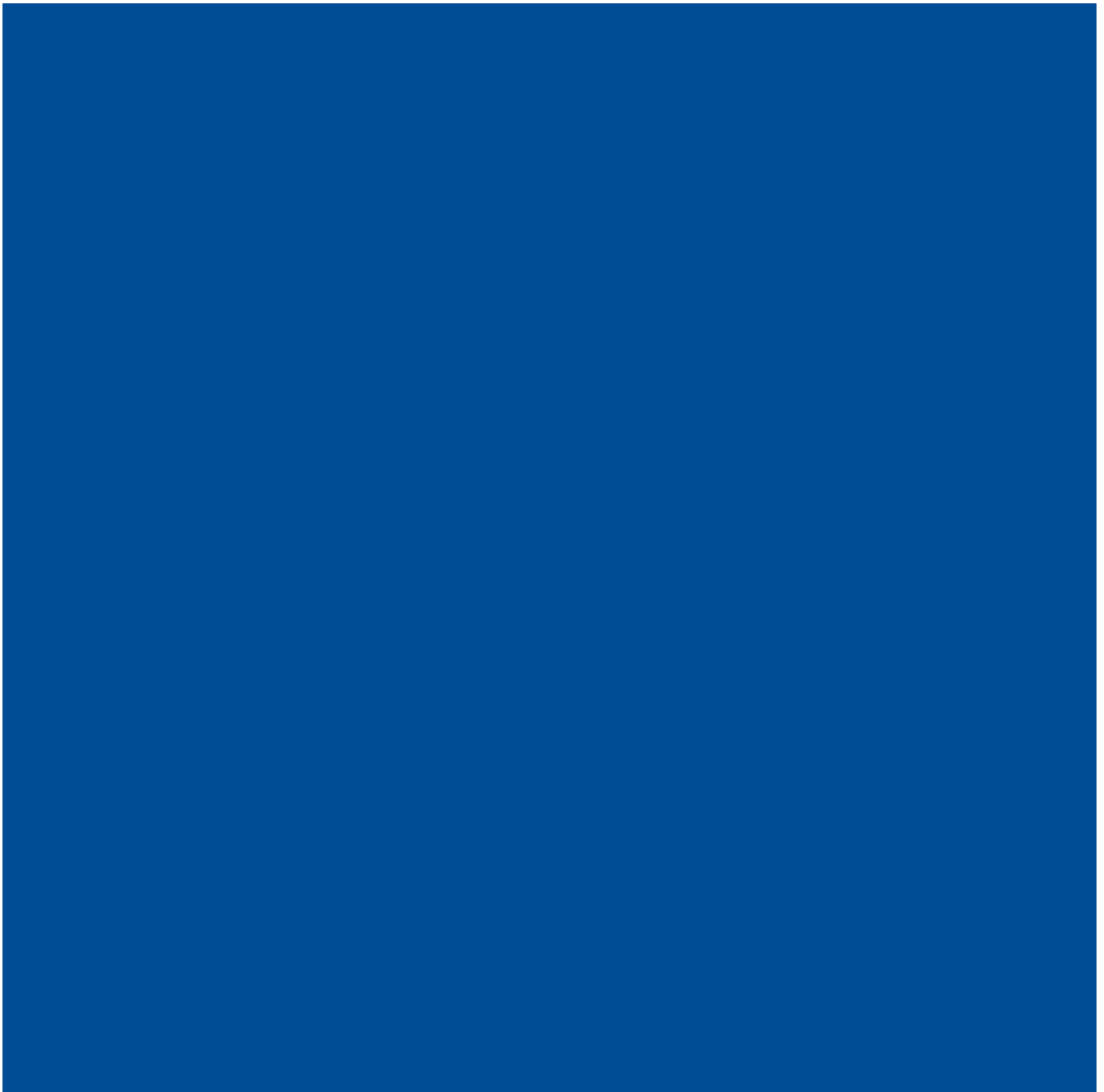


From Growth to Poverty Reduction:
The Framework for
Development
Cooperation in Vietnam



Foreword

This study on Vietnam is part of a series of annual studies, undertaken by various Swedish universities and academic research institutes in collaboration with Sida. The main purpose of these studies is to enhance our knowledge and understanding of current economic development processes and challenges in Sweden's main partner countries for development cooperation. It is also hoped that they will have a broader academic interest and that the collaboration will serve to strengthen the Swedish academic resource base in the field of development economics.

The study relates the changing paradigms of the international development agenda to the evolution of the Vietnamese aid architecture. It discusses how Swedish development cooperation with Vietnam has responded to these processes. The study argues that there is a strong base for collaboration between Sweden and Vietnam, beyond bilateral development cooperation, but that there is need for a concerted effort to avoid wasting the assets invested in the relationship between the two countries. The study is prepared by Le Thanh Forsberg and Ari Kokko at the Stockholm School of Economics.



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Introduction

Contrary to most other low-income economies, Vietnam has been able to sustain high and relatively stable economic growth for a long time: in fact, Vietnam can look back at almost two decades of uninterrupted growth. The country's solid macroeconomic performance has made it possible to raise the average income level from about USD 100 to over USD 700 since the early 1990s, the incidence of poverty has been reduced by more than half during the same period, and most other indicators of the population's standard of living and welfare have improved substantially. Some of these gains are reflected by the changes in Vietnam's Human Development Index. The index, which sums the country's relative performance in terms of income, life expectancy, and education, increased from 0.617 in 1990 to 0.709 in 2004. Only a handful of countries (with China at the helm) posted a stronger performance over this period.

Most of the credit for the remarkable success is due to the domestically driven reforms initiated during the second half of the 1980s. At the Sixth Party Congress in 1986, the Vietnamese Communist Party introduced a comprehensive reform program entitled *Doi Moi* (renovation). After a slow start, the reforms have deepened over time and aimed to replace central planning with a multi-sector economy characterized by gradually decentralized decision-making, freer markets, and prices reflecting supply and demand forces, albeit with the state in a central position. With only some temporary exceptions, Vietnam has steadily moved towards increasing outward orientation since that time, both economically and politically.

Although the Vietnamese reforms were mainly driven by Vietnamese initiatives and efforts, foreign donors have also played important roles in the reform process. Most of the international donor community was absent during the 1980s because of the Vietnamese involvement in Cambodia, but Sweden, Finland, and the UNDP provided financial and technical support and encouragement for the earliest reform stages. The situation changed after 1994 and the normalization of relations with the US, which led to the inflow of a large number of bilateral and multilateral aid organizations. At present, there are about 25 bilateral aid agencies, all of the large multilateral banks and UN organizations, and hundreds of NGOs working to support various aspects of Vietnam's development process. The annual inflows of ODA (as reported by DAC)

have amounted to about USD 1.8 billion in recent years, which makes Vietnam the world's third largest ODA recipient, after Iraq and Afghanistan.

The role of ODA and the specific objectives of foreign donors have varied over time, with macroeconomic stabilization, growth, and poverty reduction taking turns as the main target of the donor community. The changes in the objectives of foreign donors have been motivated both by changes in Vietnamese attitudes towards ODA, changes in economic conditions in the country, and trends or swings in the general ODA policies of the donor community. The purpose of this report is to discuss the evolution of the Vietnamese architecture for development cooperation during the past decade or so against the backdrop of these changes.

The paper is structured in three parts. The next section looks at the international development agenda, and describes some of the changes in ODA philosophies and strategies that have occurred since the early 1990s. The perhaps most important development is the shift from growth, structural adjustment and macroeconomic stability to poverty reduction as the main objective of development cooperation. At the same time, there has been a change of emphasis from the idea that there is an optimal model for development (a Washington Consensus) towards principles like local ownership and partnership.

The section thereafter looks at how these ideas have been localized in Vietnam. The focus is on the introduction of the World Bank's Comprehensive Development Framework (CDF) and Poverty Reduction Strategy Paper (PRSP) concepts in Vietnam: the establishment of the Vietnamese Comprehensive Poverty Reduction and Growth Strategy (CPRGS) changed not only the thinking about development but also the practice of development planning. This trend has been enhanced with the establishment of the Hanoi Core Statement, which localizes the Paris Declaration in a Vietnamese context.

The final section offers some general comments on how Swedish development cooperation with Vietnam has responded to these developments.

The International Development Debate: Changing Paradigms and Bold Declarations

Although foreign aid has a long history – for example, some of the support from the European colonial powers to their overseas territories could easily be described as foreign aid – it is convenient to see the end of the Second World War as the beginning of modern official development assistance (ODA). The immediate post-war period witnessed several developments that had a long-lasting impact on this new area of international relations (Hjertholm and White 2000). Firstly, the success of the Marshall Plan suggested that foreign aid could potentially be a very effective instrument for overcoming poverty and underdevelopment. Secondly, several of the international institutions created to manage the aftermath of the war gradually shifted towards more general development aid. The best example is the World Bank, which started its activities under the name International Bank for Reconstruction and Development in 1945, but several NGOs like Oxfam and CARE also trace their origins to this period. Thirdly, the independence of many former colonies created a new constituency for development aid. The aid relations established during the colonial period had been based on the interests of the colonial rulers, e.g. securing supplies of raw materials or establishing new markets. The newly independent states had other ambitions, with nation-building and economic development as major objectives. Over time, the developing countries also established their own international institutions, with UNCTAD and the Non-Aligned Movement as the most prominent examples. Finally, the Cold War created a situation where the East (read, the Soviet Union) and the West (read, the US) competed for political influence among developing nations. While this competition probably contributed to raising the total transfer of resources to the “Third World”, it also diverted funds from civilian to military use.

The dominant aid donor during the first 15 years after World War II was the US. After the completion of the Marshall Plan in the early 1950s, US aid aimed primarily at holding back the spread of communism in Asia, Africa, and Latin America. Apart from strategic military assistance, much support was dispersed through the community development movement, which was thought to “counter revolutionary tendencies” (Hjertholm and White 2000:12). Food aid was also important, with the Food for Peace Act from 1954 (Public Law 480) combining the humanitarian objective to combat hunger and malnutrition in developing countries with a more mundane ambition to establish overseas markets for the US surplus production of agricultural commodities.

Given the strongly political motives for ODA at this time, it is perhaps not surprising that aid had a distinct poverty focus: to win popular support for the US side, it was necessary that the benefits of the aid programs actually trickled down to poor people.

Towards the late 1950s, the US started to request other Western countries to share the burden in the fight against communism. As a result, the former colonial powers reshaped their agencies for overseas territories into international development agencies, and new bilateral development aid agencies were established in several Western European countries.¹ With a larger number of donors, there was also a need for an institution that could monitor and define guidelines for aid operations. These tasks were taken up by the OECD's Development Assistance Committee (DAC), which was established in 1961: for example, by the late 1960s, it had agreed on a definition of ODA that clearly excluded military support. There were also changes in the forms of ODA. Instead of community development programs, the emphasis shifted to project support for large-scale infrastructure and industrial development. The shift in policy focus was partly inspired by the dominant theory in development economics – the Lewis model, which suggested that development would require industrialization because of low labor productivity and diminishing terms of trade in agriculture (Lewis 1954) – but it also matched the political preferences of many newly independent nations that were eager to diversify from raw materials to manufacturing. In addition, the green revolution motivated substantial investments in agriculture in order to alleviate food poverty.

The late 1960s also saw the first comprehensive assessment of the results of ODA. In 1968, the World Bank invited a group under the leadership of Lester Pearson, former Canadian Prime Minister, to review and assess the results of the previous 20 years of development aid and to make recommendations for the future. A major motive for the exercise was the spreading “aid fatigue” among the rich nations, which resulted in 1968 in a fall in ODA flows to poor countries. The Commission on International Development (known as the Pearson Commission) presented its report entitled “Partners in Development” in 1969 (World Bank 1969). Looking back, it noted that many poor countries had been able to generate high rates of growth, and stated that the vision of broad-based development for the Third World was feasible. The report also concluded that ODA had played a significant role in the development process, providing investment and import capacity and much needed support for industrial and agricultural enterprises. Looking forward, it stated that substantial increases in aid were needed to make it possible for most developing countries to achieve self-sustaining growth by the end of the 20th century. To this end, the Pearson Commission set an explicit target for ODA: rich countries should aim to provide 0.70 percent of their GNP as ODA by 1975.

In the early 1970s, both the World Bank and several bilateral donors announced an increasing poverty focus in their operations (Hjertholm and White 2000). However, neither the ODA target defined by the Pearson Commission nor the poverty focus were realized. Instead, the oil

¹ Some examples of bilateral agencies are the Norwegian Agency for International Development and the Swedish Agency for International Assistance (NIB), both established in 1962. Some years later, these were renamed Norwegian Agency for Development Cooperation (NORAD) and Swedish International Development Agency (Sida). The Finnish Department of International Development Cooperation was established in 1965. In 1958, the French Central Fund for Overseas Territories became the Central Fund for Economic Cooperation. The British Colonial Development Act from 1929 was complemented with a Department of Technical Cooperation in 1961, and replaced by the Ministry of Overseas Development in 1964.

crisis in the mid-1970s and the debt crisis in the early 1980s brought structural issues and concern for macroeconomic stability moved to the top of the development agenda. In 1980, the World Bank introduced its first structural adjustment loan, which marked a shift from project aid to a program based approach, where policy conditionality played an important role. Since the structural adjustment credits were provided as budget support, they could in principle be seen as support to the recipient (or partner) government's marginal policy interventions. Hence, the multilateral financial institutions started to demand that the overall policy environment was conducive to long-term growth. The policies prescribed by the World Bank and the IMF to create good conditions for growth and sustainable development were, quite unsurprisingly, based on a liberal, free-trade oriented ideology: the overall policy package has become known as the "Washington Consensus".

In its original formulation, the Washington consensus prescribes a policy mix that includes strong institutions to secure property right; trade liberalization and a competitive exchange rate; openness to foreign direct investment; privatization and deregulation; financial liberalization; and fiscal discipline and a concentration of public expenditure on "pro-poor" areas, such as primary health care, primary education, and infrastructure.² Although there is strong empirical support for the efficiency of many of these policies, the multilateral financial institutions were heavily criticized during the 1980s and early 1990s for interpreting the policy prescriptions too literally, without concern for country-specific circumstances, institutional conditions, or effects on poverty. For instance, the UNICEF sponsored several studies pointing to the need to have a stronger poverty focus in adjustment programs (Cornia et al. 1988; Grant 1990).

It can be argued that the multilateral financial institutions and many bilateral donors still operate as if there is a "development model" that partner countries should aim to emulate, but this model is typically much broader in scope than the policy package typically prescribed during the late 1980s or early 1990s. Rodrik(2001) argues that this "augmented" Washington Consensus includes a number of institutional and social components that address some of the weaknesses identified by critics of the structural adjustment policies of the past decades. These are attention to corporate governance and anti-corruption issues; financial supervision, codes, and standards to support financial liberalization; independent central banks with inflation targeting; "prudent" capital-account opening and credible exchange rate regimes; WTO agreements; flexible labor markets; and social safety nets and targeted poverty reduction programs. However, although it would be easy to argue that such policies are both theoretically and empirically well founded and probably conducive to growth and development, it is hard to find strict donor-imposed conditions on today's ODA programs. A number of new initiatives and trends in the ODA area have again changed the character of development assistance during the past decade.

The Copenhagen Declaration

The World Summit for Social Development in Copenhagen in March 1995 was the first in a long series of international meetings and conferences intended to establish broad and globally accepted development targets, engender commitments from donors as well as aid recipients, and lay out action plans for reform. The Summit, which was partly a reaction

² Williamson (1990). See also <http://www.cid.harvard.edu/cidtrade/issues/washington.html>.

to the apparent inability of ODA to generate substantial results in terms of poverty reduction during the preceding decade, but also a response to the economic transition processes that had started after the collapse of the European Communist bloc, resulted in the so called Copenhagen Declaration with ten commitments for global development. These are summarized in Table 1.

While the commitments were global in character, it is clear that the focus was on developing countries, with several of the objectives connected to the heavy criticism against the structural adjustment programs that had dominated most development cooperation agendas. The new emphasis on poverty reduction marked a break with the earlier focus on economic growth, and the promotion of social development goals – including full employment, education, and health care – moderated the primacy of macroeconomic stability during the preceding decade. The poverty eradication action program set up at the same time had four key components. First, countries were encouraged to establish *national poverty eradication plans* to address the structural causes of poverty. The need to include poor people in the design, implementation, monitoring, and assessment of these plans was stressed, and the international community was expected to provide the necessary assistance to facilitate implementation. The ambition to raise ODA from rich countries to 0.7 percent of GNP was emphasized in several parts of the document. Second, poor communities were to be given better *access to resources and infrastructure* in order to improve their employment and income opportunities. Third, the need to provide *basic social services* to poor communities was highlighted. The Declaration outlined specific numerical targets for the improvement of various social indicators. For example, it was stated that all countries should aim to achieve universal primary education and make reproductive health care accessible to all individuals of appropriate ages as soon as possible and no later than the year 2015. By that year, the infant mortality rate was to be pushed below 35 per 1,000 live births and the under-five mortality rate below 45 per 1,000, while the maternal mortality rate should be cut by 75 percent compared to the level in 1990. Other targets focused on eradication of child malnutrition and infectious diseases, provision safe drinking water and proper sanitation, improvements in adult literacy, and other similar reforms. Fourth, *enhanced social protection* and family support systems were to be established. Similar action plans were established to guide joint efforts in providing an enabling environment for social development, expansion of productive employment and reduction of unemployment, and social integration.

Table 1. Commitments from the Copenhagen Declaration

On the basis of our common pursuit of social development, which aims at social justice, solidarity, harmony and equality within and among countries, with full respect for national sovereignty and territorial integrity, as well as policy objectives, development priorities and religious and cultural diversity, and full respect for all human rights and fundamental freedoms, we launch a global drive for social progress and development embodied in the following commitments.
1. Create an economic, political, social, cultural and legal environment that enables people to achieve social development;
2. Eradicate absolute poverty by a target date to be set by each country;
3. Support full employment as a basic policy goal;
4. Promote social integration based on the enhancement and protection of all human rights;
5. Achieve equality and equity between women and men;
6. Attain universal and equitable access to education and primary health care;
7. Accelerate the development of Africa and the least developed countries;
8. Ensure that structural adjustment programs include social development goals;
9. Increase resources allocated to social development;
10. Strengthen cooperation for social development through the UN.

Source: www.un.org/esa/socdev/wssd/agreements/decpartc.htm

The World Bank: CDF and PRSP

Although these action plans were rather general and lacked any specific financial commitments, they have been developed further by the development assistance community, and have started to affect the nature of development cooperation. The most notable impact has perhaps been a shift in the policies and practices of the multilateral and bilateral organizations involved in development assistance, although the international summits and conferences that have followed since the mid-1990s have also contributed to empower developing countries, which have been able to take stronger ownership over their national development agendas. One of the first aid organizations to move towards the principles from the Copenhagen Summit was the World Bank. With the appointment of James Wolfensohn as World Bank President in 1995, there was a clear shift in the focus of the Bank's objectives from structural adjustment towards poverty alleviation. In 1999, this led to the launch of the Comprehensive Development Framework (CDF), the Bank's new approach to development cooperation. Apart from manifesting the unambiguous emphasis on poverty reduction, the CDF is built around four basic principles (World Bank 2003b). First, the CDF promotes a long-term *holistic development framework* that is centered on results rather than inputs. This means that the long-term vision should take account of the broad aspirations of the recipient country's population, and reflect a balance between macroeconomic and financial issues and structural and social concerns. Second, the development goals and strategies should be formulated by the recipient country, not by donors, clearly identifying *country ownership*. Third, the *management and coordination of aid programs* should be in the hands of the recipient government. Fourth, development programs should be *results-oriented*, with concrete and evaluable objectives that are systematically monitored.

Already from their inception, the CDFs have been connected to two other "policy innovations" that appeared at the same time in the development cooperation area. The first of these is the adoption of the Millennium Development Goals (MDGs) as part of the long-term objectives of

the CDFs. Building on the agreements from the Copenhagen Summit, the MDGs were established at the United Nations Millennium Summit in September 2000 and include a set of concrete policy objectives to be achieved by the year 2015. In addition to a range of commitments related to human rights, good governance, and democracy, eight policy goals and 18 policy targets are singled out as particularly important: these are summarized in Table 2. Six of the MDGs had already been established as International Development Goals by OECDs Development Assistance Committee some years earlier, as a follow-up to the Copenhagen Summit (DAC 1996).

Table 2. Millennium Development Goals

1. Eradicate extreme poverty and hunger.
Reduce by half the proportion of people living on less than a dollar a day.
Reduce by half the proportion of people who suffer from hunger.
2. Achieve universal primary education.
Ensure that all boys and girls complete a full course of primary schooling.
3. Promote gender equality and empower women.
Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015.
4. Reduce child mortality.
Reduce by two thirds the mortality rate among children under five.
5. Improve maternal health.
Reduce by three quarters the maternal mortality ratio.
6. Combat HIV/AIDS, malaria, and other diseases.
Halt and begin to reverse the spread of HIV/AIDS.
Halt and begin to reverse the incidence of malaria and other major diseases.
7. Ensure environmental sustainability.
Integrate the principles of sustainable development into country policies and programs; reverse loss of environmental resources.
Reduce by half the proportion of people without sustainable access to safe drinking water.
Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020.
8. Develop a global partnership for development.
Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory, and includes a commitment to good governance, development and poverty reduction – nationally and internationally.
Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction.
Address the special needs of landlocked and small island developing states.
Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term.
In cooperation with the developing countries, develop decent and productive work for youth.
In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.
In cooperation with the private sector, make available the benefits of new technologies – especially information and communications technologies.

Source: <http://www.un.org/millenniumgoals/index.html>

The second related policy innovation is known as PRSP. In 1996, the World Bank and the IMF launched an initiative to promote the development of Highly Indebted Poor Countries (HIPC). This program promised debt reduction and credits in return for policy reforms intended to support sustainable development. In 1999, only some months after the introduction of the CDF concept, the Bank and the Fund introduced a new instrument to support the implementation of the HIPC initiative. The so called Poverty Reduction Strategy Papers (PRSPs) were intended to summarize the recipient government's development strategies and expenditure plans to help channel the resources created through debt reduction toward poverty alleviation. Hence, the PRSPs are a form of "social contract" between donors and recipients, where the recipient government presents a sustainable policy framework in return for debt relief and concessional credits, including loans from the IMF and IDA under the Country Assistance Strategy and the Poverty Reduction Support Credit (World Bank 2003a:13). Formally, the PRSPs are independent from the CDF, but the intention from the very beginning was that they should be consistent and mutually reinforcing: in principle, the CDF should guide the formulation of the PRSP, and the PRSP should provide an action plan for the implementation of the CDF.

Like the World Bank, the IMF has made poverty reduction the central goal of its adjustment programs. Since 1999, the IMF's country strategies are guided by the PRSPs. That year, the Fund also decided to replace the core credit instrument of the structural adjustment programs – the Enhanced Structural Adjustment Facility (ESAF) – with a new credit instrument labeled the Poverty Reduction and Growth Facility (PRGF), to signal the shift from structural adjustment to poverty reduction.

Monterrey Consensus

While the MDGs signaled an ambition to achieve more tangible results from development assistance, trends in ODA disbursements had been stagnant throughout the 1990s. Although the annual ODA flows from DAC member countries had remained fairly stable at around USD 70 billion (in constant 1995 USD), the average ODA/GNI ratio among the donors had been falling steadily, from around 0.33 percent in the early 1990s to 0.22 percent in 2000–2001 (OECD 2007b, Chart 2). In many middle-income countries, private capital flows had grown rapidly during the first half of the 1990s, compensating for the shortfall in ODA, but the situation had worsened after the Asian crisis in 1997 and the collapse of the IT-bubble some years later. The terrorist attacks in the US in September 2001 added to the fear that there would be "a dramatic shortfall in resources required to achieve the internationally agreed development goals, including those contained in the United Nations Millennium Declaration" (UN 2002:2). The International Conference on Financing for Development in Monterrey in March 2002, which was attended by most large multilateral aid organizations and the heads of state or government of most countries, therefore addressed the need to mobilize additional resources to achieve the MDGs. According to World Bank president Wolfensohn, the resource gap that needed to be closed was USD 40–60 billion per year (UN 2002:85).

The closing statement of the meeting, known as the Monterrey Consensus, emphasized the need for reforms in five areas. Developing countries were encouraged to focus on efforts to *mobilize domestic financial resources for development*. To achieve this, it would be necessary to improve the quality of governance, focus on sound macroeconomic policies,

strengthen legal institutions and establish an enabling environment for all sectors of the economy, and invest sufficiently in social infrastructure. Many of these measures would also promote the *mobilization of foreign direct investment and other international resources*, but developed countries were also urged to facilitate outward investment in developing economies. Particular emphasis was put on public-private partnerships in the area of infrastructure investment.

Countries were encouraged to see *international trade as an engine of development*. The Consensus document stated that a rule-based, open, non-discriminatory and equitable multilateral trading system could benefit countries at all stages of development. However, to ensure that the benefits of trade are diffused also to the least developed countries, particular attention was called to the special concerns of developing countries. Here, the meeting also stated the need to implement the agreements reached at WTO's Fourth Ministerial Conference held in Doha the previous year. The round of trade negotiations launched at Doha was designated the "Doha Development Round" and was expected to address many of the concerns of developing countries, particularly with regard to agricultural subsidies and market access in the developed world.

Focusing on *ODA*, the Monterrey Consensus made two types of statements. Firstly, it reconfirmed the goal that all countries devote at least 0.7 percent of GNP as ODA, with 0.15-0.20 percent going to the least developed countries. Several of the participating countries made more specific commitments. Table 3 summarizes the commitments of some of the DAC countries, and the progress towards meeting these targets by 2006. As the Table shows, few countries made commitments at the levels requested by the Monterrey Conference, but most countries have managed to meet their more modest targets.

Table 3. Monterrey Targets and ODA Performance in 2006

Country	Commitment	Year to be attained	Expected ODA/GNI in 2006	Actual ODA/GNI in 2006	Total net ODA in 2006, MUS\$
Austria	0.33%	2006	0.33%	0.48%	1,513
Belgium	0.70%	2010	*	0.50%	1,968
Denmark	>0.70%	no date	*	0.80%	2,234
Finland	0.40%	2007	*	0.39%	826
France	0.50%	2007	*	0.47%	10,448
Germany	0.33%	2006	0.33%	0.36%	10,351
Greece	0.33%	2006	0.33%	0.16%	384
Ireland	0.70%	2007	*	0.53%	997
Italy	0.33%	2006	0.33%	0.20%	3,672
Luxembourg	1.00%	2012	*	0.89%	291
Netherlands	0.80%	no date	0.80%	0.81%	5,452
Portugal	0.33%	2006	0.33%	0.21%	391
Spain	0.33%	2006	0.33%	0.32%	3,801
Sweden	1.00%	2006	1.00%	1.03%	3,967
UK	0.40%	2005-06	0.40%	0.52%	12,607
Total EU-DAC	0.39%	2006		0.43%	58,902
Australia	3% real increase	from 2002-03	0.27%	0.30%	2,128

Canada	8% annual increase	2010	0.29%	0.30%	3,713
Japan	No target		*	0.25%	11,608
New Zealand	Maintain ODA/GNI		0.25%	0.27%	257
Norway	1.00%	2005	1.00%	0.89%	2,946
Switzerland	0.40%	2010	*	0.39%	1,647
United States	Raise ODA by USD 5 bn from 2000 level	2006	0.12%	0.17%	22,739
Total DAC			0.30%		103,940

Note: * No specific target set for 2006.

Source: OECD (2007b), Table 3.

Secondly, the Consensus document stressed the need to raise aid effectiveness. The main recommendations were to increase efforts to harmonize and coordinate aid procedures, respect local ownership, improve targeting to the poor, and strengthen the absorptive and management capacities of the recipient countries. In essence, these efficiency related targets are consistent with the CDF principles.

The fifth reform area was *external debt*. Developing countries were urged to monitor and manage their external liabilities in a cautious manner, while donors were encouraged to continue the debt relief efforts established through the negotiations in the Paris and London Clubs and the HIPC initiative. Donors were also encouraged to take appropriate steps to make sure that debt relief would not detract from resources used for other types of ODA. With the Asian crisis in relatively current memory, the document stressed the need for flexibility and fair burden sharing between debtors, creditors, and investors in the event of future financial crises. In addition to these areas, the Monterrey Consensus addressed some systemic issues that have appeared regularly in the international development debate. These included calls for a new international financial architecture, emphasis on the need to strengthen the United Nations system, and requests for increased participation of developing countries in international economic decision-making and norm-setting.

Roundtables on Managing for Development Results

The work to implement the MDGs and the Monterrey Consensus has continued in several arenas. Soon after the Monterrey Conference, the World Bank established a series of Roundtable Meetings on Managing for Development Results. The first of these, held in Washington, D.C. in 2002, focused on defining the necessary concepts for monitoring and measurement of development results. The Second Roundtable was held in Marrakesh in 2004, and resulted in an action plan for improving national and international statistics on development, both to provide baselines and to measure performance and progress. A Third Roundtable took place in Hanoi in 2007, with emphasis on results-oriented planning, monitoring, and evaluation. While the Roundtables have not attracted as much attention as the Forums on Aid Effectiveness, they have been important in shifting attention from inputs to results, and in highlighting the need for the development of methods and capacity in the field of results-oriented development cooperation.

Rome Declaration on Harmonization

The work on some of the more fundamental issues in development cooperation continued at the First High-Level Forum on Aid Effectiveness in Rome in February 2003. The forum resulted in the Rome Declaration on Harmonization, which stressed the need to focus on country ownership of development agendas, alignment with national budget systems and strategies, and streamlining of donor practices as ways to improve aid efficiency. In addition, the Rome Declaration highlighted the DAC's work on "good practices" in development cooperation. In a forward-looking part of the Rome Declaration, partner countries were encouraged to design country-based action plans for harmonization, while donors committed to establish their own harmonization programs in accordance with the DAC guidelines for good practice.

The DAC's guidelines regarding relations between donors and partner governments, relations between donors, and the operations of individual donors were developed in response to the discussions at the Copenhagen Summit. Good practices in donor-partner relationships entail local ownership of aid programs (based on the local partner's development strategy, e.g. PRSP), long-term commitment by donors, alignment of aid programs with the partner's budget systems and budget cycle, and a common framework for reviewing and monitoring projects and programs. In relations between donors, the guidelines stress harmonization and coherence regarding program objectives, standardization of procedures to reduce the administrative burden on recipient governments, and information sharing regarding strategies, assessments and analyses. For individual donors, the main recommendation is to decentralize authority to the country level, in order to facilitate harmonization and partner-driven development of aid programs. Donors are also encouraged to set transparent performance standards in consultation with the local partner government, and to be open to external assessments of aid management, in order to strengthen the incentives to good practice (DAC 2001; DAC 2003).

Paris Declaration on Aid Effectiveness

A Second High-Level Forum on Aid Effectiveness convened in Paris in February–March 2005 to concretize the agreements reached in Monterrey and Rome. The outcome of the Forum, the Paris Declaration on Aid Effectiveness, is considered a more practical and action-oriented scheme to improve the quality and efficiency of development assistance than earlier agreements. The Paris Declaration includes more than 50 partnership commitments organized around five key themes identified in the international debate: ownership, alignment, harmonization, managing for results, and mutual accountability. To make the Declaration clearly results-oriented and easy to monitor, it also includes a number of quantitative indicators of progress. Table 4 summarizes the main commitments presented in the declaration, distinguishing between those that require action by the partner country and the donor community, respectively. A notable point is that the commitments on the partner side are reasonably strict. In particular, the Paris Declaration calls for a very concise effort to improve administrative capacity and country systems, as well as a more inclusive process of development planning: the use of parliamentary systems and the participation of civil society are stressed. The donor commitments are largely more concrete versions of the commitments from the Rome Declaration on Harmonization.

Table 4. The Paris Declaration: Commitments

	Commitments by Partner Countries	Commitments by Donors
Ownership		
Respect partner country ownership	<ul style="list-style-type: none"> – Exercise leadership in formulating development strategies – Formulate results-oriented medium term programs – Take the lead in coordinating aid 	<ul style="list-style-type: none"> – Respect partner country leadership and support capacity to exercise ownership
Alignment		
Align with partner's strategies		<ul style="list-style-type: none"> – Base aid programs on the partner's strategies and link funding to indicators from national development strategies
Use strengthened country systems	<ul style="list-style-type: none"> – Develop reliable country systems – Undertake regular reviews to assess efficiency of country systems 	<ul style="list-style-type: none"> – Use country systems and procedures to implement aid – Avoid creating parallel implementation structures
Strengthen development capacity	<ul style="list-style-type: none"> – Integrate capacity building components into national strategies and plans 	<ul style="list-style-type: none"> – Support the capacity building programs of the partner country
Strengthen public financial management capacity	<ul style="list-style-type: none"> – Intensify efforts to mobilize domestic resource – Provide transparent information about the national budget 	<ul style="list-style-type: none"> – Provide long-term aid that can be integrated into national budgets – Rely on partner government budget and accounting mechanisms
Strengthen national procurement systems	<ul style="list-style-type: none"> – Establish efficient standards for procurement 	<ul style="list-style-type: none"> – Rely increasingly on partner systems for procurement
Untie aid		<ul style="list-style-type: none"> – Untie aid to least developing countries
Harmonization		
Establish common donor arrangements and simplify procedures		<ul style="list-style-type: none"> – Implement harmonization action plans from the Rome meeting – Implement common procedures and program based aid modalities – Coordinate to reduce number of field missions
Focus on more effective division of labor	<ul style="list-style-type: none"> – Provide clear views on donors' comparative advantages 	<ul style="list-style-type: none"> – Exploit comparative advantages by appointing suitable lead donors
Incentives for collaborative behavior	<ul style="list-style-type: none"> – Provide incentives for management and staff to work towards harmonization, alignment, and results 	<ul style="list-style-type: none"> – Provide incentives for management and staff to work towards harmonization, alignment, and results
Delivering effective aid in fragile states	<ul style="list-style-type: none"> – Improve governance structures – Encourage broad participation of civil society in setting development priorities 	<ul style="list-style-type: none"> – Harmonize donor activities – Avoid activities that undermine national institution building – Implement appropriate mix of aid instruments
Promote harmonized approach to environmental assessments	<ul style="list-style-type: none"> – Strengthen application of EIAs and develop common EIA approaches – Develop capacity for EIAs and for enforcement of legislation 	<ul style="list-style-type: none"> – Support development and use of common EIA approaches – Support capacity development in environmental area

Managing for results		
Establish results-oriented management standards	– Strengthen links between national strategies and annual budget processes	– Link resource allocation to results and align with partner country's assessment framework
	– Establish results-oriented reporting and assessment frameworks with the necessary statistical systems	– Avoid performance indicators that are not consistent with partner's development strategies
Mutual accountability		
Share responsibility for realization of objective	– Strengthen parliamentary role in formulating development strategies and budgets	– Provide timely, transparent, and comprehensive information on aid flows to facilitate partner country's budget process
	– Include civil society in development planning process	– Participate in joint assessments of mutual progress in implementing commitments on aid effectiveness
	– Participate in joint assessments of mutual progress in implementing commitments on aid effectiveness	

In order to follow up the progress and results of the international reform efforts, the Paris Declaration identifies twelve specific performance targets that are to be fulfilled by the year 2010. These are specified in Table 5. The most important targets are probably related to the use of country systems, ranging from the ambition to include ODA resources in national budgets to using country systems for public financial management, procurement, and other stages in project implementation. The ambition to shift from project to program based approaches is also notable: the ambition to have two-thirds of aid in the form of budget support or sector programs by 2010 signals a very clear ambition to achieve very far-reaching coordination of aid efforts in the future.

Table 5. Paris Declaration: Performance Target

Performance targets: to be achieved by 2010
Ownership
At least 75% of partner countries have operational development strategies.
Alignment
Halve the proportion of aid to government that is not reported in government budget (with at least 85% of aid to be reported).
Between 1/3 and 1/2 of partner countries will improve their country system rating.
The stock of parallel implementation structures reduced by 2/3.
Half of technical assistance implemented through programs consistent with national strategies.
All donors use partner countries' PFM systems when available.
Halve the proportion of aid not disbursed within fiscal year.
All donors use partner countries' procurement systems when available.
Increasing share of aid to least developed countries untied.
Harmonization
2/3 of aid flows provided as program based aid; 40% of donor missions to the field are joint;
2/3 of country analytic work is joint.
Managing for results
Reduce the proportion of countries without transparent and monitorable performance assessment frameworks by 1/3.
Mutual accountability
All countries must have mutual assessment reviews in place.

Source: Paris Declaration on Aid Effectiveness

To determine exactly how demanding a task it will be to meet the commitments in the Paris Declaration, a Baseline Survey was undertaken in 2006. The survey, which is part of a joint monitoring effort involving the major multilateral donors, covered 31 developing countries from different parts of the world (OECD 2007a), and defines initial values for the 12 performance indicators outlined in Table 3. Overall, it provides a mixed picture of what is needed in terms of reforms and progress to meet the quantitative targets for 2010.

Regarding the first of the key themes in the Paris Declaration – *ownership* – the indicator is the existence of an operational national development strategy. This assumes that the country has a coherent long-term vision that is translated into a medium-term strategy with country-specific development targets, that the vision is holistic, balanced and well-sequenced, and that the country has the capacity and resources needed for its implementation. Using these fairly strict criteria, less than 20 percent of the countries in the sample had a sufficiently sophisticated national development strategy. Most of the countries that did not meet the criteria were unable to manage the transition from their general strategies to operational and implementable plans: the weak link was typically the inability to set priorities for resource use and sequencing. It appears clear that the target – that 75 percent of partner countries have operational development strategies – will be hard to reach.

Most of the performance indicators in the Paris Declaration focus on *alignment*. Almost all bilateral and multilateral donors formally base their ODA programs on recipient policy frameworks, in the form of PRSPs or other plans, which could be taken as evidence that the degree of alignment is already very high. However, the overall strategies of most countries are typically too general to set any distinct priorities, leaving substantial freedom for donors to make their own choices. The alignment indicators specified in the Declaration are therefore focused on more narrowly defined choices and behaviors. Several indicators look at whether donors use partner country systems for public financial management and procurement, and whether ODA is integrated into the partner country's budget. Other indicators focus on capacity building and institutional reform, which are mainly (but not exclusively) the responsibility of the partner countries.

Regarding the use of country systems, there seem to be substantial differences between countries, and less than 40 percent of aid flows use the partners' public financial management or procurement systems. The unwillingness to align with country systems is reflected by the fact that there were a total of 1,637 parallel project implementation units identified in the 31 countries covered by the Baseline Survey (OECD 20071: 61). However, there is a positive relationship between the quality of country systems and the donors' willingness to use them, which suggests that substantial improvements are possible if country systems can be improved. This notwithstanding, it will require very substantial investments in capacity building already in the short run if the majority of donors are to shift from various parallel implementation structures to country systems by 2010. Overall, the 31 countries in the survey received about USD 5.6 billion in technical assistance programs in 2005, but it is unlikely that this is sufficient to reach the targets regarding the use of country systems. While donors reported that 43 percent of technical assistance programs were country-led or coordinated, partners were sometimes of a different opinion. In fact, several partner countries maintained that there were no genuinely country-led technical assistance

programs in force at the time of the survey. This conclusion was typically based on the perceived lack of specific visions and plans for capacity development at the country level (OECD 2007a: 60). It appears clear that capacity building will be a key issue for the overall success of the Paris Declaration, influencing not only the quality and reliability of country systems (which determine the degree of alignment that is possible) but also the ability of partner countries to exercise ownership.

Looking at the share of ODA to partner governments that is reported in the government budget, it may appear from the Baseline Survey that the 2010 targets will be easy to reach: on average, about 90 percent of aid to the 31 countries was recorded in the budget, to be compared with the 85 percent minimum target for 2010. Yet, the differences between countries were large, with substantial under-reporting as well as over-reporting in individual countries. To some extent, the inaccurate reporting is a partner country problem, where ODA resources are used outside the budget (which is likely to cause problems with transparency and accountability), but donor practices are also weak, with unsystematic and inaccurate reporting about disbursement and disbursement plans. An indication of this is that only 65 percent of aid flows were disbursed within the fiscal year for which they were scheduled (OECD 2007a: 62).

The targets under the *harmonization* theme refer to the use of common arrangements among donors, both regarding the implementation of aid and project preparations, assessments, and analyses. The harmonization at the implementation level appears to be reasonably comprehensive, with 42 percent of aid flows provided within the context of various programs, ranging from budget support to sector-wide approaches. While there are differences between countries, the general trend seems to be towards increasing weight for these program-based aid modalities, which suggests that many countries will be able to reach the 66 percent target set up in the Paris Declaration. The degree of coordination in field visits was substantially lower, with less than one-third of the nearly 11,000 donor missions to the 31 countries subject to coordination between donors. About half of the roughly 2,400 analyses undertaken in the 31 countries were coordinated in some way. Further coordination appears possible, and it is likely that the harmonization theme will be the one where donors come closest to reaching their 2010 targets.

The prospects for reaching the last two targets, by contrast, are substantially weaker. In the area of *results-oriented management*, the target is to reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third. According to the Baseline Survey, less than 20 percent of countries had such frameworks in place. In most countries, the weaknesses are found in the link between data analysis and policy: even when monitoring information is available, it seldom has any direct impact on policy or priorities regarding resource use and sequencing. Regarding *mutual accountability*, the target is that all countries should have mutual assessment reviews in place by 2010. At the time of the Baseline Survey, only a small minority of countries had such a mechanism in place. It is unlikely that all (or even a majority of) countries will be able to establish such reviews by 2010: the problems are, of course, closely related to the lack of comprehensive performance assessment networks.

Bilateral Donors

To support the multilateral efforts to improve aid efficiency, most of the major donors have also revised their national policies and strategies for development cooperation. The general trend is to include the Millennium Development Goals among the explicit objectives of development aid, and to emphasize ownership, alignment, and harmonization as important components of development cooperation.

For example, all Nordic countries have introduced new aid policies based on the broad international trends discussed above. The earliest of these policies is the Danish Partnership 2000, which identifies poverty reduction as the primary goal of Danish aid (Danida 2000). There are no explicit references to the MDGs, since the *Partnership 2000* program was prepared before the MDGs were published, but all of the key areas are included in the strategy. In comparison with many other donor countries, Denmark's policies have a focus on concentration – it is stated that bilateral aid should be limited to 20 countries, with 2-4 sectors per country – and sector programs rather than individual projects. Both of these issues are well in line with the ideas expressed in the Paris Declaration on aid effectiveness. In the other Nordic countries, the MDGs are top priorities. The Norwegian policies are summarized in an action plan from 2002, covering the period up to 2015, with the title *Fighting Poverty* (MoF 2002). Aside from poverty reduction, the action plan emphasizes areas like health, education, human rights, gender equality, and environmental protection. The need to accept recipient ownership and forge partnerships on the basis of the needs of recipient countries have prominent positions, and there is a commitment to meet the commitments to the Millennium Declaration by raising ODA to one percent of GDP.

The Swedish *Policy for Global Development*, adopted in 2003, has roughly the same areas of emphasis as the Danish and Norwegian policies (Globkom 2002). It outlines three broad goals for Swedish development policy: a more equitable global development, sustainable management of global public goods, and improvements in the living conditions of poor people. It also stresses that the policy area “global development” is not limited to development assistance – instead, effects on development should be taken into account in all policy areas with an international dimension. Looking at development cooperation in particular, the main objectives of Swedish aid are to contribute to “an environment supportive of poor people's own efforts to improve their quality of life” and “equitable and sustainable global development” (Sida 2005). Two general principles or perspectives should govern all areas of development cooperation. The perspective of the poor is necessary to make sure that the needs, interests, and conditions of the poor are taken into account. A rights perspective, based on the UN's Universal Declaration of Human Rights, is needed to establish the values and norms that make up the basis for development cooperation. Moreover, eight “central component elements” are identified as particular priorities for Sweden. These are democracy and good governance; respect for human rights; equality between women and men; sustainable use of natural resources and protection of the environment; economic growth; social development and social security; conflict management and human security; and global public goods. Like in the Danish case, the Swedish policy calls for substantial concentration of aid efforts, both in terms of program countries and sectors. Although the principles for this concentration are not well specified, it is clear that an increased emphasis on Africa is desired.

Finland, the Netherlands, Germany, France, and the UK have also established similar policies. The joint views of the EU member countries are manifested in *The European Consensus on Development* presented by the EU Commission in 2005, which is essentially a restatement of the MDGs together with a commitment from the EU to strengthen the focus on harmonization and policy coherence, to ensure that policies in other areas are not contrary to the efforts in the development field (EU 2005). An additional policy document from 2007, *EU Code of Conduct on Division of Labour in Development Policy*, outlines the EU's efforts to facilitate the concentration processes taking place at the national level in most member countries (EU 2007). In principle, the document sets up a code of conduct whereby each EU member commits to concentrate their activities to individually selected priority countries, and in each of these countries, to focus on only two sectors, chosen on the basis of each donor's comparative advantages. To avoid situations where some countries or sectors are left under-funded, the document also calls for efforts to maintain EU presence globally.

The current Japanese Medium-Term Policy on ODA from 2005 is also strongly based on the MDGs. In addition, it puts stronger emphasis on peace and human security than most of the individual EU policies. Similarly, security is a major theme in the US. The latest policy framework for US ODA is presented in a joint *Strategic Plan* for the Department of State and the Agency for International Development, meaning that the same general principles are expected to govern both foreign policy and development assistance policy. Both are intimately linked with security policy objectives. Hence, although many of the key words from the Paris Declaration and other international agreements on development cooperation can be found in the US Foreign Assistance Framework, the primary objective is Peace and Security. Counterterrorism, combating weapons of mass destruction, counternarcotics, and transnational crime are identified as central program areas at the same level as governance, social services, trade and investment, environment, and disaster relief (USDoC 2007).³

Modern Development Partnerships: How Will They Work?

It is evident that there has been a very substantial shift in the international institutional environment for development cooperation during the past decade or so. The emphasis on identifying the set of appropriate or effective development policies illustrated by the Washington Consensus has disappeared, and been replaced by concern for how development policy is formulated. The key words in the new paradigm are ownership, alignment, harmonization, and results-orientation: these have been central concepts in all major agreements and declarations on development cooperation since the mid-1990s. With their roots in the Copenhagen Summit, World Bank's Comprehensive Development Framework, and the DAC guidelines, they can be found in the Millennium Development Goals, the Monterrey Consensus, the Rome and Paris Declarations on Aid Efficiency, the Roundtables on Managing for Development Results, and various policy document adopted by multilateral and bilateral donors.

³ Organizations like the G8 have also been affected by the general trends in development policy. For instance, during its 2005 meeting in Gleneagles under the presidency of the UK, the members of the organization committed to double ODA by the year 2010, with particular emphasis on Africa, and specified some targets related to the MDGs. These included universal access to HIV treatment by 2010, funding for treatment and bed nets to fight malaria, full funding to totally eradicate polio from the world, and access to good quality, free and compulsory education and basic health care for all children by 2015.

In cases where these principles are fully realized – i.e. in cases where the local partner government is able to design a consistent and results-oriented strategy for poverty reduction, and where donors are willing to harmonize their procedures and invest substantial amounts of ODA to support the partner government's poverty reduction program – there are strong reasons to expect good outcomes from development cooperation. In these ideal cases, donors will simply channel all of their funds to the government budget, either in the form of general budget support or, in cases where donor strategies specify sector concentration, in the form of budget support to sector programs. The funds are then used in accordance with the partner government's preferences and expenditure plans. Donors are involved in specific projects (including technical assistance) only to the extent that their services and expertise are procured by the partner government, according to the partner country's rules and regulations for public procurement. Since these modes of operation make it possible to avoid losses from inconsistent practices and objectives among donors (or between donors and the partner country), and losses from redundant planning, monitoring, and evaluation efforts, it can be expected that the results will be far better than those recorded in past development cooperation programs.

However, it is not likely that these ideal cases will occur frequently. As the Baseline Survey for the Paris Declaration discussed above indicated, there is a long way to go to fulfill the targets for 2010, let alone to achieve the long-term commitments set out in the Declaration. It is possible that there are also more fundamental problems related to the implementation of the principles from the Paris Declaration. Firstly, the emphasis on partner ownership assumes that developing countries have (or can be expected to reach within a reasonable time) the capacity to formulate comprehensive development strategies that are acceptable to the donor community. This requires not only the expertise and technical competence necessary for policy formulation, but also a political setting that supports a broad development orientation that takes into account the interests of all citizens, in particular the poorest and least privileged groups. These conditions are rarely fulfilled in developing countries, and it is clear that the poverty focus in the recent development cooperation agenda owes much to pressure and initiatives from the donor community, including the multilateral institutions.

Another problem is that the harmonization and alignment of ODA requires a common understanding of what policies are most appropriate to generate development. Although it is likely that most DAC donors would agree with some loosely defined version of an “augmented” Washington consensus (Rodrik 2001), it might be difficult to muster full support from all partner countries. In particular, it may not be easy to establish a common understanding on sensitive issues like the role of the state or the balance between growth and distribution. Moreover, given that most donors include political objectives among their development goals – ranging from respect for basic human rights to more specific views about how political systems should be organized – there is a potential gap between those partner countries that are well-developed parliamentary democracies and those that adhere to other political philosophies. In the past, ODA has systematically been used to exert mild pressure, in some cases even in the form of explicit conditions, to motivate dominant interest groups to implement reforms and make political processes more inclusive. It would be very worrisome if the ambition to seek full consensus solutions leads donors to focus only on

those partner countries that already share the donors' views regarding economic policies, governance, and political systems: this kind of "super-conditionality" is hardly consistent with the overall ambition to allow partner countries more influence on the utilization of ODA resources. Moreover, the few countries that are able to present strategies and policy programs that are fully acceptable to donors are not those where the marginal effects of ODA on poverty alleviation are largest. On the contrary, these are probably countries that are well on the way to move out of the low-income country category.

In this context, it is also appropriate to note that some partner countries might actually not find complete harmonization among donors to be in their interest. While most aid recipients are likely to welcome streamlining of donor procedures, it is clear that a harmonization of policy objectives will shift bargaining power in favor of the donor community. Aid recipients will largely be bound to the consensus views represented by the donor community, adding to the likelihood that some kind of "super-conditionality" emerges over time. Harmonization will also eliminate the diversity regarding policy choices and development strategies that exists at present, when different donors still promote their own specific development paradigms. This is likely to be particularly unfortunate in developing countries that have weakly developed political systems, where the domestic policy debate is not characterized by diversity and competing opinions. In these kinds of states – typically one-party states – the donor community has sometimes been able to play an important role by promoting a diversity of views, with different donors garnering support from (and possibly also empowering) different domestic interest groups (Kokko 2007). It is hardly possible to overemphasize the importance of establishing an orderly policy debate in authoritarian states, where alternative views are rarely encouraged in the domestic discourse.

Yet another dilemma concerns the political economy of development aid in donor countries. Even if the aid community might be convinced by the moral and efficiency arguments in favor of harmonization and alignment, most donors are also obliged to motivate their ODA flows to their tax payers. The willingness to accept substantial outflows of aid is likely to be based on a combination of perceived needs, demonstrated effects of aid, and shared views regarding the future impact of aid. Far-reaching harmonization and alignment will make it more difficult to demonstrate that development cooperation programs include the specific concerns of each donor – this could make it more difficult secure support for the increases in ODA called for in the Monterrey Consensus.

This notwithstanding, there is no doubt that the principles underlying modern aid partnerships are valuable and have the potential to make ODA more efficient tool for generating development and reducing global poverty. Similarly, it is clear that the core principles of earlier aid paradigms, e.g. the emphasis on macroeconomic stability and outward orientation in the Washington consensus, have been and remain important components of sustainable development strategies. However, to be truly efficient, it is important that these new principles are applied in a balanced manner, in programs and strategies where the lessons and experiences of earlier stages of development cooperation are also incorporated.

In practice, the most important consideration is perhaps the need to not only accept but even promote some degree of donor diversity parallel to the ambitions focusing on increased harmonization and alignment. It

is safe to assume that we do not know exactly which policies are most conducive for development and poverty alleviation: diversity is therefore valuable as a source of information about relative efficiency, and some degree of policy competition is useful to promote dynamism and the diffusion of efficient policy alternatives. The ability to differentiate at least some aid programs will also allow donors and partners to identify the comparative advantages of each donor, which is important if new aid modalities, like delegated partnerships, become more common. The practical way of achieving the dual goals of increased partner ownership, alignment, and harmonization on the one hand, and some degree of donor diversity on the other hand is probably to harmonize and align all ODA focusing on infrastructure development with national expenditure plans, devote an increasing share of remaining ODA to budget and sector program support, but retain some share of donor independence in technical assistance and capacity building programs. The efficiency losses that may follow are a small price to pay for donor diversity and a more dynamic debate on development strategy at the country level.

ODA and Development Cooperation in Vietnam

Over the past decade, Vietnam has become one of the favorite aid recipients of many multilateral and bilateral donors: it is presently the world's third largest recipient of ODA after Iraq and Afghanistan. Aside from its good performance regarding poverty reduction and economic growth, Vietnam is popular because it is perceived as a “good” aid recipient. In fact, Vietnam has sometimes been identified as the “best practice” example of national ODA management (GRIPS 2002; UNDP 1996). It can be argued that Vietnam exercised strong ownership of its own development agenda and managed to align ODA with its own development priorities already before these concepts found their way into the international development discourse.

The annual inflows of ODA to Vietnam have increased steadily from less than USD 300 million in the early 1990s to around USD 1.8 billion in 2005. In recent years, this has amounted to nearly USD 30 per capita, which is somewhat higher than the average for all low income countries, but substantially lower than that for HIPC countries. These inflows correspond to around 4 percent of GDP, which is also higher than the low-income country average, but lower than the HIPC average.

The largest donors are Japan, the World Bank, and ADB, who jointly account for some 50–60 percent of total aid disbursements. Most of this aid is loans – overall, nearly two-thirds of the aid inflows are in the form of credits. The various EU countries and UN agencies provide about one-fourth of the total, while the remainder is shared between over one hundred other multilateral and bilateral donor agencies and NGOs. To simplify the enormous task of managing aid inflows from so many donors, Vietnam has encouraged the donor community to coordinate their aid policies. This has resulted in the emergence of two important harmonization groups: the Five Bank Group and the Like-Minded Group. The Five Bank Group is made up of the World Bank, the Asian Development Bank, Japanese JBIC, French ADF, and German KfW, and the members of the Like-Minded Group include Australia, Canada, Denmark, Finland, Germany, the Netherlands, Norway, Sweden, Switzerland, and the UK. In terms of aid disbursements, the Bank Group holds about 60 percent of the total, while the Like-Minded Group account for 15-20 percent. However, their combined share in the total number of ODA projects has remained below 50 percent, reflecting in particular the large size of the Bank Group projects.

Vietnam's strong ownership of its development agenda and the present framework for ODA management are largely based on experiences from the 1970s and 1980s, when the country grew heavily dependent on the Soviet Union. Since that time, Vietnam has been careful to avoid similar dependency in the relations with other foreign countries – a prime rule for engagement with foreign powers has been to preserve the autonomy of the nation.

The economic sanctions that were introduced by the West and many Asian countries after the Vietnamese decision to send troops to Cambodia in 1978 led to the withdrawal of most of the ODA that had started to flow into the country after the end of the Vietnam War in 1975. Sweden, Finland, and the UNDP were the only Western donors that continued supporting Vietnam, albeit at a small scale. Instead, Vietnam was forced to move closer to the Soviet Union and the European communist bloc for external assistance and trade relations. Throughout the 1980s, when the weaknesses in the centrally planned economy resulted in stagnation and macroeconomic instability, the Vietnamese economy survived primarily thanks to Soviet aid. According to Pike (1987) and US Library of Congress (1987), at its peak in the mid-1980s, Soviet aid made up about 10 percent of GDP and covered more than 40 percent of the government budget and 75 percent of total public investment. At the same time, the share of trade with the Soviet Union reached about 70 percent of Vietnam's total foreign trade. The support from Sweden, Finland, and the UNDP is estimated to have reached only about one-tenth of what was provided by the Soviet block.

The reliance on aid from the Soviet block forced Vietnam to implement a political agenda – both domestically and internationally – that was largely outlined by the Soviet Union. However, the substantial aid flows did not contribute much to Vietnam's ability to create a sustainable foundation for economic development. The weakening of the Soviet Union from the mid-1980s, which eventually resulted in the termination of aid inflows from the Communist block, therefore had a severe impact on the country. The economy stagnated at the same time as inflation accelerated. One particularly troublesome consequence was a fall in food production – although few people suffered from starvation, it is clear that a majority of the population was below the food poverty line. These circumstances led up to the introduction of the market oriented reform package that became known as Doi Moi. Together with the withdrawal of Vietnamese troops from Cambodia in 1989, the reforms contributed to the return of aid from Western countries a few years later. The government facilitated the normalization of relationships with major donors and aid quickly became an important external resource to support the on-going reform process (MPI 2004).

Yet, even though aid was welcomed, the Vietnamese government remained cautious in its aid relationships. Vietnam's leaders concluded that too much dependency on one power must be avoided and became hesitant towards dealing with donors as a unified bloc. This caution remained for a long time after the Doi Moi reforms to avoid the risk that foreign assistance could be used as a tool for external influence on Vietnam's domestic affairs. The principles laid down by the Politburo state that the relations with external actors should contribute to “self-determined integration, bringing into play the nation's internal forces and taking most advantage of integration in order to strengthen effectiveness of international cooperation, ensuring independence and ownership as well as national interests” (Politburo Resolution No.07-NQ/TW

2001:3, Central Party Committee). Consequently, the government has often resisted development projects where a donor's policies and aid disbursements are tied to strong political or economic conditions. Strong autonomy and ownership of ODA policies has been maintained to avoid aid dependency.

Another explanation for the strong sense of recipient ownership is that many donors represented in Vietnam today arrived after the market-oriented reforms were initiated by the Vietnamese leadership. This is important for Vietnam's relations to donors, since it highlights that foreign aid was not the initial driver of the economic advances that have taken place over the past two decades. It is also important to note that Vietnam has been able to avoid accumulating substantial amounts of foreign debt. Taken together, these factors have strengthened Vietnam's bargaining position, making Vietnam different from many other aid recipients and their relations to donors: the Vietnamese government controls its development agenda to a higher degree than most other developing countries.

The following sections will examine how the institutional set-up for ODA management and ODA planning in Vietnam looked until the late 1990s; how the increased emphasis on poverty reduction among international donors, illustrated e.g. by the World Bank's PRSP process, affected Vietnamese development planning; and how the calls for ownership, harmonization, alignment, and results-orientation from the Paris Declaration have been localized in Vietnam.

The Institutional Set-up

Given the lessons from the relationship with the Soviet Union, the Vietnamese government has maintained a strong ambition to control its domestic politics. In the area of development cooperation, central planning has been the fundamental tool of the government to manage and regulate socio-economic policy and development. The institutional set-up put the Ministry of Planning and Investment (MPI) at the centre of the country's overall national development planning system. In this central role, MPI has drafted and formulated the overall national development strategies and short-term plans, and been responsible for the management of public investment and resource allocation. Until recently, MPI has therefore been considered a super-ministry - a "conductor of the whole development concert in which the musical players in the orchestra are inputs from different ministries", as noted by MPI officials. However, the institutional setting for development cooperation is changing rapidly, partly as a result of the changes in the principles and practices of the donor community. In the following sections, we will first outline the traditional framework for ODA management, and then discuss the ongoing changes.

The main task of MPI in traditional central planning was to pursue the government's development priorities and to balance stakeholder interests between sectoral and regional concerns, as well as between national and international actors. The integration of ODA into the national overall development plans was part of this institutional set-up, making MPI the central actor for aid integration and coordination. This suited the central planning system, but was also a wish from donors like the UNDP and the World Bank, who preferred to operate against one well-defined counterpart. Hence, MPI had the leading role among the ODA coordinating agencies, which also included the State Bank of Vietnam (SBV), the Ministry of Foreign Affairs (MoFA), the Ministry of

Finance (MoF), and the Office of Government (OOG). Within MPI the main responsibility was held by the Foreign Economic Relations Department (FERD). MPI/FERD coordinated and manages ODA resources at the national level, including negotiating, supervising and coordinating the allocation of most ODA programs, in particular large-scale and capital-intensive loan projects.

Vietnam's national development plans were the instruments used to integrate donors' aid programs with the government's preferences. Based on the socio-economic development plan and the 5-Year Public Investment Programs (PIP) prepared by MPI, FERD prepared a priority list of national projects calling for ODA investment during the current five-year planning period. This priority list was in fact a "menu" for donors to select projects from for their development cooperation. In this setting, it was clear that donors were expected to conform and operate within the framework given by Vietnam's development plans.

A major characteristic of this system was that MPI was responsible for overall development as well as aid integration and donor coordination, which helped the government exercise strong ownership over the overall development agenda. Hence, MPI's most important task was to make sure that ODA matched Vietnam's development priorities and to act when development plans required aid resources. The resulting structure for ODA management had three main characteristics:

- (i) The state regulated not only domestic development planning, but also the allocation of aid and the relations with donors. The central position of MPI was instrumental in creating strong ownership. If donor and aid management had been outside the body responsible for national economic planning, it would undoubtedly have been more difficult to align aid flows with Vietnamese development priorities. In addition, donors were given a window for policy dialogues, facilitating direct donor impacts on national development planning.
- (ii) MPI had a particularly strong responsibility for the coordination and management of loan aid, which has constituted 60-70 percent of total ODA in financial terms since 1996 (UNDP 2005). This arguably gave more influence to donors like the WB and Japan, who have accounted for the major part of loan aid to Vietnam. Smaller bilateral donors, who provided more technical assistance and grant aid projects, were in a weaker position to influence Vietnamese development policy. They did participate in the top level dialogue, e.g. as contributors to multilateral credit packages, but most of their direct contacts were with provincial and sectoral authorities. Heads of line ministries and provincial people committees were only entitled to approve smaller technical projects – until 2006, the MPI approval was required for projects valued at above USD 1 million.
- (iii) The incentives and capacity of line ministries and provincial agencies were constrained by the centralization of power to the MPI. Overall, the government exercised a system in which it planned, steered and controlled local governments through the provision of public services and infrastructure, including those investments that are financed by ODA. Dapice (2002) argues that under central planning, aid became a strongly politicized process, where provinces have to turn to Hanoi in order to convince MPI that their development projects were of higher priority than others, and that they should be included in the priority lists presented to donors.

Considering Vietnam's strong ownership of its development agenda, it is not surprising that ODA has been distributed according to the preferences and priorities of Vietnam. Formally, these are outlined in the 10-Year Socio-Economic Development Strategy and the 5-Year Socio-Economic Development Plan decided by the Party Congress, which convenes every fifth year. During most of the reform period (since 1986), these documents had a strong emphasis on economic growth, with "modernization and industrialization" as one of the main goals. The public investment projects included in the Public Investment Programs and the ODA priority lists reflected the government's priority to generate economic growth, and the resources for investment were directed towards the richer cities/provinces where the conditions for further growth were more favorable.

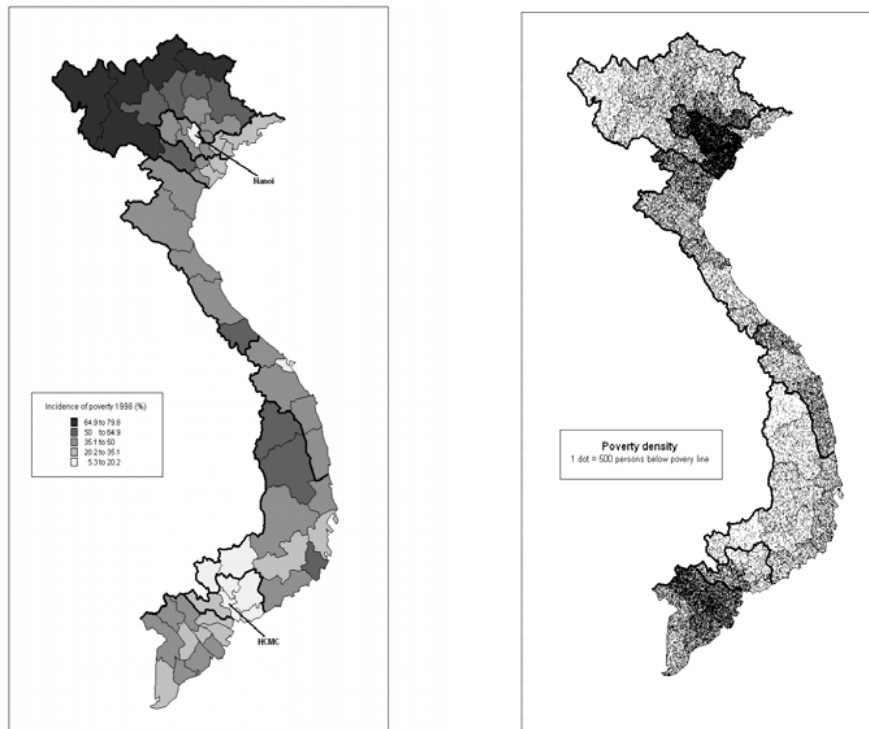
The last two five-year PIPs are good examples of these priorities. They included priority lists for mobilizing capital investment to enhance growth, but investments for poverty reduction and social development were not given similar prominence. The investments to these social areas were mainly funded through separate national targeted programs established in the early 1990s, aiming at hunger eradication and poverty alleviation in rural areas. Other social programs focused on the group of war veterans and their families rather than targeting the groups that were most socially and economically underprivileged. The main policy mechanism to reduce poverty was instead provided by growth promotion. Senior policy-makers at the MPI explained that "in our tradition of development planning, all efforts and resources had to be mobilized for achieving high economic growth through investment for production and manufacturing, what was left would go to social infrastructure within which poverty reduction was a part" (Forsberg 2007a, Chapter 5).

Hence, throughout the 1990s, aid was concentrated to prioritize growth infrastructure (Nguyen, Q.T. 2002). For instance, examining the government's 1993 priority list of candidate projects presented to donors, Pham (1996) demonstrated the government's focus on large-scale infrastructure. The energy and transport sectors accounted for 70% of total the financial requirements for infrastructure projects, while investments for other areas such as social or rural development were very modest (Pham 1996). Within the large-scale infrastructure field, there was a shift from water and sanitation in the early 1990s to energy in 1996–2000, and further to transportation infrastructure after that time.

The imbalances could also be seen in the provincial distribution of ODA. Only limited aid resources were allocated directly to provinces during the 1990s, and the number of poor people did not seem to constitute a major determinant of aid allocations. Figure 1 illustrates the distribution of poverty across Vietnamese provinces and regions in 1998, when the country's second large living standard survey (VLSS 2) was undertaken. The left-hand side of the figure outlines the incidence of poverty across the country's 61 provinces. Poverty rates were highest in the mountainous Northern and Central provinces, where over half of the population was classified as poor. The only regions with poverty rates below 20 percent were Hanoi and Ho Chi Minh City with surrounding provinces. The right-hand side of the figure focuses on poverty density: each dot in the figure corresponds to 1,000 people below the poverty line. Even though the mountainous areas have the highest poverty incidence, they are relatively sparsely populated. The largest numbers of poor people were instead found in the far south and the Red River delta southeast of Hanoi, where average incomes were relatively high and the

overall poverty incidence was much lower than in the peripheral provinces. This reflects the large social gaps that existed even in the more prosperous parts of the country. The core measures to reduce poverty in these regions were probably not increased infrastructure investment, but rather “pro-poor” policies emphasizing access to education, health, and other public goods.

Figure 1. Poverty incidence and poverty density in Vietnam 1998.



Source: VLSS 1998.

Although ODA disbursements per capita were relatively high in the Northern and Central Uplands, where the incidence of poverty was high, the geographical allocation of ODA did not match the overall distribution of poverty. In particular, the Mekong Delta and the poorest Red River Delta provinces received only a small share of total aid. Much larger amounts of ODA were allocated to relatively wealthy provinces including the provinces in the immediate vicinity of Hanoi and HCMC. This pattern arguably reflected the downside of heavy concentration of decision-making power to the central government and the lack of concern for regional disparities in the development planning process (Nguyen, B.A 2004, UNDP 2005). Hence, it was not surprising that the Vietnam Living Standard Survey of 1997/1998 indicated that government programs were not reaching the poor. The social welfare system in Vietnam was dominated by social insurance payments only to public employees, and less than 7 percent of the poorest households received transfers from public poverty programs (Wolff et al. 2002).

Increased Focus on Poverty Reduction: Establishing the CPRGS

The centralization of power to MPI did not only constrain the dynamism of provincial development and the economic autonomy and accountability of local authorities, but it also created other problems. One problem was that the lack of transparency regarding the processes for the identification of priority investments caused worries about efficiency and

corruption risks. Another problem was that Vietnam's development plans paid much less attention to social issues and "pro-poor" expenditures than what most donors desired by the mid-1990s, as illustrated e.g. in the Copenhagen Declaration. Both multilateral and bilateral donors pushed for more emphasis on social sectors like education and health care and more attention to structural issues (e.g. sustainability). The Vietnamese responses came in the form of new National Targeted Programs with increased poverty focus. In 1996, the government promulgated a Program for Hunger Eradication and Poverty Reduction (HEPR) that aimed to reduce poverty by providing infrastructure, education, health care, and micro credits to poor communities. In 1998, this became known as Program 133, named after the relevant government decision (in 2000, it was renamed Program 143 after a new government decision). The same year, another program was established to support the "Most Difficult and Remote Communes". Known as Program 135, it focused on infrastructure development, construction of schools and hospitals, and support to agriculture and other productive activities, mainly in the mountainous provinces (Vu 2005).

When these programs came into operation, the World Bank and IMF were preparing to launch their CDF and PRSP initiatives. The PRSPs were to be used as a new way to restructure relationships between donors and recipient countries. As discussed earlier, they were to summarize the government's development plans in order to establish a base for development cooperation. In return, the multilateral (as well as many bilateral) donors were to provide resources to facilitate these plans. Given the Vietnamese tradition of central planning, it was not much of a challenge to just provide one more plan for the donor community. However, donors wanted more than just a plan. The political objectives of the process were rather ambitious: to shift the focus of the government's accountability for poverty reduction from external donors to citizens; to enhance the public participation in policy formulation; and to encourage a mode of policy-making in which accountability is focused on poverty reduction outcomes, rather than the delivery of direct benefits to particular social groups (Conway 2004).

The stronger local ownership that was implied by the PRSP process was welcomed in Vietnam, but both the stronger public participation and the focus on results in terms of poverty reduction were new to the country. Yet, the results orientation was interesting for Vietnamese planners. At this time, the Vietnamese government was focused on the preparation of its own ten-year development strategy and five-year plan. The contents of these development strategies had traditionally been focused on showing the party's and government's political ambitions and ideologies, rather than concrete policy targets. It was recognized that more effective development plans needed to have clearer objectives and budgetary targets as well as roadmaps for implementation than what could be found in these documents. The new concept of PRSP could perhaps be used to strengthen the planning process.

There were also other motives for considering a Vietnamese PRSP, as suggested by interviews with policy-makers at various ministries involved in the strategy formulation process (Forsberg 2007a, Chapter 5). Firstly, setting up a Vietnamese PRSP was seen by some as a way to test a reform of the way traditional development plans had been made. This concerned mainly the mode of stakeholder participation and influence on the development planning process. Secondly, several Vietnamese development policy planners realized that such a policy document could

help concretize and realize the government's development action plans and include social and economic cross-cutting issues that traditional plans neglected. Thirdly, the government was well aware that the donor community had strong expectation and a willingness to align their ODA to a new development strategy based on a PRSP. The existence of such a strategy document would serve to convince the donor community that Vietnam's overall development strategy is conducive to socio-economic development and poverty reduction. Since aid is fungible, it is not possible to determine exactly what an ODA dollar is used for. Even if a donor makes sure that their dollars are used for some specific project, it is likely that resources are freed elsewhere in the public sector, and used for purposes that are not related to the donor's initial intentions. Hence, ODA (in particular budget support and sector programs) will, in principle, finance the government's marginal expenditures. A credible PRSP could demonstrate that the marginal expenditure would be well used. Fourthly, the motive to maintain the aid relationships with the international financial institutions and secure access to concessional loans was quite strong.

At the same time, Vietnamese policy-makers were not prepared to replace the five-year and ten-year plans with a policy framework made up of donor-imposed PRSP ideas. A major reason for this hesitance was the hard historical lesson about aid dependence and foreign dominance learned from the cooperation with the Soviet Union. In addition, there was opposition to the idea that idea of changing the existing model of central planning: in particular, the central planners themselves were worried about losing their privileged position. Yet, eventually the Vietnamese government felt it had both the motives and possibilities to create a fairly flexible framework for a PRSP without giving up control and strong national ownership.

In mid-2000, the government therefore launched its own PRSP process and the final product became the CPRGS - the Comprehensive Poverty Reduction and Growth Strategy – that was completed in May 2002. It represented a “Vietnamese approach” to the PRSP concept introduced by the international financial institutions. The Vietnamese version put economic growth and poverty reduction as the two main pillars of development: it also reflected the Vietnamese government's basic attitudes regarding strategies to promote development and tackling the country's growing social problems. Three broad objectives were set in the CPRGS (2002):

1. High growth through a transition to a market economy. This laid out the government's agenda for structural reform and concrete plans for the implementation of the transition.
2. An equitable, socially inclusive, and sustainable pattern of growth. This was embedded in the detailed plans for implementing sectoral and social policies.
3. Adopting modern public administration, legal, and governance systems. This goal aimed to facilitate the design and implementation of policies and programs necessary to attain the first two goals.

The CPRGS was composed by drawing different components from the existing sectoral plans and adding the poverty reduction elements. The existing poverty reduction programs, like Program 135 and Program 143, were integrated with the CPRGS. The leader of the drafting committee, Dr Cao Viet Sinh, identified five ways in which the CPRGS would add to existing plans and strategies: (1) CPRGS defined time-

bound structural reforms and actions that would help reaching the targets in the five-year action plan, (2) all participants in the drafting process would improve their understanding of how to effectively harness economic growth to reduce poverty, (3) CPRGS included an accountability framework, clear targets and intermediate indicators improving the capacity to measure progress, (4) CPRGS improved the poverty impacts of public expenditure and investment, and (5) CPRGS was backed by domestic resources as well as the ODA, helping to improve the effectiveness and quality of the ODA delivered to Vietnam.⁴

Having the document drafted in Vietnamese, Vietnam differed from many other countries where the PRSP was drafted in English with substantial influence from international consultants (Conway 2004; Wolff et al. 2002). Even though draft versions were translated into English for international comments, the process was conducted mainly in Vietnamese for the national audience. This notwithstanding, it is clear that the CPRGS was an outcome of a process of negotiations between the government (the MPI) and the World Bank and the IMF, with the government exercising control but with substantial inputs from the donor community (Norlund et al. 2003; Forsberg 2007a, Chapter 5).

The starting point for the preparation and drafting of the CPRGS was quite different from the traditional Vietnamese planning process. Although the central coordinator and leader of the drafting process was still MPI, a new set-up was used. The document was drafted by an inter-ministerial committee led by the Chairman of the Department of National Economic Issues within the MPI (the department that also prepared Vietnam's Public Investment Programs, the PIPs). The committee gathered 52 representatives from 16 ministries and national agencies. Four regional workshops were arranged for consultation with the public to get inputs for the policy documents. Donors were invited to make substantial comments and commitments for financial contributions during the different rounds of the drafting process. Aside from the major actors from the donor community, the preparation of four WB-led provincial Participatory Poverty Assessments also included the active participation of international NGOs and a number of civil organizations and local NGOs. The Poverty Assessments were done to support diagnostic studies used as inputs to the CPRGS.

This new development planning process resulted in a stronger position for the ministries that had been involved in the earlier poverty reduction programs. For example, the Ministry of Agriculture and Rural Development (MARD) and the Ministry of Labor, Invalids, and Social Affairs (MoLISA) were for the first time active participants in a process where the MPI had traditionally been dominant. The difference for these ministries was not only that their influence increased, but also that poverty reduction was now treated in a more comprehensive and cross-cutting manner than in their own sectoral programs on hunger eradication and poverty alleviation (Norlund et al. 2003, 95 – 103). For the MPI, it was also a new experience to engage in development planning and formulation of strategies in a process that involved a broad participation of sectoral ministries and national and local agencies rather than only the traditional central government actors (e.g. the MPI's own think tank institutes, the Development Strategy Institute and the Central Institute of Economic Management

⁴ Dr Cao Viet Sinh was the team leader for drafting the CPRGS and is presently Vice Minister of MPI. The statement is quoted from www.vdic.org.vn on the 12th of October 2003. VDIC stands for Vietnam Development Information Centre and is run by the World Bank.

Yet, most stakeholders from different ministries initially saw the CPRGS as an external document and were generally skeptical about letting external actors set the agenda for Vietnam. In the initial drafting process, they were therefore rather passive and saw the process primarily as a way for the government to maintain access to lucrative aid. On the other hand, they also realized during the process that they could benefit from ODA by integrating their sectoral interests into the CPRGS. Gradually it became clear that it would not require very much effort to formulate a development strategy with a focus on poverty by integrating components of various existing plans into the CPRGS. According to some ministerial representatives in the drafting committee, the adoption of the CPRGS was therefore both a way to meet external demands and a way to address some ministerial economic interests.

Provincial authorities, local agencies, and the private sector did not play any important role in the formulation of the first CPRGS. Given the parallel existence of two strands of development planning – the traditional central plans and the CPRGS – provincial and local authorities clearly focused on the former. Their main budget resources were drawn from the government budget, and the important guidelines were provided by the SEDP and the PIPs. As a result, the social policies and poverty reduction programs targeted by the CPRGS ran the risk of being seen as marginal activities in comparison with the growth priorities reflected by the SEDP and the PIPs. This notwithstanding, there had always been interest among the provincial authorities and local agencies in extra funding from ODA to cover their investment needs. Provincial authorities were therefore following the CPRGS with great interest, to see whether it would provide any new opportunities. In fact, some provinces had already started to see some possibilities, partly as a result of development cooperation with some of the smaller EU donors. Their aid programs were typically too small and fragmented to be interesting for the MPI, and they had therefore been given the right to negotiate directly with provinces and line ministries about minor projects focusing e.g. on capacity building. By engaging in these kinds of ODA projects, the provinces and ministries had not only gained important experience and capacity for ODA administration, but they had also improved their bargaining power in the development planning process. Having reached agreements about co-financing agreements with foreign donors, they could turn to MPI and negotiate about the allocations from the state budget that were necessary to bring in the foreign support (Kokko 2007).

Hence, when the CPRGS was adopted, it was initially not considered a major innovation by many donors and actors outside the government, but rather as a supplementary development document complementing existing strategies and plans. There were good reasons for them to believe so. The first CPRGS mainly outlined various development objectives but without any budget allocations. It was meant as a guide for the external funding of public investment, and donors were encouraged to align their ODA funds with the CPRGS. However, these funds were not included in the mainstream budget, which was based on the SEDP and provided the bulk of investment resources available for sectoral ministries and provinces. The donor community argued strongly for closer integration between the CPRGS and the SEDP.

At the same time, there were also strong incentives among provinces and sectoral agencies to integrate the CPRGS into the five-year plan in order to secure additional funding from ODA and to match these resources with domestic counterpart funds. The incentive structure,

therefore, made it hard to keep the two financing systems apart, especially when larger amounts of funds were committed for the national poverty reduction program outside the standard budgeting system.

From CPRGS to SEDP

These contradictions soon became clear to the policy-makers at MPI, and by 2003 they had realized the need to restructure both the CPRGS and the planning process for the next SEDP in order improve the integration between the two. A first step was to revise the CPRGS. On the basis of a Japanese initiative in 2003, the Vietnamese included also large-scale infrastructure in the final revision of the CPRGS document (Ohno 2005). This established a concrete link between the growth promotion strategies in the SEDP and the poverty reduction targets in the CPRGS. As a result, the final CPRGS document included all major policy areas related to comprehensive growth: it was no longer mainly a social policy document.

The revised version of the CPRGS states eight broad objectives for the country's socio-economic development for the period up to 2010 (SRV 2003). These are to:

1. Promote rapid and sustainable economic growth coupled with attainment of social progress and equity.
2. Create an equal business environment for all types of enterprises from all economic sectors.
3. Continue with structural reforms to bring about a transformation of the nation's economic structure. This objective includes further integration with the international economy and strengthening the competitiveness of Vietnamese industries.
4. Provide poor households with opportunities to raise their income by accelerating broad-based growth of agriculture, industry, and services.
5. Encourage human development and reduce inequality.
6. Solve the particular problems of urban poverty with regard to employment, income, and housing.
7. Develop and expand social protection and a safety net for the poor.
8. Undertake public administration reform.

In comparison with earlier strategy documents, the CPRGS clearly had a stronger emphasis on equity and social issues. Hence, the CPRGS arguably had an important impact on Vietnamese development thinking, as intended by the donor community. The old SEDPs maintained an economic-focused policy to promote economic development, which enhanced people's living standards and reduced overall poverty. However, they did not address the social implications of economic reform. Adopting the social development perspective of the CPRGS has, in particular, strengthened the ambition to achieve sustainable growth.

Perhaps even more importantly, the CPRGS influenced how development planning is undertaken. Most notably, the PM's Directive 33 from September 2004, which initiated the preparation of the 2006–2010 SEDP, stated that the next five-year plan would reflect the policy objectives and core components of the CPRGS, with a more open and participatory planning process than ever before. The government also encouraged planning agencies to formulate sectoral strategies that put more focus on desired outcomes – both in terms of poverty reduction and growth – rather than input targets (WB 2005).

This necessitated a core innovation in the planning process – the establishment of an inter-ministerial working group to develop Medium-Term Expenditure Frameworks (MTEFs) at the sectoral level. This working group matches investment priorities and financial resources in a process that brings together senior officials from both the MPI and the MoF. Pilot MTEFs were initially launched in four sectors and four provinces. The MTEFs aim primarily at (i) abolishing dual budgeting, creating a consistent and realistic resource framework with a macroeconomic balance between capital and recurrent expenditures; (ii) improving the allocation of resources between and within sectors by building budgets around a single, consistent and realistic set of policy objectives; and (iii) providing sectoral ministries and provinces with a hard budget constraint and increased autonomy in order to increase incentives for efficient and effective use of funds (WB 2005).

In comparison with the preparation and formulation of the traditional SEDPs, the process leading up to the CPRGS was also substantially more transparent and participatory. It provided a forum for cross-sectoral policy-making and added new voices from actors outside the government circle, which was unusual in the context of Vietnamese policy-making. The traditional model, prior to the creation of the CPRGS, gave the responsibility for national development planning and major socioeconomic policies to the MPI and its think-tank institutes.. The consultative debates leading up to the CPRGS, by contrast, included local communities and Vietnamese NGO. Selective draft versions were prepared to allow international donors to comment on policies and proposals, which reflected a new way of cooperating with external partners regarding development planning in Vietnam. Much of this was carried over to the preparation of the current SEDP.

Today, the CPRGS does not exist as an independent core document anymore, since its core components have been integrated with the mainstream SEDP. The donor community has aligned its ODA with the SEDP, since it now includes the policy objectives and action plans that the CPRGS was set up to achieve. The SEDP 2006–2010 calls for sustained high rates of investment as a means of accelerating economic growth and reducing poverty. The poverty and sustainability dimension are addressed in a set of targets based on the MDGs, but expanded to reflect the specific Vietnamese circumstances. These so called Vietnam Development Goals (VDGs) include twelve broad goals reflecting a comprehensive set of social and environmental objectives, as well as 32 specific targets, summarized in Table 6. In addition, the economic targets in the SEDP include a doubling of the GDP recorded in 2000 and an average annual export growth rate of 16 percent during the plan period. The social objectives cover a set of targets for social welfare, gender equality, and poverty reduction to be achieved by the year 2010. The environmental targets include forest cover, access to clean water, and expansion of pollution control systems. The government expects donors to align their support to these three pillars, as well as specific priorities in sectoral and provincial plans that reflect the SEDP priorities.

Table 6. Vietnam Development Goals

Goal 1: Reduce the percentage of poor and hungry households	
Target 1	Reduce by 40% the proportion of people living below the international poverty line between 2001 and 2010
Target 2	Reduce by 75% the number of people living below the international food poverty line by 2010
Goal 2: Universalize education and improve education quality	
Target 1	Increase net enrolment in primary school to 99% by 2010
Target 2	Increase net enrolment rate in junior secondary school to 90% by 2010
Target 3	Eliminate the gender gap in primary and secondary education and the gap between ethnic minorities and others by 2010
Target 4	Increase literacy to 100% of under-40-year-old women by 2010
Target 5	By 2010 have improved the quality of education and increase full-day schooling at primary level (exact target depends on funding)
Goal 3: Ensure gender equality and women empowerment	
Target 1	Increase the number of women in elected bodies at all levels
Target 2	Increase the participation of women in agencies and sectors [includes ministries, central agencies and enterprises] at all levels by 3–5% by 2010
Target 3	Ensure that the names of both husband and wife appear on land-use right certificates
Target 4	Reduce the vulnerability of women to domestic violence
Goal 4: Reduce child mortality, child malnutrition and reduce the birth rate	
Target 1	Reduce the infant mortality rate to 25‰ by 2010, and more rapidly in disadvantaged regions
Target 2	Reduce the under-5 mortality rate to 32‰ by 2010
Target 3	Reduce under-5 malnutrition to 20% by 2010
Goal 5: Improve maternal health	
Target 1	Reduce the maternal mortality rate to 0.7‰ by 2010 with particular attention to disadvantaged areas
Goal 6: Reduce HIV/AIDS infection and eradicate other major diseases	
Target 1	Halve rate of increase in the spread of HIV/AIDS by 2010
Goal 7: Ensure environmental sustainability	
Target 1	Extend forest cover to 43% by 2010 (from 33% in 1999)
Target 2	Ensure that 85% of the rural population has access to clean and safe water by 2010
Target 3	Ensure there are no slums and temporary houses in all towns and cities by 2010
Target 4	Ensure that all waste-water in towns and cities is treated by 2010
Target 5	Ensure that all solid waste is collected and disposed of safely in all towns and cities by 2010
Target 6	Air and water pollution must attain national standards
Goal 8: Reducing vulnerability	
Target 1	By 2010, increase the average income of the lowest expenditure quintile to 190% of that in 2000
Target 2	Reduce by half the rate of poor people falling back into poverty due to natural disasters and other risks by 2010
Goal 9: Improving governance for poverty reduction	
Target 1	Effectively implement grassroots democracy
Target 2	Ensure budget transparency
Target 3	Implement legal reform agenda

Goal 10: Reducing ethnic inequality	
Target 1	Preserve and develop the reading and writing ability of ethnic languages
Target 2	Ensure entitlement of individual and collective land-use rights in ethnic minority and mountainous areas
Target 3	Increase the proportion of ethnic minority people in authority bodies at various levels
Goal 11: Ensuring pro-poor infrastructure development	
Target 1	Provide basic infrastructure to 100% by 2010
Target 2	Expand the national transmission grid to 900 poor commune centers

Source: SRV (2005).

Hence, the post-CPRGS development agenda in Vietnam demonstrates a very interesting unintended outcome of the collaboration between the government and the donor community. The donors first presented a concept and package labeled PRSP. The Vietnamese government was prepared to adopt this for maintaining a lucrative aid relationship with the donor community, but on the condition that strong government ownership would be respected by the donors. The government initially intended and prepared the CPRGS as a convenient document to provide an action plan for the existing SEDP reflecting both growth and poverty reduction objectives in a cross-cutting manner. However, the outcome is that the CPRGS became the policy tool and the SEDP an action plan with budget allocations.

Even if the CPRGS has only been in force for some years, there are already some changes in the pattern of ODA utilization. There has been a reduction in the share of large-scale infrastructure, as well as an increase in the share of funds directed directly to provinces. Policy and institutional support have emerged among the biggest aid sectors, with economic management and administration development as the core sub-sectors. Pro-poor spending, including projects focusing on education, health, and area development, has also increased (IMF 2004; WB 2005). The overall priorities for the allocation of ODA stated in the ODA Strategic Framework⁵ for 2006-2010, which is part of the current SEDP, fall in line with those in the CPRGS and are intended to facilitate that realization of the VDGs. The priority areas are:

1. Agricultural and rural development (including agriculture, irrigation, forestry and aquaculture) together with hunger eradication and poverty reduction;
2. Establishment of modern and comprehensive economic infrastructures;
3. Social infrastructure development (healthcare, education, population development);
4. Protection of environment and natural resources;
5. Strengthening of institutional capacity and human resource development; transfer of technology, enhancement of research and development capacity.

⁵ The ODA Strategic Framework has been under preparation by the MPI since 2004 under the old name ODA Master Plan. Primarily, it was prepared on the basis of ODA commitments by donors over a period of five years, with various data collected from the DAC and a government survey of donors. This document was circulated to national agencies and donors for comments. The first draft was circulated in November 2005. After the first circulation of comments, the MPI formed a group with representative from the FERD/MPI, UK Development Agency (DFID), Japan Bank of International Cooperation, and the WB to prepare for the second drafting before it was finalized through a consultative process and issued by the PM in connection with the launch of the new 2006 – 2010 SEDP.

The Hanoi Core Statement

The process leading up to the formulation of the CPRGS and the 2006–2010 SEDP incorporates many of the principles established in the international development debate during the past decade. In particular, there is a more distinct emphasis on poverty alleviation than ever before. In addition, the adoption of PRSP principles has led Vietnam to make development planning more inclusive than earlier, although there is still a lack of participation by those parts of society that are not directly linked to the government: Vietnamese civil society is weakly developed, and the private sector has little impact on formal policy.

The principles from the Rome and Paris Declarations have also found their way into the Vietnamese development policy context. The Rome Declaration called for local ownership, alignment, and streamlining, and Vietnam was one of the first countries to establish a comprehensive Harmonization Action Plan (HAP) to realize these objectives. The first action plan was launched in late 2003, and the plans have been updated annually since that time. To finalize the first HAP, and to set up a regular forum for discussions about aid effectiveness, the government and the donor community jointly formed a Partnership Group on Aid Effectiveness (PGAE). The PGAE includes government officials, representatives of the Like-Minded Donor Group and the Five-Bank group, as well as the EU, UNDP and Japan. The LMDG initially played a key role by identifying key areas for harmonization, including capacity-building support, monitoring and reporting, common development vocabulary, and wider use of multi-donor financing mechanisms to support sector-wide programs. The Bank Group and the government were also early to establish a common progress reporting. The harmonization and alignment efforts have also contributed to the development of joint financing mechanisms and delegated cooperation, as well as decentralization of decision making authority from donor headquarters to country offices. After 2005, the HAPs have also had the function as annual action plans for the fulfillment of the Hanoi Core Statement.

The Hanoi Core Statement is the first localized version of the Paris Declaration for aid effectiveness, and it is built around the same five key themes as the original declaration: ownership, alignment, harmonization and simplification, management for results, and mutual accountability. It includes fewer specific commitments than the Paris Declaration, but some additional indicators and targets for 2010. Table 7 summarizes the commitments included in the Core Statement. The main difference with respect to the Paris Declaration is that it does not include the partner commitments to strengthen the parliamentary role in formulating development strategies and budgets and to include civil society in development planning process. This is a reflection of the more authoritarian nature of the Vietnamese one-party state, and is driven by the wish to maintain central control and ownership in the development planning process. In fact, the Hanoi Core Statement makes a stronger commitment to the donor community – promising a “broad consultative process” to integrate ODA into mainstream planning – than to Vietnamese civil society. Another difference is that Vietnam puts more emphasis on donor complementarities and national comparative advantages. This is arguably one of the ways Vietnam has been able to exercise its strong ownership in the past (Forsberg 2007a,b). By differentiating between donors, Vietnam has been able to combine broad support to the development of economic infrastructure with more focused interventions to improve capacity and address sensitive issues like public administration

reform, parliamentary development, and anti-corruption work. Although the differentiation between donors is based on objective assessments of capacity and resources, it is also likely that it relates to historical experiences and power relations. Those donors that have been invited to take part in the most sensitive projects (e.g. Sweden as lead donor in the Vietnamese anti-corruption program) have a long history of amicable relations with Vietnam and a relatively small quantitative role in the current ODA context. This reduces the risks perceived by Vietnamese leaders in politically sensitive areas.

Table 7. Hanoi Core Statement.

	Commitments
Ownership	
Vietnam defines operational development policies	<p>The GoV exercises leadership in developing and implementing its 5-year SEDP through a broad consultative process which integrates ODA into mainstream planning.</p> <p>The GoV further strengthens its leadership role in coordinating aid at all levels.</p>
Alignment	
Donors align with Vietnam's strategies and commit to use strengthened country systems	<p>Donors base their support on the SEDP and related national, regional and provincial, and sectoral plans.</p> <p>Donors base dialogue on the poverty reduction and growth agenda articulated in the SEDP.</p> <p>The GoV and donors establish mutually agreed frameworks that provide reliable assessments of country systems, procedures, and their performance.</p> <p>Donors use country systems and procedures to the maximum extent possible. When this is not possible, donors establish additional safeguards and measures in ways that strengthen country systems and procedures.</p> <p>Donors avoid creating parallel structures for the day-to-day management and implementation of aid-financed projects and programs.</p> <p>Donors phase out paid incentives for government officials administering aid financed activities and do not establish incentives in future activities.</p>
Vietnam strengthens institutional capacity with support from donors; donors increasingly use government systems	<p>The GoV integrates capacity building objectives in the SEDP and related national, regional and provincial, and sectoral plans and leads a comprehensive capacity building program with coordinated donor support.</p> <p>The GoV undertakes reforms, such as public administration reforms, that promote long-term capacity development.</p> <p>The GoV undertakes reforms to ensure that the legal framework, national systems, institutions, and procedures for managing aid and other development resources are effective, accountable, and transparent.</p> <p>The GoV and donors commit sufficient resources to support and sustain reform and capacity building in public procurement and public financial management.</p> <p>Donors progressively rely on the GoV's public procurement system once mutually agreed standards have been attained.</p> <p>Donors progressively rely on the GoV's public financial management system once mutually agreed standards have been attained.</p> <p>The GoV publishes timely, transparent, and reliable reports on budget planning and execution.</p> <p>Donors provide reliable indicative commitments on aid over a multi-year framework and release aid in a timely and predictable fashion in relation to the GoV's budget cycle.</p> <p>The GoV, supported by donors, develop specialized technical and policy capacity for social and environmental analysis and enforcement.</p>

Harmonization and simplification	
Donors implement common arrangements and simplify procedures	<p>The GoV and donors jointly conduct and use core diagnostic reviews and work together to carry out and share other reviews.</p> <p>Donors rationalize their systems and procedures by implementing common arrangements for planning, design, implementation, monitoring, evaluation, and reporting to the GoV on donor activities and aid flows.</p> <p>GoV and donors increasingly use program based approaches.</p> <p>Decentralization and delegation of authority to the country level is maximized for each donor.</p>
Complementarity: more effective division of labor	<p>The GoV provides clear views on donors' comparative advantages, different aid modalities, and on how to achieve donor complementarity at country or sector level.</p> <p>Donors make full use of respective comparative advantages at sector level by aligning support and agreeing, where appropriate, to appoint suitable lead donors for coordinating programs, activities and tasks, including delegated cooperation.</p>
Incentives for collaborative behavior	Government and donors devise practical means to encourage harmonization, alignment, and results-based management.
Managing for results	
Managing resources and improving decision-making for results	<p>The GoV and donors jointly use results-oriented performance assessment frameworks to maximize aid effectiveness and manage implementation of the SEDP and other national, regional and provincial, and sectoral plans.</p> <p>Donors link country programs and resources to achieve results that contribute to, and are assessed by, GoV performance assessment frameworks, using agreed indicators.</p>
Mutual accountability	
Government of Vietnam and donors are accountable for development results	<p>The GoV and donors jointly assess and carry out annual independent reviews, on progress in implementing agreed commitments on aid effectiveness and improved development outcomes through existing and increasingly objective country-level mechanisms.</p> <p>Donors provide timely and comprehensive information on aid flows and program intentions to enable GoV to present comprehensive budget reports to legislatures and citizens, and coordinate aid more effectively.</p>

Source: Hanoi Core Statement.

The performance indicators and targets for 2010 are generally more demanding than those in the Paris Declaration. Table 8 summarizes the targets in the Hanoi Core Statement, including the two targets that are additional to the Paris Declaration: these are related to environmental and social impact assessments, and delegation of decision-making power to the country level. Regarding the other indicators, Vietnam is pushing for faster and more complete alignment and more comprehensive harmonization of donor activities than what is realistic at the international level.

Table 8. HCS: Performance Indicators and Targets for 2010

Indicator	Target for 2010
Ownership	
1. SEDP integrating core CPRGS principles	In place
Alignment	
2. Share of donor strategies aligned with SEDP	All donor strategies to be aligned.
3. Number of parallel project management units	No parallel PMUs.
4. Percent of aid for capacity building delivered through GoV led and coordinated programs	All aid for capacity building aligned.
5. Percent of aid flows and percent of donors using GoV procurement systems	At least 50% of aid flows and at least 50% of donors channeling at least 50% of their funds through country systems.
6. Percent of aid flows and percent of aid donors using national budgeting, financial reporting, and auditing systems.	At least 50% of aid flows and at least 50% of donors channeling at least 50% of their funds through country systems.
7. Percent of aid disbursed according to agreed schedules.	75% of aid disbursed on schedule.
8. Percent of EIA sans SIAs implemented to international standards and using GoV systems.	All EIAs and SIAs in donor projects implemented to international standards; at least 30% of these using GoV systems.
Harmonization and Simplification	
9. Percent of country/sector diagnostic reviews and studies used by 2 or more donors.	Core diagnostic reviews used by all donors; at least 75% of country analytical reviews used by 2 or more donors.
10. Percent of donors using common project/program cycle tools.	At least 50% of donors.
11. Percent of aid in national or sector programs.	At least 75% of aid.
12. Percent of aid interventions managed at the country level.	At least 75% of aid interventions.
Managing for results	
13. Composite score for performance of SEDP and sector programs.	Score of 3 based on DAC criteria.
Mutual Accountability	
14. Mutual assessments of progress in implementing commitments.	Annual assessments.

Source: Hanoi Core Statement.

Public Administration Reform and Decentralization

The ability of Vietnam to exercise its ownership of the development agenda and to manage the development cooperation with a large number of donors requires reforms in many other areas than development administration. Organizational reforms, investments in human capital, and changes in decision-making processes are needed to meet the increased responsibility that comes with stronger ownership. Many of these reforms have been summarized in the Public Administration Reform (PAR) Master Program launched in 2001, which is an extensive and ambitious undertaking to improve public sector management. The overall goals of the Program are to build “a democratic, clean, strong, professional, modern, effective and efficient public administration system” and to ensure that “public cadres and civil servants will have the appropriate capacities and ethical qualities that are able to respond to the requirements of the cause of nation building and development”. The Program was not only motivated by the changes in the role and responsibilities of Vietnam as a recipient of ODA, but rather by the demands posed by development in general. The growing and increasingly open and internationalized economy called for a substantial renovation of the role of the state. Efficiency and ethics were also considered important to maintain the legitimacy of one-party rule: waste in the public sector and

corruption among public officials were reducing the respect for laws and rules and undermining the position of the Vietnamese Communist Party.

To achieve its overall goals, the Program initially set the following nine specific objectives for the period 2001–2010 (see UNDP 2003):

1. Strengthening administrative legal institutions, enhancing accountability and reforming the processes for developing and issuing normative legal documents.
2. Reforming administrative procedures so that they are transparent, simple and convenient for people.
3. Restructuring of state machinery to focus on macro-management and regulatory roles.
4. Socialization of public service delivery functions which are not necessarily to be handled by government agencies.
5. Decentralization to and reorganization of local government, including defining clearer urban and rural administrations.
6. By 2010, the contingent of cadres and civil servants will be of reasonable size, professional and capable of discharging their public activities.
7. By 2005, the salaries of cadres and civil servants will be adequate to maintain their life and the life of their families.
8. By 2005, the financial mechanism will have been reformed to be suitable for administrative agencies and public service delivery agencies.
9. By 2010, the administrative system will be substantially modernized.

The Program called on each ministry and province to plan and implement its own PAR efforts, with annual and 5-year PAR plans as the central instruments. All ministries and provinces are also obliged to make annual reports on implementation and progress to a special PAR Steering Committee, which is responsible for coordination, advice, and oversight of the overall program. In addition, there are additional programs focusing more narrowly on Public Financial Management and other areas of public administration.

Few of the objectives have been achieved according to plan, but notable improvements have been made in several areas. For instance, the administrative burden has been reduced through the simplification or abolishment of many cumbersome laws and regulations, various training programs have contributed to raising the quality of public officials, and a broad program has been launched to fight corruption. Several programs have been initiated to strengthen public financial management and the legal system. While much remains to be done, the direction of change is the right one, and the program has arguably contributed to improving the ODA management capability of Vietnam.

Another important reform area under the umbrella of the PAR Master Plan is decentralization. The main objective for decentralization is to strengthen and improve state management in order to facilitate the transition from central planning to a more market-oriented system. Decentralization is changing the Vietnamese ODA management system by increasing the autonomy and decision-making power of local and regional authorities, line ministries, and other state actors at the expense of the MPI.

A major result of the decentralization program is the increasingly important role of the National Assembly. The last few years have witnessed an increase in the National Assembly's participation in the decision-making system in general and in approvals of national development

plans in particular: earlier, this was an area dominated by MPI. The basic role of the National Assembly is defined by the Constitution of 1992 (Article 84), but Resolution No. 51/QH from 2001 gave it a more distinct role in monitoring the decisions of the VCP and the government (albeit within the bounds of the one-party state). For instance, the National Assembly approves the state budget and ratifies all national strategic projects that the Prime Minister signs. The monitoring role is taken seriously: it is not uncommon to see National Assembly member criticizing and opposing government proposals regarding national development plans, budget planning, monetary and financial policy, and state audits.

Decentralization has also been institutionalized in a number of other government resolutions and decrees. The most explicit legislation, found in government resolution 08/2004 NQ-CP, assigns provincial authorities to participate in the decentralization of several areas of decision-making, including development planning, budgeting and finance, and management of public assets, land and natural resources, state owned enterprises, public service delivery, and personnel (MPI 2004). The State Budget Law that also came into force in 2004 provides concrete guidelines for how to manage decentralization, and defines the roles and responsibilities of central and sub-national government authorities in budgeting and finance (WB 2005, pp. 47- 48).

Several decrees address the approval process for public investment projects.⁶ Before the reforms, sectoral agencies and provincial authorities only had the right to approve smaller investment projects and ODA projects based on technical assistance – all substantial projects required approval by MPI. After a series of reforms 1998-2003, provincial authorities and line ministries now have the right to approve all but national strategic projects (such as the Dung Quat Oil Refinery project, the Ho Chi Minh Highway, or the Son La Hydropower plan), which are approved by the Prime Minister. At the district level, people's committee chairmen are allowed to approve investment projects with total investment capital below VND 3 billion (about USD200,000), while people's committee chairmen at the commune level have the authority to approve projects with investment capital of less than VND1 billion (Nguyen 2004).

The combined effect of public administration reform and decentralization has been to improve the ability of the Vietnamese public sector to manage aid effectively and to exercise its ownership of development policy. With the increasing capacity and efficiency of the public sector at central as well as provincial levels, Vietnam is becoming a stronger partner for the donor community. Rather than only stating the wishes of the Party and a narrow segment of the central government bureaucracy, development policies are gradually reflecting the views of broader segments of Vietnamese society, as illustrated by the process leading up to the CPRGS. Yet, there is still a long way to go before Vietnam fulfills all criteria for a democratic society, and further progress along these lines is important to implement the new framework for ODA outlined by the Hanoi Core Statement and the multilateral agreements underlying it.

⁶ See Government Decrees No. 52/1999, No. 12/2000, and No. 07/2003.

Conclusions and Consequences for Swedish ODA

There is no doubt that Swedish ODA policy in general has been strongly influenced by the various guidelines and agreements set up at the multi-lateral level. The Swedish Policy for Global Development, which governs both development cooperation and other relevant policy areas, is explicitly based on the Millennium Development Goals and the DAC Guidelines for Poverty Reduction, and Sweden is a signatory to all of the agreements in the area of development and development cooperation discussed in this report. The key principles outlined in these various agreements can be summarized in three groups. Firstly, the Millennium Declaration, the Monterrey Consensus, and other statements indicate a strong commitment to provide substantial resources in the form of development assistance – in the Swedish case, the target is that ODA should amount to one percent of GDP. Secondly, the various declarations signal a commitment to shift responsibility for policy formulation from donors to recipients, and to strengthen the focus on poverty reduction. Terms like ownership, partnership, or “perspective of the poor” are emphasized at the expense of discussions about policy conditionality. Thirdly, aid efficiency has moved up to a top position on the policy agenda. Here, the key words are alignment, harmonization, concentration, and division of labor. In addition to these principles, the Swedish policy puts heavy emphasis on rights – democracy and good governance, respect for human rights, and equality between women and men – as a precondition for all development assistance.

Most of these key principles fall well within the framework for ODA outlined in the Hanoi Core Statement. In particular, Vietnam demonstrates a strong commitment to aid efficiency, and has the necessary capacity to realize many of the ambitious targets set up jointly with the donor community. However, one area where Swedish and Vietnamese policy objectives and principles seem to clash is human rights and democracy: the Vietnamese one-party state does not meet the objectives in terms of political rights and liberty rights. Yet, it would probably be possible to outline a reform program for bilateral development cooperation that takes into account the concerns of both countries. This would require a joint assessment of the comparative advantages of Sweden as a donor in Vietnam, and efforts to concentrate development cooperation to those areas where Sweden has better prospects to be successful than other donors. Health and environment are two such areas where Sweden has a good track record and where the prospects for successful coopera-

tion are positive. Given the traditionally good bilateral relations between the two countries, which have allowed Sweden to promote several “sensitive” issues (Forsberg 2007a, b), it might even be possible to establish a bilateral cooperation program with particular emphasis on issues like democratic governance and human rights. In the past, Sweden has been involved in projects focusing on public administration reform, parliamentary development, anticorruption programs, and legal reform, which all fall within the scope of this broad policy area. Coordination with other donors would be necessary to garner more support for the areas where Sweden could act as a lead donor, and to manage the withdrawal from other sectors where Sweden has been active in the past, but where other donors have stronger comparative advantages.

Country Concentration

However, the Swedish government has come to other conclusions regarding bilateral development cooperation with Vietnam. After an internal political discussion, the government declared in late August 2007 that development cooperation activities will be concentrated to fewer countries, and that the number of partner countries will be reduced from about 70 to 33. Vietnam is not among the countries identified as long-term partners, which means that the existing bilateral development cooperation program will gradually be terminated: it is still unclear how long the phasing out period will be, although most discussions at Sida, the Swedish International Development Cooperation Agency, assume a period of three to five years.

The general debate on aid efficiency and aid harmonization, as formulated in the Paris Declaration or the Hanoi Core Statement, does not provide any clear guidelines for how donors should act in order to concentrate their aid, except that the concentration process should be managed in a dialogue with the aid community and the partner country. The partner should identify each donor’s comparative advantages, and donors should engage in a division of labor where the most suitable donor is given a lead role in each sector. However, these practices are more relevant for processes focusing on sector concentration rather than country concentration. The international agreements in the development cooperation area do not provide any guidelines regarding how many and which partner countries each donor should cooperate with (although there is a general recommendation that donors should invest 0.7 percent of their GDP in ODA). Hence, decisions regarding which countries to cooperate with are perhaps best seen as unilateral donor decisions, or possibly matters of coordination between donors, rather than topics for bilateral discussions between donors and individual partner countries.

In the Swedish case, the country concentration decision is clearly the result of a domestic political process that has involved little discussion with partner countries. The formal motive for reducing the number of countries with bilateral development cooperation is to achieve increased aid efficiency, in line with the objectives of the Paris Declaration. Hence, it is expected that a smaller number of partners will facilitate increases in the efficiency and quality of aid to the remaining partner countries; similarly, it is assumed that a reduction in the number of donors will improve the efficiency of aid management in those countries that Sweden will leave (MoFA 2007b).

Four criteria have been used in the internal government processes to determine which countries will remain in (or be added to) the group of long-term bilateral partners (MoFA 2007a). A first criterion has been the

need for aid, as indicated by the levels of income and poverty, child mortality, and other measures of development and living standards. Secondly, decisions have been based on assessments of the efficiency of aid: how likely is it that aid will improve conditions in the recipient country? In this context, the Swedish assessment has stressed issues such as the quality of the recipient's domestic development policies and public administration, the degree of aid dependence, as well as the prevalence of corruption. Thirdly, decisions have taken into account whether the potential partner country respects democracy and human rights. In addition to the current status regarding political democracy and the role of civil society, the assessment has included expectations about future developments. A final question has concerned the specific role that Sweden might have in each partner country. Here, the main issue has been Sweden's comparative advantages, but the guidelines for the country concentration process also stress the need to take into account the activities and plans of other donors (MoFA 2007a).

As a result of this selection and concentration process, future Swedish ODA will prioritize four areas. These are

1. Stronger focus on Africa, which is mainly motivated by the more acute need for aid in many African countries.
2. Stronger focus on European transition economies, where particular emphasis is put on economic reform and integration.
3. Stronger focus on peace and security, with special programs in countries in conflict or post-conflict situations.
4. Stronger focus on democracy and human rights, in the long-term partner countries as well as in some countries with particularly weak democratic governance.

The 33 long-term partner countries that remain after the concentration process fall into three groups. A first group is made up of twelve traditional development partners, including African countries like Ethiopia, Mozambique and Tanzania, but also two Asian nations (Bangladesh and Cambodia) and one Latin American country (Bolivia). The second group includes twelve countries in conflict or post-conflict situations. In addition to Iraq and Afghanistan, the group comprises countries like East Timor, Colombia, and Sudan. The third group covers eight European transition economies (mainly in the Balkans) as well as Turkey. Bilateral development cooperation will be phased out in 23 countries, including traditional partners like Laos, Sri Lanka, Nicaragua, Peru, and Angola. Vietnam, together with six other countries (e.g. China, India, Indonesia), is in an intermediate category where bilateral development cooperation will be replaced by other forms of selective cooperation. A final country group is made up of countries where Swedish ODA resources will be used to promote democracy and human rights in "alternative" ways. Table 9 summarizes the different country categories.

Table 9. Country Categories for Swedish ODA

Country group	Countries
1. Long-term development partners	Burkina Faso, Ethiopia, Kenya, Mali, Moçambique, Rwanda, Tanzania, Uganda, Zambia, Bangladesh, Kambodja, Bolivia
2. Conflict or post-conflict countries	Burundi, DR Kongo, Liberia, Sierra Leone, Somalia, Sudan, Afghanistan, East Timor, Iraq, West Bank-Gaza, Colombia, Guatemala
3. Eastern European transition economies	Albania, Bosnia-Herzegovina, Georgia, Kosovo, Makedonia, Moldavia, Serbia, Turkey, Ukraine
4. No bilateral development cooperation	Angola, Ivory Coast, Malawi, Nigeria, Philippines, Laos, Mongolia, Pakistan, Sri Lanka, Thailand, Chile, El Salvador, Haiti, Honduras, Nicaragua, Peru, Armenia, Azerbajdzan, Kirgizistan, Montenegro, Tadjikistan, Russia, Lebanon
5. Phasing out to selective cooperation	Botswana, Namibia, South Africa, China, India, Indonesia, Vietnam
6. Promotion of democracy and human rights	Cuba, DPR Korea, Myanmar

Source: MoFA (2007b)

Looking specifically at Vietnam, it is likely that two considerations have contributed to the decision to drop Vietnam from the list of long-term partner countries. Firstly, Vietnamese economic development has been strong for nearly two decades, and the country has been highly successful in reducing poverty. Within the next few years, Vietnam will graduate from the low-income country group into the category of middle-income countries. One consequence is that Vietnam is no longer in urgent need of Swedish aid. Secondly, the Vietnamese one-party state has been subject to criticism for shortcomings in democracy and human rights. It is probably no coincidence that all socialist one-party states have been dropped from the list of long-term partners.

Phasing Out Aid

Given the political nature of the country concentration decision, it is not meaningful to discuss whether it was right or wrong to drop Vietnam from the group of long-term development partners. However, it is relevant to briefly address three other related questions, both in general terms and also with focus on the specific case of Vietnam: Could the country concentration process have been managed differently? Could the ambition to concentrate aid have been achieved in any other way? How should relations between Sweden and Vietnam be managed during the transition phase from broad bilateral development cooperation today to more selective cooperation in the future?

The question whether the country concentration process could have been managed differently probably has no clear answer. Although the Swedish decision-making process was non-transparent and did not involve any open debate with partner countries and other stakeholders, it is not likely that a consultation process involving recipient countries would have been possible. On the one hand, it is clear that the unilateral decision to terminate aid relations stands in stark contrast to various commitments about partnership and the need to include the perspectives of the poor in all major decisions that involve their living conditions. On

the other hand, there is a risk that any consultation process involving partner countries would have deteriorated into a highly undesirable game of conditions and commitments. It would have been difficult for Swedish negotiators not to specify some of their decision parameters, such as democratic elections. This would have been interpreted as a condition for Swedish aid, and created a bargaining situation that would be far removed from the dialogues and partnerships that are aimed for in the Paris Declaration. A broader consultation process among Swedish stakeholders would probably also have been difficult: many of the stakeholders have narrowly defined interests and they would have acted strongly to defend those particular interests.

At a general level, the Swedish country concentration decision illustrates some of the limitations of the current ideals regarding ownership and partnership. While donors have made strong commitments to respect recipient priorities and policies, it can be argued that these commitments apply only to the extent that they actually coincide with the donors' own preferences. The Swedish situation may also illustrate how volatile those preferences are – for instance, it is possible that the Swedish political opposition would have chosen different selection criteria for a concentration process, resulting in different outcome in terms of countries and sectors.

Turning to the second question, it should be noted that the argument that aid efficiency will increase as a result of country concentration is based on the belief that the scope of Swedish aid is too large, and that a reduction of the number of partner countries will allow Sweden to become a more efficient donor. However, Swedish ODA has not only reached a large number of countries, but also a large number of sectors. An alternative concentration strategy could have focused primarily on reducing the number of sectors rather than the number of countries. Such a sector concentration process has already been in progress at the country level for some time: Sida has aimed to reduce the number of sectors in each partner country to a maximum of three. The problem from a broad efficiency perspective is that the three focus sectors are allowed to vary between partner countries. Hence, in its overall operations, Sida is active in a broad range of sectors, from health, education, environment, economic growth, and economic reforms to democratic governance and human rights, humanitarian aid, and research. A more comprehensive sector concentration strategy – covering all of Sida's engagements or at least at a regional level rather than at the country level – would have had two advantages.

Firstly, a focus on a small number of sectors would have provided very clear signals regarding the skills and capacities required in Swedish ODA, which would have facilitated a further professionalization of Sida. Focusing on a small number of countries does not provide any similar direction regarding the skill and capacity needs of Sida: officials at Sida are not expected to specialize on individual countries. Secondly, a decision to reduce the number of sectors would have allowed Sweden to honor its commitments to ownership, partnership, and dialogue. Unlike the current country concentration decision, a sector concentration process could have been divided into two stages, where Sweden's development partners could have participated actively. In a first stage, Sweden could have chosen two or three sectors of specialization on the basis of perceived comparative advantages and inputs from partners and other donors. In a second stage, a dialogue with each individual recipient country (and the donor community in that country) could have deter-

mined what specific role Sweden would play within these sectors. In some countries, the result would probably have been a withdrawal, since the chosen sectors would not be relevant for all partner countries.

In this context, it is appropriate to note that the EU Code of Conduct on Division of Labour in Development Policy presented in May 2007 actually states that each EU member country shall concentrate its aid efforts to two sectors (EU 2007). Assuming that both kinds of concentration are desirable, sequencing becomes an important concern. The arguments above suggest that a sector concentration process followed by a country concentration process would have been the more efficient sequence: identifying the sectors of Swedish expertise first (perhaps democratic governance and environment) would have facilitated the country concentration decisions.

However, in practice, it will be very difficult for Sweden to undertake any comprehensive sector concentration process of the kind called for in the *EU Code of Conduct*. The reason is that the conditions in the three groups of countries that will remain in the Swedish ODA program differ fundamentally. While the twelve long-term partners are likely to demand “traditional” development assistance, the twelve conflict and post-conflict countries, as well as the nine transition economies, have other needs. Moreover, at present Sweden has limited capacity to design and carry out programs in war zones and post-conflict situations. A possible solution is increased collaboration with multilateral actors focusing on conflict and post-conflict situations, as well as strong coordination with the activities of the EU in the Eastern European transition economies. This notwithstanding, it is a cause for concern that the potential for synergies between the three country groups is relatively small. Hence, the paradoxical outcome of the country concentration process may actually be to preclude further efforts to achieve sector concentration.

The perhaps most important question concerns how relations between Vietnam and Sweden should be managed during the phasing out period and in the long run. An obvious first priority is to secure the continuation and survival of those Swedish ODA projects that are considered successful and have planning horizons reaching beyond the next few years. This will require close consultations and dialogues with Vietnamese partners and the donor community, to ascertain that projects are taken over by other donors or merged with related programs. In some cases, it may be appropriate for Sweden to continue funding projects even after they have been transferred to other implementing agencies. A second priority is to widen the scope of the Swedish country strategy for Vietnam. The existing country strategy is based on the premise that Sweden and Vietnam will remain development partners for a long time. To ensure high quality and efficiency, the strategy stresses the need to concentrate activities to a limited number of sectors. It is important to note that the sector concentration objective is less relevant today than when it was originally formulated. A new objective, following from the Swedish government’s country concentration decision, is to promote “selective” development cooperation. Although it remains to be determined what this means in detail, it is possible that it will involve sectors and activities that were not prioritized in earlier decision. An additional objective for the transition phase is to promote relations and partnerships that will be viable even after the termination of the formal bilateral ODA program. It is possible that many of these relations will be found in sectors that are not prioritized in the existing strategy. For instance, education and research are not prominent in the existing

project portfolio of Sida, but could be important sectors for long-run collaboration. Hence, increased flexibility and openness to new forms of collaboration will be important to ensure the efficiency of the Swedish transition strategy.

The prospects for maintaining close relations even without bilateral development cooperation appear good. There is no doubt that the long-lasting relationship between Sweden and Vietnam has created substantial intangible value in the form of contacts between organizations and institutions, enterprises, and individuals in the two countries. This could still potentially form a strong base for many types of collaboration in areas like business, academics and science, and culture, and contribute significantly to the continued development of Vietnam. At the same time, it is clear that the intangibles that might support such a development are perishable, and that a concerted effort will be needed to avoid wasting the substantial assets that have been invested in the relationship between the two countries.

Maybe the true test of the Swedish *Policy for Global Development* – which states that the relations between Sweden and the developing world should not be monopolized by Sida and limited to activities undertaken under formal development cooperation agreements – is how the withdrawal of ODA from Vietnam and many other developing countries is handled in the next few years. A shift from development aid to other areas of collaboration, where Vietnam and Sweden can act as equals rather than in a donor-recipient relation, requires the support of both governments and new forms of public-private partnership on the Swedish side. In the short run, it is necessary for the Swedish government to act as a catalyst and contribute to the funding of some of the new initiatives. Such funds would be well invested, particularly keeping in mind that the efficiency and sustainability of the existing Swedish ODA initiatives are dependent on expectations about the future. Moreover, they can be seen as investments in order to safeguard Sweden's good reputation in Vietnam.

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