

gtz



LOCAL ECONOMIC DEVELOPMENT APPROACH BY GTZ IN VIETNAM

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ABOUT GTZ

As an international cooperation enterprise for sustainable development with worldwide operations, the federally owned Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH supports the German Government in achieving its development-policy objectives. It provides viable, forward looking solutions for political, economic, ecological and social development in a globalised world. Working under difficult conditions, GTZ promotes complex reforms and change processes. Its corporate objective is to improve people's living conditions on a sustainable basis.

The German Federal Ministry for Economic Cooperation and Development (BMZ) is its major client. The company also operates on behalf of other German ministries, the governments of other countries and international clients, such as the European Commission, the United Nations and the World Bank, as well as on behalf of private enterprises. GTZ works on a public-benefit basis. All surpluses generated are channeled back into its own international cooperation projects for sustainable development.

GTZ has been working with its partners in Viet Nam since 1993 and promotes sustainable development in the three priority areas of Sustainable Economic Development, Management of Natural Resources including Water Supply, Wastewater and Solid Waste Management and Health. Additional projects are situated within the cross-cutting sector Poverty Reduction, implemented on behalf of other German ministries or realised by GTZ International Services. The Centre for International Migration and Development (CIM), a joint operation of GTZ and the International Placement Services (ZAV) of the German Federal Employment Agency (BA) currently has 20 integrated experts working as professionals for partner institutions in Viet Nam.

ABBREVIATIONS

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ASMED	Agency for Small and Medium Enterprise Development
CIEM	Central Institute of Economic Management
COOP SME	Provincial Vietnam Cooperative Alliance
DOIT	Department of Industry and Trade
DPI	Department of Planning and Investment (at provincial level)
GTZ	German Technical Cooperation
LCB	Local Coordination Board
LED	Local Economic Development
LRED	Local and Regional Economic Development
MPI	Ministry of Planning and Investment (national level)
OSS	One-stop-shop
PCI	Provincial Competitiveness Index
PPC	Provincial People's Committee
PPD	Public Private Dialogue
SDC	Swiss Agency for Development and Cooperation
SME	Small and Medium Enterprises
SMEDP	Small and Medium Enterprise Development Program
VNCI	Vietnam Competitiveness Index
SAID	United State Agency for International Development

FOREWORD

The objective of the Small and Medium Enterprise Development Programme (SMEDP), funded by the German Federal Ministry for Economic Cooperation and Development and implemented by GTZ and the Ministry of Planning and Investment, is to improve the competitiveness of small and medium sized enterprises in Vietnam.

In order to achieve this objective, SMEDP is working with a multi-stakeholder approach including public and private institutions at national level and in four selected provinces: An Giang, Dak Lak, Hung Yen and Quang Nam. The programme consists of four closely interrelated components: 1. SME Policy, 2. Local Economic Development, 3. Competitiveness of Selected Sub-Sectors and Value Chains and 4. Advanced Technical Services/ Material Testing.

While the programme was originally designed for a total of 12 years, a decision by the German government to concentrate the technical cooperation in a reduced number of areas, resulted in an early phase out of the Programme after only four years, thereby posing a considerable challenge for partners and GTZ alike to assure impacts and sustainability within a limited time frame. In light of this development, SMEDP decided to focus its work in the last year on the most successful products and instruments developed and introduced as far as demand, ownership by partners and potential for sustainability are concerned.

As knowledge management has been an integral part of the programme and was therefore embedded in the programme concept, the idea was born to "systematise" and document the experiences and lessons learnt during the intervention process for the most successful instruments and products of SMEDP. These product systematizations include the following instruments and approaches: Regulatory Impact Assessment,

BusinessPortal, Local Economic Development Process, Local Coordination Board, Public Private Dialogue, the Value Chain approach with a focus on avocado and pangasius and Corporate Social Responsibility as a cross-cutting topic of the programme.

These systematizations were developed by GTZ SMEDP staff and were partially structured by applying the logic of the GTZ management tool Capacity Works, which is based on five success factors, namely strategy, cooperation, steering structure, processes and learning and innovation. The documents also drew on inputs from partners and other stakeholders who were invited to comment before final editing took place.

While these documents might not be perfect, as they can only partially reflect the complex process of interventions within a technical cooperation project and its outcomes, it is our hope that they will be of help to our partners in the future to pursue the further development of the products and can be a guide for other institutions and donors seeking to replicate them wherever they deem them suitable for application.

In introducing LED concepts, instruments, tools and in implementation of the intervention in this area, the GTZ SMEDP has received strong support from Mr. Do Van Hai, Deputy Director General of ASMED (MPI), Dr. Pham Thi Thu Hang, Mr. Pham Hoang Tien and Ms. Le Thi Thu Thuy (VCCI). We are also very grateful for the valuable contribution by international LED expert including Mr. Christian Schoen (Meso Partner) and Dr. Lothar Mahnke (Regionomica). The achievements in the area of LED under MPI - GTZ SMEDP could not have been possible without the hard work and dedication of LCB heads in four provinces, including Ms. Tran Thi Dep (Deputy Director of An Giang DPI), Mr. Ho Vinh Chu (Deputy Director of Dak Lak DPI), Mr. Doan Anh Quan (Director of Hung Yen DPI), Mr. Tran Van Tri (Director of Quang Nam DPI) and Dr. Vo Hung Dung (Director of VCCI Can Tho). We also would like to express our special thanks to the People's Committee, line departments, business associations, other institutions in both public and private sectors, consulting companies and consultants whose contributions have been indispensable for the success of the LED process under SMEDP.

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CONTEXT

Though small in size (365.000 km²), Vietnam has a large number of provinces (63 provinces) which differ in size, population, natural resources, proximity to markets, existing infrastructure and other quantitative locational factors. Since all provinces share the same national policy and regulatory framework (laws, regulations), the quality of local governance does play a decisive role in provincial development and in provinces or regions that perform better in terms of economic development, enterprise growth, job creation and poverty reduction.



Two decades of reforms have brought important change to Vietnam. The economy has doubled in size as compared to 1990. Vietnam is continuously opening up its economy and the Government is increasingly focusing national competitiveness. The country is lifting itself out of the low income country list in 2009 and the poverty rate has been reduced from more than 50 percent to only 16 percent in 2008. The private sector has grown exponentially with nearly 400,000 private formally registered enterprises to date. This is significant given that not a single private enterprise existed in 1986 when the country took its first steps toward economic reform. Vietnam is now a member of the Asean Free Trade

Area (AFTA), member of the World Trade Organisation (WTO) and is negotiating free trade agreements with many countries.

The Vietnamese Government has repeatedly emphasized the importance of equitable economic and social development in different geographic regions. The policy has been translated into regulations, actions and programs of the Government, line ministries and other stakeholders in the country. As a result, economic growth in Vietnam is driven not only by Ha Noi, Ho Chi Minh City or Da Nang - the country's major cities and provinces. There is also growth in more rural provinces such as Binh Duong, Vinh Phuc, Hung Yen, Lao Cai, Dak Lak and An Giang.

If Vietnam and its provinces are to sustain economic growth especially in the context of the current global economic turmoil, it is important that the reforms introduced at the national level are effectively implemented at provincial level and that the quality of economic governance in the 63 provinces is improved. In the last few years, the Government has had a strong focus on local economic development in order to mitigate the risks of a widening rich-poor gap in regional economic development. The Government sees this as one of the top priorities to ensure the quality and sustainability of growth. The Social Economic Development Strategy, the Comprehensive Growth and Poverty Reduction Strategy adopted by the Government fully reflect this concern.

Recently, Vietnam has embarked on a bolder decentralization process through which local governments are given more autonomy and power to govern and develop the local economy. For example, provincial governments can now decide on investment projects of up to US\$ 40 million. This increasing power is also accompanied with more responsibility and higher demand for knowledge, expertise and governance capacity. However advanced knowledge and expertise in new approaches to

effective economic governance are in serious shortage in most of the provinces in Vietnam. This limitation has become one of the most serious obstacles to the implementation of reforms at the provincial level and thus endangered sustainable, broad-based and equitable economic development in Vietnam. Another issue is the involvement and the role of the private sector in economic development. Although the private sector accounts for a larger share of investment and production than the public sector, it has only recently been recognized by the government as the major engine of growth and its influence on economic planning and development remains limited.

Institutional weakness at the provincial level in both the public and private sector is also one of the major constraints for private sector development in particular and economic development in general. Provincial institutions remain weak in terms of capacity, performance and resources. It is critically important that these institutional constraints be further addressed to ensure the long-term growth and competitiveness of the local economy and of the SMEs which are mostly operating at provincial level.

While the formal private sector is certainly booming in Vietnam, success has remained concentrated in only a handful of provinces. Up to date only 15 of the provinces are able to generate sufficient financial resources to balance the budget, while the remainder depend on transfer payments from the central government.

Operating in such a context, with the overall objective of improving the competitiveness of private SMEs in Vietnam, the GTZ - MPI SMEDP aims at promoting "[p]ublic and private stakeholders in selected provinces to implement essential development policies and activities". The program has been developed and implemented in close consultation with Government priorities, policies and actions and with other donor's projects which are operating in the same field such as DANIDA, EU, UNIDO, VNCI and IFC/MPDF.

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II

INITIAL SITUATION

SMEDP operated in four provinces: Hung Yen in the North, Quang Nam in the Center Dak Lak in the Central Highlands and An Giang in the Mekong Delta. The provinces were selected according to the following criteria¹:



- Engagement and commitment of the provincial government in the development of the private and especially the SME sector; active interest to participate in the programme;
- Significant levels of poverty with a minimum economic potential: the economic centres of Hanoi and HCMC, as well as secondary growth hubs like Hai Phong, Da Nang and Can Tho (which are already taken into account within the framework of the EU-Programme) were excluded. Provinces with middle to high rates of poverty were considered;
- Cooperation possibilities and synergies with other measures of German Technical Cooperation (other sectors or focal areas as

¹. SMEDP Program Document, 2005

well as other development instruments); possibility to rely on already established institutional structures;

- Synergies with other donors (especially the EU-Programme) and avoidance of overlap with other donors' projects: the selection was coordinated closely with all other initiatives at the provincial level. In the selected provinces, no other programme for the support of the economic development at the local level is active or planned.

Although somewhat different in terms of GDP per capita, GDP composition and institutional capacity the four provinces covered by SMEDP, like many other provinces of similar context in Vietnam, face a wide range of problems. As a consequence of the command economy economic development is based on a blueprint entitled "5 Year Social Economic Development Plan", which is developed by the Ministry of Planning and Investment (MPI).

Table 1 - Key Facts about An Giang, Dak Lak, Hung Yen and Quang Nam at the outset of the Program (2005)

	Population	GDP per head (USD)	# of private enterprises	PCI ranking	Poverty Rate(%)
An Giang	2,193,661	560	1,958	34	12.15
Dak Lak	1,714,855	320	2,093	35	27.55
Hung Yen	1,134,000	483	1,117	15	13.2
Quang Nam	1,400,000	355	519	16	30.29

Source: Provincial Statistics Year Book, PCI reports by VNCI/USAID and VCCI

* Dak Lak was not ranked in the PCI in 2005. The PCI ranking of Dak Lak is for 2006.

At the beginning of the program, the dialogue between the public and private sector remained limited. If there was a dialogue at all, it often followed a traditional format that does not encourage the local business community to share their views and problems with the local authorities. They are often "monologue sessions" with lengthy speeches by Government leaders. As such, private sector stakeholders lose interest and are reluctant to attend. Answers from local government to the problems raised are also often insufficient, there is a lack of skillful moderation and few follow-up activities.

Cooperation between the several departments at the provincial level is also limited and formal. The first activities (awareness raising workshops, sensitization seminars or PACA exercises) increased the exchange of information and ideas between the several departments.

The provinces also faced constraints in other fields like high business entry cost, lack of information transparency and a lack of pro-activity of government leaders. These are reflected in the following table:

Table 2 - Sub-indices of Provincial Competitiveness Index in 2005

	Entry Costs		Trans- parency		Time Costs		Proactivity		PSD Services	
	2005	National	2005	National	2005	National	2005	National	2005	National
		Median		Median		Median		Median		Median
An Giang	6,36	6,23	4,1	4,67	4,64	6,37	5,61	5,71	4,18	5,13
Hung Yen	7,73	6,23	5,34	4,67	6,28	6,37	6,01	5,71	3,08	5,13
Quang Nam	6,23	6,23	4,65	4,67	5,23	6,37	7,01	5,71	7,03	5,13
Dak Lak*	6,48	7,4	4,99	5,43	4,83	4,42	5,87	4,85	5,27	4,88

Source: Provincial Competitiveness Index Reports, VNCI/USAIDS and VCCI, 2005, 2008

* Dak Lak was not ranked in the PCI in 2005. The PCI ranking of Dak Lak is for 2006.

The table shows that in 2005, all of the four provinces were lagging behind the national median in terms of transparency and time costs of regulatory compliance. Some were also lagging behind in terms of entry costs, pro-activity of leadership and private sector services. These issues were discussed with all of the provinces and were reflected in the strategy of SMEDP.

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INTERVENTION PROCESS

1. Strategy - the LED Concept of GTZ: Focus on the process and strategic change projects rather than long term plans

What is an appropriate approach given the above-mentioned situation? GTZ, defines LRED, Local and Regional Economic Development as a process to mobilise stakeholders from the public and private sectors as well as from civil society to become partners in a joint effort to improve the economy of a defined sub-national territory and thus increase its competitiveness.



Figure 1 - LRED and GTZ Programmes around the World



Source: Department 41, Planning and Development Division, GTZ

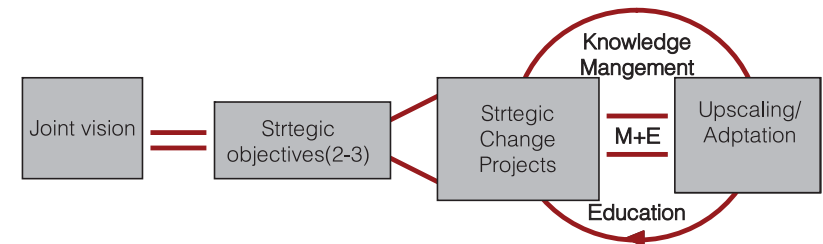
In reality, there is no "blueprint" for LRED projects. Often, objectives, concepts, interventions and approaches differ depending on the professional background of the people involved. Experience from GTZ projects around the world show that interventions at micro and meso level are not sufficient and must therefore be complemented with interventions at the macro and meta level. Planning of LED projects depends on the situation in the respective region and might be more private sector driven in areas with relatively high economic potential while being more government driven in regions with low economic potential and little private sector capacity. In all cases one rule applies: LED is always a change process which is achieved by networking between different stakeholders.

The process orientation of LED implies that the steering of the process is often more important than its contents. The

stakeholders make the difference. There are many instruments for interventions at different levels in LED. Their importance depends on the degree of development of the respective region. GTZ believes that LED projects should not try and create "stand alone" solutions. Combining regional and national initiatives and stakeholders is vital for success. LED projects should not be "stand alone" solutions. The linkages with regional and national initiatives and stakeholders are vital. LED-strategies have to complement national and regional strategies (competitiveness/globalization): think globally - act locally!

A desirable process for LED development, according to GTZ, is described in the diagram below:

Figure 2 - A Desirable LED Process



As can be concluded from the diagram this approach implies a preference for the continuous development of strategic change projects with a subsequent monitoring and learning phase, rather than development of a comprehensive plan as is often the custom, especially in transitional economies like Vietnam.

2. Strategy - SMEDPs Approach to LED

a. The Local Economic Development Component and Impact Indicators

In such a context, the MPI - GTZ SME Development Program was designed and implemented with the objective to **improve the competitiveness of private and small and medium enterprises in Vietnam**. In the field of local economic development, the program aims at **provincial stakeholders implementing reform initiatives to enhance the provincial business environment**.

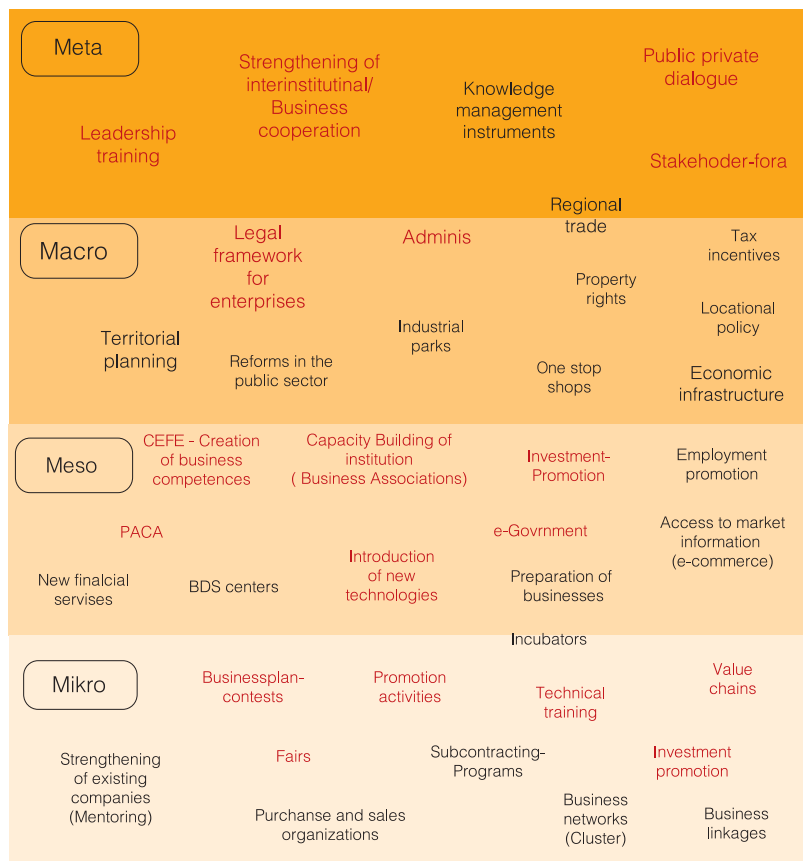
To measure the impact of the intervention in local economic development, the following impact indicators have been adopted for evaluating and monitoring purposes:

- At least twice yearly public and private dialogue fora take place to promote cooperation between government and the business community
- Four innovative instruments to promote investment and business start ups are being applied
- At least three sub-indices relevant to business activity being improved in each of the selected provinces (PCI-USAID).
- Results of pilot implementation are being transferred to at least five more provinces.

b. Strategy - core criteria for successful LED interventions

It is a wide belief that in order for a LED process to be successful, it is important that there be a sufficient number of private companies and a minimum number of organizations, a minimum number of supporting agencies (service providers), economic potential (not simply a subsistence economy) and a minimum of social and material infrastructure (energy, roads, education etc.). In addition, there must be a common understanding among the stakeholders of the problems and challenges facing them and a general willingness to change (certain pressure is felt by all stakeholders) based on a common vision. It is critically important that the private and public sector are willing and capable to enter into a constructive dialogue and that the main stakeholders demonstrate the capacity to lead and govern the process (local champions).

To achieve a sustainable and structural impact on different levels (micro, meso, macro, meta), GTZ has developed several instruments, which can be seen in the diagram below. Those highlighted in red are applied by SMEDP. The challenge is choosing the right instruments for interventions which correspond to a specific setting at the local and regional level.



Source: Doris Becker, SMEDP, adapted from Dep. 41 Planning and Development Division Paper on LRED, GTZ

The strategy of SMEDP concentrated on the provincial level, applying a bottom-up principle which has been the foundation for the formulation of the LED strategy. The strategy development process included the following four main steps:

1. Assessment of competitive advantage of the respective province (application of PACA - a participatory planning approach)
2. Analysis/validation of the socio-economic development plans of the provinces and other government plans relevant for LED such as the SME Action Plan.
3. Comparison of key economic data with neighbouring provinces and the national average. This information was summarized in the so called "start papers" and later on in the process replaced by annual application of the "Provincial Competitiveness Index" (PCI) as a tool to measure provincial economic governance for private sector development.
4. Workshops, meetings between different stakeholders from the public and the private sector / enterprise community to discuss their ideas about the economic development of the province.
5. Bringing in international know how and best practices on Local Economic Development through international experts.

Based on the inputs from these steps a specific intervention strategy was developed for each province, which drew on the above mentioned instruments (see Figure 3) creating a suitable "instrumental mix" for each case. The choice of instruments also considered the possible integration of interventions from different

program components and possible synergies between them.

This strong participatory and systematic approach distinguishes the strategy chosen by SMEDP from those of other donor projects operating in the same field. This process, which is very different from the traditional Vietnamese top-down planning approach, has been especially helpful to strengthen the ownership of local stakeholders, be it from the public or private sector.

The strategy chosen by the partners together with GTZ, which was put into practice through annual operation plans, has reflected the allocation of resources for the process. Though in the beginning most of the funds for implementation were from SMEDP to implement the instruments, the implementation partners in the provinces have allocated funds from the local government budget or from other sources for the implementation process. In most successful or most demand-driven instruments like investment promotion, the BusinessPortal and development of selected value chains, the contribution of local partners was increasingly significantly towards the end of the program. Some are also very creative in diversifying the sources of funds for implementation. For example, Hung Yen Business Association has resorted to the private sector to mobilize funding for some of the PPD activities.

In general the LED component under SMEDP has focused on the following intervention areas:

1. Dialogue fora between public and private sectors
2. Improvement of administrative framework conditions

3. Capacity building on LED tools and LED related topics
4. Promotion structures and strategies for priority sectors (mostly provided by the value chain component of the Programme)
5. Investment and business start-up promotion
6. Development of Local Business Associations.

3. Cooperation in LED - Linking Different Stakeholders for Reform

As mentioned in the GTZ concept for LRED critical success factors for LRED interventions are the stakeholders, their common vision for the future and the interaction between them as they strive for a common objective.

The cooperation structure for SMEDP is based on the conviction that in order to respond to the magnitude of challenges inherent to LED institutions and organizations - public and private alike - at different levels of intervention (macro, meso, micro) and representing different topics of LED have to enter into long- or short-term cooperation. While some are permanent partners and responsible for steering the process (see next section) others are only brought in on a temporary basis to deliver specific knowledge or resolve specific tasks (for example, research institutions or service providers). To cope with certain shortcomings, such as the lack of representation of the private sector or shortcomings in service provision, even new partners such as business associations had to be set up with the support of the programme.

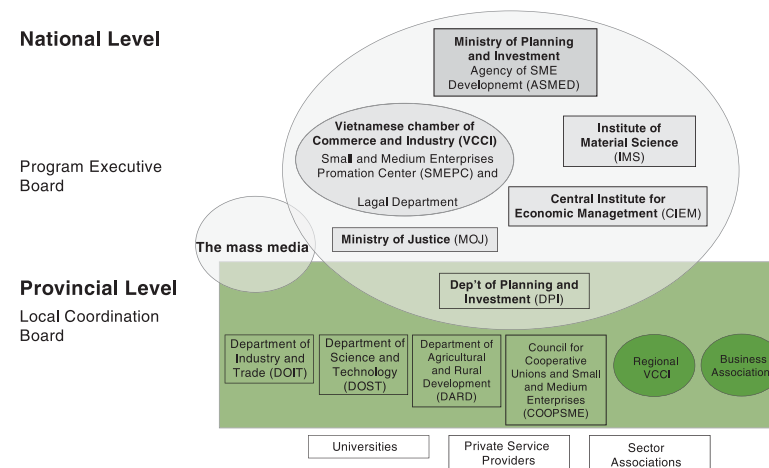
The structure reflects a strong interaction and linkage between the national and provincial, which is critical for national strategies and regulations being passed down to the provincial level and provincial experiences being fed back into the policy and strategy development at national level.

Key partners of the LED process include the Agency for SME Development (ASMED) of the Ministry of Planning and Investment, the SME Promotion Centre of VCCI at the national level, the Department of Planning and Investment, Department of Industry and Trade, Department of Science and Technology, Department of Agriculture and Rural Development, Council for Cooperative Unions and SME (COOPSME), regional VCCI and business associations at the provincial level. According to the program design, VCCI SMEPC is the coordinating body of the LED component. The composition of stakeholders clearly reflects the GTZ approach focusing on a multi-stakeholder approach at the provincial level.

The Central Institute of Economic Management, though not originally considered an official partner of the LED component of SMEDP and of the steering structure of the Programme, has contributed a great deal to the process, particularly by improving the provincial business environment and raising issues that arise in the four provinces at the national level. The Ministry of Justice is assuming a similar role in the field of legal support for enterprises, though to a lesser extent than CIEM.

The cooperation structure of SMEDP is illustrated in Figure 4 below:

Figure 4 - SMEDP Cooperation Partner Structure



Other partners who were not permanently engaged in project implementation but were brought in to achieve specific objectives include national and international consultants and trainers, national and regional universities, sector business associations, service providers, civil society and other private stakeholders. The LED process cannot be successful without them. It is also important to note the role that the mass media played in the LED process facilitated by SMEDP. Newspapers, magazines, TV stations and radio channels have helped to inform the public and all stakeholders involved about the contents and process of LED. They also contributed enormously to advocating for the adopted strategy, winning public opinion and disseminating knowledge, best practices and lessons learnt to the nation.

Furthermore, other donors and development projects were important partners with whom an active exchange of ideas, methods and instruments was organised through, amongst others, the Local Economic Governance Working Group under the SME Partnership Group but also by the joint organization of events and dissemination of instruments which had proved suitable in LED interventions. As a result of such cooperation other provinces outside of SMEDP's influence applied instruments such as PACA, PPD, the BusinessPortal or even the model of the Local Coordination Board.

Partners, both inside and outside the permanent structure have contributed significantly to achieving the program's objectives. The ownership of most implementation partners, especially DPI, DOIT, DOST, DARD and business associations has been remarkably strong resulting in joint strategy development, joint formulation, funding, implementation and monitoring of program activities. Partner agencies have played an important role in knowledge management and sharing products developed by SMEDP, for example, PPD, BusinessPortal, LCB structure and investment promotion initiatives with other provinces and national and international agencies.

Ownership of the provincial partners was also reflected in their strong participation in the development of the impact chains and expected outputs and their determination to achieve the impact indicators. At the outset of the program, most of the impact indicators for the LED process were discussed in planning workshops, LED fora and different project events. The commitment to achieve the program's objectives and output

indicators was even stronger towards the end of the program when the GTZ support concentrated on assuring the sustainability of interventions.

While ASMED (MPI) was very much involved in the LED process - especially in discussing the OP with provincial partners - the involvement of VCCI SMEPC in coordinating the process was less than expected for two reasons. First, in Vietnam, the responsibility for the governance of the LED process lies with the public administrative system and most key implementation partners are within the administrative system. VCCI is not an entity of public administration and it is therefore extremely difficult for them to steer the administrative institutions at the provincial level. Meanwhile, most DPIs see themselves as subordinate agencies of MPI and accept the ministry as the key steering body. Second, VCCI is not an agency that is specialized in local economic development and the availability of qualified staff in this area and time allocated to the topic is limited.

Overall, the cooperation among the implementation agencies under the LED process has been excellent, particularly thanks to the LCB format (see Chapter 4 for more details).

As a partner, GTZ has been highly appreciated for being demand driven and flexible and for strengthening national ownership of the project while being persistent with the development principles and with the program's objective. GTZ is highly valued for technical inputs provided to the LED process, particularly by the team of international and domestic consultants.

4. Steering Structure - Promoting New Forms of Inter-institutional Management

To be successful in striving towards a common objective every project needs an effective steering structure. This is especially true for LED as it includes a vast number of different stakeholders whose interests and actions have to be balanced and coordinated; therefore a multi-stakeholder steering structure is a critical success factor in LED. The most important criteria for a good steering structure include: ownership, variety of perspectives, transparency, efficiency, flexibility and conflict sensitivity. Stakeholders should also be permitted to learn at an individual and collective level for the approach to be sustainable beyond external support.

For this reason, GTZ decided from the outset of the Program, to work toward a steering structure at the provincial level. The Local Coordination Board (LCB) included relevant public and private stakeholders who played a substantial role in LED. This structure varied from province to province and included representatives of between five and 13 institutions, depending on the perceived importance to the LED of different sectors and stakeholders.

As the political partner of SMEDP at the national level is ASMED, the entry point of the Program at the provincial level is the DPI. The MPI and DPIs are suitable partners for local economic development because they are entrusted with socio-economic planning and elaboration of development strategies and plans at, respectively, the national and provincial level. At the same time

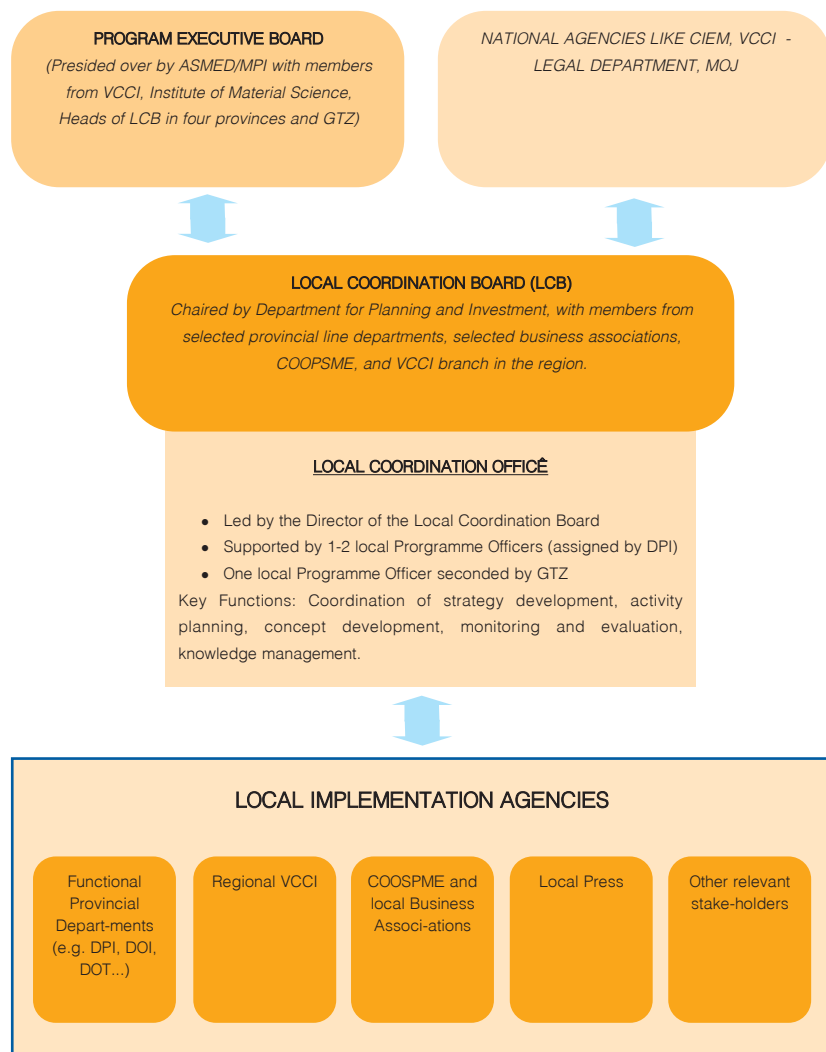
they are given the mandate for investment, official development cooperation, and control of procurement, enterprises and business registration.

Because of their role and importance for the LED process the DPI Directors or Vice Directors of the respective Provinces were appointed as Heads of LCB. The involvement of other stakeholders in the LCB depended on provincial priorities for economic development and the intervention of SMEDP and usually included the Department of Industry and Trade (DOIT), the Department of Agriculture and Rural Development (DARD), the Department of Science and Technology, the Cooperative Alliance (COOPSME) as well as provincial Business Associations, , although mostly on a non-formalized basis.

The core functions of the LCB are the coordination of strategy development and operational planning, the monitoring and evaluation of activities and knowledge management amongst provincial stakeholders, with other provinces and feed back toward the national level in the sense of the LED process as shown in Figure 5.

The diagram below illustrates the steering structure for the implementation of the LED process. The setup was developed during the formulation process in strong consultation with ASMED and the selected provinces. ASMED played a strong role in establishing the structure at the provincial level and their inputs helped to make the structure fit the administrative structure in the province.

Figure 5 - The Steering Structure



Benchmarking the LCB against the above mentioned **quality criteria for a good steering structure** the following can be acknowledged:

a. Variety of perspectives

The LCB includes most relevant stakeholders from the public and semi-public sectors playing a leading role in LED such as DPI, DOIT, DARD and COOPSME. The most important constraint for the steering structure was the limited participation of the private sector in the LCB. This was partly due to the fact that the private sector was not considered relevant as part of the LCB structure when the structure was discussed at the outset of the Programme, even though they were seen as important partners in the implementation of the LED process². Moreover, when the Program was established, there was not a sufficiently strong business association in the province. Efforts to address the problem were made at the end of the program. There were some initial successes in An Giang and Hung Yen, where local business associations played an increasingly important role in deciding on activities under the LED process, particularly the interaction between enterprises and the government.

b. Efficiency

The LCB has proven to be a very efficient mechanism for the coordination between implementation agencies which normally have limited interaction. In some provinces this structure was the first of its kind to encourage local line departments to meet on a periodical basis to discuss local economic development issues.

²At the beginning of the Programme, ASMED and some of the provinces believed that the LCB should only include public sector agencies, VCCI and GTZ. But ASMED and most of the provinces changed their opinion at the end of the Program. This can be regarded as an indicator of the improvement partner agencies' capacity.

The LCB concept fits well with the administrative structure in the province and it suits the culture of "consensus decision making" traditionally applied in Vietnam. The interaction between the stakeholders also increases trust between them which assures a better working atmosphere and more speedy decision making.

The mechanism permits stakeholders to jointly discuss, prioritize and coordinate the implementation of strategies and activities and assure their monitoring. The implementation of activities and achievement of objectives is also more effective due to peer pressure and is more efficient than the old-fashioned planning mechanisms.

c. Transparency

The LCB structure also assures more transparency and accountability of the stakeholders thanks to the open discussion of strategy, activities, outputs and results. All planned activities are included in an annual operational plan, regular LCB meetings are documented and the minutes of meetings are distributed to all participants. Activities are monitored using the operational plan.

d. Flexibility

This institutional structure at the same time fosters the demand driven and bottom up planning approach and so strengthens the ownership of provincial partners. It allows for the flexible adjustment of plans in the course of the year as new necessities arise or originally planned activities become obsolete. It also ensures synergies and avoids overlaps between activities of different stakeholders in the provinces. The flexibility of program

planning and implementation has been praised by partners at the provincial and national level. A country like Vietnam, in which rolling planning and network management are practically unknown, and partners still cling to old traditions of top-down planning approaches, is in dire need of such a flexible approach in order to respond to multiple challenges in a fast changing environment.

When looking at flexibility with regard to inclusion of new members into the steering structure the assessment is not quite as positive. Although the inclusion of new members into the LCB was possible, it was not straightforward as existing institutions were eager to maintain their power (in terms of access to resources linked to the Program) and were reluctant to permit the influence of further institutions, especially those from the private sector.

e. Conflict sensitivity

In principle the structure is sensitive to conflicts, since the LCB provides a platform for discussion of possible diverging interests as they arise. However, members of the LCB do not always avail themselves of this possibility, as the LCB tends to be dominated by the LCB Head. More democratic decision making processes are rarely found. As trust between the stakeholders increased, it was observed that differences of interest and emerging conflicts were handled in a more open and constructive manner.

f. Facilitation of learning

The LCB as a structure allows learning on an individual and organizational level. While LCB members acquire new skills in

moderation, planning, coordination, monitoring etc. the group as a whole developed a common vision and often a certain connectedness as they both promoted and became part of different change processes together. Introducing inputs from international best practices that increased the awareness of LED also contributed to a change in the mind set of major stakeholders.

As the different LCBs are linked through the Program Executive Board on one hand and a strong knowledge management between provinces on the other hand, the steering process is very helpful in facilitating the introduction of products that have proven to be successful in one province to the remaining provinces.

In general, the performance of LCBs was not consistent over the provinces. The dynamics among key members, especially the heads of LCB, are very much different from one province to another. In some provinces, the leader of the province (Chairman of the People's Committee) pushed the LCB to do a better job while in other provinces the dynamic originated from the head of the LCB itself. The LED process was more successful in the latter provinces. In any case, PPC support is essential to achieve political backing for interventions, allocation of funds beyond the LCB member's agencies budgets and rolling out of instruments.

The quality of the performance of the steering structure as a whole was improved continuously over the years. This was manifested through better planning, more efficient implementation and monitoring of activities, stronger ownership, more transparency and greater contributions of human and financial resources to the implementation process.

At the beginning, the LCB was only designed for the implementation of SMEDP activities without no clear vision for the future beyond SMEDP. However, under a requirement from the National SME Development Plan, each province must establish a coordination board to implement the Plan. This has been a boost to the LCB since it assumed this function. The LED process and SMEDP's experiences in this area have inspired many provinces, especially in the Mekong Delta, to set up a coordination board at the provincial level (not of the Program) to coordinate local economic development activities. Some provinces have now called the LCB a "Local Economic Development Board". This reflects a change for the better in the mindset of local institutions towards LED and it also shows the potential for the sustainability of the steering structure.

5. The Process - Designing a Process for Continuous Change Management

When we talk about processes we mean, firstly, the processes underlying the interventions designed to bring about agreed change. As at the beginning of the Programme in 2005, LED was considered to be a fairly innovative approach for Vietnam the first phase of the process concentrated on sensitization to raise the awareness of national and local stakeholders. This part of the process was conducted with the help of renowned international experts with practical experience in LED.

The second process phase consisted of strategy development which is described in more detail in Chapter 2. It includes an

assessment of the situation with regard to LED in each province by application of the Participatory Appraisal of Competitive Advantage (PACA) method, the validation of existing development plans and indicators, the discussion with private stakeholders and the provision of inputs from the international discussion on LED by international experts. Additionally, selected studies were carried out for specific topics and sectors in order to be able to design tailor-made solutions. The output was moulded into an intervention strategy for each province which drew on the LED instruments and tools of GTZ described in Chapter 2. These are mainly instruments for private sector promotion with some adaptations for LED purposes.

Simultaneously the LCB was set up at the outset of the Program to prioritize, coordinate and monitor activities under the strategy. Based on the strategy and the defined areas of intervention annual operational plans were developed by the LCBs with technical advice from the GTZ international and national experts and then submitted and approved by the Programme Executive Board in its end of year meeting.

The implementation of "change projects" within the areas of intervention was usually coordinated by one of the LCB member institutions who, together with the local officers and the component coordinators of the GTZ Programme team, functioning as facilitators, organized the necessary support and inputs to successfully conduct the different activities.

Regular LCB meetings took place to monitor the progress in the different intervention areas and to make adjustments to the operational plans if necessary. The LCBs together with the GTZ staff reported on a half-yearly basis to the Programme Executive

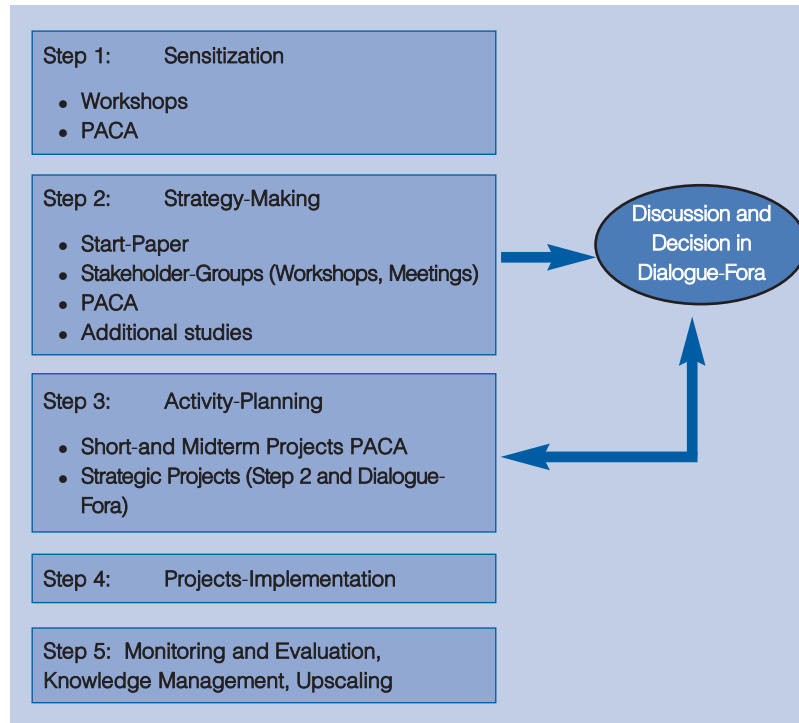
Board. Additionally, based on a requirement from MPI/ASMED, GTZ reported to the national Programme Director on a quarterly basis about all completed activities. GTZ also applied a milestones-monitoring system in order to keep track of the achievement of the most important milestones related to the expected outputs. Furthermore, it designed an impact monitoring system to assess impacts at the level of the component and programme objective indicators. These two systems were not adopted by the partners, who primarily concentrated on activity monitoring.

Local partners did involve themselves in the area of knowledge management by organizing study tours among provinces and by disseminating their experiences to other provinces beyond the programme's reach. The GTZ staff fostered knowledge management by organizing experience exchange events on LED for all provinces and at the national level and by running joint trainings on LED related topics.

While in the beginning of the programme many of the initiatives for activities in the different intervention areas were from GTZ staff at the Hanoi office or the local level, the partners became increasingly active during the latter years, as they perceived increasing benefits from the interventions and were more confident about their role

At the local level the process itself improved over time and gained a special dynamic, particularly in the cases of Hung Yen and An Giang, where the LCBs actively promoted the provincial development beyond the areas of intervention of the Programme. The process as a whole is outlined in the following figure:

Figure 6 - Five Key Steps of the LED Process in SMEDP



The LED process under SMEDP has been successful because of the underlying concept, the stakeholders' increased understanding of LED, and the changes that have taken place in the mindset of the local stakeholders. The process comprises five key steps mentioned in the diagram above.

This process has been both innovative and flexible. Innovative in the sense that it introduced many new instruments and tools such

as the Participatory Rapid Appraisal of Competitive Advantage (PACA), the local coordination board, dialogue fora and others that were welcomed by local institutions. Flexible in the sense that the extent and the timing of their introduction was tailored to the interests and capacity of the local stakeholders.

In this process, GTZ played the role of a facilitator that provided technical inputs (methods, instruments) and mobilized the contributions of relevant local private and public institutions. As a facilitator, GTZ SMEDP staff and consultants proactively carried out the sensitization on LED, facilitated local stakeholders in the development of the LED strategy and supported planning and implementation of activities and initiatives. Partners at both provincial and national agencies were encouraged to implement monitoring, evaluation, knowledge management and up-scaling of good practices. Limiting itself to its role as a facilitator, SMEDP has been particularly successful in strengthening ownership of the LED process and in building up the capacity of the provinces in managing the LED process.

6. Learning and Innovation - Increasing the Learning Capacity of individuals, Organizations and Systems

Sustainable learning ability is generated not only in individuals, but also within the structures, processes and regulatory frameworks of the partner systems. This refers to the mechanisms by which learning experiences occur, are disseminated and

institutionalized. Improving learning and innovation capacities is a core task of any technical cooperation programme.

In fact, in the case of LED which is seen as a process, learning and innovation becomes the key factor for success and sustainability, since without learning and innovation the process will not cope with new challenges and so evolve to the next stage. As LED was a fairly new and innovative concept when the programme started in 2005 a concern was to change the mindset of the stakeholders involved from the outset of the Programme.

The strategy for institutionalizing learning and innovation adopted by SMEDP followed a **two-pronged approach**:

- It aimed at building and **strengthening individual and institutional capacities to apply innovative instruments and methods**. This included, for example, building a group of PACA trainers Good House Keeping (GHK) while institutionalising the method with the SME Development Center in Ho Chi Minh City. It also included the training of public staff in different areas such as investment promotion, the BusinessPortal as a new tool for enterprise registration and information transparency and training of private enterprises in specific sectors to increase competitiveness.

All these activities were conducted with a view towards achieving technical and financial sustainability so that

these services can be provided when SMEDP phases out. International know how from consultants or thorough the GTZ sector network on sustainable development in Asia, was only used when no national knowledge was available. Otherwise national consulting companies and individual consultants/trainers were used.

- It aimed at **building the capacities for steering the process and the structures necessary for LED**. This included awareness raising for LED as a topic and as a process and transmitting the necessary know how (planning and monitoring techniques, organizing teambuilding workshops etc.) to the LCBs Furthermore, a kind of "training on the job" took place for the LCB heads and selected LCB members as they assumed functions for specific change projects and activities and the local officers and component coordinators accompanied them in their functions and encouraged them to take stronger ownership over time. The strategy also included **knowledge management** between the actors from different provinces (for example, joint trainings, study tours, experience exchange workshops), between provinces and the national level and vice versa and towards other provinces and donor projects.

An important part of the strategy focused on the interaction between private and public stakeholders to engage in public private dialogues (PPD) and LED fora. While policy

advocacy and public private dialogues have become a common practice at national level the provincial level is still lagging far behind, especially as there is still a strong belief amongst public stakeholder that they are the ones who have to manage private sector development. It therefore takes a lot of persuasiveness and perseverance to engage in this field and to work with public and private actors to build mutual trust and strengthen their ability to organise a democratic and result oriented discussion process. It must be acknowledged that SMEDP has not been equally successful in every province in this endeavour. The most notable case, however, is Hung Yen where the business association has now taken the lead and is regularly organizing PPDs with the involvement of different public stakeholders and the enterprise community.

A particular constraint for the further dissemination of the LED approach is the lack of initiatives and incentives from the national level to promote a more participatory and process oriented approach to economic planning and development. Also the topic of "new public management" (including a customer oriented and result based approach) is still in its infancy and therefore public institutions generally do not yet operate modern management concepts such as rolling planning, impact monitoring or knowledge management which have been promoted by SMEDP. For example at DPIs progress in improving management

information systems is only visible in some of the areas with direct SMEDP support. For example, in the area of enterprise or investment project information. However, good practices have not spread to other areas of the departments such as public procurement and construction capital management. Another example is the BusinessPortal, which has been replicated in several provinces with provincial funds or funds from other donors, but has not been disseminated nationally due to severe constraints in institutional learning and innovation.

LOCAL ECONOMIC DEVELOPMENT

APPROACH BY GTZ IN VIETNAM

IV

ACHIEVEMENTS, RESULTS AND LESSONS LEARNT

1. Achievements and Results

According to the Program Progress Review, the LED process under SMEDP has produced very good results when compared with the impact indicators set at the beginning of the process. As mentioned, the Local Coordination Boards (LCB) were introduced as consultation mechanisms between the provincial government and the private sector and have been implemented in all partner provinces and meet on a regular basis. These LCBs are currently being discussed as the formal coordination mechanism promulgated in the SME Action Plan.



New instruments for the promotion of investments and business start-ups have been introduced. For example, the CEFE, Good Housekeeping, business planning competition, BusinessPortal and the development of promotional material for the marketing of several provinces.

Three out of four provinces have improved their ranking in the Provincial Competitiveness Index (PCI) as compared to the start of SMEDP in 2005 (Ranking 2008/2005): An Giang (Rank 9/34), Quang Nam (14/16). The province Dak Lak was only included in the PCI in 2006 and 2008 (33/35). Hung Yen's rank fell between 2005 and 2008 (20/15). However, all four provinces improved between five and seven sub-indices (factors relevant to business activity) in 2008 PCI.

It is worth noting that almost all of the sub-indices targeted by SMEDP have been improved. Most notable of all, improvement of sub-indices in entry costs, transparency and pro-activity was achieved in all four provinces between 2005 and 2008. This success is attributable to the products introduced by the Program in the four provinces such as the BusinessPortal, the one-stop-shop mechanism for business entry and the involvement of local leaders in LED activities.

Table 3 - Comparison of Sub-indices with Impact by Interventions from SMEDP in the Four Provinces between 2005 and 2008

	Entry Costs		Trans- parency		Time Costs		Proactivity		PSD Services	
	2005	2008	2005	2008	2005	2008	2005	2008	2005	2008
An Giang	6.36	8.99	4.1	6.75	4.64	5.51	5.61	7.14	4.18	3.76
Hung Yen	7.73	7.47	5.34	6.68	6.28	5.98	6.01	6.61	3.08	3.79
Quang Nam	6.23	8.99	4.65	6.75	5.23	5.51	7.01	7.14	7.03	3.76
Dak Lak*	6.48	7.58	4.99	6.34	4.83	4.63	5.87	6.34	5.27	3.70

Source: Provincial Competitiveness Index Reports, VNCI/USAID and VCCI, 2005, 2008

Dissemination of good practices and selected instruments to other provinces has started. In 2006 the LED concept was transferred to Tien Giang, Vinh Long, Tra Vinh, Dong Thap, Kien Giang and Can Tho.

2. Lessons Learnt and the way forward

The most important lessons from the four years if the program are summarised below:

a. Ownership comes first

For all types of interventions the crucial success factor is the ownership of the stakeholders involved. While this might seem relatively hard to achieve in the beginning, especially if the approach is little known it is indispensable if there is to be real commitment by the actors and the interventions are to be sustainable. It is therefore important to involve the major stakeholders from the beginning, taking their interests and concerns into consideration, empowering them and letting them lead the process, even if this implies a sacrifice in terms of effectiveness and efficiency. This approach proved very successful in the case of SMEDP where all local partners played an active role in development and implementation of new instruments, tools and methods and the GTZ staff assumed the role of facilitators.

This principle should equally apply when new regulations, policies or instruments are being developed and introduced at the national

level. Often the impact of new regulations and policies is reduced because the entities responsible for implementation were not involved in their development and are reluctant to enforce something they have not participated in.

b. Allowing the private sector to play the role it deserves

Although the government has officially acknowledged the role of the private sector as the main engine of economic growth the involvement of the private sector in planning, design and implementation of economic policies, strategies and instruments, especially at the provincial and district level, leaves much to be desired. It is therefore of paramount importance to address these shortcomings from the outset of an intervention, by working on awareness raising with the public sector, in order to promote the participation of the private sector in policy making and simultaneously strengthening the private sector in its function of policy advocacy, for example, through the set up and support of business associations and building trust between both sides through joint activities.

Institutionalization of the participation of the private sector in the development of economic policies and planning at the regional and provincial level - through a Decree or other kind of regulation - should be strived for in the near future in order to make best possible use of the knowledge of the private sector and tailoring policies and interventions to the real needs and not only perceived needs of the private sector. The interaction between the private and public sector will also increase pressure on the public sector to shift to a more modern, participatory and result oriented working style.

On the other hand the role of the public sector with regard to service provision must be redefined in the future. When engaging in strengthening service providers in Vietnam, one is confronted with the fact that many are public entities, heavily subsidised and influenced by the government, which implies that independent private initiatives to service provision hardly stand a chance. The government should develop a strategy to reduce its interventions and finance in this field, slowly privatizing government entities in the area of service provision and leaving more to the private sector.

c. Defining the future of local and regional development

Although the Vietnamese government has actively promoted a transition from a centrally planned economy towards a market economy by strong regulatory reform since the early 1990s, there is a vacuum with regard to active regional and local development policies and strategies. Up until now the government has applied a mix of a "targeted approach", focusing on exploring comparative advantages of different regions, and a "balanced approach" aimed at sustaining social and political stability primarily by transfer payments to more disadvantaged provinces and regions. In spite of impressive results in poverty reduction income disparities have steadily increased.

At the same time Vietnam has accelerated the process of decentralization by which provincial governments enjoy much more autonomy in terms of planning as well as resource mobilization and allocation, but there is no effective administration responsible for coordinating development. It is, therefore, understandable that regional policy in Vietnam is designed

centrally and implemented locally. This implies that, to a large extent, decentralization is displacing regional and local policy as a means to address differential development.

This has for example led to fierce competition between provinces for foreign direct investment and for state budget without any clear vision for the development of the provinces or a certain region as there is no policy and strategy except for what is derived from the national plans. In many cases these investments lead to inefficient allocation of resources (for example seaports and airports) and have detrimental effects on the environment (for example, steel mills) while few new jobs are created.

The experience of SMEDP has shown that it is difficult to cope with these challenges when there is no pressure and no incentive from the national level to engage in real policy making at the provincial and regional level. The government should take an active role to promote development and implementation of regional policies to avoid wasteful resource allocation and further increases in income disparities.

d. Improving local governance

In order to design and implement policies at the regional and provincial level an adequate governance structure must be in place. The experience of the SMEDP applying a multi-stakeholder structure and a participatory bottom up approach, shows that it takes time for such structures and mechanisms to be established and to become effective and for actors to develop sufficient capacity to adequately fulfil their functions.

Since 2005 the Vietnam Chamber of Commerce and Industry (VCCI) has been supported by USAID to lead the "Vietnam Competitiveness Initiative" (VNCI), which developed the Provincial Competitiveness Index (PCI) to assess provincial governance with regard to private sector development. It proved to be an effective tool as well as a benchmark to analyze the situation of a province and to discuss and prioritize necessary improvements in local governance related to the private sector. However, this tool can only achieve its full potential if local stakeholders develop action plans based on its indicators and seriously pursue the necessary changes. This follow up can only be done with an effective steering board such as a Local Coordination Board in place.

The Vietnamese government has to take actions in order to assure a more systematic approach to regional and local governance and channel resources according to this objective (rather than just provide transfer payments on the basis of income indicators). With regard to leadership it seems that the Departments of Planning and Investment are the most adequate institution to lead a provincial coordination mechanism/structure, but adequate representation of other stakeholders relevant for economic development, public and private alike, must be assured to achieve a balanced approach. The structure must also assure linkages with regional and national initiatives as certain topics such as infrastructure or development of industrial sectors or clusters need a national or regional rather than a provincial approach to be successful and there must be a feed back mechanism between the levels to facilitate the feed back from provincial level to national level for policy development and dissemination of best practices.

e. Promoting innovative instruments for private sector development

Considering that the private sector is the main engine for growth on one hand and that innovative instruments for private sector development are still lagging far behind in quantity and quality compared to other countries in the region, much remains to be done in this area. The experience of SMEDP has shown that innovative instruments have a strong potential for being implemented in a sustainable manner when they respond to concrete demands (as for example the BusinessPortal and Good House-Keeping courses) and are accompanied by a strategy to strengthen the capacity of the respective institution to manage the instrument. It is also helpful if some national initiative promotes the application of certain instruments.

With regard to LED as a more comprehensive development aimed at a whole region or province, it is also important to choose the right "instrumental mix" (see figure 3), addressing the needs of all different intervention levels because otherwise no structural change can be achieved.

As the Vietnamese economy continues its quest for more competitiveness it is in dire need of innovative instruments, which cover new areas such as linkages between enterprises or different topics related to corporate social responsibility. When striving for the development of such instruments the government must think about how to promote the development of a market for business development services and what role the state should play in this context in the future. It is obvious that the government must limit its functions to engage only in the development of the regulatory framework for the market players and refrain from direct provision of services which the private sector is more apt to provide.