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SOFT RAIN PENETRATES THE EARTH BETTER THAN A STORM

VIETNAM - WORLD BANK PARTNERSHIPS ON POVERTY REDUCTION



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FOREWORD

The World Bank has been privileged to be part of Vietnam's remarkable achievements in reducing poverty through high and sustained rates of economic growth, investments in human development, and proactive social policies and programs. 58 percent of Vietnam's population lived in poverty in the early 1990s. Many children did not finish school, and there was widespread hunger and malnutrition in rural areas. Most households supported themselves through subsistence agriculture. By 2008, the poverty rate had fallen to less than 15 percent, progress that is unparalleled in modern times. The vast majority of children complete primary education and most go on to enroll in secondary schools. Extreme poverty linked to hunger is rare, limited to isolated regions and the short-term impacts of drought or other weather shocks. Recent years have witnessed a dramatic transition in the labor market – many workers have moved out of agriculture and into better paid jobs in industry and services.

The World Bank's partnership for poverty reduction encompasses a number of important areas. We are pleased to have supported Vietnam in developing a robust and credible system for measuring poverty and monitoring progress over time, drawing on good practices from countries around the world. The capacity for poverty analysis and research in Vietnam has improved significantly over time, which has contributed in important ways to strategic planning for poverty reduction as well as design of poverty reduction policies and programs. An important focus of the partnership has centered on the improvement and modernization of approaches to strategic planning for poverty reduction. The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was an important landmark in the partnership, which, in combination with the 2006-2010 SEDP, set out the reform agenda and national objectives for sustained growth and poverty reduction. We are proud to have supported an unprecedented series of ten consecutive Poverty Reduction Support Credits (PRSCs), involving fourteen development partners and more than 15 counterpart agencies in Government, which financed key elements of Vietnam's reform agenda that were priorities for achieving rapid and socially-inclusive growth. Lending resources on concessional terms for poverty-focused projects has been at the core of partnership efforts for the past two decades, with particular attention to the needs of poor men, women and children living in more isolated regions of Vietnam. This support has spanned many sectors. We are particularly happy to have had the opportunity to support decentralized and community-based development projects such as the Community Based Rural Infrastructure Project (CBRIP), the Northern Mountains Poverty Reduction Project (NMPRP), as well as an important series of development policy loans in support of Program 135. We are keen to support government in developing new projects to address the needs of the poorest regions and populations.

Finally, we very much look forward to the continuation of our partnership on poverty reduction. We are happy to continue to engage in all areas but with particular focus on helping Vietnam take a fresh look at its poverty reduction challenges going forward – both old challenges, such as persistently high levels of poverty among ethnic minority populations, as well as new challenges, linked to rising inequality, greater exposure to risk and increasing vulnerability, particularly among the poorest households, also the links between urbanization and poverty. The future will bring many new challenges. We are proud to remain a trusted partner of Vietnam in addressing these challenges.

Hanoi, October 28, 2011



Victoria Kwakwa
Country Director
World Bank Vietnam

CHAPTER I

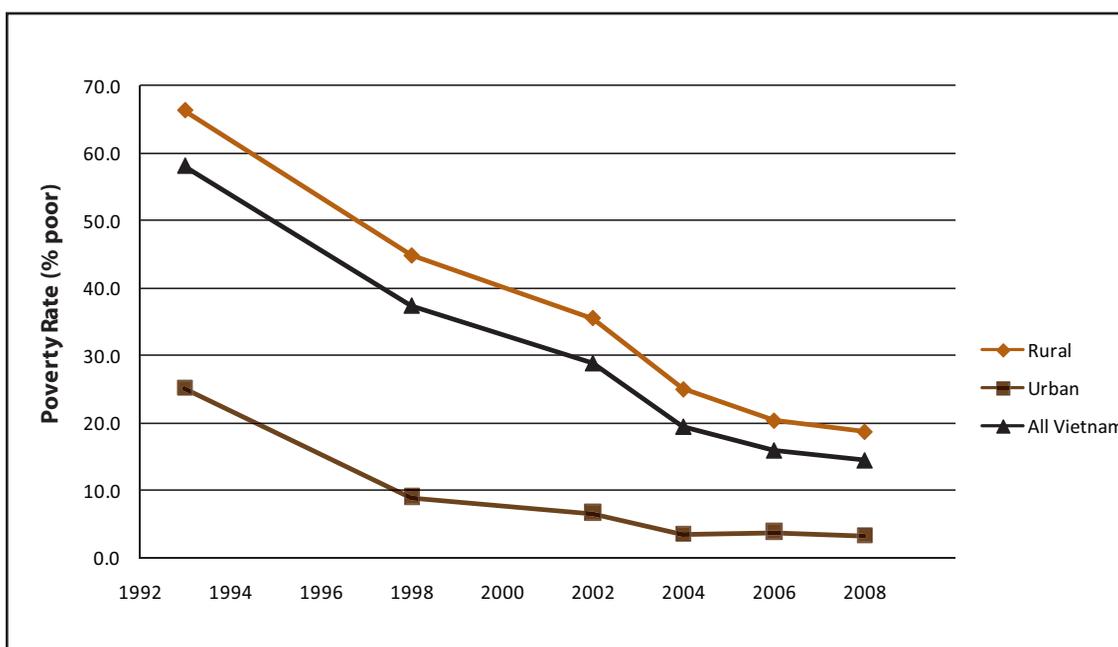
INTRODUCTION¹

¹ This report draws on a recent round of consultations with stakeholders in Vietnam, many who have worked in partnership with the World Bank on poverty reduction since the early 1990s, as well as information presented in successive Vietnam Development Reports (VDRs), five Poverty Assessments/ Poverty Updates, spanning the period 1995 – 2010, and work underway on a new 2012 Poverty Assessment. The report also draws on an extensive literature on poverty reduction in Vietnam carried out over the past two decades.

The World Bank has been a privileged partner of the Government of Vietnam in one of the most impressive histories of poverty reduction in modern times. The collection of reliable poverty data began in 1992, when an estimated 58 percent of the

population lived in poverty. The most recent estimates from 2008 indicate that 14.5 percent of the population remains in poverty. According to Oxfam, Vietnam's record equates to 6000 people moving out of poverty every day for sixteen years.

Figure 1: Poverty Reduction in Vietnam: 1993 - 2008



Source: VLSS 1993, 1998; VHLSS 2002, 2004, 2006, 2008

Partly as a result of the World Bank-Government partnership, much has now been written about the drivers of poverty reduction, and the challenges that remain as well as new challenges linked to Vietnam's future development path. This report draws on this extensive background literature and as well as more recent meetings with a range of stakeholders who have participated in or observed World Bank-government collaborations on poverty reduction. It is a companion piece to the Government's partnership report "The World Bank In Companion With Vietnam On

Development Path" for the celebration.

The report highlights some key achievements of the partnership over the past two decades as well as future challenges. It is divided into five sections:

- Poverty monitoring
- Poverty analysis
- Strategic planning for poverty reduction

- Partnerships in policy for poverty reduction
- Partnerships in investments for poverty reduction

It is impossible to fully cover two decades of collaboration in these five areas in a single short report. Instead the report focuses on capturing a combination of landmark “moments” and of the cumulative results from the more mundane, day-in-day-out collaborations that have taken place between the Government and the World Bank. Beyond the high profile reports and the

large-number loans, what was mentioned most frequently in the recent consultations is the lower-key constant presence, exemplified by attendance at workshops, informal meetings, often unpublished analyses and notes, and the advice at the end of the phone, all contributing to a sustained relationship based on the exchange of credible knowledge between trusted partners. Such was the emphasis on the extensive low-key interactions that at the suggestion of a key partner this report has drawn its title from a Vietnamese saying which emphasizes the hydrating power of small, soft rain over that of big storms.

CHAPTER II

POVERTY MONITORING

Development workers visiting Vietnam in the early 1990s to support poverty reduction initiatives were met with a vacuum of information on the extent and scope of poverty. There were few donors operating in Vietnam at the time. There were no formal estimates of the poverty headcount, nor were statistics available on the distribution of poverty across the country. There was a general understanding that some regions were more disadvantaged and that certain groups required public support, but no mechanisms in place to verify this or to track progress in reducing poverty as a result of government efforts. Two decades later, Vietnam has in place a reliable system for measuring and monitoring poverty over time and across regions and socio-economic groups, with publicly-available data from various rounds of the Vietnam Household Living Standards Survey (VHLSS) informing the debates and discourse around poverty reduction and influencing policy-making and resource allocation processes. The donor-supported VLSS, carried out in 1992-93 and 1997-98, and subsequent series of state-financed VHLSS in 2002, 2004, 2006, 2008, and 2010 have had a profound influence on way in which poverty is understood in Vietnam.

The Ministry of Labor, Invalids and Social Affairs (MOLISA) was identified in the early 1990s as the primary Government agency responsible for poverty reduction programs and policies. MOLISA set out a series of poverty lines that have been updated over time to capture changing contexts. MOLISA was given formal responsibility for reporting on the levels of poverty based on these definitions. The poverty lines used by MOLISA

in the 1990s were derived on the basis of rice equivalents and used to identify poor and very poor/hungry households who were eligible to receive support under targeted poverty reduction programs. Beginning in 2001, MOLISA proposed official poverty lines for urban and rural areas that were measured in monetary terms rather than rice equivalents (Table 1). These official poverty lines are revised every five years as a part of SEDP preparation and are used primarily for targeting poor households for social assistance. They are also used to measure progress at reducing poverty over the course of the SEDP, based on aggregating up commune, district, and provincial poverty counts.

The General Statistics Office (GSO) monitors changes in poverty over time using successive rounds of VHLSS household surveys and the GSO-WB poverty line. Unlike the official poverty lines used by MOLISA, the GSO-WB line has been kept roughly constant in real purchasing power since it was first defined in the late 1990s. Vietnam's widely celebrated success at reducing poverty over the past two decades is based on poverty estimates using successive rounds of the VHLSS and the GSO-WB poverty line.

For many years, two divergent estimates of poverty were produced, often widely different in levels and complicating the dialogue between the international community (which tended to use the survey-based estimates) and the Government (who used the official MOLISA estimates). In recent years, the Government has shifted away from an approach that combines targeting individual poor households and

² A report commissioned by the British NGO, ActionAid, in 1992 describes a situation with various Government and international organizations deploying a wide range of definitions and measures based on a variety of methodological underpinnings.

poverty monitoring under one institution and one instrument, and has replaced it with an approach that separates the two important tasks of targeting poor households for social assistance on the one hand and monitoring poverty over time on the other. Although the different poverty estimates may have caused confusion at times, the development and insistence on rigorous measurement has been important in terms of helping the Government better conceptualize poverty. Moreover the higher numbers produced through the VHLSS surveys helped to keep poverty high on the Government's agenda. Over time, as the poverty headcount fell (narrowing the gap between MOLISA and GSO estimates) and as the poverty estimates produced through the VHLSS became increasingly recognized as valid and robust, MOLISA's estimates became more aligned to those produced by the GSO, to the point where the GSO has been given formal responsibility for producing national and provincial poverty estimates. MOLISA now concentrates on the task of identifying the individual households within provinces, districts, and communes that should be included on the poverty list.

The World Bank provided sustained technical and financial support to the GSO in the implementation and development of the VHLSS and the dissemination of data and, at the same time, supported the research section of MOLISA (ILSSA) and other institutes³ in the development of tools to improve poverty targeting. Support to the development of poverty measurement systems began in 1991, with the preparation of the first VLSS under the auspices of the State Planning Committee. In an environment where systematic poverty measurement was

not well developed, the World Bank invested heavily in up-front training on new methods and techniques. The GSO notes in particular the value of having consistent technical advice and ongoing capacity building efforts. Preparation for the two VLSSs in the 1990s involved intensive capacity building (supported by SIDA and UNDP), supported by international advisers who were long-term residents in Vietnam. The Bank continued to engaged actively with the GSO as the VHLSS became state-financed, with a focus on consolidating the profile and quality of the VHLSS and on establishing the VHLSS as the primary instrument for poverty monitoring.

One of the strengths of the VHLSS is its consistency over time. But in recent years, the VHLSS has struggled to some extent in capturing some of the dynamism in the Vietnamese economy; as early as 1999 the World Bank and GSO raised the issue of capturing the situation of a growing number of migrants in urban areas. More recently, the VHLSS was not designed to capture changes in welfare due to sharp increases in food prices, particularly rice prices in 2008. It was recognized that the consumption patterns of Vietnamese households today are very different than consumption patterns in the early 1990s, when the VHLSS was first designed; also households own many more assets and invest more intensively in residential land and housing. A number of important improvements were introduced in the 2010 VHLSS to better capture Vietnam's growing diversity consumption and welfare, and the GSO-WB poverty line will be updated using these new data to better capture the current situation of the poor.

³ For example, support was provided first to IPSARD, then to ILSSA in the creation and subsequent updating of poverty maps. 2010 poverty maps are being prepared by a team from GSO, ILSSA, and the National Economics University (NEU).

Table 1. Measuring Poverty in Vietnam: Overview of MOLISA definitions

Period	Poverty line	Note
2001-2005	<p>Poor households:</p> <ul style="list-style-type: none"> ■ Mountainous rural, island areas: 80000 VND/persons/month. ■ Delta rural areas: 100000 VND/person/month. ■ Urban areas: 150000 VND/person/month. 	<p>Income in rice equivalent terms was no longer used as a poverty threshold. According to MOLISA measurements at this time, hunger had been more or less eradicated and was therefore no longer measured.</p>
2006-2010	<p>Poor households:</p> <ul style="list-style-type: none"> ■ Rural areas (including mountainous and delta areas): 200000 VND/person/month. ■ Urban areas: 260000 VND/person/month. 	<p>Poverty lines defined only for rural and urban areas in order to give more support to poor HH in mountainous and island areas</p> <p>MOLISA and GSO worked together on the new poverty thresholds, with the following features:</p> <ul style="list-style-type: none"> ■ Following the methods used to calculate poverty lines by GSO, the food poverty line was calculated with 2100 calorie intake per person per day, while the general poverty line concluded food and non food items) ■ Separate instrument were established for identifying poor households, using proxy variables to categorize households into three groups: Surely non poor, possibly poor and surely poor. Income surveys were applied to confirm whether a household is poor or not, with lists finalized in village meetings. Proxy means tests were used to update lists, designed to capture possible exits and regressions into poverty.
2011-2015	<p>Poor households:</p> <ul style="list-style-type: none"> ■ Rural areas: 400000 VND/ 	<p>GSO mandated to calculate the poverty rate and the “near poverty” rate, the latter estimated at 1.3</p>

Period	Poverty line	Note
2011-2015	person/month <ul style="list-style-type: none"> Urban areas: 500000 ND/person/month. 	<p>times the value of the poverty line. GSO provides estimates at national and provincial levels. Urban poverty line equates to \$1.6 in PPP terms, rural poverty line equates to \$1.3 in PPP terms. GSO required to update the national and provincial poverty lines annually to reflect shifts in food and non-food prices</p> <p>MOLISA retains responsibility for constructing lists of poor households using techniques identified in previous period. However proxy means variables will be further refined to capture variations in predictors of poverty across the country (differentiated by six regions and by rural/urban). They are currently working on new tools to capture those who have escaped or fallen into poverty in the last year.</p>

Key Lessons and Future Plans

In future rounds of the VHLSS, it is important to balance the need for consistency and comparability over time with innovation and improvements in survey methods to better capture Vietnam’s increasingly diverse consumption patterns and growing wealth. The 2010 VHLSS made some good steps in this direction but further improvements are needed. In recent consultations, some felt that the VHLSS could have been expanded earlier to include other measures of poverty e.g. subjective measures of wellbeing (which were included in the 2010 VHLSS). In addition, there were

suggestions that supporting a broader range of surveys and survey instruments would have been helpful to stimulate more structured debate regarding non-material dimensions of poverty. Although poverty measured in income terms has fallen sharply, some elements of daily life had deteriorated in ways that were poorly captured by current surveys or measures.⁴ The World Bank is pleased to continue to support the GSO in these areas.

MOLISA and GSO poverty estimates have been broadly similar in recent years, and both indicate that Vietnam has achieved strong progress at reducing poverty. But the multiple measures and

⁴ Those mentioned included: dissatisfaction with corrupt practices, deteriorating quality of urban environment, youth culture increasingly dominated by materialism, vulnerability to prices rises and perceptions of rising inequality.

persistent albeit small inconsistencies between poverty rates at regional and provincial levels continue to cause confusion among policy makers and the National Assembly (who are responsible for overseeing progress). The agreement to make the GSO responsible for official poverty estimates at the national and provincial levels, and MOLISA responsible for poverty estimates at district and

commune level seems well founded. However implementation may take some time. Poverty lines and measurement systems designed for poverty monitoring (as in the case of the VHLSS) have a different set of objectives than the proxy means test (PMT) methodologies used by DOLISA to determine eligibility and target assistance under programs like the NTP-PR.

CHAPTER III

POVERTY ANALYSIS

Though the Government had internal processes to gather information on poverty in the early 1990s, their reports were not accessible to the local research community, the community of international partners or to the broader public. Early analysis available in the public domain was dominated by micro-level findings by NGOs or field reports by visiting donors, produced outside Government structures and lacking official endorsement. Though useful for agency-level project design, the fact that they originated outside government and did not use official data weakened their usefulness in dialogue.

The World Bank released a report on the economic transition of Vietnam in 1993 that included a chapter on poverty. In the absence of poverty data, this section was based on findings from field visits and conversations with officials across the country. Even without a solid quantitative base of evidence, the chapter was insightful in identifying at an intuitive level many of the issues that came to dominate the dialogue in later years, for example emphasizing the importance of improving the functioning of rural markets (including in land), the challenge of extreme poverty in ethnic minority areas and emerging issues related to migration.

The first World Bank Poverty Assessment, produced in 1995, used data from the 1992-93 VLSS to confirm many of these issues. It ultimately served to legitimize a discussion of poverty that highlighted differences between regions and socio-economic groups using robust data. It was well-received by the Government and served as a reference document for discussions on poverty for the following four years. Two other

development partners – UNDP and SIDA – also released reports in 2003 on poverty in Vietnam, all drawing on slightly different data and using slightly different methodologies and approaches. Because World Bank analytical work was led from Washington, it was relatively difficult to engage with local processes that later came to characterize the partnership-based approaches to poverty analysis.

Decentralization by the World Bank, including the placement of the Vietnam Country Director in Hanoi, and the recruitment of a Hanoi-based team of national and international poverty experts, created opportunities for a more inclusive approach to poverty analysis. At the initiative of the World Bank, a Poverty Working Group (PWG) was established that brought together, for the first time, a group of donors, NGOs and Government agencies that were investing resources in poverty. The production of the second Poverty Assessment *Attacking Poverty* was a landmark in Vietnam, in part because it represented a consensus position on the key challenges of poverty reduction but also because it drew heavily on a combination of both quantitative and qualitative data. A series of Participatory Poverty Assessments (PPAs) were produced through collaboration with NGOs and the Swedish Mountain Rural Development Program, bringing legitimacy to participatory research methods in Vietnam, identifying empowerment as a key challenge for poverty reduction and highlighting dimensions of poverty not well captured by existing survey data. The report found resonance within the national policy dialogue for its clarity and calibration to local discourse. Internally within the World Bank, strong support from both the

sector and country director was important in endorsing the approach.⁵

Attacking Poverty was central to the discussion at the CG meeting in December 1999 and, as a piece of analysis broadly endorsed by multiple stakeholders, provided the basis for emerging work on strategic planning for poverty reduction. Likewise, the Poverty Working Group remained the key convening forum for donor-Government dialogue on poverty issues until completion of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) some years later.

Vietnam's third **Poverty** Assessment Poverty was similarly led by the World Bank, but drew in a number of donors and was reviewed by a committee of Vietnamese researchers who provided guidance on content. Other development partners contributed actively, some through additional financing, also leading or participating in a new round of participatory poverty assessments that informed the survey-based analysis. The international community, including the World Bank, had invested actively in supporting capacity in the research community in the period between the first two Poverty Assessments, such that much of the analysis was provided by Vietnamese researchers drawn from the local research community.

On the World Bank side, **Poverty** set in motion a cycle of annual Vietnam Development Reports (VDRs) produced by the World Bank, often in collaboration with other donors and with review and guidance provided by Government. Over the

years, these VDRs have covered the fundamental pillars of the development reform agenda in Vietnam and thus set the basis for policy dialogue and financing in support of the reform agenda. At the same time, the Bank increased its support for building capacity for poverty analysis in Vietnamese institutions, many of which have access to a broader and more senior audience of policymakers. Building on this approach, the Vietnam Academy of Social Sciences (VASS) produced a Poverty Update in 2006 (based on the 2004 VHLSS data) and a full poverty report in 2010 (drawing on data from the 2006 and 2008 VHLSS). In preparing these reports, a team of Vietnamese researchers coming from inside and outside VASS received on-going technical support from the World Bank, covering all stages of poverty assessment, from the preparation of a concept note to the design and implementation of large-scale qualitative surveys (PPAs) and analysis of quantitative household survey data, to the production and finalization of numerous background papers and the synthesis report. This support came at an opportune moment to help VASS develop new poverty analysis skills in keeping with the new economic context. The post-WTO accession period, characterized by rising opportunities and risks, called for a comprehensive approach to poverty reduction including ensuring macroeconomic stability, strengthening social protection, promoting broad-based growth and inclusive development. Pulling together the poverty analyses supported by the World Bank enabled VASS to broaden their earlier approaches to poverty analysis, linking the macro environment and micro level challenges in

⁵ As Homi Kharas, former Chief Economist for East Asia and Sector Director for the East Asia Poverty Reduction and Economic Management department, pointed out in an interview for this work, "where would be the value in complex econometrics, when the priority at that time was to communicate basic messages about how a Governments can measure and monitor poverty?"

new and interesting ways.

The VASS poverty assessment was launched in 2010. VASS will continue disseminating the findings of this work packaged in different forms, not necessarily as stand-alone products, taking into account the organization's mandate to provide policy advice to senior policy makers on strategic directions of the country's socio-economic development.

Work on a new 2012 Poverty Assessment is underway, which will be carried out through partnership arrangements between the World Bank, VASS, GSO, and other stakeholders involved with poverty reduction in Vietnam. The 2012 PA will use data from the 2010 VHLSS (including updated GSO-WB poverty lines), new 2010 poverty maps, and be complementary qualitative studies. The aim is to open up and inform the discourse on poverty related issues in Vietnam, including issues like ethnic minority poverty that have persisted over time, as well as new concerns linked to rising inequality, greater exposure to risks and shocks, including weather-related shocks as well as external economic shocks and the impact of rising inflation, and growing concerns about the links between urbanization and poverty. Many of these issues were identified as areas needing further work in the recent VASS-led Poverty Assessment

Throughout the period of the partnership, the World Bank has worked with a number of Vietnamese institutions and agencies to produce a range of other analytical pieces related to poverty reduction. Notable among these were a series of

detailed studies carried out in 2003-04 on the social and poverty implications of trade liberalization, in general, and WTO accession in particular. These studies discussed the effects of trade on the poor in Vietnam, including measures to minimize their vulnerability, including labor market issues more broadly. The development focus of the Doha Round at the time had brought a more human face to multilateral trade negotiations as a direct interest of developing countries. The studies helped to inform Vietnam's WTO negotiators and policy makers about the possible social and poverty impacts of WTO accession. In addition, among other work,⁶ the partnership supported poverty mapping activities, improvements to targeting methodologies, impact evaluations of targeted social assistance programs and both proposed and implemented policy reforms, also (at the request of government) background analysis for government plans and progress reports, innovations in "report card" surveys, and analyses of the informal sector. Much of this work was produced by local research institutes and universities, with technical assistance provided by Bank staff or Bank-hired consultants.

Key Lessons and Future Plans

The capacity for poverty analysis in Vietnam is significantly different from research capacity ten years ago. The sustained support for partnership-based poverty analysis has contributed in important ways to these substantial improvements in research capacity. Processes around research, including the level of debate

⁶ There is a very extensive list of poverty analysis work that has been carried out in partnership with local institutes over the timeframe of this report.

and dissemination of analysis through local networks, have contributed to an expansion of knowledge around poverty issues, an improvement in standards expected of research institutes and an increased use of empirical evidence in policymaking. The availability of solid

financial support from DFID since 1999 (as part of the PAPAP and GAPAP trust funds) was critical in providing the necessary resources, both for sustained improvements in poverty monitoring and as well as improvements in research capacity and poverty analysis in Vietnam.

CHAPTER IV

STRATEGIC PLANNING FOR POVERTY REDUCTION

An important focus of Government-World Bank partnership centered on the improvement and modernization of approaches to strategic planning for poverty reduction. In 1999, in response to shortcomings in earlier approaches to development assistance which had been criticized for imposing inappropriate models from outside, the international community introduced the concept of a Poverty Reduction Strategy Paper (PRSP) as a central instrument for country-driven models of support. This concept, initiated by the World Bank with the support of other donors, involved the development by Government of a medium term Poverty Reduction Strategy (PRS) that identified the key challenges in generating inclusive growth and poverty reduction. The World Bank was required to frame its country assistance strategy around the Government's own PRS. Many other donors did likewise. The existence of a PRS was a pre-requisite for accessing policy-based loans from IDA.

In 2000, the Government of Vietnam initiated work on an interim PRS. The donor community, through the Poverty Working Group, provided support to the Government in this exercise, as a bridging exercise for a full PRS. The Government accorded responsibility to this process to the General Economic Affairs Department of the Ministry of Planning and Investment (MPI). Allocation of responsibility to MPI for this task signaled an important shift in Vietnam's approach to poverty reduction. Previously the challenge of poverty reduction had been fairly narrowly defined as channeling targeted support to defined groups of poor households and individuals. Though targeted support would remain an important element of Vietnam's approach to tackling poverty, placing the responsibility for strategic

planning for poverty reduction in the MPI broadened the discourse on poverty to highlight the links between growth and poverty reduction and more structural dimensions of persistent poverty.

The Comprehensive Poverty Reduction and Growth Strategy (CPRGS), like all 'first generation' PRSs that were submitted to the World Bank and IMF, was prepared in parallel to mainstream medium-term planning processes. In the Vietnam case this meant that the CPRGS sat alongside the Socio-economic Development Plan (SEDP) 2001-2005 and because of this had a somewhat uncertain status within Government. However, the fact that Vietnam's first PRS was developed outside mainstream processes had the advantage of allowing the leaders of the CPRGS to pilot new approaches to strategic planning for poverty reduction that could not have been incorporated into regular planning processes at that time. Innovations that underpinned the CPRGS preparation included:

- An open, multi-stakeholder consultative process at both national and sub-national levels. At this time, the SEDP preparation process included mechanisms for consultation within Government, but not outside Government.
- Incorporation of data and analysis from outside Government sources. Previous SEDPs had drawn exclusively on Government data sources. Importantly for a discussion on poverty reduction, the focus in earlier discussions had been on MOLISA's poverty estimates, which as noted earlier were lower than those produced by the GSO and were constrained by the resources available to support targeted programs.

- A costing exercise, attempting to link plans and resource requirements. Though far from perfect, this was a first attempt to link strategically defined objectives and resource requirements.
- An annual reporting exercise which was also open to consultation outside Government. The international community provided support to ensure that Government had the resources to draw on a wide range of material from inside government and from the broader research community.

Interviews with stakeholders both inside and outside Government suggested that the CPRGS was an important landmark in the way poverty was conceptualized in Vietnam. Before the CPRGS, poverty was seen in relatively narrow terms and the key instrument in the fight against poverty was the Government's Hunger Eradication and Poverty Reduction (HEPR) program managed by MOLISA. The signaling in the CPRGS, however, was that poverty was an issue that cuts across sectoral boundaries and thus fundamental to the work of central agencies as well as line ministries. Some key principles of CPRGS were subsequently integrated into National Target Program for Poverty Reduction (NTP-PR) as the successor of HEPR.

As the timeframe for the CPRGS came to a close, the Government took a decision that Vietnam would not have a separate strategy for poverty reduction (and a new free-standing PRSP) but instead the perspectives incorporated in the CPRGS would be included in the preparation of the SEDP. Guidelines sent out by MPI to ministries and provinces required SEDP drafting teams to adopt more open and consultative approaches as they prepared their plans and recommended the

use of a wide range of background information. Effective collaboration between the international community, domestic civil society and the Government generated considerable energy around creating and sustaining a consultative process. At an early stage, for example, NGOs collaborated with MPI to facilitate consultations at the community level in poor areas and multiple drafts of the SEDP were circulated widely for comments. Consultations were also organized with the private sector, local NGOs and academia, and MPI even arranged a consultation with Vietnamese overseas scholars to get their views and feedback

A results-based M&E system was developed for the 2006-2010 SEDP. Inter-ministerial groups were set up and extensive hands-on training provided on results-based M&E systems, with support from the World Bank and other development partners. The draft M&E framework was refined several times, all with participation of the line ministries and provincial officials, and at the end of the process, MPI issued Decision 555 with the results-based framework. This was the first time that a results-based M&E framework was adopted by the Government of Vietnam.

The process for preparing the 2011-2015 SEDP was somewhat less open and consultative than the previous SEDP – for example, although there were consultations with provincial officials, parallel consultations with local communities were not carried out. This is despite the fact that government decisions and guidelines surrounding the preparation of the 2011-2015 SEDP similarly required a participatory and open process. However many of the important innovations that resulted from the CPRGS work were retained in the 2011-2015 SEDP: it is

based around a set of clearly defined objectives, includes a balanced discussion of poverty and social concerns as well as policies to promote industrialization and rapid urbanization, and MPI is working already on a new results-based M&E framework.

MPI has been working for several years on a new regulatory environment for planning and is preparing a Decree on planning for issuance in the near future. The release of this Decree will help develop a more mainstream approach for strengthening strategic planning for poverty reduction at sub-national levels. In addition, it will reinforce the on-going support of a number of development partners in reforming provincial planning processes. As part of the future partnership, the World Bank and other DPs could provide support to disseminate the approaches set out in the new Decree to ministerial and provincial audiences, also support early implementation. In a related point, concerns have been raised in recent years that Vietnam's broader approach to poverty reduction has

become fragmented and not well-coordinated, albeit recognizing that Resolution 80 has made some progress towards resolving this.

Key Lessons and Future Plans

The CPRGS was an important landmark in the Government-World Bank partnership on poverty reduction. It helped with the temporary testing of new planning approaches in parallel with official planning processes (i.e. official five-year plans) and thereby supported experimentation and testing of new approaches. Notably, many of the innovations introduced under the CPRGS have been integrated into the SEDP preparation process.

Looking forward, the World Bank is keen to continue to support the Government of Vietnam in developing and implementing more open, consultative planning processes; we recognize that reforms of this nature are part of an ongoing long-run process.

CHAPTER V

PARTNERSHIPS IN POLICY FOR POVERTY REDUCTION

The World Bank – Government partnership on policy reform targeted at poverty reduction was based around three key pillars:

the reform agenda and national objectives set out in the strategic planning documents for poverty reduction and growth (first the interim PRSP, then Comprehensive Poverty Reduction and Growth Strategy, followed by the SEDP 2006-2010);

extensive analytic work, including Poverty Assessments and related studies, but also the series of annual Vietnam Development Reports (VDRs) that focused on key challenges set out in the Government’s reform agenda; and,

Poverty Reduction Support Credits (PRSCs) that financed elements of the reform agenda that were considered priorities for achieving socially-inclusive growth.

Dialogue and influence, of course, also took place outside this basic architecture. Informal and off-the-record advice, based on a relationship of trust, was equally as important as some of the higher profile interactions that took place. The “soft rain” approach to continuous and low-key dialogue (for example, sending counterparts graphs and tables when needed, informal exchanges between Bank and Government counterparts, providing advice at the end of the phone when briefs were required for ministers or feedback required on draft regulation) has been a valued channel of support. However, this central structure triangulating government strategies, analysis and policy-based financing was at the core of the dialogue and the money that flowed through the PRSC established the basis for a credible partnership on policy issues for reform.

Vietnam was an early pioneer of new World Bank policy instruments to support poverty reduction, bringing one of the first Poverty Reduction Support Credits (PRSC) to the Board in 2001. Though the first PRSC grew out of an operation originally designed as a more traditional structural adjustment credit, the series of PRSCs that were approved over the following decade broadened in focus to mirror the three core elements of the strategic plans for poverty reduction; actions in the first PRSC focused on structural reforms and public expenditure management reforms. As the series progressed, however, the balance tipped to include a growing number of actions focused on social inclusion, natural resource management and important governance reforms (Table 2).

This shift did not happen by accident. There was a clear decision within the Bank that the PRSCs should be the key instrument to support macro-policy reforms, and that the instrument should provide balanced support across the broad front of development challenges to pro-poor growth. Aiming High, the Vietnam Development Report for 2007, epitomizes this approach, providing a commentary on the SEDP 2006-2010 which clearly identifies reform challenges and priorities.

By 2011, the PRSC was an unprecedented series of ten consecutive budget support operations, involving fourteen Development Partners and more than fifteen counterpart agencies in the Government. The programmatic series mobilized around \$1.5 billion in IDA support from the World Bank. Many Development Partners supported the PRSCs over the period, supplementing IDA resources with over \$1.1 billion in grant and additional loan financing. The PRSC has been rated highly by a number of independent evaluations for both the quality of its policy

Table 2: Policy Actions Included in PRSC1 through PRSC9, by Sector

	PRSC1	PRSC2	PRSC3	PRSC4	PRSC5	PRSC6	PRSC7	PRSC8	PRSC9
Number of sectors	5	12	15	16	18	15	17	17	17
Number of ministries/ agencies	5	10	12	20	21	21	21	21	26
Total number of policy actions	18	20	41	44	46	39	38	32	30
TOTAL BUSINESS DEVELOPMENT	15	11	21	20	18	17	15	10	11
Global Integration	3	3	5	5	2	2	3	2	1
State Sector Reform	4	3	3	5	4	4	1	1	3
Financial Sector Reform	6	3	7	6	7	2	3	3	4
Private Sector Reform	2	2	3	1	3	6	3	2	2
Infrastructure	0	0	3	3	2	3	5	2	1
TOTAL SOCIAL INCLUSION	0	2	4	5	7	6	9	5	6

dialogue and its development impact. Given its success, the PRSC grew very rapidly in scope. This created coordination challenges, and some fatigue, which impacted on the quality of the dialogue in some sectors in more recent years. Independent evaluations have recommended to narrow the scope, with fewer triggers and policy actions.

Key Lessons and Future Plans

With the PRSC series drawing to an end, the Bank has initiated, at the Government's request, discussions on a follow up operation: an Economic

Management and Competitiveness Credit (EMCC). Like the PRSC, the EMCC is expected to be a multi-year, multi-donor operation starting in FY12 and ending in FY16. The operation proposes to focus on critical reforms to enhance competitiveness, which is central to sustained growth and poverty reduction in Vietnam. The strategic and analytical underpinnings for the EMCC are drawn from the SEDS 2011-20; the Competitiveness pillar of the CPS; the National Competitiveness Report; and recent Vietnam Development Reports.

Competitiveness is a function of many factors, but one of the lessons learnt from the PRSC series is the importance of a focused reform agenda

under one budget support operation. The EMCC will therefore concentrate its dialogue on reforms to strengthen macroeconomic stability, and institutions for public sector governance and private sector development. It may also include cross-cutting issues related to infrastructure and skills, which are also critical to enhancing competitiveness. It will not address these directly, but rather complement other support provided on infrastructure and skills.

Promoting competitiveness should help to

sustain growth and poverty reduction gains, as Vietnam's economy transitions from endowment-based growth to increased productivity. The EMCC aims to look at the poverty and social impacts of specific triggers. For example, the macroeconomic stability component could include policies to lessen the social impact of macroeconomic instability (such as price rise or increase in unemployment). It could also include Public Investment Management reforms to contain the adverse impact of public investment projects on the environment.

CHAPTER VI

PARTNERSHIPS IN INVESTMENTS FOR POVERTY REDUCTION

While filling knowledge and technical gaps has been an important feature of the Government – World Bank Partnership, lending resources on concessional terms for projects has been at the core of the partnerships for poverty reduction over the last two decades. The Bank has financed many projects that have contributed to poverty reduction including projects in basic education and provision of health services, urban development, rural electrification, and transport, irrigation, agro-forestry, agricultural diversification, and rural finance (ref. Appendix 3 in Govt’s report for a detailed list). This section describes some of the important project-based partnerships that have specifically targeted poverty reduction through decentralized and community-based development activities.

The earliest projects that were approved following the re-establishment of relations had little in the way of explicit poverty objectives; the absence of reliable, disaggregated data on poverty meant that targeting would be hit-and-miss and the high levels of poverty in any case suggested that poverty was so widespread that activities almost anywhere would reach the poor. Towards the late 1990s, building on findings from the 1993 and 1998 VLSSs and a number of complementary ‘participatory’ poverty assessments, the World Bank developed two projects that focused on community based development in poor areas. These projects, the Community Based Rural Infrastructure Project (CBRIP) and the Northern Mountains Poverty Reduction Project (NMPRP), drew on the experience of smaller scale activities that were already underway with the support of UNCDF, IFAD and the Viet Nam – Sweden Northern Mountains Rural Development Project (MRDP). They shared an emphasis on decentralized

decision-making processes, with CBRIP focusing more on the participatory development of small-scale infrastructure and the Northern Mountains project tackling more frontally the processes of planning, budgeting and management of resources at the commune level.

Both projects came under the jurisdiction of the Ministry of Planning and Investment (MPI), allowing them to tackle structural issues of decentralization in a way that would have been more constrained had the projects been under the auspices of Ministry of Agriculture and Rural Development (MARD). At a time when MPI was taking on expanded responsibilities for strategic planning for poverty reduction, it was therefore also developing strengthened responsibilities for pioneering more community-based approaches to local development investments and learning from this experience. The establishment of the Partnership to Assist the Poorest Communes (PAC) working group brought together government officers working on decentralized, community based development and provided a vibrant knowledge-sharing and discussion forum connecting a range of initiatives and generating a momentum around these approaches. Though there were some issues of overlap with the Poverty Working Group, the PAC clearly added dynamism to this agenda; as testimony to the value of the PAC, the project management unit (PMU) of the follow-up Second Northern Mountains Poverty Reduction Project (NMPRP-2) is requesting financing to provide a similar forum to support the second project.

In its initial stages, the NMPRP was challenged by mismatches between proposed project approaches on the one hand and Vietnamese regulations on the other. The project was slow to

start and for a couple of years there were concerns within the World Bank about slow progress, but activities took off and the ex-post evaluation categorized the operation as satisfactory in terms of reaching poverty reduction objectives.

Subsequent developments suggest that the medium term “prize” from persisting with early-project problems and through some years of very low disbursements has gone well beyond the outputs of the projects themselves. Table 3 charts the interactions between the CBRIP and Northern Mountains projects on the one hand and changes to the regulatory framework for decentralized, community-based development on the other. This impact has not been quick – there was a ten year process from the start of investments to eventual, nation-wide reform in these areas. However, the potential impact of the reforms generated by the investments is significant in terms of shifting business processes for local development to be more inclusive, more participatory and more accountable. The Northern Mountains and CBRIP projects, along with other donor projects and with the policy-based support to Program

135-2, created the experience and knowledge for a number of reforms which have supported and facilitated commune-level management of development activities.

The Bank and other DP’s policy-based support to Program 135 has been able to consolidate and institutionalize some of the reforms initiated in the earlier community-based projects. However, despite its many positive impacts, particularly on infrastructure in more isolated regions of Vietnam, Program 135 has proven less effective as a tool for piloting further reforms or innovations in approach. The second Northern Mountains project is designed to extend the progress that has been made in community-based development over the last 15 years or so and provide an instrument for really institutionalizing the role of the commune development budget.

Key Lessons and Future Plans

A number of important lessons were learned as a result of Government – World Bank partnerships to reach poor and ethnic minority populations

Table 3. Evolution of Commune Investment Ownership: From Projects to National Policy

1995-2000	UNCDF Rural Infrastructure Development Fund (RIDEF) introduced commune managed investment budgets for infrastructure in Quang Nam Province
1996-2002	Vietnam Sweden Mountain Rural Development Program (MRDP) introduced commune and village development funds in 64 communes in 5 provinces (Lao Cai, Yen Bai, Ha Giang, Phu Tho & Tuyen Quang) including small-scale infrastructure, agriculture production activities, natural resources management, training.
1998-2004	Tuyen Quang Province assigns the Commune Peoples Committee to act as investment owner under Program 135 (Phase I) in 54 poor communes in the province. Although not part of Program 135 guidelines at the time, Tuyen Quang took on a ‘fence-breaking’ initiative.

1998-2002 Preparation for the World Bank financed Community Based Rural Infrastructure Project (CBRIP) and Northern Mountains Poverty Reduction Project (NMPRP) as the first Community Driven Development (CDD) projects supported by World Bank in Viet Nam. From the outset, it was agreed the preparation process should be led by the Government, with support from the WB and consultants as required. During this process, it was agreed under both projects the communes should be the investment owners and managers for a portion of the funds. The design of CBRIP drew largely on RIDEF, while the design of the Commune Development Budget Component (CDBC) under NMPRP drew more on the experience from MRDP.

2003 Implementation period of CBRIP (611 communes in 13 provinces) and NMPRP (368 communes in 6 provinces). In the same period, commune and/or village development funds/budgets were also 'piloted' by several other donor-supported projects including IFAD projects (Tuyen Quang, Ha Giang, Ha Tinh), GTZ (Action Program 2015), AusAID (in Quang Ngai) and CIDA (in Thanh Hoa). A majority of these projects were working in 'poor communes' (remote, mountainous, ethnic minority areas). Together with the later experience from Program 135-Phase II, this meant that a majority of communes working as 'investment owners' were disadvantaged communes where capacity was initially weakest – not better-off communes. Of all these donor-supported projects, NMPRP was the only one to introduce official financial management guidelines (Circular No. 90/2003/TT (24/09/2003) issued by Ministry of Finance guiding the financial management mechanism for the Commune Development Budget Component of NMPRP) incorporating specific procurement regulations for Community Participation Procurement (CPP).

2002 - 2007 World Bank commissioned a study on CDD in Vietnam under the Country Assistance Strategy (2003 to 2006) with the intention that the findings would support both on-going and future projects in the rural sector. This study reviewed initial experience with commune/village development funds/budgets as well as experience from Program 135 Phase I.

2006 - 2010 Partnership to Assist the Poorest Communes (PAC) received support from ASEM-EU Grant (managed through IDA). Various thematic research studies, workshops, publications and other activities of PAC were designed to capture and disseminate lessons and experience from the work around commune investment ownership and budget management (e.g. capacity building, procurement methods, operations and maintenance of infrastructure etc.).

2008	Design and implementation of Program 135-Phase II incorporating commune investment ownership for small scale infrastructure (under 3 billion VND). Program of joint donor budget support for P135-II.
2010	<p><i>In lead up to SEDP 2011-2015:</i></p> <ul style="list-style-type: none"> ■ Resolution No.26/NQ-TW (05/08/2008) of the 7th Congress by Session X of the Central Executive Committee on agriculture, farmers and rural areas.
2011	<p>Two regulatory documents issued, both stating that the 'Commune Management Board for new rural areas is the investment owner for infrastructure in the locality'.</p> <ul style="list-style-type: none"> ■ Decision No.800/QD-TTg (04/06/2010) of the Prime Minister approving the National Target Program on New Rural Development in the period 2010-2011. ■ Circular No.18/TT-BKH (27/07/2010) of Ministry of Planning and Investment guiding investment management in 11 communes for the scheme to develop pilot models for new rural areas. <p>Pilot activities undertaken in 11 communes in 11 provinces nationwide.</p> <ul style="list-style-type: none"> ■ Inter-Ministerial Circular No.26/TTLT-BNNPTNT-BKHDT-BTC (13/04/2011) of the Ministry of Agriculture and Rural Development, the Ministry of Planning and Investment and the Ministry of Finance, guiding implementation of Decision No.800/QD-TTg (04/06/2010) approving the National Target Program on New Rural Development in the period 2010-2011. <p>The guidelines state that the communes will be investment owners and managers of investments under VND 3 billion, districts for over 3 billion (as under Program 135-II but now applied nationwide). More significantly, perhaps, is that certain key elements of NMPRP experience, in particular, have been incorporated into these guidelines, such as on local procurement methods.⁷ The Department of Agriculture Economy under MPI has a lead role within MPI for this NTP and contributing to these guidelines, and was also responsible for NMPRP and PAC – thus sourcing the lessons and experience.</p>

⁷ Procurement under Circular No.26 states that the selection of contractors follows three forms:

- Community or village groups (the ones who directly benefit from the works) to self-implementing;
- Artisan groups or individuals who have the sufficient capacity;
- Through the existing procurement methods and regulations.

through decentralized and community-based approaches. First, and foremost, institutional change takes time, particularly change at the local level. Projects designed to introduce new approaches to managing resources often collide with existing legislation, which can take considerable time to change. Slow start up, as new approaches are reconciled with guidelines and regulations, is inevitable. But far from being negative, however, this can be one of the strengths of more innovative project approaches. The longer time horizon described above charts significant and sustainable changes in approaches to local development that are rooted in the early years of these projects. Despite these successes, there are still some remaining barriers to CDD-type approaches that need to be tackled, and revisions to the Budget Law are needed for further progress. Second, diversity and experimentation has had an important role. Ongoing efforts for convening a range of actors involved in promoting similar approaches, piloting similar ideas with slightly different twists and in slightly different contexts contributed to the momentum

for broader changes.

Looking forward, greater emphasis should be given to developing and consolidating partnerships at sub-national levels to better focus knowledge exchange at this level. A second Northern Mountains project will continue to apply proven approaches for decentralization and empowerment for poor and ethnic minority communities (in the northwest region), while putting additional emphasis on rural livelihoods support and market linkages. A proposed operation in the Central Highlands would support participatory local planning, infrastructure upgrades, and livelihood strengthening and diversification in districts still facing high poverty rates in an otherwise rapidly growing regional economy. Both operations will strive to deliver their objectives to contribute and complement other national programs on poverty reduction that the Government is embarking on in the recently issued Resolution 80 on Sustainable Poverty Reduction Framework to 2020.

**SOFT RAIN PENETRATES
THE EARTH BETTER THAN A STORM**

VIETNAM - WORLD BANK PARTNERSHIPS ON POVERTY REDUCTION

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