

Vietnam: A Comprehensive Strategy for Growth and Poverty Reduction

Author: Carolyn Turk, Sr. Poverty Specialist, World Bank

Executive Summary

Vietnam stands out in East Asia as a country that is tackling poverty reduction in a comprehensive manner while maintaining fiscal discipline and building a sustained reform program, especially in public expenditure management. The adoption of a Comprehensive Poverty Reduction and Growth Strategy in 2002 marked a major turning point in the country's planning processes. Vietnam's planning has enhanced the country's poverty-oriented results focus as well as its implementation of a Harmonization Action Plan. Previously, Vietnamese planning and development strategies reflected a command view of the economy. By contrast, the Comprehensive Poverty Reduction and Growth Strategy relies on decentralization, broadened social participation in planning, and attainment of Millennium Development Goals adapted to Vietnam's national vision.

The new planning strategy relies on empirical evidence and consultation to identify policies that are matched to the achievement of goals. It clearly defines the resource required to implement these policies, and it sets up mechanisms for appropriate monitoring and evaluation. While the Comprehensive Poverty Reduction and Growth Strategy was initially devised at the central level, the reform agenda and the new planning approach are gradually filtering to the provinces, cities, and regions. Planning processes today are beginning to use performance indicators linked to policy actions, and monitoring assesses whether these actions were taken, rather than trying to quantify complex sets of outcomes.

To hold line ministries and provincial governments accountable to the attainment of development goals, performance indicators are disseminated broadly with much-improved data from the substantially strengthened Government Statistical Office. Progress toward development goals is actively monitored at several levels, not only by the central government but by donors and a diverse range of stakeholders with improved access to understandable information. In the coming five-year planning cycle, the Comprehensive Poverty Reduction Strategy is likely to disappear – because its principles are being mainstreamed in central and regional planning processes.

Background: Rapid Economic Growth and Declining Poverty

Vietnam stands out in East Asia as a country tackling poverty in a comprehensive manner while maintaining fiscal discipline and a sustained reform program, especially in public expenditure management.

During the past decade, the size of Vietnam's economy more than doubled, while its poverty rate was halved. Despite the East Asian crisis, GDP per capita expanded on average by approximately 6 percent per year, up to around 7 percent in 2003 and 2004. Exports increased by 20 percent and foreign direct investment by 10 percent per year. Savings rates rose six-fold to around 25 percent of GDP, with private investment accounting for an increasing share of total capital accumulation. The current account deficit is around 4.6 percent of GDP. Inflation is expected to decline to 5-6 percent by the middle of 2005.

This high, sustained economic growth has led to a sharp decline in poverty. The poverty headcount fell from 58 percent in 1993, to 37 percent in 1998, and 29 percent in 2002. Although progress has been slower

and more uneven in some provinces, the overall decline has generally been widespread with a modest increase in inequality. Social indicators have improved markedly over the past decade, putting Vietnam in a strong position to attain most of its Millennium Development Goals.

Vietnam's current challenge is to sustain the momentum of economic growth within a policy framework that extends and deepens the benefits of poverty reduction.

The Comprehensive Poverty Reduction and Growth Strategy

The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) served as a major turning point in the planning processes of Vietnam – and in its results achievement focus. At the outset, the CPRGS was viewed primarily as a process to produce a written document and an exercise conducted mainly at the central level. But gradually, its application is being extended to provinces, cities, and regions. This is an important step – because in a country as decentralized as Vietnam, reform needs to occur not only in key



sectors of the economy, but very crucially, across the provinces. CPRGS must eventually become mainstreamed into the planning and policymaking of the economy and country as a whole.

What is a Comprehensive Poverty Reduction and Growth Strategy?

The Comprehensive Poverty Reduction and Growth Strategy is an action plan for the government and a guide to international donors for assessing progress. Previous economic plans and development strategies in Vietnam were based on a centrally-managed command view. By contrast, the CPRGS allows for decentralized planning within a participatory results-oriented framework. The strategy was derived by clearly spelling out the Vietnam Development Goals (a localized version of the Millennium Development Goals) using empirical evidence and broad consultation to identify policies that would attain its goals. The plan specifies the resource requirements behind those policies, and sets up monitoring and evaluation frameworks for managing results.

Objective: Transition to a “Market-Based Economy with Socialist Orientation”

Vietnam’s 10-year Socio-Economic Development Strategy (SEDS, 2001–10) envisions a transition toward a “market economy with a socialist orientation.” The CPRGS, approved by the prime minister in 2002, translates that vision into concrete measures and programs. Three pillars underpin the CPRGS:

Pillar	What’s required?
High growth through transition to a market economy	An ambitious structural reform agenda laid out by the government
Equitable, socially inclusive, environmentally sustainable growth	Appropriate sectoral policies and social programs
A modern public sector administration, legal, and governance system	Success in this area is necessary for attaining the first two objectives

Designing and Implementing the Comprehensive Poverty Reduction and Growth Strategy

Policy actions organized and rooted in CPRGS. The International Development Association (IDA) has extended a series of Poverty Reduction Support Credits (PRSCs) over the past decade. As outlined in the CPRGS, PRSC III will deepen ongoing reforms and the process launched by the International Monetary

Fund (IMF) Poverty Reduction Growth Facility. The United Kingdom is cofinancing a parallel Public Financial Management Reform project.

The Role of Donors

The Comprehensive Poverty Reduction and Growth Strategy was launched by the government of Vietnam, support by 27 donor countries, 11 international agencies, 4 international NGOs, and the domestic and foreign private sectors. To support this commitment, donors have pledged US\$ 3.4 billion for 2005, almost US\$ 600 million higher than the pledge for 2004.

The World Bank is expected to provide Vietnam with concessional finance of US\$ 1.6 billion in 2004/05.

The new PRSC III will extend the implementation of CPRGS policy actions in the following areas:

- Enhanced integration with the world economy through actions on tariff and trade liberalization in order to meet requirements for possible accession to the World Trade Organization
- Putting state-owned enterprises on reasonable financial footing, making them more competitive
- Financial sector reforms for sounder banking practices, including greater transparency and steps toward equitization of state-owned commercial banks
- Development of the private-sector in regard to taxation and protection of intellectual property rights
- Infrastructure development in energy, transportation, power, communications and large-scale infrastructure
- Improvement in education, health care, and land reform.

Implementing large-scale infrastructure projects. In late 2003, the CPRGS expanded to improve implementation in a number of areas – in particular, large-scale infrastructure investments. Weaknesses included the lack of serious evaluations of economic, social, and environmental impacts; inappropriate handling of resettlement and compensation mechanisms; poor project management leading in some cases to embezzlement; and limited community supervision. Reform is starting from the premise that infrastructure is necessary for sustained growth but not a development objective in itself. The new emphasis suggests that the selection of investments be based on analyses of the *impacts* they would have for each time period, region, and sector. Beneficiaries, not roads, are the point. Beneficiaries should be clearly identified, and potential trade-offs between growth and poverty reduction need to be addressed.



Funding mechanisms for inclusive development.

With decentralization, local governments have been assigned greater decision-making powers in allocating public expenditure. Yet local tax revenues as a fraction of total revenue have declined. To meet the shortfall between local governments' responsibilities and revenues, service delivery at the community level has increasingly come to rely on user fees – a trend that tends to widen the inequalities between richer and poorer areas. For development to be inclusive, as spelled out by the CPRGS, budget allocations must be fine-tuned to redress these inequalities.

Effectiveness of government spending. Improving funding mechanisms is a crosscutting theme in the reform agenda – and in implementing the results framework. Forward-looking expenditure frameworks are needed to improve the effectiveness of government spending. The reform agenda, and corresponding monitoring mechanisms, therefore include an ambitious program to reform public financial management.

Performance indicators. An effective results focus requires clear “triggers” to measure and monitor performance. At the outset, monitoring simply assessed whether particular actions had been taken, not whether specific outcomes had been attained. With the adoption of the CPRGS, the government introduced the use of indicators – a set of 136 initially, most of which were new and many of which referred to the Vietnam Development Goals.

What is a relevant indicator?

Over the past 10 years, Vietnam's General Statistical Office (GSO) has put in place a system for generating high-quality poverty statistics through bi-annual nationwide household surveys that collect reliable and objective information on expenditure, income, and issues related to health and education. By making these data easily available to researchers and government officials through a new GSO website, the GSO has facilitated a lively debate among government officials, researchers, and the donor community on how to tackle poverty and on what is and isn't a “relevant” indicator.

Many of these initial indicators – for example, gender, ethnicity and location – required further disaggregation. But this led to a new problem: the continuous creation of indicators created a system that was simply too large. The preliminary 2006–10 Socio-Economic Development Plan listed 293 indicators, far more than policy makers could usefully manage; and at the provincial level, the collection and interpretation of data became even more unwieldy. So, in a consultative fashion, the indicators were revised, refined, and pri-

oritized down to a mutually agreeable list of 30 to 60 “core” indicators.

Challenges Facing the CPRGS

The first CPRGS progress report, completed by the government in 2003, highlighted accomplishments in reform implementation, but it also pointed toward structural bottlenecks and unresolved social issues. In April 2004, a World Bank staff report also assessed progress in meeting the triggers for the implementation of PRSC III. Progress was considered satisfactory or highly satisfactory for all triggers related to the second and third pillars of the reform agenda (equitable, socially inclusive, sustainable growth and building modern governance systems). However, progress related to the first pillar (transition to a market economy) was markedly uneven. In this regard, the lowest “grade” went to reform of state-owned enterprises. This is particularly important in regard to results management because state enterprises play a highly significant role in the economy and their performance directly affects the welfare of low-wage workers.

Adaptations to CPRGS Implementation

Adapting CPRGS implementation has been a dynamic process. A few examples illustrate the types of adaptive actions that the government is considering or acting upon:

Better assessment of state-owned enterprises. The reform of state-owned enterprises has been particularly problematic because of insufficient data and generally limited transparency on actual performance progress. In response, the government carried out a series of diagnostic studies across sectors, as well as a study of equitized state-owned enterprises. The studies revealed that the relative role of state-owned enterprises is decreasing in the economy (as measured by percent of industrial output, percent of non-oil exports, percent of banking credit, etc.) While the share of credit to state-owned enterprises has risen slightly, the share of credit to the private sector has increased far more, and the private sector share of output has increased markedly; so, the monitoring indicators need to be improved and adjusted to reflect these newer trends.

Extending CPRGS subnationally. Nearly 50 percent of public expenditure decisions are made at the subnational level. Recently, the Ministry of Planning and Investment coordinated a multiprovince initiative (referred to as “CPRGS rollout”) to extend CPRGS subnationally. Collaborative activities between ministries, the provinces, and donors are under way in 18 provinces. Supported by 10 donors, skills are being enhanced to enable both national and subnational gov-



ernment to adjust to the newer, bottom-up style of planning. This will become even more important as provincial authorities become more directly engaged in the coming five-year planning process.

A methodology for estimating future operations and maintenance costs. Public financial management reform has emphasized budget processes and budget information systems, not mechanisms to screen or decide upon capital expenditures. The current legal norms on preparing, appraising, and managing projects does not require that costs be compared to benefits. The newer methodology for estimating future operation and maintenance costs is still insufficiently institutionalized, and the budgetary implications of each capital investment are normally taken into account in the project appraisal stage.

Planning that anticipates WTO accession. A sizeable amount of resources is channeled each year to large public investment projects, many of which are commercial by nature. A great deal of public investment also takes place in sectors where high levels of protection would certainly be challenged if Vietnam joins WTO.

Improving the government budget process. Insufficient integration of capital and recurrent expenditures is a continuing weakness of the budget process in Vietnam. This weakness is compounded by the insufficient integration between planning and spending processes. While there is currently a single budget – and the implementing guidelines of the Budget Law established a coordination mechanism between the Ministry of Planning and Investment and the Ministry of Finance – the two main pillars of the budget remain largely disconnected. A results-oriented Medium-Term Expenditure Framework is being developed that would introduce a forward-looking dimension, in particular, to take better consideration of operation and maintenance costs.

A more reliable system of indicators. A reliable system of indicators to monitor key development outcomes is an essential component of the CPRGS agenda. Information availability is still hampered by the confusion surrounding poverty measurement and targeting. While Vietnam has produced several high-quality household surveys and preliminary poverty maps based on international practice, policy decisions are nonetheless too often guided by poverty metrics of varying quality. Recent analytical work reveals that the current practices to target the poor at the local level are effective; however, the poverty rates computed by aggregation of these local classifications are unreliable. Recognizing this problem, a task force has been appointed to propose a system of indicators for poverty measurement and poverty targeting.

Moving to outcomes. The overall framework for monitoring and evaluation remains fragmented and inefficient, leading frequently to the overcollection and underanalysis of information. Within the framework of CPRGS, ministries and provinces are refocusing their five-year socioeconomic development plans away from inputs and production input targets, and focusing instead on outcomes. This transition has been accompanied by some confusion as to which indicators are best monitored at different levels of government. A number of development partners are supporting the government to develop a results-oriented framework for monitoring its socioeconomic development plans.

Factors for Success

Overall, the key factors for success are continued government ownership of the reform program – extended to the provincial and local levels – and greater accountability and participation in results-oriented monitoring.

Regarding the coordination of budgeting with planning and performance management, the preliminary findings from the draft Public Expenditure Review – Integrated Fiduciary Assessment (2004) highlighted the importance of the following factors for success:

- The Ministry of Planning and Investment needs to become a partner with the Ministry of Finance, sector ministries, and the provinces in the preparation of Medium-Term Expenditure Frameworks. These frameworks could emerge as powerful common analytical tools and vehicles for coordinating the planning and the budgeting cycles.
- The Ministry of Finance and the Ministry of Planning and Investment should jointly strengthen the links between performance indicators and budgetary decisions. In the short term, this is likely to mean fitting the Vietnam Development Goals to existing expenditure programs. In the longer term, the challenge will be to strengthen the indicators themselves, and then to forge processes that prioritize goals in parallel with departmental and provincial expenditure programs.
- Systems to monitor service delivery must be strong and usable at all levels. A recent initiative to pilot a “citizen report card” in four cities is a commendable example of how monitoring can be simplified and extended.
- The coming five-year planning cycle presents an opportunity to consolidate the shift toward results-based planning. As a standalone document, there is no need for a second CPRGS. Instead, the government has announced that the principles – in particular, a focus on outcomes – will be main-



streamed into the government's planning processes. These plans, prepared at the national, sectoral, and provincial levels, will be drafted in 2005.

- Better poverty measurement will help sustain the poverty focus in planning. The government produces excellent poverty data, but steps are under way to do even better. Official data will soon reflect poverty and inequality far more accurately.

Results

The main result to be achieved under CPRGS is to sustain the reform program over the long haul. Continued IDA support for poverty reduction support credits may be an important element in doing so. How will that be determined? The robustness, visibility, penetration, and durability of the CPRGS – as a process – should in itself tell the story.

Lessons learned

A clear and transparent results focus lies at the heart of long-term reform. Vietnam has committed itself to integration with the global economy, rapid growth, social stability, and equity. To achieve those results, policymakers must implement deep and far-reaching changes. In many respects, Vietnam remains a centrally controlled economy, so reform comes slowly and is by no means inevitable. But is the reform process superficial, or will it be sustained? That will be determined primarily by results, not by politicians, and in that regard, the capacity to truthfully *demonstrate* results is crucial.

Outcomes cannot always be “mapped.” When PRSC III was approved, many people asked whether PRSC II could be mapped to outcomes. The response was that the poverty reduction support credits supported a comprehensive reform agenda, but specific outcomes could not necessarily be “mapped.” Many, for example, are cross-sectoral in nature. Actions related to modernizing governance support both transition to a market economy and inclusive development, making it difficult to map them discretely as poverty reduction or improved competitiveness.

Analytical work must be ongoing, rigorous, and targeted to key problem areas. Analytical work in the form of Poverty and Social Impact Analysis can be more actively used to guide poverty reduction reforms. Ongoing work on the social impacts of WTO accession, the development of a land market, and reduced participation of state-owned enterprises in certain agricultural sectors (for example, coffee) will inform future donor support and possibly lead to the consideration of specific policy actions to mount a sustained reform effort in these areas. Pragmatic re-

search of this sort provides a cornerstone for managing for results.

Attention must be paid to what indicators show. Indicators have shown that public expenditure – on health, for example – is lagging behind the CPRGS goals. But that matters only if actions flow from the implications of the data. Simply flagging a problem with well-designed indicators is useful and interesting, but is an academic exercise. Doing something about it – and then tracking the results of that “doing” – is the essence of the managing for results framework.

Conclusions and Broader Applicability

As a country coming out of a strictly socialist environment and economy – and then moving to adopt pragmatic, market-oriented programs while mounting a sustained reform program aimed at poverty reduction – Vietnam makes an interesting story. Other countries, especially in the former Soviet Union and Central Asia, may find useful parallels that are highly relevant to their own situations.

Permanent reforms of the planning processes profoundly reflect Vietnam's move from centralized to decentralized planning. The government recently began the preparation of a new five-year Socio-Economic Development Plan (SEDP, 2006–10). The previous plan (2001–05) was carried out in addition to the Comprehensive Poverty Reduction and Growth Strategy, which was described as an “action plan” for the SEDP and accepted as a poverty reduction strategy by the international donor community. But for the coming period, the two planning instruments will be merged.

What does the merger of the SEDP and the CPRGS imply for the newly-initiated planning process? For years, the SEDP has been the pillar of Vietnam's strategic planning. Based on formal consultation within government and party structures, the previous 2001–05 SEDP set out goals and detailed production targets for every geographical region and each productive sector of the economy. Economic, social, and poverty data were drawn from government sources. By contrast, the CPRGS has not served the same historic role in directing activities of government; yet new approaches to socioeconomic planning have been pioneered, both in process and substance. Consultations with donors and civil society have been far broader. They have included local organizations and poor communities. A far stronger analytical framework has been developed, based on credible data from both inside and outside the government. Achievement of strategic outcomes, rather than production targets, motivates the policy measures and public actions identified in the CPRGS, and the CPRGS also outlines



mechanisms to monitor progress that are framed around the Vietnam Development Goals.

Summary: How MfDR Principles were Applied to Public Expenditure Management and Sustained Poverty Reduction in Vietnam

1. At all phases – from strategic planning through implementation to completion and beyond – focus the dialogue on results for partner countries, development agencies, and other stakeholders.

- An expectation for *results* was internalized in the CPRGS by focusing attention on a fully “Vietnamized” version of the results-oriented Millennium Development Goals.
- Led by CPRGS, ministries and provinces are re-focusing the coming five-year socioeconomic development plan away from production input targets, and focusing instead on outcomes.

2. Align actual programming, monitoring, and evaluation activities with the agreed expected results.

- Diagnostic studies on the actual performance of state-owned enterprises led to – or at least point to the continued need for – reform of state-owned enterprises.
- The budgeting process for major capital expenditure is moving toward greater use of cost–benefit analysis.
- A forward-looking Medium-Term Expenditure Framework is being developed that focuses on results through better consideration of operation and maintenance costs.

3. Keep the results reporting system as simple, cost-effective, and user-friendly as possible.

- From a preliminary ministry list of 293 indicators, and 136 indicators initially developed for the Comprehensive Poverty Reduction and Growth Strategy, a simplified “core” of 30–60 indicators has been developed.
- The General Statistical Office has not only produced and disseminated a vast amount of high quality research on the causes of poverty, it has helped stimulate a lively debate on what to do about it through broad dissemination in understandable formats.

4. Manage for, not by, results, by arranging resources to achieve outcomes.

- Acknowledgement that the emphasis on large-scale infrastructure investment should gradually shift from “roads and bridges” to benefits for beneficiaries.

- The core concept of the CPRGS – an inclusive participatory process to manage for results in both growth *and* poverty reduction – evolving into the mainstream as a central tenet of a formerly central planned economy’s official planning process.

5. Use results information for management learning and decision making, as well as for reporting and accountability.

- Recognizing the difficulties of aggregating and measuring poverty rates, a task force has been appointed to propose an improved system of poverty indicators.
- Access to the budgeting process has helped local governments to address the discrepancies between their assigned responsibilities and the fiscal resources available to them.

Update on Implementation of the Results Framework – Rob Swinkels, World Bank, Hanoi, November 2005

Many of the outcome indicators as identified in the CPRGS are being updated through Vietnam’s high quality Household Living Standard Survey (VHLSS), which is conducted every two years. The last two surveys, conducted in 2002 and 2004, provide reliable updates not only on poverty indicators but also on access and use of social services and infrastructure. These data generate a large amount of analytical work on poverty and social progress in Vietnam. Most of this research is conducted by Vietnamese researchers. However, until date few line ministries have made active use of this information in their decision-making processes. Their own official planning system and monitoring information did not require them to use this.

In 2005, Vietnam started preparations of their new five-year plans for 2006-2010. This includes sector plans and an overall Socio-Economic Development Plan (SEDP) which draws from the sector plans. There were clear instructions from the prime minister to use CPRGS principles in the preparation of these plans. This included a focus on the Vietnam Development Goals, the localized version of the MDGs, and on strengthening the monitoring of progress in implementing the plan. Donors gathered together to provide support and training to a number of line ministries and provinces in how to follow this new approach in preparing these new plans, that is, move away from emphasizing industrial production and building infrastructure, and instead focus more on outcomes which demonstrate the changes in people’s lives the plan intends to achieve.



The first step in this support effort was to stress the importance of structuring the plans in such a way that they become monitorable. Traditionally, Vietnamese government plans contain large lists of achievements, problems, objectives, targets, indicators, and things to do, without showing much connection between them. Donors suggested the use of a hierarchy of objectives that demonstrates how some sub-objectives together link to other objectives and more over-arching goals. Some progressive line ministries such as the Ministry of Agriculture and Rural Development (MARD) started to use log frames which helped them do this. Others followed a more traditional approach and have made limited progress so far.

A second step was to encourage linking a set of indicators to each of these objectives to track progress toward achieving them, and specifying the data sources for each of these indicators. As the government is nearing the completion of drafting its overall socio-economic development plan (SEDP) 2006-2010 it has indicated it will aim to attach a proper M&E framework. It is likely that this will include many more outcome (results) indicators than before, to be tracked by more independent data sources such as household surveys. The draft SEDP already makes use of survey-based poverty data that meet international quality criteria, replacing their traditional approach based on administrative reporting.

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For more information

Contact: Martin Rama, Lead Economist, World Bank Hanoi Office

E-mail: mrama@worldbank.org.

Phone: +84-4-934-6600

Contact: Carolyn Turk, Sr. Poverty Specialist, World Bank Hanoi Office

E-mail: cturk@worldbank.org.

Phone: +84-4-934-6600

