



Country Strategy for  
Development Cooperation with

# VIETNAM 2013–2016

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## Abbreviations

|                            |   |
|----------------------------|---|
| <b>ADB</b>                 | Asian Development Bank  |
| <b>AEF</b>                 | Aid Effectiveness Forum   |
| <b>ASEAN</b>               | Association of South-East Asian Nations                             |
| <b>CEP</b>                 | Core Environmental Programme  |
| <b>CC</b>                  | Concessional Credit   |
| <b>CG</b>                  | Consultative Group  |
| <b>CPI</b>                 | Transparency International's Corruption Perception Index            |
| <b>CSO</b>                 | Civil Society Organisation  |
| <b>CSP</b>                 | Country Strategy Paper  |
| <b>DS</b>                  | Drainage and sanitation   |
| <b>EEP Mekong</b>          | Energy and Environment Partnership Programme with the Mekong Region |
| <b>EIU Democracy Index</b> | Economist Intelligence Unit's Democracy Index                       |
| <b>EU</b>                  | European Union  |
| <b>FAO</b>                 | Food and Agricultural Organisation of the United Nations            |
| <b>FLC</b>                 | Fund for Local Cooperation  |
| <b>FLEGT</b>               | Forest Law Enforcement, Governance and Trade                        |
| <b>F/M</b>                 | Female/Male   |
| <b>FORMIS</b>              | Forest Management Information System                                |
| <b>FP</b>                  | Finnpartnership   |
| <b>FRWF</b>                | Finnish Revolving Water Fund  |
| <b>GDP</b>                 | Gross Domestic Production   |
| <b>GHG</b>                 | Greenhouse gas  |
| <b>GNI</b>                 | Gross National Income   |
| <b>GoF</b>                 | Government of Finland   |
| <b>GoV</b>                 | Government of Vietnam   |
| <b>HCM</b>                 | Ho Chi Minh City  |
| <b>HEI ICI</b>             | Higher Education Institutions Institutional Cooperation Instrument  |
| <b>HIV/AIDS</b>            | Human immunodeficiency virus / acquired immunodeficiency syndrome   |
| <b>HCMC</b>                | Ho Chi Minh City  |
| <b>ICI</b>                 | Institutional Cooperation Instrument                                |
| <b>ICT</b>                 | Information and communications technology                           |
| <b>ILO</b>                 | International Labour Organisation                                   |
| <b>IPP</b>                 | Innovation Partnership Programme                                    |
| <b>LMDG</b>                | Like-Minded Donors Group  |
| <b>MDGs</b>                | Millennium Development Goals  |

## VIETNAM

|                |   |
|----------------|---|
| <b>MFA</b>     | Ministry for Foreign Affairs  |
| <b>MOC</b>     | Ministry of Construction  |
| <b>MPDF</b>    | Mekong Private Sector Development Facility  |
| <b>MPI</b>     | Ministry of Planning and Investment   |
| <b>MTR</b>     | Mid-Term Review   |
| <b>NFA/FAO</b> | National Forest Assessment/Food and Agricultural Organisation of the United Nations |
| <b>NIS</b>     | National Innovation System  |
| <b>NGO</b>     | Non-Governmental Organisation   |
| <b>ODA</b>     | Official Development Aid  |
| <b>OIF</b>     | Open Innovation Forum   |
| <b>O&amp;M</b> | Operations and maintenance  |
| <b>PPP</b>     | Public -Private Partnership   |
| <b>REDD</b>    | Reducing Emissions from Deforestation and Forest Degradation                        |
| <b>R&amp;D</b> | Research and development  |
| <b>SEDP</b>    | Socio-Economic Development Plan   |
| <b>SEDS</b>    | Socio-Economic Development Strategy   |
| <b>SOE</b>     | State-owned enterprise  |
| <b>SME</b>     | Small-Medium Enterprise   |
| <b>STI</b>     | Science, technology and industry  |
| <b>S&amp;T</b> | Science and technology  |
| <b>TA</b>      | Technical assistance  |
| <b>TFF</b>     | Trust Fund for Forests  |
| <b>UN</b>      | United Nations  |
| <b>UNDP</b>    | United Nations Development Programme  |
| <b>UNIDO</b>   | United Nations Industrial Development Organisation                                  |
| <b>VHLSS</b>   | Vietnam Household Living Standards Survey   |
| <b>VPA</b>     | Voluntary Partnership Agreement   |
| <b>WB</b>      | World Bank  |
| <b>WS</b>      | Water supply  |
| <b>WSPST</b>   | Water and Sanitation Programme for Small Towns in Vietnam                           |
| <b>WTO</b>     | World Trade Organization  |





# 1 Executive summary: VIETNAM

Vietnam reached the status of a lower middle-income country in 2010. It is ambitiously determined to become a modern industrial country by 2020 and it is, indeed, making progress. The current decade will be crucial for Vietnam, which has experienced impressive economic development during the past 25 years. However, key to attaining the goal will be success in building good governance, increasing respect for human rights, and ensuring inclusiveness of growth.

As a result of its lower middle-income country status, Vietnam's ODA profile is about to change. Some donors will phase out their traditional ODA or shift to concessional loans. In the Finnish Development Policy Programme 2012 Vietnam is identified as a long-term partner country, with which Finland is gradually shifting to new cooperation modalities. This means that during the strategy period bilateral grant-based development cooperation will continue but it will be in a state of transition towards a more comprehensive partnership for mutual benefit.

Finland will concentrate its efforts on sectors where Vietnam anticipates challenges in the future and where Finland can produce added value and complementarity based on Finnish know-how and the over 30-year-long experience of development cooperation with Vietnam.

During the strategy period, Finland will continue supporting Vietnam to foster sustainable use and management of natural resources and enhance climate sustainability, and improve the basis for a knowledge-based society. To contribute to the achievement of these country development results, Finland chooses the following objectives:

1. Increased openness and access to information, knowledge, and innovation for all;
2. Enhanced green economy that creates entrepreneurial activity and decent jobs;
3. Improved sustainability, inclusiveness, equality and climate sustainability of the use and management of forest resources; and
4. Sustainable and equal access to improved water supply and sanitation services.

The human rights based approach is advanced for example by supporting open access to information and creating livelihoods for the poorest and most vulnerable groups. Implementation of the human rights based approach and the crosscutting objectives of Finland's Development Policy Programme in all cooperation will be strengthened. The three ongoing bilateral development cooperation projects in innovation, forest, and water and sanitation sectors will enter or be at their final stages. Their main goal is ensuring ownership and sustainability of the results of the cooperation.

Finland will continue its active involvement in the EU cooperation in Vietnam. Cooperation with international organisations and financing institutions and with Finnish and Vietnamese NGOs will gain in importance in promoting the objectives set in this Strategy.

The strategy period aiming at transition in Vietnamese and Finnish cooperation will be used to strengthen and diversify partnerships between Vietnamese and Finnish authorities, institutions, private sector players and civil societies. Available development cooperation instruments will be used in a comprehensive manner. High-level political and policy dialogue as well as economic, commercial and innovation cooperation will be further intensified. As a result, the traditional project-based development cooperation between Vietnam and Finland will be gradually replaced by a more comprehensive partnership, responding to the changing needs of a middle-income Vietnam.

## 2 Country analysis

### 2.1 POLITICAL, ECONOMIC AND SOCIAL DEVELOPMENT

Vietnam is a socialist one-party system state ruled by the Communist Party of Vietnam. In recent years, the Government has embarked on some political reforms such as strengthening the role of the National Assembly, which has become more assertive in exercising its authority over law-making. However, it is still subject to the Communist Party direction. In the democracy index of 2011, Vietnam ranked 143rd out of the 167 countries surveyed, and it was further described to be a country with an authoritarian regime.

Vietnam's economic development in the past 25 years has been impressive. After the years of economic stagnation, the Communist Party launched in 1986 a political and economic renewal programme called Doi Moi (Renovation), which introduced reforms intended to facilitate transition from a centralised economy to a socialist-oriented market economy, including Vietnam's integration into the world economy. At that time, Vietnam was one of the poorest countries in the world. Since then, Doi Moi has produced steady economic growth and reduced poverty, which have improved the welfare of an average Vietnamese citizen dramatically. Between 1990 and 2010, Vietnam's economy grew at an annual average rate of 7.3%, and the per capita income increased five-fold (USD 1300 in 2011). Vietnam attained the lower middle-income country status in 2010 and intends to double its GDP per capita by 2015.

However, in recent years, Vietnam has suffered from macroeconomic instability, which has had an impact on people's livelihoods and which may jeopardise the annual growth target of 7.5% set in the Socio-Economic Development Plan (SEDP) for 2011-15. The country has experienced one of the highest inflation rates in Asia. In addition, Vietnam has been coping among other things with pressures on its currency and decreasing levels of foreign reserves. While being effective, the Government's package of tight monetary and fiscal policy measures has somewhat meant sacrificing economic growth for stability.

Vietnam is on track to meet, or has met, a majority of the Millennium Development Goals (MDG) at the national level. It has made the most progress on reducing poverty: the poverty headcount (% living below the poverty line) fell from 58% in 1993 to around 10% in 2012. While this is an impressive achievement, many Vietnamese still live just above the poverty line and could easily slip back to poverty. In addition, the progress made at the national level disguises disparities at the sub-national level. The poverty rate is high in certain regions and among ethnic minorities. Furthermore, poverty reduction among rural migrants in urban areas is a challenge.

In addition to poverty reduction, Vietnam has achieved the MDGs related to hunger reduction, gender equality in school enrollment, reduced maternal mortality, and malaria control. MDGs related to universal primary education and reduced child mortality are likely to be achieved. However, Vietnam is currently not on track to meet the following goals: improved environmental sustainability; access to hygienic sanitation in rural areas – despite good progress in ensuring access to clean drinking water; and reduced HIV/AIDS prevalence rate. In general, issues of quality, equity and distribution are keys to measuring Vietnam's achievements.

In the field of human rights, Vietnam has been able to meet the economic, social and cultural needs of its citizens as the progress in relation to the MDGs shows. However, the Government is restricting the civil and political rights. In particular, limited freedom of expression and restrictions on the media continue to be issues of concern raised by the international community. Also, the death penalty is still used to a wide range of crimes, including economic ones. A considerable number of persons have been imprisoned under loosely defined national security provisions. Problems in the field of civil and political rights have a negative impact on disadvantaged groups' enjoyment of their economic, social and cultural rights. On a more positive note, the Government conducts active dialogue on human rights issues with foreign partners, including the EU.

On global and regional forums, Vietnam has adopted a more active role in building international relationships and participating in the work of different organisations. Vietnam's accession to the World Trade Organization (WTO) in 2007 stimulated a flow of private external capital to the country. Regionally, the Association of South-East Asian Nations (ASEAN) is the most important reference group for Vietnam. Vietnam is also active in the Mekong regional cooperation, which is gaining in importance.

## 2.2 DEVELOPMENT SCENARIOS FOR THE COUNTRY

With its graduation to a lower middle-income country, Vietnam has entered a new phase of development. This decade will be decisive in determining its future direction. Vietnam has set an ambitious goal of becoming a modern industrialised country by 2020, and its policies have been geared towards reaching that goal. However, Vietnam is likely to face many challenges when trying to avoid the middle-income trap.

No major changes in the political system are foreseen. Although the prospect of instability remains low, addressing macroeconomic and societal imbalances is important because – together with other accumulating challenges – they could have implications for the political and social stability of the country. Protests over land seizures, for example, may continue to occur, as a large number of lease agreements are expiring in 2013, creating uncertainty for millions of tenants.

Maintaining macroeconomic stability while pursuing rapid economic growth will become increasingly challenging. Due to its open economy, Vietnam is becoming more vulnerable to external economic and financial fluctuations, which in the worst-case scenario may halt Vietnam's development. Vietnam has so far addressed only the symptoms of its macroeconomic problems whereas the deeper causes of instability remain unaddressed. The country would benefit from substantial structural reforms, including restructuring of exports, state-owned enterprises (SOEs), and the banking system, in order to promote competition, efficiency and innovation. The Government has recognised the need for reforms but progress remains limited.

Ultimately, structural reforms are needed to stimulate transition to a new growth model. In the past, Vietnam experienced significant productivity gains in agriculture along with steadily increasing flows of foreign investment looking for cheap labour to produce simple manufactured exports. To sustain growth in the future, Vietnam will need to enhance productivity in all sectors. Developing a better-educated workforce and strengthening its technology and innovation system will be critical for this.



Ensuring inclusiveness of the growth may become a challenge, as there are signs of rising inequality. The Government needs to intensify its efforts to tackle rising disparities between poor rural and more developed urban areas, and to ensure equitable access to affordable quality services, including basic services, such as education and health. Also the demographic transformation is posing a challenge to sustainable growth. Every year about 1.6 million young people enter the labour market, which means that enough decently paid jobs need to be created. More importantly, with the current pace of urbanisation, Vietnam will shift from a predominantly rural society to an urban-based economy within a decade, which will put pressure on the urban infrastructure and services.

The rapid growth has already caused negative environmental impacts, such as pollution and deforestation. In the future, maintaining environmental sustainability is even more critical to the socio-economic development. Vietnam is also among the countries most vulnerable to the consequences of climate change. For example, the Mekong River Delta is one of three most vulnerable deltas in the world. The rising consumption of energy will make the situation no easier. Vietnam needs to lock in low-carbon growth, including by improving energy efficiency and cleaner power generation.

To address the complex challenges Vietnam is to face during this decade, multi-sector, cross-Government responses will be required. Therefore, Vietnam will have to bring to successful conclusion the institutional reform it has started, including, for example, modernisation of policy development processes, stronger and more effective national and sub-national institutions, and a more determined fight against corruption. Furthermore, in order to become a modern industrialised country, the Government will have to ensure greater transparency and opportunities for all citizens to participate in governance.

## 3 The development context

### 3.1 NATIONAL DEVELOPMENT FRAMEWORK; DONOR HARMONISATION AND DIVISION OF LABOUR

Vietnam's key planning document is the 10-year Socio-Economic Development Strategy (SEDS). An action plan for the SEDS is outlined in the 5-year Socio-Economic Development Plans (SEDP). Both SEDS and the SEDP are high-level documents with limited detail on concrete priorities and policy instruments. They provide a framework and give direction for ministries and agencies to develop their own sector plans of actions. The current SEDP was prepared in an open and participatory manner. Different stakeholder groups including donors, government agencies and civil society organisations were involved through various consultations into the formulation process.

Vietnam has one of the highest ratios of public revenue to GDP in the region. In 2011, it reached 27% of GDP. Vietnam relies on different domestic taxes, import-export taxes and crude oil as sources of revenue. Since Vietnam's revenue from oil and trade as well as foreign grants are declining, the country needs to broaden its tax base and increase the effectiveness of revenue administration. ODA has played an important role in advancing development in Vietnam, but the country is not aid-dependent. In recent years, the ODA funding has represented only 3-4% of GDP. However, it supported 15-17% of the public investment. Therefore, the ODA is still considered as an important funding source for Vietnam, especially as regards investment in the public services such as education, health care, transportation, urban development and clean water.

In SEDP 2011-2015, the Government has taken into account the declining trend of ODA supply in the world and the changing donor strategies prioritising less developed countries over middle-income ones. Vietnam's recent graduation to the middle-income country status is expected to result in a decline of the aid in the future. Vietnam will experience a transition of ODA modality moving away from grants towards concessional loans. It will also have increasing access to commercial finance. At the same time, Vietnam is likely to benefit from the availability of climate change funding, which will influence the international funding trends.

Corruption is one of the key impediments to socio-economic development of Vietnam. It is rampant and nationwide affecting sectors such as natural resources, construction, health, and education. In the 2011 Corruption Perceptions Index Vietnam ranked 112th among the 182 countries surveyed. The Government has recognized the negative impacts of corruption on Vietnam's development and also on the Party's own legitimacy. The anti-corruption legal framework has improved significantly with the adoption of the Anti-Corruption Law (in 2005), the National Strategy on Anti-Corruption to 2020 (in 2009) and the ratification of the UN Convention against Corruption (in 2009). However, these efforts have not brought the expected results due to a weak implementation and lack of enforcement. A number of institutions have an anti-corruption mandate but are considered weak as they lack independence, funding, and expertise. Furthermore, the media and civil society organisations have limited powers to hold government accountable for its actions and decisions.

Vietnam has played an active role among the developing countries in the aid effectiveness agenda and has steadily improved aid effectiveness in the country. Vietnam was one of the first countries to localise the Paris Declaration through its 2005 Hanoi Core Statement. Vietnam was also the first developing country to approve the Accra Agenda for Action in 2008. A Vietnam Partnership Document is currently being developed in line with the commitments of Busan. The Government has exercised a very high level of national ownership and leadership in setting the country's priorities and in having sound policies and operational strategies in place. There is no joint assistance strategy in Vietnam, but aid policy is directed at strategic and policy levels through the Strategic Framework for ODA Mobilization and Utilization for 2011-2015 and at institutional and implementation levels through Decree 131. To enhance transparency and accuracy of the aid reporting, a national database on development assistance is being developed.

The donor community supporting Vietnam is broad with around 50 donors. It has a well-established aid coordination architecture, even though there is some room for improvement in the promotion of aid effectiveness and efficiency. Finland is actively engaged in the Nordic+ countries' common initiative to enhance aid effectiveness at country level. Improving division of labour between donors has not been a priority in Vietnam, which is partly due to the fact that Vietnam is able to offset any imbalance in ODA allocation from domestic sources. The importance of donor harmonisation is likely to increase as several donors are considering changing their strategies as a response to Vietnam's middle-income country status. The transition should be implemented in a coordinated manner to avoid aid fragmentation.

The top three donors are the Asian Development Bank (ADB), the World Bank (WB) and Japan, whose contribution together forms 70-80% of the ODA to Vietnam. About two thirds of their ODA is loan. The EU together with its member states is a significant donor with a share of about 11% of the total ODA. The focus of the EU-Vietnam country strategy for 2007-2013 is on poverty reduction and health. Additional actions include, for example, trade-related assistance. The EU is currently preparing a new programme for Vietnam, which is not one of the pilot countries selected for joint EU programming. However, the EU delegation is actively engaging member states into the planning process. The EU and its member states continue to be active in promoting the aid effectiveness agenda in the country.

Despite being a small donor Finland is one of the main donors in the forest sector with the WB, the ADB, Switzerland, Germany and Japan. In supporting the development of a knowledge-based society, Finland is among the leading donors. So far only UNIDO has a programme on this sector and the World Bank is coming in with its programme. Finland is also active in the water and sanitation sector and has a crucial role in developing sustainable models for small towns. Other donors such as ADB, WB, Japan, South Korea, France, Germany and Denmark are mostly working in cities/bigger towns and/or rural areas.

### **3.2 STATUS OF HUMAN RIGHTS BASED APPROACH AND THE THREE CROSS-CUTTING OBJECTIVES OF THE FINNISH DEVELOPMENT POLICY**

Human rights are enshrined in the Constitution of Vietnam. Vietnam has ratified the principal international human rights instruments, but fulfilling the commitments has been challenging, as shown, for example, in the Universal Periodic Review of Vietnam in the UN Human Rights Council in 2009.

Both SEDS 2011-2020 and SEDP 2011-2015 acknowledge the need to ensure a greater balance between economic growth and social, human and sustainable development goals, ensuring that all citizens can benefit from the development process. Both documents identify key 'breakthroughs' to be achieved over the next 5 to 10 years, including the development of a healthy, well-educated population and promotion of social equality and inclusion. Despite the strong commitment, the government policies and expenditure have tended to prioritise rapid economic growth over broader human development outcomes. A more supportive regulatory environment is required to support greater engagement of political, social, professional and other organisations in decision-making processes, service delivery and policy dialogue.

Vietnam has made remarkable progress in achieving the MDGs for gender equality and is likely to attain them by 2015. Despite the progress, women still encounter inequality, for example, in the labour market as women mostly work in the informal sector and in local decision-making bodies where they are underrepresented. Gender inequality is more marked in rural areas and among ethnic minorities. To combat inequalities Vietnam has launched a National Strategy on Gender Equality for 2011-2020 and a National Programme on Gender Equality for 2011-2015.

With respect to reducing inequality, the rights of ethnic minorities play a crucial role. Vietnam has 54 recognised ethnic groups. The largest of them is the Kinh, constituting 87% of the population. The other 53 groups (13 million people) are considered ethnic minorities. Most of them live in mountainous areas and they lag behind in all the main development indicators. Although Vietnam has several laws and policies on land and other natural resources, none of these provide legal recognition of ethnic minorities' customary collective rights to the land, the forest or their resources. The government programme on Conservation and Development of Ethnic Minorities' Culture until 2020 aims to conserve cultural elements but pays only little attention to poverty, land and forest rights, participation in decision-making, and self-determined development. Inequalities in health and education, for example, correlate not only with ethnicity but also with geographic location and income. There is a significant gap between different regions and between urban and rural households in the opportunity to access basic services and financial, land and information resources.

The adverse effects of climate change impose a major threat to Vietnam. It is also a particularly challenging issue for the Government due to its inherently multi-sector nature. Increased floods and draughts are to be expected and for example food security, agricultural development, water supply in rural and urban areas and hydropower generation can be severely affected. Vietnam launched a National Climate Change Strategy in 2011. The strategy highlights the importance of sustainable utilisation of national resources, carrying out adaptation measures, greenhouse gases emissions reduction, developing a low-carbon economy, and strengthening the resilience of human and natural systems to climate change.

## 4 Finnish cooperation to date and lessons learned for the future

### 4.1 FINNISH COOPERATION PROGRAMME TO DATE AND CONTRIBUTION TO COUNTRY LEVEL RESULTS

Finland has cooperated with Vietnam for over 30 years and Finland's longterm commitment to water and sanitation, forestry and rural development is highly valued. The current cooperation programme reflects the progress in the Vietnamese socio-economic development and concentrates on sectors where Vietnam faces challenges, that is, the development of a knowledge-based society, sustainable management of natural resources and climate sustainability.

At the early stages of cooperation, Finland supported major infrastructure development projects like water and sanitation systems in Hanoi and Hai Phong cities, contributing greatly to people's health and building a shipyard fostering international trade and creating jobs. During the 1990s, the focus shifted towards comprehensive support to poverty reduction through two integrated rural development projects in the poorest areas of Vietnam and a forestry project in mountainous areas in the north. The project evaluations concluded that these projects succeeded in increasing access to forest land and in improving rural infrastructure, capacity in agriculture, sustainable resource management, and other income-generating activities. The National Targeted Poverty Reduction Programme (P135) opened up an opportunity to rural development financing to a government-owned programme with a sizable contribution from the Government of Vietnam and other donors. This joint programme-based financing focused on the poorest, largely ethnic minority areas of Vietnam. Even with some weaknesses in management, the P135 Programme proved to be effective in delivering small infrastructure at a scale that could not have been achieved through bilateral projects.

According to the water sector programme evaluation of 2011, the effectiveness, efficiency, impact and sustainability of the programmes scored high. Finland has played an important role in developing and piloting sustainable management models for water and sanitation services and in enhancing skills and mechanisms in line with the Vietnamese National Policy since the 1980s. However, the current cooperation through the Water and Sanitation Project for Small Towns (WSPST) has highlighted a lack of capacity in planning, operation and maintenance of water and sanitation services, especially in remote provinces. In addition, efforts to harmonise sector financing have not been successful and the project planning has proved to be overly optimistic. These factors together with insufficient national ownership pose a serious threat to long-term sustainability and will require intensified attention during project implementation.

Finland has cooperated in the forest sector with Vietnam since 1996. Finland has emphasised forests' role in creating livelihoods and according to evaluations, forest projects supported by Finland have succeeded in contributing to poverty reduction. Finland has supported a multi-donor trust fund modality called the Trust Fund for Forests (TFF). Although the TFF's share of the total ODA in the forest sector has remained low, the TFF has managed to harmonise project procedures and create national ownership. In addition, as a flexible modality in comparison to the government budget, TFF has provided extensive support for policy formulation and capacity development, and has also contributed to the development



of the National Forest Strategy. In order to facilitate more transparent and sustainable forest governance, Finland supports the development of a national forestry information system.

The Innovation Partnership Programme (IPP) which started in 2009 is seen as a new type of programme intended to find ways to take advantage of the economy's growth while avoiding stagnation. The programme's goal is to strengthen innovation policies and institutions and to finance innovative private sector pilot projects. It is also important in enhancing openness of information, which is one of the preconditions for creating a knowledge-based society. The programme is still in its first phase, but it has already enhanced understanding of the state's role as an enabler of the private sector's innovation capacity. According to the Mid-Term Review (MTR), IPP has contributed to improvements of relevant policies and regulations.

Apart from individual project and sector evaluations, the Finnish cooperation programme in Vietnam as a whole was last evaluated in 2001. More regular and cyclic evaluations at the country programme level are needed in order to improve the articulation of the results and to ensure the strategic relevance of the cooperation. The main lessons learnt include need to plan the project scope and timeframe more thoroughly and realistically. Also ownership and sustainability including operation and maintenance as well as crosscutting objectives need to be strongly addressed during planning phase and throughout implementation.

#### **4.2 AID-EFFECTIVENESS: KEY LESSONS AND RECOMMENDATIONS FOR FINLAND**

In accordance with the aid effectiveness objectives, Finland's development cooperation programme in Vietnam has been aligned with the national development plans and objectives of Vietnam, including SEDP and the sector specific plans and objectives. During the past few years, Finland has already reduced the number of cooperation sectors and is now concentrating its development efforts mainly on three sectors. Also the number of projects is decreasing as a natural consequence of the descending bilateral ODA budget to Vietnam.

Finland has strengthened the use of local systems mainly through bilateral projects and programmes. In most of the projects funded by Finland the funding is channelled through the line ministries, and the Vietnamese procurement system is applied in several projects. Strengthening of local systems is an important objective to Finland. However, it should be noted that using local systems can cause delays in project implementation and does not always ensure transparency. Therefore, Finland will pay growing attention to increased accountability and transparency thorough project implementation and policy dialogue during this country strategy period.

Donor coordination and harmonisation play an important role in advancing aid effectiveness. Finland has been able to increase coordination and harmonisation for example in the forest sector through the Trust Fund for Forest. However, more efforts are needed and Finland will continue to actively promote coordination and harmonisation and contribute to the sharing of best practices and lessons learnt.

## 5 Objectives of the Finnish development cooperation with Vietnam

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### 5.1 COUNTRY DEVELOPMENT GOAL

Vietnam's overall socio-economic development goal is to lay the foundations for a modern industrialised society by 2020. This country development goal is stated in the Government's Socio-Economic Development Strategy (SEDS) 2011-2020 as well as in the 5-year Socio-Economic Development Plan (SEDP) 2011-2015. Both guiding documents also underline the importance of equity and inclusiveness in society as a base for sustainable social and economic development.

Finland supports Vietnam in achieving its country development goal by setting four objectives.

### 5.2 COUNTRY DEVELOPMENT RESULTS AND FINLAND'S STRATEGIC CHOICES

The SEDP and SEDS of the government define promoting human resources and skills - especially skills for modern industry and innovation, - improving market institutions, and infrastructure development as a basis for the country's socio-economic development in the coming years. According to the documents, the key challenges Vietnam faces include, for example, economic competitiveness, sustainability of growth, rising inequality, vulnerability, and governance. As a small development partner, Finland can support Vietnam in reaching its overall development goal by concentrating its efforts on selected niche sectors where it can produce added value and complementarity through its long experience of development cooperation with Vietnam and its acknowledged know-how.

Now that Finland's bilateral grant-based ODA to Vietnam is gradually decreasing, it is essential to ensure the continuity and sustainability of the results. Therefore, Finland's strategic choices on development results are largely based on the previous decisions on sectors - water and sanitation, forestry, and innovation - and on experiences of the earlier cooperation. However, as the challenges described in the current SEDS and SEDP as well as the analysis in this paper show, the choices made a few years ago in consultation with Vietnam are still very relevant; the countries agreed to continue their cooperation in those sectors in the country consultation held in 2012. The objectives of the new Finnish Development Policy Programme will be integrated into the ongoing projects especially when the final phases are planned. Also the focus of the projects may be finetuned, if necessary, to strengthen the human rights based approach.

Finland chooses the following two development results to support Vietnam attain the overall development goal:

**COUNTRY DEVELOPMENT RESULT 1: IMPROVED BASIS FOR A KNOWLEDGE-BASED SOCIETY**

As knowledge-based activities have become important in determining countries' competitiveness and their capabilities in delivering quality services, Vietnam needs to further develop the basic elements of a knowledge-based society to achieve its overall development goal. It needs to improve the competitiveness of its economy by increasing product and process innovation and enhancing value addition as its low-cost labour advantage dissipates. Strengthening the technology and innovation system will be critical for the generation of decent, better-paid jobs and a prerequisite for a better educated workforce.

According to Finland's Development Policy Programme, the development of science, technology, and innovation (STI) systems as well as the information and knowledge society are important building blocks enhancing an inclusive green economy that promotes employment. Furthermore, Finland emphasises the openness of information as a key element of the knowledge society. Openness and the right to information are also fundamental principles of the rule of law and good governance. Since Finland is one of the leading societies on knowledge-based economy as well as innovations and competitiveness, it has a lot to offer to Vietnam. There are also opportunities for mutually beneficial cooperation and partnerships in this field.

**COUNTRY DEVELOPMENT RESULT 2: SUSTAINABLE USE AND MANAGEMENT OF NATURAL RESOURCES AND IMPROVED CLIMATE SUSTAINABILITY**

Sustainable use and management of natural resources is vital for sustainable development in Vietnam. In a densely populated country long-term economic growth is only feasible if natural resources are managed sustainably and the adverse effects of climate change can be mitigated. Vietnam's national development strategies and plans highlight the need to strengthen the sustainable use and management of natural resources and environmental protection, to mainstream these in development planning, and to implement measures to address natural hazards and climate change. Growing recognition of Vietnam's vulnerability to extreme weather events and the country's growing contribution to greenhouse gas (GHG) emissions has led to the development of detailed climate change adaptation and mitigation strategies.

Sustainable use and management of natural resources and climate sustainability are also core issues in Finland's Development Policy Programme. The significance of access to clean water and sanitation and to forest resources in poverty reduction is well recognised. Sustainable forest management has a direct effect on livelihoods and income generation. In addition, health and well-being cannot be achieved without safe and clean drinking water and sanitation. Finland has a long experience of working with Vietnam in the water and sanitation and forest sectors. The experience and Finnish know-how on these sectors will be used during this country strategy period to further improve and sustain the achieved results. Opportunities for mutually beneficial cooperation, such as cooperation between private sectors and civil society organisations, are anticipated in these sectors.

### 5.3 FINLAND'S OBJECTIVES

Finland chooses the following four objectives that contribute to achieving the two Development Results described above:

#### COUNTRY DEVELOPMENT RESULT 1: IMPROVED BASIS FOR THE KNOWLEDGE-BASED SOCIETY

Finland's objective under this country development result is:

##### **Increased openness and access to information, knowledge and innovation for all**

###### **Specific objective 1.1 Open access to information and knowledge in order to enhance equal opportunities, accountability, transparency, and prevention of corruption**

Vietnam has undergone a rapid change as regard the availability and attainability of information in recent years. The number of internet and mobile internet users has multiplied and sharing and obtaining information is easier and faster than ever. Despite this trend, the information sharing among and between the public and private sector still lags behind partly due to centrally controlled information structures and inefficient and overlapping information systems. Therefore, Finland will promote horizontal and vertical sharing of information between public (government and higher education institutions) and private sector institutions and individuals. Finland will also support the development of efficient information systems and accountability mechanisms in the forest sector (FORMIS project) and STI sector (IPP). Open and timely information will also support Vietnam in enhancing its anti-corruption efforts and improving transparency and accountability, as civil society organisations and private sector actors will be able to monitor and challenge government decisions and propose new innovative solutions to development bottlenecks. Accountability measures and mechanisms at provincial level will be incorporated into forestry, water supply and sanitation and STI programmes.

###### **Specific objective 1.2 Strengthened innovation platforms and initiatives that enable stakeholders to resolve obstacles to economic development and service delivery in the context of the National S&T Strategy**

Finland aims at supporting implementation of the national science and technology (S&T) strategy where focus is on broad-based, inclusive and sustainable processes to resolve obstacles to economic development and creation of new economic activities. Finland supports the formulation of innovation-related policies and their implementation through the IPP and promotes cooperation between the public sector, higher education, private sector, and civil society (multi helix model) through different partnership modalities. Provincial plans, platforms, budgets and processes are crucial because innovation activities tend to concentrate on the two biggest growth centers Hanoi and Ho Chi Minh City and so increase inequality within the country.

Finland's objective under this country development result is:

##### **Enhanced green economy that creates entrepreneurial activity and decent jobs**

**Specific objective 2.1 Improved livelihoods through joint technology learning and innovation processes in partnerships improving turnover of inclusive, green and responsible business**

Increased use of clean or low carbon technology and capital intensive growth that enhances efficient use of resources will gain importance in Vietnam's efforts to generate green growth. Simultaneously issues related to social equity and the improvement of the state of the environment will require increased attention. Finland will support Vietnam in obtaining objectives set in its green growth strategy. Finland will also advocate inclusive growth and corporate social responsibility including decent jobs and environmental consciousness.

Through cooperation instruments, such as the IPP, Finnpartnership, institutional cooperation instrument (ICI) and concessional credits, Finland will mobilise joint learning endeavours to adapt Finnish private and public sector organisations' technology solutions as well as to jointly invent new solutions to improve environmentally sustainable livelihoods and public services, and create new employment opportunities in Vietnam. By facilitating the interaction between the Finnish and Vietnamese organisations, Finland is also creating a platform for active and equal bilateral relations for the future.

**COUNTRY DEVELOPMENT RESULT 2: SUSTAINABLE USE AND MANAGEMENT OF NATURAL RESOURCES AND IMPROVED CLIMATE SUSTAINABILITY**

Finland's objective under this country development result is:

**Improved sustainability, inclusiveness, equality and climate sustainability of the use and management of forest resources****Specific objective 3.1 Strengthened national forest policies and management, and increased accountability, transparency, and legality of the use of forest resources**

Forests have an important role both in the national economy and in providing incomes to rural households especially in the mountainous areas and among ethnic minorities. In addition, forests serve as a direct link to climate change mitigation and adaptation. Management of forest resources at local and national levels is however insufficient due to, for example, a lack of accurate information and policy framework and inadequate planning and management practices. Finland supports the development and improvement of national forest policies directly through the TFF. At the same time, Finland supports the development of a fully integrated Forest Management Information System (FORMIS) to enable well-informed forestry decision-making. The system will promote open access to public information and support forest resources management, planning and development, as well as REDD (reducing emissions from deforestation and forest degradation) and FLEGT (forest law enforcement, governance and trade) activities in Vietnam.

In accordance with Vietnam's National Climate Change Strategy, Finland supports Vietnam in combating climate change both at policy level and through projects providing practical climate change adaptation and mitigation solutions. Transparency and legality of the use of forest resources are further enhanced through support to the EU-FLEGT by providing technical assistance to the Voluntary Partnership Agreement (VPA) negotiation process.



**Specific objective 3.2 Increased environmentally and economically sustainable income generation and improved implementation of climate sustainability initiatives**

Forest resources are an important source of income and livelihood for forest dependent households. In addition, forest products industry is an important source of employment. Using the existing TFF mechanism, Finland advocates the contribution of the forestry sector to the national economy, the importance of forests to the livelihoods of people, and the necessity to link biodiversity conservation with forest use. Forest-related business development will also benefit as the private sector including individual households will have the access to on-line market information through FORMIS. The Fund for Local Cooperation (FLC) instrument will be used increasingly for initiatives that improve local communities', especially women's and ethnic minorities', forest income.

Vietnamese and international NGOs have become active players in the combat against the adverse effects of climate change in Vietnam. They also play an important role in reaching the most marginalised groups. Finland will support climate change adaptation and mitigation activities through the Embassy's FLC by channeling funds for local NGO projects. Special attention will be given to projects increasing the role of women, children and ethnic minorities in combating climate change, for example, through information campaigns and disaster risk reduction initiatives in their local environments. Also initiatives that encourage NGOs' networking and their participation in policy formulation and that increase cooperation between local authorities and NGOs will be promoted.

Finland's objective under this country development result is:

**Sustainable and equal access to improved water supply and sanitation services****Specific objective 4.1 Sustainable management and provision of water supply and sanitation services in the programme areas**

The lack of safe water, sanitation and hygiene remains an urgent health issue in Vietnam. Despite a dramatic decline in child mortality and the incidence of communicable diseases, water and sanitation related diseases are a major health problem in Vietnam. Vietnam is likely to achieve the MDG related to access to water, but not access to sanitation services. Through its Water Supply and Sanitation Programme for Small Towns' (WSPST), Finland is piloting a system which enables small towns to provide water supply and sanitation services for all. The programme operates in 26 towns in 8 provinces in the northern part of Vietnam. Five of the provinces located in the mountainous areas have significant ethnic minorities. While there has been progress in providing water supply, Finland stresses the importance of the sanitation services that are not currently adequate or sufficiently financed. Finland will support the construction of water supply and sanitation services and establishment of the financial mechanisms. Finland will also support capacity building and training, especially the operation and management of water companies, to guarantee sustainability of the services. Water supply and sanitation facilities are also funded through a concessional credit scheme.

#### **Specific objective 4.2 Improved capacity of the Ministry of Construction and project provinces in the water and sanitation sector to replicate implementation of new schemes in small towns and densely populated rural areas**

The fast economic development, industrialisation and urbanisation pose great challenges to the provision of adequate water supply and sanitation services. Insufficient investment, weak regulation enforcement and especially a lack of systematic knowledge and capacity in service delivery both in urban and rural areas cause poor quality and unsustainable service. Finland seeks to ensure that there is a sufficient number of people and adequate resources to handle the water management facilities funded by Finland sustainably. The pilot-like nature of the Finnish projects enables Finland to learn and identify the best practices and inform about them in order to improve future initiatives in the sector. Finland aims to support policy formulation in key areas of improvement, including sustainable water fee structures and investment policies, to ensure better water supply and waste water services for all.

#### **5.4 HUMAN RIGHTS BASED APPROACH AND THE THREE CROSS-CUTTING OBJECTIVES OF THE FINNISH DEVELOPMENT POLICY AS PART OF THE COUNTRY STRATEGY**

Finland's dialogue with Vietnam on development cooperation is to be based on the human rights based approach, which will guide the development cooperation programme between the countries. All activities supported by Finland will be reviewed from the perspective of how the rights and the participation of the poor and marginalised groups are addressed in each project and programme. Different stages of the project cycle, such as mid-term reviews and planning of the final phases in particular, will be used to strengthen the implementation of the human rights based approach in the strategy period. The same procedure will be applied to the cross-cutting objectives gender equality, reduction of inequality and climate sustainability. The Embassy's strategy guiding the use of the FLC will be revised to better reflect Finland's Development Policy and its human rights based approach.

The right for information is an overarching approach in several projects, be it related to information on forest resources or on modern technologies. The crucial question is to ensure the attainability and user friendliness of the information to facilitate the participation of all relevant groups including marginalised people. Gender equality will be addressed in the bilateral programmes for example by producing gender-specific indicators and information or by providing equal opportunities for training. In addition, gender-specific activities can be supported for example through projects implemented by local NGOs. The Finnish support to the forestry sector has a strong link to the poverty reduction and livelihoods of the ethnic minorities as most of the forested areas in the mountainous regions are populated by different ethnic minority groups. Climate sustainability is addressed throughout the supported projects as a cross-cutting objective and through policy dialogue. Climate sustainability is advanced directly through local NGO projects supporting adaptation models and risk reduction solutions related to climate change.

Good governance and participation of the civil society are key issues for sustainable and balanced development in Vietnam. Finland will contribute to the good governance efforts through promoting transparent project management and procurement systems throughout the bilateral and other projects and programmes supported by Finland. At the same time, different anti-corruption and rule-of-law initiatives related to the objectives identified in

this Country Strategy can be financed through the FLC. Finland supports and advocates wide stakeholder participation mechanisms in Vietnam's development efforts.

### **5.5 POVERTY REDUCTION AS PART OF THE COUNTRY STRATEGY**

Finland contributes to poverty reduction mainly through projects and programmes in the selected development result areas of the Strategy. Forests are the main source of income in the poor mountainous areas of Vietnam populated mostly by ethnic minorities. Direct project support to these areas is channelled through TFF. A forest information system (FORMIS), which enables user participation and therefore better informed and sustainable decision-making and forest management at national and local levels, will also contribute to increased forest incomes. FORMIS also provides access to information about market prices and helps to make better business decisions. Poverty related to unemployment is addressed by means of supporting the development of innovation systems that can lead to new businesses and products in different sectors of the economy, providing more jobs and livelihoods to the masses of young people entering job markets every year. Increased capacity to provide water supply and waste water services in small towns improves the standard of living outside big cities, and this should slow the pace of urbanisation.

Climate change is an economic and environmental threat to the whole country but the most affected groups are the poor and vulnerable people, especially women and children. Finland strives to advance climate sustainability both at policy level and at local levels through disaster risk reduction and sustainable livelihood models adapted to climate change. Poverty and wellbeing are also addressed more directly for example by providing clean water to households in a larger scale and through smaller grassroots level projects providing sustainable livelihoods by local and Finnish NGOs.

## 6 Management of Strategy and Programme implementation

### 6.1 PARTNERSHIPS

During the strategy period, developing and diversifying partnerships between Vietnamese and Finnish authorities, institutions, private sector, and civil society is important, as Finland is gradually shifting from bilateral development cooperation to new cooperation modalities with Vietnam. Partnerships will be facilitated using available development policy instruments – including Finnfund and Finnpartnership in private sector cooperation – in a comprehensive manner. This should lead to sustained partnerships even after the transition. In addition, for example Finpro and its Cleantech Finland and Future Learning Finland programmes will play an important role.

In Vietnam, the Ministry of Planning and Investment (MPI) is responsible for managing ODA and thus the central partner for the donor community. Management of and decision-making in bilateral projects is conducted in partnership with the respective line ministry in Vietnam. The cooperation with consultancy companies implementing the projects is close both in Finland and in Vietnam. They are instrumental in transmitting the principles and objectives of the Finnish Development Policy in their daily work.

Partnerships between Vietnamese and Finnish institutions working in different fields are envisioned to widen in the future. Both Finnish and local civil society organisations (CSO) remain important partners in Vietnam's development. CSOs can contribute to the country strategy implementation for example by targeting at the most marginalised groups and by promoting the rights based approach at grassroots level concerning the objectives of both development result areas. Local CSOs are supported through the Embassy's FLC according to the FLC strategy, which will be amended to better reflect the objectives of the Finnish Development Policy Programme.

The EU cooperation's importance will increase in tandem with the decrease of Finland's ODA funding. Finland will participate actively in the preparation of the next Multi-Annual Indicative Programme of the Union for 2014-2016. The EU plays also an important role in Finland's policy dialogue.

Finland's partnerships with multilateral organisations and financing institutions will be strengthened, as their role is likely to increase in the changing ODA landscape of Vietnam. Finland aims to influence the programming and goal-setting of the ADB in the energy, natural resources and water supply sectors along the lines of Finland's ADB strategy. As to the WB, the aim is to cooperate in the water and innovation sectors. Strengthened donor dialogue is needed especially in the innovation sector, as the WB is planning two new innovation programmes, which are closely related to the Innovation Partnership Programme (IPP).

Finland is engaging in a close partnership with the UN, as Finland is financing the One UN Plan 2012-2016 in Vietnam. The three focus areas of the Plan – namely inclusive, equitable and sustainable growth; access to quality essential services and social protection; and enhanced governance and participation – are well in line with the objectives of this Strategy.

Finland is also active in the donor community and participates in relevant sector partnership groups (for the groups refer to Chapter 6.3). During the strategy period it is important that development partners in Vietnam coordinate and harmonise their phase-out strategies to avoid aid fragmentation.

### 6.2 AID MODALITIES, IMPLEMENTATION AND AID EFFECTIVENESS

In the two selected development result areas, Finland is using a wide variety of aid modalities that complement each other. However, bilateral development projects are and will remain the main modality during the strategy period. In the forest sector cooperation, Finnish funds are also channelled through a trust fund modality (TFF) and through FAO's thematic programme supporting the national forest assessment.

In addition, development results are delivered through projects funded by the Institutional Cooperation Instrument (ICI). The use of ICI projects will continue also in the future as they are seen important in building capacities and partnerships. They are, however, subject to availability of funding. The last concessional credit projects approved for further preparation in 2012 are likely to be completed by the end of the strategy period. The new cooperation modalities to be developed to replace the concessional credit instrument are of particular interest, as Finland will strive to strengthen and diversify relationships with Vietnam.

The Embassy's FLC will be used for supporting small-scale projects implemented by local NGOs. Finnish NGOs are encouraged to increase synergies in their projects with the priority sectors of this Strategy. Finland also supports the One UN programme through an active engagement in the One UN donor group and funding of the One UN Plan.

Vietnam belongs to the Mekong region and thus already benefits from the regional projects funded by Finland. While the bilateral grant-based development funding to Vietnam is decreasing, Vietnam is likely to be integrated more closely into the regional cooperation funded by Finland.

Finland is contributing to the enhancement of aid effectiveness by reducing the number of sectors to two main sectors in which the cooperation will be conducted. National procurement systems are used in the WSPST and in concessional credit projects. Predictability of funding is enhanced through periodic bilateral country negotiations and constant dialogue with the counterpart ministries.

### 6.3 MAIN FORA OF POLITICAL AND POLICY DIALOGUE

The Annual Consultative Group (CG) meeting is the highest level of political and policy dialogue between the development partners and the Government, whereas the Semi-Annual CG meetings have concentrated on development issues. The Aid Effectiveness Forum (AEF) is the main platform for discussions on aid effectiveness in Vietnam. In the EU, Finland is an active member participating in formulation of common positions and messages especially related to its cooperation sectors and on gender equality, reduction of inequality, and climate sustainability. In addition, the donors meet frequently in, for example, the Like-Minded Donors Group (LMDG) meetings.



Dialogue on sector policies is conducted through the Sector Partnership Groups (19) and the UN-led thematic Programme Coordination Groups (8). Finland continues its active involvement in the groups relevant to the implementation of this Strategy. Currently, Finland is a member in the Steering Committee of the Forest Sector Support Partnership group and participates actively in the Urban Water and Sanitation Partnership Group, and in the Private Sector Development Group. As to the UN-led groups, Finland promotes the cross-cutting objectives of Finland's development policy through policy dialogue especially in the thematic groups related to climate change and environment, social protection, gender, and governance and rule of law. Finland is also an active member of the donor group supporting the One UN Programme.

Finland and Vietnam conduct bilateral consultations concentrating on development policy and cooperation issues biennially. Also other bilateral issues of importance are touched upon, mainly from a development policy point of view. In the consultations, the countries follow up implementation of the programme and agree on future cooperation. The most recent consultation was held in June 2012 and the next one will be organised in 2014. Moreover, bilateral high-level visits and meetings between the countries enable exchange of views on political, economic and development issues. Policy discussion on emerging challenges and sharing best practices is of mutual interest and Vietnam's middle-income country status may increase the importance of this dialogue.

The most direct instrument for policy advocacy is the Embassy's daily contacts with different partner ministries on project and sector related issues. Sector policy issues as well as gender and equality are advocated in various meetings, including project steering committee meetings and thematic workshops and seminars.

#### **6.4 INTERNAL MANAGEMENT ARRANGEMENTS**

The Country Strategy is implemented by a team of civil servants in the Ministry for Foreign Affairs in Helsinki and in the Embassy of Finland in Hanoi. The internal management arrangements are defined and regularly updated by the MFA and the Embassy. The expertise available in the Unit for Sectoral Policy will be systematically used to support the implementation of the Country Strategy. The members of the team will participate in skills training based on the needs identified. Division of labour within the team (including issues of delegation) will be further developed and clarified.

## 7 Strategic steering

### 7.1 MONITORING AND REPORTING OF RESULTS AT COUNTRY LEVEL, AND OF FINLAND'S PERFORMANCE

Vietnam's development is followed from national and international reviews, assessments and surveys, such as the UNDP Human Development Report and MDG Progress Report. The human rights situation is monitored through Vietnam's reporting to UN human rights conventions and recommendations by the conventions. Finland is also active in the human rights dialogue between the EU and Vietnam. Economic and commercial relations are monitored through investments and trade statistics.

Climate change mitigation is addressed and monitored through a separate regional programme (EEP) as well as through the projects funded from the Embassy's Fund for Local Cooperation (FLC).

General progress of the country programme is followed through reporting by the Embassy and the MFA as well as through monitoring missions. Donor coordination and cooperation is followed through joint reviews, assessments, working groups and modalities. The periodic reporting of the programme follows the Vietnamese fiscal year (calendar year).

The impact of the Finnish aid and policy dialogue on Vietnam's development plans is assessed through reports of the Embassy as well as country programme evaluations. The results of individual interventions and sector programmes are followed through steering committee participation, project meetings, mid-term reviews and evaluations.

Finland also participates in relevant EU and donor groups in Vietnam. Finland participates in joint evaluations in sectors it works in, actively promotes collaboration and coordination among donors, as well as advanced harmonisation of working modalities and approaches within its own projects in each sector.

A mid-term review of the country programme could be undertaken in 2014/2015 to assess the general progress of the programme and the Finnish contribution.

Fragmentation is not a challenge in the Finnish aid portfolio in Vietnam. In 2013 six interventions were financed from the bilateral cooperation budget for Vietnam. In 2016 the number is estimated to be reduced to four interventions out of which two will end during the same year. The average size of the interventions in 2013 is EUR 9 million; in 2016 it will be EUR 6 million.

### 7.2 RISK MANAGEMENT

During the past decades, Vietnam has experienced extensive economic growth and reached impressive results in poverty reduction. Vietnam's macro-economic challenges as well as its vulnerability to international economic and financial fluctuations could however halt or disrupt the economic development of the country. Together with the growing population pressure, urbanisation and increasing need for jobs, this could risk the equality and inclusiveness of the socio-economic development having ultimately implications to the political stability of the country. However, the risk for the latter is low.

Risks to the implementation of this Strategy include slow policy changes and the high prevalence of corruption in Vietnam. Problems arising from the slow pace of policy changes may affect the implementation of the ongoing projects. This risk can be reduced by more careful and realistic project planning and increased policy advocacy. Mitigating the risk of corruption requires sufficient resources, for example, for the monitoring of tendering processes and for auditing activities. Finland also actively engages in the policy advocacy and coordinated support with other donors in building transparency and accountability systems in Vietnam.

Sufficient human resources are needed to ensure adequate monitoring and quality assurance of the implementation of the programmes as well as to conduct policy dialogue in order to achieve the objectives set in this Strategy. Therefore, plans related to human resources should be considered carefully. Advocacy to minimise this risk is carried out both in Finland and in Vietnam.

## 8 Tentative financing plan (Budget)

Finland's Development Policy Programme 2012 outlines that Finland is to gradually shift to new cooperation modalities with Vietnam. This transformation will be reflected also in the budget frame for the bilateral development cooperation in Vietnam presented below. The budget frame that covers bilateral grant-based programmes is gradually decreasing from annual payments of EUR 11.5 million in 2012 to about EUR 4.5 million in 2016.

In addition to bilateral development cooperation, Finland provides aid to Vietnam through local co-operation funds administered by the Embassy of Finland in Hanoi, through concessional credits, and through institutional cooperation instrument. Local cooperation funding will decrease from EUR 470 000 in 2013 to EUR 270 000 in 2016. Also concessional credits will decrease, though slightly, from EUR 4.5 million in 2013 to EUR 4.1 million in 2016. Institutional cooperation funding will remain at EUR 500 000 per year throughout the whole strategy period 2013–2016.

### Budget estimates for Finnish development cooperation with Vietnam 2013–2016 (EUR million)

|   | 2013       | 2014        | 2015       | 2016       |
|---|------------|-------------|------------|------------|
| <b>SECTOR 1: KNOWLEDGE SOCIETY</b>                                |            |             |            |            |
| Innovation Partnership Programme II                               | 2,5        | 2,0         | 1,9        | 2,6        |
| <b>SECTOR 2: FORESTS AND CLIMATE CHANGE</b>                       |            |             |            |            |
| Trust Fund for Forests  | 1,65       |             |            |            |
| Forest Information Management Programme II                        | 2,75       | 3,15        | 2,35       | 1,0        |
| Climate Change  |            | 0,6         | 0,55       | 0,6        |
| <b>SECTOR 3: WATER AND SANITATION</b>                             |            |             |            |            |
| Water and Sanitation for Small Towns                              | 0,8        |             |            |            |
| Sustainability Programme for Water and Sanitation for Small Towns | 1,0        | 1,0         | 0,3        | 0,2        |
| <b>OTHER</b>  |            |             |            |            |
| One UN  | 1,0        |             |            |            |
| <b>TOTAL BILATERAL</b>  | <b>9,7</b> | <b>6,75</b> | <b>5,1</b> | <b>4,4</b> |

All figures above are subject to change.

UNIT FOR DEVELOPMENT COMMUNICATIONS  
P.O. Box 456, 00023 GOVERNMENT, FINLAND  
[formin.finland.fi/](http://formin.finland.fi/)  
[global.finland.fi](http://global.finland.fi)  
e-mail: [keoinfo@formin.fi](mailto:keoinfo@formin.fi)



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