. Frontloading would also improve the chances of locking in reforms completed under the previous PRSC cycle.

(b) Objectives

General

Reduced poverty and sustained growth in Vietnam through support for the implementation of reforms envisaged in the Government's Socio-Economic Development Plan 2006-10 (SEDP).

Specific

The overarching objectives of the SEDP, likely to follow from those in the CPRGS, namely:

- completing the transition to a market economy;
- making development inclusive;
- building modern governance.

Better adherence to the Hanoi Core Statement on Aid Effectiveness through increased donor co-ordination, improved alignment with the Government's SEDP and harmonisation of donor procedures, translating into lower transaction costs and increased Government Ownership.

(c) Expected Results

The results consist of policy reforms, or 'prior actions' defined by the donors in collaboration with the GoV during the preparation of the PRSCs, and building on experience gained during the implementation of PRSC I-V. Funds are disbursed when prior actions have been successfully carried out by the Government, with the volume and timing (high case, base case, delays) depending on the degree of success. As reflected by the trigger assessment earlier in the process. There are likely to be around forty prior actions, in fields such as trade liberalisation, state-owned enterprise reform, financial-sector reform, private sector development, employment, social security reform, health, education, environmental sustainability, public administration/governance, public financial management, and anti-corruption measures. The EC focus within these areas will be determined by the areas identified in the SP 2007-13, notably health as well as cross-cutting themes such as transparency and public financial management and will be discussed with other donors and government.

(d) Activities

Establishing prior actions and monitoring performance. Funds, which are fully fungible, are to be disbursed upon the completion of prior actions. Technical assistance may be provided to assist the government in the reform agenda.

(e) Implementation

A defining characteristic of the PRSC budget support instrument is the departure from strict ex-ante conditionality and the notion of ex-post reward for commonly agreed reforms. Thus, while the preparation of the PRSC operation is initiated half way through the annual cycle based on satisfaction of a range of 'triggers' identified at the beginning of the cycle, the actual disbursement at the end of the cycle is based upon a broader set of 'prior actions' that are jointly formulated between donors and government to reflect the overall progress of the reform agenda. The reform agenda itself reflects the objectives and development outcomes envisaged in the SEDP . For example, under the recent PRSC 4, an important prior action agreed under the 'Governance' pillar was: *"The Borrower, through the Ministry of Finance, has issued regulations to improve financial disclosure of all state budget entities, including SOEs, requiring among other information, disclosure of their annual budget allocations, budget plans and final accounts."*

The actual process of monitoring reform is conducted through a running series of working group meetings covering the entire policy reform matrix, where donors discuss progress on specific policy actions and agree on where and how best to encourage further progress. In addition, a series of milestones, notably the trigger assessment in December (midway through the cycle), the appraisal of the broader policy matrix in March-April and the final negotiations in May on the formulation of prior actions and the next cycle's triggers, institutionalise the monitoring process. Funds will be paid to the World Bank and via the World Bank into the consolidated account of the GoV at the State Bank of Vietnam. It is foreseen to use decentralised management for the implementation of this focal sector.

(f) Cross-cutting issues

Measures to promote gender-equality, environmental protection, promoting governance and human rights (including the rights of ethnic minorities/indigenous peoples), combating HIV/AIDS will be integrated as appropriate as cross-cutting issues.

(g) Risks and conditions

A loss of momentum in the reform process, and resistance from vested interests, could entail a risk of slippage, especially in the area of the public sector reform (state-owned enterprises), trade integration and financial sector reform. The reform costs could be higher than estimated if the resolution of non-performing loans proceeds at a slower pace, or if policy lending by the Government goes into unviable projects. The ambitious reform agenda supported by the PRSC process, while improving economic efficiency, could also lead to increased inequality and environmental degradation. Fiduciary risk and a failure to ensure that adequate progress is made with budget transparency and tackling corruption could defeat the attempt to build modern governance.

(h) Main indicators

Overall development outcome indicators will be defined at the beginning of the 5-year (PRSC VI-X) cycle reflecting the Vietnam Development Goals and the SEDP 2006-10. An example from PRSC I-V in Education was: "Net primary school enrolment rate attains 98 percent". In-year monitoring will be conducted against a comprehensive reform matrix of approximately 50 annually defined policy actions (including 15 triggers) in 18 areas reflecting SEDP priorities. For example, PRSC 4 included:

Anti-Corruption: Issue Anti-Corruption Law including denunciations and monitoring of assets.

Gender: Complete the planning manual for ministries and provinces including mainstreaming of gender.

Education: Pilot the MTEF to prepare the education sector budget.

(i) Estimated EC contribution

(€ 64 million , 40% of total budget)

(j) Co-ordination with Member States

PRSC operations have served as an effective co-ordination device, supported by an increasingly large number of donors, rising from four contributors to PRSC 1 to 11 for PRSC IV and potentially 15 for PRSC V. This includes funding from the Netherlands, the UK, Denmark, Sweden, France, and the EC and interest from Germany, Belgium and Spain. All donors who seriously consider the possibility to join this process are invited to participate in the preparation of PRSC operations, even if they are not in a position to co-finance them in the short term. More importantly, the process has transformed the role of co-financiers from providers of finance to partners substantially engaged in the preparation of the operations and the policy dialogue with Government. This dialogue is organised by policy areas, in which donors engage selectively, based on their interests and technical capacity on the ground.

(k) Indicative timeframe

Preparations for PRSC VI hinges on the first draft of the SEDP 2006-10. Once this is complete, analysis will be undertaken to convert its proposed development outcomes and policy statements into a coherent sequence of actions to be supported by the next 5-year PRSC cycle. The World Bank's Vietnam Development Report 2007, produced in parallel with the preparation of PRSC V in early 2006, will articulate this vision, and serve as the analytical foundation for the policy dialogue in the next cycle. With the adoption of the SEDP 2006-10 in early 2006, preparations for PRSC VI should begin in December 2006 with the finalisation of the Programme Document in May 2007. EC funds should be committed shortly thereafter. Frontloading EC assistance may be envisaged for the above reasons (paragraph (a)).

4. Focal Sector 2: Support for the Health Sector

(a) Strategy, context and justification (also see Annex 2 on Health)

The health sector has been successful in providing preventive health services, controlling key communicable diseases and in achieving relatively good health statistics. Until the mid-1980s, Vietnam's health system was fully subsidised. Today, as in most countries, three mechanisms are used to finance health care: government budget allocations; fees for service; and prepayment schemes or health insurance. Recently, the Communist Party and the Government have reiterated the need to enact policies on health allowances and insurance for the poor, and gradually advance toward universalisation of health insurance. This position was also reflected in the Government's National Health Strategy (2001-2010) which aims at improving the overall level of health and the distribution of health among all the population, and sets the goal "to achieve universal insurance by 2020".

The review of various health financing options indicates that, in the present economic conditions in Vietnam, the best course of action is to increase the government health budget and to expand health insurance coverage further. This is also the most appropriate way to contribute to protect the legacy of past achievements, improve equity and move towards the goal of universal coverage. In this context, the "Health Care Fund for the Poor (HCFP)", which was established by Decision 139 in 2002, and which foresees an increase in public health expenditures for the poorest, could be an effective tool, provided that it becomes more efficient. The Government is

currently revising Decision 139. It is expected that a new version will be approved by the beginning of 2007.

Key challenges affecting the expansion of the current health insurance scheme include: strengthening the legislative framework; capacity building of the social insurance agency, redefining the role of the Ministry of Health and improving co-ordination within a framework that promotes satisfaction among both providers and consumers of health care.

In addition to HCFPs, there have been a range of national targeted programmes (NTPs) in place, aimed at improving livelihoods through exemptions of user fees, access to credit or the development of local infrastructure. Overall, these targeted programmes have performed quite well, especially in terms of identifying poor households and poor communes. But they are hampered by errors in poverty measurement, causing the geographical allocation of resources not to always match local needs. Moreover, there is still room to improve the management of these NTPs. Implementation of the strategy takes time, and requires the sustained commitment of development partners and the government.

Vietnam's Integrated National Plan for Avian Influenza Control and Human Pandemic Influenza Preparedness and Response 2006-2008 was adopted in January 2006. It is truly integrated in nature and has as its overarching objective the reduction of the health risk to humans from avian influenza by controlling it at source in domestic poultry, by early detection and responding to human cases and by preparing for the medical consequences of a human pandemic if it occurs over the next three years. The estimated budget needs for 2006-2008 is USD 266 million.

The results of the government's reforms supported by the EC under its NIP 2002 to 2006 will need to be consolidated and expanded. EC support will capitalise on progress achieved within the EC funded HEMA ("Health Care Support to the Poor of the Northern Uplands and Central Highlands") project. This project is particularly relevant as it provides support through the Health Care Fund for the Poor while seeking to improve its functioning.

Great efforts have been made by government as well as donors to improve harmonisation and co-ordination. Through these efforts progress towards an overarching framework for support to the health sector was made, permitting the move towards a government – led sector approach.

(b) Objectives

The overall objective will be to improve the health status of the population especially the poor, as a contribution to poverty reduction and the attainment of health-related MDGs.

The specific objective will be to increase the utilisation of equitable and efficient quality health services (through, for example, wider use of health insurance) and to consolidate and further develop health sector reform achievements. Support will also be given to achieve the objectives that are stated in the 'National Strategy for People's Health Care and Protection 2001 -2010'. These objectives include: reducing morbidity, raising life expectancy, ensuring the quality and effectiveness of the health care system to meet the rapidly growing demands of the population and other health improvements.

(c) Expected results

Results are expected in all areas of the National Health Strategy, i.e. equity and efficiency of the health sector, fight against the broad social determinants of bad health, integration of traditional and modern medicine, and appropriate public-private mix with the government in a position to protect the public interest. Further refinement will be undertaken in the identification phase.

(d) Activities

The exact nature and content of the activities will be determined in the light of the evolution of a government health policies. .. Best practices from the EC support to the implementation of the Health Care Fund for the Poor in the Northern Uplands and Central Highlands (through the HEMA project which will start in 2006) will be taken into account.

(e) Implementation

(f) EC support will be carried out preferably through budgetary support or pooled funding. The choice of the modality will take into account the outcome of a feasibility study of a SWAp in the Health Sector, launched by several donors in the beginning of 2006 . The study suggested , inter alia, to envisage support to either sub-sector strategies at central level, or horizontal approaches at provincial level. It is expected that the gross of EC support to the health sector under the Health sector programme can only start in 2008, since preparation of a sector programme will take some time. Activities in 2007 will mainly consist of feasibility studies and pilot approaches. **Cross-cutting issues**

The EC intervention is expected to have a significant impact on several cross-cutting issues:

- Poor and remote areas: poverty mapping strategies will specifically target poor and remote areas.
- Ethnic minority people, living predominantly in the poor and remote areas will be particular beneficiaries,
- Gender: Gender-specific access and employment issues will be mainstreamed.
- Children: specific support measures for children will be identified.
- Environment: Environmental issues such as access to safe water and treatment of medical waste should be mainstreamed, where appropriate.
- Avian influenza will receive particular attention, while possible focus on HIV/AIDS (including prevention of HIV/AIDS from drug use) will be reviewed pending coverage by other donors.

(g) Risks and conditions

The following risks have been identified:

- The Health Care Fund for the Poor does not become more efficient and is abandoned
- A new outbreak of Avian Influenza attracts all the human and financial resources of the health sector, to the detriment of other priorities.
- The Government does not manage to adopt a single strategic and legislative framework and the Ministry of Health and other line ministries do not manage to coordinate and take ownership.
- The capacity of the Ministry of Health is still weak and therefore absorption capacity is not sufficient.
- The gradual separation of regulation, financing and providing organisations in the health sector fails.
- The EC will foster dialogue in order to minimize and manage risks properly.

(h) Main indicators

The indicators will relate specifically to the MDGs and those set down in the Government of Vietnam's Socio-Economic Development Plan 2006 to 2010. They may include the following:

- Increased utilisation of health services by the poor.
- Increased drug availability and affordability.
- Sustained enrolment in the national health insurance and reduced household out-of-pocket payments for health.
- Reduction of the under-five mortality rate and the infant mortality rate.

- Increase in proportion of children under one year old fully vaccinated.
- Reduction of share of women without assistance at birth by qualified health workers.
- Reduction of number of HIV cases, malaria morbidity and TB cases detected per 100,000 people.

(i) Estimated EC contribution

(€ 64 million , 40% of total budget)

(j) Co-ordination with Member States and other donors

Co-ordination will be ensured by the Ministry of Health (MoH), within the “Health Sector Partnership Group”. In addition, the EC will build on existing close co-ordination with the EU and other donors involved in the Health Sector, for example through the EU Health Sector Working Group. EU partners include France, Germany, the Netherlands, Luxembourg, and Sweden. Co-financing with EU and other donors will be sought.

(k) Indicative timeframe

The bulk of EC support for the health sector would start in 2008 and would last for at least 3-4 years. From 2006 – 2008 support might be given under the form of feasibility studies for the preparation of the Sector Programme.

5. Additional Actions

5.1 Trade-Related Assistance

(a) Strategy context/ justification

Trade is one of the six priority areas for the EC development co-operation. Its importance is also highlighted in the Government of Vietnam's Socio-economic Development Plan 2006 to 2010, in which the EC support will be anchored. The Commission has further committed itself in the Doha Ministerial Declaration to support developing countries through trade related technical assistance and capacity building. This reflects the recognition that trade can play an important role in generating pro-poor growth. Integration into the world economy is a high priority for the Vietnamese Government. In the framework of WTO accession, important reforms of the legal framework are being undertaken and need to be implemented satisfactorily after accession. The process of implementing WTO commitments in practice is likely to be even more demanding and thus require significant additional assistance than during the accession process. Furthermore, Vietnamese industry must be encouraged and equipped to take advantage of the new opportunities, as well as supported to participate in trade policy making and the impact assessment of trade policy measures. The benefits of international trade integration should be available to all, and integration should not result in further inequalities due to retrenchment of workers or markets for certain crops or products becoming more difficult.

Other trade-related issues will require support and assistance by the EU in coming years. ASEAN's own regional economic integration activities will benefit EU interests and thus deserve support. In particular, the prospect of the launch of free trade area negotiations with ASEAN countries will require substantial EU support throughout any negotiation, including for impact assessment and consultation with stakeholders, as well as for implementation. Moreover, as an exporter of agricultural and industrial products, Vietnam will continue to require capacity building to cope with evolving health, hygiene, security, and environmental requirements to maintain and expand its access to the EU market.

The Commission will therefore provide trade-related assistance as one of the additional actions in this MIP, building on and consolidating the current TRTA bilateral Multilateral Trade Assistance Programme (MUTRAP) and regional initiatives such as the Asia Trust Fund, EU-ASEAN Regional Co-operation Programmes on Intellectual Property Rights and on Standards, Quality and Conformity Assessment. TRTA will be based on a comprehensive Trade Needs Assessment carried out in 2005 with EC support, and which the Vietnamese Government invited donors and Vietnamese beneficiaries to use as a reference tool to select and design TRA projects during the 2007-2012 period. TRTA to Vietnam will complement the EC's regional policy with Southeast Asia, and support the ASEAN integration process, including co-operation under the Trans-Regional EU-ASEAN Trade Initiative (TREATI) and the ASEAN Programme for Regional Integration Support (APRIS), where appropriate.

(b) Objectives

General

To enhance Vietnam's participation in world trade and particularly advance EU-VN trade and investment relations while maximising its benefits for the country's development and poverty reduction agenda.

Specific

To facilitate trade and investment and improve policy making by strengthening the capacity of the main public and private stakeholders concerned, facilitating Vietnam's economic integration within ASEAN, and alleviating the technical constraints for trade, including health, hygiene, security, and environmental requirements.

To maximize benefits, rights and opportunities offered by the EU and the multilateral and regional trading systems, while supporting Vietnam to comply with its obligations.

To mitigate against possible negative consequences for the disadvantaged from trade integration.

To mitigate against possible negative impacts on the labour market from trade integration.

(c) Expected Results

Based on the Trade Needs Assessment, the EC's TRA will be focused on four broad areas.

- Support for the Implementation of WTO commitments and a Potential Trade Agreement with the EU:

Upgrade the capacity of relevant Vietnamese institutions, central and local, and business sector to fully understand and take advantage of rights and implement obligations, as well as to overcome challenges resulting from the implementation of the Protocol of Accession, and WTO agreements (such as GATS and TRIPS), including addressing their implications on its society. Improve the capacity of Vietnam to negotiate and implement a potential comprehensive free trade agreement with the EU, including assistance to analyse the possible impact and consequences. Increased capacity of Vietnamese negotiators to participate in international meetings through improved interpretation services

- Support to the Enabling Environment for the Private Sector:

Assist Vietnam to develop a consistent market-oriented legal and institutional framework and trade policies that favour the development of the private sector and encourage foreign investment.

- Strengthen Capacity to Meet Export Requirements:

Support the business and public sectors to meet increasing health, hygiene, security, and environmental requirements in major export markets.

➤ **Measures Aimed at Mitigating the Negative Effects of Trade Liberalisation**

Vietnam establishes mechanisms, including the development of a social safety net, aimed at offsetting the possible negative effects caused by liberalisation in the WTO, ASEAN, and ASEAN plus Free Trade Areas with special emphasis on the poor and socially disadvantaged.

(d) Activities

In order to achieve the above mentioned results, and referring to the Action Matrix included in the Trade Needs Assessment, the following type of activities may be envisaged:

- Policy-oriented research, seminars, conferences and similar events to enhance public awareness and participation in the formulation and implementation of development oriented trade policies as well as in other trade related issues presented above (competition policy, TBT/ SPS measures, Doha round, trade facilitation, IPR, etc..)
- Technical assistance and capacity building through transfer of EU experience and expertise notably on (i) trade facilitation and customs reform, (ii) SPS measures and good manufacturing practices, (iii) technical regulations and standards (iv) the mitigation of negative consequences of trade integration for the vulnerable and on the labour market including accompanying vocational education.
- Policy advice and dialogue to upgrade the policy and regulatory framework, notably in the field of SPS, TBT and Customs.
- Capacity building and training for central and provincial authorities and the private sector with a particular attention to business sector and in specific areas where capacity constraints are bottlenecks to reforms.
- Institutional strengthening (including IT and systems development) of crucial administrations and structures at national and decentralised level to improve the effectiveness and efficiency of their trade related operations.
- Curricular development for trade-related teaching.
- A new phase of the Interpreters Training Programme or a EU Business Information Center could also be envisaged.

(e) Implementation

Implementation modalities will be defined bearing in mind the need to provide assistance in a flexible way, to make best use of the Trade Needs Assessment Actions Matrix so as to ensure effective co-ordination with other donors and to respect Government leadership, and maximise the added value of EC support in this strategic field. Potential for multi-donor delivery mechanisms such as Trust Fund or other pooled financing arrangements will be assessed.

(f) Cross-cutting issues

Vietnam trade policies and regulations should aim at maximizing the positive externalities and minimising the negative externalities for the environment as well as for animal plant and human health and safety. Better collection of import duties could support increased public expenditures, ideally on social services. Interventions in this area will also aim at ensuring that gender participation in all activities is on an equal opportunity basis. Further screening of gender issues will be taken up by project appraisal missions.

(g) Risks and conditions

Protectionist measures in the main international markets, bad economic performance in the region and/or Vietnam may put at risk Vietnam's commitment to an outward oriented trade policy. The success of the EC project also relies on continued overall political stability, on sound project management and on the availability of appropriate expertise.

(h) Main indicators

Monitoring indicators will differ according to activity and could be differentiated according to gender where appropriate. They could be subdivided in the four following categories:

Input based, such as the number of public events, seminars and workshops held and their attendance; number and timing of expertise mobilised. Number of trainings provided.

Output based: upgraded SPS regulatory framework, development of training modules for the government and industry. Number of replications of the trainings received.

Result based such as the reduction of transaction costs and time needed for customs clearance and increased customs revenues; Reduction in the number of detentions, rapid alerts and other form of product access controls at importing countries.

Impact based, such as: better access to Vietnam products that comply with EU regulations; value added and employment regenerated through increased exports to the EU.

(i) Estimated EC contribution

(€ 17-18 million, approximately 11% of the total budget).

(j) Co-ordination with Member States and other donors

Government-driven donor co-ordination will be assured through using the Action Matrix of the Trade Needs Assessment, through co-financing and through information sharing.

(k) Indicative timeframe

Projects could be approved as of 2007.

5.2 Support to the EC-Vietnam Strategic Dialogue

(a) Strategy context/ justification

The EC will also provide support to 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 co-operation activities to improve Vietnam's track record in these fields.

Governance has moved to the fore of the development agenda in Vietnam, as it is the case in many other developing countries. This is in recognition of the fact that countries can only advance, both from an economic and the human development point of view, when governments adhere to the rule of law, create an enabling environment for the private sector to develop, strengthen their own institutions at central and sub-national levels, and encourage their people to participate and strengthen their rights as individuals. Experience in Vietnam and elsewhere has shown that this process must be country-driven ("national ownership"), in order to be successful. However, donors can play an important role in assisting this process through dialogue and financial assistance. The Government of Vietnam has set human rights issues firmly on the domestic agenda and has welcomed EC assistance in bringing in European and international perspectives from which the country could learn. At the annual formal meetings of the sub-group

on co-operation in institution building, administrative reform, governance and human rights, matters of mutual concern are discussed relating to governance, justice and human rights such as the International Criminal Court, civil society development, Vietnamese migration to the EU, and the regulation of religious freedom.

The EC should continue its constructive co-operation with Vietnam in all the areas covered by the EC-Vietnam co-operation agreement to further strengthen the country's process of economic and social reforms, building a society based firmly on the rule of law and respect for human rights.

Two examples of areas where activities could be undertaken are a) the field of aviation safety and security, with the aim of enhancing regulatory convergence following the signature of an air services agreement between the Community and Vietnam; and b) the health sector, where it might be opportune to share European experiences with Vietnam, including transition experiences from new member states and to strengthen the economic ties with Europe.

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 actions in support of the EC-Vietnam strategic dialogue could be the Small Projects Facility (SPF). During its first implementation period, the Small Projects Facility (SPF) has proven to be an appropriate instrument to support small-scale, innovative and visible projects in areas of strategic importance for Vietnam and the EU, and has generated considerable interest from both state and non-state actors. It filled a gap in EC co-operation by providing a demand-driven but nevertheless strategically targeted funding instrument: both non-state actors as well as government were given support in priority areas selected according to their relevance in the Vietnamese and EU contexts. Furthermore, the SPF complements other EC funding mechanisms: it provides non-state perspectives on issues addressed through other programmes; it can also replicate best practices born of past EC support, such as in private sector development, among others.

(b) Objectives

General

To support the EC-Vietnam strategic dialogue under the bilateral Co-operation Agreement and to further support the transition of Vietnam towards becoming a market economy based on the rule of law and respect for human rights.

Specific

- To promote constructive dialogue and stimulating co-operation between the GoV and the EC in a wide range of areas of mutual interest covered by the EC-Vietnam Co-operation Agreement in particular in the areas of governance, justice, institution building, administrative reform, the role of civil society and human rights.
- To improve the mutual understanding and joint visibility of the EU and Vietnam by promoting EU-Vietnamese civil society dialogue and facilitating joint interactions in areas of governance, administrative reform, decentralisation; strengthening of civil society and public interest organisations as a contribution to grass-root democracy, better governance, and the respect of the rule of law; integration into the regional and world economy.

- To strengthen the rule of law through capacity-building activities targeting the National Assembly, the judiciary and the legal sector; to further strengthen public finance management; and to further promote adoption and implementation by Vietnam of international human rights instruments.
- To support the on-going reform process of Vietnam's economy and systems of governance, as well as to facilitate Vietnam's integration into the international economy, through an enhanced interaction of European and Vietnamese civil society partners and the private sector.
- Enhancing Vietnam's participation in regional co-operation activities.
- Raising the profile and visibility of Vietnam and the European Union in each others' regions, preferably by joint initiatives.
- To consolidate EC support already provided under the CSP 2002-2006.

(c) Expected Results

- Enhanced EC-Vietnam relations, notably in the areas of governance, public administration and in other selected sectors of mutual interest;
- Strengthened links between Vietnamese and EU entities (e.g. public administrations, research institutions, civil society and business associations);
- Progress in administrative reforms and improving governance at all levels of government;
- Enhanced capacity of the judiciary and legal sector to implement and uphold new laws dealing with property and commercial issues;
- Public financial management reforms completed and implemented;
- Adoption and implementation by Vietnam of international human rights instruments;
- Civil society plays a more prominent role through the work of human rights NGOs.

(d) Activities

In order to achieve the above mentioned results the following type of activities may be foreseen:

- Policy-oriented research, studies, seminars, conferences and similar events to enhance the understanding of Vietnamese officials (public awareness) and participation in the formulation and implementation of policies.
- Technical assistance and transfer of EU experience.
- Policy advice and dialogue to upgrade the policy and regulatory framework.
- Capacity building and training for central and provincial authorities.
- Institutional strengthening of crucial administrations and structures at national and decentralised level.
- Networking and media events.

(e) Implementation

The Small Projects Facility may be an implementing tool for activities in this area. The SPF would be managed directly by the EC Delegation in Hanoi. The Delegation will be responsible for selection and follow-up of projects. An advisory committee will provide guidance on orientation and take stock of programme results. While 75 % of the available funds may be implemented through thematic Calls for Proposals on a demand-driven basis, it may be foreseen to allow for the remaining 25 % of financial resources to be allocated directly by the EC Delegation in Hanoi in order to provide limited ad hoc short-term technical assistance and organise capacity building activities in cases where urgent targeted action is needed, or where strategic issues are not adequately covered in applications submitted.

Other implementation modalities will be defined bearing in mind the need to provide assistance in a flexible way and maximise the added value of EC support in this strategic field. Joint-donor approaches might be also considered in view of donor harmonisation.

(f) Cross-cutting issues

The SPF's design allows to successfully mainstream all cross-cutting issues stated in the European Community's Development Policy of 10 November 2000. Selection, monitoring and evaluation of SPF projects will explicitly consider cross-cutting issues of gender equality, environmental protection and human rights. In addition, rights of indigenous peoples and conflict prevention will be addressed in SPF projects dealing with populations concerned by these issues.

(g) Risks and conditions

The success of the activities will depend on the continued willingness of the Vietnamese side to engage in the EC-Vietnam Strategic dialogue and in particular the continued commitment to pursue co-operation on governance and human rights issues through the SG on Co-operation in institution building, administrative reform, governance and human rights.

The success of activities also relies on continued overall political stability, on sound project management and on the availability of appropriate expertise. Given the N+1 rule, the SPF will be extremely sensitive to any delays. The SPF requires a heavy investment in human resources. Mechanisms will have to be devised to rationalise this investment, while respecting relevant provisions of the Financial Regulation.

(h) Main indicators

Input indicators: number and quality of events, workshops, studies, research reports, TA activities; number, profile and level of participants

Output indicators: Changes in legislation (number, type), intensification of public debate (number, type).

Result indicators: increased awareness of European perspective, more positive reports on human rights situation from human rights organisations;

Increased trade and investment relations between Vietnam and the EU; enhanced attention given to the EU in Vietnamese trade and investment policies;

Impact indicators: improved quality of legislation; better governance at different levels of administration; improved respect of human rights in line with ratified human rights instruments; more prominent role for civil society;

(i) Estimated EC contribution

(€ 14-15 million, approximately 9% of the total budget).

(j) Co-ordination with Member States and other donors

The EC will co-ordinate activities with Member States and other donors. Activities will also take into account the EU human rights dialogue with the Government of Vietnam. The EC will also co-ordinate activities with other donors with small grant initiatives.

(k) Indicative timeframe

For the SPF, a financing agreement will be signed with the Government in 2007. Project duration will be four years. Standard duration of grant projects will be one year, with possibility of extension to 18 months, subject to approval of the Delegation. Projects could be approved as of 2007.

ANNEX 1. Overview of the Poverty Reduction Support Credit (PRSC) Mechanism

1. Introduction

The Poverty Reduction Support Credit (PRSC) remains the sole General Budget Support instrument in use in Vietnam. The EC and other donors co-finance this World Bank lending instrument and actively associate themselves with the related policy dialogue that surrounds the World Bank's loan preparation process. This Annex describes in more detail the PRSC instrument and process, focusing on its application in Vietnam.

2. The PRSC as a World Bank lending instrument

The PRSC is one of the World Bank's Development Policy Lending tools. It has emerged from debate and reviews of previous Policy Lending instruments, such as Structural Adjustment Loans and other conditionality based lending that failed to effectively leverage policy reform in partner countries. Thus, the main shift in approach relates to the replacement of ex-ante conditionality with ex-post agreed 'prior actions', explained in more detail below.

The World Bank introduced PRSCs in May 2001 as one of the International Development Association's (IDA's) main vehicles to support low-income countries in implementing their Poverty Reduction Strategy Papers (PRSPs). The PRSC is a programmatic approach to development policy lending (DPL) in low-income countries, which typically consists of three or four annual, single-tranche operations, phased to support the government's medium-term development objectives. As of end-February 2005, there were PRSC's on-going in 20 countries, 11 of which were in Africa. Vietnam is the only PRSC country at present in the East Asia and Pacific Region though there are PRSOs under preparation in Laos and Cambodia. The total amount committed through PRSC's is roughly US\$3 billion. PRSCs constitute approximately half of the World Bank's Development Policy Lending, which in turn constitutes approximately a third of all IDA operations.

The PRSC has three main objectives in pursuit of its overarching goal of strengthening the PRSP approach and consolidating country ownership. These 3 objectives offer a strong rationale for supporting the PRSC given the EC's firm commitment to the achievement of the MDG's through the provision of programmatic support to PRSPs:

- Operationalise and Implement PRSPs: To help implement a medium-term program that builds upon and draws from the PRSP's priorities and objectives.
- Resource Predictability: To improve resource predictability through medium-term annual commitments that are disbursed in line with domestic planning, budgeting, and review processes.
- Donor sHarmonization: To provide a framework for coordination with development partners, particularly with the IMF through its Poverty Reduction Growth Facility (PRGF) and other budget support donors.

- The World Bank has recently assessed the PRSC against these overriding objectives concluding that:
- PRSCs have effectively improved the operationalisation of PRSP's by strengthening strategy and policy formulation, matching resources to policies and re-enforcing monitoring and evaluation systems.

- PRSCs have improved resource predictability by consolidating processes to identify and assess financing triggers and by aligning approval and disbursement processes with partner country budget cycles.
- PRSC's have provided a framework for donors to co-ordinate and harmonise budget support operations, both in terms of content and process. In some cases the PRSC framework constitutes the sole framework, while in others, depending on PRSC coverage, it provides for harmonisation in a subset of policy areas and sectors.

It should be noted, that while the PRSC operation in Vietnam, as described in section 4 below, is well underway to meeting the afore-mentioned objectives, there are areas, particularly in Sub-Saharan Africa, where the PRSC does not square as well with the more outcome based, variable tranche approach of EC General Budget Support. For example, a recent EC paper noted that the PRSC, while gradually focusing in on results indicators and a more limited number of key policy actions ('prior actions'), in many cases remains focused on an overly broad set of policy actions. While this approach lends itself well to a multi-sectoral budget support operation, i.e. a combination of sector budget support programmes (with detailed focus on a certain number of sectors), it is less appropriate for a general budget support programme (focused only on general level conditionality linked to the PRS, public finance management and macro stability).

3. The PRSC Process in general

As previously noted, the PRSC provides direct financial support to the recipient country's budget to back a reform process leading to the development of robust and accountable systems for public management as envisaged in the PRSP. The PRSC seeks alignment with the PRSP both in terms of content and process, maximising Government ownership. On content, donors and the recipient together distil a range of development objectives and outcomes from the PRSP, as well as a range of Policy Actions or Reform Measures to achieve these. These are harnessed in an agreed and evolving Policy Action Matrix. On process, the monitoring and assessment of these measures and the ensuing disbursement of funds seeks to follow national monitoring and evaluation procedures and the budget cycle.

Thus, the PRSC process is inextricably linked to the World Bank's Country Assistance Strategy (CAS) as well as other donor country strategies such as the EC's SP that set the parameters for broad developmental support, including PRSC contributions.

The CAS is the World Bank's central strategic tool for aligning its support to country's development and poverty reduction goals, as set out in the PRSP. Drawing on available analytical work, it takes the country's development vision as set out in the PRSP, identifies relevant development and poverty reduction goals and identifies the most appropriate mix of instruments, including the PRSC, for delivering these outcomes, taking into account programs supported by other development partners of the country.

In designing the PRSC, the CAS suggests a notional medium-term commitment for the PRSC program, which it links to the government's medium-term expenditure framework. In most cases, the CAS pegs the PRSC to the base-case lending scenario, reflecting the amount of overall lending the recipient will be entitled to as determined by a baseline of the country's macro/fiscal and policy performance. A high-case and low-case CAS lending scenario are triggered by departures from the baseline.

In sum, the PRSC differs from previous instruments moulded by the so called Washington Consensus by softening the trigger-driven system for disbursement of funds based on ex-ante un-

adaptable conditionality. The PRSC process instead focuses on achieving consensus ex-post on a broad set of 'prior actions' that demonstrate a clear political will and actual progress with respect to the reform agenda. In the process, the PRSC broadens and deepens partner Governments' participation in a Policy Dialogue.

4. The PRSC in Vietnam

The PRSC in Vietnam was recently evaluated in the context of the Multi-donor Joint Evaluation of General Budget Support. The study concluded that:

"Apart from its role in providing efficient forward support to GoV programmes, the PRSC's primary benefit appears to be in reinforcing policy actions included in the GoV reform programme that are being supported through other Partnership General Budget Support (PGBS) activities. The PRSC provides additional incentives to undertake these reforms by providing funding and through influencing on-going policies, strategies and activities of the Government. TA to implement these policies is then provided by complementary PGBS activities. [.....] As there is strong government ownership of policy and a good record of macroeconomic management and poverty reduction, supporting GoV poverty reduction policies and growth strategies through providing the GoV with additional funding would seem to be an efficient and effective way to support poverty reduction."

Evolution

Vietnam was one of the first countries to receive a PRSC with a two-tranche operation for US\$ 250 million, approved by the World Bank Board (the Board) in June 2001, based on an Interim Poverty Reduction Strategy Paper (I-PRSP). The focus of PRSC 1 was mainly on the structural reform agenda, with policies articulated around five main areas: liberalizing trade, reforming SOEs, strengthening the banking sector, creating an enabling environment for the private sector, and improving management and transparency in public finances.

PRSC 2, a one-tranche operation for US\$ 100 million, was approved by the Board in June 2003, based on Vietnam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS), the country's own PRSP. Under PRSC 2 the range of economic reforms supported by the international community was considerably broadened. In addition to the mainly structural reforms covered by PRSC 1, this second credit included various policy actions aimed at keeping development inclusive and building modern governance. Measures related to education and health sectors, environmental sustainability, land management, legal development and public financial management, were all part of PRSC

PRSC 3 was also a one-tranche operation for US\$ 100 million. It was approved by the Board in June 2004, and had the same broad coverage as PRSC 2. Significantly, PRSC 3 gathered 7 co-financing donors, including the EC for the first time, around the Bank's US\$100million credit, together pledging approximately US\$70million in co-financing. PRSC 4 has gone further with 15 donors together pledging to equal the World Bank's US\$100million credit. PRSC 1-3 together constituted 20% of total IDA lending (Development policy and Investment) in Vietnam demonstrating growing significance in a lending portfolio traditionally dominated by Investment Lending and infrastructure lending in particular.

PRSC 4 and 5 grew both in terms of volume, numbers of co-financiers, policy areas and policy actions. Under the stewardship of World Bank, it has become the primary platform for policy dialogue with the Government of Vietnam. It is expected that the PRSC 6 onwards will support

the SEDP 2006-10 since it is assessed that this document has satisfactorily incorporated a number of PRSP principles.

Triggers, Policy actions and Prior Actions – beyond conditionality.

As the PRSC as a financing instrument has evolved, so has the dialogue and coordination process surrounding it.

The conditionality element of the PRSC has evolved over the 4 operations to date. The most recent operation (PRSC 5, approved at the World Bank Board in June 2005) like previous operations, included both a backward and a forward looking element. The two stage backward looking element first assessed the Government of Vietnam's progress against a limited set of 15 triggers in December 2005 that were identified in the PRSC 4 programme document (the forward looking element of PRSC 4). These triggers were deemed satisfied to an extent that they justified beginning stage 2, the preparation of PRSC 5. This began with the World Bank/Donor/GoV appraisal of the broader reform progress, captured in the more comprehensive policy action matrix. At the time of presentation to the World Bank Board, the Policy Actions would all be complete, rendering them 'prior actions'. The forward looking element, ie the PRSC 6 policy matrix, is being addressed through the preparation of the Vietnam Development Report 2007 where the World Bank and Donors will agree on a set of suitably ambitious, though feasible, policy actions for PRSC 6. These will be assessed in December 2005/January 2006.

Coherence with the PRSP

The policy actions supported through the PRSC process can be seen as a distillation of the CPRGS and other development strategies and plans, aimed at identifying a coherent sequence of key measures in each area over the medium term. An important step in this process in Vietnam was the preparation of the so-called Haiphong matrices, in October 2002. In a consultation involving hundreds of stakeholders, comprehensive lists of policy actions were discussed for each sector. The chosen PRSC policy actions are drawn from and grouped under the three main pillars of the CPRGS, namely Transition to a Market Economy, Social Inclusion and Environmental Sustainability, and Modern Governance.

The links to Poverty reduction are visible both in terms of inputs and outputs or outcomes. The share of total government expenditure dedicated to pro-poor spending has increased since 2001. Given the fact that PRSC funding has rapidly increased over the same period; that these funds are 100% discretionary; and that Government policy has become increasingly pro-poor, it is reasonable to infer a PRSC flow of funds effect on increasing levels of pro-poor public expenditure. In terms of poverty reduction, the PRSC encounters the same difficulties of attribution as other instruments, but it is acknowledged that the PRSC has strongly contributed to a more conducive environment for growth which in turn is the main mechanism through which income poverty has been reduced in Vietnam.

Predictability, Public Financial management and Accountability

The PRSC is judged to have provided a moderately predictable source of funding, with the World Bank providing more certainty than co-financing donors. The EC, DFID and certain other donors have increased predictability by announcing multi-annual PRSC contributions. PRSC funds flow through the GoV financial management systems thereby drawing complementary TA support to the strengthening of these. The PRSC has incentivised government PFM reforms and the PRSC can be indirectly credited with increasing transparency with the State Budget law and the publishing of the State Budget. The PRSC is also instigating the increased transparency of budget norms, improved allocation of spending responsibilities at sub-national government and, most importantly, the piloting of Medium Term Expenditure Frameworks (MTEFs).

Improved donor coordination and alignment

It is clear that the PRSC has provided a common policy framework for donors to work within as well as a mechanism through which alignment with GoV policy and systems can occur in practice. Donor coordination has increased as more donors have joined the PRSC process and non-PRSC donors are equally welcome to participate in the PRSC dialogue. The PRSC's demonstration effect is likely to enhance alignment and co-ordination even further and has thus already resulted in an increased aggregate effectiveness of aid-flows.

The move towards better coordination of donors' programmatic support in the form of PRSC contributions recently culminated in a joint EU and Like-Minded Donor Group response to the World Bank on the choice of PRSC 4 policy actions, subset of triggers and the Programme Document itself. The EC was at the centre of this dialogue, coordinating views within the EU and more widely and contributing to the sector and thematic dialogue conducted around the PRSC 4 Assessment, Appraisal and Negotiation phases of the PRSC preparation.

An October 2005 PRSC stock-take addressed donor concerns that compressed nature of the dialogue towards the end of the PRSC year and World Bank lead excluded some donors from the debate. The EC is taking a proactive role in preparing the groundwork for future PRSC policy dialogue and alignment by harnessing experiences from its developmental and political activities in Vietnam and channelling these into the policy dialogue.

Increased Government Ownership

It is broadly acknowledged in Vietnam, that the Government is very much in the driving seat on the PRSC, demonstrated by the strong leadership shown by the National PRSC Steering Committee at the State Bank of Vietnam and chaired by the First Deputy Prime Minister. It was, however, evident during the appraisal and negotiation phases that while Line-Ministries are increasingly involved as de facto guardians of the policy actions relating to their fields, this awareness is not reflected in the lower hierarchy. Furthermore, attention outside the appraisal and negotiation phases is limited (as is admittedly the case for many donors). In response to this, the EC has initiated a series of talks to EU and government hosted sector Partnership Working-Groups in order to raise awareness of the process, the actions committed to, and how best to achieve them. The series has started with Health and Education where the partnership Groups are best established, and will be rolled out more broadly.

ANNEX 2. State of affairs in the health sector in Vietnam

1. Health situation

Vietnam is unique concerning health development. Despite war, trade embargo and previously low levels of foreign aid, Vietnam has managed to keep a relatively good health situation. This becomes apparent when comparing the Vietnamese health situation to that of other poor countries. The life expectancy is 11 years above what could be expected from Vietnam's economic situation. The infant mortality rate is as low as in Thailand and the Philippines, even though these countries have a GDP/capita nearly twice that of Vietnam.

The health care system after 1954 was based on the agriculture co-operatives. The health care was provided for free and with almost universal access. The health workers were paid in work points at the co-operative or in necessities such as rice. Preventive care at community level was also provided by the agricultural co-operatives.

Doi moi and the economic growth that followed changed the old structure. Decollectivisation of rural areas rendered it impossible to maintain the old health care system in Vietnam. Despite the change, high health results were still achieved. The overall economic growth contributed to the maintenance of a good health standard.

But the economic achievements led to increased inequalities in the Vietnamese society. The utilisation of public health facilities has changed over time. The access to basic health care has been reduced. A 50 percent reduction of outpatient visits between 1986-1990 show clear signs of reduced access to health care. When the Vietnamese government had to take over some of the health facilities, which earlier were run by the agricultural co-operatives, the burden of the state budget grew. To repair the damaged state budget, user fees for health care were introduced in 1989. The Vietnamese notion of user fees is that they constitute an intermediate solution to be replaced rather than developed. This has led to a situation where 20 percent of the population has increased their share of hospital utilisation while the poorest 20 percent has reduced their hospital utilisation. This has happened despite the fact that the access to health care among the poorest is crucial. Thus, the main problem is not a shortage of health care facilities, but instead the access to health care for the poorest. Adequate supply of health facilities is provided by the Vietnamese state, but the patients cannot pay for the service while those with financial resources go to hospitals in big cities because of the short distance and the better reputation.

The reduced access to both public and private health care for a growing number of people in Vietnam has increased the rate of self-medication. Visiting a private drug vendor is by far the most common health care contact. The *doi moi* reform has contributed to an increase in the supply of drugs. Both domestic production and the import of drugs have augmented enormously along with the number of private drug vendors. The level of knowledge at the private pharmacies is inadequate since the staff does not have any medical nor pharmaceutical training. Besides that, the desire to earn money contributes significantly to the challenging situation with irrational use of drugs, which is about to lead to antibiotic resistance in Vietnam. The drug vendors tend to sell drugs without prescription and more drugs than needed, further, they give the customers irrational combinations of drugs and too short antibiotic treatment courses.

To be able to meet the needs of the population there is a great need for change in the Vietnamese health system. It is of great importance that Vietnam defines the role of the state and the role of the market concerning future health care financing. Different kinds of health insurance are a common suggestion to solve the financing problems. Health insurance, however, was introduced ten years ago in Vietnam. The problem is that the system only covers a small share of the Vietnamese population that is the government employees, SOE staff and Vietnamese hired by foreign owned firms and international organisations. By the end of 1998 the enrolment in health insurance was nearly ten million people, but very few of them can be found in rural areas. The variations between provinces are also significant.

Because of the contemporary health situation over three million people return to a life in poverty each year. It is well known that poor health reduces income and generates poverty, but the fact that high medical costs also force sick people into poverty is less known. The *medical poverty trap* constitutes a greater threat for the poor parts of the population today than traditional sources of unrest like unemployment and poor harvests.

Household surveys made in rural areas in Vietnam show that medical expenses like user fees and out of the pocket payments are the main reasons to why people become poor. Besides the fact that three million Vietnamese fall under the poverty line each year, the middle income households also get affected and drop into low-income households because of medical expenses. Medical expenditures are considered as *forced payments*. There is no option for the family but to try to find money to pay for the treatment needed. One common strategy to deal with this unexpected cost is to ask for a loan with a high interest rate. The second most common strategy in Vietnam is to sell capital goods or livestock, but also reducing the food budget for the family, or withdrawing children from school.

Although Vietnamese children are healthier today than ever before, by the end of 2003, chronic malnutrition still affects one third of children under five years of age and low birth weight is still high. According to the WHO maternal mortality study conducted in seven ecologically varied provinces, there remains relatively high maternal mortality and neonatal mortality rates, mainly in ethnic minorities and in remote areas. A high rate of induced abortions is also a great concern. Reproductive health related activities, including abortion care and the integrated management of childhood illness (IMCI) programme, contribute to the improvement of these health priorities.

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.

2. National Health priorities

The Government's guiding principles and priorities for health and health care are set out in a number of key documents. In 1989, the National Assembly issued the Law on People's Health Protection, which provides the legal basis for all health activities in Viet Nam. This law sets out the responsibilities and rights of citizens, government, social organizations and enterprises for the protection and improvement of health of the population.

In January 1993, the Executive Committee of the Central Communist Party released Central Resolution No. 4, which set out three key issues for the health sector:

- the need to increase government budget for health;
- the need to consolidate and develop the basic health care network with a special focus on poor and disadvantaged areas and
- the role of government, party authorities and social organizations in leadership and supervision of health care.

Both the Law on People's Health Protection and Resolution No. 4 are currently being reviewed and revised.

In May 2005, the Executive Committee of the Central Communist Party released Central Resolution No. 63, setting out the regulations on health insurance.

The Government has set out ambitious goals and targets in the Ten Year Socio- Economic Development Strategy, the Comprehensive Poverty Reduction and Growth Strategy and the National Strategy for Peoples Health Care 2001–2010. These include substantially improving the

human development index of the country, providing prevention and treatment to all people and increasing life expectancy to 70–75 years.

The national health strategy (2001 – 2010) recognized the important role of health and the need to invest in health for accelerated socioeconomic development and for improving the quality of life of every individual. The strategy is based on four principles:

1. equity and efficiency of the health sector;
2. fight against the broad social determinants of bad health;
3. integration of traditional and modern medicine; and
4. appropriate public-private mix with the Government in a position to protect the public interest.

The strategy outlines the main policies and proposals of the Government for improving the overall level of health and the distribution of health among all the population (ethnic minority groups, women, children, poor and the elderly). These include:

- using more effectively the government budget and moving to prepayment schemes in the medium term for financing health;
- reviewing and strengthening the organization of the health sector, and consolidating and developing primary health care/community-based services;
- strengthening preventive care and health promotion, and improving curative care and putting in place an effective referral system;
- developing the human resources according to the need of each level and improving their training;
- developing traditional medicine and implementing the national drug policy in order to promote the rational and effective use of modern and traditional drugs;
- developing new technologies to catch up with other countries in the Region; and improving the capacity of planning and management in all areas within the health sector.

As it stands today, the strategy provides a broad basis for further planning and can be seen as an orientation document for the development of the health sector. However, it does not in itself provide specific solutions on how: (i) to ensure equal access to health care; (ii) to improve the performance of the health system and the quality of care; (iii) to rationalize the use of and the expenditure on drugs; and (iv) to respond to the new public health problems including non-communicable diseases.

The GoV has underlined the urgent need "to apply appropriate subsidy policy for health sector and health insurance for the poor. The goal is set to achieve universal health insurance by 2020". This orientation is reflected in Vietnam's 10 year Health Strategy 2001-2010 and in the CPRGS. A certain number of relevant legal documents were promulgated such as the Decree 10 and Decision 139 (Health care Fund for the Poor – HCFP), which delegate additional autonomy to spending units, including in health sector, and a law on privatisation. If managed carefully these measures will result in better service delivery and improve equity.

In line with the CPRGS, the share of the government budget going to health sector is rising from 5% in 2005 to 8% in 2010. The recently Public Expenditure Review conducted by the World Bank (WB) and the GoV concluded that sub-national government (province, district and commune) is spending an increasing share of total State Budget expenditure.

Although decentralisation efforts are underway - in particular from the central to the provincial level - the Vietnamese health system is still characterised by centralised planning and implementation mechanisms leading to wasteful use of resources.

In this context Decision 139 (October 2002) of the Vietnamese Prime Minister is a logical next step in order to counterbalance the potential negative effects of the transition towards a more market oriented economy on the poor. The decision liberates between US\$3 and US\$4 per capita

for the poorest 15% of the population and as such constitutes for certain “poor” provinces an enormous increase in public health expenditure. As is clearly stated in government documents, making Decision 139 effective in combination with Decree 10 implies a gradual but clear split between regulatory authorities, the financing agency and health service providers. However, the implementation of Decision 139 and Decree 10 are still in their infancy and must be tested against operational and local realities. The spending of the general health care budget and the funding of Decision 139 is highly inefficient due to high overhead costs, high dependence on central planning and poor understanding in the field of the technicalities of budget allocation. The Government has recognised the weak performance of Decision 139 and after only two and a half years of implementation a review took place. The revised version of decision 139 will be submitted for approval to the Prime Minister in early 2006.

3. Health services

The health service system in Viet Nam is a mixed public-private provider system, with the private sector steadily growing over the past decade. Public health services still play a major role in health service provision, especially in prevention and research/training. Patients seeking outpatient care rely largely on private providers, whereas inpatient care is provided mainly in the public sector. Viet Nam has a large number of public health staff, reaching and covering services down to commune level, with 5.65 doctors and 22.37 beds per 10 000 habitants in 2002. However, the nurses: doctor ratio (1:1.03) is low in comparison with other countries; therefore Vietnam will need to improve skill mix and develop the role of nurses. The current most pressing issues are improving the quality of care, rationalizing and training health staff and increasing public funding for health care through extension of health insurance coverage.

4. Challenges in the health sector

Viet Nam still faces a number of key challenges, such as:

achieving adequate recognition that improved health outcomes are central to poverty reduction and economic growth and that improvement in health requires an intersectoral approach to address the broad health determinants;

- developing a clear consensus among policy-makers on the road towards an efficient equity-orientated health sector;
- achieving better coordination among ministries and across departments in the Ministry of Health and among partners;
- strengthening pro-poor health policies to meet the needs of the disadvantaged and ethnic minorities and particularly to address the problems of financial access and the lack of responsiveness of the health services to the needs of the poor;
- strengthening the public health agenda to address the unfinished agenda of infectious diseases and the problems brought about by urbanization, changing lifestyles and an ageing population;
- strengthening the capacities at district and provincial levels to prioritize and implement successful interventions within an increasingly decentralized health system; and
- improving the enforcement of regulations and speeding up the implementation of public administration reform.

5. Donor response

Response to the needs of the Health sector in Vietnam has been and continues to be one of the top priorities of major donors in Vietnam, such as the WB, ADB, the United Nations Agencies, USAID, JICA, EC, the Netherlands, France, and Sweden. Their projects were designed to help in policy development, in improvement of the health system from central level to grassroots level, and in narrowing the gaps in accessibility to, and affordability of health care services between regions and population groups.

Several donors, including the EC, have concluded that the Government's Health Care Fund for the Poor (Decision 139) is an appropriate vehicle to channel health support in a sustainable way to those most in need, although the management of the fund requires improvement. Support channelled through the HCFP reduces the proliferation of small stand-alone donor-supported projects, and increases reliance on government systems.

In the second half of 2005 several donors together with the GOV will carry out a feasibility study for a SWAP in the Health sector. A similar study was already carried out in 2000. At that point the conclusion was that too many conditions were lacking in order for a SWAP to be feasible.

Over the last two years donor coordination in the health sector has improved substantially. In late 2003 the 'Health sector Partner Group (HPG) was established. Originally it was chaired by WHO and served as a discussion forum for donors and GOV. Beginning 2005 the Ministry of Health became the chair of this meeting.

Since the beginning of 2005 the National Assembly has put a lot of pressure on the Ministry of Health to improve the access to and the quality of the health system. Currently many different activities are under way in order to meet the expectations. These include:

- better coordination among stakeholders, suppliers and donors;
- improved planning capacity;
- development of new strategies and plans;
- better monitoring of services.