Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

COUNTRY STRATEGY

Swiss Economic Cooperation and Development

Vietnam

2017–2020

Abbreviations

AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
CHF	Swiss Franc
CO2eq	CO2 equivalent
CPV	Communist Party of Vietnam
EFTA	European Free Trade Association
EU	European Union
FDI	Foreign direct investment
FTA	Free trade agreement
GDP	Gross domestic product
GHG	Greenhouse gas
HCMC	Ho Chi Minh City
IDA	International Development Association
IFI	International financial institution
INDC	Intended Nationally Determined Contribution
MIC	Middle-income country
MoF	Ministry of Finance
NPL	Non-performing loan
NUDS	National Urban Development Strategy
ODA	Official development assistance
O&M	Operation & Maintenance
PEFA	Public Expenditure and Financial Accountability Programme
PFM	Public financial management
PM	Prime Minister
SDG	Sustainable Development Goals
SECO	State Secretariat for Economic Affairs
SEDP	Socio-Economic Development Plan
SEDS	Socio-Economic Development Strategy
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
TPP	Trans-Pacific Partnership Agreement
UN	United Nations
USD	United States Dollar
VDF	Vietnam Development Forum
WTO	World Trade Organization

State Secretariat for Economic Affairs SECO –
Economic Cooperation and Development

SECO's Economic Cooperation and Development division is responsible for the planning and implementation of economic cooperation and development activities with middle income developing countries, with countries of Eastern Europe as well as the new Member States of the European Union. It coordinates Switzerland's relations with the World Bank Group, the regional development banks and the economic organisations of the United Nations. SECO is part of the Federal Department of Economic Affairs, Education and Research (EAER).

Switzerland's international cooperation efforts as defined in the Federal Council's 2017–2020 Message on International Cooperation aim to reduce poverty and global risks, alleviate suffering, and promote peace and respect for human rights. Accordingly SECO's economic and trade policy measures strive to support sustainable and inclusive growth. The Economic Cooperation and Development division focuses its activities on its specific areas of competence and experience in four target outcomes aligned with the 2030 Agenda for Sustainable Development: 1) effective institutions and services, 2) more and better jobs, 3) enhanced trade and competitiveness and 4) low-emission and climate-resilient economies. Special emphasis is placed on issues related to economic governance and gender.

Editorial

With the present Country Strategy 2017–2020, SECO reiterates its commitment to supporting inclusive and sustainable economic growth to improve the lives of Vietnamese people.

Today, poverty remains a crucial issue also for middle-income countries like Vietnam. While a number of these countries have experienced significant growth in recent years, the gap between rich and poor has widened in many cases. In an increasingly interconnected world, middle-income countries are often particularly vulnerable to global risks, such as climate change, economic and financial crises, or political instability. It is thus more important than ever to ensure that all sections of the population can benefit from sustainable, resilient economic growth. This is where SECO applies its core competencies and comparative advantages in economic cooperation and development.

In line with the UN 2030 Agenda for Sustainable Development and the Federal Council's 2017–2020 Message on International Cooperation to the Swiss Parliament, SECO aims at fostering sustainable and inclusive growth in its partner countries. Such growth addresses economic as well as social and ecological aspects and shall not compromise the well-being of future generations. It contributes to reducing poverty and the impacts of global risks. It enables the private sector to create more and better jobs and the state to provide adequate services. Competitive economies and effective institutions are also key to reinforcing the resilience of societies increasingly confronted by different dimensions of fragility.

This Country Strategy defines the following three objectives of the economic and trade policy measures deployed by SECO in Vietnam. First, SECO supports effective economic policies and institutions. Second, SECO's measures strive towards a competitive and resource efficient private sector. Third, SECO aims at fostering sustainable and climate-resilient urban development.

Building on lessons learnt and the encouraging results achieved in the past cycle 2013–2016, this Country Strategy sets the frame for SECO's continued activities in Vietnam for the next four years. Based on the goals and priorities described therein, we firmly believe that we can make a significant contribution to Vietnam's further development path.

Marie-Gabrielle Ineichen-Fleisch
State Secretary,
Director of SECO

Raymund Furrer
Ambassador,
Head of Economic Cooperation
and Development SECO

Contents

Country context 5

Development cooperation context 9

Development challenges and SECO's response 11

Programme implementation and management 16

Financial resources 18

Results monitoring 19

1

2

3

1
Vietnam has made rapid progress in economic development in the past thirty years, but inequalities remain.

2
Tea is one of Vietnam's successful export commodities.

3
Vietnam's growth is accompanied by rapid urbanisation and its negative impact on traffic and air pollution.

Country context

Political and institutional

Vietnam's political system has remained stable with the Communist Party of Vietnam (CPV) in power since 1954. The primacy of the CPV has been reaffirmed by the new constitution, approved in 2013. Following the 12th party congress in January 2016, a new political leadership was elected, encompassing both conservative and progressive elements. The new government has pledged to maintain a pro-growth status quo that balances foreign ties and consolidates a consensus leadership. In recent years, Vietnam's National Assembly has become a stronger player, increasing its supervision role of government activity, albeit with no clear separation of powers. The public referendum law adopted in 2015 has paved the way for the public to vote on important policies, and there is now increased public debate through social media. However, leading human rights organisations continue to stress that some universal human rights, such as the freedom of expression and independence of the media, are not guaranteed and that further legal and judicial reforms are urgently needed.

Vietnam is continuing to diversify its relations. The country participates in numerous relevant international and regional cooperation processes. Vietnam has been pursuing a more comprehensive partnership with the USA and the West, for instance through the conclusion of free trade agreements. The collaboration with ASEAN countries has been further strengthened through the ongoing implementation of the ASEAN Economic Community. Relations with China remain complex and are characterised by cultural influence and close economic ties but also territorial disputes in the South China Sea.

Rapid economic liberalisation and social change maintain pressure on the government's reform agenda. The CPV has to address further reaching reforms and increase transparency and accountability to the public. In this regard, relevant new legislation has recently been adopted by the National Assembly, including the Law on Governmental Organisations, the Law on Local Governments, the State Budget Law, the Law on Public Capital Investment, and the Enterprise Law. These are fundamental factors for a market economy to function effectively and efficiently. The new constitution enables further decentralisation and promotes more openness and transparency.

Economic

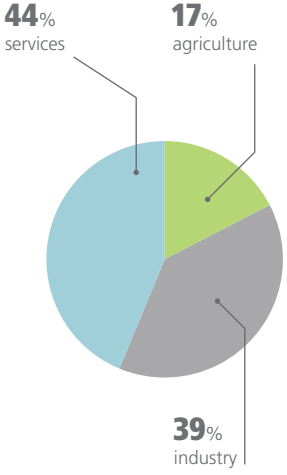
Vietnam achieved unique success in economic development and poverty reduction since the start of "Doi Moi" (renovation policy) in 1986. This resulted in a fivefold growth of its economy and achievement of lower-middle-income status in 2010. The average annual GDP growth between 2006 and 2015 was 6.1%. Still, GDP per capita in Vietnam in 2014 (USD 2,052) was only one-sixth of the world average and a third of Thailand's GDP per capita.

Growth has been generated through some bold steps in global market integration, the key milestones being the lifting of the US trade embargo in 1994, the accession to the Association of South-East Asian Nations (ASEAN) as well as the World Trade Organization (WTO) in 2007. Recently, economic integration has been enhanced through the conclusion of several free trade agreements (FTA), most significantly the Trans-Pacific Partnership Agreement (TPP) – pending its entry into force – and the FTA with the EU in 2015. With increased trade flows and FDI, Vietnam became a highly integrated and open economy. The TPP and EU FTAs are expected to accelerate Vietnam's GDP growth and to reduce its dependency on China, making it less vulnerable to external shocks. The reform agenda, covering efforts to continue improving the business-enabling environment and core labour standards, has gained momentum on the back of the commitments of new FTAs.

However, further and more fundamental reforms are needed for the country to avoid the "middle-income trap". The characteristics of Vietnam's economy are decreasing productivity growth and low added value, with the country relying mainly on cheap labour and capital accumulation. Indeed,

Economic sectors in Vietnam

Primary (agriculture), secondary (industry) and tertiary (services) sector in %.
Source: Central Intelligence Agency, World Factbook (2015)



structural transformation towards labour-intensive industries and services has been the driver of economic growth, and the country continues to rely heavily on FDI. In addition, cheap inputs from China have distracted the country from the opportunity to develop its own supply industries.

The reasons for low productivity growth are manifold: a private sector, and in particular SMEs, lacking in competiveness and innovation capacity, inefficient public investments, high levels of corruption, and the privileged allocation of land and capital towards state-owned enterprises (SOE). The private sector continues to be excluded from competing with SOEs in several key economic sectors. Furthermore, almost 50% of the workforce is still engaged in the agricultural sector, which is less productive than in other MICs in the region.

Vietnam's financial sector remains at an early stage of development, with the banking sector accounting for over 80% of the capital market. The penetration rate is low, with less than 30% of the population having access to financial services. Nonetheless, the market has opened up more recently, leading to the increased presence of foreign banks. Still, reform progress has been marginal in the aftermath of the financial crisis, with Vietnam taking a very cautious and gradual approach. To date, efforts to restructure the banking sector have focused mainly on reducing non-performing loans (NPLs). Observers criticise the lack of market-based solutions and call for more decisive and ambitious reform steps. On a positive note, macroeconomic stability has been maintained and the State Bank of Vietnam has made progress in addressing the core weaknesses of credit institutions, namely cross-ownership and fragmentation. As of 2016, the number of domestic commercial banks has been reduced to 31, from 42 in 2012, and further mergers and acquisitions are expected.

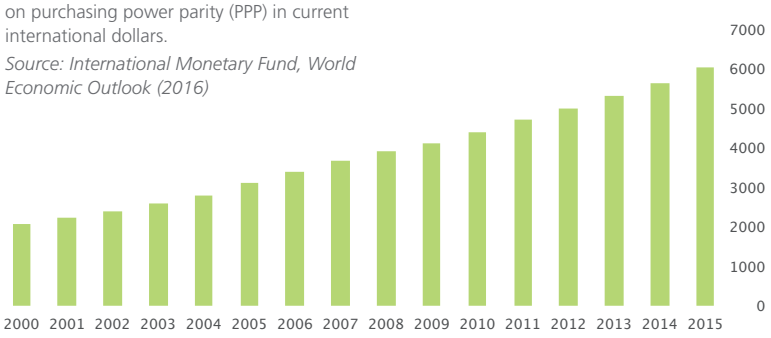
The SOE sector still poses a major concern due to its poor efficiency and a large stock of NPLs. Notwithstanding many years of reforms, the share of the state sector has remained stable at 33% of GDP. Resistance to reforms comes mainly from vested interests. SOEs represent major contingent liabilities for the state as well as a risk to the banking sector's resilience. The complexity of SOE ownership structures as well as a lack of transparency make it difficult to determine the exact levels of risk and exposure.

Personal connections rather than competitiveness play an essential role for successful business, including in sectors where private companies can compete with SOEs. Most businesses in Vietnam are small-scale and lack access to capital, technology and skilled labour. They face challenges in complying with new regulations to compete in global markets and they fail to participate in global value chains. Textile, agriculture, fishery, handicraft and wood processing will be most affected by the TPP and EU/FTA, as they will face intensified regulation and competition.

GDP growth of Vietnam

Gross Domestic Product (GDP) per capita based on purchasing power parity (PPP) in current international dollars.

Source: International Monetary Fund, World Economic Outlook (2016)



Social and environmental

While Vietnam secured inclusive economic growth in recent decades, with the inequality index (Gini) remaining at a relatively low level (0.43 in 2014), several studies indicate that inequalities are rising and social cohesion is at a crossroads. Poverty remains significant among ethnic minorities, the elderly and female-headed households, and social protection is increasingly fragile. While ethnic minorities represent less than 15% of the population, they accounted for nearly 50% of the poor in 2010. In addition, the rapid aging – that will leave Vietnam with one-third of its population over 60 years old in 2030 – is putting pressure on social security systems. Already today, nearly half of the over-60s do not have any pension or financial support.

Employability remains a key concern as many young Vietnamese are inadequately skilled when entering the labour market, despite high labour force participation and a low unemployment rate. This has been a constant problem for growing businesses, which struggle to find qualified employees. The rural population, in particular, lacks access to quality

education, and the labour market mismatch is accentuated by migration flows from rural to urban areas. Furthermore, Vietnam's compliance with international core labour standards remains insufficient. Social dialogue, freedom of association and collective bargaining will remain key issues on the reform agenda.

Vietnam's environment is under heavy pressure due to rapid urbanisation and population increase (to reach 100 million by 2020). In addition, the economic development relies heavily on natural resources and is characterised by high energy intensity. This has led to a rapid increase in greenhouse gas (GHG) emissions and severe depletion of the biodiversity. As a country prone to natural disasters, with a long coastline and the low-lying Mekong Delta and the Red River Delta, Vietnam is deemed one of the five countries most vulnerable to climate change. For example, a strong, long-term rise in the sea level could displace some 15 million people in the Mekong Delta alone and inundate half of its three million hectares of agricultural lands, which currently produce half of Vietnam's rice harvest and 80% of Vietnam's fruit crop. The potential impacts of climate change are expected to be strong in key socio-economic sectors such as agriculture, forestry, fishery, energy, transportation and health. The demand for adaptation measures for resilient livelihoods and infrastructure is expected to increase significantly in the future.

Protection of the environment and response to climate change has therefore received greater attention from the government. While several environmental laws were passed, enforcement thereof remains an issue. Vietnam's INDC, i.e. intended contribution, of an 8% reduction in GHG by 2030, with an option to increase up to 25% with international support, is regarded as insufficient. Much remains to be done to improve resilience to climate change and to avoid natural degradation, severer health risks, or further depletion of biodiversity and other natural resources.

GINI-coefficient of Vietnam

0.43

Degree of income inequality within the population (0 = complete equality; 1 = complete inequality).

Source: General Statistics Office of Vietnam (2014)

Bilateral economic relations

Switzerland was one of the first Western countries to open an embassy in Vietnam and, in 2016, the two countries celebrated their 45th anniversary of diplomatic relations. Bilateral agreements are in force for the protection of investments (1992), against double taxation (1996), and the protection of intellectual property rights (2000). A General Consulate was opened in HCMC in 2015, highlighting the increased level of bilateral economic relations between the two countries. Negotiations for a free trade agreement between Vietnam and the European Free Trade Association (EFTA), of which Switzerland is a member, started in 2012 and have been ongoing in 2016. Negotiations will include a chapter on possible cooperation and capacity building, and SECO-financed activities in the area of trade will help Vietnam to benefit even better from the agreement.

In 2015, the trade volume between Switzerland and Vietnam amounted to CHF 1,473 million, with a deficit for Switzerland of CHF 481 million. Switzerland mainly imports machines, including electrical machines (35.9% of total imports), shoes and umbrellas (18.0%), and textiles and garments (13.9%). The three major categories of Swiss products exported to Vietnam are pharmaceuticals (39.5%), machinery (30.5%), and optical and medicine instruments (6.7%). By the end of 2015, Switzerland's industries had invested around USD 1.8 billion in Vietnam. The bulk of these investments can be allocated to one of four manufacturing (industrial) sectors: construction, food and food processing, mechanical, or pharmaceutical-chemical. Additionally, more and more highly specialised SMEs are starting to take an interest in choosing Vietnam as a production base. The number of such investments has doubled in recent years. According to Vietnamese figures, Switzerland was ranked 19th out of 94 countries in 2015 as an origin of FDI (cumulated amounts). This makes Switzerland the fourth largest European investor in Vietnam.

1
Integrated urban planning is crucial for the sustainable development of cities.

2
Investment in skills development and learning from international best practices is a prerequisite for further economic growth.

3
Vietnam faces continued infrastructure investment needs that have to be balanced with scarcer public resources.

Development cooperation context

Partner country development strategy

Vietnam's development strategy is mainly guided by the Socio-Economic Development Strategy (SEDS) for 2011–2020, as well as the Socio-Economic Development Plan (SEDP) for 2016–2020. The SEDS affirms the change in the growth model and the restructuring of the economy, with the focus on macroeconomic stability, productivity, environmental sustainability and social equity. Three breakthrough areas are promoted as fundamental drivers for the planned industrialisation and GDP per capita of USD 3,261 by 2020: improving market-economy institutions, infrastructure development, and development of skilled human resources. In this respect, the SEDP identifies a broad implementation programme with key reform measures geared towards agricultural and industrial restructuring, service modernisation, enterprise competitiveness, green economy and strengthened science and technology capability. It reaffirms the relevance of fostering favourable conditions for the private sector and access to skilled labour for improved competitiveness, ensuring macro stability and sound public debt management, promoting inclusiveness and safeguarding of the environment.

Furthermore, after two years of intensive collaboration between the government of Vietnam and the World Bank, the landmark report Vietnam 2035 was released in early 2016. The report describes the necessary reforms for Vietnam to reach an upper-middle-income status in two decades. It compares Vietnam with historic growth trajectories of other regional economies, such as China and Korea, and identifies a series of bottlenecks in the long-term socio-economic development of Vietnam. For example, the survey reveals that Vietnam's labour productivity was the lowest in the Asia-Pacific region. The report highlights three main areas of focus: improving productivity and private-sector competiveness, promoting equity and social inclusion, and improving public sector effectiveness. Attention is drawn to tackling poor labour productivity and weak innovation, ensuring equality and social inclusiveness, and fostering integrated urbanisation processes and environmental resilience. Finally, Vietnam's strong commitment to the Post-2015 Development Agenda and the sustainable development goals will guide its future development strategy.

Donor landscape

Overall, official development assistance (ODA) for Vietnam has been relatively stable, but the donor landscape and the composition of ODA is changing. While IFIs are expected to maintain current lending volumes (or possibly even increase with the creation of AIIB), loans might be provided on less concessional terms in future, as a result of the expected IDA graduation. Grant ODA from bilateral donors is being reduced considerably as several donors have phased out their bilateral development cooperation, or announced their intention to do so, due to the country's middle-income status. Many bilateral donors are transitioning their ODA activities towards bilateral trade interests and now actively involve their private sector and academia into their cooperation with Vietnam. The main bilateral donors besides Switzerland that have remained actively engaged in Vietnam are Japan, Korea, the US, the European Union, Germany, Canada, France, and Australia.

The Ministry of Planning and Investment has developed a new ODA strategic framework for 2016–2020. This sets the framework for the mobilisation, management and utilisation of ODA to support the development goals of the SEDP 2016–2020. Concessional loans are the main focus and are used exclusively for capital investment, while bilateral donors' grants are intended to be used for specific niches of competence and knowledge transfer.

The principles of aid effectiveness remain highly relevant. Activities around the Vietnam Development Forum (VDF) allow for donor coordination and high-level policy dialogue with the Vietnamese government on development priorities and related modalities. On the technical level, donors are involved in sectoral donor coordination groups to ensure effective harmonisation among development partners.

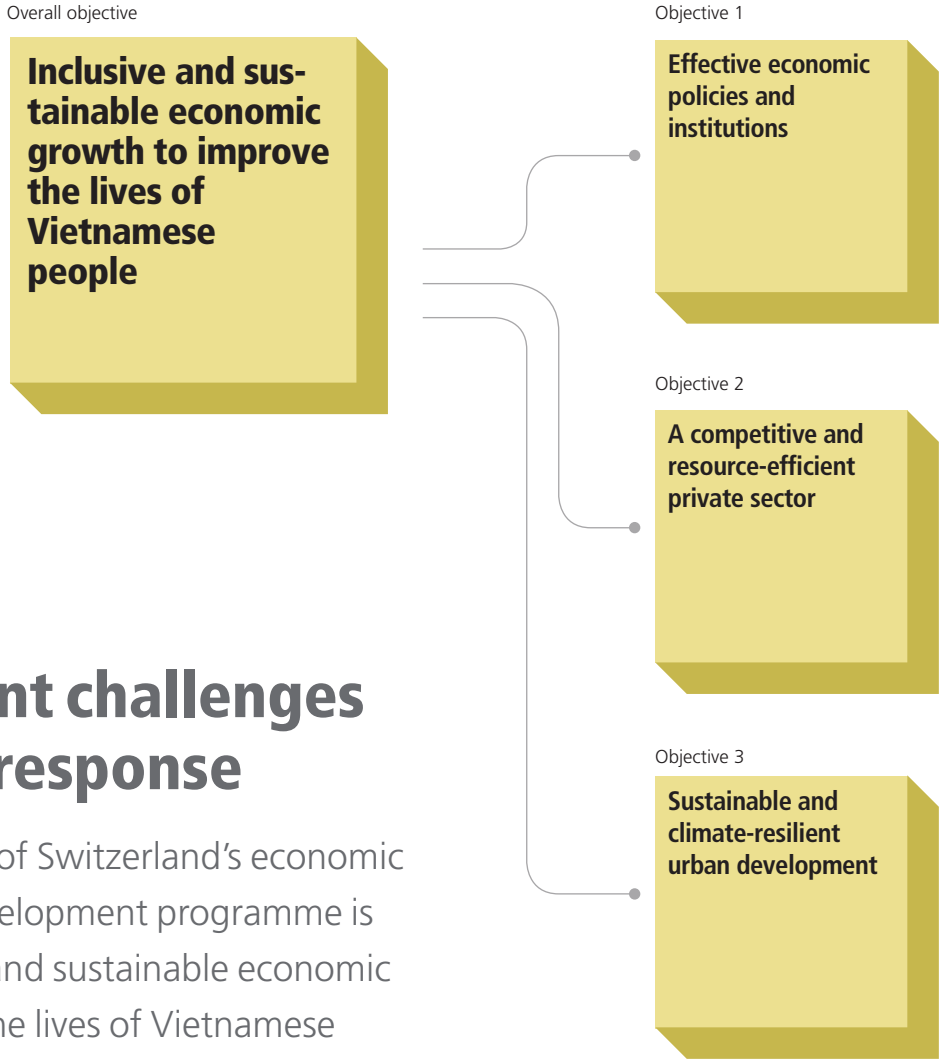
Lessons learnt from 2013–2016

The SECO Country Strategy 2013–2016 for Vietnam set the right strategic directions by focusing on sound framework conditions for inclusive and sustainable growth, enhanced productivity and increased competitiveness of SMEs, and promotion of environmentally friendly policies. This has been demonstrated by a significant match with the government's policy agenda. Internal and external evaluations throughout the portfolio confirm satisfactory development results achieved. However, SECO's portfolio has been fragmented around too many topics, missing opportunities to create synergies and reach a critical mass of interventions in selected sectors. For each objective, therefore, the current strategy distinguishes between first and second-priority interventions so as to guide future portfolio development, while at the same time leaving scope for emerging opportunities and niche areas.

A crucial prerequisite for successful reforms is high ownership by the government and a holistic approach in terms of capacity building. This has been a precondition for SECO-supported reforms working on economic governance and market principles such as public financial management (PFM), banking sector reform, and improvement of a business-enabling environment. Activities have to be properly sequenced in keeping with the progress of government reforms and ensure efficient use of ODA. In Vietnam, enforcement of reform steps is often hindered by a fragmented and contradictory legal framework, vested interests, insufficient knowledge on the beneficiary side (e.g. enterprises) and challenging inter-ministerial collaboration. Project design needs to account for these challenges by offering capacity-building activities at several levels (individual, institutional and system-wide) and awareness-raising activities among the wider public.

Stronger political decentralisation opens avenues for donor partners to increasingly work at a subnational level. SECO will seek to build on these opportunities through an extended infrastructure portfolio on integrated urban planning but also targeted activities from other divisions. However, it needs to be assured that engagement at a subnational level does not lead to additional geographical fragmentation of the portfolio. SECO will therefore carefully select its partners based on the results of existing projects at the national level (e.g. PFM, Vietrade) or topics of particular strategic relevance (e.g. urban development). SECO will also assess the feasibility for programmatic approaches at a subnational level to support policy implementation, while at the same time strengthen the feedback mechanism for policy formulation at the national level.

The relevance of programmes that strengthen inclusiveness has increased in a context of greater disparities and inequality. Within its mandate on economic development cooperation, SECO can address social and environmental aspects as well as labour rights to promote sustainable economic growth that creates new opportunities and evenly distributes economic benefits among economic actors. Given the pressing challenge of the "missing middle" and the role of SMEs in employment generation, the focus on SMEs will be further increased in, for instance, access to finance. The same is true for reforms that address financial inclusion and the strengthening of economic value chains. Moreover, the present strategy places increased focus on sustainable and climate-resilient urban development, thereby mitigating the risk of Vietnam's accelerating urbanisation and increasing the number of urban poor.



Development challenges and SECO's response

The overall objective of Switzerland's economic cooperation and development programme is to support inclusive and sustainable economic growth to improve the lives of Vietnamese people. This goal is further specified into three objectives which contain clearly defined priorities, addressing both the public and private sectors. Environmental protection and climate change is addressed as a cross-cutting topic.

The three objectives have been defined based on 1) the Swiss framework credit 2017–2020, 2) the partner government's priorities and feedback, 3) external consultations and general context analysis, as well as 4) SECO's track record, experience and lessons learnt from the cooperation strategy 2013–2016.

1
SECO fosters transparent and reliable public financial management systems.

2
The high resource intensity of Vietnam's industrial development offer opportunities for investments in clean production.

3
SECO strives for better working conditions in Vietnamese factories.

4
Environmental pollution from waste water and solid waste poses serious health risks in Vietnam.

Objective 1

Effective economic policies and institutions

Under this objective, SECO supports growth-conducive economic policies and institutions that are fundamental for Vietnam's sustainable development. First, SECO supports public-sector reforms targeting more efficient and effective mobilization, allocation and use of public resources. Second, SECO promotes the development of a stable and well-developed financial sector to ensure efficient capital allocation to growing businesses.

Challenges

Maintaining a stable macroeconomic environment through strong market institutions is paramount for economic growth. Sound public financial management (PFM) can allocate scarce resources to productive sectors to create wealth for the people, but only if it embraces the principles of efficiency, accountability and transparency. Vietnam has addressed some necessary reforms to develop sound macroeconomic policies. Nonetheless, there are calls to further improve revenue collection, budget planning and management, as well as capital allocation. Following the decline in global oil prices, the state budget revenue has been eroding fast, and public expenditure has not yet been adjusted in response. As a result, some macro indicators, such as the notoriously high budget deficit and the recent increase in debt levels, are causes for concern and merit close attention. At the same time, the country may have to deal in the near future with increasing borrowing costs as a consequence of its expected IDA graduation. In this context, it is paramount to ensure effective public investment and set up efficient public infrastructure management and cost recovery schemes.

Furthermore, the financial sector urgently needs to be strengthened in line with international good practices so as to supply affordable capital for domestic businesses. Although financial inclusion has increased, access to finance for SMEs is still a concern despite their key role in the Vietnamese economy and the fact that, to a large extent, the rural population remains unbanked. Moreover, the regulatory and supervisory framework in the financial sector remains inadequate. Financial institutions lack adequate risk management capacities as well as segmentation and diversification of financial products.

Focus

As a first priority, SECO focuses on public financial management reforms. Support can be provided in both the design of state budget planning and execution policies at national and subnational levels. SECO promotes international good practices and improvements of PFM systems, which can be monitored with the help of diagnostic instruments, such as the Public Expenditure and Financial Accountability Program (PEFA). To guarantee the sustainability of development policies and macroeconomic stability, the overall fiscal risk management capacity merits increasing support, given the increasing public and publicly guaranteed debt level in conjunction with the constraints for accessing concessional funds. The Ministry of Finance (MoF), as SECO's direct partner, is committed to these reforms, and an excellent collaboration has been built up in the past.

As a second priority, SECO pursues activities in the financial sector predominantly focusing on the banking sector, given its urgent needs and its dominant role in the market. SECO supports implementation of critical reforms and improved capacities in financial institutions and at the State Bank of Vietnam. In addition, SECO supports strengthening of the financial market infrastructure and fostering the integrity and resilience of the financial sector. Ultimately, this is also expected to help increase the private sector's access to finance, leading to economic growth and job creation.

Proposed SECO measures

- Provide programmatic support to strengthen the Vietnamese PFM system and the fiscal decentralisation process and to improve transparency and accountability by helping the government to improve horizontal planning and oversight, public expenditure and fiscal management and revenue mobilisation at the central and subnational levels.
- Strengthen regulation, supervision and governance to support financial sector integrity and stability and provide technical assistance and capacity building for the central bank and financial sector participants.
- Work with government and financial institutions in Vietnam on the capital market development to improve access of SMEs to mid- and long-term investment capital and support the development of key financial infrastructures.

SECO contributions

First priority

- **Transparent resource mobilisation and reliable public financial management**

Second priority

- Stable and deep financial sector
- Access to long-term capital

Contribution to Vietnam's country development objectives

Improving market institutions with a focus on administrative reform has been defined as a breakthrough area for Vietnam's development in the SEDS. Improving the quality of human resources within the public administration to implement Vietnam's economic reform agenda is another priority. SECO supports these two breakthrough areas with capacity building programmes and technical and financial assistance for various reform programmes, as defined in the SEDP (i.e. to enhance efficiency of budget allocation) and banking sector development (i.e. to strengthen the resilience of the financial sector). Furthermore, it contributes to Vietnam's Financial Sector Strategy 2020 to build a healthy financial system, ensure financial security, introduce monetary and fiscal policies and ensure financial management and supervision.

Objective 2
A competitive and resource-efficient private sector

Under this objective, SECO will support Vietnam's private sector, in particular SMEs, to improve competitiveness and gain access to international markets. SECO will do so by promoting sustainable trade and investment as well as resource efficiency in industrial production. Furthermore, SECO supports framework conditions for sustainable trade as well as targeted skills development.

Challenges

To avoid the middle-income trap and to benefit from opportunities under new FTAs, Vietnam needs to improve the competiveness of its private sector. SMEs represent the predominant share of the economy, contributing up to 50% of GDP and 90% of jobs in Vietnam. But SMEs need to become more competitive to sustain in the local market and participate in global value chains. This requires compliance with international standards, including labour standards and better quality of production. Vietnam is also one of the most inefficient economies in terms of energy and resource consumption in East Asia. Resource efficiency measures in SMEs offer significant opportunities to increase competiveness. However, weak incentives through the regulatory framework remain a challenge. Furthermore, reforms in customs, conformity assessment and competition are a priority for the government to improve compliance with the requirements of export markets. Ongoing reforms to improve the business-enabling environment are crucial for doing business and to attract foreign investment. Finally, businesses often struggle to find adequately skilled employees, as there is a mismatch between demand and supply on the labour market.

Focus

As a first priority, SECO aims to foster international competitiveness and market access for Vietnamese SMEs as well as to improve resource efficiency of the private sector. At the core is the promotion of sustainable trade and investment. This includes strengthening the value chains of different commodities and sectors, for instance through the promotion of environmental and social sustainability standards. SECO also supports practical training and advisory to businesses, in particular, SMEs, in order to improve their productivity and working conditions. SECO also works on improving the provision of trade promotion services to SMEs, including access of Vietnamese export products to Swiss and European markets. Furthermore, Switzerland aims at improving resource efficiency and the adoption of cleaner production methods within Vietnam's industrial sector and among SMEs within a challenging regulatory environment.

As a secondary priority, SECO is working to ensure favourable framework conditions for sustainable trade as well as an efficient business-enabling environment. Given the high needs, SECO is also piloting activities in the field of entrepreneurship and skills development. This can include working with growth-oriented entrepreneurs in innovative sectors, but also occupational skills development in sectors such as tourism, with a particular focus on addressing the skill mismatch in the labour market. In addition, SECO's approach will continue to support a strengthening of core labour standards, the importance of which has been heightened with the recent conclusion of FTAs.

SECO contributions

First priority

- **Greater international competitiveness of SMEs and facilitated market access**
- **Resource-efficient private sector**

Second priority

- **Dynamic entrepreneurship, strengthened skills and flexible labour market**
- **Favourable framework conditions for sustainable trade**
- **An efficient business environment**

Proposed SECO measures

- Contribute to the integration of Vietnamese businesses into global value chains (e.g. textile, tourism, agricultural products) through an improvement in their efficiency and productivity, compliance with international and voluntary standards, trade promotion and professional skill development.
- Provide technical assistance, capacity building and financial support to promote resource-efficient industrial production processes and environmentally sustainable investments that contribute positively to climate change mitigation.
- Sensitise and provide technical assistance to SMEs to improve their corporate governance and corporate social responsibility and strengthen the ecosystem for growth-oriented start-ups in Vietnam.
- Support key initiatives for trade and private-sector development, such as implementation of key business procedural reforms to reduce compliance costs for SMEs in areas such as business registration and tax and licensing.

Contribution to Vietnam's country development objectives

The proposed measures are expected to raise the overall competitiveness of the Vietnamese economy in alignment with the SEDP and to support an improvement in SME competitiveness, as defined in Vietnam's SME Development Plan. The focus on resource efficiency is set out in the Vietnam Cleaner Production Strategy as well as the National Green Growth Action Plan 2011–2020. Activities regarding a business-enabling environment contribute to improving the business environment index to the average level of ASEAN-4 members. SECO's efforts to create favourable framework conditions for sustainable trade will support the SEDP's aims to increase the number of high-value-added goods imported and exported, also covered by the National Import-Export Development Strategy 2011–2020. Finally, skills development represents a main breakthrough area in the current SEDP.

Objective 3
Sustainable and climate-resilient urban development

Under this objective, SECO will support Vietnam's fast growing cities in sustaining their role as economic and social hubs. It will do so by increasing their resilience to climate change, improving long-term urban planning capacities and promoting reliable public services in the waste and transport sector.

Challenges

In economic terms, Vietnam's urban areas account for two-thirds of the national GDP, and the average rate of annual economic growth is up to two times higher than the country's average growth rate. This confirms a strong correlation between economic development and urbanisation. Urbanisation is expected to increase by more than 25% in the current decade, from a comparably low level of 33% of the population. In this context, Vietnam's cities are exposed to enormous challenges that need to be approached proactively through sound urban planning and development. Currently, weak coordination and a lack of integrated planning are one of the main reasons for unsustainable infrastructure investments. The provision of basic public services in the fields of water and sanitation, energy, urban mobility and housing requires sizeable investments in physical infrastructure and capacity development for sustainable operation and maintenance. Environmental pollution from waste water, solid waste and traffic congestion is beginning to pose a serious health risk. In addition, Vietnam is one of the world's most vulnerable countries to climate change, with many cities situated in the Mekong Delta as well as the coastal regions. This will significantly increase the risk of those cities facing disaster in the future.

Focus

As a first priority in response to the above-mentioned challenges, SECO supports Vietnamese cities in urban integrated development. The goal is to enable informed and proactive decisions on urban development and investment priorities that take into account environmental and socio-economic dimensions. Specific focus is placed on helping cities cope with climate-change risks by making them more resilient. Furthermore, SECO supports cities in their development of innovative approaches to urban mobility that foster the functionality of urban spaces and mitigates GHG emissions.

As a second priority, SECO continues to support cities in providing reliable basic public services. Activities focus on water and waste management, addressing the outstanding challenges in these sectors. Service coverage and quality is still inadequate, and SECO provides continuous support to utilities on corpo-

SECO contributions

First priority
- **Integrated urban development**

Second priority
- **Reliable basic public services**
- **Sustainable energy supply**

rate development in view of sustaining hardware investments and improving the quality of public services.

Proposed SECO measures

- Provide technical assistance to national and subnational entities to build up systems and capacities for multi-sectoral, integrated urban planning and management that take into account climate change resilience and green growth potentials.
- Support cities in flood-prone areas to adapt to climate change and reduce the negative impacts of seasonal flooding on the population and the local economy.
- Support the development of infrastructure for basic public services, strengthen the policy and regulatory framework and increase corporate governance in utilities in the area of wastewater treatment, solid waste management or urban public transportation services.

Contribution to Vietnam's country development objectives

These measures address the priorities set in Vietnam's SEDP 2016–2020, which expect significant urbanisation by 2020 and focuses on improved urban planning as well as public services in urban areas throughout several sectors. Further priorities will be developed and formulated in Vietnam's new National Urban Development Strategy (NUDS). Furthermore, Vietnam intends to strengthen mechanisms and policies to actively adapt to climate change through better resilience, improve disaster prevention through enhanced disaster forecasts and warnings, and improve resource management and environmental protection in general.

Programme implementation and management

Implementation modalities

SECO's international cooperation seeks to deliver inclusive sustainable growth. To reach this objective, the 2030 Agenda for Sustainable Development and the Addis Ababa Financing for Development Action Plan provide a common language and direction, whereas international aid and development effectiveness principles[1] provide the common ground on which SECO and its international partners cooperate.

SECO uses an appropriate mix of modalities for its development cooperation, consisting of financial aid, technical assistance and capacity building at an individual, organisational and institutional level.

Partnership and dialogue are necessary to promote reforms as well as to develop and implement policies. This dialogue involves players on several levels that can contribute to coherent and synergistic solutions to development challenges: governments, private and civil society players as well as other donors and multilateral institutions. SECO balances bilateral and multi-bi cooperation and has established guidance to help implement the principle of alignment, harmonisation and accountability and, when appropriate, the use of national systems.

Partner strategies: SECO's operational activities to deliver inclusive sustainable growth in partner countries are aligned with national development strategies, thereby applying the principles of national ownership and partner focus. The activities are harmonised with those of other donors and rely on the principle of mutual accountability. SECO's local experts are systematically involved.

1 These development effectiveness principles are rooted in, for instance, the 2005 Paris Declaration, the 2008 Accra Action Programme and the 2011 Busan Partnership for Effective Development Cooperation, which links all players in the development cooperation space.

SECO increasingly provides targeted impulses to mobilise resources. A relatively modest, yet very specific, Swiss contribution can go a long way. For instance, to leverage the impact of Swiss ODA, SECO supports partner countries in developing framework conditions that foster domestic resource mobilisation and private enterprise. Similarly, innovative programme and project approaches as well as innovative financing mechanisms are very effective instruments to stimulate new forms of collaboration and increase effectiveness.

SECO's activities include sharing of Swiss knowledge and facilitation of technologies. Specificity, high quality and effectiveness are the hallmarks of SECO's international cooperation.

Cross-cutting issues

To meet its objectives, SECO focuses on two transversal topics: gender equality and economic governance. Making a highly relevant contribution to inclusive sustainable growth, gender equality and economic governance are systematically integrated into all SECO activities.

Gender equality: SECO considers gender equality an important element of poverty reduction, social inclusion and economic development. Therefore, it is essential to systematically address the gender dimension (social norms, legal provisions and gender-specific risks) in its economically oriented projects. No projects should place either women or men at a disadvantage.

Economic governance: Strengthening economic governance is another essential component of SECO's commitment to promoting inclusive sustainable growth. It is a subset of good governance and refers to the entire set of economic rules and frameworks accounting for a transparent and accountable public and private sector. It is a prerequisite for a stable economy and success in the fight against corruption, which undermines inclusive economic development.

The gender and economic governance dimensions are taken into account regarding the project design, implementation, risk assessment and monitoring in order to contribute to the greater effectiveness and sustainability of SECO's projects.

Accountability and monitoring

The country strategy will be monitored annually for the following purposes (cf. also chapter on Results monitoring):

- **Steering:** Data and information for evidence-based decision-making
- **Risk mitigation:** Identification of relevant risks and mitigation measures
- **Learning:** Identification of factors for success and failure, challenges, gaps and good practice
- **Accountability:** Data and information for accountability towards SECO headquarters, the Swiss government, the Swiss public, and the partner country

The country strategy is aligned with the partner country's development goals and strategies as well as with the SDGs. Therefore, the annual monitoring ensures that SECO's portfolio does indeed contribute to the achievement of the partner country's goals.

In the case of major changes in the country context or development goals, the results framework for the country strategy will be adapted.

Financial resources

SECO's activities under this strategy will be financed through the Swiss framework credit 2017–2020 for economic and trade policy measures within development cooperation. The final allocation of funds to individual countries, programmes and projects will depend on the identification of suitable interventions, the absorption capacity as well as the efficiency and effectiveness of the cooperation with the relevant partners in each priority country.

Accordingly, the following information on planned commitments for the four-year period of this strategy is indicative. It cannot be considered a firm commitment or claimed as such by the partner country. This information serves merely as a basis for the forward spending plans that are reviewed each year by the Swiss Parliament. Actual disbursements will depend on various factors, such as the changes in the project portfolio and the framework conditions of the partner country as well as available disbursement credits authorized by the Swiss Parliament. Portfolio and planned disbursements are regularly discussed with the partner authorities.

Planned commitments for Vietnam 2017–2020:

80 CHF million*

*Vietnam also benefits from regional and global initiatives financed by SECO. When these measures cannot be earmarked to a specific country, they are not accounted for in the financial projections mentioned above.

Projected funds allocated to each objective

Results monitoring

The following table contains the results framework for Switzerland's economic cooperation and development programme with Vietnam. It will be monitored under the SECO quality management system, which is based on international standards (results-based management). These are aligned with the country development objectives as well as with the SDGs and will be monitored at outcome level.

The results framework covers the overall economic cooperation and development portfolio. However, the proposed indicators will be measured only in relevant projects and will provide a selection of key data for steering and accountability.[2]

The results framework allows for focused monitoring, reporting and evaluation of key issues identified by and agreed between SECO and the partner country counterpart. Both are committed to results orientation and the highest possible effectiveness of economic cooperation. Both want to learn about factors for success and failure as well as about risk management and mitigation in order to continuously improve results. Even though the results framework should contribute to efforts to capture and assess SECOs contribution to achieving the partner country's development objectives, it is not meant for measuring the partner country's achievements as a whole.

2 For the systematisation of results measurement and the collection of aggregated data, SECO has formulated so-called Standard Indicators which are part of Country Results Frameworks and most project logframes. The Standard Indicators also allow for the collection of results information on cross-cutting issues (see also Chapter 4.2.). With regard to economic governance, many Standard Indicators require the collection of relevant data. Regarding gender, the Guidelines on Results Reporting with SECO Standard Indicators explain in detail which kind of relevant information (e.g. gender disaggregated data) should be collected per Indicator.

Overview

SECO overall objective in Vietnam:
Inclusive and sustainable economic growth to improve the lives of Vietnamese people

SECO objectives	SECO contributions			
Objective 1 **Effective economic policies and institutions** … by promoting a transparent and reliable PFM system and a diversified, competitive financial sector that provides better access to long-term investments	**First priority** Transparent resource mobilisation and reliable public financial management **Second priority** Stable and deep financial sector	**Second priority** Access to long-term capital		
Objective 2 **A competitive and resource-efficient private sector** … by promoting resource-efficiency, a level playing field for the private sector, compliance with international and voluntary standards and access to a skilled workforce		**Second priority** Dynamic entrepreneurship, strengthened skills and flexible labour market	**First priority** Greater international competitiveness of SMEs and facilitated market access **Second priority** Favourable framework conditions for sustainable trade An efficient business environment	**First priority** Resource-efficient private sector
Objective 3 **Sustainable and climate-resilient urban development** … by improving long-term urban planning capacities and promoting reliable public services	**Second priority** Reliable basic public services			**First priority** Integrated urban development **Second priority** Sustainable energy supply
	Effective institutions and services	More and better jobs	Enhanced trade and competitiveness	Low-emission and climate-resilient economies

SECO's target outcomes

Economic and trade policy measures deployed by SECO in its development cooperation efforts with its partner countries are targeted towards achieving the above-mentioned four outcomes.

Objective 1:
Effective economic policies and institutions

First priority

Transparent resource mobilisation and reliable public financial management

Economic policy reforms and an improved financial policy lead to more transparent and efficient resource mobilisation and more reliable public financial management.

Selected indicators:

- Measures for improving public financial management
- Key PFM indicators as per the PEFA framework
- Measures for improving capacity development
- Resources mobilised

Second priority

Stable and deep financial sector

Better regulation and supervision of the financial sector contribute to a stable, diversified and competitive financial market and strengthen the international financial system.

Selected indicators:

- Measures for financial market regulation and supervision

Access to long-term capital

Easier access of companies to long-term investment capital through innovative and more efficient financial instruments as well as public-private partnerships creates new jobs.

Selected indicators:

- Number of companies with access to capital
- Capital mobilised (loans, participation, etc.) in USD
- Number of jobs created and retained
- Measures for improving working conditions

Partner objectives

SEDS 2011–2020

Improving socialist market institutions with a focus on administrative reform

SEDP 2016–2020

Sound fiscal and monetary policy framework and enhance effectiveness of budget mobilisation and efficiency of budget allocation

- Economic growth rate of 6.5–7%
- Inflation curbed at 5%–7%
- State Budget deficit of 4.8% of GDP
- GDP per capita at USD 3,141–3,261 by 2020

Financial strategy 2020

(i) building a healthy financial system; (ii) ensuring financial security; (iii) stabilising the economy through monetary and fiscal policies (iv) ensuring financial management and supervision

- Total revenues to GDP of 22%–23%
- Outstanding debts in the bond market to GDP 30% by 2020
- Public debt to GDP of 65%
- Total national reserves to GDP of 1.5% by 2020

Objective 2:
A competitive and resource-efficient private sector

First priority

Greater international competitiveness of SMEs and facilitated market access
More efficient work processes by producers and SMEs improve their productivity and promote international competitiveness. Sustainable standards facilitate access for partner countries' goods and services to the Swiss and EU markets.

Selected indicators:
- Increase in trade volumes (as a % and in USD million) of sustainably certified commodities (soya, coffee, cocoa, cotton, timber, palm oil, tea, BioTrade products) from developing countries
- Number of jobs created and retained
- Increase in export volumes (as a % and in USD million) of sustainable goods and services (textiles, furniture, tourism, etc.) from developing countries
- Productivity increase in export value chains
- Percentage of producers with better living conditions

Resource-efficient private sector
Promotion of a resource-efficient private sector.

Selected indicators:
- Number of jobs created and retained
- Greenhouse gas emissions saved or avoided in t CO2eq
- Kilowatt hours saved through energy-efficiency measures and kilowatt hours additionally produced from renewable energy
- Increased resource efficiency
- Green investments additionally triggered in USD and financing instruments supported

Second priority

Dynamic entrepreneurship, strengthened skills and flexible labour market
The promotion of entrepreneurship and skills together with improved framework conditions for the labour market and the social partnership help to create new jobs and retain existing (better) jobs.

Selected indicators:
- Number of jobs created and retained
- Number of persons undergoing training or continuing education (entrepreneurs, producers, staff)
- Measures for improving working conditions

Favourable framework conditions for sustainable trade
A better understanding of the framework conditions for international trade facilitates access for partner countries' products to the global market.

Selected indicators:
- Improved rules and regulations and enhanced competitiveness for facilitating market access

An efficient business environment:
Improving the business environment through less bureaucracy and more effective regulation promotes the growth and competitiveness of businesses.

Selected indicators:
- Direct compliance cost savings (mio. USD)
- Investments generated (mio. USD)

Partner objectives

SEDP 2016–2020
with targets on social productivity increases, trained labour and energy efficiency

Resolution 19
- Vietnam's Doing Business ratings reach the average level of ASEAN-4 member states'

National Import-Export Development Strategy
2011– 2020 with a vision to 2030

- The total export turnover in 2020 should triple compared to 2010
- The average growth rate of exports should be 11–12% per year in 2011–2020

Cleaner Production Strategy in Industry
until 2020 approved by the PM in 2009

- 50% of industrial production establishments should adopt cleaner production by 2020

Vietnam National Green Growth Strategy/Action Plan
2011–2020 with a vision to 2050

- Complete the legal framework for efficient and effective use of energy (activity no. 10)
- Improve energy efficiency in enterprises in most energy-intensive sectors (activity no. 14)
- Widely apply cleaner production in industry (activity no. 43)

Draft SME development master plan
2016–2020

Objective 3:
Sustainable and climate-resilient urban development

First priority

Integrated urban development

Improved planning criteria and selective measures promote sustainable urban development in partner countries.

Selected indicators:

- Number of inhabitants benefiting from sustainable urban development projects
- Number of cities with urban development measures (including for improving governance) in the sectors of public transport, energy efficiency and natural disaster risk management
- Greenhouse gas emissions saved or avoided in t CO2eq

Second priority

Reliable basic public services

Through technical and financial support, public utilities are better placed to offer a reliable and affordable public service.

Selected indicators:

- Number of persons with access to better (basic) services
- Proportion of O&M costs recovered through charges
- Measures for improving capacity development
- Leverage effect of SECO's financing in USD

Sustainable energy supply

By including sustainable and climate-compatible aspects, SECO contributes to improving the energy policy as well as reforms and investment measures and to increasing energy efficiency and supply (e.g. by promoting renewable energy).

Selected indicators:

- Kilowatt hours saved through energy-efficiency measures and kilowatt hours additionally produced from renewable energy
- Greenhouse gas emissions saved or avoided in t CO2eq

Partner objectives

SEDS 2011–2020

- Urbanisation rate of more than 45%
- Limit harmful effects of natural disasters, especially the rise of sea water level
- Overhaul policies and mechanisms to improve the quality and close management of urban development planning

Prime Minister Decision 1930/2009

- Increase wastewater treatment in urban centres to 70–80% by 2030

Vietnam National Green Growth Strategy/Action Plan

2011–2020 with a vision to 2050

- Develop public transportation towards greening orientation (activity no. 19)
- Review and recommend for revision of urban master plans and formulating urban innovation plans according to sustainable standards (activity no. 54)
- Greening urban landscape activity no. 60)

Master Plan to Develop Vietnam's Urban System

until 2025 with a Vision to 2050

Imprint

Publisher
Federal Department of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO
Economic Cooperation and Development
Holzikofenweg 36, 3003 Bern
Tel. +41 (0) 58 464 09 10
www.seco-cooperation.admin.ch
info.cooperation@seco.admin.ch

Layout
Stämpfli AG, Bern

Graphic design
vollprecht gestaltung, Basel

Photos
SECO Cooperation Vietnam: Page 1, 4 (2), 8 (2/3), 12 (2/4)
Phuong Ryan: Page 4 (1/3), 8 (1), 12 (1)
Better Work / ILO: Page 12 (3)

Sources
This publication contains data based on statistics from the World Bank, the IMF and other international bodies as well as national statistical services from Vietnam.

The publication and maps used therein do not imply the expression of any opinion concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its borders.

Copies of this publication may be downloaded from www.seco-cooperation.admin.ch or ordered by e-mail to info.cooperation@seco.admin.ch.

CH-Bern 2017