

**MEMORANDUM TO THE DCI COMMITTEE
CONCERNING THE**

**Annual Action Programme covered by the Vietnam-European
Community Strategy Paper 2007-2013 and the Multi-annual
Indicative Programme 2007-2010 for the Development
Cooperation Instrument in favour of Vietnam for 2010**

1. IDENTIFICATION

Budget heading	19.100101
Total cost	EUR 22.76 billion EU contribution: EUR 62.25 million <u>Other Donor contributions:</u> <i>Action A</i> (for 2006-2010): USD 358.8 million (World Bank: USD 250; Aus Aid: USD 29.7 million; DFID: USD 22.1 million; Finland: USD 18.0 million; Ireland: USD 39 million) <i>Action B</i> : Asian Development Bank (USD 35 million tbc); <i>Action C</i> : in parallel co-financing LU (EUR 3 million); ES (2 million) <u>Vietnam contribution</u> : EUR 22.2 billion (VND 491.3 trillion)
Legal basis	Regulation (EC) No. 1905/2006 of 18 December 2006

2. BACKGROUND

The year 2009 has been difficult for Vietnam. After having faced steeply rising inflation in early 2008, from the second half of 2008 onwards and during the first half of 2009, GDP and growth and exports sharply declined, and FDI inflows and remittances from overseas dropped substantially. The government has reacted rather adequately, first, in bringing inflation under control, then, with 8 billion USD stimulus package issued in early 2009, supporting the economy notably through infrastructure works and subsidized loans to the industry.

The economy seemed to be picking up again from mid 2009 onwards. Most likely, 2009 will show a growth of the economy of 5.2% which is quite lower than the annual average of 8% during the years before 2008 but still enviable compared to neighbouring countries of South East Asia.

For 2010, the Government expects growth to reach 6.5%. However, Vietnam's partners have expressed certain concerns on the quality of growth and the actual impact of the stimulus package, of which too large a part is believed to have been channelled as ineffective subsidized loans to State Owned Enterprises, to the detriment of small businesses and farmers who faced difficulties to accede to the

funds. Other areas of concern include the huge fiscal deficit, increasing inflation and pressure on the foreign exchange rate.

The Vietnamese leadership managed containing social discontent through some hand-outs to poor families but also took some structural measures such as issuing a new health insurance law, with the aim of ensuring overall coverage by 2014; it also adopted a new pro poor programme focusing on Vietnam's 63 poorest district, in addition to increased budgets for existing pro poor national targeted programmes.

Recent developments in the socio-economic context and adjustments in Vietnamese policies did not lead to significant changes to the fundamental orientations of the national Socio-Economic Development Plan (SEDP) 2006-2010, which remain largely relevant. The next SEDP 2011-2015 which is currently under preparation in view of its adoption by the national Assembly and the Communist Party in early 2011 is expected to reiterate the key priorities of the current development plan.

Despite the economic achievements of the last years, poverty remains an important issue in Vietnam. The economic crisis has hit the poorest - about 10% of the total population of 86 million - hardest. In spite of some recent important initiatives such as the new health insurance law, social protection remains inadequate with insufficient pension schemes; around 70% of health expenditure is still paid "out-of-pocket", risking to draw large numbers of near-poor back into poverty; the poverty gap between the Kinh majority and ethnic minorities is widening; and new patterns of poverty arise such as urban poverty and poverty related to internal labour migration. Climate change, which will exacerbate the scope and threats of natural disasters, has climbed high on the agenda of the government, without a comprehensive and credible policy response so far.

3. SUMMARY OF THE ACTION PROGRAMME

1) Background:

The three actions constituting the Annual Action Plan 2010 under the MIP 2007 - 2010 namely support to ethnic minorities, to the development of a modern health system, and to increasing capacities in the tourism sector, are responding to the needs of a country reaching the middle income status while still facing important challenges related to poverty, social inclusion and diversification of its economy.

While recognising good results produced by general budget support to Vietnam's global reforms agenda enshrined in the Socio- Economic Development Plan 2006-2010, persisting hardcore poverty affecting 10 to 15 percent of Vietnam's population warrants a more targeted support for the poorest in society, in particular ethnic minorities living in remote and mountainous areas. Such support is now pursued through budget support to Vietnam's governmental pro poor programme P 135, responding to Vietnam's difficulties stemming from the economic crisis and narrowing the gap between the Kinh majority and ethnic minorities in Vietnam. This support will also allow EU's involvement in Vietnam's future pro poor programme 2011-2015 and to influence its design.

While Programme 135 achieved good results in developing small infrastructure, particular attention will be paid in future to raising capacities at grassroots level and to supporting livelihoods and human resources development.

The health system in Vietnam is characterised by a high degree of fragmentation into 13 National pathology-based Targeted Programmes (NTP), weak capacities at all levels, poor preventive health and service delivery in particular at local level leading to hospital congestion at provincial and central level, a chaotic pharmaceutical sector, under-funding of the budget and a corresponding abnormally high level of “out-of-pocket-payments” affecting mainly the poor and near-poor. Awareness of the urgent need to engage in a radical modernisation of the health system has strongly grown in recent years, and the Ministry of Health, supported by donors, is currently preparing the first ever comprehensive, costed national health plan for the 2011-2015 period. After having put a 14.75 M€ Health Sector Capacity Support Project in place (AAP 2008), co-financed between EU, DE and LU, a sector budget support accompanied by a policy dialogue involving the donor community and the Government will help Vietnam to put in place a modern health system, for the benefit of the population at large, in particular the poor.

Tourism is a spearhead sector in Vietnam’s economy, which has been steadily growing until before the financial and economic crisis. While growth has been stagnating in 2008–first half 2009, it is picking up quickly and expected to reach an average growth of 6.5% during the next decade, contributing to job creation (4.6 million in 2009) and poverty reduction. However, for a sustainable and responsible growth, a number of important challenges need to be addressed, including weak capacities at central, provincial and local level for policy making, planning, implementation and management; sector coordination including all key stakeholders at regional destination level; human resources development, with particular attention for disadvantaged groups; and important cross-cutting issues, notably gender and climate change.

2) Development Policy of Vietnam

Vietnam’s Socio-Economic Development Strategy 2001-2010 and Socio-Economic Plan 2006-2010 are its main policy and planning documents to which donors align. The SEDP’s main objective is to “bring Vietnam out of the underdevelopment status and to become a modern industrialised country by 2020”. Recognising the pro-poor orientation of the SEDP, twelve donors are participating in the Poverty Reduction Strategy Credit supporting the SEDP through global budget support, and its comprehensive policy dialogue covering more than 50 policy actions. The SEDP includes a number of National Targeted Programmes addressing remote areas and ethnic minorities which the EU will support from 2010 onwards. The SEDP is accompanied by sector plans prepared by line ministries which, so far, failed to be of sufficient quality for donors to support. The new National Health Sector Plan 2011-2015, which is currently being prepared and which will bring together the different existing National Targeted Programmes, will be budgeted and accompanied by a M&E framework, and will allow donors, including the EU, to support a programme-based approach (PBA) in health, in line with the Accra Agenda for Action. As to the tourism sector, with the end of the existing national tourism action programme 2006-2010

in sight, policy priorities for the next five years are currently being defined and will include strengthening of the institutional framework, public-private dialogue promotion and human resources development.

3) Coherence with the programming documents:

Action A (raising living standards of ethnic minorities through budget support) implements focal sector 1 of the MIP 2007-2010, which foresees general budget support but allows that “The EC may also give consideration to providing support directly through government targeted programs which focus on the poorest communes”.

Action B (health Sector Policy Support programme) implements focal sector 2 of the MIP 2007-2010, whose overall objective is to improve the health status of the population, especially the poor, as a contribution to poverty reduction and the attainment of health-related MDGs.

Action C (responsible tourism) implements Additional Action 1 of the MIP through capacity strengthening in a key service sector, enhancing Vietnam's participation in world trade and advancing EU-VN trade and investment relations, while maximising its benefits for the country's development and poverty reduction agenda.

4) Identified actions

Action A. The overall objective is to contribute to poverty reduction in the communes facing extreme hardship in ethnic minority and mountainous areas of Vietnam in order to narrow the gap among regions and ethnic groups. The purpose is to support the Government in achieving quality improvements to Programme P135-2 in four areas (i) poverty targeting, (ii) decentralization, participation and empowerment, (iii) fiduciary transparency and accountability, and (iv) monitoring and evaluation.

Action B. The overall objective is to contribute to the improvement of the health status of the population, especially the poor and most vulnerable, through a more effective, efficient, equitable and accessible to the poor health system. The purpose is to support the implementation of the five year health plan (2011 – 2015) of the Government of Vietnam, which addresses the six building blocks¹ of a health system: 1. Governance; 2. Health financing; 3. Service Delivery; 4. Pharmaceuticals, 5. Health workforce; 6. Health Information System (HIS).

Action C. The overall objective of the Environmentally and Socially Responsible Tourism Capacity Development Project is to mainstream responsible tourism principles into Vietnam’s tourism sector, to enhance competitiveness and to contribute to the implementation of Vietnam’s Socio Economic Development

¹ The “6 Building Blocks” refer to a mutually agreed framework of the Joint Annual Health Reviews by Government of Vietnam and the Health partnership group. They are based on a WHO approach on health systems strengthening and reflect the comprehensives of the approach. This reference to the building blocks is not meant to pre-empt the structure or presentation of the 5 Year Plan to be decided by Government of Vietnam.

Plan (SEDP). The main project purpose is to enhance the capacity of public and private stakeholders in the tourism sector through supporting implementation of government policies and programmes consistent with responsible tourism.

5) Expected results:

The expected results, common to the three actions, are first and foremost reduction of poverty (MDG 1) but also gender equality (MDG 3). The poverty gap between the majority of Kinh and ethnic minorities is addressed through targeting those regions where hard core poverty remains an important issue, namely the ethnic minority areas in the Northern Uplands and the Central Highlands, with a focus on strengthening local capacities, improved small infrastructure, more sustainable livelihoods, better quality and access to basic services in health and reducing drop outs in education. From a sector point a view, support to health systems reforms is expected to have a considerable impact on MDG (1) through reduction of out of pocket payments but also on MDG's 4 (child mortality) and 5 (maternal health). Capacity-building support to socially and environmental responsible tourism will produce results for MDG's (1) Poverty reduction, (7) Environmental sustainability and (8) Global partnership for Development.

6) Past EU assistance and lessons learnt.

The three Annual Action Programmes (2007-2008-2009) adopted so far, covering the two focal areas and the additional actions of the CSP/MIP 2007-2010, are implemented on schedule, to the satisfaction of their beneficiaries.

While EU support to Vietnam's Socio Economic Development Plan (Focal area 1) through the PRSC, and the accompanying comprehensive policy dialogue has been evaluated positively and is considered "best practice" in terms of Aid Effectiveness (AAP 2007 and 2008), the economic crisis and the lagging position of ethnic minorities point to the need of a more focused approach towards ethnic minority areas, through support for the Government's pro poor programme 135.

The implementation of the Health Sector Capacity Project (AAP 2008) supports the Government of Vietnam in strengthening its capacities for planning, budgeting and implementation at national and provincial level, and particularly in preparing its national health Plan 2011-2015 and sector support by to donors - including the EU which is taking a lead.

Trade Related Assistance under the MUTRAP III project (AAP 2007) assisting Vietnam in implementing its WTO obligations is in full swing and will be followed by a more service sector oriented intervention in the tourism sector.

In the area of governance, small scale support to the EC-Vietnam Strategic Dialogue on human rights and governance (AAP 2007) has been followed by a more robust support to Vietnam's Judicial Reforms (AAP 2009).

7) Complementary actions/donor coordination. Budget support operations which constitute the lion's share of EU assistance under the MIP 2006-2010 (72%) are complemented by capacity-building assistance to ensure the readiness of all stakeholders to engage, and to mitigate risks for EC funds. Global budget support

to the SEDP has been preceded by technical Assistance to State Audit Vietnam and State Bank Vietnam and is currently accompanied by support to Public Financial Management in the context of a Multi Donor Trust Fund in which EU participates and is a strong player. Budget support to the health sector is accompanied by comprehensive capacity-building assistance co-financed by EU, DE and LU. Strong donor coordination and division of labour for policy dialogue has been established among the twelve donors supporting the PRSC/SEDP. The Statement of Intent for Aid Effectiveness in the health sector supported by 23 donors (bilateral, multilateral, NGO) is considered best practice.

4. COMMUNICATION AND VISIBILITY

Visibility of the activities undertaken through the Annual Action Programme 2010 will be ensured through the EU Delegation's Visibility and Communications Strategy 2009-2010. This visibility framework identifies target groups and facilitates the development and use of corresponding key messages for outreach through channels such as events and ceremonies, media outreach, print and online materials development and distribution, as well as softer tools such as awareness raising and training of Delegation staff to continuously identify and optimize visibility opportunities. The sector budget support in health and budget support to P135 activities will also be given particular consideration under the Delegation's Budget Support Visibility Strategy (currently under development), part of the OS Communications and Visibility Strategy. In terms of specific activities, a signing ceremony followed by a press conference will take place at the signature of the Financing Agreement for the sector support in health, workshops and/or dissemination of programme documentation will also be organised. During the programme implementation the EU will promote consistent and relevant visibility actions of information dissemination in collaboration with the Ministry of Health of Vietnam.

5. COST AND FINANCING

Raising the living standards of ethnic minorities in Vietnam through sector budget support	€ 12 million
Health Sector Policy Support Programme through sector budget support.	€ 39.25 million
Environmentally and Socially Responsible Tourism Capacity Development Project	€ 11 million
Total amount of the action programme	€ 62.25 million

Cumulated changes of the allocations to the specific actions not exceeding 20% of the maximum contribution of the Community or extensions of the implementation period not exceeding 20% of the initial duration of the implementation period, are not considered to be substantial provided that they do not significantly affect the nature and objectives of the Annual Action Programme. This may include an increase of the maximum contribution of the Community up to 20%. The Committee is invited to give its opinion on the attached Annual Action Programme for Vietnam.

Action Fiche N° 1 for Vietnam

1. Identification

Title/Number	Raising the living standards of ethnic minorities in Vietnam DCI-ASIE/2010/21624		
Total cost	Total cost: indicative EUR 550 million EU contribution: EUR 12 million of which budget support: EUR 12 million Other donors contribution: indicative EUR 75 million		
Aid method / Method of implementation	Sector Policy Support Programme: - Sector budget support (centralised management)		
DAC-code	16050	Sector	Multi sector aid for basic social services

2. RATIONALE AND COUNTRY CONTEXT

2.1. Country context and rationale for SPSP

2.1.1. *Economic and social situation and poverty analysis*

Over the past decade Vietnam has experienced high and sustained economic growth rates which have led to impressive poverty reduction. According to recent estimations, the per capita GDP of Vietnam may have passed the bar of 1000 USD, thereby placing the country in the Middle Income Country category. Poverty has been reducing steadily, and recent estimates indicate that by the end of 2009/2010, the percentage of the population below the Vietnamese poverty line of 15 USD for urban and 12 USD for rural areas would fall below 10%.

However, in spite of this impressive record, a large part of the population, so-called “near-poor” constituting an additional 20% of the population remains very vulnerable to economic shocks, and risks to fall back into poverty notably due to the lack of social protection and proper health insurance. Furthermore, for ethnic minorities which are representing 15% of the population, poverty reduction moves at a much slower pace than for the “Kinh” majority, with a widening poverty gap as result. Addressing all this residual poverty remains an important challenge which the Government is addressing through its pro poor targeted programmes.

2.1.2. *National development policy*

The Socio-Economic Development Plan (SEDP) 2006-2010 is the core strategy of the Government of Vietnam on which donors align their support. The SEDP is consultative, government owned, poverty focused, comprehensive, results-focused

and economically feasible. It aims at rapid development and is structured on four pillars: economic, social and environmental development, the fourth pillar being improved governance

The SEDP mentions the “Programme for Socio-Economic Development in Communes Facing Extreme Hardship in Ethnic Minority and Mountainous Areas (2006-2010)”, known as P135-2, as a major instrument for targeted poverty reduction. There are other programmes (though substantially smaller than P-135) with complementary but similar interventions, and donors have raised the issue of fragmentation, and risk of overlapping. A recent UNDP study has showed that the risk of overlapping does not exist as all these actions are integrated in local development plans, but budgetary fragmentation does make implementation more complex and time consuming. A Steering Committee on Poverty Reduction, chaired by the Vice-Prime Minister ensures coordination of the implementation of the poverty reduction policies and programmes, but has not played a significant role up to now.

2.2. Sector context: policies and challenges

The rationale for the SPSP approach is based on an assessment of the following seven criteria:

(1) Sector context:

The “Programme for Socio-Economic Development in Communes Facing Extreme Hardship in Ethnic Minority and Mountainous Areas (2006-2010)” or “P135-2” is a very large programme operationalising the political will of the Government of Vietnam to offer better development opportunities to ethnic minority groups which also coincide largely with the poorest areas. To achieve this, a specific administrative entity is in place: the Committee for Ethnic Minorities (CEM), which is equivalent to a Ministry, headed by a Minister and reports directly to the Prime Minister.

The general policy is formulated in the 2006-2010 Social and Economic Development Plan (SEDP) and the targets and activities defined in the P135 programme (approved in January, 2006). Related documents concerning implementation and management of the programme have been produced by relevant line ministries and the Prime Minister. It aims at promoting pro-poor growth through financial transfers from the central level to 1874 communes and 2000 villages out of about 10,000 communes.

The main components are:

- Small-scale rural infrastructure: small bridges, village roads, water and sanitation installations, etc.
- “Production”- support to the development of sustainable livelihoods.
- Capacity building and training of lower levels of administration.
- Support to poor students to allow them to attend school, sometimes far from their village

While phase 1 (1998 to 2005) focused essentially on infrastructure, phase 2 (2006-2010) expands into capacity development of district and commune levels of

administration and into supporting economic opportunities for the poorest. It is expected that the phase 3 (2011-2015), presently under preparation will further develop its support to the strengthening of livelihoods with a more market oriented approach.

Phase 2 (P135-2) is set within the Government's broader policies for strengthening decentralisation, local governance and public accountability. The programme is regarded as one of the government's main instruments to operationalise the 'Grassroots Democracy Decree' no. 29/97 (2003), Decision no. 80 (2005) which provides for community participation in planning, construction and operation of basic rural infrastructure, and Decision 192 on financial transparency, as steps towards the building-up of more effective local government institutions.

The Government and Development Partners have formalized their coordinated action in a MoU signed on 6 July 2007. It focuses on improving the quality of the programme in 4 areas:

1. Poverty targeting,
2. Decentralisation, participation and empowerment,
3. PFM: transparency and accountability
4. Monitoring and evaluation.

Phase 3 is presently under preparation and a draft is planned to be ready by June 2010 after consultation of stakeholders including donors. A first outline was given orally at the end of the Joint Progress Review in November 2009, but written document in English has been circulated yet. The outline indicated a strengthening of the capacity building and production components, and more innovative and market oriented approach to livelihoods support. Infrastructure would remain important, but would be modulated depending on the area.

It is worthwhile noting that the plans presently developed may be strongly influenced by the result of the present discussions at higher level on the coherence between different poverty reduction programmes.

(2) Budget

The total budget foreseen in the P135-2 document was 12950 billion VND, equal to USD 727 million at today's exchange rate, including a projected contribution from donor grants of 10% (projected WB loans of USD 150 million being considered by the Government as part of the 90%). It is now increased to 14000 billion VND, equal to USD 786 million.

Donor grants committed up to now amount to USD 108.8 million, 15% of the original budget, therefore above the original expectations. The present increased budget more than reflects these additional contributions.

For 2010, The National Assembly has recently approved a budget of VND 3687 billion (USD 207 million) for P135-2. The MoF has informed that the budget will be raised (as usually the case) by decision of the Prime Minister when new ODA commitments will be made, regardless of whether these are formally targeted or not. The new commitments expected for 2010 are, in addition to the EU, Switzerland (+USD 1 million) and Finland (€ 5 million).

Though disbursement of the P135-2 has been lagging behind (the present rate of disbursement is +/- 70% of allocated budgets) this reflects essentially a time lag between budget decisions and budget notifications at the lower level, as well as implementation preparation time, but is not a sign of lack of absorption capacity. It is worth specifying that the budget law in Vietnam allows for the spending of budgets beyond the end of the fiscal year. P-135-2 spending will therefore continue in 2011 until budgets are fully utilised.

Vietnam is working at establishing a Medium Term Fiscal Framework (MTFF) and presently conducting trials at sector and province levels. It is the Government's intention to institutionalise the usage of this budgeting tool when revising the State Budget law with a view to start implementing it from fiscal year 2011 onwards. P135 appears in the budget as part of the transfers to local government with a specific purpose.

(3) Donor coordination

A "Memorandum of Understanding on the Partnership Framework for a common approach to budget support between the Government of Vietnam and development partners for support to Program 135 Phase 2" (MoU) was signed between eight donors and the Government on 6th July 2007. Under this MoU, a Partnership Committee is established, chaired by the Government, represented by the Committee for Ethnic Minorities, with donors rotating the co-chairmanship role. This Committee is the forum for policy dialogue and progress review and meets about 10 times a year.

By joining this group, the EU brings the weight of a major donor, at the time when some donors are withdrawing (Australia) and the continuation of WB support is uncertain in the context of Vietnam becoming a Middle Income Country. By joining the final year of phase 2 (2010), the EU will both be able to increase its focus on poverty, and to participate in the discussions on the next 3rd phase and influence it in the direction of a more results based approach.

(4) Institutional capacity

The implementation of P135-2 is highly decentralised with more than 80% of the total programme budget spent at sub-national levels and therefore a key issue is the capacity of the sub-national levels.

By design, P135-2 has a new focus on capacity development, and the engagement of development partners has added impetus for more concerted and systematic efforts in support of this focus. About 10% of the budget of the programme is being spent directly on this component and USD16 million has been committed for capacity development support by UNDP, Irish AID, IFAD, and Finland.

The Joint Mid Term Review (JMTR) has identified several important lessons which are reflected in the revised policy matrix. The technical assistance plan has been revised with donors to reflect the need to urgently increase support at sub-national levels in support to commune ownership capacity building, operation and maintenance (O&M) and communications, and to integrate additional TA support recently made available to Government.

While it is commonly agreed that capacity at the sub-national level is weak, it is noted that capacity of relevant institutions at the central level is not yet adequate either. The Centre for Ethnic Minorities (CEM) as a lead institution of P135-2 is a political organisation whose mission is to support the ethnic minorities rather than a developmental agency with strong capacity on programme implementation. Nevertheless, since 1998, the capacity of CEM has certainly improved partly, thanks to recent technical assistance and dialogues with development partners since they started joining P135 in 2006.

Decentralisation, participation and empowerment are considered to be key themes in P135-2 but the result to date has been mixed with uneven participation, slow decentralisation to the communal level and limited empowerment of the local community in the development process. While the target of 100% commune investment ownership, i.e. implementation and management of a commune's plan is carried out by the commune, including procurement of services, supplies and works, is likely not to be achieved by 2010, progress to date in delegating authority to the commune is gaining momentum and providing good lessons for the next period.

Poor capacity of the communal administration tends to be used as an excuse for district level not to delegate communal "investment ownership" to the lower level. While to a certain extent this is the case, there are clearly risks involved in full devolution. In fact, it seems that the district level is still reluctant to transfer "investment ownership" to the communal level.

(5) Framework for performance monitoring

The MOU specifies - in sections 4.5, 4.6 and 4.7 - the performance assessment modalities that have been agreed by the Government and the Development Partners. A Results Framework with agreed criteria and indicators will be used for performance monitoring by the Government as well as during the Joint Government - Development Partners Progress Reviews (JPR), and will inform the policy dialogue between Government and Development Partners. The latter have agreed to make their bilateral agreements consistent with the Results Framework and base their budget support disbursements on their own assessment of the Government's performance. As stipulated in the MoU two Joint Progress Reviews are conducted annually, the most recent one is being completed (November 2009).

(6) Macroeconomic framework

Following a decade long strong economic growth, the financial and economic crisis has not spared the Vietnamese economy that saw its growth rate drop to a – still enviable - 5.2 % in 2009. Vietnam's export-oriented economy was hit by a drop in exports, tourism revenues and remittances. The eight billion USD stimulus package put in place by the Government in early 2009 – some of which was used for increasing the allocation to its "pro poor programmes" has revamped the economy, and for 2010 Vietnam is expecting a growth rate of above 6%. Challenges in the short run include containing the re-surgency inflation, limiting the fiscal deficit without severe social cuts or devaluation. Partner countries insist on Vietnam's

continued respect of its obligations as new WTO member, which so far it has done so.

Most observers, including the IMF, remain moderately positive about medium and longer term perspectives for the Vietnamese economy.

(7) Public financial management

Several diagnostic studies have been carried out in recent years (EU 2004 Diagnostic study, World Bank 2005 Public Expenditure Review and the Country Financial Accountability Assessment (CFAA) finalised in 2008). Taking into account these findings, the GoV took steps, to address its fragmented approach to PFM reform with the elaboration of a PFM ‘Single Strategy Document’ (SSD) approved early 2008. The main pillars of the SSD are (i) State Budget expenditure management; (ii) State Budget revenue management (taxation and customs) (iii); Public debt management; (iv) Public assets management; (v) Corporate finance management; (vi) Price control; and (vii) Financial market Supervision and Bond Market Development. The EU fully supports the implementation of the SSD through its EUR 1 million (over the 2008-2011 period) participation in a multi-donor trust fund (MDTF) financing capacity building activities for all agencies involved. Recently, an integrated legislative framework for public procurement has been adopted. A new, more flexible system, for cash flow management has been introduced. In the field of external audit, the Supreme Audit Institution of Vietnam (SAV) became independent from the government and started to report directly to the Parliament. However some weaknesses still remain, such as the budget classification which is not fully aligned with the internationally recognized Classification of functions, no standard dedicated government payroll system and internal auditing for government institutions at national and provincial levels (guidelines to be issued in June 2010). Since about two years, the donor community is lobbying the government for the use of the Public Expenditure and Financial Accountability Performance Assessment (PEFA) framework to assess PFM. The Government has agreed in principle to introducing PEFA in late 2011. Regarding PFM in the sector itself, it should be mentioned that P135-2 is the only national programme having an audit plan for the whole period of implementation (2006 – 2010) with an annual audit conducted. CEM as P135-2 Coordinator and State Audit of Vietnam (SAV) for the first time organised a press conference to publish the 2008 audit report of the programme. The JMTR concluded that SAV performance audits are of high quality and results coincide with conclusions of other independent reviews. Furthermore PFM is one of the issues addressed by the policy matrix, in particular procurement. The MTR concluded early 2009 contains also recommendations in this regard, which will be followed-up with the support of donor funded TA.

2.3. Eligibility for budget support

- (1) As explained in section 2.2 (1), a well defined policy is in place, and the second phase (2006-2010) of its support programme, P135-2, is currently under implementation.

- (2) A stability oriented macroeconomic policy is in place with a good track record, and the present challenges are unlikely to put at risk the sector objectives.
- (3) The SSD 2007-2010 constitutes a credible and relevant programme to improve PFM whose implementation is closely followed and supported by the development partners. It will be updated in the course of next year.

2.4. Lessons learnt

In the field of rural development, the EU had three bilateral projects, now completed or about to be completed, with the Ministry of Agriculture and Rural Development (MARD). Monitoring and evaluation missions, including the evaluation on EU assistance to Vietnam of the past decade carried out in 2009, have shown serious problems of ownership and sustainability. This has prompted the Delegation to abandon the project approach and adopt a mode of support where ownership is higher in order to achieved better sustainability.

An independent evaluation of the effectiveness of donor support to P135-2 commissioned by DFID in November 2008 concluded that “joint donor support of P135, with more donors joining phase 2, and generally coordinated comments and actions by P135-2 donors, has clearly improved the harmonisation of donor approaches compared to the past where many separate Government’s initiatives and donor projects were supported. The alignment of donor and Government systems is also improved by P135-2 support, since use of Government systems and procedures is a clear advantage over a project modality, as the benefits of changes to management practices, where achieved, are captured in Government systems.” Main recommendations from this review are:

- i) support to P135 should be maintained, incorporating lessons learnt;
- ii) a framework of best practices in meeting policy matrix objectives should be collated;
- iii) realistic timetables, plans and donor level of assistance should be put in place for securing remaining changes sought in management practices and impacts assistance;
- iv) in the rest of phase 2 and in future phases, the roles and tasks of Government officers involved should be clearly set out in programme guidance documents and bedded-in through training;
- v) hands-on commune-level capacity building should be a key focus.

2.5. Complementary actions

Other actions that will be ongoing in 2010 include EU’s general PRSC budget support to the implementation of Vietnam’s SEDP, as well as NGO co-financing at grassroots level.

Donors supporting P135-2 financially and through TA are Finland, Ireland and Australia. Among the international organisations, the World Bank provides policy based loans, while IFAD and UNDP also provide TA.

As explained under 2.1.2, there are other national target programmes aiming at poverty reduction, however they are smaller and there are mechanisms to avoid overlapping. Donor support is therefore concentrated on P-135.

2.6. Donor coordination

See section 2.2 (3)

3. DESCRIPTION

3.1. Objectives

The general objective is to contribute to poverty reduction in the communes facing extreme hardship in ethnic minority and mountainous areas of Vietnam in order to narrow the gap among regions and ethnic groups. This support would also be an entry point to a wider, emerging agenda for systemic change in the way targeted poverty reduction programmes are conceived and implemented.

The purpose (specific objective) of the EU's sector budget support is to support the Government in continuing to achieve, in years 2010 and 2011, quality improvements to p-135-2 in four areas (i) poverty targeting, (ii) decentralization, participation and empowerment, (iii) fiduciary transparency and accountability, and (iv) monitoring and evaluation.

3.2. Expected results and main activities

The programme's expected results are to strengthen, in the years 2010 and 2011, the following results which were planned to be achieved over the whole period of implementation of P-135-2: (i) public investment resources better targeted and more effectively delivered to contribute to increasing the level, security and sustainability of livelihoods of ethnic minority households living in remaining deep pockets of poverty in remote, upland areas of Vietnam; (ii) higher quality and more cost-effective support services and basic infrastructure used by poor, ethnic minority households in remote locations to access markets, wage-earning opportunities, education and health services, and sources of public information; (iii) greater responsiveness of local authorities to citizens' and communities demands for more effective service provision; and (iv) a reduction in corruption risks in government programmes through enhanced public participation and oversight of public financial management and procurement.

The main activities will be to provide budget support, to engage in regular policy dialogue on policies and institutional actions necessary to improve the results of the P135-2 and to participate in the bi annual joint assessments.

3.3. Stakeholders

The main stakeholders are the Government of Vietnam, in particular the provinces, districts and communes that are beneficiaries of the P135-2 programme, the Development Partner group (World Bank, Finland, Ireland, Switzerland, EC and Australia (phasing out)), and especially the final beneficiaries, the poorest households, often belonging to ethnic minorities, in the poorest and often isolated,

mountainous districts. Ownership is strong at all levels. The government department that leads and coordinates P135 is CEM, but various other government departments (MARD, MPI, MOLISA, MEOT, SAV) are closely associated in the implementation and monitoring. Their institutional capacity is considerable at central and provincial level, while capacity issues at District and Commune level have been identified and are being addressed through TA and capacity building programmes.

3.4. Risks and assumptions

Risks	Mitigation measures
<p>1- Institutional risks</p> <p>Decentralization of investment ownership to communes for local infrastructure does not progress to the extent envisaged. This means that policy and institutional actions agreed at the centre translate insufficiently into intended provincial and local level outcomes.</p> <p>Overlaps, or poor coherence and coordination between different programmes and social sector policies could undermine the effectiveness of the programme.</p>	<p>Development partners and CEM have revised TA planning and given an increased emphasis to provinces with lower rates of commune investment ownership. The Revised TA plan emphasises reinforcement of these actions at provincial level and enhanced training and monitoring will be carried out by CEM based on benchmarking of provinces.</p> <p>Decentralisation itself, if pursued steadily, will mitigate this problem. Moreover the donors have raised this officially and the Government has indicated its willingness to address this issue in the preparation of the next phase.</p>
<p>2- Policy related risks</p> <p>Conservative attitudes could prevent the sharpening of the targeting and the capacity of the programme to support market oriented economic diversification for the poor. Progress on participation by the rural poor is slow.</p>	<p>The recent Joint Progress Review (October 2009) has identified the need to progress on these two aspects. The Government has recognised this and donors are constantly putting the emphasis on this in the policy dialogue.</p>

3.5. Crosscutting Issues

Environment:

During the preparation of Phase 2 of P135, an analysis of the environmental implications of P135-2 was undertaken by Government with consultant support, building on an earlier, generally positive, assessment of the environmental impacts of Programme 135 Phase 1 conducted in 2005 with support from DFID. This analysis also incorporated the findings of the environmental safeguards compliance monitoring conducted under the IDA-supported Northern Mountains Poverty Reduction and Community Based Rural Infrastructure Projects. Experience under these ongoing investment operations, which finance similar investments to those under the infrastructure component of P135-2, indicated that adverse environmental impacts were small while positive effects on the environment are likely through

enhanced efforts at environmental awareness, intensification of agriculture and feeding of livestock which reduces deforestation, and improved road construction designs incorporating environmental considerations for drainage. The project document of P-135-2 took this into account and included activities related to sanitation, environment protection and control of deforestation.

Gender equality:

The recommendations on gender equality adopted by the Government and Development Partners included enhancing women's participation and adoption of a firm target of a minimum of 30% women involved in all the programme activities (management, trainings, meetings etc.), and CEM will develop a manual on gender mainstreaming at the beginning of the next 3rd phase of P135.

Good governance:

Besides sector specific PFM issues mentioned in 2.2 (7), the programme stimulates participation and transparency in general (publication of contract beneficiaries, etc), which contribute to better governance and reduce the opportunities for corruption.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The chosen modality is sector budget support therefore the method of implementation is direct centralised management, with the signature of a Financing Agreement with the Government of Vietnam. The budget support is untargeted.

Since technical assistance to P135-2 is provided by UNDP, Australian Aid, Irish AID, IFAD, and Finland, and will cover the year 2010 also, EU support at this stage will be in the form of budget support only, as TA is not necessary.

4.2. Procurement and grant award procedures

N/A

4.3. Budget and calendar

EU support to the programme will cover only the year 2010, the final year of implementation of P135-2, and will consist of one single budget support instalment of EUR 12 million. Since P135 focuses on poverty and appears to be increasingly effective, a further EU contribution will be considered under the MIP 2011-2013, taking account of progress.

The operational duration of this action will be of 18 months from the date of signature of the Financing Agreement

Budget breakdown	EU contribution	Contracting authority / paying authority
Budget support	€ 12 000 000	EU
Total	€ 12 000 000	

If the criteria for disbursement stated in section 4.4 below are met, disbursement of the tranche by the EU shall normally occur by the end of 2010, while, in accordance with the regulations of the Government of Vietnam, spending can be continued in 2011.

4.4. Performance monitoring and criteria for disbursement

The performance monitoring framework is explained under 2.2 (5).

The **general criteria for the disbursement of the tranche** are based on the three eligibility criteria for budget support as set below:

- Vietnam's stability oriented Macro-economic policy is maintained and the medium-term prospects do not put at risk the sector objectives.
- Vietnam's reform plans for public finance management are sufficiently credible and relevant and are implemented satisfactorily.
- A clearly defined policy for P-135 is in place and implemented satisfactorily

As discussed with the Government of Vietnam (Ministry of Finance and CEM), jointly with Finland who will follow the same approach for its additional contribution 2010, there will be two additional **specific disbursement criteria for this tranche**:

- 1) Satisfactory progress on implementation of the Policy matrix/Results Framework agreed jointly between the GoV and the donor partnership group and attached to the MoU.
- 2) P135-2 disbursements must show progress (the target will be defined at the time of finalising the Financing Agreement on the basis of recent information).

The two criteria that need to be met prior to disbursement shall be assessed as follows:

- 1) The assessment on whether the progress has been satisfactory (criterion 1) will be made by the Commission based on the results of the first Joint Progress Review of 2010 (review to be conducted in the first half of 2010). The assessment of the Commission will be made in close coordination with the other donors, with the objective to keep a coherent donor position towards the government.
- 2) The assessment of the fulfilment of criterion 2 will be based on the disbursements figures published by the Vietnamese State Treasury.

4.5. Evaluation and audit

A Joint Mid-Term Review was conducted from 5 to 25 November 2008 and the MOU foresees a final evaluation at the end of 2010, whose TORs should be discussed by the partnership group in the course of 2010. P135-2 was the first Government programme having a baseline survey conducted (in 2007) which will enhance the value of the final evaluation.

The P135-2 was the first programme to be audited annually by the State Audit of Vietnam. As mentioned earlier, P135-2 is the only national programme having an audit plan for the whole period of implementation (2006–2010), with an audit conducted annually by the State Audit of Vietnam (SAV). The JMTR concluded that SAV financial audits are of high quality and their findings largely correspond to those of other independent reviews.

4.6. Communication and visibility

In accordance with the provisions mentioned in the Communication and Visibility Manual for EU External Actions, steps will be taken to ensure visibility of the EU support. A signing ceremony followed by a press conference will take place at the time of the signature of the Financing Agreement.

CEM will make known as much as possible the support provided by Development partners whenever public events are organised and in particular on its website.

These visibility measures do not require a specific budget to be allocated.

Action Fiche N° 2 for Vietnam

1. IDENTIFICATION

Title/Number	Health Sector Policy Support Programme DCI-ASIE/2010/20587		
Total cost	Total cost of the project :EUR 39 250 000 EU contribution: EUR 39 250 000		
Aid method / Method of implementation	Sector Policy Support Programme: - Sector budget support (direct centralised management);		
DAC-code	12110	Sector	Health policy and administrative management

2. RATIONALE AND COUNTRY CONTEXT

2.1 Country context and rationale for SPSP

2.1.1. *Economic and social situation and poverty analysis*

Over the past decade Vietnam has experienced high and sustained economic growth rates which have led to impressive poverty reduction. According to recent estimations, the per capita GDP of Vietnam may have passed the bar of 1000 USD, thereby placing the country in the Middle Income Country category. Poverty has been reducing steadily, and recent estimates indicate that, by the end of 2009/2010, the percentage of the population below the Vietnamese poverty line of 15 USD for urban and 12 USD for rural areas would fall below 10%.

However, in spite of this impressive record, a large part of the population, so-called “near-poor” constituting an additional 20% of the population, remains very vulnerable to economic shocks, and risks to fall back into poverty notably due to the lack of social protection and proper health insurance. Furthermore, for ethnic minorities representing 15% of the population, poverty reduction moves at a slower pace than for the “Kinh” majority, with a widening poverty gap as result.

Although Vietnam’s vital health indicators are comparable to those of middle income countries, it still faces important internal disparities and challenges. Government spending on the health sector remains well below levels in comparable developing countries, with only about 6.5% of total public expenditure going to the health sector, meaning that around two thirds of health expenditure comes “out of pocket”.

2.1.2. *National development policy*

The Socio-Economic Development Plan (SEDP) 2006-2010 is the core strategy of the Government of Vietnam on which donors align their support. The SEDP is consultative, government owned, poverty focused, comprehensive, results-focused and

economically feasible. It aims at rapid development and is structured on four pillars: economic, social and environmental development, the fourth pillar being improved governance.

The Government of Vietnam has already envisaged for the next SEDP 2011 – 2015 to build upon lessons learnt from the reform process and implementation of current SEDP. It is expected that the next SEDP will continue to focus on inclusive growth with a focus on environment and Climate Change. Furthermore a sustained economic growth combined with improving infrastructure will support the implementation of policies for reduction of poverty and social sectors including Health.

The preparation of the national Socio-Economic Development Plan follows a bottom-up approach and is informed by local authorities, “grass root level organisations” such as the Fatherland Front, Women’s Union, Youth Union, etc, which are all closely connected to the Communist Party, and by line ministries. The SEDP will be complemented by sector plans and provincial Socio-Economic Development Plans. The EU actively contributes to the preparation of the national sector plan for health, and its Health Sector Capacity Support Project (see section 2.6 below) provides capacity-building support for planning at health sector and provincial level.

2.2 Sector context: policies and challenges

(i) Sector context

Vietnam is a country in demographic and epidemiological transition. It has achieved rapid progress in recent years with regard to the health status of its population. Over the last decade, life expectancy at birth has risen, infant mortality and child mortality have decreased and the incidence of communicable diseases has fallen with growing prevalence of non-communicable diseases such as diabetes and hypertension. However, significant health challenges remain for the population at large, but particularly for the near poor and poorest, notably ethnic minorities and in remote areas where access to health services remains very problematic.

The Vietnamese health care delivery system is highly decentralised consisting of four levels of administration: central, provincial, district and commune level. While the Ministry of Health assumes a regulatory and policy-making function, provinces are in charge of actual planning and implementation of health systems at local level, under the stewardship of the Ministry of Health. Although the Vietnam Social Security (VSS) is playing an increasingly important role as fund-holder, it is not yet an efficient and effective contracting authority in terms of health insurance. A number of reforms are under way to ensure that in the long-run VSS will play well its contracting authority role towards service providers. Overall, the sector is chaotic, inefficient and inequitable, particularly for the poorest. It suffers from huge inefficiency due lack of capacity at all levels in particular planning, provision of health services, hospital management and pharmaceutical. The system is also highly fragmented due to the existence of 13 pathology-based national targeted programmes (NTP) and corresponding administrations. Health service delivery is characterised by a series of inefficiencies. Approximately two thirds of health expenditure is being paid out-of-the-pocket by patients at the time of service delivery. Combined with a high level of hospital congestion at national and provincial level, a very high

proportion of people are exposed to unaffordable health expenditure and therefore don't seek urgently needed care.

However over the last few years, reforms are starting to meet the challenges of a country in economic, epidemiological and demographic transition, wanting to become an industrialised nation by 2020. This process has gained momentum moving towards a comprehensive sector wide approach since Government and Development Partners teamed up in the Health Partnership Group and started in 2007 to conduct Joint Annual Health Reviews (JAHR). The JAHR uses WHO's Health Systems Strengthening approach of 6 health systems' "building blocks" as conceptual framework.

Key political/institutional steps towards the modernisation of the sector have been:

- Resolution 46-NQ/TW on the protection, care and improvement of people's health in the new situation and the linked Decision 243/2005/QĐ-TTg, identifying the responsibilities of the different levels of the health system;
- Decision 153/2006/QĐ-TTg, approving the comprehensive health master plan; Government Decree 36/2005/NĐ-CP, dated 17/03/2005 setting out the policy on free health care for children under six years of age;
- Government Decree 63/2005/NĐ-CP dated 16/05/2005 on health insurance;
- the Health Insurance Law adopted in mid-November 2008, which clarifies the role of Vietnam Social Security (VSS) as a fund-holder and contracting authority for health services and establishes a time schedule towards universal coverage;
- the Health Service Delivery Law, approved in 2009, which aims to regulate and, therefore, hold service providers accountable for the quality of health services for the public.
- By December 2010 the finalisation of a comprehensive, costed five Year Health Plan 2011-2015 accompanied by an M&E framework is foreseen.

The above recent steps represent major move towards a rational improvement of the health services and an increased access for the population. More significantly they aim at reducing the out of pocket payments thus facilitating the access of poor and deprived population.

(ii) Health financing

With 6.5 % of public expenditure, the Health sector is under-funded in comparison with the region and with countries with similar level of development. The share of out-of-pocket payments being still around two thirds of total health expenditure the roll-out of the new insurance law aiming at universal health coverage by 2014 and a commitment (Resolution 18/2008 of the National Assembly) to increase state expenditure in the health sector above the average rate of increase of the budget is expected to improve this situation. The national level (Ministry of Health, via Treasury), transfers budget appropriations to the provincial level through the National Targeted Programmes, which the provinces can complement with own resources and re-allocate in the context of their provincial health plans. The actual quality of health systems and service delivery varies widely among provinces.

(iii) Assessment of institutional capacity

Institutional capacities throughout Vietnam's health system, at national and decentralised levels, remain in general very weak, be it for health planning and implementation, hospital management, running the health insurance system or service delivery. However, the situation may strongly vary between provinces and even districts. At the central level, in the Ministry of health, the Department of Planning and Finance and the Department for International Cooperation are in the lead for policy dialogue between partners and Government. This pattern has been entrenched by the recent increase of communicable disease, specifically HIV/AIDS and Avian Flu, which has strengthened the existing vertical approach. The implementation of the 14.75 M€ EU/DE/LU "Vietnam Health Sector Capacity Support Project" (HSCSP) which has been designed as the Capacity-Building complement to this Programme will address capacity-building in key departments of the Ministry of Health and in three pilot provinces (Ha Nam, Bac Ninh, Bac Giang) and fifteen associated partner provinces, under the stewardship of the Ministry of health.

(iv) Overall framework for performance monitoring

The implementation of JAHR has been an essential step towards the establishment of an overall framework for performance monitoring for the implementation of sector policies and strategies. The JAHR will provide the government of Vietnam and donors with an overall framework for monitoring performance in the context of the 2011 - 2015 health plan; the EU provided short term technical assistance for this purpose. Furthermore current weaknesses in performance monitoring and strengthening the HMIS (health management information system) will be addressed with the assistance of the EU "Vietnam Health Sector Capacity Support Project" (HSCSP).

(v) Macroeconomic framework

Following a decade long strong economic growth, the financial and economic crisis has not spared the Vietnamese economy that saw its growth rate drop to a – still enviable - 5.2 % in 2009. Vietnam's export-oriented economy was hit by a drop in exports, tourism revenues and remittances. The eight billion stimulus package put in place by the Government in early 2009 has revamped the economy, and for 2010 Vietnam is expecting a growth rate of above 6 %. Challenges in the short run include containing the re-surfing inflation, limiting the fiscal deficit without severe social cuts and pressure on exchange rates. Partner countries insist on Vietnam's continued respect of its obligations as new WTO member.

Most observers, including the IMF, remain moderately positive about medium and longer term perspectives for the Vietnamese economy.

(vi) Public Financial Management

Several diagnostic studies have been carried out in recent years (EC 2004 Diagnostic study, World Bank 2005 Public Expenditure Review and the Country Financial Accountability Assessment (CFAA) finalised in 2008). Taken into account these findings, the GoV took steps in 2008 to address its fragmented approach to PFM reform with the elaboration of a PFM 'Single Strategy Document' (SSD) approved early 2008. The main pillars of the SSD are (i) State Budget expenditure management; (ii) State Budget revenue management (taxation and customs) (iii);

Public debt management; (iv) Public assets management; (v) Corporate finance management; (vi) Price control; and (vii) Financial market Supervision and Bond Market Development. The EU supports the implementation of the SSD through its EUR 1 million (over the 2008-2011 period) participation in a multi-donor trust fund (MDTF) financing capacity building activities for all agencies involved. Recently, an integrated legislative framework for public procurement has been adopted. A new, more flexible system, for cash flow management has been introduced. In the field of external audit, the Supreme Audit Institution of Vietnam (SAV) became independent from the government and started to report directly to the Parliament. However some weaknesses still remain, such as the budget classification which is not fully aligned with the internationally recognized Classification of functions; the lack of a standard dedicated government payroll system and internal auditing (guidelines to be issued only in June 2010). Since about two years, the donor community is lobbying the government for the use of the PEFA framework to assess PFM. The Government has agreed in principle to introducing PEFA on a pilot basis in 2011.

(vii) Donor coordination

Donor coordination in the health sector in Vietnam made strong progress in recent years, starting from a highly fragmented situation. The mechanism currently in place is presented in section 2.7 below. Key features are the establishment of a Health Partnership Group in which a Joint Annual Health Review (JAHR) is conducted; the Statement of Intent on Aid Effectiveness in the Health Sector adopted in March 2009 allowing for a program based Approach (PBA) in the health sector; and the EU Health Working Group.

2.3 Eligibility for budget support

The eligibility criteria for budget support are fulfilled:

- The development of Government of Vietnam 5 year health plan is based upon the political framework set by the Party Resolution 46, will build upon the lessons drawn from the National Health strategy 2001 – 2010, and will be embedded in the health pillar of the Social Economic development Plan (SEDP) 2011-2015.
- A stability oriented macroeconomic policy is in place with, according to the IMF article IV reviews, a good track record, and the present challenges are unlikely to put at risk the sector objectives.
- The Single Strategy Document 2007-2010 constitutes a credible and relevant programme to improve PFM whose implementation is closely followed and supported by the development partners. It will be updated in the course of next year.

2.4 Lessons learnt

Major lessons learnt from previous relevant EU interventions in Vietnam are in support of the implementation of the Health Sector Policy Support Programme with a direct budget support modality. These were drawn from the evaluation on EU assistance to Vietnam during the 2000-2009 carried out in 2009 and from individual evaluations of the HEMA and HSDP projects and include:

- General support, via PRSC, for the implementation of Vietnam SEDP is a good way of delivering aid and conducting high quality policy dialogue, as it provides leverage to reforms, also in the health sector.
- Traditional project approach under the previous EU Health System Development Project” (HSDP) 2000-2004 has not been judged successful.
- Cooperation with the World Bank for managing EU funds (HEMA – health support for ethnic minority areas) under a trust fund has been slow and produced mixed results.
- Strong government ownership, at central and provincial level is a key for success.

2.5 Complementary actions

The Health Sector Capacity Support Project (HSCSP) adopted in December 2008 aims at supporting the implementation of Vietnam’s health sector policy at national level and in three pilot provinces. The HSCSP is co-funded by Luxembourg and part of its implementation is entrusted to Germany, for two provinces already receiving support from Germany. Several (13) other provinces in which other EU Member States (FR, NL, SE, BE, LUX) are also active in the health sector are associated with this project, paving the way for the gradual roll-out of the future national health plan over the whole of Vietnam.

Development partners (DPs) who signed up the “Statement of Intent on Aid Effectiveness in the health sector” (SoI) will align their support to the 5-Year Health Plan 2011-2015 and associated annual work plans once developed.

The EU also developed good working relations and communication with the Asian Development Bank (ADB), the World Bank, AusAID and WHO are also active in the health sector.

Ministry of Health is also working towards strengthening coordination between projects and programmes engaging development partners based on their comparative advantage and managing effective and efficient division of development partner support across sub-sectors. A comprehensive donor mapping will be produced shortly, in line with provisions of the Statement of Intent (“milestone 1”).

2.6 Donor coordination

For the last four years there has been a functioning Health Partnership Group which operates in line with principle of Paris Declaration. It is chaired by MoH and engages 15 Development Partners. Since 2007, MoH and Development Partners conduct a Joint Annual Health Review (JAHR) as a process through which the Ministry of Health and Partners jointly assess progress in the health sector. It is, along with the Health Partnership Group, a mechanism for dialogue on important, priority issues in sector development. It is envisaged that priorities identified in the JAHR will inform the annual planning and budgeting mechanism in the health in the framework of the 5-Year Plan 2011–2015.

On 31 March 2009, the Ministry of Health and the Health Partnership Group adopted a "Statement of Intent (SoI), which builds on the Hanoi Core Statement principles and the Accra Agenda for Action on Aid Effectiveness at health sector level. The SoI defines 10 milestones with clear timelines and defined accountabilities of both MoH

and Health Partner for their achievement. Milestone 8 reads “Completion of a viable 5-Year Plan with costs estimated for the health sector, and associated monitoring framework” by December 2010.

Once the 5 year plan enters into implementation the JAHR will be the mechanism of policy dialogue on its progress based on the agreed performance measurement framework. The assessment of agreed benchmarks of the bonus tranche release will be part of this process.

3. DESCRIPTION OF INTERVENTION

3.1 Objectives

The **overall objective** is to contribute to the improvement of the health status of the population especially the poor and most vulnerable through a more effective, efficient and equitable health system.

The **specific objective** is to support the implementation the five year health plan (2011 – 2015) of the Government of Vietnam, which addresses the 6 building blocks¹ of a health system: 1. Governance; 2. Health financing; 3. Service Delivery; 4. Biological products, pharmaceuticals, vaccines, medical equipment and technologies; 5. Health workforce; and 6. Health information system.

3.2 Expected results and main activities

The 3-year Health SPSP contributes to the achievement of results of the 5 year plan (2011-2015) to be further defined and better determined in 2010. The Commission envisages continued support, through the same modality, to the implementation of the 5 year plan under the MIP 2011-2013.

The expected results will be linked to the 6 building blocks:

1. Ministry of Health Stewardship and Regulatory Functions strengthened
2. More equitable and efficient health financing
 - a. Increased Public Financing for Health while out-of-pocket and unaffordable health expenditure are reduced through increased health insurance coverage
 - b. Provider payment mechanism reforms implemented (e.g. capitation in primary health care)
 - c. Regional disparities reduced to the benefit of poorer provinces
3. Health system responds better to increasing demands of health promotion, prevention and care
 - a. Increased provision and use of quality services
 - b. Primary health care and referral system strengthened
4. The Access to pharmaceuticals, supply of vaccines and other technologies is improved and they are rationally used

¹ The “6 Building Blocks” refer to a mutually agreed framework of the Joint Annual Health Reviews (JAHR) by Government of Vietnam and the Health Partnership Group (HPG). They are based on a WHO approach on health systems strengthening and reflect the comprehensiveness of the approach. This reference to the building blocks is not meant to pre-empt the structure or presentation of the 5 Year Plan to be decided by Government of Vietnam.

5. Human resources strengthened and respond to the needs of a modernising health system at all levels of care, particularly primary health care
6. HIS strengthened

The main activities that will be undertaken under this programme, besides provision of budget support funds, are linked to the sector policy dialogue (in the context of the HPG and the JAHR), the definition of a performance matrix, as well as the assessment of the disbursement requests according to the annual plans.

3.3 Stakeholders

The ultimate beneficiaries of this programme are the people of Vietnam, particularly the poor. The main stakeholders/beneficiaries of the Programme are the MoH of Vietnam and other Central Agencies that implement the National Health Plan under MoH, such as the Vietnamese Social Security (VSS) as well as the decentralised levels (provinces and districts). The Ministry of Finance and Ministry of Planning and Investment are also important stakeholders.

3.4 Risks and assumptions

Risk	Mitigating measure
<ul style="list-style-type: none"> • The development of the National Health Plan, as agreed under milestone 8 of the SoI may be delayed or not living up to expectations. 	<p>In line with division of labour among donors agreed under the Statement of Intent, TA provided by the EU for the preparation of the National Health Plan and its M&E framework arrived on the ground in September 2009. Preparations of the Plan are on schedule.</p>
<ul style="list-style-type: none"> • The existing institutional framework and "culture" may not allow adequate coordination (inter agency, and centralised/decentralised levels), timely involvement of all relevant stakeholders of this programme; 	<p>Intensive discussions between EU-Ministry of Health and Ministry of Finance took place in preparation of this HSPSP. Two stakeholder workshops took place. The sector approach is health is regularly on the agenda of the EUHWG and the Health Partnership Group, including representatives from the provinces and from NGO's. A genuine coordination culture is in the making, setting a best practice example.</p>
<ul style="list-style-type: none"> • Institutional capacity to deliver expected outputs may limit the implementation of the 5 year plan • Mobilisation of sufficient financial resources to achieve planned activities might be a constraint 	<p>Institutional capacity is still very weak but high quality staff has been made available in key departments of the Ministry for taking the national health Plan further. The 14.75 M€ Health Sector Capacity Support project (2010-2014) will produce 13 results in the areas of strengthening management and regulation, improving provincial health systems and exchange and replication of best practices.</p> <p>The National Assembly has adopted Resolution 18 in 2008 by which the annual increase of the health budget must be higher than the overall national average. This will be</p>

	a criterion for disbursement of the bonus tranche in 2012 and 2013 (see section 4.4 below). The translation of this resolution at the provincial level (main health services providers) will have to be investigated through their inclusion in the policy dialogue.
<ul style="list-style-type: none"> The Health Information System might not improve sufficiently to provide quality data as required for the measurement of performance indicators by the JAHR and the Programme. 	Improving HMIS is at the heart of the Health Sector Capacity Support Project (2.6 M€ in supplies + related TA is foreseen for this under the HSCSP budget)

In general, risk mitigation measures also consist in facilitating the involvement of all the stakeholders through the JAHR process, in strengthening the policy dialogue around the monitoring and evaluation framework. The implementation of the “Health Sector Capacity Support Project” will reinforce planning and budgeting capacities of the Ministry of Health and some selected provinces. The inclusion of financial indicators in the disbursement criteria is also a way of mitigating some of the above mentioned risks.

3.5 Crosscutting Issues

The activities of the 2011-2015 health plan will have a positive environmental impact. It is expected that it will address, among others, the issue of hospital waste management and establish norms for climate change proofing.

With regard to gender equality the health plan is expected to strongly emphasise the right of women to quality reproductive health services as a strengthening of current gender equality policy.

The health plan is also expected to strengthen good governance by enhancing the capacity of the MoH to exercise its stewardship role and by strengthening procedures relevant to transparency of management in the health sector. Wide-spread corruption is expected to reduce proportionally with the strengthening of health insurance and the decrease of out-of-pocket payments.

Furthermore the health plan will support, in line with Resolution 151, the progressive elimination of regional disparities of health services, which still harms ethnic minorities and deprived segments of population.

4. IMPLEMENTATION ISSUES

4.1 Method of implementation

The Programme will be implemented through a sector budget support modality. Therefore the method of implementation is direct centralised management with the signature of a Financing Agreement. The budget support is untargeted.

4.2 Procurement procedures

All contracts implementing the visibility part of the budget (EUR 100 000) must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question. Participation in the award of contracts for the Programme shall be open to all natural and legal persons covered by the DCI regulation.

4.3 Budget and calendar

The total cost of the project is EUR 39 250 000. The budget breakdown of the overall amount is presented in the table below:

Budget breakdown	EU contribution	Contracting authority	Paying authority
1 Budget support	€ 39 150 000	EU	EU
1.1 Budget support for Vietnam HSPSP	€ 39 150 000		
2 Services	€ 100 000	EU	EU
2.1 Communication and Visibility	€ 100 000		
TOTAL	€ 39 250 000		

The schedule for disbursement of the budget support instalments is foreseen as follows:

Budget Support Instalments	1st quarter 2011	1st quarter 2012	1st quarter 2013
Base instalment	€ 10 M	€ 10 M	€ 10 M
Bonus instalment		€ 4 M	€ 5.15 M
TOTAL	€ 10 M	€ 14 M	€ 15.15 M
GRAND TOTAL			€ 39.15 M

The operational implementation period of the HSPSP is 48 months from the date of signature of the Financing Agreement.

The disbursement of the sector budget support is foreseen over three years, spanning over FY 2011, 2012 and 2013. In order to assure the predictability of the EC disbursements, the assessment will take place, for fiscal years 2012 and 2013, in the second half of the previous year in full coordination with the JAHR process.

4.4 Performance monitoring and criteria for disbursement

All annual instalment release will be based on a positive assessment of continued fulfilment of the three eligibility criteria:

- Vietnam's stability oriented Macro-economic policy is maintained and the medium-term prospects do not put at risk the sector objectives.
- Vietnam's reform plans for public finance management are sufficiently credible and relevant and are implemented satisfactorily.
- A clearly defined sector policy is in place and implemented satisfactorily

Release of the first base instalment in 2011 will follow the signature of the Financing Agreement, provided the general conditions are met.

The criteria for disbursement of the bonus instalments in 2012 and 2013 will be based on achievement of specific disbursement criteria. For 2012 and 2013, these criteria will cover (i) the implementation of the National Assembly Resolution 18 to increase the share of the health budget, (ii) the health insurance coverage, (iii) the preparation of a health sector plan and budget in selected province(s), (iv) improvement of the monitoring framework through the JAHR process. In addition, the disbursement of the bonus installment of FY 2013 will also be linked to the achievement of a selected set of performance indicators mainly related to health human resources and services delivery, the definition and targets of which will be agreed upon with the GoV.

The calculation method, specifications on the criteria and the sources of verification, of the first bonus tranche (FY 2012) will be detailed in the Financing Agreement. The final performance indicators and related targets for the second bonus tranche (FY 2013) will be agreed during the first year of implementation of the programme (at the latest by mid 2011).

4.5 Evaluation and Audit

All reviews of this programme will be integrated in the JAHR process and undertaken jointly by the HPG. Resources for this from the Commission side will be taken from the short term TA resources of the HSCSP project.

4.6 Communication and visibility

The Programme will comply with the guidelines of the "Visibility Manual of the EU applicable to external actions". A signing ceremony followed by a press conference will take place at the signature of the Financing Agreement, workshops and/or dissemination of programme documentation will be organised. During the Programme implementation the EU will promote consistent and relevant actions of information in collaboration with the Ministry of Health of Vietnam.

Action Fiche N° 3 for Vietnam

1. IDENTIFICATION

Title/Number	Environmentally and Socially Responsible Tourism Capacity Development Programme (ESRT) DCI-ASIE/2010/21662		
Total cost	Total cost of the project: EUR 11 million EU contribution: EUR 11 million Beneficiary contribution (in-kind): indicative EUR 1.1 million		
Aid method / Method of implementation	Partially decentralised management and direct centralised management		
DAC-code	33210	Sector	Tourism policy and administrative management

2. RATIONALE

2.1. Sector context

The tourism sector in Vietnam is recognized for its important contribution to the national economy as it creates significant employment opportunities outside of urban centres and contributes to poverty alleviation particularly in remote areas. The World Travel and Tourism Council (WTTC) estimated that the direct and indirect contribution of Travel and Tourism to Vietnamese GDP in 2008 was 13.6%, and direct and indirect employment was 10.8% of national employment (1 in every 9.2 jobs) largely outside urban growth centres. Tourism provides numerous income earning opportunities easily accessible to disadvantaged groups such as women, youth, rural communities and ethnic minority groups. However in 2009, international tourist arrivals to Vietnam were severely affected by the global economic crisis. The programme will support Vietnam to get back to the previous growth path and create annually an additional 40 000 jobs directly in the tourism sector and around 120 000 jobs indirectly, therefore directly contributing to poverty alleviation.

The new national tourism development strategy until 2020 reflects the need to ensure responsible tourism development that contributes to broad social-economic development, environmental protection and poverty reduction. Tourism is considered “a spearhead economic sector” of Vietnam. Policy priorities for the coming five years are:

- i) To create a modern institutional framework for the industry towards sustainable tourism development,
- ii) Promote public and private partnership development, and
- iii) Develop Human Resources for tourism management.

The Government of Viet Nam (GoV) and private stakeholders agree that capacity building of human resources in the sector and the strengthening of core institutions is key to future growth of tourism in Vietnam. There is a strong need to include advice and technical assistance on tourism planning, policy and management. This is especially relevant with respect to environmental aspects, including climate change considerations, as well as social aspects to relate tourism to poverty reduction and link it to national development objectives and the MDGs.

The government has developed a number of progressive plans, strategies, policies and programmes for the sector, most of which place emphasis on the importance of stimulating economic activity, creating wide social benefits, conserving natural and cultural resources, human resource development, and tourism awareness raising. However, a significant implementation gap remains, as is evident by the largely inconsistent development in different provinces. Primary causes of this implementation gap include:

- The general lack of sector information and clear, achievable implementation guidelines,
- conflicting policies and interests of other sectors, weak coordination at regional and provincial level,
- inadequate human capacity for the implementation of policies and low qualification of those employed in the sector as a whole with a relatively low number of employees having received formal vocational education,
- weak engagement of stakeholders in the policy formulation and planning process, few established public-private partnerships.

Recently, the concept of *Responsible Tourism* has emerged among Vietnamese stakeholders as a response to perceived lack of sustainability and competitiveness the sector is facing. The Responsible Tourism Approach aims to provide positive experiences for visitors and hosts while generating environmental and cultural awareness and respect. This pro-poor approach will aim to minimize the negative impacts of tourism by empowering local people, including ethnic minorities to maximise their income and employment from tourism services provision. The Vietnamese Government fully supports this approach and is willing to mainstream responsible tourism to address environmental, ethical and social concerns into policy-making, planning and implementation.

The Responsible Tourism Capacity Development Programme will aim to strengthen institutional and human capacity in order to fully realize the substantial socio-economic development benefits available from the tourism sector while protecting and enhancing the resources (natural and cultural) on which the sector depends. It builds on the successful EU project for Human Resources Development in Tourism (HRD Tourism Project) and sustains and further expands on the Vietnam Tourism Occupational Skills Standards System (VTOS).

2.2. Lessons learnt

The following constitute lessons learned through the implementation of the EU-funded HRD Tourism Project and other tourism-related projects including those from Member States:

Innovation of design and institutional sustainability. The Tourism HRD Project successfully demonstrated a number of significant innovations especially in regard to training delivery, assessment and accreditation with its industry-based ('cascade') and learner-centred approach.

It created a Skills Recognition System as a new structure to efficiently ensure a critical mass of skilled labour. The ESRT programme should maintain the sustainability of the system by building capacities whilst developing and strengthening the already existing institutions.

Co-ordination between development partners. In the past, co-ordinating mechanisms were weak between projects, thereby limiting aid effectiveness. Therefore increased division of labour and a common results framework has been pursued from the planning stage to maximise impact through harmonising the ESRT with Luxembourg and Spain, SNV, ADB and others. The EU as the largest development partner in the sector is well placed to become the leading development partner. However in view of different timing of development partner commitments, the absence of a sector budget, common assessment framework and the urgent need for a capacity development programme, a full sector approach was not feasible. Nevertheless similar effectiveness should be achieved through the intensified cooperation mechanisms explained under 2.4.

High-quality tourism requires public private partnership. In the past, there was low ownership of policies and tourism plans as stakeholders were not involved in the preparation of those plans. However the Government has realised this weakness and is willing to engage at national, regional and local level in increased dialogue and partnership with tourism associations, civil society and communities to ensure higher quality tourism services and implementation of joint plans.

Unplanned and unregulated growth. The rapid growth of tourism in many locations worldwide has led to excessive pressure on the environment and the displacement of local communities through steep rises in land values and indiscriminate development. Vietnam can learn from these mistakes and take a longer-term view by introducing and enforcing responsible tourism practices at an early planning stage rather than trying to catch-up later.

2.3. Complementary actions

The EU-funded Vietnam Human Resources Development in Tourism Project (10.8 MEUR from 2005 to February 2010) focuses on upgrading the standards and quality of human resources in the tourism industry through the development and certification of 13 tourism occupational skill standards. The evaluation of the previous EU-funded HRD Tourism project has confirmed its success in establishing an innovative, high quality vocational training system in the tourism sector.

Complementary support to vocational training is provided by Luxembourg with a focus on building capacity in selected tourism schools and colleges (2010 to 2012).

The Spanish Bilateral Cooperation (AECID) is supporting the implementation of the National Tourism Marketing Plan, the Tourism Law and the Tourism Master Plan for Hue City. The ESRT Programme can contribute to those activities with additional capacity building.

The Asian Development Bank (ADB) together with the Vietnam National Administration of Tourism (VNAT) is implementing a Greater Mekong Sub-regional Sustainable Tourism Project along regional economic corridors. This project mainly provides infrastructure and limited assistance on human resource development, pro-poor tourism, and heritage conservation in 5 provinces (3 Central and 2 Northern).

The Netherlands Development Organization (SNV), the UN World Tourism Organisation, UNESCO, GTZ, DANIDA, JICA, NZAid and international NGOs such as WWF, Wild Aid

and Conservation International support small scale pilot initiatives on destination management development and responsible tourism business practices in selected poor provinces which can serve as good examples for the ESRT.

2.4. Donor coordination

In view of the EU commitment to the Paris Declaration and the principle of Division of Labour, coordination with other Donors' initiatives has already been agreed with Luxembourg, AECID-Spain, and SNV-Netherlands. As a result, Spain's and Luxembourg's planned activities have been fully integrated into the results framework and they will be invited to attend the Steering Committee. The National Tourism Advisory Board should be the national forum for all development partners to join the policy dialogue and sector coordination with the Government and tourism stakeholders. This alignment and consolidation of support will add to the impact potential and profile of the new programme and to the tourism sector in general. If the National Tourism Advisory Board is not able to provide an adequate forum for donor coordination, VNAT is committed to hold regularly Tourism Partnership Group Meetings in line with usual practices in Vietnam. Opportunities for further coordination with other development partners will be sought during implementation and VNAT will link them to the ESRT programme.

3. DESCRIPTION

3.1. Objectives

The overall objective of the Environmentally and Socially Responsible Tourism Capacity Development Programme is to “mainstream responsible tourism principles into Vietnam's tourism sector to enhance competitiveness and contributing to achieving the Socio Economic Development Plan (SEDP)”.

The main project purpose is to promote the delivery of environmentally and socially responsible tourism services as part of Vietnam's Tourism Sector Strategy.

This programme is a sector capacity-building programme for all major stakeholders in the tourism sector in line with the Accra Action Agenda and the EU Strategy on Capacity Building. It is designed to integrate responsible tourism practices into all aspects of policy, planning, destination management, business operations, education and awareness raising at national, regional and provincial levels. Responsible tourism principles will provide the foundation for creating a more sustainable, competitive and higher yield tourism sector that expands opportunities for the poor and other disadvantaged groups such as women and ethnic minorities.

The programme will seek to build the capacity of the Ministry of Culture, Sports and Tourism and particularly VNAT, in responsible tourism policy making, planning and management. At a more operational level similar efforts will be deployed towards provincial tourism administrators, associations, civil society organisations and local communities. In a bottom-up approach, positive results, lessons and issues emerging from pilot activities at the community, provincial and regional level will be fed-up into the national level policy dialogue and used for learning from each other. As main geographical focus for improved destination management and public-private-dialogue, the northern mountainous region and Central

Vietnam including the Central Highlands was chosen due to the relatively high poverty level, potential of tourism for development and as requested by the Government of Vietnam.

To ensure the responsible tourism dimension in this capacity-development programme, the following approaches will be developed and promoted: voluntary environmental standards (Green Lotus for hotels), community based ethnic tourism, environmentally sustainable national park management, traditional handicraft souvenir production, traditional craft village management for tourism, new environmental and social standards for tourism investment projects (large resorts, golf courses, investments in ethnic minority areas) and design a framework for environmental standards enforcement, good-housekeeping guide for small hotels to save energy and water. The programme will promote empowerment and capacity development of the local communities for planning and tourism development, as well as relevant management and vocational education.

The previous EU-funded HRD in Tourism Project was highly successful in introducing the VTOS system to enhance the skills of tourism workers. The ESRT will build on this approach to vocational training and apply it to new poorer areas in order to expand the opportunities for more people to benefit as the tourism sector is expected to create more than 500 000 new jobs until 2015. It will promote industry-wide standards of training and link it to the school-based tourism colleges. Attention will also be given to ensuring that the VTOS system, Trainer Development Programme, Assessment Centres, and the Vietnam Tourism Certification Board (VTCB) will be sustained through greater industry uptake, enhanced operational capacity and resource mobilisation.

3.2. Expected results and main activities

The purpose will be achieved through three interlinked programme components with the following results:

- a. Policy Support and Institutional Strengthening: The staff of the MCST, VNAT, and provincial tourism administrations are qualified in socially and environmentally responsible tourism policy making, planning and management.
- b. Product Competitiveness and Public-Private-Dialogue: The capacity of the tourism associations, local tourism stakeholders and the private sector is strengthened for effective public-private dialogue in tourism management.
- c. Vocational education and training in the tourism sector: The vocational training system in tourism including the VTOS standards system is sustainable and covers the entire tourism sector.

a) Key activities for Policy Support and Institutional Strengthening component:

- Develop an improved system for the collection, analysis, management application and dissemination of tourism sector information.
- Tourism awareness raising for responsible tourism development.
- Analytical inputs on tourism policy in cooperation with Spain and support the establishment of a sector performance framework.
- Strengthen capacity of VNAT, provincial tourism administrators and selected pilot local communities with respect to tourism development planning, branding, promotion, product development, communication strategies and marketing with emphasis on environmental and poverty aspects; ensure due representation of ethnic minorities in the capacity development programmes.

- Strengthen research and training capacity of the Tourism Research Development Institute.
- Identify and disseminate best practices on environmental and cultural tourism such as community based ethnic tourism, traditional handicraft souvenir production, and traditional craft village management for tourism.
- Develop new environmental and social standards for tourism investment projects (large resorts, golf courses, investments in ethnic minority areas) and design a framework for environmental standards enforcement.

b) Key activities for Competitiveness and Public-Private- Dialogue Component:

- Supporting VNAT to facilitate a Tourism Advisory Board for enhanced public-private dialogue supportive of responsible tourism development at national level.
- Support multi-stakeholder destination management boards at regional level to support collaborative planning and identifying solutions for priority issues such new product development, marketing-promotion strategies, special events and festivals
- Awareness raising among stakeholders about the environmental and social impact of tourism and promoting regional environmental standards, energy conservation measures and other measures to address climate change in tourism.
- Develop and promote good-housekeeping guide for small hotels to save energy and water.
- Promote voluntary environmental standards (Green Lotus for hotels) and strengthen enforcement of mandatory environmental standards for investment and operation of tourism.
- Organise training workshops for all provincial stakeholders including selected pilot local communities, NGO's to promote pro-poor tourism initiatives, environmental protection, community-based tourism and cultural heritage preservation.
- Support public private dialogue in pilot provinces.
- Strengthen vocational tourism associations such as hotel, tour and travel operator associations as well as other tourism related groups to deliver business development services that incorporate a responsible tourism approach such as linking poor groups to the tourism value-chain.
- Pilot participatory responsible tourism planning and management in Hue in Cooperation with AECID (Spain) and share information and lessons learned with the poorer provinces in Northern and Central Vietnam.
- Support pilot actions of responsible tourism plans in specific localities (northern mountainous areas; Central Highlands and Southern Region) through training on priority topics such as managing home stays, integrating poor communities in tourism value chains, linking local communities to tour operators, etc.

c) Key activities for Vocational Education and Training component:

- Assist in preparing updated training needs assessments for VET in the sector and human resources development.
- Training of staff of VTCB and lecturers at tourism colleges.
- Expand coverage of VTOS standards to more professions and include management qualifications.
- Train trainers from new tourism areas where the impact on poverty alleviation is highest (notably northern mountainous areas and Central Highlands) and sustain the established trainer network.
- Consolidate the application of VTOS in new tourism schools and make VTOS assessments accessible to disadvantaged groups mainly for employment at entry-level and to recognise practical skills from informal training.

- Coordinate assistance with Vocational Education Approach supported by Luxembourg and strengthen training providers complementary to Luxembourg.
- Ensure proper representation of ethnic minorities and poor communities in the trainings provided.
- Strengthen capacity in implementing ASEAN mutual Vocational Recognition Agreements (MRA) signed by ASEAN tourism ministers in January 2009.

3.3. Risks and assumptions

The programme supports existing institutions, policies and plans, and builds mostly on existing mechanisms and new initiatives already agreed within the sector.

The following are the assumptions underlying the expected results of the project:

- GoV continues to support the implementation of its key tourism plans (see attachment) and particularly the Human Resources Development Programme 2015 and provides sufficient resources.
- The GoV recognizes the role of tourism business associations and provides them successively with more independence.
- The private sector is willing to engage more with the tourism administration to create partnerships and increasingly understands the benefits of environmental and socially responsible tourism as shown through their proposal to set-up a National Tourism Advisory Board.

3.4. Crosscutting Issues

- Environment sustainability

The ESRT has ‘responsible tourism’ at the heart of its design, delivery and implementation in-line with MDG 7 (Ensure Environmental Sustainability). This seeks to simultaneously minimise (or alleviate) the negative environmental impacts whilst optimising the economic and socio-cultural benefits for a wider audience. All training, support and technical assistance provided across the sector will be underpinned by the principles of the Cape Town Declaration on Responsible Tourism in Destination (2002) and placed in a context of good governance.

The ESRT will align with the National Program on Climate Change and the National Energy Efficiency and Conservation Program and seek to integrate their activities within the tourism sector. Specific activities such as introducing new environmental standards and labels (e.g. Green Lotus for Hotels) and promoting energy-saving are planned for nation-wide impact.

- Gender equality

Gender will be mainstreamed throughout the Programme in recognition that empowering women is an indispensable tool for advancing development and reducing poverty, as an engine for development (MDG3). The tourism and hospitality sector in Vietnam employs a higher proportion of females than males. More specifically, the programme will:

- Ensure at least 50% participation rate by women in vocational education courses.
- Raise awareness within the industry and among tourists of the dangers of the exploitation of women and children of both genders; plan and support measures to counter such practices.

- Engage a minimum of 50% women employees, and will also encourage contracting women trainers, consultants and business mentors.

- Human rights

The Responsible Tourism Approach promotes an ethical, inclusive and human rights-protecting tourism sector. In addition, Responsible Tourism is sensitive to the host culture, maintaining and encouraging social and cultural diversity, which is of particular importance to the many ethnic minorities in Vietnam.

3.5. Stakeholders

The Ministry of Culture, Sports and Tourism (MCST) will serve as the overall government coordinating body for the ESRT Project. Capacity building support will be provided to the MCST to strengthen its role in supporting responsible tourism development through achieving a more effective policy framework.

The Vietnam National Administration of Tourism (VNAT) is the technical agency in charge of tourism in Vietnam and will be the implementing agency (IA) for the programme. VNAT has 3 functional (travel, marketing and promotion, and hotel) and 4 supporting departments (planning and finance; personnel, external relations and office bureau) plus 4 attached agencies (information and communication centre, tourism journals; tourism newspaper; and the tourism development research institute). The tourism development research institute is responsible for undertaking research and consultation with stakeholders when it comes to policy formulation, planning, training and programme design. The research and training capacity of those institutions is still limited and will be strengthened. An embedded project management unit will ensure day-to-day capacity building and contribute to the sustainability.

Provincial Departments of Cultural Sports and Tourism will receive similar support as VNAT to create more competitive and responsible tourism products with local stakeholders.

Vietnam Tourism Association (VITA) is the umbrella body of a network of local Chapters representing a membership base of more than 1,000 tourism enterprises. Capacity building support will target these associations to provide services to their members, especially SME's. Currently sub-associations are set-up for the hotel sector, tour operators and others that have common interests and are important partners for introducing responsible tourism practices.

SME owners/managers are targeted as indirect programme beneficiaries who will receive benefits primarily through the tourism association networks, NGO's and potentially supplemented by a limited number of specific, strategic activities as required.

Education and training institutions will be partners in capacity building efforts aimed at intermediaries. They will receive assistance to improve their own capacity to train administrators and provide vocational education to the tourism staff.

Indirect beneficiaries are local communities and the Vietnamese society in general through better environmental protection and cultural heritage preservation. Vietnam as a whole will benefit from higher tax revenue and lower poverty rates throughout the targeted areas.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

Direct centralised management and partially decentralised management through the signature of a financing agreement with the Socialist Republic of Vietnam.

Implementation will be carried out as follows:

1. Direct centralised management:

Service contracts for technical assistance, monitoring, evaluation and audit will be signed following calls for tenders. The services contracts will be managed by the EU Delegation in Vietnam.

2. Partially decentralised management:

The Commission controls *ex ante* all the procurement procedures except in cases where programme estimates are applied, under which the Commission applies *ex ante* control for procurement contracts >50 000 EUR and may apply *ex post* for procurement contracts ≤50 000 EUR. The Commission controls *ex ante* the contracting procedures for all grant contracts.

Payments are executed by the Commission except in cases where programmes estimates are applied, under which payments are executed by the beneficiary country for operating costs and contracts up to the ceilings indicated in the table below.

The responsible Authorising Officer ensures that, by using the model of financing agreement for decentralised management, the segregation of duties between the authorising officer and the accounting officer or of the equivalent functions within the delegated entity will be effective, so that the decentralisation of the payments can be carried out for contracts up to the ceilings specified below.

Works	Supplies	Services	Grants
0	< € 150 000	< € 200 000	0

A Project Steering Committee will be established in accordance with GoV/MCST practices and meet every 6 months. It will be chaired by Vice Minister of Culture, Sports and Tourism and comprise all key stakeholders, namely the Vietnam National Administration for Tourism (VNAT), the Ministry of Planning and Investment, the Ministry of Finance and other relevant line ministries (Ministry of Labour, Invalids and Social Affairs; Ministry of National Resources and Environment; Ministry of Transport), the Tourism Association and the Tourism Industry Training Council or Tourism Working Group. The EU will attend as observer with the right to speak and relevant development partners such as Luxembourg and Spain will also be invited.

4.2. Procurement procedures

Contracts:

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the DCI Regulation. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in articles 31(7) and (8) of the DCI Regulation.

Specific rules on Programme Estimates:

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question (i. e. the Practical Guide to procedures for programme estimates).

4.3. Budget and calendar

The overall budget breakdown for the ESRT is:

Category breakdown	EU contribution (in EUR)	Total (in EUR)	Contracting authority / Paying authority
1. Services	6 800 000	6 800 000	EU/GoV
1.1 International TA	4 700 000	4 700 000	EU
1.2. Local TA	1 600 000	1 600 000	GoV/EU
1.3. Communication and visibility	200 000	200 000	GoV/EU
1.4. Monitoring	150 000	150 000	EU
1.5 Evaluation and audit	150 000	150 000	EU
2. Supplies	1 100 000	1 100 000	GoV/EU
3. Operating costs	2 900 000	2 900 000	GoV/EU
3.1. Project Implementation Unit	1 200 000	1 200 000	
3.2. Operational costs for training	1 700 000	1 700 000	
4. Contingencies	200 000	200 000	EU/GoV
TOTAL	11 000 000	11 000 000	

The Vietnamese Government contribution will be approximately 1 100 000 EUR in kind and it will cover:

- Provision of training and other meetings' venues and facilities;

- Provision of adequate offices for PIU's operation, including electricity, water, telephone and fax as well as remuneration and indemnities for National Imprest Administrator, National Imprest Account Officer and supporting staff from VNAT as needed;
- Support for local experts as needed;
- Procurement of appropriate and gratis multi entry visa for appointed international consultants;
- Proceedings of customs, tax exemptions for all project material, equipment and technical publications

The foreseen operational duration is 60 months as from date of signature of the Financing Agreement. The calls for tender for service contracts will be launched in mid 2010.

The programme will start with the arrival of the international technical assistance team towards the end of 2010 or in early 2011. A six-month inception phase will be used for determining all programme locations within Vietnam; clarifying how value chain analysis feeds into the programme; further analysing stakeholders of the private sector; establishing detailed baselines for monitoring; preparing the budget estimates and defining a clear exit strategy. A phasing-out phase at the end of the programme with a six month duration is planned.

4.4. Performance monitoring

Annual external monitoring missions, monitoring by the Delegation and the monitoring system established by the programme task force will constitute the monitoring system. As much as possible, monitoring missions will be carried out jointly with other donors involved in the sector. Key indicators measuring progress at objective and result level include:

- National Tourism Development Strategy and Action Plan to 2015 targets are met concerning responsible tourism development.
- Tourism Human Resources Development Program 2015 targets are mostly met.
- 6 national level as well as 10 regional and provincial forums that support responsible tourism development from 2011 – 2016 organised.
- 3 specific responsible tourism standards and manuals are prepared, enforced and developed by VNAT by 2013.

4.5. Evaluation and Audit

- A mid-term evaluation in 2013 (by independent, contracted evaluators);
- A final evaluation towards the end of 2015 (by independent, contracted evaluators).

Financial audits will be undertaken on a six-monthly basis and at the end of the programme by an approved, internationally recognised independent firm of accountants and submitted to the EU Delegation in accordance with EU guidelines and requirements as per the contract with the Contractor.

4.6. Communication and visibility

The project implementation unit will design, propose and implement a visibility plan agreed with the EU Delegation with a budget allocated accordingly. The Delegation will ensure a high level of visibility for the programme. PR and awareness raising activities will be systematically planned with a specific communications strategy for each stakeholder and beneficiary group in relevant localities. Achievements and outcomes of the program will be disseminated through the mass media. Organisation of high profile programme conferences in different locations (not always in Hanoi or HCMC) on key themes related to responsible and pro-poor tourism for different stakeholders and beneficiaries will also generate media attention. All items of equipment provided by the program and all publications will clearly identify the source of funding and technical assistance. Maximum visibility of the commission-funded co-operation will be further achieved at the tourism destinations where programme activities take place.

Annex I: Environmentally and Socially Responsible Tourism Capacity Development Programme (ESRT)- Formulation Phase Log frame

	Intervention logic	Objectively verifiable indicators of achievement	Sources of Verification	Assumptions
Overall objective	To support mainstreaming responsible tourism principles into Vietnam's Tourism sector to enhance competitiveness and contribute to achieving the Socio Economic Development Plan (SEDP) goals".	<ul style="list-style-type: none"> - Increased income earning in the tourism sector for people from disadvantaged backgrounds - Growth in tourism revenues - Increase yield from international and domestic tourism - Improved perception of Vietnam as a high-quality tourism destination 	<ul style="list-style-type: none"> - Data and statistics coming from the Government, the sector industry and international organizations. - SEDP follow up reports and analysis - Market research, visitor's satisfaction survey 	
Programme Purpose	The programme purpose is to promote the delivery of environmentally and socially responsible tourism services as part of Vietnam's Tourism Sector Strategy.	<ul style="list-style-type: none"> - Improved quality of tourism plans from 2015-2020 and introduction of implementing provisions. - Quality standards for responsible tourism. - National Tourism Development strategy 2011-2020 objectives are met. - Tourism Human Resources Development Program 2015, regional and local tourism development plans implemented 	<ul style="list-style-type: none"> - Government official policy documents. - Sector industry reports - National legislation 	<ul style="list-style-type: none"> - Real political will to engage in socially and environmentally responsible tourism

<p>Results</p>	<p>1. Increased institutional capacity in the sector at national and provincial level for responsible tourism policy making, planning and management.</p> <p>(Cooperation with Spain)</p>	<ul style="list-style-type: none"> - Responsible tourism is a key priority in 2 national and 30 provincial tourism strategies and programmes implemented by 2016 - A framework for environmental standards enforcement is implemented by 2015. - A new marketing plan including responsible tourism principles is approved and being implemented by the end of the programme. 	<ul style="list-style-type: none"> - Legal and institutional documents - Programme records: internal and annual interim reports - Public campaigns - Survey of officials dealing with tourism-related issues - Seminars and Conference conclusions and recommendations. 	<ul style="list-style-type: none"> - Leadership and commitment among officials to develop and implement socially and environmentally responsible tourism initiatives - The authorities involved in the process are well aware of the social and environmental challenges facing Vietnam
	<p>2. The capacity of the local stakeholders, tourism associations and the private sector is strengthened for public-private dialogue and partnerships in tourism management.</p> <p>(Cooperation with Spain)</p>	<ul style="list-style-type: none"> -- Creation of 1 national and 3 regional organizational framework that support stronger sector coordination by 2013. - Institutionalized public-private dialogue at national and provincial level by end 2012. - ViTA operative as the national-level representative body of tourism associations - At least three regional Tourism Destination Management Board created by 2014. - 3 pilot initiatives of public-private partnerships signed and implemented by the end of the project. 	<ul style="list-style-type: none"> - Meeting minutes - National press - Tourism associations records - PPP Memorandum of Understanding. - Records from local committees, forums, and TDM boards. - Workshops conclusions' reports. 	<ul style="list-style-type: none"> - The private sector understands the benefits of environmental and socially responsible tourism - The GoV recognizes the role of tourism business associations

	<p>3. The vocational training system in tourism including the VTOS standards system is sustainable.</p> <p>(Cooperation with Luxembourg)</p>	<ul style="list-style-type: none"> - VTCB operationally sustainable - More than 5000 tourism workers from disadvantaged areas trained - 10% annual increase of certified professionals working in the private sector - 2 VTOS management disciplines developed for the needs of SME managers/owners by 2013 - 200 tourism general management trainers certified and mobilized by 2014 - 1000 SME owner/managers trained by 2016 - Responsible tourism business practices are integrated into VTOS curricula and delivery 	<ul style="list-style-type: none"> - Programme records and reports. - Programme internal monitoring systems. -- VTCB internal management documents - Materials produced 	<ul style="list-style-type: none"> - The government continues to support the VTOS as the country wide skills certification system - The private sector increases its participation
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	Activities	Means	Estimated Costs	Pre-Conditions
Result 1 Policy Support and Institutional Strengthening	1.1. Developing an improved system for the collection, analysis, management application and dissemination of tourism sector information and statistics.			
	1.2. Tourism awareness raising from national to selected provincial level to achieve greater understanding of the importance and requirements for responsible tourism development, and the necessity and opportunities for maximizing wide reaching social-economic development benefits			
	1.3 Provide analytical inputs on tourism policy and organise major policy fora in cooperation with AECID (Spain) and support the establishment of a sector performance framework and baselines			
	1.4. Training of VNAT and provincial tourism administrators and selected pilot local communities on tourism development planning, promotion, product development and marketing with particular emphasis on environmental and poverty aspects. (also using training of trainer approach) with due representation of ethnic minorities.			
	1.5. Strengthen capacity of Tourism Development Research Institute as a sector research institution, facilitator for public-private dialogue and training provider for officials and planners.			
	1.6. Strengthen the institutional capacity of VNAT for tourism marketing and promotion (Vietnam Tourism Brand), revision and implementation of the marketing plan, and its communications strategies			
	1.7. Organise workshops for provincial stakeholders to promote pro-poor tourism initiatives, environmental protection and cultural heritage preservation and community-based tourism to be promoted throughout Vietnam.			
	1.8. Identify and disseminate best practices on environmental and cultural heritage tourism at national level such as environmentally friendly national park management, community based ethnic tourism, traditional handicraft souvenir production, and traditional craft village management for tourism. .			

	1.9 Develop new environmental and social standards for tourism investment projects (large resorts, golf courses, investments in ethnic minority areas) and design a framework for environmental standards enforcement			
Result 2 Sector Coordination for Product Competitiveness and Public Private Dialogue	2.1. Supporting VNAT to facilitate the National Tourism Advisory Board proposed by the Vietnam Tourism Working Group to achieve enhanced public-private partnerships supportive of responsible tourism development at national level.			
	2.2. Support meetings of multi-stakeholder destination management boards at regional level (Northern Mountainous Region and Central Vietnam including Central Highlands) to support a collaborative planning approach for implementing plans and identifying solutions for priority issues such as new product development, marketing-promotion strategies and special events and festivals			
	2.3. Support public-private sector dialogues and public private partnerships in pilot provinces (such as Hue in Cooperation with AECI from Spain, Ha Giang/Cao Bang, Ninh Thuan, Binh Thuan, Kon Tum/Gia Lai)			
	2.4. Strengthen the tourism associations at national and provincial level and other tourism related groups to deliver business development services to their members that incorporate a responsible tourism approach to overall business operations.			
	2.5. Awareness raising among stakeholders about the environmental and social impact of tourism in Vietnam			
	2.6. Promote regional environmental standards, energy conservation measures and other measures to address climate change in tourism: - Develop environmental management plans to address the tourism challenges in Ha Long Bay and Phu Quoc - Develop and promote good-housekeeping guide for small hotels to save energy and water - Promote voluntary environmental standards (Green Lotus for hotels) and strengthen enforcement of mandatory environmental standards for investment and operation of tourism			
	2.7. Support professional organisations for different vocations such as hotel, tour and travel operators associations			

	<p>2.8. Organise workshops to disseminate best practices on tourism, environmental protection; cultural heritage preservation and sustainable tourism to local tourism business organisations including selected pilot local communities and NGO's that are active in community development and support self-help efforts of the poor</p>			
	<p>2.9 Support pilot actions of responsible tourism plans in specific localities (northern mountainous areas; Central Highland and Southern Region) through training on priority topics such as managing home stays, integrating poor communities in tourism value chains, linking local communities to tour operators, etc.</p>			

<u>Result 3</u> Vocational Educational Training in the Sector	3.1. Prepare updated training needs assessments and human resources development			
	3.2. Training of staff of VTCSB			
	3.3. Training of lecturers at tourism colleges/ Universities and improve curricula by introducing energy and water saving issues and social/cultural awareness			
	3.4. Expand coverage of VTOS standards to more professions and include management qualifications			
	3.5. Train trainers from new tourism areas where impact on poverty alleviation is highest (notably northern mountainous areas and Central Highlands)			
	3.6. Consolidate the application of VTOS in new tourism schools and make VTOS assessments accessible to disadvantaged groups mainly for employment at entry-level and to recognise practical skills from informal training (with proper representation of ethnic minorities and poor communities in training provided)			
	3.7 Ensure uniform management of vocational education skills across the entire tourism sector and closely coordinate with Vocational Education Approach supported by Luxembourg			
	3.8. Strengthen training providers and especially those who offer short courses targeting poor and disadvantaged people complementary to Luxembourg project and provide limited equipment for assessment centres based in vocational education schools			
	3.9. Strengthen the capacity in implementation of ASEAN mutual Vocational Recognition Agreements between ASEAN countries (MRA) signed by ASEAN tourism ministers in Jan. 2009.			