



House of Commons  
International Development  
Committee

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**Department for  
International  
Development's  
Programme in Vietnam**

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**Eighth Report of Session 2006–07**

*Report, together with formal minutes and oral  
and written evidence*

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## International Development Committee

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### Contacts

All correspondence should be addressed to the Clerk of the International Development Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 1223; the Committee's email address is [indcom@parliament.uk](mailto:indcom@parliament.uk)

### Footnotes

In the footnotes for this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by the page number as in 'Ev 12'.

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## Summary

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The Department for International Development's budget in Vietnam has more than tripled in the last five years. This is a sharp increase but it is also a worthwhile investment—British development assistance to Vietnam is having a positive impact there and British money has helped to lift millions of people in Vietnam out of poverty.

The Government of Vietnam has achieved remarkable economic development in recent years and has a good track record on reducing poverty. Much of DFID's programme in Vietnam is delivered through a grant to the Government's budget. This is an effective way to support Vietnam's ownership of its poverty reduction strategy. It also allows DFID to influence government policy in line with its own strategic objectives on poverty reduction. But we caution DFID against relying too heavily on this mechanism and recommend that it actively and systematically consider other options, such as funding civil society, where these are equally or more effective. A strong civil society needs to be developed so that it can fulfil an essential role in the next phase of Vietnam's development.

Vietnam is likely to graduate from low- to middle-income country status in 2010. This will mean a decline in aid receipts. Challenges will, however, remain and we believe DFID should continue to have a role in addressing these. The development relationship with Vietnam will need to change—moving away from large grants and towards providing more advice. DFID has a good record in Vietnam of doing innovative work which informs research-based policy advice to the Government, and this should be central to its new relationship with Vietnam.

One of the challenges for Vietnam as it approaches and attains middle-income status is in tackling inequality and vulnerability. Ethnic minorities are nearly 10 times as likely to live in hunger as the majority population. 92% of Vietnam's poor live in rural areas. And a quarter of the population hover just above the poverty line. Development programmes therefore need to move away from blanket coverage towards better targeting of these specific groups if Vietnam is to make further progress on poverty reduction.

Governance is rightly a priority for DFID's future programme in Vietnam. The challenges here are significant. DFID should also prioritise work supporting the creation of a responsive and sustainable social security system and on the off-track Millennium Development Goal targets on HIV/AIDS and sanitation. The gender dimensions of DFID's work in Vietnam should be re-examined to ensure that women's empowerment is supported at the local and project level as well as at the policy level.

# 1 Introduction

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1. The Department for International Development has funded projects in Vietnam since 1992. By 2001, DFID's programme in Vietnam had a budget of around £15 million. In 2003, DFID Vietnam became a devolved office, managing its own budget and one of the fastest growing programmes in DFID.<sup>1</sup> Today, DFID's budget in Vietnam has more than tripled to over £50 million. In September 2006, Hilary Benn, then Secretary of State for International Development, signed a ten-year Development Partnership Agreement with the Government of Vietnam which commits the UK to providing at least £50 million a year in aid until 2010.

2. In the light of this steeply rising budget in a country where British development assistance is a relatively recent innovation, we decided that this would be an opportune moment to undertake an inquiry into British official development assistance to Vietnam. The purpose of the inquiry was to examine the scope, focus and effectiveness of DFID's programme in Vietnam, and in particular the key challenges for Vietnam's development including inequality and the two significantly off-track Millennium Development Goal targets.

3. We held two evidence sessions in this inquiry. On 19 June we took evidence from Ramesh Singh, Chief Executive of ActionAid International, and Dr Martin Gainsborough, Director of the Bristol-Vietnam Project. On 21 June we took evidence from Gareth Thomas MP, Parliamentary Under-Secretary of State at DFID, and Donal Brown, Head of DFID Vietnam. In May 2007 we paid a five-day visit to Vietnam. We had discussions with the Government of Vietnam and with donors and civil society in Hanoi. We visited Hang Kia commune in the mountainous province of Hoa Binh, and Huong Van, Pho Trach and Huong Xuan communes in the coastal region of Hué (the programme is published as an Annex to this report).

4. We are grateful to DFID for facilitating a comprehensive programme of field visits and meetings which provided us with insights into the development challenges for Vietnam and the work which DFID does to support Vietnam's development. We are also grateful to others who helped arrange the programme, including the Orskov Foundation and the people of Hang Kia, Huong Van, Pho Trach and Huong Xuan communes. We would also like to express our thanks to all those who provided us with information, formally or informally, to assist us with our inquiry.

## Background: Economic development and poverty reduction in Vietnam

5. Poverty reduction in Vietnam in recent decades has been remarkable. The proportion of those living on less than \$1 a day fell from 58.1% in 1993 to 19.5% in 2004. This has lifted 24 million Vietnamese people out of poverty.<sup>2</sup> Rapid economic growth, underpinned by a programme of domestic reforms, has been a major factor in this accelerated progress on

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<sup>1</sup> Department for International Development, *Vietnam: Country Assistance Plan 2004-2006*, January 2004, paragraph D1.1

<sup>2</sup> Vietnamese Academy of Social Sciences, *Vietnam Poverty Update Report 2006*, June 2007, paragraph 1.1

poverty reduction. Vietnam's *Doi Moi* ('renovation') reforms, which began in the mid-1980s, opened the door to the development of a private economy. The reform process continued throughout the 1990s with particularly significant reforms to land rights and further private enterprise reforms. It is largely as a consequence of these reforms that Vietnam's economy doubled in size during the 1990s and, despite the east Asian crisis of the late 1990s, maintained a GDP growth rate average of 7.7% over the period 1993-2004.<sup>3</sup> The World Bank told us during our visit to Vietnam that growth looked set to continue strongly.

6. During our visit to Vietnam, it was clear to us that the Government of Vietnam was committed to harnessing rapid economic growth to promote development. Ramesh Singh, the Chief Executive of ActionAid International, told us in his evidence that,

“the main driver behind the so-called reduction in poverty within the system has been to allow the potential of poor people themselves to be unleashed, the ability to invest and own land. And production has grown significantly in Vietnam, from less than 20 years ago being a net importer of food to being the second largest rice exporter.”<sup>4</sup>

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<sup>3</sup> Vietnamese Academy of Social Sciences, *Vietnam Poverty Update Report 2006*, June 2007, paragraph 1.1

<sup>4</sup> Q 3 [Mr Singh]

## 2 DFID's programme in Vietnam

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7. DFID's current programme in Vietnam is focused on five key areas: education and livelihood opportunities for the most marginalised groups; increasing government capacity and accountability, and tackling corruption; preventing the spread of HIV and AIDS; assisting Government to make the most of opportunities for the poor in World Trade Organisation accession; and making aid more effective.<sup>5</sup>

**8. Against a backdrop of staff and administrative efficiency targets across the civil service, including at DFID, the tripling of DFID's budget in Vietnam in five years is a very sharp increase to manage. However, in general terms, we were very impressed by the quality of the work in which DFID was involved in Vietnam. DFID staff in Vietnam were well-informed and the programme appeared to be effective and targeted. We were provided with good examples of the positive effect British development assistance was having on Vietnam's development. All our comments in this report should therefore be seen in that light.**

### The challenges of tackling inequality and vulnerability

9. About 15 million out of Vietnam's rural population of some 60 million people live in poverty.<sup>6</sup> Rural poverty is concentrated in the Mekong Delta, coastal regions and the rural uplands. In particular, the UK National Audit Office estimates that 92% of Vietnam's poor live in rural highland areas and DFID's evidence to us was that the "full benefits of national economic growth have yet to reach these [upland] areas".<sup>7</sup> Ramesh Singh of ActionAid International also told us about the desperate situation faced by those in the Mekong Delta.<sup>8</sup>

10. Ethnic minorities, which represent some 13–14% of the total population, are over four times as likely to be poor and nearly 10 times as likely to live in hunger as the majority Kinh or Chinese populations of Vietnam.<sup>9</sup> The largest ethnic minority populations are in rural areas. Our evidence suggests that the disproportionate impact of poverty on ethnic minorities is not, however, simply the result of geography. Social and economic factors also play an important role in limiting opportunities for ethnic minorities. Dr Martin Gainsborough of the Bristol-Vietnam Project told us:

“Aside from the difficulties of dealing with the problem of poverty in remote mountainous areas, when you talk about ethnic minorities, you also have to look at their position within Vietnamese society and discrimination towards minorities and

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<sup>5</sup> Ev 23 [DFID]

<sup>6</sup> Vietnamese Academy of Social Sciences, *Vietnam Poverty Update Report 2006*, June 2007, paragraph 2.1

<sup>7</sup> National Audit Office, *Tackling Rural Poverty in Developing Countries*, HC 322, Session 2006-07, March 2007, Appendix 5; and Ev 31 [DFID]

<sup>8</sup> Q 7 [Mr Singh]

<sup>9</sup> Ev 31 [DFID]

the extent to which, for instance, there are underlying structural reasons why lifting these groups out of poverty is harder.”<sup>10</sup>

**11. Much of DFID's programme in Vietnam focuses on rural populations, particularly through targeted budget support programmes: 'Education for All', which focuses on increasing access to primary education, and the rural infrastructure-oriented programme, 'Programme 135'. These are excellent programmes which we applaud.** There is, however, a question as to whether these or parallel programmes could better target ethnic minority populations. DFID's own evidence notes that, despite these rural programmes, “inequality between the majority Kinh and ethnic minorities is growing”.<sup>11</sup> It is not clear from the evidence presented to us that either the Government of Vietnam or DFID's targeting of this population addresses social, cultural and economic factors that are specific to ethnic minorities rather than the rural poor generally. There are, however, signs that DFID is keen to establish why these programmes are failing to meet the needs of ethnic minorities. Donal Brown, Head of DFID Vietnam, told us that,

“we are currently undertaking a review of the effectiveness of government's national policy to promote ethnic minority education with a specific view to look at these issues which are hindering uptake of education in ethnic minority areas.”<sup>12</sup>

**12. Dealing effectively with growing inequality between Vietnam's ethnic minorities and its majority will be key to ensuring that all Vietnam's poor benefit from the country's remarkable economic development. We therefore welcome a review by DFID of the Government of Vietnam's policy to promote ethnic minority education. However, given the scale of the challenge and the apparent failure of current policies to halt the widening inequality, we recommend that DFID work with the Government of Vietnam and other donors to carry out such reviews across the range of government policies towards ethnic minorities.**

13. While 19.5% of Vietnam's population live on less than \$1 a day, a further quarter of the population live on below \$2 a day but above \$1, creating a total of some 45% of the population who live on below \$2 a day. We heard concerns from DFID and other donors, and from NGOs in Vietnam, that an external shock, such as a serious economic downturn, could push the vulnerable population living just above the \$1 a day threshold back below the poverty line which would be a dramatic set-back for Vietnam's development.

14. Much like the challenge of addressing the complex factors contributing to ethnic minority poverty, we heard from ActionAid International that ensuring that this vulnerable group remains above the poverty line also calls for a sophisticated approach to their needs:

“This [vulnerability] goes not just with the economic aspects but with the political angle—political in the sense of: what is the space for those people to be heard? Are they recognised? It has to be a lot more targeted.”<sup>13</sup>

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<sup>10</sup> Q 7 [Dr Gainsborough]

<sup>11</sup> Ev 22 [DFID]

<sup>12</sup> Q 58 [Mr Brown]

ActionAid International also told us that economic development and industrialisation is drawing an increasing number of people to urban areas and that as a consequence a “very large population is now displaced”.<sup>14</sup> Ramesh Singh explained how these migrants can become marginalised and vulnerable:

“Vietnam has not traditionally taken kindly to people moving from one place to another without a particular official reason. [... They] do not have the same recognition and rights. [...] They need to be understood and analysed and investment needs to be made for them.”<sup>15</sup>

**15. Vietnam has a particularly large proportion of its population living just above the poverty line. Ensuring that these people remain above that line, and indeed increase their income so as to reduce their vulnerability to external shocks, is crucial for Vietnam’s further development. There is also an increasing number of economic migrants being drawn to industrialised centres who are at risk of becoming marginalised and vulnerable. We recommend that DFID monitor these populations closely and work with the Government of Vietnam to prioritise programmes which reduce their vulnerability.**

## Budget support

16. DFID’s evidence to us says,

“DFID budget support [in Vietnam] has grown from just under £10 million per annum in 2002 to £34.5 million in financial year 2006–07. As a percentage of our overall programme, budget support has increased from 43% to 70%.”<sup>16</sup>

General budget support accounts for around 50% of the DFID programme in Vietnam. The main channel for this is the Poverty Reduction Support Credit, a budget support instrument developed and led by the World Bank. A further 20% is provided as targeted or sectoral budget support, mainly for education and rural development.

17. DFID argues that budget support is an efficient tool which increases the capacity of the recipient country to take ownership of its own development.<sup>17</sup> In our meeting with the Vietnamese Minister for Planning and Investment he warmly welcomed this approach. We heard from other donors that budget support was a useful vehicle for maximising donor harmonisation in Vietnam and enabled donors to engage with the Government on policy development. We also heard that budget support had a ‘multiplying effect’: the Parliamentary Under-Secretary of State, Gareth Thomas, told us that it enabled DFID to “leverage the resources of the Government [of Vietnam] to be better directed at the very poorest communities”.<sup>18</sup>

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<sup>13</sup> Q 9 [Mr Singh]

<sup>14</sup> Q 7 [Mr Singh]

<sup>15</sup> Q 7 [Mr Singh]

<sup>16</sup> Ev 25 [DFID]

<sup>17</sup> Ev 24 [DFID]

<sup>18</sup> Q 57 [Mr Thomas]

18. We heard from ActionAid International that there were, however, some potential disadvantages to this approach:

“As civil society, we have thought about the complete reliance on budget support. DFID’s interactions and funding to civil society in Vietnam have gone to practically nil. [...] It is important for us to realise that that may have a cost both to DFID and to civil society.”<sup>19</sup>

19. Ramesh Singh went on to suggest that budget support was a particularly attractive option for DFID in Vietnam for reasons of efficiency:

“The number of staff in DFID generally is reducing and there is less funding for Vietnam and globally. Therefore, resorting to budget support seems very efficient in many ways. [...] But] we are looking to the effectiveness side of it, not just the efficiency side.”<sup>20</sup>

DFID’s own independent evaluation of the Vietnam programme suggests that there may be a bias towards budget support despite the fact that other aid instruments or combinations of aid instruments may be more effective:

“Despite the thrust towards ‘programmes not projects’, some of the best results—e.g. in road transport and in education—have come from a combination of the two.”<sup>21</sup>

19. Reliance on working primarily through the Government has had an impact on DFID’s relationship with civil society organisations. We have often seen, as a Committee, the central role civil society can play in development, in terms of providing services, holding government to account and advocacy on behalf of poor people. As Vietnam faces new challenges in its next phase of development, we believe that a strong civil society will be fundamentally important. However, most of our evidence and our experience during our visit suggests that civil society in Vietnam is under-resourced and capacity is weak, and that DFID provides it with very little support.<sup>22</sup> We explore this issue further in Chapters 3 and 4.

**20. We agree with many of DFID’s arguments in favour of budget support, including its multiplying effect, and its impact on government capacity and ownership of development. The Government of Vietnam has a good track record on poverty reduction and should be supported. We are concerned, however, that DFID may be neglecting other aid instruments or combinations of aid instruments in favour of budget support, even where these could be equally or more effective. In particular, we believe that DFID should engage with civil society more than it currently does, including looking at options for civil society projects to run in parallel with Government-led initiatives. We believe that a strong civil society in Vietnam will be crucial as the country faces new challenges in its development, and in its social and political evolution.**

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<sup>19</sup> Q 38 [Mr Singh]

<sup>20</sup> Q 39 [Mr Singh]

<sup>21</sup> Department for International Development, *Country Programme Review: Vietnam*, May 2007, paragraph 8.10

<sup>22</sup> Qq 22, 30, 39 [Mr Singh and Dr Gainsborough]

21. Monitoring and evaluating funding given through budget support and assessing the impact of this expenditure are complex tasks. They are also crucial tasks. The Parliamentary Under-Secretary told us that DFID was supporting the Government of Vietnam's own monitoring and evaluation initiatives and welcomed the fact that the Government's new poverty reduction strategy, the Socio-Economic Development Plan, had a monitoring and evaluation framework alongside it.<sup>23</sup> He also noted that DFID had in place its own monitoring and evaluation systems. Our experience in Vietnam was that DFID was able to demonstrate the impact of its work on poverty reduction to a satisfactory degree. However, some of the evidence we received in the inquiry leads us to qualify that view. Dr Gainsborough told us,

“There can be a sense on the Vietnamese Government side: we will meet with you, we agree with you, you give us the money, we will do something which vaguely resembles what we talked about and then we will have a workshop and we will all shake hands and it is all done.”<sup>24</sup>

22. Ramesh Singh noted that the Vietnamese system lacked the capacity to produce qualitative monitoring and evaluation data, despite the impressive capacity to produce quantitative data.<sup>25</sup> Moreover, DFID's own evaluation of the Vietnam programme concluded that,

“The Government of Vietnam's monitoring and evaluation mechanisms remain weak and far too little attention has been given to this in the past. Although it can be reasonably inferred that there is a positive impact on the poorest from provision of rural transport and infrastructure, the evidence base is weak. [...] This needs higher priority and without more effort, DFID cannot be sure that its resources are being optimally deployed for poverty reduction or that the impact on excluded groups is positive.”<sup>26</sup>

**23. It is fundamentally important that DFID is able to demonstrate effectively its impact on poverty reduction. We saw some evidence on the ground of this impact. But in terms of systematic monitoring and evaluation, we believe that “reasonably inferring” such impact is not good enough. Given that 70% of DFID's budget in Vietnam is channelled through the Government, we recommend that DFID urgently re-examine the level of support it is providing to enhance Vietnam's own monitoring and evaluation systems, in particular the capacity to produce qualitative data and analysis. Until those systems are fit for purpose, we recommend that DFID further enhance its own monitoring and evaluation systems, including through allocating dedicated staff to this role.**

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<sup>23</sup> Q 67 [Mr Bown]

<sup>24</sup> Q 45 [Dr Gainsborough]

<sup>25</sup> Q 43 [Mr Singh]

<sup>26</sup> Department for International Development, *Country Programme Review: Vietnam*, May 2007, paragraph 8.35

## Gender policy mainstreaming

24. Compared to other countries in Asia, Vietnam is doing well against its gender equality targets. It is, for example, on track to meet the Millennium Development Goal target on the ratio of girls to boys in primary education (0.93 in 2004) and women's representation in the National Assembly is relatively high. We were encouraged to hear from Dr Gainsborough that the Women's Union, a Communist Party-endorsed nationwide platform for women's issues, was a "significant political force in Vietnam".<sup>27</sup> The Minister told us that DFID was supporting gender work in education, political leadership and a "variety of other issues where there is a very specific gender dimension".<sup>28</sup> We applaud this high-level work with the Government of Vietnam.

25. But below the headline figures, gender equality is still some way off. Women are disadvantaged in labour markets and are over-represented in the lowest paid jobs. DFID told us that domestic violence is also on the increase, as is sex-selective abortion. Ramesh Singh noted that the next phase of work towards gender equality would call for a new approach to gender issues:

"Women's rights issues are difficult within ethnic minorities, and even the relationship of how the Women's Union deals with women in general. These issues need to be addressed. [...] The next generation of work will really be about dealing with those chronic deeper needs. That requires a different strategy than just growth and infrastructure."

26. Against this backdrop, we were concerned to see during our visit to Vietnam that there was little evidence that DFID's gender strategy had been mainstreamed through all DFID activity in Vietnam. DFID's Gender Action Plan focuses on "how DFID can better use its partnerships, its money, and the way we manage our staff to make a lasting difference to gender equality and women's empowerment."<sup>29</sup> However, the Making Markets Work for the Poor projects that we visited showed no evidence of a gender dimension to their implementation. We were told that the biogas project that we visited has a positive impact on women's health due to decreased exposure to wood smoke. Women were, however, largely excluded from significant policy input or decision-making roles in these projects.

27. We visited a pig-rearing project funded by the Orskov Foundation and not supported by DFID. The project was run through the local Women's Union and provided the women of Huong Xuan commune with financial and technical support for rearing and selling piglets. We found this to be an effective, small-scale way of supporting women's economic development at the micro-level.

**28. We welcome the progress on gender equality that is being achieved in Vietnam. We believe, however, that women must routinely have the opportunity to participate equally in decision-making, both at a policy level and on the ground. This calls for a participatory approach at project level which we did not observe in DFID's work in**

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<sup>27</sup> Q 17 [Dr Gainsborough]

<sup>28</sup> Q 69 [Mr Thomas]

<sup>29</sup> Department for International Development, *Gender Equality Action Plan 2007-2009 (DFID Practice Paper)*, March 2007, paragraph 1.3

**Vietnam. As well as ensuring basic fairness and inclusion, such an approach would provide the Government of Vietnam with a model for its own programmes. We recommend that DFID devise a specific gender strategy for each of its programmes and projects in Vietnam and share these with us within six months.**

### 3 Middle-income status: DFID's role in Vietnam's future development

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29. Vietnam is likely to graduate from low-income to middle-income country status by 2010.<sup>30</sup> At this point, many donors intend to reassess their work in Vietnam with a view to scaling back their programmes. The Overseas Development Institute says, however, that middle-income status is far from a panacea:

“High levels of inequality in many middle-income countries mean that, despite higher average incomes, these countries also contain a significant proportion of the world's absolute poor. If the international community is to achieve the Millennium Development Goal targets by 2015, it will have to address the problems of inequality and poverty in middle-income countries.”<sup>31</sup>

30. This chapter assesses what we view to be the key challenges for Vietnam as it approaches and attains middle-income status and adjusts to smaller aid flows, and DFID's role in that process.

#### Social security system

31. We heard during our visit that social insurance programmes are a central plank of the Government of Vietnam's approach to the next phase of Vietnam's development. DFID and other donors told us that there was a clear vision on health insurance, which currently covers 40% of the population and for which there is a target of 100% coverage by 2011. The World Bank, which is leading donor support on social insurance, told us that this plan was affordable. On pensions, the strategy appeared to us less clear. Donal Brown told us that the Government's target was that pensions should cover 30% of the population and that this was achievable.<sup>32</sup> DFID is considering providing support. It seems likely to us that the remaining 70% who will not be covered will include some of the poorest and most vulnerable.

32. Dr Gainsborough said that in designing a social security system for Vietnam the aim should be to develop a “workable system, a system which can be navigated by ordinary people”.<sup>33</sup> We were encouraged to hear Donal Brown echo this view.<sup>34</sup> Ramesh Singh welcomed DFID's possible support for the Government's supply-side programme in this area but argued that DFID support should also have a demand-side dimension, for example by supporting civil society to educate people about their entitlements and how to access them.<sup>35</sup> This raised level of awareness would in turn be a means of ensuring a responsive and efficient system. As we have explained in Chapter 2, it is important that

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<sup>30</sup> The World Bank defines middle-income countries as those with a per capita gross national income of between \$906 and \$11,115

<sup>31</sup> Overseas Development Institute, *Inequality in Middle Income Countries (Briefing Paper)*, December 2004, p 1

<sup>32</sup> Q 71 [Mr Brown]

<sup>33</sup> Q 31 [Dr Gainsborough]

<sup>34</sup> Q 71 [Mr Brown]

<sup>35</sup> Q 31 [Mr Singh]

civil society organisations receive adequate support to develop their capacity to do such work.

**33. We view the priorities for a sustainable and effective social security system in Vietnam to be: broad coverage which includes the poorest and most vulnerable people; simplicity; and demand-side education led by civil society. We recommend that DFID ensure that each of these priorities is reflected in its support in this area.**

## The Millennium Development Goals

34. Progress towards achievement of most of the Millennium Development Goals (MDGs) is firmly on track in Vietnam. Progress towards two MDG targets is, however, of concern to us: HIV/AIDS and sanitation.

35. HIV/AIDS prevalence is on the increase in Vietnam and in urban areas is close to 1%, the level the lead UN agency on HIV/AIDS, UNAIDS, recognises as a generalised epidemic. We met intravenous drug user (IDU) and sex worker peer educators during our visit. The epidemic is dramatically higher among these vulnerable groups: 34% prevalence amongst IDUs and 16% amongst sex workers. As our last report on HIV/AIDS noted, targeted interventions are crucial in order to avoid nationwide generalised epidemics.<sup>36</sup>

**36. In 2004, DFID was the first donor to fund large-scale HIV/AIDS prevention programmes in Vietnam. 115 million condoms and millions of needles have been distributed through these programmes. These are good initiatives which we wholeheartedly support.** We were, therefore, particularly concerned to learn from DFID's own evaluation that,

“Overall DFID's HIV/AIDS programme has potential to deliver but has been highly problematic and slow spending. Of the total commitment of £17.5m (2002-08) only £6.5m has been spent to date [May 2007]. There has been considerable slippage of about two years.”<sup>37</sup>

We were glad to hear from Donal Brown's evidence that this programme was now back on track, under the leadership of the Government of Vietnam.<sup>38</sup> We remain concerned, however, that some 60% of a six-year programme is to be spent in the final 18 months of that programme. **We recommend that a lessons-learned exercise be carried out in connection with the underspend on the HIV/AIDS programme and shared with us within six months.**

37. DFID told us that sanitation “is now the most off-track MDG target in Vietnam.”<sup>39</sup> Rural and urban inequalities are particularly acute in this sector: 76% of the urban population has access to hygienic sanitation but this plummets to 16% in rural areas.<sup>40</sup>

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<sup>36</sup> International Development Committee, Second Report of Session 2006-07, *HIV/AIDS: Marginalised groups and emerging epidemics*, HC 46-I, Summary

<sup>37</sup> Department for International Development, *Country Programme Review: Vietnam*, May 2007, paragraph 4.60

<sup>38</sup> Q 64 [Mr Brown]

<sup>39</sup> Ev 32 [DFID]

<sup>40</sup> Vietnamese Academy of Social Sciences, *Vietnam Poverty Update Report 2006*, June 2007, paragraph 2.1

DFID has relied on the Government of Vietnam to lead work on sanitation and has provided budget support for it. This, however, seems to us a mistake as DFID has told us that “Government programmes have relied on state subsidies for the construction of household latrines, with little success”.<sup>41</sup> DFID also told us that it is considering options to increase its support for work on sanitation and that initial DFID analysis indicates that a direct investment of £20 million in the sector could increase rural sanitation coverage by around 8% or roughly four million people.<sup>42</sup>

38. Our inquiry into sanitation and water concluded that lack of access to hygienic sanitation was “a hidden international scandal” and that “DFID should become a global champion for sanitation”.<sup>43</sup> This would require of DFID new approaches and new staff configurations.

**39. Our report on sanitation and water makes clear that these services sit at the heart of development. We recommend that DFID work urgently to find the £20 million for rural sanitation in Vietnam which DFID analysis suggests could provide four million people with hygienic sanitation, whether as a single donor or in coordination with other donors. DFID should also look at options other than budget support for its work in this sector.**

## Governance, corruption and human rights

40. During our visit we heard concerns from DFID and other donors about governance, corruption and human rights in Vietnam. In its evidence to us, DFID says:

“Widespread petty corruption poses a serious threat to continued development. Accountability remains weak, National Assembly oversight of the executive is limited, the judiciary is not independent, and media freedom is still carefully controlled as is people’s participation in the political process.”<sup>44</sup>

41. The Government of Vietnam has established the Central Steering Committee on Anti-Corruption and appointed a dedicated Deputy Prime Minister in charge of anti-corruption work. But progress on political and civil rights has been limited. We were in Vietnam in May in advance of the elections for the National Assembly. We note that all candidates, including ‘independents’, had been through a vetting selection process led by the Fatherland Front, an organisation which is closely linked to the Communist Party of Vietnam, and that only one candidate not on the Fatherland Front list was elected to the nearly 500-strong Assembly.<sup>45</sup>

42. Ramesh Singh highlighted the role that third parties can play in addressing these issues:

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<sup>41</sup> Ev 32 [DFID]

<sup>42</sup> Ev 32 [DFID]

<sup>43</sup> International Development Committee, Sixth Report of Session 2006-07, *Sanitation and Water*, HC 126-I, Summary

<sup>44</sup> Ev 29 [DFID]

<sup>45</sup> “Vietnam Communists Dominate Election Results”, Voice of America, 29 May 2007 ([www.voanews.com](http://www.voanews.com))

“In the last couple of decades, the bigger changes of openness and governance [...] have been mediated. It is important to recognise that, while the government is strong and can do much, many of the bigger changes require mediation and support, not only financial but also ideas and methods. [...] There are lots of things related to governance, citizenship and women’s rights that have not found a depth yet.”<sup>46</sup>

43. DFID told us during our visit that it intends to increase its focus on governance over coming years and is redirecting resources in order to increase its cadre of governance advisers from one to 2.5 by 2008. In 2005-06, DFID spending on governance in Vietnam was around 3% of the programme, compared to around 67% on economic, trade and infrastructure investment.<sup>47</sup> We heard in Vietnam, from both Foreign and Commonwealth Office and DFID staff, that there was an increasing convergence of embassy and DFID priorities around issues of governance, corruption, institutional capacity and human rights.

**44. Given the scale of the challenge, we agree that the DFID programme in Vietnam should increasingly focus on governance and human rights issues. We recommend that resources be redirected at least to double the financial resources available for DFID’s governance programme in Vietnam, mirroring the planned increased DFID staff capacity. The refocused and strengthened governance programme is likely to coincide with Foreign and Commonwealth Office priorities. We recommend that DFID and FCO begin planning now for this convergence in order to avoid duplication and to maximise cooperation and shared resources, including staff.**

## WTO membership and private sector development

45. Vietnam acceded to the World Trade Organisation in January 2007. Our evidence suggests that it is too early to assess the impact of WTO membership.<sup>48</sup> Evidence from DFID points out the significant new economic opportunities which membership offers Vietnam but also notes that it is likely to create rapid migration, urbanisation and land sales which in turn will “generate new vulnerable groups and pockets of poverty”.<sup>49</sup> We welcome the priority given in the draft new DFID Country Assistance Plan for Vietnam to ensuring that the poor benefit from WTO accession.<sup>50</sup>

46. A report by the Bristol-Vietnam Project suggests that a key challenge for Vietnamese firms in the next decade is to develop and maintain competitiveness, moving up the supply chain and the technology ladder.<sup>51</sup> Ramesh Singh told us that particular attention should be paid to ensuring that the poor, and small producers and farmers, were not adversely affected by the WTO agreement.<sup>52</sup>

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<sup>46</sup> Q 29 [Mr Singh]

<sup>47</sup> Department for International Development, *Country Programme Review: Vietnam*, May 2007, p 13, table 5

<sup>48</sup> Qq 23 and 24 [Mr Singh and Dr Gainsborough]

<sup>49</sup> Ev 33 [DFID]

<sup>50</sup> Department for International Development, *Vietnam: Country Assistance Plan 2007-2011 (Draft for consultation)*, paragraphs 72 and 73

<sup>51</sup> Bristol-Vietnam Project, *Vietnam After the Tenth Party Congress: Emerging and Future Trends*, May 2006, Executive Summary

<sup>52</sup> Q 23 [Mr Singh]

**47. DFID already supports programmes whose aim is to ensure that the benefits of World Trade Organisation membership reach beyond the urban industrialised areas and include the poor and vulnerable. We support this work and endorse the priority given to it in the draft new DFID Country Assistance Plan for Vietnam and would expect to see this level of priority maintained in the final agreed Plan.**

## 4 DFID's future programme in Vietnam

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### DFID's graduation strategy

48. As we have noted in the previous chapter, bilateral donors, with the exception of Australia and Japan, expect to scale back development funding at or around the time of Vietnam's attainment of middle-income status, predicted for 2010. Some expect to reduce funding dramatically or to withdraw aid altogether. DFID expects to reduce its funding at this time. This is part of what DFID terms its 'graduation strategy'. The Minister told us:

"I suspect we will see a reduction in our aid, not an immediate withdrawal from country but a slight scaling back of our aid."<sup>53</sup>

49. He said that he could not spell out further what this "slight scaling back" would entail and claimed that it would "be wrong to start to think at this stage explicitly about how many staff we would have in-country, what the size of our programme should be".<sup>54</sup> We disagree. It is of vital importance that the Government of Vietnam has the best information available to it to enable it to plan properly for reduced aid flows. As Dr Gainsborough told us:

"The important question for me is how aware is the government in Vietnam that when they reach middle income status there will be a scaling back, if not a cessation, of aid. [...] It is very important that this is discussed, talked about and the strategy and programmes are tailored to deal with a limited time span, if that is what we are talking about."<sup>55</sup>

**50. DFID was not able to tell us by how much its budget will reduce once middle-income status is attained nor how quickly. We believe, however, that this is likely to involve more than a "slight scaling back". DFID should therefore begin now to set out for the Government of Vietnam the likely changes so that it in turn is able to prepare for reduced aid flows.**

51. DFID's draft new Country Assistance Plan prioritises three objectives for its work in Vietnam: to ensure the poor benefit from WTO accession; to improve the quality and inclusiveness of services for the poor and vulnerable; and to promote effective and accountable governance.<sup>56</sup> These priorities coincide with those suggested to us by our expert witnesses and we endorse them.<sup>57</sup>

52. As well as agreeing priority areas for DFID's future programme in Vietnam, we believe that the ways DFID will engage in these areas also needs to be examined now. DFID's internal evaluation report notes:

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<sup>53</sup> Q 53 [Mr Thomas]

<sup>54</sup> Q 54 [Mr Thomas]

<sup>55</sup> Q 21 [Dr Gainsborough]

<sup>56</sup> Department for International Development, *Vietnam: Country Assistance Plan 2007-2011 (Draft for consultation)*, paragraphs 72-85

<sup>57</sup> Qq 22-24 [Mr Singh and Dr Gainsborough]

“The Government of Vietnam is increasingly looking to grant donors for ideas and assistance in policy change, as much as for finance.”<sup>58</sup>

We were pleased to hear the Minister acknowledge this change.<sup>59</sup> During our visit, we heard from several donors, and from DFID itself, that DFID attaches importance to developing strong research-based evidence in order to persuade the Government of Vietnam of the case for policy changes. Ramesh Singh told us that the Government was receptive to this sort of approach:

“We have to applaud Vietnam as a country. Their willingness to learn is quite phenomenal. We know from our own experience that if they are convinced and if they want to learn and if there is a method and model that we are able to sell to them, that spreads and becomes deeper.”<sup>60</sup>

53. We were told during our visit about DFID's track record on research-led, pioneering work, such as on HIV/AIDS.<sup>61</sup> Ramesh Singh told us that there was a need for “innovative funding, smaller and much more diverse rather than mass blanket funding”.<sup>62</sup>

**54. We see a medium-term role for DFID in Vietnam in providing more advice and less funding. We believe that research-led, pioneering work is a strength of DFID's programme in Vietnam and can lead to compelling arguments on which DFID can base its advice to the Government. We recommend that this work should become even more central to DFID's work in Vietnam as it approaches and attains middle-income status. We believe that DFID support for some small, innovative civil society projects would complement well its role as a development pioneer in Vietnam and recommend that DFID begin such funding in this financial year.**

## Role of the UN

55. In the run-up to Vietnam achieving middle-income status, DFID will continue to focus on improving government capacity, allowing Vietnam to take full ownership of its own development strategy and implementation. DFID has also put great emphasis on building up UN capacity for this period. The aim of this work is to achieve a UN presence which can act coherently across its offices in-country (“One UN”) and step in where donors have stepped back, ensuring that Vietnam continues to have access to advice which draws on international experience and best practice. This is what DFID has termed its ‘legacy strategy’. The Minister told us about the scale of the challenge to get to that point:

“There is just too much competition too often amongst UN organisations, making approaches to individual donors, ‘Why do you not fund us to do that? Why do you fund X other UN organisation to do that, we are better placed to do it?’ We are hoping that the process that is underway in Vietnam to get that much greater co-

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<sup>58</sup> Department for International Development, *Country Programme Review: Vietnam*, May 2007, paragraph 8.16

<sup>59</sup> Q 53 [Mr Thomas]

<sup>60</sup> Q 22 [Mr Singh]

<sup>61</sup> Q 63 [Mr Thomas]

<sup>62</sup> Q 48 [Mr Singh]

operation and collaboration within the UN system will lead to much better technical expertise being provided [...]. We are intending to get behind that process.”<sup>63</sup>

56. We agree that the UN in Vietnam appears currently to be far from having the capacity to take on this role. But Ramesh Singh questioned the capacity of even a strengthened UN presence in Vietnam to provide the necessary co-ordination and advice:

“The UN’s ability to fill a void by the passing of international donors is not proven anywhere. The UN plays a particular role that is not about money. The transference does not take place in the same way. Their ability to negotiate with the state is not strong because in many ways it is subservient to the members and the UN’s ability to negotiate is very different from international donor communities.”<sup>64</sup>

57. Mr Singh argued instead that a strengthened civil society, which currently receives little support from DFID, was far more likely to deliver the continuity DFID sought.<sup>65</sup> We also heard similar views from civil society representatives in Vietnam. Mr Thomas told us that DFID was “working with the UN to develop the capacity of civil society”.<sup>66</sup> But Mr Singh told us that civil society was not seeing the impact of this work, certainly in relation to ActionAid: “we used to engage with DFID. [...] We do not have that now.”<sup>67</sup>

**58. We agree that a strengthened and coordinated UN presence in Vietnam offers significant potential gains for Vietnam. We do not agree, however, that it is the only vehicle for ensuring that Vietnam’s development continues to be informed by advice and innovation which draws on international experience and best practice. Strong civil society groups and well-resourced international non-governmental organisations can also offer relevant experience while also encouraging increased government accountability. We recommend that DFID’s ‘legacy strategy’ be reviewed in order to provide a much clearer role for civil society capacity-building.**

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<sup>63</sup> Q 55 [Mr Thomas]

<sup>64</sup> Q 25 [Mr Singh]

<sup>65</sup> Q 25 [Mr Singh]

<sup>66</sup> Q 55 [Mr Thomas]

<sup>67</sup> Q 39 [Mr Singh]

## 5 Conclusions

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59. Becoming a middle-income country in 2010 will be a significant achievement for Vietnam and testament to the commitment of the Government of Vietnam to harnessing growth for the benefit of the poor. There will be opportunities for Vietnam, not least on the back of its recent membership of the World Trade Organisation. We will watch with interest the impact of that membership during its first years.

60. Millions of Vietnamese will, however, remain in poverty regardless of whether the World Bank classifies it as a low- or middle-income country. DFID is therefore right to plan to be there beyond 2010. DFID is recognised by its peers and the Government of Vietnam as having done excellent and pioneering work there. A DFID programme which continues in this vein and is focused on the key issues of governance, social security, the off-track MDGs, inequality and vulnerability will be able to add value to the Government's programmes. Given the quality of the work currently undertaken by DFID in Vietnam, and the effort now being put into planning the next steps of the programme, we are confident that this will be the case.

## Recommendations

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1. **Against a backdrop of staff and administrative efficiency targets across the civil service, including at DFID, the tripling of DFID's budget in Vietnam in five years is a very sharp increase to manage. However, in general terms, we were very impressed by the quality of the work in which DFID was involved in Vietnam. DFID staff in Vietnam were well-informed and the programme appeared to be effective and targeted. We were provided with good examples of the positive effect British development assistance was having on Vietnam's development. All our comments in this report should therefore be seen in that light. (Paragraph 8)**
2. **Much of DFID's programme in Vietnam focuses on rural populations, particularly through targeted budget support programmes: 'Education for All', which focuses on increasing access to primary education, and the rural infrastructure-oriented programme, 'Programme 135'. These are excellent programmes which we applaud. (Paragraph 11)**
3. **Dealing effectively with growing inequality between Vietnam's ethnic minorities and its majority will be key to ensuring that all Vietnam's poor benefit from the country's remarkable economic development. We therefore welcome a review by DFID of the Government of Vietnam's policy to promote ethnic minority education. However, given the scale of the challenge and the apparent failure of current policies to halt the widening inequality, we recommend that DFID work with the Government of Vietnam and other donors to carry out such reviews across the range of government policies towards ethnic minorities. (Paragraph 12)**
4. **Vietnam has a particularly large proportion of its population living just above the poverty line. Ensuring that these people remain above that line, and indeed increase their income so as to reduce their vulnerability to external shocks, is crucial for Vietnam's further development. There is also an increasing number of economic migrants being drawn to industrialised centres who are at risk of becoming marginalised and vulnerable. We recommend that DFID monitor these populations closely and work with the Government of Vietnam to prioritise programmes which reduce their vulnerability. (Paragraph 15)**
5. **We agree with many of DFID's arguments in favour of budget support, including its multiplying effect, and its impact on government capacity and ownership of development. The Government of Vietnam has a good track record on poverty reduction and should be supported. We are concerned, however, that DFID may be neglecting other aid instruments or combinations of aid instruments in favour of budget support, even where these could be equally or more effective. In particular, we believe that DFID should engage with civil society more than it currently does, including looking at options for civil society projects to run in parallel with Government-led initiatives. We believe that a strong civil society in Vietnam will be crucial as the country faces new challenges in its development, and in its social and political evolution. (Paragraph 20)**

6. It is fundamentally important that DFID is able to demonstrate effectively its impact on poverty reduction. We saw some evidence on the ground of this impact. But in terms of systematic monitoring and evaluation, we believe that “reasonably inferring” such impact is not good enough. Given that 70% of DFID’s budget in Vietnam is channelled through the Government, we recommend that DFID urgently re-examine the level of support it is providing to enhance Vietnam’s own monitoring and evaluation systems, in particular the capacity to produce qualitative data and analysis. Until those systems are fit for purpose, we recommend that DFID further enhance its own monitoring and evaluation systems, including through allocating dedicated staff to this role. (Paragraph 23)
7. We welcome the progress on gender equality that is being achieved in Vietnam. We believe, however, that women must routinely have the opportunity to participate equally in decision-making, both at a policy level and on the ground. This calls for a participatory approach at project level which we did not observe in DFID’s work in Vietnam. As well as ensuring basic fairness and inclusion, such an approach would provide the Government of Vietnam with a model for its own programmes. We recommend that DFID devise a specific gender strategy for each of its programmes and projects in Vietnam and share these with us within six months. (Paragraph 28)
8. We view the priorities for a sustainable and effective social security system in Vietnam to be: broad coverage which includes the poorest and most vulnerable people; simplicity; and demand-side education led by civil society. We recommend that DFID ensure that each of these priorities is reflected in its support in this area. (Paragraph 33)
9. In 2004, DFID was the first donor to fund large-scale HIV/AIDS prevention programmes in Vietnam. 115 million condoms and millions of needles have been distributed through these programmes. These are good initiatives which we wholeheartedly support. We recommend that a lessons-learned exercise be carried out in connection with the underspend on the HIV/AIDS programme and shared with us within six months. (Paragraph 36)
10. Our report on sanitation and water makes clear that these services sit at the heart of development. We recommend that DFID work urgently to find the £20 million for rural sanitation in Vietnam which DFID analysis suggests could provide four million people with hygienic sanitation, whether as a single donor or in coordination with other donors. DFID should also look at options other than budget support for its work in this sector. (Paragraph 39)
11. Given the scale of the challenge, we agree that the DFID programme in Vietnam should increasingly focus on governance and human rights issues. We recommend that resources be redirected at least to double the financial resources available for DFID’s governance programme in Vietnam, mirroring the planned increased DFID staff capacity. The refocused and strengthened governance programme is likely to coincide with Foreign and Commonwealth Office priorities. We recommend that DFID and FCO begin planning now for this

convergence in order to avoid duplication and to maximise cooperation and shared resources, including staff. (Paragraph 44)

12. DFID already supports programmes whose aim is to ensure that the benefits of World Trade Organisation membership reach beyond the urban industrialised areas and include the poor and vulnerable. We support this work and endorse the priority given to it in the draft new DFID Country Assistance Plan for Vietnam and would expect to see this level of priority maintained in the final agreed Plan. (Paragraph 47)
13. DFID was not able to tell us by how much its budget will reduce once middle-income status is attained nor how quickly. We believe, however, that this is likely to involve more than a “slight scaling back”. DFID should therefore begin now to set out for the Government of Vietnam the likely changes so that it in turn is able to prepare for reduced aid flows. (Paragraph 50)
14. We see a medium-term role for DFID in Vietnam in providing more advice and less funding. We believe that research-led, pioneering work is a strength of DFID’s programme in Vietnam and can lead to compelling arguments on which DFID can base its advice to the Government. We recommend that this work should become even more central to DFID’s work in Vietnam as it approaches and attains middle-income status. We believe that DFID support for some small, innovative civil society projects would complement well its role as a development pioneer in Vietnam and recommend that DFID begin such funding in this financial year. (Paragraph 54)
15. We agree that a strengthened and coordinated UN presence in Vietnam offers significant potential gains for Vietnam. We do not agree, however, that it is the only vehicle for ensuring that Vietnam’s development continues to be informed by advice and innovation which draws on international experience and best practice. Strong civil society groups and well-resourced international non-governmental organisations can also offer relevant experience while also encouraging increased government accountability. We recommend that DFID’s ‘legacy strategy’ be reviewed in order to provide a much clearer role for civil society capacity-building. (Paragraph 58)

## Annex: The Committee's visit programme in Vietnam

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The group consisted of:

Malcolm Bruce (Chair)	John Battle
John Bercow	Richard Burden
Ann McKechin	Mr Marsha Singh
Sir Robert Smith	

Accompanied by:

Matthew Hedges (Second Clerk)  
Chloë Challender (Committee Specialist)

### **THURSDAY 10 MAY**

#### ***Hanoi***

Meeting with the British Ambassador and the Head of DFID Vietnam

Briefing from Department for International Development officials on DFID's programme in Vietnam

#### ***Gia Liam***

HIV Field Visit, Group 1: meeting with sex workers and peer educators; visit to guest houses

HIV Field Visit, Group 2: meeting with intravenous drug users and peer educators; visit to 'For the Bright Future' club

#### ***Hanoi***

Meeting with Minister Phuc, Ministry of Planning and Investment, Government of Vietnam

### **FRIDAY 11 MAY**

#### ***Hang Kia, Hoa Binh***

Visit to primary school

Meeting with commune leaders (People's Committee, People's Council, Communist Party of Vietnam, Commune Supervision Board)

Visit to health clinic

Group 1: Meeting with the Women's Union

Group 2: Meeting with the Farmer's Union

## **SUNDAY 13 MAY**

### ***Huong Van Commune***

Visit to Women's Union Sow Project (with Hué University and the Orskov Foundation)

### ***Pho Trach Commune***

Visit to Cooperative, Household and Processing Centre for rush weaving products (with Hué University)

### ***Huong Xuan Commune***

Visit to a house with completed renewable energy system and one house with one under construction

## **MONDAY 14 MAY**

### ***Hanoi***

Meeting with ActionAid Vietnam, Save the Children UK, Oxfam GB, Plan in Vietnam, Voluntary Service Overseas, Asia Foundation, and the Centre for Sustainable Development in the Mountains

Meeting with Government of Vietnam ministries, including the Department of International Organisations, the State Committee for Ethnic Minority Affairs, Ministry of Planning and Investment, the Government Inspectorate, the Ministry of Foreign Affairs and the Ministry of Finance

Meeting with donors, including World Bank, United Nations, European Commission, AusAid (Australia), Danida (Denmark), CIDA (Canada)

Meeting with Vietnamese National Assembly members

Meeting with the British Ambassador and the Head of DFID Vietnam

## Formal minutes

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**Tuesday 17 July 2007**

Members present:

Malcolm Bruce, in the Chair

John Battle	Ann McKechin
Hugh Bayley	Mr Marsha Singh
John Bercow	Robert Smith
Richard Burden	

The Committee considered this matter.

Draft Report (Department for International Development's Programme in Vietnam), proposed by the Chairman, brought up and read.

*Ordered*, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 60 read and agreed to.

Summary agreed to.

Annex agreed to.

*Resolved*, That the Report be the Eighth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Several Memoranda were ordered to be reported to the House for printing with the Report.

Several papers were ordered to be reported to the House for placing in the Library and the Parliamentary Archives.

[Adjourned till Wednesday 18 July at 10.00am

## Witnesses

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### Tuesday 19 June 2007

Page

**Dr Martin Gainsborough**, Director, Bristol-Mekong Project, University of Bristol  
and **Mr Ramesh Singh**, Chief Executive, ActionAid International

Ev 1

### Thursday 21 June 2007

**Mr Gareth Thomas MP**, Parliamentary Under-Secretary of State and **Mr Donal Brown**, Head DFID Vietnam, Department for International Development

Ev 14

## List of written evidence

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*Written evidence submitted by witnesses who also gave oral evidence:*

- |   |  |       |
|---|--|-------|
| 1 | Department for International Development | Ev 22 |
| 2 | ActionAid International                  | Ev 34 |
| 3 | Dr Martin Gainsborough                   | Ev 35 |

*Other written evidence:*

- |   |                      |       |
|---|----------------------|-------|
| 4 | Professor E R Orskov | Ev 36 |
|---|----------------------|-------|

## List of unprinted papers

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Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons Library where they may be inspected by members. Other copies are in the Parliamentary Archives, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Parliamentary Archives, Houses of Parliament, London SW1A 0PW. (Tel 020 7219 3074) hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

*Vietnam after the Tenth Party Congress: Emerging and Future Trends*, Bristol-Vietnam Project, University of Bristol, May 2006

*Vietnam Poverty Update Report 2006*, Vietnamese Academy of Social Sciences, June 2007

# Reports from the International Development Committee since July 2005

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The Government Responses to International Development Committee reports are listed here in brackets by the HC (or Cm) No. after the report they relate to.

## Session 2006–07

First Report	DFID Departmental Report 2006	HC 71 (HC 328)
Second Report	HIV/AIDS: Marginalised groups and emerging epidemics	HC 46-I & II (HC 329)
Third Report	Work of the Committee in 2005–06	HC 228
Fourth Report	Development Assistance and the Occupied Palestinian Territories	HC 114-I & II (HC 430)
Fifth Report	EU Development and Trade Policies: An update	HC 271 (HC 622)
Sixth Report	Sanitation and Water	HC 126-I & II (HC 854)
Seventh report	Fair Trade and Development	HC 356-I & II

## Session 2005–06

First Report	Delivering the Goods: HIV/AIDS and the Provision of Anti-Retrovirals	HC 708-I&II (HC 922)
Second Report	Darfur: The killing continues	HC 657 (HC 1017)
Third Report	The WTO Hong Kong Ministerial and the Doha Development Agenda	HC 730-I&II (HC 1425)
Fourth Report	Private Sector Development	HC 921-I&II (HC 1629)
Fifth Report	Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny	HC 873 (Cm 6954)
Sixth Report	Conflict and Development: Peacebuilding and post-conflict reconstruction	HC 923 (HC 172)
Seventh Report	Humanitarian response to natural disasters	HC 1188 (HC 229)

# Oral evidence

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## Taken before the International Development Committee

on Tuesday 19 June 2007

Members present:

Malcolm Bruce, in the Chair

Hugh Bayley  
Ann McKechin

Joan Ruddock  
Sir Robert Smith

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*Witnesses:* **Dr Martin Gainsborough**, Director, Bristol-Mekong Project, University of Bristol, and **Mr Ramesh Singh**, Chief Executive, ActionAid International, gave evidence.

**Q1 Chairman:** Good morning, gentlemen, and thank you for coming. As I think you probably understand, we are at the closing stages of an inquiry on the Department of International Development's Country Programme in Vietnam. About four weeks ago, we had a fascinating visit when we spent time not only in Hanoi but up in the North-West Highlands and also down around Hue paddling in the rain and the mud. Obviously we had an interesting picture. Although we have it in a note here, it would be helpful if you would introduce yourselves so that we know who you are and then let us have a conversation.

**Dr Gainsborough:** I am Dr Martin Gainsborough. I am an academic at Bristol University. I direct the Bristol-Mekong Project, which also includes the Bristol-Vietnam Project, which is about bringing research and consultancy together and the impact of research into the policy and business environment. This is my eighteenth year working on Vietnam. I lived there for four years, three in the south in Ho Chi Minh City and one in Hanoi.

**Mr Singh:** I am Ramesh Singh. I am from Nepal. I am currently the Chief Executive of ActionAid International. I have direct working experience in Vietnam, and lived there as the country director of ActionAid Vietnam and was subsequently the Asia director, living in Bangkok close to Vietnam, and that was my direct work. Currently, I am Chief Executive of ActionAid International, based in Johannesburg. I am still closely connected, both directly as well as indirectly, with the work in Vietnam.

**Q2 Chairman:** Thank you. At this stage, we obviously have talked with the Department. We have been on a visit with a programme very well-organised by DFID staff in Vietnam. In a sense, you are independent witnesses. I hope you will not feel inhibited if you consider that there are either constructive criticisms or otherwise of what DFID is doing or not doing or suggestions about what it can do differently or better. That is essentially what we will be interested to hear about. What we gleaned, both before and during our visit, is that on the success side clearly there are some dramatic figures on poverty reduction and the distribution of that poverty reduction; in other words, the number of

people in poverty has been sharply reduced, although we did get pictures of vulnerability—that there are particularly vulnerable groups. Although poverty has been reduced, it has not been reduced so dramatically that people are not still on the edge. There were issues of corruption and human rights and so forth. I wonder if you could give us an indication, from your point of view, of why you think Vietnam has been so successful in reducing poverty. The figures we have had are that 58% of people living in poverty as usually defined in 1993 have reduced to 19.5% in 2004. If you accept that those figures are broadly right, how do you think that has been achieved and what do you think are the risks in terms of maintaining that progress? We did hear some of the issues but we would be pleased to hear your point of view.

**Dr Gainsborough:** That is a complex question but I will try to give some nuggets and some simple answers. I accept the figures in terms of reduction of poverty with some caveats, as you have alluded to. The state and the government in Vietnam has to a greater or lesser extent, but to a significant extent, embraced opening up the economy, attracting external investment, trading and so on. I think that has contributed substantially to the turnaround of the economy. Vietnam is in a favourable location and in a dynamic region with dynamic countries around it and obvious markets for its goods, which was very significant when the Soviet Union collapsed and in a hurry it had to find alternative markets. I think also I would want to put the emphasis on the nature of the state in Vietnam. Someone referred to it being dysfunctional on a day-to-day basis but basically, as states go, it is very capable. One of the manifestations of that is that of course corruption is a widespread problem, as I think you have heard, but it is in my book kept within limits. So, whilst corruption occurs, there is not the wholesale theft of state assets. They have had this equitisation/privatisation programme. It is absolutely not on the Soviet national model. It has been a controlled process and, yes, there is corruption surrounding it but there has not been a wholesale loss of state assets. I think that is significant.

**Q3 Chairman:** Do you mean people have taken their percentage but it has continued to function?

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19 June 2007 Dr Martin Gainsborough and Mr Ramesh Singh

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**Dr Gainsborough:** Yes.

**Mr Singh:** For me, the main driver behind the so-called reduction in poverty within the system has been allowing the potential of poor people themselves to be unleashed, the ability to invest and own land. And production has grown significantly in Vietnam from less than 20 years ago being a net importer of food to being the second largest rice exporter from their production. The important thing is to recognise how poor people themselves have been able to unleash their potential. Obviously, there have been investments in infrastructure, whether it is irrigation or allowing infrastructure in savings and credits in the rural areas as well as larger industrial infrastructure for exports. Quite clearly, it is also because of opening the space for international development that has not only brought in money but know-how and technology. That has helped to target the development and reduce poverty significantly.

**Q4 Chairman:** What are the risks to maintaining that? People look at a few years of steady growth, that is 10 years of steady progress, and say that is fine and it is going to continue. Is it going to continue? What would stop it?

**Dr Gainsborough:** There is always a danger of overheating with macroeconomic stability issues, managing a more complex economy, those types of things. Inevitably, rapid economic change leads to social change, which leads to a more assertive society. Citizens want something else; they want something more. The relationship with the state begins to change. Is the state able to respond to that and manage that societal change and create a more responsive form of government, whatever description that takes? Those are real risks. There are some social consequences of rapid economic development in terms of a rush to get rich quick, which in a sense is an understandable reaction to years of poverty, but someone needs to look out for those who fall behind and so developing social security systems is very important. Is the state doing enough in that area? Can it be helped to do more? Business becoming more powerful as a political actor: you want a dynamic business class but that has implications for governance. Is there a danger that the business elite will begin to sway the political process so that weaker members of society lose out? Again, what role does the state play in that and how can the state be helped to deal with that? Management of relations between labour and capital are becoming more problematic. Is the state well-placed to arbitrate between capital and labour under the current institutional structure? I would say there are some real problems there. Again, what can be done?

**Q5 Chairman:** We might come back to that because obviously you have made a number of recommendations in that direction, which I would like to explore.

**Mr Singh:** There are two things. The first is those people who could come out of poverty have already come out and there is a chronic level of poverty left.

Leaving those people behind is not going to be helpful for the stability of the country, social stability and harmony. Clearly, here is inequality. The number of people who have become landless is quite phenomenal. We need to watch that. As you know, with regard to ethnic minorities, the majority of the poor people used to be and still are in the minority ethnic groups in the Northern Highlands and the Central Highlands. Lots of those people had land, particularly in the southern part of the country more than in the north; we have new poor coming into the urban area from migration and in the formal labour sector. The danger is not being able to distribute some of the growth and the fruits of the growth which will leave those ethnic groups and minority groups really poor and the gap will continuously enlarge. Politically, that is going to be quite dangerous in my opinion in the long run as the systems grow and the middle class and the elite emerge. There is a real danger there. The important thing is to make sure that we have a targeted and clear approach to addressing this chronic poverty, ensuring that the new poor who are coming in are not threatened and therefore address them directly. I feel that inequality and the new poor are going to be the real dangers.

**Q6 Ann McKechn:** Both the Government of Vietnam and donors are clearly concerned about this growing gap between particularly the ethnic communities and the new population and they have devoted quite a lot of time and attention to it. Do you think they are doing the right thing or should they be doing things differently if they are going to try to close this gap over the next, say, five to 10 years?

**Mr Singh:** At a broader, untargeted level, I think it is. It relates not only to hard intervention in terms of infrastructure or regional allocation, but it is also about how much space there is for them politically, what is happening to the informal sector, a hugely increasing labour force. Where is the targeted work? I feel at face value or at a more blanket level it is a concern that the Vietnamese Government and international development community have recognised. It seems that there is a general response to it but we need a much more targeted response. Even with things like HIV/AIDS we need to go beyond rhetoric and have more targeted treatments and care. I feel the answer is: yes, but not enough.

**Dr Gainsborough:** It is not my primary focus but my understanding is that there is a sense in which, while recording the achievements in terms of poverty reduction, there should be a shift to focusing on those particular groups that have not been lifted out of poverty or who are on the very edge of poverty, so a more targeted approach to select groups, and particularly ethnic minorities feature in that. That sounds right to me.

**Q7 Sir Robert Smith:** Following up on that, in a sense, the ethnic minorities are the more challenging group to tackle. In part, is that the geography issue as well in the sense that we went to Hoa Binh and obviously there are limited activities you can do to

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make a dramatic difference in a mountainous farming region in terms of embracing a new economy. There will have to be migration or a change in culture.

**Dr Gainsborough:** How do you deal with poverty in remote mountainous areas? There are people much better qualified than me on this. Vietnam is industrialising, so there is an assumption, often unstated, and it is an issue that the Vietnam Government has trouble with, that large numbers of people are going to leave the land to work in urban areas, in factories and so on, and that brings its own problems, clearly. Aside from the difficulties of dealing with the problem of poverty in remote mountainous areas, when you talk about ethnic minorities, you also have to look at their position within Vietnamese society and discrimination towards minorities and the extent to which, for instance, there are underlying structural reasons why lifting these groups out of poverty is harder.

**Mr Singh:** We probably need to recognise that there are lots of minority groups also along the Mekong Delta. Those in the Mekong Delta are probably more desperate and the numbers there are higher than in the Northern Highlands and the Central Highlands. I do feel that it is possible to invest much more and allow that political space and the kind of development that would be suitable for that minority ethnic group. There is scope to invest further in the Northern Highlands area as well, but I would also like to draw attention to the Mekong Delta. It is important to recognise the increasing number of displaced people in broad terms in the urban areas and peri-urban areas. Vietnam has not traditionally taken kindly to people moving from one place to another without a particular official reason. The migrants move about and urban migrants do not have the same recognition and rights. It is important to understand that. There is large body of informal migrants that have come in. Many of them are from minority ethnic groups but not all of them. In looking into this in the fringes of industrialisation, a very large population is now displaced. To be honest, they are probably the engines of growth as well because this labour serves the informal sector. They need to be understood and analysed and investment needs to be made for them.

**Q8 Sir Robert Smith:** Some of them are repatriating money back to the rest of their families.

**Mr Singh:** Of course, and that relationship between migration and the highland areas will be established more strongly.

**Q9 Sir Robert Smith:** One of the other challenges underneath the group statistics is that down to 20% of the people are on less than \$1 a day but a further quarter of the population are on more than \$1 a day but on less than \$2 a day, so that is 45% of the population still under \$2 a day. What are the risks with such a large group hovering just above or possibly dropping back?

**Dr Gainsborough:** I suppose the common point to make would be that those groups are very vulnerable to economic shocks. As the economy becomes more

open, the government is very cautious about opening up certain aspects of the economy, particularly on the financial capital accounts, but, yes, that raises an important point. There are, as you say, these groups that are still existing on between \$1 and \$2 a day. As the economy liberalises, there is greater risk of economic shock, big fluctuations in growth rates potentially. Is there some way in which policies could be targeted and anticipate this?

**Mr Singh:** We can see that those people are just on the borderline or have just come up. Some of them have come down as well. To a certain extent, this goes not just with the economic aspects but with the political angle—political in the sense of: what is the space for those people to be heard? Are they recognised? It has to be a lot more targeted. My fear is that lot of those people are in the informal sector and marginal land owners. The moment they sell land, they will come down again below the poverty line and be in acute poverty. The real danger is that if a targeted approach is not taken and there is not space for discussion and a recognition of the identity of these people side-by-side, there will be political ramifications in future.

**Q10 Sir Robert Smith:** How exposed is Vietnam to a natural disaster? It is quite low-lying.

**Dr Gainsborough:** Typhoons, floods and so on happen fairly frequently and that causes devastation in the low-lying areas and in coastal areas. That poses real problems for those affected communities, again, people who are on relatively low income levels. The sense in which a systemic shock would undermine the growth trajectory in its entirety is rather unlikely.

**Q11 Sir Robert Smith:** It is more the economic, external shock?

**Dr Gainsborough:** I think it is, but if Vietnam suffered serious labour unrest of South Korean proportions for some years—and you can never say never—or if there was serious political instability, again I think those sorts of things can trigger serious economic shocks. There is a great debate about what impact a big crash in the stock market, which is still small but growing, would have on the overall macro-economy.

**Q12 Sir Robert Smith:** Do you think enough is being done by donors and the Government of Vietnam at least to be prepared to cope with the consequences of some of these shocks, or dealing with the group that is hovering just above vulnerability?

**Dr Gainsborough:** I do not have a really good picture of all the work that is being done specific to that particular group. It is important not to lose sight of that issue.

**Mr Singh:** I believe that probably not enough attention has been given to supporting growth. Obviously, education and health have been prioritised but they are still less targeted and there needs to be a much more broad-based support given by international development. Personally, I feel that the international development community's attention and outreach deeper into Vietnam has

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probably been eroded from 10 years ago when everybody who went there had closer contact with the communities than there currently is.

**Q13 Sir Robert Smith:** Do you think this is a short-term problem? In 10 to 15 years, with rapid growth, who will be the people at risk?

**Dr Gainsborough:** I would tend to focus on the minorities again. Vietnam is developing from a low base. There have been dramatic changes but, as I highlight, there are clearly people who are subsisting on very low incomes. It is important to remember that.

**Mr Singh:** I would add that the informal sector in the urban and peri-urban areas is really the invisible poor.

**Q14 Joan Ruddock:** Wherever people are poor, women are poorest. Unfortunately, I could not go on the visit but I understand that in Vietnam women have done quite well in terms of the parliament, the national assembly representation, that the proportion of girls *vis-à-vis* boys in schools is going to be achieved, but there are other indicators that women are not valued, that women are working much longer hours than men, they are sex selected for abortion and that domestic violence is increasing. I wonder what your judgment is as to the claim made by the government that they have mainstreamed gender into their development and economic policies.

**Mr Singh:** Gender is a problem for us. Gender requires both vertical women's rights issues on its own and mainstreaming. I think Vietnam has taken a mainstreaming approach. It had a good base with girls going to schools and women in the labour force and in politics. This is all good, but it has not addressed the specific vertical women's rights issues, such as sex selection, issues of trafficking to China in particular and, in urban areas, the marginalising of women in the informal labour sector. These issues are still less talked about and there is less attention paid to them. Compared with many other countries where we work, we have to applaud what Vietnam has achieved in relation to gender and women's rights but there are blank spots and they need to be addressed. They will not be addressed by mainstreaming alone.

**Q15 Joan Ruddock:** Do you think that they are going to be addressed? Do you have a sense that these underlying inequalities as compared with high profile achievements are recognised?

**Mr Singh:** They are not openly recognised. Because at face value there is such good mainstreaming and gain as well, these discussions have not happened. We have found the government quite willing to talk, for example, now after a long time about trafficking, but certainly sex selection is less discussed. It needs to be incentivised or promoted. It is not normally talked about. I think it has to be more focused. Because there is such a gain, I think it is masked. It is possible to talk about it but it is not talked about. Some incentive and promotion of it is required.

**Dr Gainsborough:** I recognise the particular problems that you highlight: sex selective abortion, domestic violence. These are very sensitive issues in Vietnam. The state is very nervous about the terms under which outsiders might be involved in addressing those issues. In so far as one of the achievements of the revolution was that women in a sense achieved a status, and it is hard to be absolutely sure but it is what is passed down as the folklore if you like, is some of that being lost? Possibly; it is hard to know. There are issues in that area, as you have highlighted. It is not my main area of expertise.

**Chairman:** It is in what you might call the mainstream area, and I am thinking it was particularly marked in Hang Kia where first of all we met commune leaders. When I think Ann asked "where are the women", they said, "Well, the Chair of the Women's Union is consulted". I do not think she was a member of the committee.

**Q16 Ann McKechin:** She was on a training course on the day that we arrived but no one had actually thought of having one of the other members of the Women's Steering Committee come in her place and in fact several members of the Women's Union Committee were inevitably serving the tables and arranging the food. Following on from what Joan Ruddock has said, I wonder if there is a lack of analysis by the government or by international donors, particularly within an ethnic community where obviously much more concern about social values apply. Is this sensitivity inhibiting proper analysis of how development aid is happening in terms of the gender perspective?

**Dr Gainsborough:** Clearly, as someone has said, it does not look so bad in terms of women's representation in, for example, parliament, the national assembly. New figures show improvements.

**Q17 Joan Ruddock:** It is better than ours?

**Dr Gainsborough:** Yes, indeed. That is positive. The anecdote you have just given rings true with my own experience. I have encountered a tendency to say, "What you foreigners talk about as gender is not a problem". We should not forget that the Women's Union, which has been mentioned, is a significant political force in Vietnam. Whether that means that women are habitually integrated into local government people's committees and so on, and I suspect they are in the minority. But, there is an institution called the Women's Union which is a significant institution politically and socially.

**Q18 Chairman:** We came across it in a number of different areas. We would accept that. It seems to me that the point is that they are put in that box: the Women's Union deals with women's issues, therefore they are not mainstream. Yet, when we went round a school, for example, the figures we have here are that in the upper secondary school, there were two girls out of 46 pupils. When we talked to members of the Women's Union in the village, they said, "Well, we would quite like to develop a range of other skills but we are required to spend all

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our time doing embroidery”, which happened to be the particular tradition. I am not saying that does not have a commercial value but they did not have a choice. They might have preferred to breed pigs, or whatever.

**Dr Gainsborough:** That is a fair point. I would not dispute that.

**Mr Singh:** I agree. It is similar, overall, to what can be done over a period of time after what has been done immediately. Women’s rights issues are difficult within ethnic minorities, and even the relationship of how the Women’s Union deals with women in general. These issues need to be addressed. It is true that it is not always easy for the international development community to bring that to the fore, but the next generation of work will really be about dealing with those chronic deeper needs. That requires a different strategy than just growth and infrastructure.

**Q19 Joan Ruddock:** If I may say so, Mr Singh, there is a way that donors and NGOs can contribute, and that is of course through their own programmes and by making an example. I have frequently criticised DFID about the lack of gender mainstreaming in DFID programmes. I have certainly met many NGOs who may say, “We do lots of women’s programmes” but they may not employ as many women as they employ men. There are all sorts of disparities in the way in which the international community itself presents its own face in terms of gender. I ask the question in terms of in Vietnam are DFID and NGOs setting an example or not?

**Mr Singh:** In Vietnam it is relatively easy to employ women in an organisation. Practically all the time that I was working there up until last year, and I do not know last year’s figure, we always had more women on our staff than men. That is just one hurdle. It is relatively easy in Vietnam because in urban Vietnam it is relatively easy to employ. I have a feeling that many international organisations there would have a substantial number of women, senior and general staff. We need to go beyond that. We know that when we wanted to work on issues of trafficking six years ago, it was very difficult to bring it up because the normal official line was that there was no trafficking. It is the same with HIV/AIDS. I feel that it is possible to do it and we are doing it but it requires a lot more focused attention. Civil society can do that a lot more easily than broad-based international projects. It is important to emphasise that continually. There is a slight glossing or lack of attention to it at the moment.

**Q20 Joan Ruddock:** Have you any comments on DFID?

**Dr Gainsborough:** I really do not know. On the trafficking and HIV/AIDS, and trafficking is something where women in particular suffer, it has probably moved on over the last six years. There is a clear recognition, particularly with trafficking, that this is a major problem. The government is involved in lots of multilateral and bilateral and NGO projects dealing with it. The question as to whether that is having any real effect is the issue.

**Q21 Chairman:** Moving to another area, obviously while we were in Vietnam, there was a lot of discussion that if this progress continues, in the fairly near future Vietnam will graduate to middle-income status, and specifically for British interests but obviously significant, given our International Development Act and the 90:10 split, it would lead to an inevitable disengagement. Perhaps other donor countries are not quite so critical on that. I wonder what you feel are the challenges that donors face. Sir Robert Smith has made the point about vulnerability but I think we accept that. You are only just getting out of that and you may fall back. We take that point as a given. How should donors and the international community deal with the movement towards middle-income status in Vietnam in ways that ensure that that does not lead to an abrupt end or complacency or cutting off programmes or that if they achieve middle-income status, we may abandon perhaps the vulnerable people who have not quite shared in that? What do you think are the challenges that need to be addressed?

**Dr Gainsborough:** I do not know the answer to this, but the important question for me is how aware is the government in Vietnam that when they reach middle-income status there will be a scaling back, if not a cessation, of aid. They may be very aware of it. If they are not, and it is not so long ago that Vietnam was just beginning to get aid, the thought that it is now not so far away and they might not get it I suspect is not uppermost in people’s minds. It is very important that this is discussed, talked about and the strategy and programmes are tailored to deal with a limited timespan, if that is what we are talking about. A lot of the emphasis should be in terms of governance issues and the things I have highlighted in my written submission. Managing a rapidly developing economy, rapid social change and urbanisation, is phenomenally challenging. Moving towards reforming the political system is really challenging.

**Q22 Chairman:** I suppose the point is about the justification for saying that middle-income status puts you in a different category. What essentially we are saying is that the overall wealth of the country has now reached a level that you should start to be able to address poverty reduction in your own terms domestically. The question that arises, and I know that your list of suggestions is relevant to that, is: how well prepared is both the government and society in Vietnam to take that responsibility forward? In other words, we have enough potential resources in the country; can we have a mechanism to ensure that we continue to share it out in a way that maintains that poverty reduction, as opposed perhaps to moving into a situation where inequality could mean that middle-income status could be a mask for poverty beginning to increase in certain sectors.

**Mr Singh:** First, we need to bear in mind that the role of international development assistance and the history of that is relatively short. Secondly, we need to recognise, and I know that this is all based on an

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income-related classification and we are very critical of that, that if you look at Vietnam and the current state of civil society, there is space for participation in governance. We have talked about women's rights. Those are things that move much more slowly than income data. We would be worried, as we are in other places, and we are trying to understand what is happening in other middle-income countries where this engagement has led to difficulties for the existing poor and how it affects them. In particular, in Vietnam where there is plenty to do, we also think that strengthening governance and continuing with longer term engagement on governance issues and civil society are important. I feel that the international development community, including DFID, has somewhat disengaged from direct engagement with civil society in the wake of trying to be efficient with money and budget support, which we wholeheartedly support. That is the way to make it more recipient-led. As I was saying earlier, the international development community used to work with both international civil society there as well as with the national emerging civil society. That engagement is much less perhaps because of the reduction in the amount of money that goes to civil society from international development communities in Vietnam, including DFID. I feel that we need to flag that. I agree with Dr Gainsborough that there needs to be a conversation with the government, but at the same time the international development community needs to recognise not simply economic data but also the length and depth of those development experiences. We have to applaud Vietnam as a country. Their willingness to learn is quite phenomenal. We know from our own experience that if they are convinced and if they want to learn and if there is a method and model that we are able to sell to them, that spreads and becomes deeper. There is plenty to do in many areas which are masked by easy growth. We have discussed the ethnic minority sector, women's rights and human rights on which civil society is based. There is plenty to do which I hope we will not abandon. The length and depth of international development engagement needs to be kept in mind. We are warning about taking a very mechanistic view of the middle-income countries. This is different from other middle-income countries where international development and civil society have grown over a period of 40 or 50 years. The history is very short here.

**Dr Gainsborough:** Quickly in response to that I would say that my point is that this is a relatively capable state that, for example, has provisions of its own for natural disasters. There is a sense in which as Vietnam is moving to middle-income status and the ability to cope on its own, there will be a need for some change in mind-set. You deal with problems of poverty at the moment with big budgets, large amounts of that coming from external actors, donors and so on. Then suddenly Vietnam is going to have to finance these things themselves. There is recognition that that is what it will do. There is a commitment to do that. There is some sort of mind-set change. I come back to the point that in the meantime between now and Vietnam reaching

middle-income status, it is about a system in Vietnam to strengthen critical institutions, whether it be in health and education to reverse some of the problems that have emerged with the marketisation of those sectors, which is clearly having implications if they do not have money, or turning a talked about social security system into a functioning system, which I am not convinced has happened yet.

**Q23 Ann McKechin:** Could we turn to the issue of WTO membership, which Vietnam has recently joined. Dr Gainsborough, you talk about the fact that Vietnam has to make major concessions. That seems to be the general opinion of the agreement. Are you seeing any early evidence of the impact of that agreement, particularly in terms of the poor and vulnerable members within Vietnamese society or have either of you any concerns about where this agreement is likely to lead in terms of vulnerability?

**Dr Gainsborough:** Generally speaking, it is too early to say what impact WTO membership is having, whether it be on poor communities or on industry or services in general. I am trying to recall a conversation I had second-hand with the Head of Oxfam. Some of his concerns about what the agreement would consist of have not been realised. They were particularly highlighting areas they were worried about that, Vietnam was being pushed to concede and suggesting that the letter of agreement was not as bad in some areas, and they were very much focusing on poor communities as had been anticipated. I think we have to wait for that evidence. It is just so recent, is it not?

**Mr Singh:** I agree that we have to wait. No doubt there will be a fall out, particularly on the poor people's progress, small producers and farmers. We have seen that elsewhere, including in China. We are monitoring that.

**Sir Robert Smith:** We certainly see a challenge for the environmental with the rapid growth in motorbikes and the use of vehicles on the roads as the import tariffs come down and the economy opens up to that side of things as well.

**Q24 Ann McKechin:** This leads to the question of whether or not production costs in places like the neighbouring countries of China, Cambodia and Laos will have an adverse effect on the ability of Vietnam both to compete but at the same time sustain the growth in their economy.

**Dr Gainsborough:** I am relatively optimistic about the ability of Vietnam to compete for a number of reasons. The economy is more open than the formal picture presents anyway because of smuggling. Vietnamese companies have shown themselves able to cope with some quite big challenges in terms of breaking into new markets. A good example would be the catfish sector where about 80% of their exports were going to the United States. The United States said, "These are not catfish. You are trading under a false name. You cannot export them". The sector was thrown into turmoil for a period. Now, 80% goes to the European Union. I thought that was quite impressive. There are real challenges in terms of moving up to higher technology products. That is

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really where Vietnam has to go. That is definitely challenging. The other area where there is perhaps greater vulnerability in terms of adjustment is in the services sector. The banking sector is being opened very rapidly. Foreign banks and Vietnamese banks often work together. The foreign banks have technology and up-to-date knowledge and local banks have political connections and access to local markets and so on. It is not necessarily going head-to-head in that sector.

**Q25 Hugh Bayley:** It is clear that quite a number of players or donors will be scaling back their involvement as Vietnam achieves middle-income status. Who do you expect to fill the void in terms of providing outside reference points, advice and guidance and so on, the sorts of issues you are focusing on: income inequality, governance and so on. In particular, does the UN have the capacity to do this? Is that the right body?

**Dr Gainsborough:** I feel a little unsure as to precisely who will be scaling back and when and the picture of scaling back in it is entirely. If one imagined, and this may not be the whole issue, a donor-free environment at a point further down the line, in terms of reference points, we would need to look at the big foreign relations that Vietnam is involved in. Clearly, they have to think in terms of China and the United States, two powers which are very significant in Vietnam's external relations. The UN clearly does have a role to play and it has a wider programme of experience across a wide range of areas, but I do not know what precisely how they will adjust their involvement in moves to middle-income status. I do not know the answer to that.

**Mr Singh:** The UN's ability to fill a void by the passing of international donors is not proven anywhere. The UN plays a particular role, that is not about money. The transference does not take place in the same way. Their ability to negotiate with the state is not strong because in many ways it is subservient to the members and the UN's ability to negotiate that is very different from international donor communities. Therefore, I do not feel that that would have been covered by it and it has not been done anywhere else, as far as we know. I think in other countries civil societies are strong and they bring that international connection and experience and continue to demand that accountability. That is what I was alluding to earlier. That depth is not there in Vietnam and therefore our appeal would be not to be too blinded by this middle-income, income-based thing and we should look at the depth of development that is happening. I do not think the UN will do that. If we have a civil society that goes deeper and that is internationally-connected and has space to hold the system accountable as well as to negotiate, that is not going to happen in Vietnam at the same pace as the middle-income status it will achieve.

**Q26 Hugh Bayley:** I suppose the question is this: inevitably there will come a point where the per capita GDP of a country is such that it is possible for the government wholly or largely to fund basic

services addressing basic human needs itself and it would be wrong to expect outside donors to be funding that. Yet engagement with new ideas is still going to be necessary. You seem to suggesting that the government only engages with new ideas when it is "bribed" to do so, incentivised to do so, by donors offering money. I wonder whether it really is a role for development agencies once per capita income gets higher.

**Dr Gainsborough:** You wonder whether there is a role?

**Q27 Hugh Bayley:** Yes. I think it is for the private sector to do it.

**Dr Gainsborough:** How does Vietnam get impartial advice? In other words, is the private sector the best vehicle to provide that? I would have some question marks about that in my mind.

**Q28 Hugh Bayley:** Governments set their own agendas.

**Dr Gainsborough:** Indeed they do. Of course, projects with large amounts of money attached to them are attractive, with advice or not. There is a real recognition that Vietnam is far behind its regional neighbours and many other countries of the world in developmental terms. There is a real curiosity to learn about the outside world. There is a determination that Vietnam will find its own solutions by looking at a range of different experiences. A key role for donors to play right now is to make sure that Vietnam is exposed to as wide a range of different experiences as possible, but perhaps that is also about setting up a culture in which, as new problems come up, there is a constant searching for new ways to deal with them. The more donors are doing that, the better, it seems to me. Whether they do it for ever, I agree with you, is the question.

**Mr Singh:** The British Government does that. I admire DFID for constantly trying to learn, although much of their learning derives from China rather than anywhere else. I do not feel that the private sector will be able to address all these issues of governance, the issues of social justice and human rights. The private sector is not going to be able to address those kinds of experiences and debates. I agree that the possible volume of money and the flow of money from the international donor community may be of a different scale, and also the nature of engagement in the kinds of projects with which we become involved will be different. I cannot see how so quickly the international development community will be able to withdraw from Vietnam without seriously endangering the gain that has been made in many ways. The engagement will be required. We need to debate the nature of that, and how that will be leaving it entirely to the government. It is a mistake that is capable of being made. There is no question that they do what they do well and want to do more, but there is need for engaging on a range of issues which has not been done in depth yet.

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**Q29 Hugh Bayley:** Why would the gains be at risk? Are you saying the gains have been made in spite of the government because donors have set an agenda the government does not support? It is incredible to me that the government is going to take steps which mean that progress may indeed be set back. How could a refocusing of donors' money in countries where there are greater numbers of desperately poor people lead the Government of Vietnam to sabotage the gains that have been made?

**Mr Singh:** I do not think all of those gains will be lost. It is a question of continuous gains. Let us face it, there is no question that, compared with many countries where we work, Vietnam as a government and a state is much more committed to their citizens. They have good policies; not all of them have been implemented. All big changes require some mediation. In the last couple of decades, the bigger changes of openness and governance changes, budget related issues, have been mediated. It is important to recognise that, while the government is strong and can do much, many of the bigger changes require mediation and support, not only financial but also ideas and methods. I am alluding to the fact that there are lots of things related to governance, citizenship and women's rights that have not found a depth yet. It is not so much that they will lose the gains. These are the things that are likely to remain where they are and we will have a situation where the GDP of the middle-income people will produce a chronic level of poverty and issues that are not tackled. It is true that at this point in time it is a matter of speculation. It may not allow some of the gains that have been made to be sustained, not only because of the will of the government but also the things that are left without depth to them.

**Q30 Ann McKechin:** Dr Gainsborough, you spoke about the social security system in Vietnam currently not being adequate to meet the needs. We heard when we made our visit to the country that there is quite a detailed health insurance plan already in operation with a view to 100% coverage in a few years' time. On pensions, the strategy is less clear and it seems to be involving only those who are in the formal sector and not those who are self-employed or casual labourers, so there is a difficulty about whether or not the country has a full decision that it is going to be able to address the poorest and most vulnerable people. What do you think the hurdles and risks are of providing a sustainable social security system and specifically, to both of you, can I ask what role you think donors and civil society can play in its design and its implementation.

**Dr Gainsborough:** The first point I would make is that the bureaucracy is totally and utterly Kafkaesque. They can talk about these things and some people will genuinely recognise that they are important; others will not. It is important to try to educate people about why social security systems are important, and there is still work to do in that respect. Simplifying the system, making it operational, making it possible for people to claim and to find their way through the system is an area that needs attention. What is the role of NGOs in

this? We have not talked a great deal yet about civil society but civil society in Vietnam is very embryonic. I am not convinced it is in a position to play a major role in these areas at the moment. What we did get a sense of is that the role that civil society should play is as a watchdog of the government. I cannot see it playing a significant role in the provision of social services or leaving it to deal with problems of poverty.

**Q31 Ann McKechin:** The answer would be that the government has to take the major part, as you would expect in most countries. Obviously in Vietnam the political development would attend to that. Would you say that donors, such as DFID, should become involved in it and, if it is their intention to become more involved in helping them to set up these types of schemes, that they should in turn be trying to reduce the bureaucracy and should focus on technical assistance and advice?

**Dr Gainsborough:** I think that just focusing on, very simply, a workable system, a system which can be navigated by ordinary people has to be a central element to any donor intervention in this important area. I can well imagine that you could have very grand and beautiful schemes on paper but that would still be a nightmare to function and then who actually is benefiting and being served by these systems?

**Mr Singh:** We cannot get these things properly done by just emphasising the supply side of it. That is where civil society comes in; it is not simply about being a watchdog but who is going to prepare the people who are going to claim the social security and that is the role of civil society. The Women's Union can play a role. Vietnam has a different kind of civil society and we need to learn to live with that. They have an outreach to the demand side. I do believe that it is important for the international development community, including DFID, to make sure that it supports the social protection and social security side but not only working at the supply side of that. The supply side is only as strong as the demand side, and working with people, ensuring that they have a safe design.

**Q32 Ann McKechin:** If you build up a network at the grassroots of people who know what their entitlements are and are able to work through the system, that will then put pressure on the system to become more efficient because otherwise the demand would be much more visible on the other side?

**Mr Singh:** There are already other kinds of systems with money given to our actions and, because it is strong on the demand side, they are delivering, even though that is still a factor in whatever the existing security system is. I do feel that the international development community, donors, need to learn to live with the current situation, whatever civil society says. There is an international and national civil society interface. I repeat that attention has been slightly eroded because it is very attractive to want a strong state and go only into the supply side.

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Attention needs to be paid to the demand side of this system, and the demand side of the governance needs some attention.

**Dr Gainsborough:** Can I respond to the comment you made about building up civil society so that people know what their rights are, and in a sense that is putting pressure on the system to respond. There is a crucially important role for donors to play in helping to strengthen civil society in Vietnam. That is very important. One of the things I am very conscious of is how if donors do that and jump on that bandwagon without understanding the concerns and suspicions on the part of the state to the greater civil society, you could be contributing in a sense to a pressure cooker. Civil society becomes more powerful. The state is not ready for that. Civil society becomes more demanding. What I have been saying is that of course there should be work to develop civil society in these particular areas, but one also needs to think through how one builds a greater understanding within the government and the party about the positive role that civil society can play. I feel it is important that those two are done hand-in-hand to avoid that.

**Q33 Ann McKechin:** One suggestion might be that we show to the government that this is the more efficient way of delivering the output because it will actually reach the poor and vulnerable people, whom they have indicated they want to ensure are not left out.

**Dr Gainsborough:** Indeed, and I am sure there are many ways that this can be done. It is important to do both sides of the coin.

**Chairman:** It is certainly true of the European former, communist states, that civil society and NGOs very often are still regarded with suspicion, sometimes with justification.

**Q34 Hugh Bayley:** It is one thing for the state to work with civil society on the welfare agenda. It is obviously much more challenging to work with civil society on questions of governance, political reform and dealing with corruption. You have stressed the importance of donors using what leverage they have to make progress on governance. What is the role of civil society in that regard and how can donors support the capacity of civil society to grapple with these politically challenging and probably politically unwelcome agendas?

**Dr Gainsborough:** I think for me what donors should be focusing on in terms of dealing with governance issues, and of course there is a whole range of areas if we think in terms of broadening the political space which in a sense is a vague term but it is about creating a more dynamic society where people set up organisations in a whole range of different areas, whether that is in environment or education or health or leisure or whatever in ways it has not happened before, you create this plurality within society. That is important. That is the area in which donors should be working. It is important to recognise the sensitivities in this area, that if you were to push NGOs in human rights areas, then it would backfire on you very quickly in the current

climate. If one lays the foundations in terms of working to assist the growth of civil society in other areas, in time, with the right emphasis and approach, that can ease the suspicions of the state and the next step can be taken. For example, the law on association has been backwards and forwards to parliament and has never been passed. This just reflects what a politically sensitive issue it still is. A few years ago, you could not even talk about civil society and now you can, but it is still a sensitive issue. It is important not to be counter-productive. That is all I am saying.

**Mr Singh:** I agree that we need to recognise the specific context of the political system in Vietnam. I have to say there is nothing that we have wanted to do and we have not been able to do in terms of raising issues. It is not possible to come out on the street like in India or Bangladesh and go to the newspapers. One needs to gain trust but there are practical things we can do. We can do pilot projects jointly, and we worked with a particular department for two years to develop adult literacy. They were very cowed but once they agreed, it became mainstream. We have been able to point out to the provincial authorities that they were regressively taxing poor people by equally taxing the building of schools or whatever. They have retracted. The government does have the right intention particularly related to economic and social aspects. If something works, we are allowed to do it. We can go and talk about things. When I went there for the first time, the budget was still a state secret. The provincial authorities would have a handbook but we could never see it. We can now go and talk about budgets. That is where the role of civil society comes in, working in a smaller area and generating enough experience and engagement. Much of the work that civil society does in Vietnam leads to engagement through models and sharing information, but there is a space. The outright language of human rights is not going to take us very far. In 1999, we could not even use the word "advocacy". Now the government itself uses the word "advocacy". There is a possibility to do that. We require investment, not a huge amount of money, and we need to make sure that it is on the agenda of the international donor community that there are lots of governance issues that we need to address. As you know, the growth of national civil society or NGOs and international NGOs is quite organic, if you look at the experience of other countries. There is a need and space but it has to be done very differently in Vietnam from other countries, in my experience.

**Q35 Hugh Bayley:** You make a strong case for pluralism in the field of welfare. You suggest that is an area where progress can be made, but seems to me that political pluralism is needed and there will become a level of development that Vietnam cannot get past without a measure of political pluralism. I think you are telling me that is just off the agenda now. That concerns me very much. Dr Gainsborough, you made the comment in one of the papers you provided to us that it is a mistake to see all political transitions as necessarily leading to

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liberal democracy. I am not sure I agree with that because there are many forms of liberal democracy. You can have a Swedish model or a Japanese model; they are both liberal democracies but they are not at all like each other. The fundamental characteristic, though, is the contestability of the political space by people who are not part of the ruling class. Surely, a liberal reform that does not allow contestability of a political space by people who are not part of the government or part of the ruling class is not political reform that will allow the kind of transparency that enables you to deal, in the fullness of time, with corruption, human rights and the rights of minorities and so on.

**Dr Gainsborough:** I think that Vietnam will, in time, move to a more pluralistic system and it may move towards a system where there is more than one party. Whether it will be the Swedish model, the Japanese model, the Singaporean model, the Cambodian model, one dominant party state (there is more than one party but one party wins), the Korean or Taiwanese model and there is a whole range, is a guessing game. We can have views in different directions. I would like to come back on the point that this more substantive political change is off the agenda and comment on that. I do not want to say that it is off the agenda. It is about donors or external actors building relationships such that these issues can begin to be discussed but discussed quietly. That is quite important. You can begin to have a dialogue with the Vietnamese Government on these issues but if you do it in a loud noisy way, it will not work. Sensible people within the system recognise there is a major political transition of some nature somewhere down the line. What are the experiences of other countries in this? How have other countries dealt with this? What did other countries do well and what did they do badly? That particular report to which I drew your attention was really trying to do that. If it was conservative in some respects, it was because I was trying to recognise where the state was and how we can move on. If I were to get that wrong, then my report would just be dismissed out of hand. For me, that is the sort of intervention that is needed. It is a very carefully drafted subtle intervention. Donors should be clear about the political system that they think is advisable, but if we do it very noisily and publicly, then at this point in time it is likely to backfire.

**Q36 Hugh Bayley:** How do you get advice from other Asian countries? This comes back to my question: when should the donors step back? I hazarded that maybe the private sector could provide the role and expertise, and you knocked that one on the head. Maybe Malaysia, Korea and China have more lessons to pass on to Vietnam. How do you ensure that others in the region are more closely engaged in the policy agenda?

**Dr Gainsborough:** These particular countries you have mentioned—

**Q37 Hugh Bayley:** I do not know the region at all well. I was not able to go on this visit. I remember once going with an international group of MPs to

West Africa to evaluate the World Bank's performance there and the contributions of Indian and Malaysian MPs challenging the development paradigm in Africa was much more powerful than what Westerners were doing about governance because they have much more contemporary experience of economic development than we do in the UK when we took off on this two or three years ago.

**Dr Gainsborough:** Obviously I am a researcher, so I think in terms of research. I have some experience of working with the Vietnam Academy of Social Sciences. The research capacity, the ability to do good, high quality international standard research, is weak in Vietnam, for a whole range of reasons. I know that one of the areas that DFID and others are beginning to try to work in is to strengthen that capacity to do good research but, more than that, actually to strengthen the institutional framework such that that research can then be fed into policy debates and influence policy-making. That is a worthwhile area to work in. I am sure there are ways in which insights from around the region could be brought to bear in that research process and then feeding it into policy circles and policy making. That is important.

**Mr Singh:** I believe that the Vietnamese Government has its own huge amount of investment and it can learn. The number of people who go to China for all kinds of things at provincial and international levels is phenomenal. Whether they are going further afield beyond China and South-East Asia is a different matter. Certainly ASEAN<sup>1</sup> provides that framework, although most of that is for economic learning as opposed to political discussion and debate. It happens. I agree that the research institutions and sometimes research individuals have a huge amount of influence in Vietnam. If we have to take something in, we also take the research institution route because the politicians and bureaucrats read much more than in many countries that I know. I acknowledge that it is happening and it does happen in South-East Asia and in China.

**Q38 Hugh Bayley:** Is budget support the best way for DFID to deliver funding in Vietnam? Has it enhanced the policy influence that DFID has over the government's agenda?

**Dr Gainsborough:** All the intricacies of how aid is delivered is not an area I feel qualified to comment on. I would like to know more.

**Mr Singh:** At the level of principle, we are supportive of budget support because it allows the recipient to have a greater say, so, yes, I think it is a good instrument. We need to go into it deeper and disaggregate whether this present support is too linked to a World Bank-driven poverty reduction strategy paper or not. Even though we know that DFID does not have conditionality, and we are pleased with that, when we go into the more co-ordinated strategy that other donors have, many of them have conditionality attached. Vietnam still

<sup>1</sup> Association of South-East Asian Nations

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continues to host missions; in 2005, Vietnam hosted 775 donor missions. There is an issue but as a method, we think budget support is good. As civil society, we have thought about the complete reliance on budget support. DFID's interactions and funding to civil society in Vietnam have gone to practically nil. This is a self-serving comment at one level but it is important for us to realise that that may have a cost both to DFID and to civil society in the sense of the quality of that.

**Q39 Sir Robert Smith:** You emphasise the importance of strengthening civil society for the longer term foundation for stability. Do you think there has been an over reaction because it is obviously easier for DFID to monitor if you can trust the monitoring of the Government of Vietnam and hand the money over to them than if civil society moves in and out from a more direct involvement?

**Mr Singh:** We have been engaging with DFID on this in a more sustained basis. A general comment is that efficiency is not what it was because the number of staff in DFID generally is reducing and there is less funding for staff in Vietnam and globally. Therefore, resorting to budget support seems very efficient in many ways. In other countries there is competitive bidding. In Nigeria, a \$120 million project is outside the normal bidding capacity of an NGO because we just do not keep that as opposed to profit-making companies who will bid for it. We are looking to the effectiveness side of it, not just the efficiency side, which is what has led to a push too much for contract bidding and reduction of staff overall of DFID. It is not simply a financing but a knowledge institution. That is a general conversation we have and I am pleased to be able to bring that to your attention here as well. In Vietnam, we have felt for a while, and we have engaged with DFID on this, that there is a complete cut-off. I think we used to engage with DFID. It was not a huge amount of money but various international NGOs and civil society used to have access to that. We do not have that now. When I went in the early days to Vietnam, our connection and civil society's leverage with the government were mediated by DFID and the Bank and other people, which was a very unusual situation in many ways because of the nature of the state and the political system. That needs attention and we need to discuss whether the quality of contact and of feedback and leverage for civil society itself might have been lost without civil society's ability to connect, and money is a way of connecting. I know we have other connections with DFID and international donor communities through various forums. We are able to give feedback to the strategies but there is less of an organic link. In the scheme of things, this will always be relatively small. This is not in contradiction to budget support, which we wholeheartedly support.

**Dr Gainsborough:** Two things need to be borne in mind in terms of giving money to civil society, which I am sure is something that can be developed. Firstly, we have to think through what the political implications will be for NGO recipients of external money. In a sense, NGOs do what they want to do;

the good ones have a serious agenda but they try to keep a low profile. Receiving external money would give them a high profile and there are potential political consequences. The other point is that there are large numbers of NGOs which are purely about making money, so effectively they are businesses but they call themselves NGOs. It is a case of determining which are genuinely working with a public agenda and for the public good.

**Q40 Sir Robert Smith:** One of the concerns expressed to us was about what happened to Sweden, that by going very much directly to signing cheques and handing them over to the government, in effect they lost influence because they were not engaged so much in the day-to-day happenings in Vietnam and therefore had less credibility and ability to give advice. Would that be another concern?

**Mr Singh:** Of course we lose contact. There is the moral issue; if you have fewer staff and not of the same quality, then a cheque transaction is the best way. Contact at a general level of engagement is reduced. I certainly feel that.

**Q41 Chairman:** You do not get any suggestions in Vietnam, the doing more with less point, that budget support is easier to deliver than project support? The concern we sometimes have is ensuring that budget support is done for the right reasons and not the wrong reasons, namely because it is easier to deliver, cheaper to deliver and less staff demanding if you give budget support, whereas it should be a positive thing: give budget support because the engagement with government means that together you deliver more. I suppose what I am putting to you is: in terms of Vietnam, which camp do you think DFID is in?

**Mr Singh:** I think it is in the effectiveness camp. It does work. The state there is capable and it wants to do it. It is a strong state. It has its own agenda. I think that is the right reason for doing it but there is, nevertheless, an efficiency framework that is not totally outside it. That is the real reason for doing that, particularly in Vietnam, certainly. I can see that.

**Q42 Ann McKechnin:** Both of you have commented today that the monitoring systems operated by the Government of Vietnam are fairly weak. I wondered to what extent they can be relied on and where the danger of deficiencies lies. How should donors interact to try to improve these systems? This is about monitoring and evaluation and where the expenditure goes and how effective it is.

**Dr Gainsborough:** Individual projects presumably are audited and reviewed and evaluated. It is important to make sure that is a real exercise and not in a sense a paper exercise. Also, many donors are still setting clear benchmarks and goals in the broader sense and those probably are specific in particular projects about achieving particular targets. It seems to me that there should be a focus on the area of ensuring those targets are met in terms of disbursing monies.

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**Q43 Ann McKechin:** From the donors' perspective, the problem is how to justify increased amounts of spending—DFID is increasing its spending—and specifically the impact of their intervention on poverty reduction. If you have poor research and monitoring in government, it is much more difficult to try and clearly show where that improvement lies. I am trying to find out what are the best mechanisms for donors to try to improve monitoring and evaluation and to make sure that they can, in turn, tell us the taxpayers where the impact has been.

**Mr Singh:** At one level, Vietnam has an amazing capacity to produce quantitative data. You just need to go to any village and ask any question and they will be able to flick over the diary and give you a quantitative answer. A certain structure does exist. The question is about capacity and intention. I think quantitative data is collected on a large scale in Vietnam in every village, but I do not think there is enough capacity either to generate qualitative data or even a system or attitude to do that.

**Q44 Ann McKechin:** There seems to be a weakness about examining the outputs and the inputs. To give you an example, we visited a village in a rural community and there was a very good teacher-pupil ratio because the government had put extra teachers into the schools but they all stop working at midday. At the same time, almost all the female adult population was illiterate and there was no attempt to try and take that resource and use it for what was clearly a very great need within the community as a whole. You are quite right that they can tell you now many teachers there are and what the teacher ratio is and give you the arithmetical data, but there seems to be very little about working out how effective and efficient you can make the outputs. Would that be fair?

**Mr Singh:** The capacity, method and system could be hugely strengthened, both for quantitative and certainly qualitative data and the ability to synthesise the data is just not there in smaller organisations; we do have projects obviously and do a lot of that because we have a presence on the ground. We continue to rely on the view of people and take a lot of qualitative data as well through various techniques and methods of reflections and reviews. That area could certainly be strengthened.

**Q45 Ann McKechin:** Would you agree that one way that NGOs and donors could help is if by their own research they could show that better auditing and evaluation would lead to greater efficiency in how the money was spent by the Government of Vietnam if they are trying to find examples?

**Dr Gainsborough:** It is about cutting the right tone from the outset of a nascent project or an embryonic interaction. There can be a sense on the Vietnamese Government side: we will meet with you, we agree with you, you give us the money, we will do something which vaguely resembles what we talked about and then we will have a workshop and we will all shake hands and it is all done. If we do not want that to happen, and I am not saying all projects are like that, it is very important in your interactions to

get a real sense that you are working with serious people who understand each other, that you are working to a common purpose, and that you are serious about getting real results and finding ways to measure them. That is easy to say but hard to do.

**Mr Singh:** Unlike with delivery of projects, the impact has to be so much more bottom up. The impact needs to flow from the bottom end. It is culturally different as well because we have a system whereby a lot of things can flow everywhere, from top to the bottom, but flowing from bottom to top is not really established. That is because of capacity and also because of the environment but I think it can be done. At the provincial level, we can discuss anything we want, provided it is done in a manner that is not simply criticising and it is much more open and people themselves, communities, can come and talk about it.

**Q46 Chairman:** On the whole, Vietnam is doing well on poverty reduction and it is doing well on most of the MDGs, certainly better than many other countries, but there are a couple of areas that have been clearly highlighted to us where they are not doing very well. The first is HIV/AIDS, and we did look at a couple of projects when we were in Hanoi which DFID were involved in supporting. At the urban level, it would appear that there is an epidemic. I wondered whether you feel that both the government and donors are doing enough to reverse this or what more they could do. One that we did not really have a look at but we certainly had information about was sanitation. We had been to Ethiopia a few weeks before and seen what they were trying to do. The fact that there was no systematic programme was a matter of concern. Just as a by-product, we were looking at a biogas project outside Hue, which involved effectively diverting slurry from domestic pigs into a biogas digester. It occurred to the providers of this that actually human waste from the house could be usefully channelled in there as well. Effectively, they were providing people with pressured loos, not because this was a good idea in sanitation terms but because it was a good way of feeding the biogas digester. I wondered whether you had any take on both of these areas where they are off-track: what is being done and what more could be done. Is there an HIV/AIDS strategy led by the government; is there a sanitation strategy; should there be; what is the role of donors?

**Dr Gainsborough:** I do not feel qualified to comment.

**Mr Singh:** I do not have a clear idea about sanitation at this time. I will be able to provide that information later<sup>2</sup>. We can say a lot more about issues related to water. I can focus on HIV/AIDS. We have to recognise that this is a difficult issue and this is a relatively new problem for Vietnam. It is a cultural matter.

**Q47 Chairman:** The time to tackle it is when it is relatively new.

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**Mr Singh:** That is correct, but we cannot be mechanistic because it is about culture and attitude and habits in some ways. The environment in Vietnam allows the pandemic to grow. To check that, we have to have much more innovative ideas. HIV/AIDS will not be tackled simply by pumping in money. The issues of increasing urban poverty, the informal sector and women's rights are all the difficult bits, as well as the general relationships in families. The more intricate social and cultural factors require dealing with it in smaller doses and much more deeply. I feel that the overall strategy of the government exists. There is general attention by donors and at one level we see an overall amount of money is available as well. This is about the quality of the money. In the countries where we have been able to make headway in HIV/AIDS it has been through developing innovative methods of talking to communities and affecting their sexual practices and dealing with social stigma. That requires a much more diverse approach rather than a big blanket approach. There is not enough money available to do that on a smaller scale and everybody is working hard on that. I have a feeling it will happen. We need some leverage to open it up. I think the government is happy to open that up in many places but the social structures, social fabric, culture and taboos are still quite deep. I think we need to work on that.

**Q48 Chairman:** It is also part of the gender strategy?

**Mr Singh:** Yes, I think we need to have space for innovative funding, smaller and much more diverse rather than mass blanket funding. The bigger money is available everywhere in the world, as we know, but we need that to be a little more nuanced and to get a strategy for that in Vietnam. It can be done and we are doing quite well in that direction.

**Q49 Sir Robert Smith:** Earlier, you touched on how the UN was not the right vehicle. Have you followed at all the attempt to get the UN to act coherently across its offices with the "One UN" project in Vietnam, even if you are sceptical about the UN being the source?

**Dr Gainsborough:** I worked for the UNDP last year at the university and that was all the rage when I was in Hanoi. My understanding, and correct me if I am wrong, is that that has rather stalled. That structure is not in place. I do not know how quickly it is going to be in place. If I am wrong about that, I apologise.

**Mr Singh:** For a while, there has been the one resident UN co-ordinated presence. Certainly, it is better than before but I think the power relationship between different UN organisations is such that it does not work beyond a particular level. Beyond the communication level at a more operational implementation level it does not work because the power relationship is very different between resident representatives. I still maintain that the UN cannot play the role that international, bilateral and multilateral development organisations have been able to play, not least because of its ability to channel money but also its ability to negotiate.

**Chairman:** Thank you very much for that. Your final comment is interesting and subject to debate, the role between multilateral and bilateral. I think there was a fashion when people believed that everything could and should be done through multilateral agencies, whereas in reality a lot of the innovation is by bilaterals. I guess we are probably now in a state where the fashion says there should be a balance between the two. Can I thank both of you for coming in. As I said at the start, and we will be taking final evidence on Thursday, we will be producing a report. The objective is to try to get the report published before the summer. I hope we will succeed. It has been valuable to have your input because we have obviously talked to people in Vietnam and physically seen things, but for most of what we have had, and that is no criticism at all and the country director is here, we were very much in the hands of DFID in organising and arranging the programme. We had an extremely good programme and a good insight. To be fair, I can say that we were impressed with what DFID was doing but it is really important, nevertheless, that we hear what people like yourselves think about that, both in terms specifically of DFID and your own ideas. It has been helpful to have that evidence. Thank you very much indeed for coming.

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**Thursday 21 June 2007**

Members present:

Malcolm Bruce, in the Chair

John Bercow  
Richard Burden  
Ann McKechn

Joan Ruddock  
Mr Marsha Singh  
Sir Robert Smith

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*Witnesses: Mr Gareth Thomas MP, Parliamentary Under-Secretary of State and Mr Donal Brown, Head DFID Vietnam, Department for International Development, gave evidence.*

**Q50 Chairman:** This Committee is not driven by media or public attention but by what we consider to be the issues which need to be addressed. I think the change behind you is not indicative of anything other than it appears that good news does not attract as big a crowd as bad news. I do not think you should take it as anything other than perhaps a positive sign.

**Mr Thomas:** I recognise the most important people in the room are those in front of me.

**Q51 Chairman:** Flattery will get you somewhere, I suppose! Thank you both for staying on for this session of evidence. As you know we decided to do a specific investigation of Vietnam. I think the reason was the programme budget had risen very sharply and we wanted to know why and what added value DFID had to bring. Also it was not a country with which the UK had traditionally had an association, although I think some of us had the mistaken idea that it was a francophone country, which was not much in evidence, I have to say, when we were there. I wonder if I could very directly say at the start, poverty has dropped from 58% in 1993 to 19.5% in terms of the usual definition. Why have we expanded our programme so rapidly at a time when it would appear that most of the donors are scaling down? I do not say that in a negative sense. What was it that prompted DFID to believe that we should increase our programme dramatically, as we have done, from £15 million to £55 million with an on-going commitment of £50 million a year and what do we think that DFID had to offer that other donors were not providing?

**Mr Thomas:** Mr Bruce, can I firstly put on the record that I am joined by Donal Brown who is head of our programme in-country. I should also tell the Committee formally that yesterday at the All-Party Group on Vietnam I launched the consultation exercise that we are engaging in on the future of our aid programme to Vietnam. No final decisions on our aid programme to Vietnam will be taken until the Committee reports and ministers have had the chance to consider the views of the Committee. Why are we still in Vietnam? We are still there essentially because of the scale of the poverty there is in Vietnam. It is still a low-income country, albeit that considerable economic progress has been made. There are over 14 million people who are still poor, 45% of Vietnam's population are still living below two dollars a day. I suppose my essential point is there are both still a considerable number of very

poor people who need our assistance, and those people who have been lifted out of the extreme poor section are still extremely vulnerable and, therefore, need our on-going support. One of my officials described the progress that Vietnam has made as being a bit like going from North Korea to Singapore—in economic terms the pace has been so great—but I think what is perhaps wrong with that analogy is the scale of the governance challenge that still remains in Vietnam. There is a corruption challenge but there is also, for example, a lack of independent courts in-country, so there is a huge problem. The capacity of the government to deliver the change it wants is not as strong as it would like and as we would recognise. What we bring to the table is very strong technical expertise, both in governance but also in social inclusion as well. The large numbers of extreme poor who still remain, do tend to be concentrated amongst ethnic minorities, for example, and very marginalised communities and we have an advantage amongst the donor community in the expertise we can bring there. Because we are willing to provide aid through budget support, our aid and our support is particularly appreciated by the Vietnamese authorities as a result.

**Q52 Richard Burden:** Can I first place on record my particular thanks to Donal Brown for providing me with some clothes from his own wardrobe when my suitcase did not arrive. It is important to get that on the record!

**Mr Thomas:** I will check afterwards whether our aid programme was used for that purpose!

**Q53 Richard Burden:** Can I ask a little bit about, in a sense, the good news of Vietnam moving very rapidly towards middle-income status but also the challenges that presents for us as donors. Most donors appear to be planning to scale back their programmes very significantly, or to withdraw altogether, following Vietnam's attainment of that status. DFID has talked about a "graduation" strategy to deal with that issue. Could you tell us something about what that means? Is it a euphemism for withdrawal or does it mean something else? How do you see that developing? I understand your point, and it is good to know that you were launching the consultation on that very point yesterday, but what is your view about how the "graduation" strategy will work?

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**Mr Thomas:** As Vietnam becomes a middle-income country, I think there will be less demand from the Vietnamese authorities for the significant amounts of cash that we are able to provide and more appreciation of the expertise that we are able to provide. It is not a middle-income country yet so our aid is still particularly appreciated, not least because, as you say, a number of donors are withdrawing and also because there are still these considerable numbers of people who are poor, often in a very entrenched way. There are a number of Millennium Development Goals which are off-track in terms of progress where, again, we have expertise which the Vietnamese authorities are appreciating: AIDS for example, sanitation for example. What we have said is through the Development Partnership Agreement that we have negotiated, which is a ten-year programme, we have committed a level of aid for the first five years which Mr Bruce has described. Half way through that ten year process there will be a review. If middle-income country status has been achieved at that point I suspect we will see a reduction in our aid, not an immediate withdrawal from country but a slight scaling back of our aid. I think, and it is too early to say for definite, at this point the Vietnamese authorities, on the basis of what they are saying at the moment, will still want our presence to provide the technical expertise that we are able to bring to the table in a number of areas. There will be no overnight departure from Vietnam unless the Vietnamese authorities are very clear that is what they want and they are giving no indication of that. There will start to be a scaling back of our aid, whilst a continuing engagement from our staff and the expertise we are able to draw on.

**Q54 Richard Burden:** I understand it may be difficult to quantify this in any exact terms, but if we were to jump in a time machine and get to 2012 or 2015, what would you anticipate the DFID presence in Vietnam looking like in terms of resources, staffing and so on? Do you have any picture of where you think you would like to get to?

**Mr Thomas:** No is the blunt truth and we would be wrong to be starting to think at this stage explicitly about how many staff we would have in-country, what the size of our aid programme should be. I say that given the fact that we have three year Comprehensive Spending Review cycles as well. I am not going to be able to comment on what the wider situation in terms of the Department's budget would be. What we have a sense of is that the Vietnamese will still want some aid resources from us but they will particularly value the expertise of staff. We have not gone into any conversations with them about numbers, it is obviously going to depend on what the situation is in other countries in the region, and other countries generally that the Department works in. We will make an assessment over time.

**Q55 Richard Burden:** A slightly different question: DFID does seem to be placing some emphasis on the role of the UN as donors increasingly scale down their operations or pull out altogether. That said, a

number of commentators, and I think DFID itself, would say that as things stand at the moment the UN is not really in a position to take on that role. Two questions there really. First of all, how do you see that developing and what contingency planning is DFID putting in place if the UN does not scale up in the way it needs to? The second thing is how would you respond to comments made by others, for example ActionAid have said to us actually probably going down the UN route may not be the way of doing it anyway, you really need to be putting effort into building up civil society institutions inside Vietnam to take on that role?

**Mr Thomas:** I think we need to do both. If it is civil society versus the UN, I think it is a false choice. We do need to build up the capacity, and the UN provides important technical expertise in a whole variety of areas. What we want to see in Vietnam, and I hope Vietnam will be a model for every other developing country where the UN has a significant presence, is we want each of the different UN organisations to work much more effectively together than they are doing at the moment. We want them to agree a common strategy for their programme of expertise in-country and to have a common budget, and to have common leadership in a sense to work behind the leadership of the Resident Co-coordinator in their engagement with Government. Frankly, given the scale of UN organisations that there are in many countries, that is a huge challenge, getting them to work more effectively together. What makes Vietnam slightly different is the very clear message that the Vietnamese authorities have been giving to the UN to say, "Get behind UN reform, get working much more effectively together, we will come up with the things which we think are the priorities for the UN to work on and then we want you to provide leadership in backing our ideas". What they have said to us, as a donor, and a number of other donors too, is if, and indeed when, the UN gets that common programme in place we want you to back our whole programme, not give funding to one bit of the UN as opposed to another bit of the UN. There is just too much competition too often amongst UN organisations, making approaches to individual donors, "Why do you not fund us to do that? Why do you fund X other UN organisation to do that, we are better placed to do it?" We are hoping that the process that is underway in Vietnam to get that much greater co-operation and collaboration within the UN system will lead to much better technical expertise being provided with much lower transaction costs to the Government of Vietnam. We are intending to get behind that process. I should say as well, on the civil society point, we are working with the UN to develop the capacity of civil society in-country to develop the capacity of the media, unions, lawyers associations, et cetera, so I hope we are answering the ActionAid concern as well as driving the capacity of the UN to provide greater leadership forward as well.

**Q56 Mr Singh:** First of all, could I echo the words of my colleague, John Bercow, who has now left, that I was, and I think we all were, most impressed with

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the work DFID are doing in Vietnam, very impressed indeed. It appears to me, and it is in your written evidence, that poverty is particularly entrenched within the ethnic minorities and there particularly within ethnic minority women and girls. There are estimates that indicate that by 2010 ethnic minorities will make up 50% of poor Vietnamese. The DFID target is to reduce that ethnic minority poverty to 30%, and you are focusing quite clearly on programmes to do that. However, the gap seems to be growing. You are putting in the effort to reduce that gap but the gap seems to be growing. What is going wrong? Are we not doing enough work? Are we not being effective?

**Mr Thomas:** Thank you for the remarks you made about our staff and the programme more generally in Vietnam. On your point about the growing inequality, it is partly a reflection of the economic progress that is taking place across the country but also the uneven nature of that economic progress. What we are seeking to do is to use the money that we give to try and leverage better programmes by government to target those ethnic minority communities, those other marginalised communities. For example, we are providing budget support to a Government of Vietnam programme that is targeting the poorest communes in the country. That has helped to lift half a million people out of poverty in those poorest communes. You have a 90% enrolment rate in the primary schools that have been constructed in those poorest communes. We have also used our budget support to help some 25% of poor ethnic minority households get access to forest land as well. We are able to use our budget support to leverage more resources being targeted on those ethnic minority communities. As we proceed we are going to need to continue to do that, and obviously work with the Government of Vietnam to try and get other donors to do that too.

**Q57 Mr Singh:** I was quite pleased with the attitude of the Government of Vietnam because it is easy to suspect in those circumstances that there might be governmental discrimination going on but quite clearly they are very keen to eradicate poverty amongst ethnic minorities. In terms of DFID programmes, and targeting ethnic minority people, does DFID see the problem as geographical in terms of lack of infrastructure in being able to get programmes to ethnic minority people or is it more complex than that?

**Mr Thomas:** Certainly geography is one of the issues on occasion, some of the people who live in mountainous areas are very poor. One of the things we can try and do—and I think we have had some success through the budget support we provide—is to leverage the resources of the government to be better directed at the very poorest communities, some of which are in the mountainous areas and others who are not. The government has got this programme of using the data that it has got about where poverty is to target the very poorest areas and that programme is having success. What we are going to need to do is to step up the effort with the government to target those poorest communities.

**Q58 Mr Singh:** In terms of education, it struck me when we visited a variety of places that there was a lack of mother tongue teaching, people were not being taught in their own mother tongue, which I think would assist their educational development. I do understand that the problem is lack of trained people to do that. Is there anything DFID is doing specifically to address that problem?

**Mr Thomas:** I will come on to the specific issue about mother tongue teaching in a second, and bring Mr Brown in if I may on that. We have a programme of £21 million by way of budget support for primary education that is focusing on the very poorest areas and is seeking to ensure that by 2010 every school has got proper classrooms, a package of basic learning materials and trained teachers plus the sanitation that it needs as well. I hope that programme of budget support will help with the wider issue about lack of education for some of the ethnic minorities and other people who are very poor. Let me bring Mr Brown in on the mother tongue point.

**Mr Brown:** We are piloting a scheme with teaching assistants in ethnic minority areas to help them with their Vietnamese but also on the mother tongue, and for teaching mother tongue. It also goes to the wider point where the government have asked us, and we are currently undertaking a review of the effectiveness of government's national policy, to promote ethnic minority education with a specific view to look at these issues which are hindering uptake of education in ethnic minority areas.

**Q59 Sir Robert Smith:** Is not the reality of some of those geography challenges that in those mountainous areas in the long run there will be limited scope for major economic development that can pull up the local economy and it will be the industrialisation and migration and repatriation of earnings by people who have moved to find where the work is with the greater pay? Is there a strategy for dealing with the problems of that and the social problems of internal migration for these communities?

**Mr Thomas:** I do not think we should give up on rural areas, Sir Robert. One of the things we have done, for example, with our co-financing of rural transport projects is to try and make sure that rural communes have the all-weather roads that connect them to the major arterial motorways throughout Vietnam. When I went to Vietnam in 2004 I saw a commune that had had a road built for it as a result of our resources connecting it to a major motorway. The increase in people being lifted out of poverty within that commune had been extremely significant. As a result, on your wider point about internal migration, and making sure that we deal with people's vulnerability, one of the things we are looking at is the whole issue around social protection and what else we can do to support the Government of Vietnam's desire to protect its most vulnerable citizens. Through the government's Programme 135, which is its programme to target the poorest communes, we are looking at what more we can do through a basic social protection package

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to help with that issue around migration. The government taking from the successes they have had in that Programme 135, on social protection, are looking to develop a universal system of social protection and that is something we will work with them on.

**Q60 Sir Robert Smith:** The other thing you mentioned in your opening remarks is how fragile a lot of people taken out of poverty are in terms of 45% of the population still being under two dollars a day, and quite exposed to any economic shocks in the region or in the global market that knock them back. What sort of strategy is DFID involved in in conjunction with the government to try and prepare for that or to avoid the worst impacts of such a shock?

**Mr Thomas:** The universal social protection system is one obvious way but what we are trying to work on with the government as well is the broader governance challenges which Vietnam faces. If you have stronger capacity within your government to deal with economic crises and other types of shock, maybe climatic shocks, for example, given the nature of climate change too, the country would be in a much stronger position if it had the depth of talent in the senior civil service for example. We are looking at what we can do to help government strengthen its ability in a governance sense to respond. I mentioned the climate change and environment issues, again we are working through the UN family to look at what we can do collectively as a donor community to help the government prepare for the continuing impact of climate change and any climatic shocks that may come.

**Q61 Sir Robert Smith:** The view we had of witnesses earlier was that when it comes to natural disasters, Vietnam is quite well-developed at the moment in terms of being able to respond to the impact and trying to limit the consequences of natural disasters.

**Mr Thomas:** I think the tsunami and the earthquake in Pakistan demonstrated there is much more that countries can do, and indeed should do. I know Vietnam wants to bring in its own environmental protection law, and we are working through UNDP<sup>3</sup> to look at what we can do to help with that. I agree with you though that probably the most immediate challenge in terms of vulnerability is an economic one. Through the social protection system, which the government want to bring in, we will look at how we can help with the broader governance challenges, and the funding we give for education will also help in terms of giving people more skills so they are better placed to react as well.

**Q62 Joan Ruddock:** Minister, we have established that the current aid programme is about £55 million, there is going to be a minimum of £50 million a year to 2010. I think over the past five years the proportion that is going to budget support has increased from 43% to 70%. My questions are not informed by having gone on the visit, I should say, I

have not been able to go on the visit to Vietnam or Burma so this is based very much on what you have provided yourself in terms of your written evidence. In the independent evaluation of the Vietnam programme you say: "Despite the thrust towards 'programmes not projects', some of the best results, for example, in road transport and in education, have come from a combination of the two". It is clear to us this debate occurs in many country programmes but this terrific increase in budget support as opposed to projects is significant in the case of Vietnam. I can see that in terms of budget support there may be some efficiency and expediency involved but outcomes ought to be on the basis of maximum effectiveness. I would ask you if there is a case for re-examining the balance between the aid instruments that are being used in Vietnam in the light of your own internal evaluation on that of the best results are being found in a combination of both types of instruments?

**Mr Thomas:** It is something we keep under review all the time so we are always looking at the mix of budget support, project support, support for civil society, et cetera. As Hilary Benn has said a number of times, it is not one thing or the other. We will provide substantial technical assistance as well to make sure that the budget support money is well spent. Through our funding of the UN we are supporting the development of civil society in-country too so that it can better hold government to account. We are working, also, with the National Assembly so that it can hold government much better to account. I would agree with you, in a sense you need a combination of responses to the development challenge in every country. In Vietnam, because of the government situation in Vietnam, and the attitude of the government, we have confidence that our aid money can be well spent if it is delivered as budget support and the Vietnamese have made clear that if we are willing to then they want our aid to come in as budget support, indeed they have said they wish many more countries would follow our example in terms of giving aid as budget support. Given that we have got confidence that the money can be well spent—and I am happy to give some further information about outcomes from that aid—given we are able to monitor how our aid is spent very well, and given the attitude of government, its commitment to reduce poverty, its willingness to follow up concerns, to investigate corruption, its commitment to improving its position on human rights, we do think we are right to use budget support mechanisms as much as we do.

**Q63 Joan Ruddock:** A fine answer. Let me test it against the MDG goals, first of all on HIV/AIDS and secondly on sanitation. In the case of HIV/AIDS the budget is massively underspent, and again I think some internal evaluations of your own are quite critical about what has happened. Another DFID memorandum commenting on sanitation says: "Sanitation is now the most off track MDG target in Vietnam . . . Government programmes have relied on state subsidies for the construction of

<sup>3</sup> UN Development Programme

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household latrines, with little success". Here we have two examples, vital MDG goals and failure even to remain on track to meet them through programmes where clearly DFID has been working with the government, and seemingly to rather limited success.

**Mr Thomas:** There are a whole series of other areas where we give budget support also where there has been considerable success in-country in terms of the early Millennium Development Goals and perhaps around education, the programmes of budget support that we give to the poorest rural communes, et cetera. You are right, two of the key Millennium Development Goals where Vietnam are off track are sanitation and HIV/AIDS. We can be proud of what we have done. There has been a huge legal and cultural shift in attitude to how to deal with the threat of HIV/AIDS. We were one of the first donors to fund large scale prevention programmes in Vietnam. We pioneered work, for example, around needle exchange programmes and making access to condoms vastly more widespread than it was. We are now seeing evidence that some 60% of sex workers are using condoms in one of the recent surveys. That is proof of success in terms of the journey that Vietnam has come on but I accept the point it is proof, also, of a job which still clearly needs to be followed through on.

**Q64 Joan Ruddock:** May I just interrupt at that point. The figures are quite startling: £17.5 million is the programme but only £6.5 million has been spent, at least those were the figures for May this year. Given that you outlined the programme where you say there is great success, what are the difficulties in making those successes achievable on a greater scale in the budget you have allocated yourselves?

**Mr Thomas:** Let me bring Mr Brown in on some of the specifics around why there has not been more disbursement but let me also point you to the increase, for example, just over the space of 12 months in access to clean needles, up from one million in 2006 to some 10 million this year. That is an example of the scaling up that is taking place. Perhaps Mr Brown will comment on some of the specific challenges we have had in disbursement.

**Mr Brown:** Firstly, this is certainly the most sensitive area of working in Vietnam and some of the difficulties are because until two years ago it was classed as a social evil. It has been a major shift in changing minds and attitude so that has slowed some of the spend down. However, I can report we have just done a recent review, and that is now back on track and one of the reasons has been because the project, as initially designed, was a joint partnership between WHO and the Government of Vietnam. Under a redesigned process last year it has been put fully under the Government of Vietnam. That sole ownership is what has changed the whole process round, and why it is now back on track, and it shows how strong leadership by the Government of Vietnam, when they understand, can turn things around.

**Q65 Ann McKechnin:** It was very clear on our visit that DFID enjoys an excellent relationship with the Government of Vietnam, and its ability to influence the policy agenda. At the cost of using an over-used phrase this afternoon, do you consider that is DFID's main comparative advantage in its work in Vietnam over other donors? Given the fact that we are planning to reduce our budget in the medium term, in what way do you think we can retain our influence and build on that relationship we have with the Government of Vietnam at the current time?

**Mr Thomas:** I would not want you to take as gospel my comments at the beginning, in response to Mr Bruce's question, that there has been any definite decision made to reduce our aid. We will take a decision at the five year point of the Partnership Agreement. Those are simply my own personal thoughts as to what the scenario might be if the rate of progress is maintained. We do have a close relationship with government. On occasions it is a robust relationship but, given the Government of Vietnam's commitment to tackling poverty and given the progress that they have made, it has seemed eminently sensible for us to continue to work extremely closely with the Government of Vietnam. They do give very good leadership to the donor community. If we saw the type of leadership that the Government of Vietnam are willing to give on poverty reduction in their own country replicated in a whole series of other developing countries then we would be achieving the Millennium Development Goals much faster across the rest of the world.

**Q66 Sir Robert Smith:** One of the concerns expressed is that if you get too involved in just doing direct funding through the government you start to lose the influence because you are not engaged through the civil society, and you have not got evidence to go to the government. Is there a concern of losing that influence if you go too much down the road?

**Mr Thomas:** There absolutely would be if we did not engage with civil society. One of the reasons why we have a process of consulting, as we have started again, on how our aid programme is delivered is deliberately to make sure that we do get the perspective from civil society and civil society groups. One of the things that the Department has always recognised is that even in the best governance situations you need a strong civil society to give voice to the aspirations of the people in-country to be holding the political leaders to account for what they are doing and in a sense to be pointing out problems. You need a strong media and that is one of the things which we have had a dialogue with government about. We wanted the media to be much more open and much freer. We are seeing now some 200 different media outlets in-country and they are able to look at some often quite difficult issues, such as HIV/AIDS, the issue of corruption, monitoring how the government spends its money. That is a very encouraging sign in terms of civil society but we cannot relax and that is why we are working through the UN to continue to build up the capacity of civil society.

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**Q67 Chairman:** In terms of how you monitor budget support, I have a slight contradiction because your own internal evaluation says that: “The Government of Vietnam’s monitoring and evaluation mechanisms remain weak . . . without more effort, DFID cannot be sure that its resources are being optimally deployed”. When we went up to Hoa Binh, Donal will recall that, here is a very physical demonstration of where the money is going, the two bits of road with a gap in the middle which we experienced physically. If you are giving money through budget support but the government’s evaluations of that budget support are pretty weak, how confident are you that DFID’s money is or will continue to be delivering poverty reduction as opposed to something else? There seemed to be a contradiction in your analysis and yet confidence on the ground that you could physically see the result?

**Mr Brown:** Firstly, I think the important issue in Vietnam is to build up Vietnam’s systems for monitoring and evaluation. I think we have seen in too many countries that donors impose their own systems and you have a whole range of systems which take the effort away from what government needs. The first thing is to work through the government systems and build them up. We, DFID, and a number of other donors have been putting support into the Ministry of Planning and Investment’s own monitoring evaluation frameworks and a major part of the new poverty reduction strategy for government, the SEDP<sup>4</sup>, for the first time has a monitoring and evaluation framework next to it. We have been supporting the capacity building and technical support through the World Bank, through the UN, to put that framework in place and have it functioning properly. At the same time, we do our own evaluations. For example, on the Programme 135, which is a targeted budget support instrument, we did a tracking study of the money on this a year and a half ago, and that showed that only about 3% of the total funding was unaccountable for which in most developed countries is extremely good. We do our own systems, every budget support instrument also has a strong fiduciary risk analysis done as a precursor to ensure—

**Q68 Chairman:** Do I take it from what you are saying that the Government of Vietnam’s monitoring and evaluation is not very good but the bits that DFID are supporting, partly because you are doing that, you are confident are being delivered?

**Mr Brown:** We have a two track approach: developing the government systems and at the same time ensuring we have our own accountability without duplicating.

**Mr Thomas:** Mr Bruce, just to be clear, we never give budget support without at the same time investing technical assistance in developing the fiduciary systems to make sure controls are strong enough. It would be a crazy decision to do and you would rightly bring us to task very quickly.

**Q69 Richard Burden:** Compared with other countries in Asia, one of the areas that Vietnam is doing pretty well on is gender. I would like to ask you a little bit about how far that is mainstreamed in terms of DFID’s own operation there and also what the effectiveness of that is. DFID’s Gender Equality Fact Sheet from November of last year said: “Gender equality can only be achieved when women’s voices can be heard, and they have the opportunity to participate in decision-making processes which affect themselves, their families, communities and, ultimately, their countries. All too often, women are excluded from discussions and decision-making processes, both within the home and in public.” This struck us when we went up, particularly to Hang Kia village, because there, on the plus side, was 100% enrolment of girls in primary education but when you get up to upper secondary level it goes from 100% down to 2%. In the school that we saw, there were zero girls that we saw there. We were all struck by the fact when we went to meet the commune leaders, it was entirely men. Admittedly we did meet the Women’s Union afterwards but they did not appear to be involved in any positions within the commune. Similarly, when we went to see the Making Markets Work for the Poor projects, rush weaving, biogas and so on, there did not seem to be a significant gender dimension there. I am not in any way under-estimating the challenges and that somehow DFID can go into a village like the one we visited and suddenly everything will change. I wonder what is being done to try to make a difference in projects like that and how far is the gender strategy being mainstreamed in DFID’s work in Vietnam?

**Mr Thomas:** When we provide support to particular programmes of assistance, we will have a dialogue with the relevant bit of government about a whole range of issues, of which the gender dimension is one part of the conversation. For example, our support, as you describe, is getting more ethnic minority girls into school, so that is one element where we have been able to make a direct impact as a result of the dialogue we have. We are also supporting, for example, the National Assembly to promote the leadership of women through training women parliamentarians through exchange programmes. We are seeking to get that leadership at the top as well. We are looking, also, at a variety of other issues where there is a very specific gender dimension, such as the issue of selective abortions where the Government of Vietnam have made very clear that if evidence was presented to them they would take action. We have funded a study looking at the issue to make sure we could put evidence before the Government of Vietnam in order to catalyse action by them.

**Q70 Ann McKechin:** Your written evidence says that: “corruption poses a serious threat to continued development” but currently only around 3% of your programme is focused on those issues. Do you accept the balance needs to change if we are going to support long-term development and improvement in governance in Vietnam?

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<sup>4</sup> The Socio-Economic Development Plan

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**Mr Thomas:** I do not think it is the size of money that matters, it is the impact of the money you spend. We have a whole series of different ways in which we are helping to tackle the issue of corruption. Perhaps most encouraging of all is the fact that the Government of Vietnam take corruption extremely seriously themselves. The Deputy Prime Minister, for example, chairs a steering committee on anti-corruption which is seeking to modernise the institutions in Vietnam so they are better able to scrutinise budgets, change laws, follow through and track how money is being spent. Some specific things we are doing: we are funding, for example, the equivalent of the Public Accounts Committee in the Assembly to scale up their ability to monitor budgets and hold different departments to account; we are funding a new inspectorate under the leadership of the Ministry of Planning and Investment to investigate corruption allegations. As part of the agreement around our general budget support, we made a policy action requirement before disbursement to be that the government would make declaration of assets by senior officials and MPs a requirement. That has come into place and several candidates have already been disqualified in these elections for irregularities. On the Construction Sector Transparency Initiative which, Ms McKechnin, you may be familiar with, Vietnam is one of the countries that wants to pilot that initiative and some of their officials were in the UK yesterday talking to us about how that programme might work. There is a substantial engagement by our office in Hanoi with the government over corruption. Crucially they recognise they have a substantial problem and need to do more to tackle it.

**Q71 Sir Robert Smith:** You mentioned earlier that maybe one of the challenges is the social security system, some kind of safety net. It is a major challenge and a big structural change for Vietnam. What do you see as the main hurdles and risks?

**Mr Brown:** One of the main challenges is affordability of social security systems the world over. The government is adopting a stepped approach. It set itself some quite ambitious targets on this, for example in the current Poverty Reduction Strategy they want 100% of health coverage by 2011, and they want 30% of the population covered by pensions. We think they are achievable targets. One of the issues though is to ensure that it moves from the formal sector to the informal sector so it picks up the poor. That is where people like DFID are working with them to get that sort of coverage and work through those issues. The other key challenge is to make it simple. It is very complex social security systems that do not work particularly well in some of these developing countries.

**Q72 Chairman:** I think our Chancellor of the Exchequer has discovered that.

**Mr Brown:** They are looking at the one number credit card systems for all your different services which should be encouraged. We are working with them on that.

**Q73 Sir Robert Smith:** In the internal, independent evaluation of DFID's own work, it did say, "It is unclear how DFID can make a meaningful financial contribution at the level of financing likely to be required". What is the view on DFID's financial contribution to any scheme?

**Mr Thomas:** It may well be that one of the things we can do is provide technical assistance to deal with some of the problems that Mr Brown has described. I think this is an on-going conversation with government. They are looking at some of the lessons from the very basic social protection that is provided under their poorest commune programme, and they have a number of decisions to make as to how they want to proceed. They will look at the total amount of donor aid that is available and what the opportunity cost would be of using some of that aid for social protection as opposed to other issues. What I would say at this stage is I think this is something we will continue to have an open mind about but, as you say, the scale of money that is required will certainly mean we do not fund social protection on our own but it may well be a small contribution from us can help to catalyse larger sums of money from elsewhere and maybe we can provide the technical assistance. I would not want to make a commitment to the Committee at this stage but in a number of other countries in other programmes which are very expensive other donors often want us to come on board because we have particular expertise in particular areas, be it governance or social inclusion, for example. Co-financing an aid programme perhaps to help the Vietnamese around social protection may be one avenue we can explore.

**Q74 Sir Robert Smith:** Do you see a role in trying to enhance the ability of organisations in the community to make sure that users of the system understand how to best obtain their rights and adopt almost a demand-led approach of ensuring that people get what they are entitled to out of any system that is developed?

**Mr Thomas:** I think that would be essential.

**Q75 Sir Robert Smith:** Do you see a DFID role for that?

**Mr Thomas:** That is the point about making sure you have effective civil society on the ground and in-country. If a bigger programme is developed in terms of social protection, we will need to make sure as a donor working with the government that there are civil society groups doing that. It may well be appropriate for us to fund it, it may well be appropriate for another donor to fund it, but you are absolutely right in saying that somebody will need to fund civil society to help the very poorest people make sure they are getting entitlement. Perhaps, Mr Bruce, I could say that the co-ordination in Vietnam between donors and government is pretty strong. I do not think there is anything like any of the issues that we have discussed in the context of Burma. It shows donors do work extremely closely together. Obviously because there are not the problems that there are in Burma we can share information much

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more freely, both with civil society and between ourselves. These are types of issues that we would explore in the various donor fora that there are.

**Q76 Chairman:** I could safely say, two contrasting visits, two contrasting evidence sessions, both fascinating in their own way but a very positive story in Vietnam. We wanted to look at it because we thought it was an awful lot of money but I think we came away very much impressed that the money is being well spent in delivering real results. I can formally record to Donal Brown and his team, as others have said, thanks for the programme that he set up. We saw the poor ethnic minority communities in the highlands. We saw the more

dubious end of life in Hanoi. We were well entertained in the former house of ill-repute that passes as Her Majesty's Ambassador's residence! We also saw a range of projects paddling around in the rain in Hue. I think the serious point is that there is a team there working extremely effectively and delivering real results. I guess from British taxpayers' point of view this is one report where they will see taxpayers' money being spent in ways which really are bringing down poverty and we are making a direct contribution. That is a report I think you will enjoy reading; the other one I am not so sure about. Nevertheless, thank you very much, both of you for coming here and, Donal, thank you very much for the programme you put together.

**Mr Thomas:** Thank you very much.

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# Written evidence

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## Memorandum submitted by the Department for International Development (DFID)

### EXECUTIVE SUMMARY

1. Vietnam is changing fast. Government Leadership and commitment to poverty reduction and growth is strong. This has led to strong economic growth (7–8%) and poverty reduction (over 50%) during the past 10 years. The country is on course to become a Middle Income Country (MIC) by 2012. Five of the Millennium Development Goals (MDGs) have already been achieved. Only targets for HIV and AIDS, sanitation and the political representation of women remain off track. The new *Socio-Economic Development Plan* (SEDP) 2006–10, Vietnam's second *Poverty Reduction Strategy* (PRS), seeks to accelerate economic growth; improve access to basic services; protect the environment; and improve governance. WTO accession in January 2007 confirmed the progress made in the transition to a market economy since reform began two decades ago.

2. DFID has contributed to this success. Some examples of this include:

- DFID support under Rural Transport 2 (co-funded with the World Bank) reduced the number of communes without all-weather roads by 28% and lifted 210,000 people out of poverty.
- DFID support to primary education has trained 250,000 primary school teachers in 10 provinces and increased quality of schooling for more than 1 million children.
- Funding of the Government's *National Targeted Programme* (NTP) for infrastructure and livelihoods in the poorest communes (Programme 135) has helped lift 500,000 people out of poverty, increased enrolment rates through constructing and equipping 4,000 primary schools and provided access to clean drinking water for 600,000 people.
- DFID funding of the *Poverty Reduction Support Credit* (PRSC) has helped increase Government expenditure on health and education from 15% in 2000 to 21% in 2005 of total government expenditure in a rapidly increasing overall national budget.

3. But there are still big challenges. WTO accession will bring its own development challenges; 14 million people are still poor; HIV and AIDS has yet to be controlled; inequality between the majority *kinh* and ethnic minorities is growing and poverty reduction gains are very fragile with many people vulnerable to slipping back into poverty. Wider governance reform is a big challenge and social and political reforms are needed for the future prosperity and stability of Vietnam. Pervasive corruption poses a serious threat to continued development and Government accountability remains weak.

4. In recognition of Vietnam's progress but also the continuing challenges, DFID in 2006 signed a 10-year *Development Partnership Arrangement* (DPA) with the Government of Vietnam. Government welcomes the funding predictability this brings and holds it up as a model for other donors to follow. The DPA confirms the UK's long-term commitment to helping Vietnam address the remaining challenges. It commits DFID to a minimum investment of £50 million a year in support of Vietnam's poverty reduction plans (SEDP) of which the majority will be through budgetary support complemented by technical assistance and projects.

5. The DPA and the SEDP are the basis of the UK's partnership with Vietnam for poverty reduction. Building on previous experience, DFID's planned approach to poverty reduction and development in Vietnam over the next five years will continue to use a mix of budget support, technical assistance and projects to help:

- Strengthen public financial management, government accountability and tackle corruption.
- Improve the quality and inclusiveness of services for the poorest and most vulnerable including ethnic minorities in; primary education, sanitation, rural transport, HIV and AIDS, and social and health insurance for the poor.
- Assist Government to make the most of opportunities for the poor in WTO accession whilst protecting those who will be adversely affected.
- Make aid more effective in Vietnam to maximise its poverty impact including through UN reform.

### CONTEXT FOR DEVELOPMENT ASSISTANCE IN VIETNAM

6. Vietnam is a country "aiming high" in development terms. Country ownership, equality, economic growth and opportunity are important parts of Vietnam's approach to development. As a result of a decade or more of broad based economic growth and strong poverty reducing social policies Vietnam has made unrivalled progress in reducing poverty and achieving the MDGs.

7. Vietnam is still a largely agricultural economy. About 74% of its 83 million population live in rural areas. Two thirds of the population depend at least in part on agriculture for a living. Despite suffering three lost decades of economic development due to the wars, Vietnam has boomed since the Party began to turn away from communist central planning in the late 1980s under its policy of "Doi Moi". Associated

agricultural reforms transformed Vietnam from a country experiencing extreme food insecurity into one of the world's largest exporters of rice, coffee and agricultural commodities. Vietnam is now among the fastest-growing economies in Asia with consistent Gross Domestic Product (GDP) growth of around 8% (8.2% in 2006). Gross National Income (GNI) per capita was US\$ 620 in 2005.<sup>5</sup> Recent growth has been led by manufacturing which has increased by over 10% in recent years and, to a lesser extent, by services which have grown at 7% per year. The rate of poverty has fallen from 58% in 1993 to 19% in 2004—one of the sharpest declines of any developing country.

8. Vietnam's position on the United Nations Human Development Index is well above other countries with similar level of GNI. It currently ranks 108 out of 177 countries.<sup>6</sup> Life expectancy has increased to 70 years and adult literacy has been maintained at over 90%. Mortality rates among children under five have declined to 23/1,000 live births in 2004. The primary net enrolment rate increased from 91% in 1993–94 to 98% in 2004. Income inequality is relatively low.

9. It is a one-party state dominated by the Communist Party. It is led by a triumvirate of the Party General Secretary, State President and Prime Minister. Although the National Assembly (Vietnam's parliament) is increasingly powerful, it remains firmly subordinate to the Party. There are no free elections in Vietnam. Candidates for election to the National Assembly and local People's Councils must in practice be approved by the Party. There is, however, an increasing minority of elected representatives who are not Party members. The next National Assembly elections are scheduled in May 2007. No legal opposition to the regime is permitted, but nor is there any widespread popular opposition to the regime as the strong economic performance and poverty reduction gives the party and government widespread support. The Party also still enjoys popular support following its wartime successes against France, the US and China, its re-unification of Vietnam and subsequent maintenance of peace and stability.

## KEY QUESTIONS

A. *What is the appropriate size and scope for DFID's programme in Vietnam?*

10. *What is the appropriate size?*

DFID's Vietnam programme is informed by DFID's corporate resource allocation model. This uses relative country need and performance in reducing poverty and achieving improvements in living standards as the basis for allocation. DFID judges Vietnam to still need considerable aid resources with 14 million of its 83 million people living in poverty. Although Vietnam is a major recipient of ODA it is not aid dependent nor is aid per capita high by international standards. DFID judges Vietnam to have a responsive and capable government as evidenced by its strong poverty reduction (58% in 1993 to 19% in 2004) and progress towards achieving the MDGs (all but three targets on-track). Government has introduced better planning and management of its public finances (see section B below). This gives DFID confidence that its resources will be used effectively including for budgetary support. In 2006, DFID signed a 10 year DPA with Vietnam based on shared commitments to poverty reduction, human rights and improving public financial management. It commits the UK to spend a minimum of £50 million a year until 2011 and the majority of funds channelled through budget support instruments.

11. *What is the appropriate scope?*

The scope of DFID's programme has been determined by the challenges that Vietnam faces in achieving the MDGs, ensuring sustainable economic growth and poverty reduction and where DFID is best placed to respond alongside other donors. In this context, DFID works with Government to address five major challenges:

- The provision of high quality education and livelihood opportunities for the most marginalised groups.
- Increasing government's capacity and accountability to its people including by strengthening public financial management and tackling corruption.
- Preventing the spread of HIV and AIDS.
- Assisting Government to make the most of opportunities for the poor in WTO accession whilst protecting those who will be adversely affected.
- Making aid more effective in Vietnam to maximise its poverty impact including through UN reform.

12. We are also looking at increasing our support to improving access to sanitation. Other development issues are supported by those donors better placed to address them (see section D para 26).

<sup>5</sup> World Bank, 2006.

<sup>6</sup> Human Development Report 2005 (UNDP, 2005).

13. Effective delivery of this programme currently requires an office comprising 26 staff (6 UK and 20 Vietnamese). However improved IT, administrative and project management systems and strengthened in-country staff capacity, will reduce this to 22 by 2010. Given the strong Government ownership of development and good poverty policies, DFID plans to make greater use of budget support supported by technical assistance.

B. *What are the strengths and weaknesses of budget support over other aid instruments and why DFID chose to spend the majority of its funding through budget support?*

14. Some of the strengths of budget support in Vietnam in comparison with other aid instruments such as projects are that:

- It is one of the most effective ways to help increase the ability of the government of developing countries to help their people themselves and take responsibility for it. It strengthens national leadership and responsibility by directly linking donor support to Government's policies and systems. Benchmarks chosen to monitor results and performance are agreed by Government and drawn from their own national plans.
- Recent evaluations confirm<sup>7</sup> that policy dialogue, performance benchmarks and funding associated with budget support, have accelerated the pace and impact of reforms in the areas of economic growth, social inclusion, health and education and governance. Budget support has helped Ministry of Finance to bring together the main donors to agree reform decisions and has locked-in Government commitment to reforms.
- *General Budget Support (GBS)* provided by over 10 donors has risen to over \$200 million a year. This funding has supported the achievement of improved health, education and social protection where the Government is a provider of services or where the innovations supported by the PRSC have considerable costs.<sup>8</sup> 30% of GBS can be attributed to governance reforms such as financial management and public administration. Another 20% to funding necessary economic reforms such as improving business regulations, banking reforms and investment laws, 20% to education and 10% each to health, social protection and environment sectors.
- *Targeted Budget Support (TBS)* has also increased from US\$ 50 million in 2006 to about US\$ 120 million in 2007. TBS allows donors to focus their support (both financial and technical assistance) directly in sectors where stronger donor involvement in setting sector policies and priorities is necessary. DFID has provided TBS for primary education and the Government's programmes for reducing poverty in the poorest areas.
- It substantially reduces transaction costs for the Government and donors associated with implementing separate projects and reporting against different rules and regulations.
- Budget support has helped to strengthen and raise the profile of monitoring of results and ensure the links between policy measures and impact.
- Budget support has achieved a much stronger record of predictable and timely disbursement of donor funds than projects because of the use of Government's own systems and procedures. In 2005, donor budget support disbursements were 96% of commitments while projects disbursements were only 65% of commitments.
- Budget support also helps improve Government's financial, planning, monitoring and evaluation systems. As budgetary support is all "on the budget" it uses Government's own systems so both donors and Government have stronger incentives to improve these systems. All budget support programmes in Vietnam have included measures to improve transparency and financial management, clarify powers and responsibilities among different parties, and focus on results. National and sector budgets are now disclosed, anti-corruption laws and mechanisms are in place, monitoring and evaluation systems including for expenditure have been set up at both national level for the SEDP and sector programmes such as *Education for All (EFA)* and Programme 135 (see paragraph 16 for more details).

15. Some of the perceived weaknesses of budget support are:

- It is more difficult to directly attribute a specific donor contribution to specific development outcomes, as compared to projects. However recent independent international evaluations have strengthened our evidence base for assessing the impact of budget support.
- The reforms and improved delivery of Government services that budget support promotes can be less immediately effective in directly reducing poverty than some projects. However, compared with other low income countries Vietnam has remarkably strong service delivery systems giving us greater confidence that the expansion of services will benefit the poor and impact will be wider and more sustainable than donor projects.

<sup>7</sup> OECD/DAC Joint Evaluation of Budget Support, May 2006 and Independent PRSC Review, November 2006.

<sup>8</sup> Mokoro Independent Review of the PRSC1-5, November 2006.

- Donors can impose conditionality to their budgetary support although they can also do this with projects and programmes. In Vietnam the Government takes full responsibility for the reform agenda and performance benchmarks are fully agreed with them and are not imposed.

16. *Why are the majority of DFID funds spent through budget support?*

DFID Budget support has grown from just under £10 million per annum in 2002 to £34.5 million in financial year 2006–07. As a percentage of our overall programme, budget support has increased from 43% to 70% (see Table 1 below). The reasons for increasing the volume and proportion of budget support are:

- The evidence which shows the effectiveness of budget support in improving delivery of development outcomes. Independent evaluations such as the OECD/DAC evaluation of GBS<sup>9</sup> concluded that budget support has helped to increase the provision and quality of basic services. For example, the PRSC in Vietnam financed 60% of the increased costs of improving education, the national healthcare fund for the poor and restructuring of state owned banks over 2003–05. Education now represents 18% of budget compared with 15.8% in 2000. Schools and health clinics are reaching people at commune level.
- Government increasingly requests budget support. It sees its increased use by donors as a way of reducing transaction costs and improving national responsibility. Aid is just over 10% of public expenditure and until recently has been mainly achieved through projects operating to different rules and regulations. This results in high transaction costs and low disbursement rates—only 65% of donors' project commitments were disbursed in 2005.
- Budget support enables DFID to meet its commitments under the Paris Declaration on Aid Effectiveness and its Vietnamese equivalent, the *Hanoi Core Statement* (HCS) on Aid Effectiveness. These require donors to administer aid through Government's own systems.
- There is no evidence in Vietnam that funds channelled through budget support rather than projects are more at risk of being misused. Vietnam has one of the best fiduciary risk ratings for a DFID partner country. Studies to track expenditure from central to commune levels also showed very low levels of leakage (only 3–5% in Government's programme to help the poorest communes—Programme 135—low by international comparison).

17. Budget support on its own is not sufficient in Vietnam. Projects are useful in providing technical advice to Government on specific issues, when policies and implementation are not sufficient to justify budget support (rural transport) or when the fiduciary risks are too high. DFID Vietnam uses a mixture of aid instruments to maximize the achievements of the development objectives—budget support (GBS and TBS) and projects. The 10 year DPA commits DFID to spend the majority of its country programme funds through budget support. Table 1 shows the increase in use of budgetary support over recent years.

**Table 1**

**DFID VIETNAM PERCENTAGE SPENDING ON PROJECTS AND BUDGET SUPPORT**

	2003–04	2004–05	2005–06	2006–07	2007–08 (forecast)
Total spend (£million)	23.2	40.4	55.6	50	50
Projects	57%	51%	38%	31%	30%
Budget Support	43%	49%	62%	69%	70%
— General budget support	43%	49%	36%	40%	40%
— Targeted budget support			26%	29%	30%

*C. Whether DFID is focusing its activities adequately on the most vulnerable groups, including the rural poor and ethnic minorities?*

18. The *Country Programme Review* (CPR) by DFID's Evaluation Department and the National Audit Office (NAO) study on rural poverty indicate that DFID's CAP and programme are strongly focused on poverty reduction. 90% of DFID spend (£45 million) in 2006–07 was for delivering quality basic services like primary education and health care, infrastructure, agriculture and rural transport to the poor and vulnerable.

19. DFID supports Programme 135 (P135) with £26 million. This programme tackles rural poverty and is the Government's most effective National Targeted Programme (NTP). It targets 8.7 million poor people living in the 1,644 poorest communes and 2,500 of the poorest villages in the remote up-land areas of Vietnam. These areas are populated largely by ethnic minorities. DFID's support to P135 has already contributed to:

<sup>9</sup> OECD/DAC Evaluation of General Budget Support, May 2006.

- Lifting half a million poor people out of poverty in the poorest communes in the country over the last two years.
  - A 90% primary enrolment rate in the poorest communes through construction of more than 4000 primary schools.
  - Access of 600,000 people to clean drinking water (45% access) through construction of 2,346 communal taps.
20. By 2010, P135 aims to eliminate hunger, reduce the number of households living in poverty by 20% and reduce malnutrition by 5% in the poorest parts of the country. All communes and villages will have roads, water supply, schools, health clinics, electricity and markets.
21. In education, DFID provides £26 million to a project targeted at disadvantaged children. This has increased school access for disabled children and other vulnerable groups such as street children. DFID has also upgraded the teaching skills of over 250,000 primary school teachers through its £8 million project for primary teacher development. DFID support to the Government's NTP for primary education (EFA) is improving schooling quality for poor and disadvantaged children nationally. It will also accelerate the achievement of minimum standards in all primary schools by 2010. Every school will have proper classrooms, toilets, a package of basic learning materials and a trained teacher. The programme also provides free textbooks to ethnic minority children and other disadvantaged groups.
22. In rural transport, DFID supports projects (RT2 and now RT3) with £40.5m. RT2 which has recently finished, has (co-funded with the World Bank) reduced the number of rural communes without all weather roads by 28% and lifted 210,000 people out of poverty. The new phase RT3, is working to:
- Achieve road access to the poorest 3,000 communes, and enhanced mobility for three million of the poorest people in Vietnam. It is estimated this will lift 320,000 people out of poverty by 2011.
  - Ensure these gains are sustainable, by improving road maintenance systems nationwide.
  - Strengthen the capacity of provincial and district government to plan and deliver rural access efficiently and accountably. A major focus is tackling corruption in the infrastructure sectors including piloting of the Construction Sector Transparency Initiative (COSTI) which builds on the success of the Extractive Industry Transparency Initiative (EITI).
23. Complementing these is our support to the PRSC (£20 million annually). This promotes policy and institutional reforms that directly impact on the poor. For example, it has:
- Increased public spending in the social sectors.
  - Ensured 15 million poor people have health insurance and thereby access to free health care.
  - Helped 25% of poor ethnic minority households get access to forest land.
  - Increased funding to NTPs for ethnic minorities and the poorest regions.
  - Promoted gender equality by funding the issuing of land titles in the names of wives as well as husbands. About 30% of land titles now record the names of both spouses and the rights of wives are being enforced.
24. The new phase of PRSC will address gender disparities through increasing the retirement age for women to that of men to facilitate the promotion of women to senior positions in Government; supporting a law on domestic violence; and implementation of the gender equality law.

*D. Aid Effectiveness: What is DFID's role in Vietnam and where does it add value compared to other donors, particularly in light of Vietnam's cultural and historical links with other donors?*

25. Aid effectiveness is a priority for Government as the majority of Official Development Assistance (ODA) is not a free resource. About 80% of ODA comes in the form of concessional loans that must be repaid from domestic revenues. Government has a policy of only using loans for investment in infrastructure and using grants for complementary technical assistance, policy development, strengthening the capacity of Government staff and improving service quality. DFID's role and added value in Vietnam are based on an assessment of our comparative advantage in the light of what other donors are doing.

26. In terms of comparative advantage, Government has told DFID that its clear global mission to reduce poverty makes it a trusted partner and source of unambiguous advice focused only on poverty reduction. Government has welcomed the DPA with its predictability of funding and clear poverty focus and uses it as a model that other donors should follow. DFID's focus on marginalised people and their social and economic inclusion has also helped define a clear role for DFID in Vietnam. As Vietnam's largest grant donor and one of the few that is completely untied, Government often looks to DFID to provide complementary grant resources for the policy work and capacity building associated with loans—for example in the rural transport or education sectors. Government appreciates our ability to be innovative. For example, DFID was the first donor to support Government in piloting TBS to Vietnam through P135. This gave other donors the confidence to support TBS. Government also appreciates DFID's flexibility to use different type of aid instruments where appropriate (GBS, TBS, co-funding projects and technical assistance).

27. Given DFID's flexibility, Government is increasingly asking us for our aid in the form of budget support (also see section B). This allows timely and predictable disbursement of funds to deliver Government's own development outcomes. For the donor community our flexible use of aid instruments is useful in complementing others who are less flexible. Our strong technical expertise (we have the largest advisory team in country apart from the World Bank) particularly in budget support, targeting excluded groups and governance is highly regarded and seen as a useful balance to the World Bank's dominance in these areas and policy discussions with Government.

28. DFID therefore adds value in the areas of poverty focus and governance in comparison to countries such as Japan, Australia, China, France, Sweden, and the USA who have stronger cultural and historical ties with Vietnam. Our piloting of new aid instruments and leadership on improving aid effectiveness through implementing the Hanoi Core Statement is something that, until recently, other donors have been unable to do because of the lack of flexibility of their budgetary and management systems. The UN system also has strong historical links with Vietnam. The UN should have an important role but their capacity in-country remains weak and they are presently unable to fulfil their full potential. DFID has led in improving UN effectiveness by promoting the "One UN" reform process in country—one leader, one plan, one budget, one set of management systems and one "house".

29. DFID does not work in areas where others have the experience, expertise or there are already sufficient donor funding available. For example work on economic reform is better left to the international financial institutions such as the World Bank, the health sector already has a large number of EU donors and the EC, human rights dialogue to the Embassy working through the European Union (EU) and the environment to the UN, Dutch and Canadians. We are currently considering whether, over the period of the next CAP, we might also gradually withdraw from directly supporting areas where others can now lead—for example in rural transport and public financial management. This is in line with a more rational donor division of labour and in keeping with UK and EU global commitments. We have however identified a gap in resources to improving rural sanitation which we are now considering.

E. *What is the progress against relevant DFID's Public Service Agreement targets and the MDGs in Vietnam?*

30. Vietnam is making good progress against most of the MDGs (see Table 2 below). The country has already achieved the targets for income poverty and hunger. Enrolment in primary education is above 90% for boys and girls and gender equality is improving although a significant gender imbalance remains for some ethnic minority groups. The under five and maternal mortality targets are on track. 90% of births are attended by a health professional. The tuberculosis (TB) detection rate and treatment rate are high at 89% and 92% respectively. Vietnam is on track to meet the land area covered by forest and access to clean water targets.

31. However, Vietnam is off track in relation to HIV and AIDS (although data is not reliable) and in the provision of sanitation where 70% of the population are without access. Although Vietnam, like all countries, is off-track on the target for women's political representation, women are politically active and Vietnam has the highest percentage of women in the national parliament for the whole Asia-Pacific Region.

**Table 2**

PROGRESS TOWARDS MILLENNIUM DEVELOPMENT GOALS

MDG	<i>Vietnam Progress to 2005</i>
<b>One:</b> Eradicate extreme poverty and hunger	Proportion of population below the International Poverty Line: 58% in 1993 to 19.5% in 2004; <i>On track.</i>
<b>Two:</b> Achieve universal primary education	Net enrolment in primary education: boys 97.1%, girls 91.5%, both 94.3% in 2001. <i>On track.</i>
<b>Three:</b> Promote gender equality and empower women	Ratio of girls to boys in primary education: 0.93 in 2001, 0.93 in 2004. <i>On track.</i> Proportion of seats held by women in national parliament: 26% in 2000, 27.3% in 2006. <i>Off track.</i>
<b>Four:</b> Reduce child mortality	Under five mortality rate/1,000 live births: 30 in 2000, 23 in 2004. <i>On track.</i> Infant mortality rate (0–1 year)/1,000 live births: 23 in 2000, 17 in 2004. <i>On track.</i>
<b>Five:</b> Improve maternal health	Maternal mortality ratio/100,000 live births: 130 in 2000, 85 in 2004. <i>On track.</i> Proportion of births attended by skilled health personnel: 85% in 2002; 90% in 2004. <i>On track.</i>
<b>Six:</b> Combat HIV and AIDS, malaria and other diseases	HIV prevalence: Proportion of population living with HIV and AIDS is 0.5%. <i>Off track.</i>

MDG	Vietnam Progress to 2005
<b>Seven:</b> Ensure environmental sustainability	Proportion of the population using improved drinking water: 58% with access and 42% without. <i>On track</i> . Proportion of population using improved sanitation facilities: 30% with access and 70% without. <i>Off track</i> .

Source: UN country statistics.

32. DFID's 2003–06 Public Service Agreement (PSA) objectives for Asia originally included only Bangladesh, China, India and Pakistan. It was only in the subsequent PSA for 2005–08 that Vietnam was added. Nevertheless, the recent DFID Evaluation Department CPR used the 2003–06 template (Table 3 below) to assess the extent to which the Vietnam programme has contributed:

**Table 3**

ASSESSMENT OF DFID CONTRIBUTION TO THE 2003–06 PSA

<i>DFID PSA 2003–06: Objective I: Reduce poverty in Asia</i>	
Target 1: Progress towards the MDGs in 4 key countries demonstrated by:	
— a sustainable reduction in the proportion of people living in poverty from 15% to 10% in East Asia and the Pacific; and from 40% to 32% in South Asia;	DFIDV Contribution: Medium
— an increase in gross primary school enrolment from 95% to 100%; and	DFID Contribution: High
— an increase in the ratio of girls to boys enrolled in primary school from 87% to 94%;	
— a reduction in under-five mortality rates for girls and boys from 92 per 1,000 live births to 68 per 1,000;	DFID Contribution: Low (not a focus area for DFID V)
— an increase in the proportion of births assisted by skilled birth attendants from 39% to 57%;	
— prevalence of HIV and AIDS infection in vulnerable groups being below 5%;	DFID Contribution: Low
— a tuberculosis case detection rate above 70%;	
— a TB treatment rate greater than 85%.	n/a

Source: DFID Evaluation Department Report EV673

Note: ratings High, Medium, Low are estimates by the CPR team

33. The table is based on assessing the level of attribution (ie the extent to which the observed outcome can reasonably be attributed to DFIDV) and the impact of the DFID effort in terms of the goals that were set for the specific programmes by DFIDV and Government. In practice only 4 out of 8 of the targets are relevant because DFIDV did not implement any programmes to address TB.

34. Overall, DFIDV has scored well for its contribution to improving the poverty focus of Vietnam's national policies and use of its public financial resources (see section C). Similarly the DFID contribution to the two education PSA targets are rated as "High" because of the efforts to improve teaching quality through raising standards and more recently under targeted budget support to ensure access for the poorest and marginalised. DFID had only minor contributions to programmes targeting child and maternal mortality through funding infrastructure support for poor people and regions through RT2 (rural roads) and P135. The assessment against HIV and AIDS status is "Low" although the improved performance of the HIV and AIDS project targeting high risk groups is starting to pay off—for example provision of clean needles and syringe provision in 2007 is expected to be 10 million, up from only 1.5 million in 2006.

*F. What is the role of MDGs in shaping DFID's programme of assistance to Vietnam and the Government of Vietnam's Socio-Economic Development Plan (SEDP)?*

35. About 90% of DFID's funding in Vietnam directly supports progress against the MDGs. Vietnam has already met many of the MDG targets and is on track to meet most of the others. So the Government has set itself even more challenging MDG targets called the Vietnam Development Goals (VDGs). The Government's SEDP sets out its plans for achieving the MDGs and its own more ambitious targets. The SEDP also recognises that improvements in governance are fundamental to sustaining economic growth and poverty reduction.

36. The DFID Vietnam country programme objectives directly support achievement of the MDGs and VDGs. There are major programmes in rural poverty, primary education, rural transport and economic opportunities for the poor. DFID's new CAP (2007–11) is organised around support to the SEDP with a particular focus on three SEDP pillars (governance, economic growth and social inclusion). Governance is an increasing focus of the programme (see section G).

37. The current off-track MDG targets are HIV and AIDS, sanitation and women's representation in the national parliament. As part of DFID's new CAP (2007–11) we are exploring how to increase support to the sanitation sector. With regard to HIV and AIDS, DFID is the main funder of programmes for high risk groups. Improvements in DFID's project performance and Government commitment to tackling HIV and AIDS also increase opportunities for further investment in tackling HIV and AIDS. With regard to representation in Parliament, DFID supports a project with the Office of the National Assembly which promotes gender equality. On this last MDG target, Vietnam is doing better than most Asian countries and the UK.

38. An important focus of the SEDP is the needs of the poor and vulnerable, ethnic minorities and poor urban migrants. It also has a focus on the poorest provinces in the country, which have made poor progress towards achieving the MDGs. These priorities are reflected in budget allocations. Over the SEDP period the allocations for NTPs (the main vehicle for reaching the poor and vulnerable in poor provinces) will increase significantly.<sup>10</sup> DFID has been a significant funder of NTP P135 and other poverty targeting programmes. The Government is committed to making basic health, education, housing and credit accessible to urban migrants. Allocations for social sector spending which underpins the achievement of the MDGs has been steadily increasing from 6.9% (2000) to 9.2% of GDP (2006).

#### G. *What is the impact of governance on DFID programmes and DFID programmes on governance?*

##### 39. *What is the impact of governance on DFID programmes?*

DFID's own Country Governance Assessment and Country Programme Review indicate that governance reform is a main challenge for the future of Vietnam. Significant changes will be needed to run a country where the public have raised expectations, is more integrated globally and whose economy is more complex. Widespread petty corruption poses a serious threat to continued development. Accountability remains weak, National Assembly oversight of the executive is limited, the judiciary is not independent, and media freedom is still carefully controlled as is people's participation in the political process.

40. In response to these challenges, DFID has increased its work on governance. Our draft CAP identifies the priority areas for the next five years: (i) strengthening anti-corruption measures and public financial management; (ii) strengthening institutions which promote domestic accountability (like the National Assembly and State Audit, as well as civil society and media); and (iii) increasing people's participation in the political process. On human rights, we use the established EU dialogue with Government and support the Embassy's lead.

41. DFID monitors the impact of governance on its programmes through: (i) ongoing financial monitoring for all projects including targeted budget support; (ii) annual political governance and financial management risk assessments for the PRSC; (iii) twice-yearly DPA meetings with Government to jointly monitor progress against DPA benchmarks; and (iv) periodic country governance assessments.

42. DFID also uses the DPA discussions and benchmarks, the twice yearly formal donor meetings with Government and the PRSC policy discussions to focus attention on Government's commitments and progress in tackling corruption. All UK high level meetings with Government are also used to reinforce these messages—recent examples include the visit of the Vietnamese Minister of Finance in February 2007 to DFID and the Secretary of State, Hilary Benn's visit to Vietnam in September 2006. Annual project reviews, financial audits and financial management assessments ensure rigorous monitoring and risk assessment of DFID's programme. DFID's Internal Audit Department carried out a full programme audit in 2006 and rated our systems as one of the best in DFID.

##### 43. *What is the impact of DFID's programme on governance?*

The recent CPR found that DFID's impact through our Public Financial Management programmes included:

- Establishment of the Inspectorate in Ministry of Planning (MPI) with responsibility for investment spending in all 64 provinces.
- Strengthened capacity of the elected bodies (National Assembly and Provincial Peoples Councils) to inspect Government budgets.
- Introduction of medium-term expenditure planning in Ministry of Finance through adoption of sectoral Medium Term Expenditure Frameworks.

<sup>10</sup> The government allocation for P135 phase 2 has increased by 23%. The allocation for Hunger Eradication and Poverty Reduction (HEPR) has increased by roughly 10%.

- Improved coordination of development plans/budgets, and adopted budgeting norms making capital and recurrent spending more coherent.

44. In addition, impact through our sector work includes:

- through P135, DFID support has improved financial management by introducing reconciliation between the treasury and spending units;
- through the EFA, we supported an assessment of procurement and financial management in the education sector;
- through the Primary Teacher Development Project we supported the introduction of the first-ever competence framework to strengthen performance management of teachers; and
- through our work on rural roads (RT2), we supported the development of a small-scale contractor market for the road sector in Vietnam. This has increased competition, improved procurement practices and value for money.

45. DFID has also had considerable impact on the way other donors view governance. For example by drafting the governance section of the 2007 Vietnam Development Report (VDR)—the donor community’s joint response to the SEDP. The analysis persuaded donors that the governance priority for the next five years should be improving the accountability of state institutions.

#### H. *Trade and the Private Sector: What is the likely impact on development of Vietnam WTO’s membership?*

46. WTO accession should contribute significantly to continued growth, further poverty reduction, and help achieve the MDGs through increased incomes and opportunities for employment for people and resources for Government to devote to social development. However the impact on development can be both positive and negative. On the positive side WTO membership will:

- Strengthen investor confidence as the economy becomes more rule-based and transparent, thus further increasing domestic and foreign investment.
- Provide greater momentum for further reforms and more open competition between firms. For example, Vietnamese investment rules and regulations are being brought up to international standards.
- Give access to WTO mechanisms to deal with trade-related disputes. Anti-dumping cases against Vietnam by the US in cat fish and EU in shoes last year resulted in severe reductions in employment for the poor. Analysts viewed that Vietnam could have won the cases with WTO membership.
- Increase the share of Vietnam’s products and services in foreign markets. In the first two months of 2007 since WTO accession, exports increased by 23.5% compared to the same period of 2006.

47. Potential negative impacts include:

- Increased competition from abroad and removal of subsidies may lead to adverse social impacts. Small holders in agriculture could be forced out of sectors such as maize, sugar, livestock fruit production. Small family businesses and companies could lose out to foreign competition in goods and service distribution.
- Greater vulnerability of people’s livelihoods and the economy as Vietnam integrates itself into global capital and product markets. Vietnam’s semi-closed economy protected it from the impact of the Asian financial crisis in 1997–98 but this will no longer be the case.
- Vietnam’s needs to develop sufficient trade related infrastructure such as roads, ports, industrial zones, power plans, may lead to serious environment damage.

48. DFID, with Australian Aid and the World Bank is supporting Government’s preparation of its WTO implementation plan including the incorporation of a “development approach” to the implementation of WTO commitments. This will help Government develop and implement a credible, pro-poor, pro-environment post WTO action plan to ensure Vietnam takes full advantage of the economic opportunities whilst protecting against the negative impacts on the poor and the environment. As 45% of the population currently survive on less than \$2 US per day, we are working with Government to develop a comprehensive social and health insurance programme that includes the poor to reduce their vulnerability to slipping back into poverty.

#### MAIN CHALLENGES AND ISSUES

##### I. *Most of Vietnam’s poor live in rural areas*

49. 19% of the population, 14 million Vietnamese still live in poverty. 13 million of those live in rural areas. One million poor people are estimated to live in urban areas but this figure is probably a significant underestimate.

Table 4

## GEOGRAPHICAL DISTRIBUTION OF POVERTY IN VIETNAM

<i>Where is poverty</i>	<i>Poverty Rate (%)</i>		<i>Millions of people</i>
	<i>1998</i>	<i>2004</i>	
DELTA	33.1	14	4.8
COAST	48.1	31.9	3.3
UPLANDS	58.3	34.3	4.7
URBAN	9.2	3.6	1.0

*Source:* Vietnam Households Living Standards Survey

50. *Delta and coastal poor*

Largely reliant on agriculture, land is becoming increasingly scarce and many are losing land as a result of the commercialisation of agricultural production and industrialisation. Off-farm employment is mostly informal and low paid as the poor lack the skills required to access the better paid private sector jobs. Their poverty is compounded by variable access to basic services. The coastal poor, in particular, are vulnerable to annual weather shocks—typhoons, flooding, and drought.

51. *Upland poor*

Limited access to irrigated and forest land, credit, advice on farming, markets and health and education services is a result of their remoteness. The full benefits of national economic growth have yet to reach these areas. Language and culture are also major barriers. Ethnic minority women and girls are particularly disadvantaged and fare poorly across the MDGs. One in five of them do not have access to basic education and maternal mortality, despite low national averages, is significant as few trained birth attendants are available.

52. *Urban poor*

“Officially” only 1 million. This is an underestimate as unregistered rural migrants are not included in censuses. Such migrants seek low paid informal employment but, lacking registration, they are unable to access basic services, and housing quality and access to credit are major problems. If these issues are not addressed effectively and planned for the number of urban poor number will grow.

53. *The vulnerable*

Because poverty reduction has been rapid in Vietnam those who have escaped poverty subsist just above the poverty line (45% of the population survive on less than \$2 US per day). They are very vulnerable to shocks—economic, political, weather or public health—and could easily slide back into poverty. Government recognises this problem and is planning new forms of social protection which DFID will support.

54. Government’s SEDP recognises that poverty is essentially a rural phenomenon. Two of the pillars of the SEDP are committed to improve access to basic services for the poor, develop social and health insurance for the poor and protect the environment, the degradation of which affects the poor most. Government has most success in delta and coastal poverty reduction. It is in the remote rural areas that poverty reduction is least successful and Government’s plans and programmes are being strengthened with DFID support (*see section C*).

J. *Ethnic minority populations are almost twice as likely to be poor and over three times as likely to live in hunger*

55. Vietnam since *Doi Moi* has seen impressive growth and reductions in poverty benefiting the population as a whole. Over the past 11 years poverty has reduced by almost 40% from 58% in 1993 to 19.5% in 2004 (see Table 5 below). This has lifted 30 million people out of poverty. In fact between 2002 and 2004 the rate of poverty reduction has doubled (to 5% annually) largely due to broad based growth and steep gains in world agriculture prices for rice and coffee. This progress is unprecedented and Vietnam outperforms countries like China which took double the time to reduce poverty by the same levels.

56. Ethnic minorities continue to lag behind (Table 5). In 2004, 60% of ethnic minorities were poor as compared to 13.5% of Kinh, the majority ethnic group. This implies that ethnic minorities are nearly four times more likely to be poor in comparison to the Kinh. Data also suggests that ethnic minorities experience much deeper poverty than the Kinh majority. In 2004, over 34% of ethnic minorities lived in hunger in comparison to 3.5% of Kinh.

Table 5

## DISTRIBUTION OF POVERTY BETWEEN KINH AND ETHNIC MINORITIES

	1993	1998	2002	2004
<b>Poverty Rate</b>	<b>58.1</b>	<b>37.4</b>	<b>28.9</b>	<b>19.5</b>
Kinh	53.9	31.1	23.1	13.5
Ethnic Minorities	86.4	75.2	69.3	60.7
<b>Food Poverty</b>				
Kinh	20.8	10.6	6.5	3.5
Ethnic Minorities	52	41.8	41.5	34.2
<b>Poverty Gap</b>				
Kinh	16	7.1	4.7	2.6
Ethnic Minorities	34.7	24.2	22.8	19.2

Source: General Statistics Office, 2004 VHLSS

57. The SEDP has a strong focus on the needs of ethnic minorities in remote regions. The Government's response is to use of specific poverty targeted programmes—NTPs. (Section C provides details on DFID support to NTPs).

*K. There are concerns about progress on the MDG target for sanitation*

58. Sanitation is now the most off track MDG target in Vietnam. Rural sanitation coverage rates are very low with only 16% of the rural population having access to hygienic sanitation facilities in 2004. The low coverage is particularly striking when compared to access to other forms of infrastructure, for example the rates of rural electricity access are over 90%.

59. The joint donor-Government review in 2005 revealed that in poorer regions with less access to clean water and hygienic latrines, there was a greater incidence in malnourishment and diarrhoea related illness in children. These in turn lead to infant malnutrition, loss of productive capacity in later life and higher health care costs. The impact of low sanitation coverage is felt disproportionately by women. They are affected most by the lack of privacy and shoulder the burden of caring for sick family members.

60. The previous five-year SEDP did not emphasise sanitation. Only in the recent five-year plan, 2006–10 are environmental issues including water and sanitation addressed adequately. The situation is further hampered by the lack of a clear lead ministry for rural sanitation. The mandate for rural sanitation passed from the Ministry of Health to the Ministry of Agriculture and Rural Development in 2000 but neither Ministry have made the issue a priority. Consequently the sector has been underfunded. Only \$35 million dollars a year is currently being invested in rural sanitation, less than half that required to meet the Government's own coverage target of 75% access by 2010.

61. DFID has been working on sanitation in a number of ways. Firstly we have been funding sanitation facilities in schools and raising awareness of hygiene through our support to Government education programmes. Secondly through the sanitation components of its rural infrastructure programmes eg Northern Mountains Poverty Reduction Project and more recently through the NTP Programme 135. Thirdly through the PRSC we have talked with Government to clarify the institutional roles, policy priorities and raise the levels of investment in the sector. We have also strengthened the World Bank's capacity in this sector (the main investor in water and sanitation) through secondment of a DFID infrastructure adviser.

62. An important element of our discussions with Government has been to improve the Government's approach to sanitation provision. Government programmes have relied on state subsidies for the construction of household latrines, with little success. A lack of communication and education on the need for improved sanitation behaviour and inappropriate latrine designs has led to many latrines simply being left unused. Introducing demand led approaches that have been successful in other countries is a focus for the future. This work will be reinforced through a regional "research into action" programme managed by the World Bank, Water and Sanitation Programme (WSP) supported by DFID and Sweden.

63. But this is not enough. DFID Vietnam is examining options for further support for sanitation. The most likely approach at present will be to co-finance the next phase of the World Bank's water and sanitation work in Vietnam. Initial analysis indicates that a direct DFID investment in the sector of £20 million could increase rural sanitation coverage by around 8%, or roughly 4 million people. In addition by improving the effectiveness of Government's own investments sanitation coverage rates could increase by up to 10% per year, getting the sector back on track to meet the MDG target by 2015.

#### L. *HIV prevalence is on the increase*

64. Since the first recorded AIDS case in 1990, reported HIV infections and AIDS cases has risen rapidly. The number of people living with HIV and AIDS is estimated to have increased to 260,000 by the end of 2005, with the number of annual AIDS deaths rising between 2003 and 2005 from 9,000 to 14,000. Latest national figures place the prevalence rate among the general population at 0.3% whilst the UN estimate a rate of 0.5%. This is low by international comparison.

65. According to Government, prevalence levels are stabilising in the general population although the picture is not clear. If the data is broken down, the economic hubs of Ho Chi Minh City, Hai Phong and other cities show prevalence rates in excess of 1%. The point at it would become a generalized epidemic.

66. As in other East Asian countries, the epidemic in Vietnam is concentrated among high risk groups notably intravenous drug users (IDUs) and sex workers (SWs). IDUs comprise 50–60% of all reported HIV infections and prevalence rates among IDUs have risen sharply from an estimated 25% in 2000 to 34% in 2005. By 2005 prevalence among sex workers had increased to 16%. Both these groups are recognised as the main sources for a more generalised epidemic. The significant increase in HIV prevalence among at risk groups presents a serious threat of more rapid transmission to the whole population. There urgent need to contain the spread to the wider population through prevention programmes targeted at these at risk groups.

67. In recent years, there has been an increase in political will to tackle the epidemic. Traditionally in Vietnam, HIV is associated with drugs and prostitution and treated as a “social evil” by the state. The state’s response has been discrimination and punishment. Since 2000, Government policy has slowly evolved to promote prevention and harm reduction programmes for at risk groups, in line with international good practice. In 2006, a law on HIV and AIDS prevention was passed providing a legal framework for harm reduction interventions (needle exchange and drug substitution therapy). This improved policy environment offers the opportunity to scale up coverage of prevention and harm reduction activities to reduce the spread of the HIV epidemic.

68. In 2002 DFID pioneered with Government HIV prevention targeted at high risk and marginalised groups. Sex workers and IDUs in one third of the 64 provinces were provided with access to condoms and clean needles. As a result national capacity to deal with at risk groups has been strengthened and the new AIDS law provides a more positive environment within which to increase clean needle and syringe provision (from 1.5 million needles in 2006 to 10 million in 2007) and support procurement for Vietnam’s first methadone programme. Since 2006, DFID has taken a lead in coordinating the donor response to HIV to ensure that donor funding is used to best effect. DFID is currently exploring whether to provide extra resources for expanded delivery of harm reduction work.

#### M. *Other Significant Challenges Facing Vietnam*

##### 69. *Improving the efficiency of state investment*

Continued rapid economic growth is underpinned by high rates of investment. Measures are needed to make sure state investment decisions are transparent and based on sound economic and social analysis. Insufficient attention to this increases funding risks and potential contingent liabilities putting in jeopardy national funding for poverty reduction.

##### 70. *Tackling pockets of persistent poverty*

Economic growth will continue to reduce poverty but some persistent pockets of poverty are likely to remain—remoter regions and ethnic minorities. As poverty falls, stronger targeting of NTPs will be required and new approaches needed.

##### 71. *Dealing with the negative impacts of WTO membership*

WTO accession will generate new vulnerable groups and pockets of poverty. The development of a land market will increase landlessness and rapid urbanization may lead to increased urban poverty. Effective action to tackle these will require better information and research combined with a more open debate on the problems and solutions. The challenges of rapid migration, urbanisation and land sales will need to be managed in a fair, transparent and well-informed manner.

##### 72. *The governance agenda remains very challenging*

Reforms are underway in promoting more transparent and accountable public financial management at all levels of Government. Legal and judicial reforms have been less rapid and need to be accelerated over the next few years. Corruption represents one of the most significant risks to growth and poverty reduction over the next five years. The Government is fully aware of this but will need to carry out on its promises to tackle this. Simplifying and strengthening Government systems will be an important part of the solution.

73. In regard to these other challenges, the Development Banks such as the World Bank and Asian Development Bank lead on supporting Government’s economic growth and reform programme including state investment. In line with the recent Country Programme Review, DFID’s focus, working with other

donors, will be to help Government to strengthen its approach to reducing poverty of marginalised groups including ethnic minorities, addressing new poverty challenges such as urbanisation and WTO accession, strengthening governance and tackling corruption.

*April 2007*

#### ACRONYMS AND ABBREVIATIONS

CAP	Country Assistance Plan
CGA	Country Governance Analysis
COSTI	Construction Sector Transparency Initiative
CPR	(DFID) Country Programme Review
DPA	Development Partnership Arrangement
EFA	Education For All (targeted budget support)
EITI	Extractive Industry Transparency Initiative
EU	European Union
FRA	Fiduciary Risk Assessment
GBS	General Budget Support
GDP	Gross Domestic Product
GNI	Gross National Income
HCS	Hanoi Core Statement
HIV and AIDS	Human Immunodeficiency Virus and Acquired Immunodeficiency Syndrome
IDU	Injecting Drug Users
MIC	Middle Income Country
MDG	Millennium Development Goal
MPI	Ministry of Planning and Investment
NAO	National Audit Office—UK
NGO	Non Governmental Organization
NTP	National Targeted Programme
ODA	Official Development Assistance
OECD/DAC	Organisation of Economic Co-operation and Development/Development Assistance Committee
P135	Programme 135—Livelihoods and Infrastructure for Poorest Rural Communes
PRS	Poverty Reduction Strategy (National poverty reduction plan)
PRSC	Poverty Reduction Support Credit
PSA	Public Service Agreement
RT	Rural Transport (RT2 and RT3—co-funded projects with the World Bank)
SEDP	Socio-Economic Development Plan (Vietnam's PRS)
TB	Tuberculosis
TBS	Targeted Budget Support
UN	United Nations
UNDP	United Nations Development Programme
VDG	Vietnam Development Goal (Vietnam's version of the MDGS)
VDR	Vietnam Development Report 2007
WSP	Water and Sanitation Programme
WTO	World Trade Organisation

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#### Letter from Ramesh Singh, Chief Executive, ActionAid International

##### VIETNAM INQUIRY—WATER AND SANITATION

Further to my testimony to the International Development Committee on 19 June 2007 I am writing to you with additional general comments on water and sanitation.

In many developing countries the level of public investment (tax revenues and development assistance) that go into extending the infrastructure, connecting people up, is far below necessary levels. The UN Human Development Report 2008 estimates that water and sanitation infrastructure spending is only up to 0.5% of GDP, against a minimum target of at least 1% of GDP, in most developing countries.

Charging for water should not be a barrier to poor women and men consuming healthy levels. The World Health Organisation and others say that 30–50 litres per person, per day is necessary just to cover domestic uses of water—drinking, cleaning, washing, and cooking. Poor people currently pay more for water than the rich because they are least likely to be connected to the infrastructure due to a lack of government investment. Subsidies for consumer charges need to be transparent—most subsidies are actually captured by those connected to the infrastructure, therefore excluding poor people from the benefits.

Most poor people in urban areas get most of their water from the local private sector. In rural areas water is largely self-supplied, from family or community wells, surface or ground water, which is often contaminated. The key issue is how the government regulates and facilitates the local private sector in the delivery of public water services. There may also be issues concerning the conditions imposed on government. For example, a World Bank loan for infrastructure development might require the involvement of the international private sector.

Sanitation presents further challenges: organic and inorganic pollution, especially in urban areas; the degradation of water environments, for example, the depletion of groundwater due to over-abstraction as a result of irrigation is a common problem. The contamination of surface and ground water with pesticides and other chemicals used in agriculture and manufacturing often exacerbate the situation. Most governments do not have a strong Integrated Water Resources Management infrastructure that goes right down to the river basin level yet successful IWRM is vital, particularly in relation to tapping distant aquifers and river basins to serve urban populations. However, Vietnam is different because of the Mekong Basin which is being managed cross-border.

There are usually no budgets, no plan, and no clearly accountable government agency for sanitation. Responsibility is often fragmented amongst different ministries and agencies within ministries. Globally, the Millennium Development Goal for sanitation is more off-track than the one for water supply, though that might not be true for Vietnam. Tackling sanitation effectively requires a version of the three “ones”—one budget, one accountable institution and one plan. A key issue here is the division of responsibility between the state and individual households. This is not always clear, but a good rule of thumb is that government must provide the infrastructure to take away sewage and solid waste, with households responsible for household-level sanitation, such as the latrine or toilet. Government regulation is therefore needed for buildings, especially houses. However, in urban slums this becomes problematic because most urban dwellers are renters, and in many urban slums there is not even the land space to build a toilet or latrine. In these cases the state has to come forward with solutions, such as community-level toilet blocs.

Access to water is a human right. It is essential to look into constitutional and policy issues that may lead to abuse of this right, for example, the way subsidies are set up, the way prices are set, and the way certain communities, like slum dwellers, are denied connection to the main pipeline because of their illegal status.

I hope these remarks are useful for your inquiry.

Yours sincerely

*Ramesh Singh*

Chief Executive, ActionAid International

9 July 2007

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#### **Memorandum submitted by Dr Martin Gainsborough**

1. Time and existing work prevent me from making a fuller written submission for which I apologise. However, I would like to draw your attention to two existing pieces of work, which I hope can form part of your deliberations on DfID's programme in Vietnam. Both pieces of work offer my considered opinion on where Vietnam is at and where it is going—and hence provide insights into where DfID ought to be working. This covering note aims to provide some background in respect of these documents.

2. The first piece of work I would like to draw to the Committee's attention is a report published by the Bristol-Vietnam Project linked to the Tenth Communist Party Congress in Vietnam, which took place in April 2006. Party Congresses happen every five years in Vietnam. They make changes to the country's top personnel (the Politburo and Central Committee) and set out policy direction for the next five years. As well as analysing the Tenth Congress, the report looks at the outlook for the macroeconomy, prospects for political change, corruption and the likely impact of World Trade Organisation membership. The report, which was read widely by business, embassies and the international donor community, also includes an executive summary. This report is important because it offers high quality independent analysis of Vietnam's present as well as considered judgements about its future.

3. The second piece of work is a study entitled “A Comparative Study of Governance Reform Options for Vietnam To 2020 Drawing on the Lessons from Asia”. It was commissioned on behalf of the Department for International Development (DfID), the United Nations Development Programme, and the Vietnam Academy of Social Sciences, in order to provide a forward looking analysis of emerging challenges in respect of governance. I was the lead author. The report also includes an executive summary. The report highlights six areas where it is felt that more work needs to be done to assist Vietnam realise its developmental goals and achieve a successful transition. The six areas are:

- (i) actively promote the development of civil society to serve as a “disciplined partner” with the state in the pursuit of national development goals;
- (ii) manage the emergence of a more powerful business class;
- (iii) manage the emergence of a more vocal labour movement;
- (iv) extend and institutionalise the process of citizen deliberation in respect of public policy;

- (v) step up efforts to build social cohesion across a broad range of fronts; and
- (vi) consider ways to increase competition and widen the franchise for the election of Party and Government positions.

4. I would suggest that these are key areas where DfID could usefully apply its resources and channel its expertise. These are key “strategic” issues which Vietnam is currently grappling with on the back of rapid economic and social change. They need to be managed properly if Vietnam is to continue on a successful developmental path. Without good management, there is a danger of social unrest and political instability. In my opinion, these are areas where the Vietnamese government could usefully benefit from outside experience in terms of different ways of approaching things as well as insights into what works and what doesn’t work. I also believe these are areas where DfID can add value offering relatively impartial, non-ideological advice. I would argue that it is more important that DfID support the government in this area—where good, well-targeted policy intervention is relatively rare—than in providing basic infrastructure, whether that be roads, schools or wells. In a sense, Vietnam does not need assistance in respect of infrastructure, or needs it less, or will get it from other agencies. Instead, introducing the government to new ways of thinking and giving it the confidence to take that next step in respect of governance changes—which it often finds unnerving—are areas where I think DfID could usefully channel its energies.

5. It is worth remembering that the Vietnamese state is a relatively strong state—somewhat dysfunctional on day-to-day basis but very capable when things matters. The government will always choose its own path—which is how it should be—but it is keen to study other country experience in order to draw appropriate lessons. Ensuring that the government is exposed to as wide range of experience as possible, and then working with it to devise suitably tailored projects to improve governance, is an area where DfID can potentially provide leadership and make a real difference.

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**Memorandum submitted by Prof E R Orskov**

I will just make a few comments as it is probably too late for the international committee. As you know they are presently in Vietnam and have visited some community projects in Hue Central Vietnam which I advised them to visit.

The principles of the community project there is based on strong communities using livestock and revolving funds. While the situation in Thailand and Burmese refugees is very different the principles of community project could be used. This would mean encouragement and stimulation of formation of communities which can work together then identifying means with which the communities can generate some income which can be many different thing sewing machines etc. Such communities can be supported to receive some help or even microcredit to start some income generating activities to give security and to assist in education of children etc.

Free gifts in my experience generally do not work but gifts with community commitments do work. so a small amount of aid put in the correct place can achieve a great deal as the community has to pay for the aid by helping others after a given time. It is not possible for me to say what would be the most appropriate form of aid but I believe the principle of stimulating the formation of strong communities can form the bases for efficient aid from DFID.

*15 May 2006*

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