

The Swedish exit from Vietnam: Leaving painfully or normalising bilateral relations?

Le Thanh Forsberg
Department of Politics and International Relations
University of Oxford

This study analyses the process of the Swedish phasing out of development cooperation from Vietnam. It explores how the exit has been influenced by international reform on aid effectiveness and donor concentration, as well as the challenges and opportunities brought about by the exit. Drawing upon perspectives of actors from Vietnamese national agencies, the international donor community in Hanoi and Swedish policy-makers and development staff, this study offers key messages of what constitutes good exit practice and the challenges both donors and national governments face to sustain development cooperation results and pave the way for new post-aid partnerships.

1. Country context: Development and challenges

Vietnam has undergone a highly impressive socio-economic transformation. The country's spectacular economic development stems from its twenty years of reform, known as the *Doi Moi* (innovation process).

Vietnam experienced a huge economic crisis in the mid-1980s, during which over 70 per cent of the Vietnamese population was living in poverty and the average per capita income was less than \$100. Starvation and stagnant conditions meant that the country was known as a 'vegetable civilisation' until the mid-1980s due to the non-existence of industry and market services. Even the most basic of goods had to be imported and food aid was received from the Soviet Union.¹

In stark contrast to Vietnam's situation in the mid-1980s, the average economic growth rate has consistently been above 7 per cent per year for the last two decades; today's income per capita is roughly \$1000; the household poverty rate stood at 14.8 per cent of the population in 2007.² The country and its economy are increasingly outwardly-oriented

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¹ L. T. Forsberg, *Defining Strong Ownership: Institutional Determinants and Stakeholder Interests in Vietnamese Development Planning* (Stockholm: Almqvist & Wiskell International, 2007).

² General Statistics Office of Vietnam (GSO), *Statistical Handbook of Vietnam 2008* (Hanoi: GSO, 2008).

through investment and export-driven growth. Despite a global crisis, FDI attraction to Vietnam recorded a total of \$11.5 billion in implemented capital in 2008. Import and export volume made up 160 per cent of the country's GDP in 2008, with the US, the EU and Japan as its three biggest export markets respectively. The total income from export reached \$62.7 billion in 2008, with crude oil; textile and garment products; footwear; seafood and rice as major export products.³ Vietnam is heading towards a transition from aid-recipient status to becoming a middle-income country.

Vietnam has already reached five of the ten Millennium Development Goals (MDGs). With the exception of the environmental target, Vietnam is on track to achieve another four targets by 2015. Most indicators of the population's living standards and welfare have been improved. The Human Development Index for Vietnam has increased from 0.561 in 1985 to 0.725 in 2007 and it is now ranked 116 out of 182 countries.

Despite these improvements, certain problems remain. In contrast to the increasingly outward-oriented and open economy, the political system remains an authoritative one-party state with the Communist party in control. The limitation of the one-party system shows that political opposition to the controlling communist party is not tolerated and there is a lack of incentive for the state to reform. Furthermore, large-scale civil organisations existing under the legal framework are entirely accountable to the state. The result is that true civil organisations remain undermined and no single private organisation dares to challenge the official interests of the Communist Party. Thus, there is no space for different social groups to voice their concerns. The existing model of governance and public administration remains a control system rather than one based on efficiency and service delivery.

It is evident that pockets of poverty remain since public investment and ODA have been mainly disbursed to benefit wealthy cities.⁴ While the ambition is to build a modern social insurance system and safety networks, marketisation of social services in education and health care increasingly push low-income social groups – rural farmers and the urban near-poor – into the trap of poverty due to high social service fees.⁵ In fact, recent policies are at risk of creating poverty in Vietnam, after the country's two decades as the world leader in poverty reduction. This is already evident in the increase in the poverty level from 14.8 per cent in 2007 to 17 per cent in 2008.⁶

Poverty reduction remains a challenge for Vietnam during the next decade. Domestically, the current global economic crisis has helped to reveal the weakness of Vietnamese economic institutions and risks to Vietnam's macroeconomic stability. Inflation has risen sharply from single to double figures while economic growth has slowed. Economic policies, especially on fiscal, public investment and financial credits, are still made on discretion in favour of state-owned corporations and sometimes in distortion of the market management. Thus, careful structural reforms balanced with institutional changes are needed to make Vietnam capable of transition to a middle-income country.

Externally, Vietnam's progress towards becoming a middle-income country also makes it 'unpopular' with donors and for development cooperation. Vietnam must make a concerted effort to maximise the last windows of opportunity for change and development in terms of know-how, capacity, development solutions and capital for public infrastructure investment. The government of Vietnam is beginning to be aware of this trend and efforts have been made to carry out the necessary changes and to maximise the utilisation of Official Development Assistance (ODA) while this resource is still available.

³ EU Economic and Commercial Counsellors, '2009 Report on Vietnam' (Hanoi, 2009) and statistics from the Vietnamese Ministry of Industry and Trade (MoIT) 2010.

⁴ Forsberg, op. cit. and A. Kokko and P. Tingvall, 'The Welfare State: Vietnamese Development and Swedish Experiences', in A. Kokko (ed.), *Viet Nam: 20 years of Doi Moi* (Hanoi: The Gioi Publisher, 2008).

⁵ J. D. London, 'Reasserting the State in Viet Nam Health Care and the logics of market-Leninism', *Policy and Society* 27/2 (2008), at pp. 115–28; and J. D. London, 'Rethinking Viet Nam's Mass Education and Health Systems', in D. McCargo (ed.), *Rethinking Viet Nam* (London: Routledge-Curzon, 2004).

⁶ Q. V. Vu, 'Vietnam's Economic Crisis: Policy Follies and the Role of State-Owned Conglomerates', *Southeast Asian Affairs 2009* (Singapore: ISEAS, 2009), at pp. 389–417. These figures differ from the GSO statistics. The poverty rate was 13.5 per cent in 2008 according to the government's new calculation of poverty income level, which is lower than before and not adjusted to the dramatic price inflation. According to Vu and other sources, the new poverty income level per householder is \$0.37 per day. Hence, comparing official figures between 2007 and 2008 is irrelevant.

2. Aid effectiveness at international level and implications in Vietnam

2.2 Vietnam as an aid recipient partner

As a partner country, Vietnam offers helpful experiences of strong ownership. Over the past decade, Vietnam has been internationally renowned as a development success story and economic wonder. This credit was sustained by the remarkable domestic-driven reforms initiated during the second half of the 1980s. More importantly, domestic-driven reforms were initiated before the donor community gave ODA to Vietnam in 1993. The initial domestic reforms have made it possible for Vietnam to move from starving and stagnant conditions to an economy that has dramatically transformed Vietnamese society during the last two decades, with spectacular increases in per capita incomes and a sharp reduction in income poverty.

Vietnam is one of the world's biggest recipients of ODA in absolute numbers and aid volume. Still, ODA is modest in relation to its per capita income, and Vietnam is absolutely not an aid-dependent country. ODA inflow makes up about 4 per cent of GDP (see Figure 1 Annex). The significant inflow of ODA Vietnam has received has increased sharply since the mid-1990s. ODA committed for Vietnam continuously increased from \$3.7 billion in 2005 to over \$4.4 billion in 2006, \$5.426 billion in 2007 and \$5.015 billion in 2008. At the CG meeting in Hanoi in December 2009, the donor community pledged a total ODA of \$8.063 billion. The different figures demonstrate that Vietnam has been a darling recipient of international aid, although the share of ODA in Vietnamese total development finance is very small.

The largest donors are the World Bank, ADB and Japan, who jointly account for 70–80 per cent of total ODA disbursements. Nearly two thirds of their aid flows are in the form of credits. The various EU countries and UN agencies provide about one-quarter of the total, while the remainder is shared between over one hundred other multilateral and bilateral donor agencies and NGOs. Today, the Vietnamese donor community consists of 29 bilateral donors, all the multilateral donor agencies including the WB, IMF, ADB and the UN, as well as over 700 international NGOs.

To simplify the enormous task of managing aid inflows from so many donors, Vietnam has encouraged the donor community to coordinate their aid policies. This has resulted in the emergence of two important harmonisation groups: the Six Bank Group and the Like-Minded Donor Group (LMDG). The Six Bank Group is made up of the World Bank, the Asian Development Bank, Japanese JBIC, French ADF, German KfW and Korea Eximbank Kexim. The members of the LMDG include Australia, Canada, Denmark, Finland, Germany, the Netherlands, Norway, Sweden, Switzerland, Spain, Ireland, Belgium and the UK. In terms of aid disbursements, the Bank Group holds over 70 per cent of the total, while the LMDG account for 15–20 per cent. This trend reflects in particular the large size of the Bank Group projects as well as their capital dominance, which also indicates their increasing power position in policy dialogues. Box 1 overleaf shows donors and ODA pledges for 2006–2010.

Box 1: ODA pledges to Vietnam 2006–2010

Vietnam: Consultative Group Meetings: ODA Pledges/Commitments					
Million US\$					
Bilaterals	Pledge for 2010	Pledge for 2009	Pledge for 2008	Pledge for 2007	Commitments 2006
Australia	99	67	79	64	61
Canada	26	29	36	27	32
Japan	1,640	900	1,111	890	890
Korea	270	269	286	111	116
New Zealand	8	7	9	6	3
Norway	10	10	10	10	10
Russia				0	27
Singapore				0	488
Switzerland	21	22	18	23	19
United States	138	128	115	85	53
Thailand	0,3	0,5	0,4	0,3	0,3
EU	1,415	823	967	949	1037
European Commission	332	14	76	53	26
Austria	124	6	13		
Belgium	26	79	35	21	22
Czech Republic	2	3	3	2	2
Denmark	68	64	84	83	67
Finland	50	47	32	24	27
France	378	281	228	370	488
Germany	138	186	90	76	77
Hungary	30	1	50	1	0
Ireland	20	25	33	23	6
Italy	17	3	70	56	53
Luxemburg	13	13	16	13	13
Netherlands	32	30	54	59	48
Spain	81	61	36	25	66
Sweden	21	21	42	45	44
United Kingdom	83	74	101	98	98
Sub-total bilaterals	3,627	2,540	2,626	2,164	2,735
Multilaterals					
ADB	1,479	1,567	1,350	1,141	344
UN agencies	210	98	90	71	63
World Bank	2,498	1,660	1,110	890	768
Sub-total multilaterals	4,187	3,324	2,550	2,101	1,175
International NGOs	250	250	250	180	140
Total	8,064	5,915	5,427	4,446	4,049

Sources: Adapted from *Donor Press Releases* from CG Meeting Pledge Summaries 2005–2009, Hanoi.

Vietnam has received a large amount of foreign aid during the last fifteen years, owing to a number of factors. Most important are its current ODA management practices. In this regard, Vietnam is often cited as a 'best practice' example of strong government ownership of the national development agenda and strong control of aid interventions.⁷ Secondly, Vietnam already exercised strong ownership and managed to align ODA with its own development priorities before these concepts found their way into the international development discourse.⁸ Thirdly, Vietnam has achieved spectacular results in poverty reduction and is advancing towards reaching middle-income status, as long as reforms continue.

⁷ Forsberg, op. cit.; L. T. Forsberg and A. Kokko, 'From Growth to Poverty Reduction: The Framework for Development Cooperation in Vietnam', SIDA Country Report (Stockholm: SIDA, 2008); and T. T. H. Nguyen, 'Vietnam', in *Southern Perspectives on Reform of the International Development Architecture*, The North-South Institute, Canada (2007).

⁸ Forsberg and Kokko, op. cit.

When Vietnam emerged from the extreme economic crisis of the 1980s, it was heavily aid-dependent and indebted to the former Soviet Union. The most sensible political decision seemed to be to reform and open up the economy, especially when aid flows from the Soviet Union and the Communist bloc were terminated. Since then, there has been a political consensus that development policy must be formulated in a way that can absolutely prevent Vietnam from being aid dependent. Strong country ownership is necessary. These preconditions are crucial to understand why Vietnam has been able to maintain a healthy balance between good relations with the donor community and a strong driving force and independence. Furthermore, its history and the lessons learned from being aid-dependent have created an underlying drive to avoid aid dependency, which inspired the Vietnamese leadership to commit to the development of the nation.

The introduction of the World Bank's Comprehensive Development Framework (CDF) and Poverty Reduction Strategy Paper (PRSP) concepts in Vietnam is a useful example of the government policy innovation and initiatives. The Vietnamese Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was adopted to show that the government was striving to reach goals above the World Bank's concessional policy package. Nevertheless, CPRGS changed not only the thinking about development but also the practice of development planning. This trend has been enhanced with the establishment of the Hanoi Core Statement, which localises the Paris Declaration in a Vietnamese context.

The government's strong leadership credits Vietnam the status of a good aid partner with a concerted effort played by the Ministry of Planning and Investment (MPI) to manage ODA. The MPI provides the donor community with a window for direct dialogues with the government and Vietnamese central partners. At the same time, it has an overview of the development planning to bring ODA in line with the government's priorities and policy preferences. That is why the MPI likes to promote itself as the chief conductor of the Vietnamese development concert with musical inputs from sectoral ministries.

The strong government leadership in development cooperation is a further indication of Vietnam's ownership element, which aims to steer and align donor efforts and development cooperation towards its development priorities. It does not indicate the levels of capacity its various government agencies have to steer and lead donor activities. Numerous donor representatives have even criticised the MPI for not acquiring sufficient capacity to be the main development coordinator and planner. Instead, the MPI pays far too much attention to controlling public investment and economic management, which should come under the jurisdiction of the Ministry of Finance. As main government ODA coordinator, the MPI plays a reactive rather than a proactive role to lead donor activities.

Furthermore, broad decentralisation in Vietnam has revealed considerable gaps in development coordination and supervision between line-ministries and provincial authorities and below. When development planning and fiscal responsibilities are transferred to provinces, central authorities have little capacity and practical authority to ensure that national policies and priorities are implemented. In addition, local capacity constraints in terms of financial reporting, monitoring and result-oriented management are fairly heavy.⁹

2.3 Localising the international aid effectiveness efforts in Vietnam

As a 'donor darling', Vietnam has again found itself in the position of pioneer among recipient countries, engaging actively in international efforts to reform development cooperation at country level. Some even go further to claim that Vietnam is leading the developing world in articulating principles, commitments and targets on aid effectiveness.¹⁰

In the development cooperation framework, the principles from the Rome and Paris Declarations have also found their way into the Vietnamese development policy context. The Rome Declaration called for

⁹ K. Kotoglou, M. Cox, M. Shimamura, H. V. Pham, N. D. Dao and C. Nguyen, 'Independent Monitoring of the Implementation of the Hanoi Core Statement at Sectoral and Sub-national Level in Vietnam', final report, Independent Monitoring Team (Hanoi, 2008)

¹⁰ Kotoglou *et. al*, *op. cit.*

local ownership, alignment and streamlining, and Vietnam was one of the first countries to establish a comprehensive Harmonisation Action Plan (HAP) to realise these objectives. The first action plan was launched in late 2003, and it has been updated annually since then. To finalise the first HAP and to set up a regular forum for discussions regarding aid effectiveness, the government and the donor community jointly formed a Partnership Group on Aid Effectiveness (PGAE).

Set out in September 2005, the Hanoi Core Statement (HCS) is the first localised version of the Paris Declaration for aid effectiveness. It is built around the same five key themes as the original declaration: ownership, alignment, harmonisation and simplification, management for results and mutual accountability. It includes fewer specific commitments than the Paris Declaration, but some additional indicators and targets for 2010.¹¹ The main difference is that the HCS does not include the partner commitments to strengthen the parliamentary role in formulating development strategies and budgets and to include civil society in the development planning process. This is a reflection of the more authoritarian nature of the Vietnamese one-party state, and is driven by the desire to maintain central control and ownership of the development planning process.

The HCS actually makes a stronger commitment to the donor community – promising a ‘broad consultative process’ to integrate ODA into mainstream planning – than to Vietnamese civil society. Another difference is that Vietnam places a greater emphasis on donor complementarities and national comparative advantages. Although the differentiation between donors is based on objective assessments of capacity and resources, it is also likely that it is influenced by historical experiences and power relations.¹²

Vietnam approved the Accra Agenda for Action (AAA) in October 2008 and is now moving quickly to implement the AAA. Accordingly, the government has accelerated the approximation of its systems to international standards in the fields of procurement, reporting, transparency and auditing.¹³ The MPI has been assigned by the government to take the leading role in coordination with the ODA Inter-Ministerial Task Force (IMTF) of the government, Vietnamese agencies and all donor groups to implement the AAA and HCS. The government has worked with the donor community on the harmonisation of ODA management; several components were created during 2008–2009.

2009 was busy and fruitful for the Vietnamese government and various donor partnership groups where commitment to aid effectiveness is concerned. To take a pro-active role in implementation of the AAA, the MPI conducted twelve five-day project management training courses and three awareness raising workshops. AAA publications and communications were made available to all line ministries and provinces to facilitate the understanding of the agenda’s contents.¹⁴ The PGAE committed to realising the PGAE Action Plan 2009 based on the implementation framework for the AAA. The results have been evident in various programmes where joint-initiative groups of donors work together.

While partnership groups and joint programmes are increasingly formed in a harmonised manner, the topic of Division of Labour (DoL) is still incipient. At the moment, only EU member states are under pressure to work on this issue. Under the new EU Harmonisation Roadmap, the topic of DoL resulted in a vivid discussion on its applicability in view of declining ODA importance in Vietnam. It is increasingly understood that implementation of the AAA and DoL is all the more important at a time when certain donors have begun to phase out their assistance to Vietnam and are moving to adapt the nature of their cooperation to Vietnam’s middle-income status.

A lead donor approach has become a unique and interesting trend in Vietnam; especially common where joint donor activities are concerned. This trend is increasing and is being replicated by the EU group and LMDG. Indeed, this approach has been developed and replicated since its use in the anti-corruption (AC) programme, where Sweden has been assigned as lead donor since 2005. The Vietnamese government requested that Sweden, as the lead donor of the AC programme, work mainly with five other like-minded donors and the Government Inspectorate. Sweden takes the lead donor role for the entire AC programme in Vietnam. This programme has also been incorporated into the PRSC, a policy matrix programme launched

¹¹ Nguyen, op. cit; Forsberg and Kokko, op. cit

¹² Forsberg, op. cit.

¹³ SIDA, ‘Strategy Report 2009 for Vietnam’, Embassy of Sweden, Hanoi 2009.

¹⁴ Partnership Group on Aid Effectiveness (PGAE), ‘Progress Report on Aid Effectiveness’, Mid-term CG meeting, Dak Lak, 8–9 June 2009.

by the World Bank funded by a dozen donors from the LMDG. Sweden takes the lead donor role in the AC component. Currently, several programmes have a single LMDG member taking the lead donor role, for example Canada leads the component of Comprehensive Capacity Building Programme (CCBP) in the LMDG support of the Harmonisation Action Plan, seeking to move the focus beyond ODA management towards public management as part of the sustainability strategy beyond 2010; Denmark led a joint financing agreement for a public procurement training project, while public finance management reform of a multi-donor trust fund has been led by the Netherlands. In terms of sectoral division, the EC delegation has taken a lead in several sectors such as health and education; Denmark on environment, Sweden on anti-corruption and Germany on water.¹⁵

The government initiative to appoint a lead donor in the AC programme is an interesting approach that has been replicated in other sectors, where donors cooperate with their Vietnamese partner to assign a lead donor. This approach creates effective support for joint donor programming and is a positive step towards putting DoL into practice.

In terms of donor DoL, there are still both challenges and opportunities in Vietnam. The biggest remaining challenge lies in the fact that Vietnam experiences significant aid fragmentation due to its status as a darling aid recipient. There were a total of 752 donor missions taking place in 2007.¹⁶ The sector that is often highlighted as an example of fragmentation is agriculture and rural development, coordinated by the Ministry of Agriculture and Rural Development, where there are about 200 ongoing projects with some 40–50 new projects agreed each year. In the health sector, the Ministry of Health has to set aside a great deal of time to run numerous missions on a daily basis – they are small in terms of capital funding and 98 per cent of funding is provided by single donors. The Ministry has to work with as many as 25 donors, of which 17 provide less than ten per cent of the total aid to the health sector. The result is that most central government agencies and line ministries are not able to control the many donor projects within their sectors or provide accurate figures on disbursements. This situation also results in separate project management structures.¹⁷ Since June 2009, the MPI and the PGAE have been discussing international DoL with the aim of establishing an ODA Strategic Framework for 2011–2015, in which the optimal role and comparative advantages of each donor are identified.¹⁸

Action has also begun on the donor side. In particular, EU member states are under ever greater pressure to work towards targets in this area.¹⁹ Mapping of EU member states per sector took place in March 2007 and was followed by a workshop discussing possible actions. A second mapping was carried out in November 2008. Some donors still prefer to carry out stand-alone projects or do not wish to subsume their control over development agendas to the Vietnamese due to a lack of trust in the government systems and capacity. Nevertheless, there is a trend towards improved donor coordination, harmonisation of projects and alignment to the government-led development strategies.

3. The role of Sweden in development and aid

Sweden is a pioneer in international development politics, as manifested by its Policy for Global Development. There is no doubt that Swedish ODA policy has been strongly influenced by the various guidelines and agreements set up at the multilateral level. The Swedish Policy for Global Development, which governs both development cooperation and other relevant policy areas where Sweden interacts with developing countries, is explicitly based on the Millennium Development Goals and the DAC Guidelines for Poverty Reduction.

At country level, Sweden has assumed a critical role in supporting crucial reforms in Vietnam. Sweden is known in Vietnam not because of ODA itself but because of what happened in Swedish policy regarding

¹⁵ PGAE, *op. cit.*; and European Union, 'EU Harmonisation Roadmap', EU Development Annual Report 2008 (Hanoi: Delegation of the European Union to Vietnam, 2009).

¹⁶ OECD/DAC, 'Vietnam', in *2008 Survey on Monitoring the Paris Declaration: Making Aid More Effective by 2010* (Paris: OECD, 2008).

¹⁷ Kotoglou *et. al.*, *op. cit.*

¹⁸ PGAE, *op. cit.*⁵

¹⁹ EU, *op. cit.*

Vietnam in the late 1960s, and the Swedish government's decision to stay and support Vietnam in the 1980s, when all other donors left or imposed sanctions. The Vietnam debate in Sweden and the strong popular organisations for solidarity with Vietnam led to Swedish humanitarian aid to North Vietnam as early as 1965. The link between Sweden and Vietnam was formalised a few years later by the beginning of full diplomatic relations – the first Western country to do so – and the start of a bilateral aid programme with the then Democratic Republic of Vietnam. Sweden and Finland were the only Western bilateral donors who continued to support Vietnam after 1979, when the international community began to impose sanctions on Vietnam due to the country's military intervention in Cambodia. Swedish grant aid accounted for about 55 per cent of the total aid that Vietnam received from the West between 1965 and 1991. The continuity of Swedish support, undoubtedly appreciated by the country's leadership, has been a strong determinant of the Vietnamese view of Sweden as a special partner and long-time 'trusted friend'.

Forty years of close relations with Vietnam have given Sweden a comparative advantage and a source of confidence, even though Sweden is no longer a major donor and its aid volume is quite limited compared to some donors. One example of its status is that there are some crucial areas of development cooperation where the Vietnamese government has been prepared to cooperate with Sweden but few others. The Vietnamese Ambassador to Sweden noted that 'Our special relationship with Sweden makes it possible for us to ask for help on sensitive issues that we cannot ask of other donors, for example dialogues on anti-corruption and judicial reforms'.²⁰ Since political decision-making is still highly centralised, reforms and changes that affect this structure are strictly and directly decided upon by the top leadership, who in turn decides which donor should be chosen to cooperate with on highly sensitive reforms. Evidently, Sweden passes the test of sensitivity and has been invited to play a role in democratisation, anti-corruption and human rights aspects of judicial reform. Some party officials emphasise that Sweden has also acquired a global reputation for its transparency, openness and inclusive society-centred democracy, characterised by multiple but generally consensus-oriented party politics.²¹

Sweden's engagement in Vietnam clearly reflects its focus on the rights perspective, whether in cooperation on democratic governance; public administration reform; parliamentary democracy; anti-corruption, media or juridical reforms. Conditioned by the Vietnamese government and social consensus that Sweden is the best partner to turn to when initiating sensitive reforms in the realm of governance, democracy and civil rights, Sweden has been invited as a pilot development partner to pave the way for eventual development cooperation with some other donors in these areas.

One clear trend in Swedish interventions in Vietnam is moving from mainstream support to institutional and capacity building of central government agencies to civil groups and private organisations in promoting people's rights. The change reflects new perceptions and modes of intervention. With regards to support for rule of law, for example, the change aims to redefine support to people's rights so that strengthening the rule of law cannot be seen as a tool for the government to better control public behaviour, but as a means to protect the rights of each and every citizen.

In comparison to other EU partners, Sweden has committed to fewer sectors, which it identifies as its strategic interests in Vietnam. The Vietnamese government appreciates Swedish comparative advantages, mainly in the categories of human rights and democratic governance; and natural resources and environment. Nevertheless, Sweden could have perhaps better engaged and entered into dialogue with Vietnam and its donor partners to achieve more substantial effects.

Several representatives of European bilateral development agencies have affirmed that Sweden is a good donor to be used in dialogues with the Vietnamese government on sensitive issues. It is a unique partner, able to broach critical topics with the government. One concrete example of this is the aforementioned government initiative to request that Sweden take the lead donor role in coordination with other donors and the government in the anti-corruption programme launched in 2001.

²⁰ Forsberg, op. cit.

²¹ Forsberg, op. cit.

4. Phasing out process: Challenges and opportunities

4.1 Understanding the Swedish political process of country concentration

In a decision published in August 2007, the Swedish government decided to concentrate its development cooperation activities, and to reduce the number of partner countries from around 70 to 33. The country focus of Swedish ODA for long-term cooperation in the remaining 33 countries will be on three groups of countries: long-term partner countries, mainly in Africa; countries in conflict or post-conflict situations; and Eastern European transition economies. The phase out countries can be divided into two groups: Sweden will phase out directly from one group, and will selectively and strategically exit the second group in a gradual process. In this context, decisions about individual countries should be considered as purely political decisions, reflecting the preferences of the Swedish government.

The argument that aid efficiency will increase as a result of country concentration is based on the belief that the scope of Swedish aid is too wide, and that a reduction of the number of partner countries will allow Sweden to become a more efficient donor. The major concern of central Swedish policy makers is to strengthen its potential and effectiveness in areas and countries where Sweden currently engages in development cooperation. Sweden has chosen to stay focused in terms of recipient countries, and has increasingly been forced to identify its sectoral concentration and interventions. Nevertheless, country concentration was a political decision, while the identification of in-country sectoral interventions requires differentiations. While it is relatively simple to identify how many sectors there are in each of its recipient countries, much more policy consideration is required regarding what kind of sector to intervene in and how, as systems differ significantly among recipient countries.

4.2 The formal phase out process in Vietnam and its implications

Vietnam is one of the countries that Sweden will phase out from gradually. It is likely that two considerations have contributed to the decision to drop Vietnam from the list of partner countries. Firstly, Vietnamese economic development has been strong for nearly two decades, and the country has been highly successful in reducing poverty. Within the next few years, Vietnam will graduate from the low-income country group and move into the category of middle-income countries. Because of this, Vietnam is no longer in urgent need of Swedish aid. Secondly, the Vietnamese one-party state has been heavily criticised as undemocratic by representatives of the centre-right Swedish government coalition parties. It is probably no coincidence that all socialist one-party states have been dropped from the list of long-term partners.²²

Vietnam is among a small number of countries where selective cooperation is applied in a gradual phasing out process over a period of time. In the case of Vietnam, Sweden has decided that bilateral aid will be terminated in 2013. As such, Sweden has been the first donor to make an official statement of aid exit from Vietnam and is so far the only one with an exit strategy.

As part of the formal process, Stockholm sent a message to the Embassy in Hanoi once the political decision was made in early August 2007. The instruction was to formally communicate the decision to the government and development partners in Vietnam. Nevertheless, the information delivered to the most relevant government bodies, the MPI and the EU development counsellors did not cover what the decision actually meant. The message conveyed through individual visits to various government ministries and a press conference was mainly that the Swedish government had decided to phase out development cooperation to Vietnam, and the political rationale behind the country concentration. At this stage, there was no mention of what the decision implied, how the phase out would be undertaken, or if further discussions would be needed.

Although the announcement came as a shock to some government officials in sectors where Sweden had been an active partner, media coverage was relatively minor. The decision did not take the donor community

²² Forsberg and Kokko, op. cit

by surprise. After approximately six months, Sweden unveiled a formal phasing-out strategy that helped to clear the air, and encouraged a focus on the implications of the phase out decision and the implementation process. Guided by the strategy, there is a new framework of bilateral agreement. The framework stipulates that the existing regular development cooperation with Vietnam will be phased out from 2009–2013. Sweden's three primary objectives are promoting enhanced democratic governance, increased respect for human rights and environmentally sustainable development in Vietnam. During the phase out period, Sweden will continue to selectively cooperate in three priority areas: democracy and human rights, anti-corruption and environment and climate change. The rights perspective is incorporated in all three areas of cooperation as a common approach to guide the outcomes.

The new selective cooperation is viewed as a bridge between the traditional donor-recipient cooperation in development and new partner-driven cooperation. This means that Swedish support during the phasing out period will be extended to partners outside the government sphere; to build new Swedish and Vietnamese public-private partnership that engages institutions, businesses and actors from civil society. Areas which have benefited from development cooperation during the aid era – for example the environment – can be supported to build new research, commercial and industrial partnerships.

5. Sweden's exit: Practices and limitations

This following part of the report is based on interviews conducted in Hanoi and Stockholm between September and December 2009 and a workshop held in Hanoi in December 2009 with support of the Embassy of Sweden. The views reflect perspectives from three major groups: relevant Vietnamese government officials; Swedish policy-makers in Stockholm and development officers in the country team; and international donor representatives (mainly from EU member states) in Hanoi. Other sources consulted include the country office's internal reports and memos on annual strategies, policy matrixes on sectoral interventions and budget planning during the phase out period.

5.1 The general perception: Sadness, but no big deal

Sweden's decision to leave Vietnam is hardly revolutionary, given the context of the country's development and the large donor representation in Vietnam. The decision to exit was of no importance to partnership and overall development. However, it does have implications for some areas of Vietnam's critical and sensitive reforms because of Sweden's strategic role in dialogues with the Vietnamese government.

On the one hand, the volume of Swedish ODA is tiny in relation to the total ODA commitments in 2009 to Vietnam (approximately 0.3 per cent of total and 1.5 per cent of EU commitments). There will not be significant implications in terms of funding and expertise for donor partnerships in sectors where Sweden has been involved, as there are various partnership groups or donors who can fill the gaps.

The reactions from other bilateral and multilateral donors have varied, depending on whether or not they have co-funded or collaborated with Sweden. Among the LMDG of 13 bilateral donors, the reaction was that Sweden's exit is understandable. Some of these donors are also experiencing similar processes of country concentration and may have to deal with the consequences of similar political decisions towards Vietnam. For instance, Denmark has stated officially that by 2012 all traditional aid sectors will be phased out for renewal of aid modalities and priorities. The UK also has to adapt its new strategies in Vietnam to a transitional process to phase out certain sectors, as do the Netherlands, Belgium and Germany.

However, the decision has affected Vietnamese, Swedish and foreign development partners who have directly been involved in Swedish development cooperation. It is particularly hard for Vietnamese and Swedish development experts to see Sweden leave its vital roles in various sensitive areas of democratic governance and its long-term commitments to these ongoing reforms.

It is clear that Sweden's exit did not come as a surprise to the donor community, particularly the LMDG, as early warnings were given and discussions had been going on for the previous five years. Although there

were no formal statements during this period, it was widely understood that donors would have to think and prepare in order to adapt the nature of their development cooperation to Vietnam's new MIC status. In the case of Sweden, SIDA representatives in Hanoi raised the issue of a possible phasing out of development cooperation and an eventual exit from Vietnam as early as 2005/06 based on the Swedish government's planning. For instance, such informal consultations took place among the EU development counsellor regular meetings.

However, there were no prior formal or even informal consultations with Vietnamese partners concerning Sweden's possible exit. Naturally, the decision came as a shock to Vietnamese development partners. It is evident that the Swedish government's decision was purely unilateral and that there were no prior consultations with Vietnam. Confusion arose regarding Sweden's long-term commitments; some were even worried that Sweden's rising demands concerning partner countries' commitments to human rights may have prevented it from renewing its development cooperation in Vietnam. If this were the case, the exit would then be considered counterproductive to Sweden's long-term achievements in Vietnam. MPI officials were preoccupied about the sustainability of several critical cooperation programmes where Sweden had been taking the lead or essential donor role, such as anti-corruption, parliamentary democracy, legal reform and Chia Se, a pilot programme on grassroots democracy and decentralisation of development planning. The government had high hopes that the latter initiative could be replicated throughout the country.

National actors were largely concerned that ownership and mutual responsibility were not sufficiently taken into account in the Swedish decision to exit, despite a high level of respect for Sweden as a trusted partner with global commitments in aid partnerships. There was sadness over the loss of such a highly committed partner, able to conduct unique and constructive dialogues and gain trust from the country leadership and local partners. In addition, Swedish cooperation has been result-oriented and has provided an example of best donor practice in aid disbursement due to Sweden's decentralisation of aid modality. Certainly, the question 'why Vietnam?' has often been asked among the Vietnamese partners. They had grown accustomed to and comfortable with Sweden's long-term commitments and constructive dialogues. The decision caused some sadness and confusion, and it was felt that Sweden had failed in some aspects of consultation and communication.

5.2. Exit communication and dialogues: Actor perspectives

Communication is considered a key step in implementing a donor exit. Good communication enables the partner country and the remaining donors to prepare adequately and adopt measures to fill the possible gaps in terms of expertise and funding.²³ In this context, communication refers to the degree of transparency: the way Sweden communicated and shared information about its decision. Following the communication step comes the stage of dialogue and negotiation involving all relevant stakeholders.

5.2.1 Communication: Transparency and information

First, it must be understood that the Swedish decision on country concentration began with unilateral interests in new development priorities and approaches, which have some limitations in terms of the current ideals regarding ownership and mutual responsibility of partnerships. Hence, communication and dialogues with development stakeholders in Vietnam could only begin after the decision was made.

There was a time gap between the decision being made and the start of communication and dialogue regarding the phasing-out of development cooperation in Vietnam. The decision was first made public in the Swedish media one weekend in early August 2007 – a calm period in Vietnam, as most of the foreign development staff was on summer vacation, including the Swedish head of mission. This initial declaration was followed a week later by official communication between Stockholm and the Embassy in Hanoi.

There was a communication gap between central policy-makers in Stockholm and the country team in Hanoi between the announcement of the decision and the rolling out of action plans. It was not understood until later that it took some time for policy-makers to identify the concrete meaning of phasing out in order for

²³ N-S. Schulz, 'International Division of Labour: A Test Case for the Partnership Paradigm', FRIDE Working Paper 79, 2009.

a strategy to be developed. During this time lag, the Vietnamese government and its partners anxiously demanded a clear explanation from the country team.

The Embassy in Hanoi received formal messages from MoFA instructing how and what to inform the Vietnamese government, relevant bodies and representatives of development partner groups. The communication was made official and transparent through a press conference and individual visits to relevant government bodies by representatives of the country office. However, actor perspectives from national to international representatives revealed that although Sweden successfully informed various stakeholders of the decision to phase out development cooperation in Vietnam, representatives failed to clarify what the decision would mean and on what terms the changing conditions would be implemented. As a result, a period of confusion and stress ensued for the Vietnamese and their development partners.

5.2.2 Dialogues and negotiations

The real dialogues and negotiations regarding the decision and the formulation of a phase out strategy began about six months after the decision was announced. The Embassy in Hanoi began discussions with various national partners regarding programmes that would eventually terminate when their official time agreements came to an end, and those that may be extended based on external evaluations and dialogues with the stakeholders involved. SIDA in Hanoi was also active in dialogues with the national partners and foreign donors concerning possible other donors who may take over its programmes. This action was greatly appreciated by Vietnam, as it helped prepare the Vietnamese government and national partners for continuing programmes that Sweden had been involved in. Sweden's help was valuable as there are certain programmes where the government would have been careful or hesitant regarding the selection of donors, such as anti-corruption, legal reforms and parliamentary democracy.

Aware of the sensitive situation, the Embassy in Hanoi paid special attention to dialogues and negotiations as it prepared for Stockholm to decide upon a phase out strategy. As a result of these dialogues and negotiations, there were several concrete outcomes, for example in the case of legal aid, Sweden delegated to Denmark the running of the programme on Swedish committed funds until 2013. It was decided that a number of programmes would be renewed and extended following requests from the government and national partners. Examples include Chia Se, a programme that the MPI sought to extend and replicate owing to its unexpectedly positive outcome, legal education and research collaboration. Sweden committed to extending these initiatives for 2 further years from their original expirations.

In preparation for the phase out strategy, the Embassy arranged for a study to be undertaken by an external consultant to map out all Swedish previous and existing cooperation in Vietnam, including projects using non-official channels that received some kind of support from SIDA. The study was used in Stockholm to prepare the strategy. There were also two consultation workshops in Hanoi in March 2008, attended by a delegation of policy-makers and country expert teams from MoFA and SIDA. At the first workshop, delegates were briefed on the country's development and reform needs, as well as possible strategies that Sweden could adopt in its next strategic interventions. The second workshop was for the policy-makers and country expert team at SIDA headquarters and the development country team in Hanoi to exchange ideas and discuss potential solutions. The delegation was also scheduled to meet with representatives of the government, the private sector and civil organisations to obtain further input.

The various dialogues and negotiations between the Swedish Embassy in Hanoi and national actors had an effect on the phase out strategy. As a result, Swedish concentration of bilateral ODA with central government bodies over the years has now shifted to reach out to the private sector, civil groups and even individual activists. Swedish and Vietnamese civil organisations consider this a great move towards concerted efforts to build up civil society and pluralism in Vietnam, as aid is not merely channelled to central government bodies.

5.3 Exit management and implementation

Exit management is the second phase of a donor exit process and encompasses planning and implementation. Schulz points out that careful planning and implementation of the exit enable sufficient adaptability and predictability for the national actors, which is necessary for good donor practices.²⁴ Efficient planning and implementation affect the sustainability of development results, as they reveal donors' responsibility for the exit process and national partners' capacities to respond to the withdrawal of funds and expertise.

5.3.1 Exit planning

Until the phase out strategy was decided following negotiations, the Embassy in Hanoi was instructed to make plans for the exit in Vietnam. This encompassed two parallel processes.

The first step was to prepare to close down programmes that no longer fit within the development agreement frameworks or to hand them over to the Vietnamese partners and/or other donors who may wish to continue them. The second stage was to define how to make phasing out instrumental for a potential 'phasing-in'. This means using the opportunity to facilitate actor-driven cooperation to support bilateral diversified interests between Swedish and Vietnamese partners beyond the state-funded channels. The second process was much more time-consuming than any other handling process. It was also challenging to define potential actors or groups of actors whose profile fit with the new Swedish priorities and aid modalities in Vietnam.

From Swedish actors' perspectives, closing down programmes that had reached the end of the bilateral framework was less challenging, although the exit from those programmes that need to become more self-sustainable could not be easy to plan without careful dialogues with the national partners. The negotiations with Vietnamese partners to close down programmes in the health, energy or culture sectors were smoother than in sensitive areas where Sweden had been a lead donor.

The Swedish planning process included negotiations with national actors regarding how best to either close down or continue programmes, and which components other donors could possibly take over. In most cases, various joint initiative working groups with which Sweden was a partner would fill the gaps.

The transition to partner-driven cooperation (PDC) attracted a great deal of interest from Swedish and national partners, as well as donors who are figuring out a suitable transition strategy of their overall cooperation in Vietnam. As a learning experience, several bilateral donors have shown interest in Swedish planning for PDC and how the concept is adopted and carried out. However, PDC has proven to be challenging as it is staff-intensive, requiring much time and effort.²⁵ As such, it has required much more clarification and guidance, which was almost missing in the planning process between the headquarters and the country team in Hanoi, in the latter's opinion.

5.3.2 Exit implementation

It took a while for Sweden's exit planning to be implemented, in particular the component of partner-driven cooperation. According to the plan, a dual process was carried out during the first two years after the phase out decision. One element was to carry out the handling process to integrate the terminated programmes into the Vietnamese on-going plans. This process was viewed by Swedish and Vietnamese actors as successful, given the Vietnamese capacity and ownership of such programmes, as well as the existence of various joint donor working groups.

The other was a process of selective cooperation and identification of actors and partners for new Swedish priorities and cooperation, based on three areas: democratic governance, human rights and environment and climate change. Anti-corruption is the main focal programme of the democratic governance objective. While PDC is integral to all three areas, it also forms a separate component to build bridges between Swedish traditional bilateral aid and new partnerships in trade and investment with new actors from Swedish, Vietnamese and international civil organisations, individual societal activists and the private sector. It is hailed

²⁴ Schulz, op. cit.

²⁵ SIDA, op. cit.

as an instrument for a post-aid relationship. This process has been viewed as ‘learning by doing’, given that the process of PDC planning in Vietnam has been pivotal for SIDA Stockholm in formulating a PDC strategy. This has been possible due to joint initiatives and harmonisation between development cooperation and trade sections at the Embassy in Hanoi.

By the end of 2009, the Swedish result matrix showed that over forty potential partnerships had been identified. Of these, seven partnerships have started up through planning grants from SIDA and are expected to lead to established partner cooperation. To comply with the sustainability of exiting programmes beyond the bilateral funding period, Sweden decided to extend cooperation in the cases of research collaboration, legal education and Chia Se after consultations and recommendations made by independent evaluation teams.

The overall approach that Sweden adopted in the implementation process to sustain the new Swedish priorities and aid modalities is guided by a rights perspective and the perspectives of the poor as well as gender equality. This influences the path, the channel, the sector and the actors Sweden selects for cooperation during the phase out period. Guided by these principles, Sweden has provided further support to NGO-initiative networks to enable them to engage in new Swedish aid modalities.

Thus, the exit implementation entailed finding a balance between phasing out and initiating new partnership cooperation. Exit planning and implementation in Vietnam severely challenged SIDA’s human and administrative resources in the country. This may have implications on phase out activities and management capacity. The major challenges rest on the ambition and tasks of Sweden as a lead donor in anti-corruption, and the initiatives of PDC. Both require extra staff capacity and additional activities. However, SIDA Stockholm has decided to cut the number of sent-out staff by two by summer 2010, which will create a further challenge for exit implementation after this time.

5.4 Post-exit relationships: Open window of opportunity

5.4.1 Programme sustainability and partnerships

In the case of Vietnam, the sustainability and normalisation of programmes is promising. First of all, the conditions in which Sweden’s exit is undertaken are favourable for the country in terms of development funds and availability of expertise and donor partners, even in sensitive areas of democratic governance and human rights. In addition, it is feasible for programmes to be transferred to the national government and development partners, since capacity development and institution building have been central to Swedish aid interventions prior to phasing out.

Sweden continues to emphasise support of institution and capacity building across areas of its aid intervention during the phasing out process. This is crucial for development sustainability overall. In particular, programme sustainability beyond the bilateral funded period is essential for Sweden to forge new partnerships using the links and results of sustainable phasing out. In fact, PDC was created to sustain an unofficial part of the phase out strategy that is to make phasing out instrumental for ‘phasing in’ – using the opportunities and a new formulation of PDC to build new partnerships and normalise the bilateral relations based on broad mutual interests.

A number of good practices can be exemplified through the handling of the health, legal reform, Chia Se and environment/natural resource management programmes. In the case of the health sector, while Sweden supported a one-year transferring process to the MoH and the donor joint-working group, new PDC was identified for potential collaborations between Vietnamese hospitals and the Swedish private sector. Swedish phasing out from the environment sector also saw concrete opportunities for new partnerships. Under the new theme of environment and climate change, the development cooperation and trade section of the

Embassy jointly arranged the Green Solutions event in October 2009 to bring together city state authorities and Vietnamese and Swedish business and research institutions for potential PDC and trade. Aid funds are used for match-making new partnerships in a post-aid relationship. In the case of Chia Se, the handling was carefully reviewed with the MPI before the decision to extend was made, using the existing methods and tools to apply in replica programmes. The legal reform cooperation experienced a new form of delegated cooperation, where Sweden entrusted Denmark with funds and expertise, while co-funding from the EC ensured that the joint-initiated programme could be sustained.

With the exception of the Chia Se programme, all sectors and programmes that Sweden is phasing out from are all well covered by different groups of donors. Even within the sensitive areas of democratic governance and human rights, there has been an emergence of increasingly dynamic donors including the LMDG and UNDP, the World Bank and ADB. For example, parliamentary cooperation between the National Assembly and the Swedish Riksdag ended in 2008, but was quickly succeeded by Denmark and UNDP.

5.4.2 Aid exit: Agents of change for bilateral relations

Opportunities appear positive for Vietnam and Sweden – as an exiting donor – to build a bilateral relationship based on mutual and broad interests following the exit.

Officials at SIDA headquarters have already declared that Vietnam has offered Sweden a great experience of effective development cooperation and sustainable phasing out. Saying goodbye to a large number of development partners around the world was painful, but it has also opened minds and introduced new experiences and opportunities. The phasing out experience from Vietnam also highlights a seemingly forgotten aid philosophy: that aid should not aim to stay in a country forever. There are ways to stay engaged, but aid effectiveness to the overall development of a country can only be sustained if it is to facilitate conditions for a country to undertake reforms and changes for the population as well as for the government. National actors must be able to exercise their ownership and grasp their development opportunities. The case of Vietnam helps to review Sweden's long-term engagements in its African 'darling' countries, and identify missing ingredients for post-exit relations with other strategic partners such as India and South Africa.

The strategy for using phasing out as a means of building new partnerships in trade, investment, cultural and research cooperation between Vietnamese and Swedish private business and civil society has great potential to sustain new flourishing bilateral relations. Using development funds for cultural exchanges between Vietnam and Sweden during the last few years has helped to move bilateral interests beyond the circles of aid-centred relations and the stereotypical images of Sweden as an aid donor and Vietnam as a sorrowful little war victim. The rapidly emerging Vietnamese market has also engendered greater Swedish interest in commercial and investment establishments. The Asia Department in MoFA has been active in assisting conditions for Swedish individual entrepreneurs and national organisations to explore Swedish comparative advantages in Vietnam, making Vietnam a new focal point for relations.

6. Sweden's exit: Implications to good practices

6.1 Understanding the Swedish exit from Vietnam

The nature of Sweden's phasing out from Vietnam makes Vietnam significantly different from other countries that receive its aid, from which exits are mainly based on the assumption that there are no comparative advantages for Sweden and there are too many donors in the country to make Swedish aid a substantial contribution. Rather than phasing out of Vietnam as quickly and smoothly as possible, as it has done with some other countries, Sweden has chosen Vietnam as one of the countries where selective and strategic interventions are applied in a gradual phase out process, before it finally exits in 2013. Furthermore, the new objectives and the implementation of the phase out framework was designed in a way that creates a 'theatre of effects' of democratisation, actor participation, empowerment of the poor and more locally useful programmes. This highlights a new approach, distinct from the traditional and conservative Swedish style of cooperation when it comes to actor cooperation, focusing mainly on central government agencies.

Clearly, the question concerning how relations between Vietnam and Sweden will develop beyond the exit of traditional bilateral aid has been the driving force behind the design and management of Sweden's exit. There is no doubt that the long-lasting relationship between the two countries has created substantial tangible values in the form of contacts between organisations and institutions, enterprises and individuals in the two countries. This could still potentially form a strong base for many types of collaboration in areas like business, academic research, science and culture, and could contribute significantly to the continued development of Vietnam in accordance with the fundamental principles of Sweden's Policy for Global Development.

As such, Sweden's exit from Vietnam is not causing pain, but opening new windows of opportunity for a more equal partnership. While exiting programmes with a good handling and assistance process so that they can become self-sustained, Sweden tended to stay focused on identifications of actors or agents of change and new forms of cooperation and normalisation of bilateral relations, based on results of strong past cooperation.

Sweden was the first official donor to phase out development cooperation from Vietnam. The Swedish exit management and implementation have generated good practices in terms of communication transparency, dialogues and negotiations during the handling process, as well as the focus on national capacity development. The difficult moments have been compensated with significant attention to building post-exit partnerships.

To the remaining donors, especially the large number of bilateral donors from the LMDG members who are beginning to phase out from certain sectors and are in transition to adapt the nature of their cooperation to Vietnam's new development stage, Sweden's exit offers a good learning experience. Some donor representatives even consider Swedish phasing out of development cooperation as a model for their practices, especially in the handling of programme sustainability through self-sustained transformation and delegation of donor partners, and new formulations of actor-driven cooperation to support the normalisation of post-exit scenarios.

6.2 Clashing or complying with global commitments

Vietnam is an extremely interesting case study of Swedish aid phasing out and what it means for the politics of aid effectiveness and donor concentration in the recipient country, especially if aid effectiveness is to mean a contribution to development of a country at large and not of a development cooperation programme as such. Furthermore, the context of the Accra Agenda for Action and Division of Labour (DoL) has become more important in the case of Vietnam at a time when certain donors have begun to phase out development cooperation and are in transition to adapt the nature of their cooperation to Vietnam's middle-income status.

Although Sweden focuses its exit strategy on phasing out in a manner that is considerate to its national partners and conducive to building new partnerships, its compliance with the Paris Declaration and AAA is

not significantly reflected in its strategy – one could even say that it clashes with these agreements. There appear to be clashes between the policy-makers at MoFA and some policy-makers and development officials at SIDA headquarters. Those working specifically with Swedish development cooperation at the global and in particular at the European level consider that Sweden's country concentration is necessary to achieve both the Swedish government's unilateral interests in making its aid more efficient and substantive and its global commitments of aid concentration and effectiveness. This may mean that they focus on cutting a large number of aid recipients and closing down programmes in those countries as quickly as possible to shift funds and efforts to Sweden's identified long-term partners.

However, to serve the wider broader actor interests in Sweden, other groups at the Swedish policy-making level would like to build a bridge between conventional aid and an emerging harmonisation of aid and trade for development in the phase out strategy. To do so would certainly clash with Sweden's obligation to comply with its global aid commitments, as it has to include new actors, modes and channels of cooperation in the phasing out process, especially from strategic partners like Vietnam, India, South Africa, Indonesia and China.

The Vietnamese context offers both challenges and opportunities. Vietnam is a country that lacks pluralism, respect for human rights and democratic freedom; it is important that Sweden takes advantage of strong past cooperation with the leadership to work in the areas of human rights and democratic governance. At the same time, Vietnam is emerging with great potential commercial and investment opportunities. In order to efficiently utilise the last window of opportunity when it comes to aid-funded activities, identifying new partner cooperation has been a Swedish interest. These activities certainly clash with the Paris Agenda that Sweden conforms to if Sweden is trying to promote new Swedish actors and their interests to fill the void of Swedish aid disappearance.

As a donor, Sweden is divided between complying with new codes of conduct and aid concentration, and promoting self-interested relations. On the other hand, if harmonisation of aid and trade/investment is considered a prerequisite for facilitating development in Vietnam, this process is a crucial step for the phasing out of Swedish aid. Therefore, PDC could be seen as an attempt to realise Sweden's Policy for Global Development.

The majority of donor perspectives expressed through interviews and the workshop in Hanoi reveal the contradictions facing their own policy choices. One dilemma concerns the political economy of development aid in donor countries. Even if the aid community might be convinced by the moral and efficiency arguments in favour of harmonisation and alignment, most bilateral donors are also obliged to justify their ODA flows to their taxpayers. The willingness to accept substantial outflows of aid is likely to be based on a combination of perceived needs, demonstrated effects of aid and shared views regarding the future impact of aid. Far-reaching harmonisation and alignment will make it more difficult to demonstrate that development cooperation programmes include the specific concerns of each donor.

In this context, it is also appropriate to note that most donor representatives and even Vietnamese officials might actually not find complete harmonisation among donors to be in their best interests. While they most likely welcome streamlining of donor procedures, it is clear that a harmonisation of policy objectives will shift bargaining power in favour of the donor community. National partners will largely be bound to the consensus views presented by the donor community, adding to the likelihood that some kind of 'super-conditionality' emerges over time. Harmonisation will also eliminate the current diversity regarding policy choices and development strategies, with different donors still promoting their own specific development paradigms. This would likely be unfavourable for a country where the domestic policy debate is not characterised by diversity and competing opinions and there is lack of societal pluralism. The donor community has sometimes been able to play an important role by promoting a diversity of views, with different donors garnering support from (and possibly also empowering) different domestic interest groups.²⁶

In practice, the most important consideration in the case of Vietnam is perhaps the need not only to accept

²⁶ Forsberg and Kokko, op. cit.

but also to promote some degree of donor diversity, in addition to focusing on increased harmonisation and alignment because of two important preconditions. The first is that Vietnam lacks pluralism and space for public debates and political participation. At the same time, there is a strong sense of country ownership and leadership in its national development and selective integration of ODA and differentiation of donors' comparative advantages.

6.3 Lessons for a responsible partnership exit

6.3.1 Communication and dialogue

The Swedish country concentration decision arguably illustrates some of the limitations of the current ideals regarding ownership and partnership. While donors have made strong commitments to respect recipient priorities and policies, it appears that these commitments apply only to the extent that they actually coincide with the donors' own preferences and the country-specific political and institutional systems. Nevertheless, Sweden's exit has involved a number of good practices in terms of communication and dialogue. These include:

- Transparent and timely communication, with formal statements and information provided to high-level representatives of the national government by Swedish representatives in Vietnam.
- Active dialogues and consultations with national partners and relevant development experts to aid preparation of a phase out strategy.
- Support of studies and independent evaluation research of Swedish practices and experiences of the earlier stage of development cooperation to help formulate the Vietnam phase out strategy.
- Having a specific phase out strategy outlining clear objectives, priorities and available funds for the withdrawal period.
- Identifying options for exiting programmes to be self-sustained by Vietnamese partners; and negotiations with other donor partners for optimal delegated cooperation and a specific mandate. This was complemented by clear objectives funds being made available.

The less favourable aspects of the communication and dialogues following Sweden's decision to exit can offer a number of lessons. Firstly, donors should pay attention to essential communication – the exit's implications for existing and future cooperation must be clearly stated. Secondly, early warnings of and dialogues about a possible exit are needed if mutual partnership and ownership are to be respected.

6.3.2 Exit management and implementation

In the specific case of Vietnam, some aspects of Swedish exit management and implementation have been highlighted as good exit practices. These include:

- A decentralisation process where Stockholm allowed the Hanoi country team flexibility in the handling process of the exit. This allows more room for the country team to take into account the national partners' perspectives in terms of available capacity, political and institutional environment and identification of actor cooperation.
- A handling process that helps to hand over to Vietnamese partners the programmes to be terminated, so as to make them self-sustained. Sweden was also active in finding new delegated donors.
- A careful formulation of partner-driven cooperation, which is still considered a unique and successful component of Swedish phasing out from Vietnam. This PDC component is then integrated into all areas of Sweden's new priority areas of cooperation as well as exiting programmes so as to form new partnerships.
- Reallocation of funds formerly spent on Swedish staff to activities, in order to secure sustainability of cooperation as part of strengthening Vietnamese national capacity development.
- Clear direction of modes of cooperation through continuous support of national capacity development and institution building.
- Extra attention paid to areas where Sweden is taking the lead donor role towards the practice of concerted efforts and harmonisation. Results have been highlighted in the anti-corruption programme, whose structure with a lead donor in programme management and dialogues with the government has been replicated to dozens of programmes in the past few years.

6.3 Post-aid relations

Clearly highlighted in previous sections on the post-aid scenarios and mutual partnerships, Sweden has invested well in windows of opportunity, gradually phasing out cooperation and taking advantage of strong past relations and its position in the country. The redefinition of Vietnam from a long-term aid partner to a new selective partner helps Sweden to adapt the nature of its cooperation and identify new opportunities in Vietnam. While investing time and effort in helping the exiting programmes to become self-sustainable or to continue through delegated cooperation, Sweden is also identifying new partnership opportunities. Thus, Sweden has aimed to achieve both the status of a donor phasing out in a responsible manner and a new equal partnership supporting broader bases of aid and trade interests.

6.4 Lessons for the national government

Given the context of Vietnam as a donor darling, Sweden's exit offers some strategic lessons, particularly concerning respect of country ownership and mutual responsibility. First of all, Sweden's exit highlights the failure of donors to take into account these principles in early warnings and communication on its possible exit. A donor exit can thus be seen as an opportunity for the government of Vietnam to work harder in assuming its national ownership and ability to conduct mutual dialogues. Secondly, a donor exit should be seen as an opportunity for Vietnam to work on and assume its national capacity and institutional strength, and to undertake critical reforms if possible, in order to take advantage of the available ODA resources in terms of funds, expertise and development strategies. To work on this, Vietnam can aim to use Sweden's exit as an opportunity to assume its national leadership role in dialogues and coordination with donors. This will help Vietnam to create trust and conditions for donors to better align with the government-led development strategies and country system. Finally, Vietnam is already a leading recipient partner in development policy and dialogues at the global level. The government can make further commitments to realise these commitments at country level.

6.5 Lessons for the national civil society

While civil society and national NGOs in Vietnam have received a high volume of assistance from the international donor community, they could take advantage of the new Swedish priorities and strategy in phasing out from Vietnam. They can regain Sweden's support of pluralism and political rights as well as harnessing the increasing emergence of other EU donors to negotiate and dialogue with the government for a role in development consultation and participation. While the presence of over 700 international NGOs in Vietnam provides support, they lack the channels of dialogues and policy consultations that bilateral donors have. Using the support of the EU and LMDG, donors can empower them much more on the mobilisation of their own forces.

6.6 Lessons for the remaining donor community in Vietnam

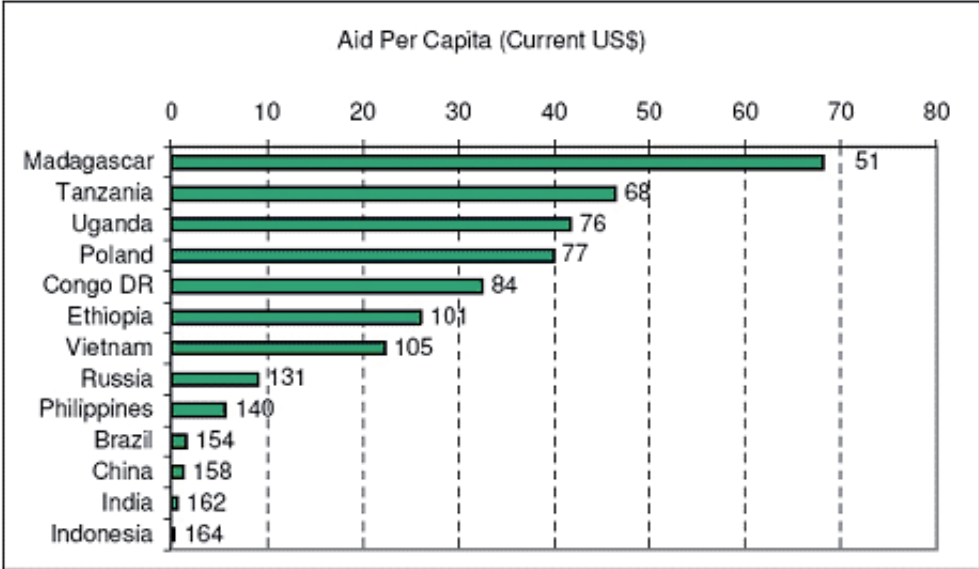
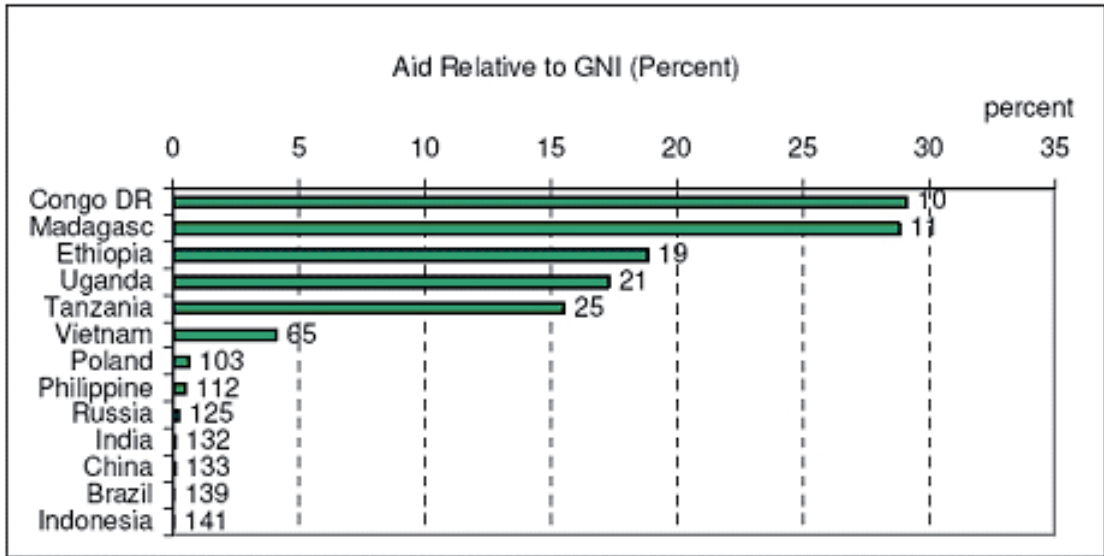
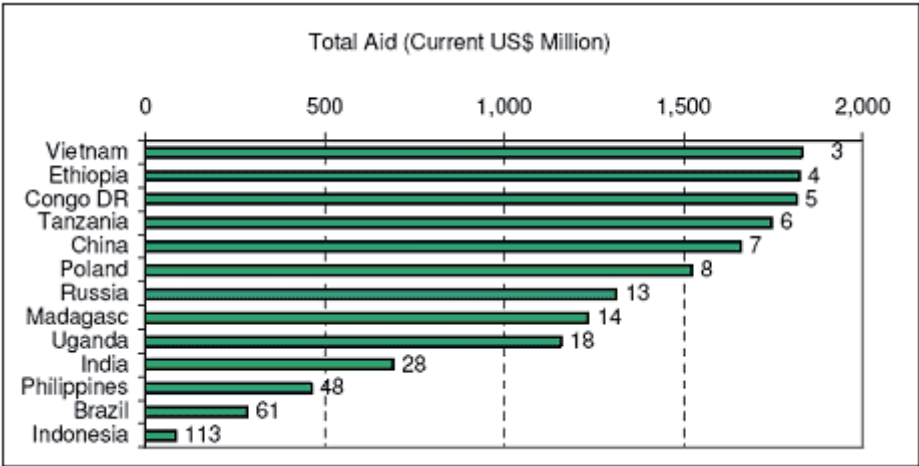
Swedish phasing out from Vietnam highlights a very important factor. The combination of Vietnam's emerging MIC status and the readjustments of the nature of donors' development cooperation to this new development in Vietnam as well as the demands of donor commitments to aid concentration requires the remaining donors to improve dialogues. In particular, it takes into account the principles of mutual accountability among the donors themselves and between donors and the national partners. There is also a need for the remaining donors to learn from the Swedish exit in terms of communication and dialogues with the national government about its plans and early warnings of a possible exit. It also requires concerted efforts to efficiently and responsibly manage their exit management if delegated cooperation is to be arranged. Furthermore, clear objectives and sectoral allocations have to be considered in balance of the donor division of labour and the comparative donor advantages identified by Vietnam. Improved coherence between donor headquarters and their country teams is essential to harmonise principles, policies and implementation.

6.7 Donor exits and implications to international division of labour

The case study of Sweden's exit from Vietnam highlights two important implications for any donors planning for exits and in-country aid concentration. The first is that Vietnam, not only in the case of the Swedish exit but also in that of most other bilateral donors, is not only experiencing a phase out but also a 'phase in', unlike other case studies in this project. The phase out and phase in strategies both need to take into account the preconditions of Vietnam as a country, lacking pluralism and free space for policy debates and participation, and at the same time as an emerging market economy. This has implications for a balance in selections of actor and sector cooperation in the phasing out and donor concentration process. The second is that there are domestic-driven efforts to coordinate and adopt international principles of aid effectiveness that weigh heavily on the impact of Sweden's exit from Vietnam. To a larger extent, this precondition requires greater commitments to improve coherence and coordination from the donors' side to support aid effectiveness in Vietnam instead of creating additional burdens. This is an important background for drawing any conclusions.

Annex

Figure 1: Vietnam's ODA status in 2007



Source: World Bank's Vietnam Development Report 2007

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FRIDE-A European Think Tank for Global Action
C/ Goya, 5-7 pasaje 2ª - 28001 Madrid - Telf: 91 244 47 40 - Fax: 91 244 47 41 - E-mail : fride@fride.org
www.fride.org

The Swedish exit from Vietnam: Leaving painfully or normalising bilateral relations? | **Le Thanh Forsberg**