

INDEPENDENT MONITORING REPORT
ON IMPLEMENTATION OF THE HANOI CORE STATEMENT

Final Report

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This report was prepared by an independent monitoring team. It does not reflect the official views of the Government of Vietnam, development partners or other organisations consulted by the team.

Acronyms

| | |
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| ADB | Asian Development Bank |
| AusAID | Australian Agency for International Development |
| CCBP | Comprehensive Capacity Building Program |
| CFAA | Country Financial Accountability Assessment |
| CG | Consultative Group |
| CPAR | Country Procurement Assessment Report |
| DAD | Development Assistance Database |
| DFID | United Kingdom's Department for International Development |
| DP | Development Partner (donor) |
| EFA | Education For All |
| EIA | Environmental impact assessment |
| ESG | Education Sector Group |
| EU | European Union |
| FSQL | Fundamental School Quality Levels |
| GDP | Gross domestic product |
| GoV | Government of Vietnam |
| HCS | Hanoi Core Statement on Aid Effectiveness |
| ICB | International competitive bidding |
| IMT | Independent Monitoring Team |
| IMTF | ODA Inter-Ministerial Task Force |
| JICA | Japan International Cooperation Agency |
| JPPR | Joint Portfolio Performance Review |
| LMDG | Like Minded Donor Group |
| M&E | Monitoring and evaluation |
| MARD | Ministry of Agriculture and Rural Development |
| MDGs | Millennium Development Goals |
| MIC | Middle-income status |
| MoET | Ministry of Education and Training |
| MoT | Ministry of Transport |
| MPI | Ministry for Planning and Investment |
| MTEF | Medium-term expenditure framework |
| NCB | National competitive bidding |
| NGO | Non-government organisation |
| NTP | National Targeted Program for Poverty Reduction |
| ODA | Official Development Assistance |
| OECD-DAC | Organization for Economic Cooperation and Development – Development Assistance Committee |
| PBA | Programme-based approach |
| PEFA | Public Expenditure and Financial Accountability framework |
| PER | Public Expenditure Review |
| PFM | Public financial management |

| | |
|--------|---|
| PGAE | Partnership Group on Aid Effectiveness |
| PMU | Project management unit |
| PRSC | Poverty Reduction Support Credit |
| SEDP | Socio-Economic Development Plan 2006-2010 |
| SIA | Social impact assessment |
| SOE | State-owned enterprise |
| SWAp | Sector-wide approach |
| TA | Technical assistance |
| TBS | Targeted Budget Support |
| UN | United Nations |
| UNDP | United Nations Development Program |
| VAMESP | Vietnam-Australia Monitoring and Evaluation Strengthening Program |
| VDR | Vietnam Development Report |

Executive summary

Within a few months of the Paris Declaration on Aid Effectiveness in 2005, Vietnam and its development partners adopted the Hanoi Core Statement on Aid Effectiveness (HCS), setting out 28 Partnership Commitments and 14 targets to be achieved by 2010. The HCS provides that the Government of Vietnam (GoV) and donors should periodically review their progress against these commitments through an Independent Monitoring process. This is the first such exercise.

The assessment was carried out by an Independent Monitoring Team (IMT), using a methodology agreed with the Management Board established by the Partnership Group on Aid Effectiveness to oversee the process. It offers an overview of HCS implementation to date, plus detailed examination of three thematic areas: (i) country leadership and donor alignment behind the national development agenda; (ii) use of country systems for ODA delivery; and (iii) organising HCS implementation. These themes were explored through case studies of three sectors – education, transport and rural water and sanitation. The IMT also conducted reviews of four donors (Belgium, Danida, DFID and the World Bank) who are participating in the exercise on a voluntary basis.

Under the HCS, the Independent Monitoring process is intended to support mutual accountability. The IMT is called upon to make judgments on the quality of effort by both GoV and donors to implement the HCS, and to point out any shortcomings.

Since the adoption of the HCS, Vietnam and its development partners have launched an impressive number of initiatives to strengthen what is already in many respect a mature and effective development partnership. The judgments contained in this report are made against the high standards that Vietnam and its development partners have set for themselves. While this report focuses on areas where there is scope for improvement, this should not be read as detracting from the very important achievements to date.

Country leadership and donor alignment

Country ownership of the development agenda in Vietnam continues to be very strong. GoV's pursuit of rapid economic growth is matched by a commitment to ensure that the benefits are shared equitably across society. Its budget allocations are pro-poor in nature, and its record on poverty reduction is among the best in the world. Vietnam has already achieved the first of its Millennium Development Goals – to halve poverty by 2015. This demonstrated commitment to pro-poor growth provides an essential foundation for the strong development partnership in Vietnam.

Ownership of the national development agenda beyond government is becoming broader. The Socio-Economic Development Plan 2006-2010 (SEDP) was developed through extensive consultations across Vietnamese society, with stronger participation by the National Assembly than in the past. GoV has made a clear commitment to strengthening grass-roots democracy, and local communities are able to participate in setting local development priorities. However, there is scope for creating more permanent dialogue structures with civil society, as well as for greater donor assistance to build civil society capacity to engage in the policy process.

There is a well-developed policy dialogue between donors and GoV, which is respectful of country ownership. In place of traditional policy conditionality, donors direct their analytical work and policy advice towards helping Vietnam to achieve its development goals. The Poverty Reduction Support Credit (PRSC) – the general budget support instrument – has evolved into an effective platform for GoV and donors to agree an annual set of policy actions to achieve Vietnam’s development goals. The PRSC contains a soft financial incentive, in that disbursements from the World Bank are linked to performance against the previous year’s commitments, but does not contain formal policy conditionality. The PRSC process is welcomed by line ministries, who see it as an opportunity to signal their priorities.

Vietnam’s capacity to lead on development strategy has improved significantly. Compared to its predecessors, the SEDP is based on a broader knowledge base on poverty in Vietnam, following major investments in surveys and analytical work. The development agenda has been expanded to include new challenges such as environmental protection, and there is now a results framework based on logical results chains. However, there is still some way to go to turn the SEDP into a fully operational strategy. A stronger link between the planning process and the recurrent and capital budgets would improve prioritisation, and create a more solid basis for donor alignment. Work on integrating planning and budgeting is underway through pilot Medium-Term Expenditure Frameworks.

Most donors have aligned their country programmes to the SEDP, or are in the process of doing so. However, alignment at this level is not a very onerous commitment, and has not involved any significant reorientation in donor programmes. Aligning at the sectoral level is a more difficult challenge, which depends on the state of planning and budgeting processes in the sectors, as well as on the quality of engagement by donors. There is significant variation across the sectors on the extent of alignment. In the most advanced sectors, such as education, line ministries have begun to plan their activities against a common resource envelope, which includes both national resources and ODA. This has taken several years of harmonisation and alignment efforts to achieve. In sectors where this has not yet happened, external assistance is still fragmented. For example, the Ministry of Agriculture and Rural Development reports that it has 260 separate aid projects, which makes it difficult to maintain strategic oversight. Most donors have now changed their programming practices, and work closely with their Vietnamese counterparts and other donors to ensure their activities are aligned with GoV strategies and priorities. However, a significant share of ODA to Vietnam is still in the form of stand-alone project aid.

The IMT concludes that the HCS target of 75% of aid delivered in the form of Programme-Based Approaches is a key priority for Vietnam. Donors should ensure that their sectoral assistance is helping to build the policies, systems and capacities that Vietnam will need as it approaches Middle-Income Country (MIC) status.

Since the HCS was adopted, new aid modalities, principally targeted budget support, have been trialled in education, small infrastructure and rural water and sanitation. Directing assistance through the budget offers an effective means of engaging with the challenges of decentralised service delivery. However the experience to date suggests that it is not budget support itself, but the quality of the engagement that accompanies it, that determines impact. Budget support complements, but does not substitute for, intensive policy dialogue, high-quality relationships and well-designed capacity building.

Donors who enter into budget support arrangements in the hope of reducing their own transaction costs are likely to be disappointed.

Country leadership of capacity-building assistance continues to present problems in Vietnam. GoV has a number of capacity-building programmes underway, particularly on ODA management, but in general is not providing donors with sufficient guidance on the kinds of support it needs. Many line ministries appear sceptical of the value of foreign technical assistance, and the record of technical assistance procured and managed by line ministries is not particularly encouraging.

Use of country systems

Vietnam is committed to establishing a single legal and institutional framework for public investment, covering both ODA and national resources. This is an extremely important objective, given Vietnam's approaching MIC status and its need to access new sources of development finance. Both GoV and donors are living up to their commitments to invest in strengthening country systems for ODA management, and there is an impressive range of legal reform and capacity-building programmes underway. Key achievements have included new regulations on ODA management, a new Procurement Law, common project-management tools, and an extensive, on-going programme of public-financial management reform. The Five Banks and other donors have provided well-coordinated and strategic support to these processes.

So far, however, the record on use of country systems is still quite modest. The 2006 Baseline Survey recorded 33% of ODA using country procurement systems, and only 27% using public financial management systems. Most of this is accounted for by the PRSC and other forms of on-budget support. The IMT noted some clear differences of approach among donors to the use of the country systems.

- i) The development banks have increased their use of programmatic lending, which automatically uses country systems, but are not yet using country systems for investment loans. Taking a strict reading of the HCS, they recognise an obligation to use country systems only as and when they reach international standards. Until then, they are bound by rules preventing them from compromising on their fiduciary standards.
- ii) There is a group of bilateral donors that now have more permissive rules regarding use of country systems, that enable them to balance the greater development impact and sustainability of using country systems against the potentially higher fiduciary risk. These donors have begun to change their practices for new projects, although they still have a substantial legacy of on-going activities that are proving difficult to change.
- iii) There remain a significant number of bilateral and multilateral donors whose rules do not permit use of country systems to any great extent. Under the Baseline Survey, 18 of 34 donors were using country PFM systems for less than 10% of their aid.

Most donors are honouring their commitment not to create parallel structures for aid delivery, or pay additional financial incentives to GoV employees, in respect of new aid projects. A recent EU-UN agreement to align donor and GoV cost norms by 2010 is an important milestone in eliminating parallel project structures. However, donors report resistance from their Vietnamese counterparts to changing management arrangements on

existing projects. GoV and donors will need to develop a process for integrating existing projects as quickly as possible, if the HCS targets are to be met.

There are still inconsistencies within Vietnamese legislation on ODA management, and between Vietnam regulations and donor rules, that need to be resolved in order to improve the project implementation rate and facilitate greater use of country systems. There is scope for the Government to improve its management of complex reform processes.

Organising HCS implementation

Since the adoption of the HCS in 2005, Vietnam and its development partners have launched an ambitious set of structures and processes to support its implementation, under the leadership of the Partnership Group on Aid Effectiveness (PGAE). Two years on, implementation has entered into a detailed, technical phase, where progress does not always appear commensurate with the efforts being put in. Some changes to the process are needed to sustain momentum and guard against the danger of fatigue.

There are more than 20 sectoral or thematic Partnership Groups, which vary significantly in composition and function. Some have evolved into effective structures for policy dialogue and strategic coordination; others remain at the level of information sharing. While there is no single model for an effective Partnership Group, line ministries and donors should be jointly accountable to the PGAE for their progress on strengthening their structures and processes.

Donor harmonisation in Vietnam works through relatively informal donor groupings – the Five Banks, the Like-Minded Donor Group, the EU Member States, the UN family – rather than a more structured process such as a joint assistance strategy. Donors are generally well coordinated in their preparation of analytical work and policy advice, and there is an increasing volume of joint programming. However, complementarity and division of labour are not well developed. Joint programming initiatives involving large numbers of donors in areas like education have resulted in complex and sometimes cumbersome management structures. It is likely that considerable efficiency gains could be realised by donors being more selective in their choice of programming areas, and making more use of silent partnerships and lead donor arrangements.

There is a broad consensus that the PGAE needs to be revitalised. The practice of preparing annual aid-effectiveness action plans has fallen away. The PGAE has become drawn into the technical detail of implementation, making it less effective as a forum for promoting mutual accountability. The IMT concludes that mutual accountability would be strengthened by separating political oversight from the technical management of HCS implementation. Technical processes should be entrusted to *ad hoc*, short-term Thematic Groups. The PGAE itself should focus on developing and overseeing the implementation of an annual HCS Action Plan, focusing on a limited number of genuine strategic priorities. It should ensure that deadlocks and areas of poor performance are referred to the appropriate political authorities for early resolution.

Recommendations

The IMT recommends four priority areas for strengthening aid effectiveness in Vietnam, for inclusion in an annual action plan on HCS implementation.

1. **Building stronger sectoral capacity through Programme-Based Approaches.** Donors and GoV should intensify their efforts to ensure that external assistance fits within a strategic approach to the development of each sector. The form, sequencing and funding modalities will vary in each case, but the goals should include: clear medium-term strategies; strengthening planning and budgeting processes to enable ODA to be programmed jointly with national resources; greater harmonisation and joint programming among donors; clear identification of capacity-building needs and preferred assistance modalities; and commitment to strengthening country systems and using them for ODA delivery. The primary function of the Partnership Groups should be to agree on a strategic approach to developing and implementing PBAs.
2. **Improve country leadership of capacity building.** GoV needs to place greater priority on diagnosing its own capacity-building needs, developing its capacity-building strategies and providing donors clear guidance on preferred support modalities. GoV and donors should agree on a comprehensive approach to capacity building, as required under the HCS, and on practical measures to strengthen country leadership of capacity-building support. It is recommended that this issue be addressed in detail in the next round of independent monitoring.
3. **Bring country systems up to international standards.** In the remaining period before Vietnam reaches MIC status, GoV and donors should intensify their efforts to create a common legal and institutional framework for public-investment management, for both ODA and national resources. This would improve project implementation rates, and ensure that capacity developed within ODA projects supports all development expenditure. Donors should make clear commitments to using country systems for ODA delivery once specific reform targets and capacity levels are achieved, based on objective assessment tools. GoV needs to consider whether there is scope to accelerate progress by improving its management of the reform process.
4. **Phase out parallel PMUs and additional financial incentives.** Parallel ODA structures compromise sustainability and distort resource allocation. Donors need to make a clear commitment, not merely to avoiding parallel structures and financial incentives for new projects, but also to phasing them out for existing projects. This will entail some careful change management, including additional capacity-building support to assist GoV with the integration of existing projects. GoV and donors should jointly develop a road map for accomplishing this.

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1. Introduction

1. Within a few months of the adoption of the Paris Declaration in 2005, Vietnam and its donor partners adopted the Hanoi Core Statement on Aid Effectiveness (HCS). The HCS provides the development partnership in Vietnam with a clear set of aid-effectiveness goals and principles. It set out some 28 'Partnership Commitments' and 14 quantitative targets, to be achieved by 2010.

2. The HCS provides that the Government of Vietnam (GoV) and donors should jointly assess their progress against these commitments through an annual, independent review. This is the first such review. In 2006, the Partnership Group on Aid Effectiveness (PGAE) established a Thematic Group on Independent Monitoring to develop a Concept Note. This in turn led to the establishment of a Management Board,¹ to appoint an Independent Monitoring Team (IMT) and oversee the process. Following a scoping mission in July 2007, the IMT developed a detailed methodology which was approved by the PGAE. The main monitoring mission took place in September 2007.

3. The Independent Monitoring process is one of a number of tools to support Vietnam and its donor partners with the implementation of the HCS. There is a regular cycle of monitoring against the 14 indicators, prepared through surveys of donor and GoV agencies. A baseline was established in 2006, as part of the OECD-DAC global survey. The Independent Monitoring supplements this by providing a qualitative interpretation of the monitoring results, and of the HCS commitments for which there is no direct indicator. It assesses the progress by Vietnam and its development partners in meeting the HCS principles and commitments, and examines changes in the quality of the development partnership. It will not at this stage seek to assess whether the HCS has had an impact on development results.

4. The Independent Monitoring is also intended to support mutual accountability, and appears under that heading in the HCS. The IMT is called upon to make judgments on the level of effort and extent of behavioural change on both sides of the development partnership, and to point out shortcomings. It is not, however, our role to compare or rank donors according to their performance, but to advise them collectively on how to move the HCS agenda forwards.

5. It is proposed that the Independent Monitoring be carried out on an annual basis over the next three years of HCS implementation, alternating between full evaluations and lighter reviews. A proposed timetable and agenda for subsequent monitoring missions are included in the conclusions.

6. The IMT selected three focus areas for this first round of monitoring. These are clusters of interlocking commitments by GoV and donors, selected to show the interdependence of different aspects of the HCS.

- i) **Country leadership and donor alignment.** This first cluster assess the quality of Vietnam's leadership of the development agenda and external assistance, and the willingness of donors to align their support to Vietnam's Socio-Economic Development Plan 2006-2010 (SEDP) and related strategies. It includes the

¹ The members are the Ministry of Planning and Investment, Danida, DFID, Japan and the World Bank.

quality of policy dialogue, donor approaches to conditionality, and experience with new aid modalities and programme-based approaches.

- ii) **Use of country systems.** This second cluster reviews the progress made by GoV in bringing its systems for managing ODA and other public investments up to international standards, and whether donors are using those systems to the maximum extent possible. It considers the pace and depth of on-going reform processes, the development of common diagnostic tools, the quality of capacity-building support, and donor's policies on use of country systems.
- iii) **Organising HCS implementation.** The third cluster considers the structures and processes put in place by GoV and donors, both jointly and separately, to manage the implementation of the HCS and promote mutual accountability. It looks at platforms for dialogue between GoV and donors, donor groupings and harmonisation initiatives, and at the HCS itself as a tool for managing the aid relationship.

7. The IMT has explored these three clusters of commitments through a combination of sectoral and donor case studies, as well as a review of available documentation and interviews with key informants in government, the donor community and civil society. The following three sectoral case studies were selected:

- i) rural development, with a focus on water and sanitation;
- ii) transport, including large national road projects, urban transport and rural development;
- iii) education, with a focus on the development of targeted budget support.

These case studies are not written up separately in this report, but the material informs the discussion of the three focus areas.

8. A number of donors put their country programmes forward for review, to assess their performance against the HCS commitments. The IMT selected Belgium, Denmark, the United Kingdom and the World Bank. The donor case studies appear in an annex to this report.

9. A number of important issues and processes are excluded from this first round of monitoring, but may be taken up in subsequent rounds. While the IMT acknowledges that UN reform is one of the most important aid-effectiveness initiatives in Vietnam, it is not assessed here. We have not looked at the timeliness and predictability of aid delivery, at the recording of aid on the budget, nor at the various commitments under the heading of Managing for Results.

10. In preparing this monitoring report, the IMT has reviewed over 150 documents, conducted approximately 75 interviews and observed a number of key meetings and events. However, the conclusions reached in this report are exclusively those of the IMT, and do not reflect the official views of the Government of Vietnam, development partners or any of other organisations consulted.

2. Contextual factors

11. Context matters to aid effectiveness. While the Paris Declaration provides a set of principles of general application, each country has its own specific circumstances and challenges. There is no single pathway to improved aid effectiveness.

12. The context in Vietnam is distinctive in a number of respects. There is very strong national ownership of the development agenda, coupled with an impressive track record on growth and poverty reduction. Since the late 1980s, when Vietnam first began introducing market-oriented reforms, it has averaged annual growth rates of 6-7%. The Government predicts that *per capita* GDP in Vietnam will have reached US\$1,000 by 2010, marking Vietnam's graduation to Middle-Income Country (MIC) status.

13. Vietnam's record on growth is matched by a commitment to social inclusion and poverty reduction. Its budgetary allocations are broadly pro-poor in nature, with the government using a number of mechanisms to channel additional resources to the poorest areas. Vietnam's record on poverty reduction is among the most successful in the developing world. The number of people living in extreme poverty fell from 58.1% in 1993 to 24.1% in 2004, for an average decline of over 3% per year. Vietnam has already achieved the first of its Millennium Development Goals (MDGs) – to halve poverty by 2015.² Vietnam's social indicators are superior to those of most countries at a similar level of *per capita* income.³

Box 1 ODA in Vietnam

There are around 28 bilateral and 23 multilateral development partners operating in Vietnam,⁴ with combined pledges of US\$4.45 billion in 2006, making Vietnam one of the top ten recipients of Official Development Assistance (ODA) in the world. Japan is the leading donor, and Japan, the World Bank and the Asian Development Bank (ADB) together account for 80% of ODA. The European Union (the Commission and Member States) are jointly the third largest donor, and the largest provider of grant assistance. Eighty percent of all ODA is in the form of loans.

Across the 34 donors who participated in the Paris Declaration baseline survey, 17% of disbursements in FY05 was in the form of general budget support, and another 17% in the form of sectoral programmes. The remaining two-thirds of assistance was single agency or co-financed projects.⁵

One of the distinctive features of ODA to Vietnam is the disbursement rate, which lags well behind other countries in the region. Joint analysis by the development banks attributes the problem to delays in project start-up and implementation, due to inconsistencies in Vietnam's legal and institutional framework for ODA management.⁶ Vietnam has carried out extensive reforms of its regulations, but many of these are still at an early stage of implementation.

² United Nations Country Team Vietnam, "MDGs and Viet Nam's Socio-Economic Development Plan 2006-2010", Hanoi, November 2005, p. 3.

³ *Ibid.*

⁴ Socialist Republic of Vietnam, "Strategic Framework for Official Development Assistance Mobilization and Utilization 2006-2010", January 2007, p. 5.

⁵ Partnership Group on Aid Effectiveness, "Driving forward realization of Hanoi Core Statement"

⁶ Five Banks, "Fifth Joint Portfolio Performance Review", Hai Phong, May 2007 (hereafter JPPR V).

14. This strong national development agenda provides donors with the confidence that development assistance to Vietnam will, broadly speaking, be well used. This provides a solid basis for improving aid effectiveness, and has enabled a substantial number of donors to move towards forms of budget support.

15. While Vietnam is one of the largest recipients of ODA in the world in absolute terms, it is by no means aid dependent. ODA represents on average about 4.5% of GDP, and less than 12% of the total government budget.⁷ The volume of ODA is less than FDI, tourist revenues and remittances. It is nonetheless regarded by Government as an important catalyst for other investment flows and as a key source of financing for capital investments in socio-economic infrastructure, providing around 30% of capital investments.⁸ As Government occasionally reminds donors, ODA in Vietnam is “important, but not essential”.

16. This has enabled Vietnam to establish a more balanced relationship with donors than is possible in heavily aid dependent countries. Government strongly defends its policy autonomy against external pressure. Crude forms of policy conditionality are simply not tenable in Vietnam. Yet Government has demonstrated a receptivity to policy ideas and technical advice tailored to helping it achieve its own development goals. Donors in Vietnam are careful to frame their analytical work and policy advice in these terms. The general budget support instrument (the Poverty Reduction Support Credit – PRSC) has emerged as a strong example of how policy dialogue can be organised in a mature development partnership.

17. However, ODA still represents a large share of the discretionary expenditure in certain sectors. If it is poorly aligned, it has the potential to distort priorities and resource allocation within the sectors. In particular, fragmented project aid, delivered through parallel management arrangements, can create incentives that work against the realisation of HCS objectives.

18. Despite its strong leadership of the development agenda, Vietnam is still at a relatively early stage in a major transformation in the relationship between the state and society. Within a short period of time, it has gone from running a command economy, based on social ownership of productive assets and centrally dictated production targets, towards building the institutions for a free market. Many government agencies are still defining their new role in the development process. The planning and budgeting processes are undergoing major reforms, to become more evidence-based, participatory and focused on development results, but it was only a short time ago that the budget was a state secret. Core government systems, particularly in public financial management, are also in the midst of major reform.

19. The government’s strong commitment to decentralisation presents additional challenges. Around half of all development expenditure is now done at lower levels of government.⁹ Central government is moving away from project implementation and service delivery, towards policy making and supervision of local actors. Decentralisation has reached different stages in different parts of the country, depending on the level of capacity available. While decentralisation has the potential to make development more

⁷ Bartholomew, *op. cit.*, p. 9.

⁸ Figures provided by the Ministry of Finance.

⁹ “Vietnam Development Report 2007”, p. 8.

responsive to its beneficiaries, at present local authorities in many places face serious capacity constraints, and have difficulty discharging their new functions.

20. A final factor with a strong bearing on aid effectiveness is Vietnam's approaching MIC status. Some bilateral donors will scale down their programmes quite rapidly after 2010, while the development banks will move to less concessional forms of finance. There is as yet no clear consensus on the implications of this for the HCS. Bringing country systems up to international standards, to enable Vietnam to access new forms of development finance, is clearly a priority. On the other hand, lowering the transaction costs of ODA – one of the main goals of the Paris Declaration – is arguably less important, given the short time horizon. Arguably, complex new initiatives like sector-wide approaches, which take some years to become effective, are not feasible in the time available.

3. Overview of HCS implementation

21. This section presents a brief overview of the main patterns of HCS implementation. It sets out the IMT's interpretation of the results of the 2006 Baseline Survey, together with our overall impressions of the HCS implementation process.

22. The Baseline Survey carried out in mid-2006 was the third of its kind conducted in Vietnam. Thirty-four donor agencies took part, together with a number of Vietnamese agencies at central and provincial levels. Under the OECD-DAC methodology used for the survey, GoV and donors were required to agree definitions for the indicators that were appropriate to local conditions. There was some difficulty in reaching consensus on some of the definitions, notably programme-based approaches and parallel project-management units (PMUs). Results against these indicators were adjusted following a supplementary verification exercise involving 13 of the 34 donors. The IMT noted continuing variations in the way donors interpret their HCS commitments, suggesting that not all the results from the survey are entirely robust. Nonetheless, the Baseline Survey offers a broadly accurate baseline against most of the HCS indicators.

23. The following table provides an overview of HCS implementation to date. It lists the 29 most important commitments from the HCS. For those with specific indicators attached, it gives the 2010 target and the 2006 baseline figure. The right hand column contains the IMT's own assessment of progress against each commitment. For ease of reference, the table offers a simple traffic-light assessment of progress, as follows:

| | |
|---|--|
| G | Achieved, or clearly on-track |
| Y | Significant effort still required to reach 2010 target |
| R | No progress, or existing process not adequate to reach 2010 target |

| HCS Commitment | | 2010 Target | 2006 Baseline Survey result | IMT assessment | |
|--|-------|--|--------------------------------|--|---|
| 1. Ownership | | | | | |
| 1. Exercise leadership in developing and implementing the SEDP | GoV | SEDP finalised; CPRGS principles integrated; SEDP targets achieved | | SEDP finalised. Participation of NA and civil society has improved. Implementation underway. Operational link to budget still to be established. Sectoral and provincial strategies at various stages of development. | Y |
| 2. Strengthen leadership in coordinating aid at all levels | GoV | | | Strong leadership from MPI. ODA Strategic Framework 2006-2010 completed. Extensive aid coordination structure (CG; PGAE; Partnership Groups) in place. However, there remain weakness in ODA leadership at the sectoral and provincial levels. | Y |
| 2. Alignment | | | | | |
| 3. Base support on the SEDP and related plans | DPs | All donor assistance strategies aligned to SEDP and related plans | 100% donor strategies aligned. | Donor county strategies are aligned, or under revision. Alignment with sectoral plans remains variable. | G |
| 4. Base dialogue on the SEDP agenda | DPs | | | Through PRSC and sectoral PGs, dialogue directed towards achieving SEDP goals. | G |
| 5. Establish mutually agreed frameworks that provide reliable assessments of country systems, procedures and their performance | Joint | | | GoV has agreed to lead on analytical tools, including CFAA and CPAR. | G |

| HCS Commitment | | 2010 Target | 2006 Baseline Survey result | IMT assessment | |
|---|-------|---|--|--|---|
| 7. Avoid creating parallel structures (PMUs) for aid-financed projects | DPs | No parallel PMUs | 111 PMUs reported (list may be incomplete) | Most donors no longer establish parallel PMUs for new activities, but no process for phasing out existing parallel PMUs. | R |
| 8. Phase out paid incentives for government officials, and do not introduce new financial incentives. | DPs | | | EU/UN agreement eliminates financial incentives for new projects. No process for phasing them out on existing projects. | Y |
| 9. Integrate capacity-building objectives into the SEDP and related plans; develop comprehensive capacity-building plan | GoV | Capacity building objectives clearly set out in SEDP and related plans. | | No comprehensive capacity-building plan across the administration. A number of GoV-led programmes exists, but GoV leadership remains weak in many sectors. | R |
| 9. Coordinate capacity-building support behind government leadership | GoV | 100% partner-led and -coordinated capacity building programmes | Donors report 84%. GoV believes real figure may be substantially less. | There are some good country-led programmes, but in many sectors donors are struggling to find an effective mode of engaging counterparts. | R |
| 10. Undertake reforms (like PAR) to promote long-term capacity development. | GoV | | | Numerous reform processes underway. | Y |
| 11. Ensure that laws, systems, institutions & procedures for managing ODA are effective, accountable and transparent. | GoV | | | Significant reforms accomplished or underway. However, various internal conflicts in the legal framework still to be resolved. | Y |
| 12. Commit sufficient resources for reform and capacity building in procurement and PFM | Joint | | | Reform and capacity-building processes appear adequately financed. | G |

| HCS Commitment | | 2010 Target | 2006 Baseline Survey result | IMT assessment | |
|--|-----|---|---|--|---|
| 13. Progressively rely on procurement systems, once mutually agreed standards reached. | DPs | 50% of aid flows, and at least 50% of donors for at least 50% of their funds, use country procurement systems | 33% of aid flows, and 25% of donors. | New Procurement Law adopted, and capacity building underway, but a number of gaps still to be resolved. Little use of country systems for investment projects. | Y |
| 14. Progressively rely on PFM systems, once mutually agreed standards reached. | DPs | 50% of aid flows, and at least 50% of donors for at least 50% of their funds, use country PFM systems | 27% of aid flows, and 9% of donors. | Major PFM reforms underway. Donors continue to assess fiduciary risk as medium-high. Little use of country systems for investment projects. | Y |
| 15. Publish timely, transparent and reliable reports on budget planning and execution. | GoV | 50% of budget accounted for and audited with systems that meet INTOSAI standards | Baseline not established. | Budget reporting and public audit has improved significantly in recent years. | Y |
| 16. Enhance predictability of ODA through transparent decision-making, reliable, multi-year indicative commitments, and reliable and predictable releases of aid in relation to Vietnam's budget cycle | DPs | 75% of aid disbursed on schedule | 69% by value, based on GoV figures. | Not assessed by IMT, but appears on track. | G |
| 17. Develop policy and technical capacity for environmental protection | | 30% of EIA use government system | 9% using purely GoV systems, or 64% with additional safeguards. | Some gaps in the legislation remain, but primary constraint is lack of capacity on the Vietnamese side. | Y |

| HCS Commitment | | 2010 Target | 2006 Baseline Survey result | IMT assessment | |
|---|-------|---|--|--|---|
| 17. Develop policy and technical capacity for social protection | , | 30% of SIA use government system | 0% using purely country systems, or 82% with additional safeguards | Detailed gap analysis still to be conducted. Some disagreements to be resolved. | Y |
| 3. Harmonisation | | | | | |
| 18. Joint conduct and use of core diagnostic reviews (CFAA; PER; CPAR) | Joint | Core diagnostic reviews used by all donors; at least 75% of country analytical reviews used by 2 or more donors | 32% of analytical work shared with other donors. | Most major donors make use of GoV-led core diagnostic work. Joint analytical exercises such as the VDR are well developed. Survey may understate progress in this area. | G |
| 18. Share review processes | DPs | | Only 14% of missions coordinated between donor agencies. | No process in place to achieve this target. | R |
| 19. Implement common arrangements for planning, design, implementation, M&E, reporting to GoV on activities and aid flows | DPs | 50% of donors use common project/programme cycle tools | No baseline established. | There has been significant progress in developing common procedures for project preparation, reporting and M&E, but considerable work required to ensure they are institutionalised. | Y |
| 20. Increase use of programme-based approaches | Joint | 75% of aid flows is national or sector programme-based | 34% of ODA. | Level of effort is greater than suggested by survey. % of PBAs is increasing. Results of TBS pilots equivocal. Considerable work required in many sectors to prepare for PBAs. | R |
| 21. Maximise decentralisation and delegation to country level | DPs | 75% of aid interventions managed at country level | 60% of ODA. | On track. | G |

| HCS Commitment | | 2010 Target | 2006 Baseline Survey result | IMT assessment | |
|---|-------|---|-----------------------------|--|---|
| 22. Provide clear views on comparative advantage, aid modalities and how to achieve donor complementarity at country and sector level | GoV | | | GoV provides only very general guidance on aid modalities. No clear leadership on improving complementarity. | R |
| 23. Appoint lead donors to coordinate programmes and activities, and work through delegated cooperation. | DPs | | | Lead agency arrangements in place in a few sectors, but generally not well developed. Delegated cooperation limited to a few donors. | R |
| 4. Managing for results | | | | | |
| 25. Joint use of results-oriented performance assessment framework to maximise aid effectiveness and implementation of SEDP and related plans | Joint | Results framework developed and used to assess the performance of the SEDP and sector programmes. | | ODA Monitoring and Evaluation Framework for period 2006-2010 with its Action Plan to set up and operate the national M&E system for ODA. Work to implement a national monitoring system is underway. | Y |
| 5. Mutual accountability | | | | | |
| 27. Annual independent reviews on HCS implementation and improved development outcomes | Joint | Annual assessments conducted | | HCS commitments agreed, dialogue structures in place and first Independent Monitoring underway. Nonetheless, accountability for performance against HCS commitments remains limited. | Y |
| 28. Provide timely, transparent and comprehensive information on aid flows and programme intentions to GoV | DPs | | | Information flows significantly improved, through the national M&E system for ODA. | G |
| 28. Present comprehensive budget reports to legislatures and citizens. | GoV | | | Budgets and budget reports are now published, although not entirely comprehensive. | G |

24. As the table indicates, processes are underway for a large majority of the HCS commitments. One of the remarkable features of the HCS process is the extent to which GoV and donors have been willing to tackle the entire aid-effectiveness agenda simultaneously. It is an extremely ambitious approach, and has generated some impressive results.

25. Of the 29 commitments, 9 are assessed as green, 13 as yellow and 7 as red. However, this is not intended to suggest that all the commitments are of equal importance, or pose an equal challenge. Some of the commitments, particularly around use of country systems, involve complex reforms that will take some years to accomplish. Progress against the indicators will accelerate as these reforms progress. A snapshot at this point of time therefore tends to understate the extent of effort underway.

26. The broad trends against the HCS/Paris Declaration principles can be summarised as follows.

27. **Ownership.** Ownership of the national development agenda by central government is very strong. Beyond government, ownership is steadily improving, but there is a need for greater effort in creating permanent platforms for Vietnamese civil society to participate in the policy process. Donors are respectful of country ownership, tailoring their analytical work and policy dialogue to help GoV achieve its stated development goals. In this respect, the general budget support instrument (PRSC) in Vietnam represents global best practice.

28. **Alignment with country strategies.** Alignment of donor assistance with the national development strategy is solid, but not a particularly onerous commitment given the breadth of the strategy itself. Alignment at the programming level depends both on donor practices and the capacity of line ministries to articulate clear, prioritised and operational strategies. In some sectors, this is relatively well advanced, allowing the sectors to exercise effective strategic management of their overall resources. In other sectors, alignment is still at a more basic level. Many donors in Vietnam are going through a major shift in programming practice, away from fragmented, supply-driven aid projects towards Programme-Based Approaches of various kinds, including new aid modalities. However, there is still a substantial legacy of poorly aligned aid projects designed under the old paradigm.

29. **Alignment with country systems.** GoV and donors are making major investments in bringing country systems for public investment management up to international standards. Donors have provided well-coordinated and strategic technical advice and capacity-building support, and GoV is increasingly leading on diagnostic work using objective assessment tools. However, use of country systems remains almost entirely limited to on-budget and other programmatic support. There has been little change in the way traditional investment loans are delivered, which constitute the largest share of ODA to Vietnam. Some (bilateral) donors have adopted rules permitting them to use to country systems despite known shortcomings, where this would result in greater development benefits. Other donors, however, including the development banks, are still bound by strict rules on fiduciary risk.

30. **Harmonisation.** Donors in Vietnam have prioritised alignment behind GoV leadership over formal harmonisation initiatives like joint assistance strategies. This is an appropriate choice, given the country conditions. There are multiple, relatively informal

donor groupings in place, which have proved reasonably effective at coordinating analysis and policy dialogue. Some donors have also moved towards joint programming and silent partnerships. However, there has been limited progress on improving complementarity and division of labour. Lead donor arrangements exist in a few areas, but are not well developed. As a result, moves to develop joint programmes with multiple partners has resulted in some rather cumbersome management structures, which have significantly increased transaction costs. It is likely that significant efficiency gains could be realised through greater donor selectivity.

31. **Mutual accountability.** On paper, Vietnam has the structures and processes in place to ensure mutual accountability for aid effectiveness, including clear principles and commitments in the HCS, well-developed structures for dialogue, periodic monitoring processes and now the Independent Monitoring process. However, most observers are of the view the mutual accountability is still not strong. GoV places a high premium on maintaining good bilateral relations with its donors, making it reluctant to press them hard on aid-effectiveness issues. Likewise, donor-donor dialogue is too diplomatic in nature to allow for effective peer pressure.

4. Thematic issues

4.1 Alignment behind country leadership

32. **Country ownership of the development agenda in Vietnam continues to be strong, providing the essential foundation for more effective aid.** GoV commitment to continued rapid growth towards MIC status is accompanied by an acknowledgement of the risks of rapid growth for social equity, and a determination to promote socio-economic development in remote rural areas and among ethnic minorities. GoV has demonstrated its commitment through its impressive track record on poverty reduction, and its pro-poor allocation of resources through the budget and the National Targeted Programs for Poverty Reduction (NTPs).

33. **Participation in setting the national development agenda is becoming broader, but needs to be better institutionalised.** Under the HCS/Paris Declaration, the concept of 'ownership' is broader than government policy. It also refers to the extent to which different groups in society (including the poor) are engaged in setting national development goals and priorities. GoV is committed to developing its strategies through a 'broad consultative process' (HCS para. 1).

34. **In preparing the SEDP 2006-2010, the government made significant efforts to collect a range of inputs from across Vietnamese society.** There were consultations across executive agencies, provincial and local officials, academics, business representatives, international and Vietnamese NGOs, the Vietnamese diaspora, and social groups including people living with disabilities and women's groups. They were participatory research exercises conducted by NGOs to gather feedback from poor communities in 17 sites across the country. For the first time, the National Assembly was involved during the drafting phase, rather than simply approving the final product. Civil society observers report that their input was reflected in the SEDP in a number of areas, including on agricultural extension, service delivery to ethnic minorities, people living with disabilities and the development challenges facing women and children.

35. There is a Vietnam Business Forum, jointly chaired by the MPI, the World Bank and the International Finance Corporation, which facilitates dialogue between GoV and business associations on improving the business environment. It meets just prior to the semi-annual Consultative Group (CG) meetings to provide input. This is a good example of a permanent structure for participation. However, most of the consultations for the SEDP were organised on an *ad hoc* basis. The challenge now is to sustain this level of participation through the SEDP implementation and monitoring cycle.

36. NGOs observers are positive about GoV's efforts to strengthen grass-roots democracy, and report that participation in local development is improving at the community level. Participation is said to be more difficult at the provincial and national levels, where, according to civil society informants, government agencies have only recently begun to recognise NGOs as legitimate and useful interlocutors, and permanent structures for consultation are not yet in place. Capacity within civil society to participate in the policy process is still quite limited. The legal status for national NGOs is uncertain, and there is limited financial support available from donors for capacity building. In the coming period, as economic growth continues to accelerate urbanisation and other social change, it is likely that GoV will find that civil society organisations are increasingly important partners in responding to new development challenges.

37. **There is scope for donors to be more active in promoting the involvement of civil society in the policy process.** There is a danger that the strong government leadership of the development agenda in Vietnam causes donors to take too narrow a view of country ownership. Inviting civil society representatives to attend the CG or PRSC groups, which are essentially fora for donor-government dialogue, is not sufficient. Donors need to strengthen capacity within civil society to represent the poor, generate policy proposals and research, and hold GoV to account for its performance. These are new roles that civil society in Vietnam needs to grow into. Donors can help not only by providing financial resources, but also by reinforcing to GoV counterparts that civil society is a legitimate and necessary interlocutor in the policy process. There are some positive examples of this in the education sector, where NGOs are well integrated into the Education Sector Group and its various processes.

38. **National capacity to lead the development process has significantly improved.** There have been major changes to the planning and budgeting processes over the past five years, as GoV has redefined its role within the development process. In the past, planning was focused on setting production targets, rather than achieving development outcomes. There was a disconnect between planning and budgeting, with the capital and recurrent budgets prepared separately and neither serving as an instrument for setting strategic priorities. Under the Paris Declaration, one of the first partner country commitments is to translate their national development strategies into prioritised, results-oriented, operational programmes, as expressed in medium-term expenditure frameworks and annual budgets.¹⁰ While this commitment is not repeated in the HCS, it is the cornerstone of effective alignment. A number of processes are underway to support GoV to accomplish this.

- The knowledge base on economic development, and on its distributional effects and social consequences, has been significantly strengthened through an

¹⁰ Paris Declaration on Aid Effectiveness, March 2005, para. 14.

improved survey programme and statistical services, and through investments in analytical work.

- The scope of the SEDP has been broadened to include new development challenges, in particular environmental sustainability which is now one of the four SEDP pillars.
- The SEDP objectives are being translated into operational plans through sectoral and provincial 5-year plans, although these are at different levels of development.
- The budget is gradually being put within a multi-annual framework, through pilot MTEFs in a number of sectors and provinces. Budgetary allocation procedures and reporting are being strengthened, and GoV is committed to performing regular Public Expenditure Reviews.
- MPI has developed a results framework for the SEDP, using logical results chains.
- A national monitoring system is being put in place, using standard reporting formats for all development projects.

39. However, there is still some way to go to turn the SEDP into a fully operational strategy. The document remains extremely broad, incorporating many goals and objectives but making few hard choices on priorities. It is not yet linked effectively to the capital and recurrent budgets. International experience suggests that it will become fully operational only once its proposed activities are costed, and there is a process for choosing priorities against a hard budget constraint. The link between the SEDP and sectoral and provincial plans needs to be better defined. Putting in place an effective national monitoring system remains a major challenge, including promoting a culture of evidence-based policy making across the sectors.

40. Donor alignment to the SEDP is solid, but is not a particularly onerous commitment. Most donors have either revised their country strategies to match the SEDP, or are in the process of doing so. They have taken care to relate their proposed activities to the SEDP pillars and development goals. However, this has not in general required any significant reorientation in donor programmes. The document is broad enough that most existing donor activities can be related to the SEDP. Thus, all 34 donors who participated in the 2006 Baseline Survey reported that their programmes were aligned to the SEDP, even though at that stage the SEDP itself was only a few months old. The SEDP results framework recently published by MPI provides donors with an opportunity to pursue alignment more rigorously, by relating their targets, indicators and results chains to those used by GoV.

41. The PRSC is a very good platform for policy dialogue at the macro-level. The PRSC has been rightly praised as an example of how policy dialogue should be conducted in a mature development partnership. Each year, GoV and donors negotiate around a set of policy actions designed to achieve Vietnam's stated development goals. Donors make an important analytical contribution, in the form of the Vietnam Development Report (VDR), which offers a joint donor view on priorities and trade-offs within the Government's development agenda. (There are, however, issues around how this common position is arrived at. The World Bank is lead author of the VDR, and a number of other donors expressed concern at the degree to which their inputs were reflected in the text.) Donors negotiate with each other and with GoV to come up with a set of priority actions for each PRSC cycle, limited to 12 triggers and a few dozen benchmarks. There is no explicit conditionality, but there is a soft financial incentive in that, on principle, the level of disbursement from the World Bank each year is linked to

progress against the previous year's triggers.¹¹ The donors do not see the PRSC as a tool for achieving policy breakthroughs in difficult areas, but for reinforcing commitment to an agreed policy agenda.

42. The effectiveness of the PRSC depends to a large degree on its linkages with sectoral dialogue and coordination processes. In some cases, line ministries work closely with their donor partners to select the policy triggers and benchmarks to include in the PRSC matrix. The IMT found that, in these cases, line ministry officials welcomed the exercise as an opportunity to signal their policy commitments internally, and to attract resources and support from political leaders. Conversely, where the sectoral policy dialogue is less well developed and there is no clear meeting of minds between government and donors on priorities, it is more difficult to demonstrate what impact the PRSC has. Various reviews of the instrument have pointed to the importance of strengthening its integration with sectoral policy dialogue and capacity-building programmes.

43. Alignment at the sectoral level is a more demanding challenge than alignment to the SEDP as a whole. Effective alignment depends not just on donor programming practices, but on the capacity of line ministries to set clear policies and strategies, and to articulate their priorities and preferred approaches. Many sectors in Vietnam are in the process of putting together the structures required for effective alignment, including platforms for policy dialogue, clear policy and legal frameworks, medium-term strategies with prioritised, costed activities, and systems for monitoring results. These structures take some years to put in place, during which time alignment gradually becomes closer. Some sectors are already quite advanced, enabling donors to move towards different forms of programme-based approach, including budget support. Other sectors are still at the level of basic information-sharing and coordination. The education sector (see Box 4) is an example of a mature process. Rural development presents a more difficult challenge, owing to the breadth of its activities and the traditionally fragmented nature of donor support. However, there are positive signs that the responsible ministry and donors are now taking a more strategic approach to the sector (see Box 2).

44. Most donors have now changed their programming practices significantly in pursuit of greater alignment, but a significant proportion of assistance to Vietnam is still fragmented and supply-driven. Prior to the HCS, a significant share of donor assistance was in the form of poorly coordinated, supply-driven projects. Among the donors the IMT consulted, all have gone through important changes in their programming approach in recent years. Project preparation now routinely involves close dialogue with GoV counterparts, and joint assessments of resource availability and the activities of other donors to ensure that the proposed intervention reflects genuine priorities. New aid projects therefore tend to be much better aligned. However, there is still a considerable legacy of projects prepared under the old paradigm. For example, rural development has 260 separate aid projects underway. This places a heavy burden on the Ministry for Agriculture and Rural Development (MARD), which reports continuing difficulty in keeping track of them all. Small aid interventions may be more difficult to align than larger ones, because ministries are less willing to invest time in their design and management. This amounts to an argument for smaller donors to focus their efforts on just a few areas, or else to pool their resources with other donors.

¹¹ In practice, Vietnam has always been assessed as in the mid-range case for implementation, indicating that the financial incentive may not be operative.

Box 2 Working towards closer alignment in rural development

Rural development is in many respects a difficult sector in which to implement the HCS principles. The responsible ministry, MARD, has a large and diverse portfolio, which causes coordination problems, both internally and with other ministries. It is going through a complex process of redefining its role (away from setting output targets, towards promoting human-centred development) and its relationship with lower levels of government (from implementing development projects, to setting policies, supervising provinces and building their capacity).

ODA in the sector has traditionally been fragmented and supply-driven. With some 260 separate ODA projects,¹² MARD notes the continuing challenge of coordination and information flow. Many aid projects have technical assistance components, but with no overall capacity-building strategy, they are often pursuing inconsistent approaches with limited ownership from MARD.

In recent years, donors have been looking for more effective ways to engage with the sector. An International Support Group (ISG) was created, as a forum for coordination and policy dialogue, involving 16 international partners and 6 ministries, with a secretariat in the International Cooperation Department of MARD funded by a multi-donor trust fund. Through the ISG, the donors supported MARD in the development of a 5-year plan. This included improving the information base through a programme of surveys and analytical work, with donors working on conjunction with MARD's own in-house research institute. Donors also supported MARD in the development of a results framework, based on the logical framework approach, making MARD one of the first sectors in Vietnam to adopt this planning tool.

Rural Water Supply and Sanitation (RWSS) is one of Vietnam's few off-track MDGs. GoV has a National Rural Clean Water Supply and Sanitation Strategy 2000-2020, based on the principles of community-centred, demand-driven development, which it implements through a National Targeted Program. A joint GoV-donor review of the strategy, conducted in April 2005, concluded that while the principles were sound, they were not always being applied in practice. In 2006, MARD and donors established the RWSS Sector Support Partnership, to improve sectoral coordination and allow for a strategic approach to scaling up assistance to the sector. In addition to supporting the preparation of a 5-year plan, its activities have included new legal documents for the sector, an active research programme and a matrix of donor activities. As a result of these developments, three major donors in the sector (AusAID, Danida and the Netherlands) have decided to pilot a combined targeted budget support programme to nine provinces. It is integrated with the NTP mechanism, and does not require any additional structures or management mechanisms.

The experience in rural development and RWSS shows that achieving closer alignment at the sectoral level involves engaging strategically with building sectoral capacity over a period of some years, to allow stronger country leadership and closer alignment of ODA to emerge in parallel. As the elements of effective planning capacity are put in place – a clear policy and legal framework, a stronger information base, prioritised and costed strategies, structures for coordination and policy dialogue, improved monitoring of results – donors are able to move to more programmatic forms of support, including new aid modalities. With the support of donors, MARD has made important progress in recent years, but still faces a number of major institutional challenges, including improving its coordination with other ministries and levels of government, address capacity gaps and introducing a culture of results-based management.

45. Working towards Programme-Based Approaches (PBAs) should be a key strategic priority under the HCS. The HCS sets a target of 75% of aid to be delivered through national or sectoral PBAs by 2010. The 2006 Baseline was 34%,¹³ suggesting

¹² Figure provided to IMT by MARD.

¹³ There are various discrepancies in the data on PBAs, suggesting that donors were not applying the definition consistently. It is likely that the survey overstates the current level of PBAs.

that this is going to be one of the most challenging targets to achieve. PBAs are listed under the heading of ‘harmonisation’. They provide a mechanism for overcoming Vietnam’s history of scattered ODA projects, by bringing donor assistance within common sectoral frameworks and approaches that maximise its impact. But PBAs equally serve to advance alignment. They provide a framework by which GoV and donors can agree on strategic priorities for each sector, and allow line ministries to programme their ODA alongside national resources. They therefore also advance country leadership and aligned programming.

Box 3 Programme-based approaches

The Paris Declaration and the HCS both recognise the importance of programme-based approaches (PBAs) for promoting ownership and alignment at programming level. The HCS sets a target of 75% of aid flows to be delivered through national or sector programmes by 2010 (above the Paris Declaration global target of 66%).

According to the OECD DAC definition, referred to in the HCS, PBAs are not a specific aid instrument, but a category of assistance provided in accordance with a number of principles:

- leadership by the host country or organisation;
- a single comprehensive programme and budget framework;
- a formalised process for donor coordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement; and
- efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation.¹⁴

PBAs may take the form of Sector-Wide Approaches (SWAs), budget support or “other arrangements in which there are equivalent efforts towards joint planning and harmonisation of procedures”.¹⁵ One of their strengths is that they can accommodate different funding modalities, provided that programming is coordinated under country leadership. Among the characteristics of PBAs often recognised as desirable are:

- they support a coherent (usually sectoral) strategy developed by the country itself;
- government exercises overall management of aid flows, providing clear direction to donors on priorities and preferred approaches;
- there is a focus on strengthening planning and budgeting capacity, to enable ODA to be programmed alongside national resources;
- donor assistance is coordinated and ideally harmonised through common funding arrangements, or complementary approaches to programming;
- there is a clear, medium-term capacity building strategy, with a clear diagnosis of capacity constraints and joint agreement on technical assistance requirements;
- there is an agreed strategy for maximising use of country systems for ODA delivery, and donors avoid parallel management arrangements;
- there are joint investments in a sector-wide monitoring systems, supported by a programme of analytical work and joint review mechanisms which are used to inform policy making.

In effect, PBAs provide a common platform for putting the full range of HCS commitments into action in a particular sector. They involve major commitments on both the government and donor side, and typically need to evolve over a number of years.

¹⁴ OECD DAC, *Harmonising Donor Practices for Effective Aid Delivery*, vol. 2, Box 3.1.

¹⁵ OECD DAC, “2006 Survey on Monitoring the Paris Declaration: Overview of the Results”, Paris, 2007, p. 31.

46. **Using programme-based approaches does not necessarily mean moving to budget support or multi-donor funding arrangements. It does, however, mean ensuring that ODA activities fit within a clear strategic framework, aimed at achieving high-priority goals and building core capacities.** For donors, it means working together and with GoV to ensure that their activities are supporting genuine priorities, and helping to build sustainable capacity. For GoV agencies, it means clearly articulating their priorities and preferred approaches, and showing clear leadership on ODA management and capacity development. Even within a well-developed PBA or SWAp, there are likely to be aspects of external assistance best delivered through projects, such as technical assistance, major capital investments or areas where country systems are not yet robust enough for on-budget support. However, donors whose rules restrict their use of new aid modalities need to be extra diligent to ensure their projects are strategic.

47. **The case for PBAs is clear in the social sectors, and other areas where strengthening service delivery and recurrent expenditure is a priority. However, the goals are also relevant to capital-intensive sectors like transport.** Even though ODA for major investments is usually delivered in project form, there still needs to be a strategic engagement with the sector as whole. In the transport sector, donors have been engaging with sectoral planning processes since July 2000, when a Transport Partnership Group was established. JICA supported the development of the first national transport plan, and the World Bank, the Asian Development Bank and UNDP have all provided capacity-building support for planning and budgeting. The Partnership Group has identified a number of key priorities for the development of the sector, including improved demarcation of responsibilities between different levels of government, accelerating the privatisation of transport SOEs, improved planning and prioritisation of investments, and greater consistency between the national transport plan and provincial development plans. According to Ministry officials, the sector still lacks an overall monitoring framework, and there is limited capacity to assess the social and economic impacts of investments. In a sector such as this, donors should try to strike an appropriate balance between delivering investment projects and addressing these strategic challenges.

48. **Sectoral or targeted budget support programmes can offer an effective platform for engaging with the development of a sector, but they require a high-intensity engagement from both donors and GoV.** In recent years, donors have initiated targeted budget support programmes for Programme 135 (infrastructure for the poorest communes), Education for All (basic education) and rural water and sanitation. These programmes utilise National Targeted Programs (NTPs), which are supplementary budgetary channels used for directing additional resources into development programmes for the poorest communities. Each of these sectors is highly decentralised, with the bulk of expenditure occurring at provincial, district and commune levels. The line ministries are in the process of redefining their role, from service provider and project implementer to policy giver and supervisor. Strengthening service delivery requires clear strategies for capacity development, and improved systems for planning, budgeting and monitoring at multiple levels. It is in these conditions that sectoral budget support programmes are most likely to be appropriate. They provide an effective platform for engaging with the complex policy and institutional challenges of a decentralised sector. By entrusting their funds to country systems, donors should gain both a greater insight into institutional constraints, and greater influence in advocating for reform.

49. It is too early to draw conclusions about the impact of TBS programmes in Vietnam. However, the IMT encountered some differences in views among donors as to the appropriate sequencing of budget support. Some are willing to move quickly to budget support despite known weakness in budgeting and financial management, because it provides an effective platform for strengthening country systems. Other donors would prefer to begin with more traditional capacity-building projects to strengthen systems, while holding out the promise of budget support as an incentive for reform.

50. So far, there is no clear evidence from the existing programmes to choose between the two positions. The existing TBS programmes contain capacity-building components, to complement the financial support. However, improvements in sectoral systems, especially planning, budgeting and financial reporting, have been slow to appear, making it difficult to demonstrate impact. In the case of Education for All, donors hoped to leave management of capacity development to the Ministry of Education and Training (MoET), but were later forced to adopt a more hands-on approach.

51. **The experience suggests that it is not the budget support itself, but the quality of the engagement that accompanies it, that determines impact.** Budget support may complement, but is not a substitute for, intensive policy dialogue, high-quality relationships and well-designed capacity building. Donors who enter into budget support arrangements in the hope of reducing their own transaction costs are likely to be disappointed.

Box 4 The evolution of budget support in education

Education has traditionally been one of most dynamic sectors in Vietnam, with GoV planning to devote 20% of all public expenditure to the sector by 2010. Vietnam achieved universal primary enrolment at a very early stage, in terms of *per capita* GDP. The priority has now shifted to ensuring quality standards, to build a competitive, knowledge-based economy and ensure that poor communities are not left behind. Since 2003, Vietnam has been part of the global Fast Track Initiative, and has an Education For All (EFA) Action Plan.

Donors have provided extensive support to the sector for many years. In 2000, they established the Education Forum, to share experiences and information among themselves. In 2003, this was upgraded to an Education Sector Group (ESG), to act as a forum for dialogue with government. It includes a range of stakeholders, including local authorities and NGOs. Through the ESG, the partners collaborate on putting in place the conditions for more effective ODA: common policy matrices; an MTEF pilot; a management information system; common approaches to monitoring and evaluation. Although there is not yet a common resource envelope, the ESG helps to ensure that ODA activities fit within the EFA framework.

In 2003/4, a group of donors decided there was a need for a more programmatic approach, in recognition of the progress made in developing an operational plan and strengthening country systems. Targeted Budget Support (TBS) uses a National Targeted Program to channel additional resources to provincial budgets for a range of programmes for improving basic education. Provincial NTP committees decide on the allocation of the funds. While the support uses the Treasury system, there are additional audit requirements, together with a joint annual review process to assess progress and identify reform priorities. The TBS programme includes an investment component (3 years) and a separate TA instrument (5 years). The Ministry of Education and Training (MoET) manages the TA funds through a small secretariat, and is developing training programmes for provincial authorities. TBS was originally seen as a stepping stone towards an eventual SWAp or full sectoral budget support, once country systems had improved further.

One of the key objectives of the TBS partners was to introduce Fundamental School Quality

Levels (FSQL) – a budgetary allocation mechanism to help poorer areas reach national minimum standards – together with a new coding system to facilitate expenditure tracking. FSQL was included as a PRSC trigger. This is potentially a very strategic investment by donors, because of its potential to improve the allocation of the education budget as a whole, and not just the ODA component.

Two years into the programme, it is still too early to assess its impact. However, there is considerable concern among the partners about the rate of progress. The core problem relates to the disconnect between planning and budgeting. In a highly decentralised sector, MoET has little influence over provincial spending decisions, which are made by local political authorities rather than education departments and do not always follow national priorities. There is no accountability for the use of the funds. Financial reporting is weak, making it difficult for donors to identify how their funds were used.

Integrating capacity-building and financial support has also proved a challenge. MoET has limited experience in procuring and managing TA, and is ambivalent towards foreign experts. Capacity-building priorities agreed during the annual review process are not always acted upon.

There are also challenges associated with managing a joint programme with 9 donors. The partners have agreed on a division of labour involving focal groups and lead donors on particular issues. However, a lot of time is still spent on reaching consensus. Donors report spending time on technical details that, in a more traditional project approach, would be handled by a PMU. They concur that the joint modality has significantly increased their own transaction costs.

Many of these problems are symptomatic of a learning process around a new aid modality. It shows that many of the dilemmas of project aid – how to deliver good technical assistance, how to balance external influence with country leadership – also apply to budget support. There is still reason for confidence that budget support will prove to be an effective platform for engaging with the education sector, but it will require major efforts on both sides to realise this potential.

52. **Country leadership of capacity building is a particular challenge in Vietnam.**

Under the HCS, GoV agrees to integrate capacity-building objectives into all of its development strategies, and to provide effective leadership of capacity-building support from donors. One of the targets for 2010 is to achieve 100% partner-led and coordinated capacity-building programmes. This has proved a difficult indicator to apply. GoV has a number of capacity-building programmes underway, including on ODA management, procurement and PFM, all of which are supported by multi-donor trust funds. There are also capacity-building objectives in many of its sectoral programmes. In general, however, GoV leadership of capacity building, and donor experience with partner-managed technical assistance programmes, are not particularly encouraging. Line agencies are not always effective at diagnosing their own capacity constraints, or identifying the kind of assistance they need to address them. Some expressed scepticism to the IMT about the value of foreign technical advisers. There appears to be no consensus between GoV and donors on how to move forward on this key HCS commitment. It is recommended that the issue be taken up in more detail in the next round of independent monitoring.

4.2 Use of country systems for ODA delivery

53. **Both GoV and donors have committed themselves to the goal of creating a single legal and institutional framework for public expenditure on development, whether financed by ODA or national resources.**¹⁶ This ambitious goal involves bringing a range of country systems – budgeting, public financial management,

¹⁶ PGAE, “Driving forward to realization of Hanoi Core Statement”, Report to the Consultative Group, December 2006, pp. 4-5.

procurement, environmental and social safeguards, project preparation and management – up to international standards. This is a high priority for Vietnam, for two reasons.

1. In the coming years, as Vietnam reaches MIC status, it will graduate to less concessional forms of ODA, and will increasingly turn to the capital markets to finance public investments. To access these new sources of finance, Vietnam needs systems that are compatible with international standards and practices.
2. Slow implementation of ODA projects continues to be a significant cause of concern, entailing lost opportunities and additional costs that erode the real value of ODA to Vietnam. For major investment projects, implementation is often delayed for a year or more after approval, and around half of all projects require extension. The World Bank's disbursement ratio for FY07 was only 12.7%, against a regional average of 20%.¹⁷ GoV estimates that US\$8 billion in undisbursed ODA was carried forward from the period 2001-2005.¹⁸ The Prime Minister has established an ODA Inter-Ministerial Task Force (IMTF) to address obstacles to efficient project implementation.

If GoV and donors are able to achieve a substantial convergence of Vietnamese systems with international standards and practices by 2010, it will be one of the most important legacies of ODA for Vietnam.

54. **This objective is clearly being given high priority by both GoV and donors, who are making major investments in strengthening country systems.** The Five Banks provide coordinated, high-quality technical assistance for strengthening country systems. Every second year, they conduct a Joint Portfolio Performance Review (JPPR) to identify common implementation problems. JPPR V, from May 2007, contains a detailed analysis of gaps between country systems and the banks' own requirements, as well as inconsistencies within Vietnamese laws and procedures. It covers the legal framework for public investment management, the efficiency of government approval processes, the development of project-management capacity and the reform of procurement and other systems to make them more market-oriented. It proposes a series of priority actions ('Fast Track' measures) to improve project implementation, which have been well received by GoV.

55. Other initiatives include:

- A Comprehensive Capacity Building Program on ODA management (CCBP), implemented by MPI with the support of the PHRD-WB Trust Fund and Like-Minded Donor Group (LMDG) Fund. It covers both institutional and human capacity development. It leads on reform of the legal framework for ODA management, through gap analysis and the preparation of new legal instruments. It has prepared a standardised curriculum for project management, which it will deliver through a regular cycle of training programmes for PMU staff at central and provincial levels. It has also worked to raise awareness of new aid modalities across the administration.

¹⁷ JPPR V, p. 9.

¹⁸ Socialist Republic of Vietnam, "Strategic Framework for Official Development Assistance Mobilization and Utilization 2006-2010", January 2007, p. 11.

- An additional capacity building programme specifically for procurement, funded by the Like Minded Donor Group (LMDG). It is strengthening the capacity of the Department of Public Procurement in MPI, including on capacity building across central ministries and provincial governments;
- A multi-donor trust fund for PFM, which is supporting a range of ambitious reforms, including MTEF pilots, improved budget reporting, stronger expenditure management and disbursement arrangements, the introduction of a new public accounting system, fiscal decentralisation and audit functions.

Given the scale of these programmes, it would appear that both GoV and donors are meeting their HCS commitment to provide the necessary resources for reform (para. 12).

56. Vietnam is moving towards a set of standardised, objective assessment tools for country systems, used by both GoV and donors. Globally, the OECD-DAC has been working with the World Bank and other donors to develop a common set of tools for assessing the quality of country systems against international standards. Ideally, these assessments should be led by government, with the support of donors, and used by all donors to inform their fiduciary assessments and their decisions on the use of country systems. Vietnam appears to be on track for achieving that in the coming period. Donors have been encouraging GoV to lead on core analytical work. In 2000, the World Bank carried out a Public Expenditure Review (PER) jointly with GoV, and again in 2004 concurrently with an Integrated Fiduciary Assessment. GoV has now taken over the process, and plans to conduct PERs on a 4-year cycle, with mid-term thematic reviews. A Country Financial Accountability Assessment (CFAA) was conducted in 2001 and then again in 2004, and a CFAA Update is now being undertaken under the joint leadership of GoV and the World Bank, with the participation of other donors. A similar pattern has been followed with Country Procurement Assessment Reports (CPAR). The World Bank has funded GoV to apply the common benchmarking and assessment methodology and harmonized tools developed by the OECD-DAC Working Party, and a baseline assessment was completed in February 2007.

57. This analytical work is well regarded and widely used by donors. In the Baseline Survey, a large majority of donors reported making use of it when preparing their own programmes and approaches. However, most donors are still required to carry out their own independent fiduciary assessments, and to make judgments on use of country systems in respect of each individual ODA activity.

58. There is still considerable caution across the donor community over the use of country systems for aid delivery. Most donors continue to rate the fiduciary risks associated with Vietnamese procurement and public financial management (PFM) systems as moderate to high. In the 2006 Baseline Survey, it was reported that less than a third of ODA uses country systems (see table). Most of this is accounted for by the PRSC and other on-budget or programmatic support, which automatically use country systems.

The IMT noted some clear differences of approach among donors regarding the use of the country systems.

- i) The development banks have increased their use of programmatic lending, which automatically uses country systems, but are not yet using country systems for investment loans to any great extent. Taking a strict reading of

the HCS, they recognise an obligation to use country systems only as and when they reach international standards. Until then, they are bound by rules preventing them from compromising on their fiduciary standards.

- ii) There is a group of bilateral donors that now have more permissive rules regarding use of country systems, enabling them to balance the greater development impact and sustainability of using country systems against the potentially higher fiduciary risk. These donors take the view that committing to the use of country systems even where there are recognised shortcoming helps to advance the reform process. These donors have begun to use country systems, both through greater use of new aid modalities and by changing the management arrangements for projects. However, they still have a substantial number of on-going activities designed before the HCS, that are proving difficult to change.
- iii) There remain a significant number of bilateral and multilateral donors whose rules do not permit the use of country systems to any great extent. Under the Baseline Survey, 18 of 34 donors were using country PFM systems for less than 10% of their aid, while 15 were using country procurement systems for less than 10% of their aid.

59. **Donors report receiving little encouragement from their Vietnamese counterparts to use country systems.** While both MPI and the Ministry of Finance are advocating greater use of country systems, many line ministries appear to be either indifferent on the point, or actively prefer the use of donor systems, which paradoxically gives them greater autonomy over the use of ODA funds. In particular, it is proving very difficult to change practices for on-going projects.

| Progress on use of country systems | | | |
|------------------------------------|-------------------------------------|-----|--|
| | % of ODA using country systems for: | | Share of programme-based support among surveyed donors |
| | Procurement | PFM | |
| 2006 Baseline | 33% | 27% | 34% |
| HCS Target | 50% | 50% | 75% |

Public financial management

60. **An extensive programme of reform to Vietnamese PFM systems is underway, but it still at a relatively early stage.** Within the last few years, the State Budget in Vietnam has for the first time become a public document. The budget process has been opened up, to include a broader range of actors under the oversight of the National Assembly and the provincial People's Councils. The legal framework for the budget is much improved, and the budget is now reasonably comprehensive. Expenditure controls have been strengthened. The State Audit of Vietnam has become an independent organisation, answerable to the National Assembly and producing public audit reports. There has been extensive fiscal decentralisation, with the share of sub-national government in total expenditure increasing dramatically to more than half.

Delegation of spending functions to administrative and service-delivery units is underway. An ambitious programme of reforms is planned for the coming years, including the introduction of common public accounting standards and an integrated Treasury and Budgeting Management System (TABMIS), which will provide the capability to record ODA-funded projects within the government accounting and reporting system.

61. International experience shows that PFM reforms on this magnitude can take many years to accomplish. This is particularly the case for fiscal decentralisation, which presents complex capacity-building challenges across several layers of government. Forcing the pace of change is not always helpful in producing sustainable results. For the time being, PFM systems in Vietnam remain a significant cause of concern for donors. A standardised public accounting system is still under preparation. There are significant variations in capacity across different institutions and levels of government. While leakage from the budget is generally thought to be low, the weakness of planning, budgeting and financial reporting make it difficult for donors to verify that ODA directed through the Treasury system is being spent appropriately.

Box 5 Rural transport pilots

In 2005, DFID and the World Bank undertook a pilot programme to support rural transport. Funds were provided via the Ministry of Finance as budget support to two provinces, Lao Cai and Phu Tho. Rural transport is an area that requires a high volume of small-scale construction work, which needs to be matched with recurrent expenditure on maintenance. In Vietnam, provinces have a record of neglecting maintenance in favour of capital investments. On principle, directing directed through the budget to lower levels of government could provide a solution to this problem.

The pilot produced both positive and negative results. On the positive side, the budget support modality proved to be a good fit with a decentralised structure of government, and treasury systems proved effective at tracking and verifying expenditure. On the negative side, low capacity at provincial, district and commune levels was a serious constraint on programme implementation. With a shortage of qualified staff to oversee design and construction, work often fell below GoV standards. There were extensive delays in many project because of poor preparation work by consultants, long bidding procedures and technical design processes, and poor coordination. Ultimately, the pilot was suspended following a high-profile corruption scandal in the transport sector.

“Success and Lessons”, Final Report, Provincial Budget Support Programme, June 2006

62. At the time of the 2006 Baseline Survey, donors used country PFM systems for only 27% of their assistance, of which 17% was the PRSC. PFM systems include budgeting, accounting, financial reporting, auditing and disbursement arrangements. A few donors have begun to use elements of country PFM systems, and the Aligned Monitoring Tool, which standardises financial reporting, is now in widespread use. However, most donors still impose additional financial reporting and audit requirements. Agreements for investment loans from the development banks still require PMUs to open special accounts in commercial banks, and to use donor financial management manuals. For grant projects, PMU staff are often required to produce two sets of financial reports – one for government and another for donors – in some cases because financial reporting to GoV is based on functional expenditure classifications, while most donors require output-based reporting.

63. One of the commitments of donors under the HCS is that, if they find it necessary to impose any additional safeguards or measures, they do so in ways that strengthen country systems and procedures (para. 6). In other words, donors should impose additional requirements only where required to bring Vietnamese procedures up to international standards, and where possible in such a way as to support agreed reform goals. This principle is not followed by all donors, some of which continue to impose conditions that are standardised across their global operations, rather than specifically tailored to Vietnamese conditions.

Procurement

64. In procurement, there has been a gradual convergence between Vietnamese practices and international standards, but there is still some ground to make up.

A new Procurement Law was adopted in 2006, with technical support from the Five Banks. It involved some major steps towards standardising procedures and improving transparency, including the establishment of an oversight body, the stipulation of open competition as the preferred procurement method, open advertisement of bidding opportunities, public bid opening and the decentralisation of procurement processes. The law provides for the use of procurement plans, standard procurement documents, greater transparency of bid evaluations and contract awards, and the establishment of a complaints mechanism. MPI has carried out analysis of the remaining gaps between national regulations and international standards. The Five Banks also provided detailed analysis in JPPR V. The outstanding issues include rules allowing direct contracting for contract under VND 1 billion (approx. US\$65,000), even where direct competition is possible, insufficient time for bid preparation, use of a subjective merit point system for bid evaluation, and requirements that contracts must be awarded within the approved bid price. While GoV sets price ceilings on contracts in order to control costs, according to JPPR V if ceilings are set unrealistically low it can generate incentives for collusion and other malpractice.¹⁹ A Procurement Thematic Group under the PGAE has been working to resolve these issues. There is also a substantial capacity-building programme in procurement, led by MPI with the support of the LMDG and the World Bank.

65. Use of country procurement systems by most donors remains very limited.

In the Baseline Survey, only 33% of ODA by value used country procurement systems, while only 25% of donors used them for more than half of their expenditure. The HCS targets are 50% in both cases. The multilateral development banks are permitted to use National Competitive Bidding (NCB) for procurement up to a certain value, provided that the country systems are reasonable and ensure adequate economy and efficiency. Their usual practice is to allow the use of country systems for NCB subject to additional conditions, which modify national regulations where they vary from international standards.

66. A number of GoV officials expressed the view that the donors should be more flexible, and not insist on standards that are inappropriate to Vietnamese capacity and market conditions. For example, they suggested that World Bank and Asian Development Bank rules barring road construction SOEs under the control of MoT from bidding on transport contracts were too strict, given the shortage of appropriately qualified companies in much of the country. The IMT concurs that there is scope for greater flexibility on the part of the donors, given the range of approaches to

¹⁹ JPPR V, pp. 36-7.

procurement in use internationally. Before imposing additional conditions, donors should ensure that those conditions are strictly necessary in order to satisfy international standards, and not a result of purely arbitrary differences between donor and Vietnamese rules.

67. Differences between donor and GoV procurement rules can be a significant cause of project delay. Decree 131 on ODA management states that, in the event of inconsistency between Vietnamese and donor regulations, those specified in the ODA agreement should prevail. Some PMUs, however, take the view that, in the event of a clash between donor requirements and Vietnamese legislation, they are required to apply to the Prime Minister for an exemption from the national rules. Although this is an incorrect reading of the law, it is reportedly a common cause of project delay. The existence of a dual set of rules raises the capacity requirements for PMUs. Some of the national PMU officials interviewed by IMT had a good understanding of both donor and country systems, and did not view the procurement conditions imposed by the development banks as particularly onerous. However, the dual system creates greater problems at provincial level, where capacity is lower and staff are not as familiar with donor requirements. It is at the provincial level that standardisation and simplification of procedures, together with a continuous cycle of training, is most urgently needed.

Safeguards

68. There has been progress on strengthening Vietnamese legislation on environmental and social safeguards, but capacity for carrying out impact assessments (EIA and SIA) remains very limited. Under the HCS, GoV commits itself to improving its capacity for environmental and social impact assessment, and to bringing its legislation and practices up to international standards. The donors are set a target of using country systems for at least 30% of their assessments. In the Baseline Survey, very few assessments were conducted solely through country systems, but a sizeable majority used country systems with additional safeguards. The PGAE Thematic Group on environmental standards has conducted gap analysis, and found a few points of disagreement between Vietnamese legislation and international standards, including rules as to which projects require EIA, on the scope of EIA and on the independence of consultants and review procedures. It also found that GoV capacity and resources for conducting EIA are very low, with a lack of standard procedures and limited supervision of lower levels of government by the centre. The primary challenge therefore appears to be around capacity building.

On social safeguards, Vietnamese regulations on involuntary resettlement are about 60% aligned with the standards used by the development banks, in respect of compensation and support to those affected by involuntary land acquisition. A detailed gap analysis is currently underway. The main point of difference is in respect of compensation for illegal structures. The policy of the development banks is to compensate all displaced persons for loss of structures at replacement cost, regardless of their legal status. The national laws allow for assistance at up to 80% of the cost of illegal structures. The Vietnamese position is that providing equal compensation for illegal structures would be unfair, and would encourage violation of construction laws.

Project management

69. **GoV is in the process of reforming its institutions and systems for public-investment management.** In the past, project management has been hampered by excessively centralised procedures, which required many decisions, including those of a technical nature, to be referred to higher political authorities. In 2006, with the encouragement of donors, GoV passed Decree 131 on the Management and Use of ODA, which provides for a devolution of responsibilities for project preparation and implementation to line agencies, cities and provinces. It separates project management and supervisory functions. Instead of directly implementing projects, line ministries are now required to appoint a separate agency as Project Owner, which approves the technical design and establishes and manages the PMU, under the line ministry's supervision.

70. **These changes have resulted in some short-term disruption to ODA projects.** It is reported that many line agencies are reluctant to take on their new responsibilities under Decree 131, and continue to refer decisions back to higher authorities. The reforms have resulted in what one informed observer from the donor community describes as “a decentralised system, superimposed on a highly centralised mindset”. These problems are replicated at provincial level, where local PMUs are now answerable to provincial authorities that have little familiarity with ODA management. Decentralisation does not necessarily result in greater efficiency, if local approval processes are equally cumbersome. For many projects, the Project Owner has not yet been identified, leaving PMUs uncertain of their reporting lines. This is particularly the case in MARD, and for many provincial PMUs. In other cases, Project Owners have been identified, but lack familiarity with project management procedures. Although the basic thrust of these reforms is sound, there appears to have been significant problems with the management of the change process.

71. **In addition, there are still uncertainties and contradictions within Vietnamese regulations on ODA management.** Vietnam has a complex legal-administrative system, with several layers of legal instruments, including laws and regulations adopted by the National Assembly, and decrees and implementing circulars issued by executive agencies. Several different ministries – MPI, Finance, Foreign Affairs, Justice and Construction – have responsibility for aspects of ODA management. Attempts to reform the legal framework have been marked by serious problems in communication and coordination across these agencies. Informed observers describe a tendency of ministries to move quickly to the drafting of legal instruments, before a consensus is reached on the underlying policy goals. Circulating drafts for comments often fails to resolve contradictions with other legal instruments. As a result, ODA-implementing agencies are faced with a complex and constantly changing legal environment, with significant overlap and inconsistency. This can cause extensive delays to ODA projects, with managers referring problems back to higher authorities rather than taking the risk of contravening a regulation.

72. A current example concerns Decree 112, issued by the Ministry of Construction, which instructs line agencies to complete a ‘Basic Design’ of a project as a component of the feasibility study. This contradicts earlier instructions from MPI that ‘Preliminary Design’ was sufficient – a much lighter standard. This has forced some PMUs to repeat feasibility studies for pipeline projects, causing extensive delays. Other contradictions relate to PMU structure, approval processes, disbursement arrangements and reporting

requirements. PMU staff report that GoV inspection agencies often have differing interpretations of the legislation, and that the penalties for non-compliance are high. This creates a strong incentive for PMUs to avoid taking decision on disputed points, in favour of referring them back to higher authorities.

73. Weak capacity for project management continues to be a constraint on effective ODA management. CCBP is developing a training curriculum on programme management, based on World Bank Institute materials and Vietnamese sources. In the meantime, capacity within PMUs is varied. There is no mechanism to ensure that staff involved in project preparation are carried forward to the implementation phase, in order to preserve their knowledge.²⁰ Many PMUs face difficulties in attracting and retaining appropriately qualified staff. GoV offers an additional salary loading of 100% for staff involved in the implementation of ODA loan projects, but given the opportunities available to skilled managers in the private sector, this is not a particularly strong incentive. Turnover of PMU staff is high, causing capacity to degrade quickly. For large PMUs, the usual practice is to recruit additional staff from the private sector. In the future, GoV may need to expand its relationships with private-sector providers of project-management capacity.

74. Government and donors have made useful progress in aligning their procedures for project preparation and reporting. The Five Banks and GoV have agreed a common set of feasibility study guidelines. At present, differences in standards, formats and content for project preparation are a major cause of delays in project commencement. Consultants are often required to prepare two separate sets of documentation for the donor and GoV, which is often done sequentially. The common guidelines were agreed on principle in early 2007, but are yet to be institutionalised. The Five Banks and GoV have also agreed on an Aligned Monitoring Tool, to standardise project reporting. It has been piloted with the support of the AusAID-funded VAMESP programme on monitoring systems, and is now used in some 35 projects covering 15% of ODA investments.²¹

Parallel structures and financial incentives

75. Under the HCS, donors make a commitment to eliminate parallel structures for project delivery, and to phase out paid incentives for GoV officials engaged in project implementation. This is a particular challenge for bilateral donors. Investment loans from the development banks use PMUs established according to GoV rules, and do not provide additional financial incentives (beyond the salary loading provided for under Vietnamese legislation for staff managing ODA projects). Parallel structures in Vietnam are therefore mainly a feature of grant projects.

76. Most bilateral donors are honouring their commitment not to create parallel structures for new projects, but have not taken any action to phase out existing parallel PMUs. The IMT did not encounter any examples of parallel PMUs created since the HCS came into force. GoV has provided useful guidance to donors in the form of a circular setting out the organisational structure of PMUs.²² However, for many donors, projects designed prior to September 2005 still constitute the bulk of their

²⁰ JPPR V, p. 31.

²¹ JPPR V, p. 47.

²² MPI, "Circular on guiding the organisational structure, functions and responsibilities of ODA program or project management units", No. 03/2007/TT-BKH, March 2007.

programme. The Baseline Survey identified 111 parallel PMUs, but this list may be incomplete. Donors are reporting that it is very difficult to phase out parallel PMUs for existing projects, in the face of strong resistance from their Vietnamese counterparts to changing current arrangements. This throws into doubt the achievement of the HCS target of eliminating parallel PMUs by 2010.

77. A similar story applies to the donor practice of paying additional financial incentives, or ‘top-ups’, to government officials engaged in project implementation. A Cost-Norms Thematic Group under the PGAE has been addressing this issue, with a baseline study carried out by the CCBP consultants.²³ In October 2007, the EU member states and UN agencies concluded a milestone agreement on cost norms. The agreement harmonises project-management costs, including local consulting rates, to control cost inflation and prevent unhelpful competition. (Some major donors remain outside this agreement, including the US and Japan, although it is expected that other bilaterals will follow the EU/UN guidelines.) The agreement provides that basic salaries for public officials working on ODA-financed projects should always be part of GoV’s contribution to the project, and cannot be funded by donors. Donors are not permitted to pay additional allowances for seconded government staff. (The agreement leaves open the possibility that government may choose to pay ‘top-ups’ to staff it assigns to aid projects, as part of its own contribution.) Although the agreement itself is silent on the point, donors appear to be treating it as applying only to future projects, owing to the difficulty of renegotiating salaries and consultancy fees for on-going projects. It therefore appears that there is no process in place for meeting this key HCS commitment.

78. The EU/UN cost norms agreement is a key stepping stone towards the gradual alignment of government and donor cost norms. Under an Action Plan developed by the PGAE Thematic Group on Cost Norms, Vietnam’s own cost norms should be updated more regularly, and gradually raised to market rates, while donor costs norms are to be gradually reduced. By 2010, the two scales should be fully aligned. However, GoV has expressed some reservations about the approach taken in the Agreement, noting that it does not cover foreign inputs, and is not entirely market-based.

79. Eliminating parallel structures and financial incentives has major practical implications for aid projects, that have not yet been fully assessed. The payment of top-ups has been seen as a pragmatic measure by donors for attracting experienced management and technical staff, who are heavily in demand within the administration. Simply eliminating the practice would likely result in extensive short-term disruption to project implementation. Vietnamese agencies would need to reallocate their personnel resources, and donors may need to provide additional capacity-building support. These change management issues would benefit from further study, and a clear agreement between GoV and donors on the way forward.

²³ CCBP, “Baseline study on existing cost norms systems for ODA loans and grants in Vietnam”, Hanoi, November 2006.

4.3 Organising HCS implementation

80. The adoption of the HCS generated a great deal of momentum for aid-effectiveness in Vietnam. In the political space it created, both GoV and donors committed themselves to a whole range of processes and initiatives. Two years on, they are deep into the many technical challenges involved in changing aid practices. The work is painstaking and detailed, and progress sometimes hard to see. Sustaining progress is both a managerial and a political challenge.

81. **The IMT found that commitment to the HCS is still solid on both sides, but a certain fatigue is apparent.** There is a sense among participants that the structures and processes need to be renewed, to keep the momentum going. There is also a new determination on the part of donors to prioritise the efforts they put into aid effectiveness, in recognition that not all initiatives have produced equal returns.

Structure of the development partnership

82. **Vietnam has a rather elaborate structure for promoting aid effectiveness, that has grown up organically rather than according to any conscious design.** There are a range of groups bringing together GoV and donors in different combinations, including:

- the Consultative Group, held in Vietnam under a Vietnamese chair every year, with a mid-term thematic meeting;
- the Partnership Group on Aid Effectiveness, which acts as the primary forum on aid effectiveness. It is chaired jointly by MPI and a donor on a rotating basis (currently the World Bank), and meets monthly;
- a series of PGAE Thematic Groups, established as *ad hoc*, short-term groups to lead on technical aspects of specific HCS commitments;
- more than 20 sectoral and thematic Partnership Groups, which vary significantly in composition, function and effectiveness;
- a number of donor groupings, including the Five Banks, the Like-Minded Donor Group, the European Union Member States and the UN agencies; and
- a series of Working Groups established under the PRSC.

83. There are in addition a number of processes that support HCS implementation, or aid effectiveness more generally.

- There have been 3 rounds of monitoring of aid effectiveness, done through surveys of donors and relevant GoV agencies. The most recent survey in 2006 provided Vietnam's contribution to the OECD-DAC Baseline Survey on implementation of the Paris Declaration. It will be repeated every second year.
- The Independent Monitoring process, of which this is the first round, which may be repeated on an annual or biennial basis. It is designed to support the mutual accountability between GoV and donors.
- The process of One UN reforms, for which Vietnam is an important pilot, and which the UN agencies see as their contribution to promoting aid effectiveness. Both GoV and some of the bilateral donors are closely involved in the process.

84. **The organic nature of this structure is both a strength and a weakness.** It has proved to be a flexible approach, with new groups appearing whenever there is a perceived need, and others slipping into disuse when no longer needed. However, there is also considerable overlap, and some elements of the structure may have outlived their usefulness. Some observers, especially on the donor side, see the system as overly bureaucratic and burdensome. Most donors remain happy to commit time to structures that are perceived as effective, but are less willing to attend meetings purely for form's sake. When the structures and processes become too elaborate, aid-effectiveness fatigue becomes a genuine risk.

85. **Nonetheless, the IMT found little appetite among either GoV or donor officials for a comprehensive reorganisation of this structure.** Despite reservations about its overall efficiency, most observers considered that the structure needed to be organic in nature, and that any attempt to redesign the system according to a single model would produce artificial results.

86. **However, there is a broad consensus that the PGAE needs to be revitalised.** Most of the donor officials interviewed by the IMT shared the view that the PGAE has lost direction over the past year or so. Observers commented that the meetings have become excessively formal in nature, with more time spent on reporting and less on genuine discussion and consensus-building. Meetings are said to be attended at too low a level, particularly on the GoV side, to be able to act as a forum for decision-making or mutual accountability. Attendance by GoV agencies other than MPI remains weak.²⁴ Although technical issues have been referred to Thematic Groups, some of which have proved very effective, there is insufficient separation of policy issues from technical discussion. The practice of preparing annual aid-effectiveness action plans has dropped away, with the result that the aid-effectiveness agenda appears to have lost focus. Overall, the PGAE has become something in between a policy forum and a technical working group, without serving either function satisfactorily.

87. **While Vietnam has processes in place to support mutual accountability, most observers agree that this principle is proving difficult to operationalise.** As a non-aid dependent country with strong country leadership of the development agenda, Vietnam has greater potential for achieving mutual accountability than most other developing countries. It has a number of structures to support mutual accountability, including:

- clear principles, commitments and targets set out in the HCS;
- structures for dialogue specifically on aid effectiveness;
- regular monitoring of donor performance through surveys;
- periodic independent monitoring of the development partnership.

However, peer pressure among the donor community is not particularly strong, and GoV places a stronger priority on maintaining good diplomatic relations with donor countries than on holding them to account for their performance. Mutual accountability is essentially a political process – a function of the interaction between donors and government at the highest level. Part of the problem may be that the PGAE has gravitated more towards the technical level, which reduces its ability to serve as a forum

²⁴ MPI informed IMT that the practice has been to circulate emails to other GoV agencies, rather than issue formal invitations, and this is now going to change.

for mutual accountability. The IMT's suggestions for addressing this are contained in the concluding chapter.

88. **There is no single model for an effective Partnership Group.** PGAE reports usefully describe a 'partnership journey', in which Vietnamese agencies and their donor partners proceed from a shared diagnosis of the challenges prevailing in the sector, through the development of shared action plans and the mobilisation of resources, to developing common implementation and monitoring arrangements. The form and function of Partnership Groups evolves through this process. Different sectors are currently at different points on this journey. The most effective Partnership Groups – for example, in education – began as simple structures for sharing information, and evolved over a number of years into a more sophisticated form as donors moved into programmatic support and the development partnership matured. It now includes annual joint review processes to identify progress and bottlenecks and set sectoral priorities. Other Partnership Groups are still at the level of basic information sharing. In cases where Partnership Groups have been less effective, observers have pointed to a lack of technical expertise, weak motivation among participants, reluctance to tackle difficult issues and, above all, a lack of effective leadership or sufficiently high-level participation from the relevant GoV agencies as the main problems.

89. **The joint commitment of GoV and donors to work towards programme-based approaches at sectoral level should entail keeping these structures under constant review, to ensure they support continuous improvement of the development partnership.** Part of the responsibility of the Partnership Groups should therefore be to debate whether its own structure is fit for purpose, and present proposals to the PGAE for its continuing development.

| List of Partnership Groups | |
|--|---|
| 1. Partnership Group on Aid Effectiveness | 12. Health Partnership Group |
| 2. Poverty Working Group/Task Force | 13. Education Sector Group |
| 3. Partnership to Support the National Target Programmes | 14. Forest Sector Partnership |
| 4. Partnership to Assist the Poorest Communes | 15. Natural Disaster Mitigation Partnership |
| 5. Gender Action Partnership | 16. Agriculture and Rural Development International Support Group |
| 6. International Support Group for the Environment | 17. Transport Partnership Group |
| 7. People's Participation Working Group | 18. Viet Nam Urban Forum |
| 8. Working Group on SOE Reform and Equitization | 19. Legal Reforms Partnership |
| 9. SME Partnership Group | 20. Public Finance Management Partnership |
| 10. Financial Sector Working Group | 21. Public Administration Reform Partnership |
| 11. Trade Reforms Working Group | 22. Partnership for Avian and Human Influenza |

*Donor harmonisation***90. Donors in Vietnam have not chosen to formalise their relationship through joint assistance strategies, joint country programmes or common results matrices.**

This is presumably because the strength of country leadership in Vietnam makes structures of this kind unnecessary. Donors have placed the priority on aligning their programmes and approaches behind GoV leadership, rather than harmonising with each other. Where a need has emerged for stronger donor coordination, relatively informal donor groupings have served the need quite effectively (see Box 6).

91. Generally speaking, donors in Vietnam have done well in joint analytical work and policy advice.

The annual Vietnam Development Report²⁵ and the Five Banks' biennial JPPR stand out as particularly strong examples, but there are other good examples at sectoral level. As discussed above, the PRSC is a very good process for developing common donor positions on annual policy priorities. It enables GoV to negotiate with donors as a group, rather than bilaterally, which is both cost saving and more effective. The agreement on cost norms, initiated by the EU member states under the leadership of the European Commission and then extended to include the UN agencies, is another very positive example of harmonisation around a strategic issue.

92. Complementarity and division of labour are not well developed among donors in Vietnam. In the HCS, GoV commits itself to providing “clear views on donors’ comparative advantage, different aid modalities and on how to achieve donor complementarity at country or sectoral level” (para. 22). It has not really done any of those things. The Strategic Framework of ODA Mobilization and Utilization 2006-2010, issued by the Prime Minister in December 2006, provides some guidance in very general terms, but is more descriptive than prescriptive. It is non-committal on aid modalities,²⁶ and does not give any view on comparative advantage or division of labour. Generally, GoV prefers not to give directions to donors on the composition of their programmes. For their part, donors have had some discussion on improving complementarity, but reached no clear consensus. In May 2007, the European Union adopted a voluntary Code of Conduct on division of labour, in which member states are encouraged to focus their country programmes on no more than three sectors, and to use a lead donor model to structure their relations with country counterparts.²⁷ Discussions on how to implement this in Vietnam are at an early stage. The IMT’s examination of donor country strategies found that, while donors often describe their programmes as having only a few focus sectors, the sectors in question are sometimes defined very broadly.

93. The lead donor concept is not well developed in Vietnam, despite a number of initiatives. Both the LMDG and the Five Banks at times nominate members to speak on behalf of the group on particular issues, or to lead the policy dialogue on specific sector or topics. The EU-Vietnam Masterplan nominates particular EU member heads of mission to lead the dialogue on specific issues. Within joint programmes such

²⁵ There are, however, some concerns among the donors as to whether the CDR reflects their various inputs. The process, which is led by the World Bank, may be too truncated to allow sufficient time for consensus building.

²⁶ “ODA can be delivered through a variety of modalities, therefore, the decision on the use of a particular modality should be based on the specific requirements of the developmental challenge being addressed to ensure aid effectiveness”: para. 11.

²⁷ “EU Code of Conduct on Complementarity and Division of Labour in Development Policy”, May 2007: <http://register.consilium.europa.eu/pdf/en/07/st09/st09558.en07.pdf>.

as TBS-EFA, the partners have appointed particular donors to lead the policy dialogue on specific elements of the programme. On principle, lead donor arrangements should result in more focused and higher quality dialogue, with donors specialising in areas where they have a comparative advantage. However, it is not clear that these benefits have been realised. Donors still have a tendency to attend as many fora as possible, either because of visibility concerns or for fear of being left out of the decision-making loop. This has a cost in terms of aid effectiveness, particularly for small donors whose limited human resources become stretched across too many processes to be able to contribute effectively.

Box 6 Donor groupings in Vietnam

The Five Banks

This alliance of development banks was originally created by the Asian Development Bank, the Japan Bank for International Cooperation and the World Bank in 2002 to promote the simplification and harmonisation of procedures and to address common problems with portfolio implementation. It was later expanded with the addition of the German bank KfW and the French bank AFD. (The Korean development bank is in the process of joining.) With commitments of US\$1.7 billion in FY06, the Five Banks account for around 70% of ODA to Vietnam. The Five Banks carry out a Joint Portfolio Review every second year, which is a major analytical work addressing practical barriers to project implementation and use of country systems. They meet monthly, and prepare an annual Action Plan which divides the lead role for particular thematic areas among the five agencies. They have provided high-quality, harmonised technical input into government reform processes, including on project preparation, procurement, safeguards and project management.

The Like-Minded Donor Group (LMDG)

The LMDG was established in 2001 as a loose association of six bilateral agencies (later expanding to twelve – Australia, Canada, Denmark, Finland, Germany, Ireland, the Netherlands, New Zealand, Norway, Sweden, Switzerland and the United Kingdom) to promote harmonisation, joint programming and new aid modalities. It supports change through practical action and demonstration effects. One of its earliest activities was a study on transaction costs for bilateral grant aid. Together with the EU member states and other donors, LMDG provided coordinated comments on the draft SEDP, sharing the lead role in different areas. There are several projects where LMDG members are providing joint or collaborative support, with one partner managing the policy dialogue on behalf of others. LMDG members have established a Harmonization Project, from which they support joint initiatives such as capacity-building for ODA management and procurement. The Project has a component to support innovations in aid delivery, from which it has recently funded a part-time aid-effectiveness adviser. Members of the group have been instrumental in developing new aid modalities, including TBS-EFA and Programme 135. The LMDG meets fortnightly under a rotating chair, and serves as a platform for sharing ideas and coordinating approaches. Members use the LMDG to develop common positions to take to other process, including the PGAE and the PRSC.

EU Member States

The **European Union (EU)** seeks to promote harmonisation and alignment among its members, working according to a Road Map for Closer Coordination and Harmonisation Among EU Donors in Vietnam (February 2005). EU member states and the European Commission hold monthly meetings and annual retreats to discuss areas of common interest, and on occasion prepare joint positions for CG meetings and other fora on issues such as human rights and corruption. They maintain a database (the Blue Book) of member activities. They have nominated five sectors (health, education, private-sector development, trade and governance) and one geographical area (Central Highlands) in which to intensify coordination, and have

established various working groups to facilitate this, although their effectiveness has been mixed.²⁸ An EU-Vietnam Masterplan, negotiated with the Vietnamese Government, provides guidelines for programming in different sectors, and nominates particular EU member heads of mission to lead on the dialogue with particular Vietnamese ministries. The EU has brokered a ground-breaking agreement between its members and UN agencies on cost norms for project management and eliminating top-ups for government officials. It is hoped that other donors will also adopt the cost norms. Recently, the European Council adopted a voluntary Code of Conduct on division of labour, in which Member States are encouraged to focus their country programmes on no more than three sectors. It is not yet clear how the Member States will take this forward in Vietnam.

UN reform

Although the UN reforms have not been a subject of this Independent Monitoring, they are a very important part of the aid-effectiveness picture in Vietnam. The process is overseen by a Tripartite National Task Force, made up of representatives of GoV, the UN and donors. The UN agencies and GoV have agreed on 'One Plan', which consolidates the separate country programmes into a single programming framework under the leadership of the Resident Coordinator. Its implementation will be supported by a One Plan Fund, funded through un-earmarked, multi-annual donor contributions, which will reduce competition for funding across the agencies. The agencies are also working towards a common set of management practices, and a 'One UN House'. A monitoring and evaluation framework of the One Plan, currently under development, will include assessment of progress against the HCS indicators.

94. **At the programming level, there are some good examples of joint programmes and silent partnerships, but also of some rather cumbersome management arrangements.** LMDG members and other donors have established some successful multi-donor trust funds in strategic areas like PFM reform, the CCBP and capacity building for procurement. There are innovative multi-donor programmes in education, health, rural water, forestry and other sectors. However, some of the multi-donor programmes have developed very heavy management structures. Donors often enter these programmes with the expectation that their direct management role will be limited, but get drawn more deeply into the management when the programme encounters difficulties. As a result, donors find themselves trying to reach consensus in large committees on issues that would formerly have been dealt with by PMUs or contractors. This causes frustration, and the perception that the transaction costs outweigh the benefits. This may reflect the fact that donors are not being sufficiently selective in their programming choices, and are not prepared to delegate to others. Having too many partners in a programme is not efficient, unless some agree to act as silent partners.

5. Recommendations

95. Among developing countries, Vietnam stands out for its whole-hearted embrace of the aid-effectiveness agenda. Its high profile commitments in international fora, and its adoption of the HCS within a few months of the Paris Declaration, created a great deal of energy and good will on both sides. With strong leadership from MPI, many important and useful processes were launched.

²⁸ EU Presidency (Austria), "Report from the EU Development Counsellors to Heads of Mission (HoM) on progress in implementing the EU Roadmap on Harmonisation", Hanoi, April 2006.

96. The impact of the Paris Declaration and the HCS on external assistance to Vietnam is already clearly visible. The fragmented aid delivery of the past has been replaced by a commitment to align behind country leadership, and to work strategically with other donors. Donors have introduced new aid modalities and multi-donor programmes. There has been a strong commitment on both sides to bringing country systems up to international standards, to enable them to be used for aid delivery. Overall, the level of effort from both GoV and donors has been impressive.

97. However, the aid effectiveness agenda has now reached a point where many of these processes have become highly technical and detailed, tied up with complex reforms that can take many years to implement. For those involved in the detail, the rate of progress may not always appear commensurate with the effort being put in. This has resulted in some frustration on both sides, and a danger of fatigue and loss of direction.

98. To sustain the momentum, the recommendation of the IMT is to increase the focus on key strategic areas within the HCS. Without lowering the overall level ambition or neglecting the breadth of the commitments, GoV and donors should focus on the specific problems they need to solve, and the benefits they wish to secure.

99. The IMT recommends four main focus areas:

- i) building stronger sectoral capacity through the development of programme-based approaches;
- ii) improving country leadership of capacity-building support;
- iii) bringing country systems up to international standards; and
- iv) phasing out parallel PMUs and financial incentives.

In addition, we propose a number of steps for improving the organisation of HCS implementation.

5.1 Building sectoral capacity through programme-based approaches

100. Alignment is in many respects an easy principle to apply in Vietnam, given the strong national ownership of the development agenda. The alignment of donor programmes to the SEDP, policy dialogue based on GoV's own development objectives and the absence of policy conditionality are all indicative of a mature development partnership based on respect for country ownership.

101. However, variations in capacity across the sectors mean that alignment at the programming level is a more difficult challenge. Many ministries are still working to integrate their planning and budgeting, and still tend to produce lengthy lists of projects for funding without a clear basis for identifying their priorities. Few are able to manage ODA as part of their overall resource envelope. A key priority for aid effectiveness in Vietnam is to strengthen the quality of engagement at sector level, in order to equip the sectors with the policy frameworks and institutional capacity that will enable to address their future development challenges. Pressing forward with developing PBAs is a means of ensuring that donors take a strategic approach to the development of the sector.

102. Under the HCS, donors commit to providing three-quarters of their assistance in the form of programme-based approaches (PBAs). This an ambitious goal, given the 2006 Baseline of 34%. At present, there is no process for achieving this.

103. The form of PBAs will need to vary substantially from one sector to another, but is likely to include some or all of the following goals:

- a clear policy framework and medium-term strategy, based on a robust policy dialogue;
- planning and budgeting processes that enable ODA to be programmed alongside national resources as part of a common budgetary envelope;
- strong country leadership and management of ODA, with GoV clearly expressing to donors its priorities and preferred approaches;
- harmonised approaches to programming among donors, including joint funding and clear division of labour;
- a clear identification of capacity-building needs, and a medium-term capacity-building strategy, including agreement on preferred modalities for technical assistance;
- a strategy for strengthening country systems, with clear commitments from donors to use those systems for aid delivery once they reach agreed levels;
- joint development of key tools such as management information and monitoring systems (consistent with the national M&E system);
- joint progress reviews and analytical work to promote mutual learning.

These elements may take some years to put in place, and the pace and sequencing will vary across sectors.

104. There is no necessary link between PBAs and any particular funding modality. In the social sectors, where the goal of improving service delivery involves better planning of recurrent expenditures and capacity building across several levels of government, the case for providing support through the budget is strong. Initiatives like the Targeted Budget Support programmes offer an effective means of engaging with a decentralised sector. However, well-designed projects may equally be part of a strategic approach to the development of the sector, and may be preferable in particular circumstances.

105. One issue which needs to be clarified is how to apply the PBA target to capital-intensive sectors like infrastructure, where ODA is mainly delivered in the form of large projects. GoV has stated that its priority for ODA mobilisation in the period 2006-2010 is that at least half of ODA should go to infrastructure development.²⁹ Large investment projects are not at present classed as PBA, even where they are aligned with sectoral strategies. That makes the 75% target difficult to achieve.

106. To achieve the HCS target, each sectoral Partnership Group should be tasked with (a) determining the form of PBA that is most appropriate to the sector; (b) agreeing a sectoral PBA target (given that the 75% target applies across the board, not to each individual sector); and (c) deciding on a road map and timetable for reaching the target. The Partnership Groups should periodically report to the PGAE their joint assessment of the percentage of aid to the sector meeting the PBA definition. This would provide valuable information for future HCS monitoring.

²⁹ Strategic Framework for ODA Mobilization and Utilization 2006-2010, p. 12.

5.2 Improving country leadership of capacity building

107. Capacity building was not a specific focus area for this first round of independent monitoring. We recommend that it be studied in detail in the next round of monitoring.

108. However, the IMT encountered enough evidence to suggest that country leadership of capacity-building support may be a significant problem. GoV is committed under the HCS to integrating capacity-building objectives into the SEDP and all other development strategies, and to leading a comprehensive capacity-building programme with coordinated donor support. It has developed capacity-building strategies in a number of areas, particularly around ODA management. However, many observers on the donor side were of the view that GoV agencies are not good at diagnosing their own capacity constraints, at providing guidance to donors on the kinds of assistance they require, or procuring and managing technical assistance. Conversely, GoV officials expressed reservations about the value of foreign technical advisers.

109. As a result, there is a widespread perception that the pace of capacity development in Vietnam is not as good as it could be. There may be value in commissioning a detailed study to explore why this is the case.

110. A priority for the HCS agenda is for GoV and donors to agree what a comprehensive approach to capacity development might mean, and how GoV can strengthen its ownership and leadership of capacity-building support.

5.3 Bringing country systems up to international standards

111. This is one area where impending MIC status makes an important difference. One of the earliest goals for the global aid-effectiveness process, dating back to the Rome Declaration, was to lower the transaction costs of ODA. Arguably, this is not such a priority for Vietnam, given the limited time horizon for ODA. Rather, the priority is to bring country systems up to international standards, to enable Vietnam to access commercial and less concessional forms of development finance. GoV's goal of creating a common legal and institutional framework for all public investments, however financed, is therefore a strategic one. If this is achieved, then capacity developed within ODA projects will also contribute to improving the management of national resources.

112. Use of country systems, particularly in PFM and procurement, is for the time being lagging well behind the HCS commitments. Most of the progress to date is accounted for by the PRSC and other forms of on-budget support. Achieving the HCS targets by 2010 will require a major effort on both sides.

113. GoV has committed itself to numerous complex reform processes, and has made considerable progress in recent years. However, the pace of change is slow, generating significant frustration. Many reforms agreed between GoV and donors are implemented partially, or else in such a way as to generate new problems for project implementation. Poor inter-ministerial coordination appears to be the root cause of the problem. There is a need for GoV to reassess how it manages complex reform processes, to ensure that it begins by agreeing a common set of objectives, and then works systematically through the legal and institutional reforms required to achieve them.

114. On the donor side, there is a diversity of policies and rules on use of country systems. Some donors now have the flexibility to use country systems even where there are known shortcomings, in order to contribute more effectively to their development. In effect, they are trading off the higher fiduciary risk against the greater development benefits of using country systems. Other donors remain bound by restrictive rules and regulations that prevent them from compromising on fiduciary risk.

115. There are a number of steps that donors can take to fulfil their HCS commitments.

1. Continue to increase their use of budget support in appropriate sectors – namely those with high service-delivery and recurrent-cost components, and where the sector has a demonstrated the capacity to apply its resources against a credible strategy.
2. Progressively increase their use of country systems for aid projects to reflect on-going improvements, such as by increasing the thresholds for national procurement, reducing the number of additional conditions and making greater use of the treasury system.
3. Where additional conditions are applied on use of country system, ensure those conditions are tailored to support agreed reform commitments, rather than purely administrative requirements on the donor side.
4. As donors gain more experience on use of country systems in Vietnam, they should make clear commitments to using country systems for their programmes as a whole as and when specific goals are reached – such as particular reform commitments, or agreed capacity thresholds based on objective assessment methods.

5.4 Phasing out parallel PMUs and additional financial incentives

116. Most donors are honouring their commitment not to create new parallel structures for aid delivery, and not to offer financial incentives to government officials involved in new aid projects. The 2007 EU/UN agreement on cost norms was a key breakthrough in this respect.

117. However, there is no process in place to phase out parallel structures and additional financial incentives for on-going projects. Unless this difficult issue is tackled, the HCS targets are unlikely to be achieved.

118. These practices have persisted because they have been convenient for both sides. For donor officials accountable for the efficient implementation of their projects, parallel management structures and salary top-ups ensure their projects are able to secure the necessary qualified personnel. For some officials, these donor practices have been a source of supplementary income to low public-sector wages.

119. However, this represents poor donor practice, which should no longer have a place in Vietnam and elsewhere. Projects delivered in this manner are unlikely to achieve sustainable results.

120. The transition, however, will need to be carefully managed, if it is not to cause substantial disruption to project implementation. Line ministries will need to reassess their allocation of human resources, to ensure that projects remain adequately staffed. Where phasing out top-ups results in a shortage of skilled personnel, donors may need to

provide additional capacity-building support. For skill sets in short supply, resort to the private sector may be necessary, provided it forms part of a coherent, overall approach to capacity development.

121. The PGAE should provide clear guidance to the sectors as to how to proceed with this aspect of the HCS. It may be appropriate to task sectoral Partnership Groups with establishing a joint GoV-donor task force to investigate the scale of the problem, and to agree a plan of action for addressing it.

5.5 Strengthening structures for mutual accountability

122. As the challenge of HCS implementation has changed, becoming more detailed and technical, the aid-effectiveness architecture needs to evolve with it. It appears that the PGAE, in particular, has been dragged too much into the detail of complex reform processes, and has lost its effectiveness as an oversight body. It is too large and unwieldy to serve as a forum for detailed discussion on technical problems, and attended at too low a level to generate binding political commitments. As a result, it is not serving as an effective body for accountability.

123. Mutual accountability is at core a political process. Although there are no formal sanctions for non-compliance with the HCS, mutual accountability occurs where both sides make specific commitments at a sufficiently high level that a measure of embarrassment would result from a failure to honour their commitments. This cannot occur in the same body where the detailed technical work is carried out.

124. There also needs to be a capacity for donors and GoV each to speak with a single voice on the key strategic questions around aid effectiveness. Donors need to be in a position to make collective commitments, in order to increase peer pressure on individual donors to change their practices. Likewise, GoV needs to be able make commitments at a level that is recognised as authoritative across the different ministries.

125. We have the following proposals for how this could be brought about.

- i) The PGAE should refer technical discussions to *ad hoc*, temporary Thematic Groups, as has been done successfully in the past. The membership of these groups should include the key stakeholders for each issue, and participation should be based on technical expertise. These groups should try as far as possible to bring agreed positions back to the PGAE for a formal commitment or, if they are unable to reach consensus, bring the matter to the PGAE for a decision.
- ii) The PGAE should approve an annual HCS Action Plan, which contains a specific list of agreed measures for the year. The Action Plan should not be a list of all on-going activities, but focus on a limited number of genuine strategic priorities. Its adoption by the PGAE should have a degree of formality to it, to ensure the commitments are seen as serious.
- iii) One of the primary functions of the PGAE should be to review progress against the Action Plan. At a meeting convened for this purpose, both GoV and donors should make a presentation on their own performance against their commitments, stating what has been successful and what has been unsuccessful. Both donors and GoV agencies should meet separately in advance of the meeting, to prepare their positions.

- iv) The annual HCS survey and independent monitoring should also be used to assess progress against the Action Plan. The PGAE may choose to refer specific issues to the IMT for examination.
- v) Both GoV and donors should be in a position to make collective commitments to the PGAE. For donors, this would mean agreeing common positions on strategic questions in advance at ambassadorial or head of mission level. The ambassadors should periodically debate overall donor performance on aid effectiveness, to increase peer pressure on individual donors.
- vi) GoV should also be in a position to make binding, inter-ministerial commitments to the PGAE, as well as having a procedure for referring any points of disagreement between ministries or any shortcomings in implementation to a higher political authority for resolution.

5.6 Future rounds of independent monitoring

126. The IMT was asked to make recommendations for future rounds of independent monitoring. We recommend introducing a regular cycle of annual independent monitoring, alternating between full and interim evaluations. Each round should be conducted in time to feed into the assessment of progress against the annual HCS Action Plan.

127. This first round of independent monitoring was broad, rather than deep, looking at a wide spectrum of issues in order to generate an overview of HCS implementation. Future rounds of monitoring should be more focused, exploring strategic issues in more depth. The PGAE may also consider the option of referring specific issues to the IMT for investigation.

128. We propose that the interim evaluation in 2008 should include:

- a review of the results of the next Paris Declaration implementation survey;
- a review of progress against recommendations from this evaluation and the HCS Action Plan (if adopted);
- in-depth examination of horizontal reform programmes (PFM or public administration) and models of capacity building;
- additional donor reviews could also be included, if there is a demand for it.

129. The full evaluation in 2009 may include:

- in depth examination of core strategic issues, as suggested by the PGAE or identified by the IMT;
- additional sectoral or thematic case studies;
- additional donor reviews;
- a preliminary assessment of the development impact of the HCS;
- recommendations for how to take the aid-effectiveness agenda forward beyond 2010.

ANNEX: DONOR CASE STUDIES

1. World Bank

Introduction

The World Bank is one of Vietnam's most important donors, not just because of the size of its programme, but also because of its prominent role within the overall aid architecture. With around 120 staff in its country office, it has far greater institutional capacity than other donors, and often plays the leading role in analytical work and policy dialogue. Its technical expertise is recognised and welcomed by Government. It is fair to say that the World Bank's performance against its aid-effectiveness commitments has a major influence on overall progress in implementing the Hanoi Core Statement (HCS).

The World Bank has 38 investment projects in Vietnam, with new net commitments in FY07 of US\$866 million (TBC) and disbursements of US\$474 million.³⁰ Its portfolio is dominated by infrastructure, with its largest sectoral engagements in energy (25%), rural development (23%), urban development (15%) and transport (15%). It is a relatively young programme, having begun in 1993, and has been scaling up rapidly in recent years. The World Bank rated the performance of its last Country Assistance Strategy (FY03-06) as satisfactory, with a strong development partnership based on clear country ownership, and an effective policy dialogue based on high-quality analytical work. It also considers itself to have played an important role as convenor and catalyst of partnerships and dialogue among government agencies, donors and civil society. Of 16 projects closed before the end of 2006, all were rated as successful.³¹

A key concern for the World Bank has been slow progress with the preparation and implementation of projects, causing disbursement to lag well behind targets. Although this is partly symptomatic of an expanding country programme, it also reflects systemic problems in ODA management in Vietnam. Project implementation is often delayed for a year or more after approval, and around half of all projects require extension. The World Bank has made major investments of time and effort in helping Government to strengthen and streamline its legal and institutional framework for public investment management. However, the disbursement rate in FY07 was only 12.7%, against a regional target of 20%, which represents a slight improvement after three consecutive years of decline.³²

Over the next few years, Vietnam is expected to reach Middle Income Status and the IDA graduation threshold. In the coming period, it will begin to access blended IDA-IBRD resources,³³ as well as to increase its use of private capital markets for investment finance. Ensuring that Vietnam's systems are strong enough to allow access to these new sources of finance is a key World Bank objective.

³⁰ Figures provided by World Bank country office.

³¹ Five Banks, "Fifth Joint Portfolio Performance Review", Hai Phong, May 2007 (hereafter JPPR V), p. 8.

³² *Ibid.*, p. 9-10.

³³ A creditworthiness review to assess Vietnam's capacity to borrow from IBRD was carried out in October 2007.

For both these reasons, strengthening country systems for ODA management has become one of the priority aid-effectiveness issues for the WB, together with strengthening alignment.

Alignment and country leadership

Alignment is in many respects the easiest of the HCS principles to implement, given Vietnam's strong ownership of the development agenda, its track record on growth and poverty reduction, and its lack of aid dependence. It is often observed that policy conditionality is untenable in Vietnam. The World Bank has made major efforts to establish a development partnership appropriate to these conditions, which in many respects represents global best practice. Through its Poverty Reduction Support Credit (PRSC) and extensive programme of joint analytical work, the World Bank seeks to support the Vietnamese government in achieving its own stated development goals. In doing so, the World Bank manages to achieve a good overall balance between respecting country ownership and exercising a positive influence on policy making.

Policy dialogue and conditionality

The PRSC represents the World Bank's main instrument for policy dialogue and conditionality at the macro level. The World Bank is providing US\$175 million for the sixth annual PRSC operation in 2007, while an additional 11 co-financiers will provide a total of US\$190 million. The PRSC provides untied finance through the Vietnamese budget for the implementation of the SEDP as a whole. It is seen as a contribution to the overall cost of SEDP reforms, estimated at US\$731 million in 2006.³⁴ However, according to the World Bank, its primary function is to serve as a platform for agreeing an annual set of high-level policy actions.

Each year, the PRSC policy matrix contains some 12 prior actions which are legally binding commitments presented to the World Bank's Board, and some 20-30 additional benchmarks used to assess overall progress. The prior actions and benchmarks are derived by working backwards from the Government's SEDP objectives, to derive a set of annual policy commitments. The triggers and benchmarks are identified first by *ad hoc* working groups, involving donors and in some cases government officials, and then negotiated with Government.

While the PRSC does not contain any formal conditionality, its forward-looking triggers provide a soft form of financial incentive, as the processing of every new operation is nominally determined by progress against the previous year's triggers.³⁵ The World Bank does not view the PRSC as an instrument for achieving policy breakthroughs, but for sustaining commitment and rewarding progress against an agreed programme of action. Progress has been slow in areas like SOE and financial-sector reform, where commitment from the Government's side is less evident.³⁶ However, some line ministry officials interviewed by the IMT reported that they found the PRSC a useful device for

³⁴ World Bank, Program Document for PRSC VI, May 2007, p. 13.

³⁵ Under IDA 13, there was room to modulate the size of PRSC operations based on Vietnam's performance. But the latter was always assessed as 'base case', and there is not much evidence of the Government working to achieve a high-case assessment.

³⁶ Ann Bartholomew, Robert Leurs & Adam McCarty, "Joint Evaluation of General Budget Support 1994-2004: Vietnam Country Report", University of Birmingham, May 2006, p. 8.

signalling their policy priorities up to Government, to secure the attention of the political leadership.

The PRSC has been analysed at length in a number of other studies.³⁷ A number of points emerge in respect to aid effectiveness.

- The PRSC is the only general budget support instrument in Vietnam, and the participating donors use common monitoring, reporting and disbursement processes.
- The PRSC dialogue structures are open to both funding and non-funding donors. Uniquely, UN agencies also participate in aspects of the process. This has enabled the PRSC to evolve into a platform for dialogue between government and the donor community as a whole.
- The PRSC timetable is closely aligned with the Government's budget calendar, allowing the World Bank's annual commitments and disbursements to be included in the budget (although this is not the case for all bilateral funders).

The PRSC is therefore a good example of harmonisation and alignment. The World Bank manages the instrument on behalf of other donors, which entails a major investment of time. This arrangement has worked well in broad terms, although the pace of the annual cycle for preparing the PRSC is such that many of the processes are highly truncated. This has led to objections on the part of some bilateral donors that they do not have the space to contribute effectively to the process.

The impact of the PRSC is in large part determined by the quality of its fit with other aid modalities and sectoral processes. Reviews have pointed out the need to ensure that policy actions in the PRSC are supported by capacity building and technical assistance. This does not at present occur systematically. The mechanism clearly works best in sectors where the policy dialogue is well developed, and Government and donors share a common view of priorities. Making sure that the PRSC dialogue links effectively to the work of the Partnership Groups is another area where performance could be improved.

In general, however, the PRSC is rightly held up as an example of how policy dialogue ought to be conducted in a mature development partnership, in order to hit the right balance between respecting country ownership and exercising a positive influence on the policy process.

Alignment of the World Bank programme

Like all other donors surveyed in 2006, the World Bank states that its country programme is fully aligned to the SEDP. Its Country Assistance Strategy 2007-2011 sets out the World Bank's activities under the four SEDP pillars: (a) the business environment; (b) social inclusion; (c) natural resource and environmental management; and (d) improved governance. The CAS Results Matrix maps each of the World Bank's activities to particular SEDP goals, although it uses a different set of outcome indicators.

³⁷ Ann Bartholomew, Robert Leurs & Adam McCarty, "Joint Evaluation of General Budget Support 1994-2004: Vietnam Country Report", University of Birmingham, May 2006; Ann Bartholomew & Catherine Dom, "Use aid well: experience and opportunities with Vietnam's PRSC", November 2006.

Given the breadth and generality of the SEDP, formal alignment at this level is not difficult to achieve. It is notable that, immediately following the publication of the SEDP, the World Bank led other donors in the production of the Vietnam Development Report (VDR) 2007, which offers a comprehensive re-examination of Vietnam's development goals and how to achieve them. Although it claims to be a 'reading' of the SEDP, its focus is on identifying priorities and trade-offs within the SEDP agenda – two areas where the SEDP itself is notably weak. It concludes with a matrix of proposed policy actions and development outcome indicators that varies significantly from those in the SEDP. While there can be no objection on principle to the donors setting out their views on these matters, it does suggest that the level of common understanding between the World Bank and the Government on Vietnam's development priorities may be overstated. In general, however, it is correct to say that the World Bank's CPS is broadly aligned to the SEDP at the national level.

The picture is somewhat more complex at the programming level, where country leadership and capacity is unevenly developed across sectors. Not all sectors are willing and able to manage their ODA resources as a whole in a strategic fashion, but prefer to 'shop around' the donor community for funding for particular projects. Where the sectors themselves are not strategic, it affects the quality of alignment that can be achieved. The picture is also complicated by on-going decentralisation processes in Vietnam, with more than half of development expenditure now programmed at provincial level and below, where capacity for planning and budgeting is very uneven.

The IMT looked at the rural development sector, and found that the World Bank had followed a strategic approach over a number of years to supporting the development of sectoral planning and budgeting capacity, so as to create the conditions for greater alignment. This is in many respects a difficult sector to engage with. There are significant coordination problems within the Ministry of Agriculture and Rural Development (MARD), and between MARD and other ministries. In the past, donor engagement has been fragmented and supply-driven, with MARD sometimes preferring to maintain separate relationships with individual donors, rather than exercise strategic management of its ODA resources.

The World Bank's approach in these circumstances is a good measure of its commitment to country leadership and alignment. The World Bank has provided intensive support to MARD over a number of years, assisting it with the development of its 5-year plan. It has made significant investments in improving the information base through surveys and analytical work, and has worked closely with MARD's own in-house research institute. This has helped to improve MARD's understanding of rural poverty and social inclusion, especially for ethnic minorities. It has supported the development of a sectoral logframe, to provide a monitoring framework. It has been active with other donors in the establishment of the International Support Group, as a forum for coordination and policy dialogue.

The World Bank also conducts extensive analysis of its own on rural development, including a major, 4-volume work in February 2006,³⁸ which sets out a comprehensive policy framework for rural development. While this is intended as an input into the policy dialogue, there are risks associated with this approach. The World Bank is capable of producing work that, in technical terms, exceeds Government's own capacity. It may

³⁸ World Bank, "Accelerating Vietnam's Rural Development: Growth, Equity and Diversification", Vols I-IV, February 2006.

thereby tend to swamp, rather than stimulate, emerging domestic policy processes and dialogues.

Nonetheless, World Bank staff appear to be aware of the risk, and report that they are careful not to compromise MARD's ownership of the policy and planning process. Where they produce joint analytical work and recommendations, they ensure that MARD takes lead authorship, even if that means signing off on documents that do not meet the World Bank's own technical standards. World Bank staff appear to recognise that stronger country leadership and ownership can be a more important objective in the short term than achieving the ideal policy.

The rural development sector shows that an intensive engagement over a number of years is required to build country leadership and alignment of ODA. MARD is at a mid-point in this path, and is typical of many sectors in Vietnam. There are structures for coordination and policy dialogue, and significant improvements have been made in sectoral plans and strategies. However, there is still a considerable way to go in strengthening budget allocation, monitoring results and introducing a culture of evidence-based policy making. Like the Vietnamese Government as a whole, MARD is going through a process of redefining its relationship with the economy (away from setting output targets, towards promoting human-centred development) and with lower levels of government (from implementer of development projects, to policy carrier and supervisor). There are also still some significant policy differences between the Ministry and the World Bank – for example, over the Ministry's strategy of promoting model villages for rural development.

In these circumstances, the HCS commitment to alignment means engaging strategically with building up sectoral capacity, so that stronger country leadership and greater alignment of ODA emerge in parallel over time. In this sector, the World Bank's engagement appears to have been strategic and effective, but will need to be sustained for some time to ensure sustainable results. As sectoral processes mature, the World Bank is able to offer a more diverse range of lending instruments, including programme-based approaches and on-budget assistance. It now has two Adaptable Programme Loans (APLs) with MARD, on natural disaster risk management and on rural water supply and sanitation. These are flexible loans for the implementation of an agreed, long-term strategy, designed to be implemented in several phases.

It is notable that intensive engagement with this sector has been possible in part because the World Bank's Task Managers and technical experts are stationed in Vietnam, rather than Washington. This has facilitated investments in long-term relationships with Vietnamese counterparts, which are a condition of effective engagement.

However, this is not the case across the country programme. Globally, the World Bank has had difficulty in getting its professional staff out into the field. Only 30% of its staff are located in country offices,³⁹ and only 25% of activities are managed at country level.⁴⁰ The Vietnam office is more decentralised than most, with two-thirds of its Task Managers located in-country. Where the Task Manager is Washington-based, the quality of engagement is affected.

³⁹ World Bank, "Annual Report 2006", p. 38.

⁴⁰ DFID, "World Bank Effectiveness summary", December 2006.

Use of country systems for aid delivery

In its response to the 2006 Baseline Survey, the World Bank reported that it used country procurement and financial management systems for 23% of its programme (against baselines of 32% and 27% across all donors, and HCS targets of 50%). This 23% corresponded exactly to the share of the PRSC in the country programme, which at the time was the World Bank's only Development Policy Loan (DPL) channelled through the budget.

Since then, a number of additional DPLs or on-budget loans have commenced, including Programme 135 (P135) and the Targeted Budget Support for Education for All (TBS-EFA). While the World Bank has a general policy to limit DPLs to 30% of IDA commitments, they are likely to reach 40% of disbursements in Vietnam in FY08. This will in turn improve the World Bank's figures on use of country systems.

However, the basic picture remains the same as in the Baseline Survey. The World Bank's use of country public financial management (PFM) systems is limited to on-budget lending. Use of country procurement systems is gradually increasing, and there has been some progress towards alignment around project preparation and reporting.

Assessment tools

The World Bank has invested significant time and resources in gap analysis, to assess differences between country systems and international standards. Most of its analytical work is carried out jointly with other donors, in particular the Five Banks, who conduct a common Joint Portfolio Performance Review (JPPR) every second year. JPPR V, completed in May 2007, analyses at length the causes of slow implementation of ODA-financed investments. It covers the legal framework for public investment management, the efficiency of government approval processes, the development of project-management capacity and the reform of procurement and other systems to make them more market-oriented. It sets out a series of priority actions ('Fast Track' measures) to improve project implementation, which have been well received by Government. The JPPR is prepared in conjunction with the ODA Inter-Ministerial Task Force, a body established by the Prime Minister to address bottlenecks in ODA delivery.

The World Bank has been encouraging Government to adopt assessment tools on country systems based on international standards. A pattern has emerged of the World Bank and other donors conducting an assessment with participation from Government, and then Government taking over leadership of subsequent assessments. In 2000, the World Bank carried out a Public Expenditure Review (PER) jointly with Government, and again in 2004 concurrently with an Integrated Fiduciary Assessment. The Government has now taken over the process, and plans to conduct PERs on a 4-year cycle, with mid-term thematic PERs and annual updates of aspects of the PER-IFA. A Country Financial Accountability Assessment (CFAA) was conducted in 2001 and then again in 2004. In line with the 2004 PER-IFA recommendations, a CFAA Update is being undertaken under the joint leadership of the Government and the World Bank, with the participation of other donors. A similar pattern has been followed with Country Procurement Assessment Reports (CPAR). The World Bank has funded Government to apply the common benchmarking and assessment methodology and harmonized tools developed by the OECD-DAC Working Party. A Base Line Indicators (BLI) assessment was completed in February 2007.

This analytical work is well regarded and widely used by other donors. During the HCS period, Vietnam should be able to reach a position where both Government and donors share a common set of assessment tools, based on objective, international standards.

Capacity building

The World Bank has invested substantial time and effort in strengthening ODA-management capacity. It participates actively in several of the PGAE Thematic Groups established to address specific ODA-management issues, and leads on procurement reform. It provides technical assistance jointly with other donors, especially the Five Banks and the LMDG.

The World Bank's capacity-building activities include:

- supporting the Comprehensive Capacity Building Programme, located in the Ministry of Planning and Industry, which has been strengthening the legal framework and building institutional capacity for ODA management;
- leading on the Multi-Donor Trust Fund for Public Financial Management, which is conducting an extensive programme of reform, including the introduction of new accounting standards, streamlined financial management processes, an integrated financial management information system and the publication and dissemination of State Audit reports;
- helping the Ministry of Finance work towards new public sector accounting standards, to provide a common system for accounting and reporting on all public funds, including ODA;
- support to procurement reforms and procurement capacity building, together with the LMDG;
- improving project preparation and management processes, including supporting KfW on the development of a common format for feasibility studies, and supporting AusAID on the development of an aligned monitoring format.

Procurement

World Bank policies on use of country systems are set by its Board of Executive Directors. The current policy requires all procurement for International Competitive Bidding (ICB) to be carried out according to the World Bank's own procurement guidelines, and for the recruitment of international consultants to be carried out in accordance with the Bank's consultant guidelines. There are at present no exceptions to these rules. There is some discussion at Board level of piloting the use country systems for ICB, but this is unlikely to apply to Vietnam in the short-medium term.

For contracts below the ICB threshold, the World Bank permits the use of national procedures (National Competitive Bidding), providing they are assessed as reasonable. They may be modified as necessary to ensure economy, efficiency, transparency and consistency with the common requirements of the multilateral development banks under their March 2002 agreement on "Requirements for Local Procurement in Borrowing Countries".

In Vietnam, for works contracts estimated at less than US\$2 million and goods contracts estimated at less than US\$150,000, procurement may be carried out in accordance with

the national procedures, subject to modifications set out in a standard NCB side letter to the loan agreement. These modifications are based on the Base Line Assessment on procurement capacity completed in February 2007, using the OECD-DAC Working Party methodology, which identified the remaining gaps between Vietnamese regulations and international standards.

There have been significant improvements in the legal framework for public procurement since the passage of the new Procurement Law in November 2005, and the accompanying decree in September 2006. The new regulations have many positive elements, including the establishment of an oversight body, the stipulation of open competition as the preferred procurement method, open advertisement of bidding opportunities, public bid opening and the decentralization of procurement processes. The law provides for the use of procurement plans, standard procurement documents, greater transparency of bid evaluations and contract awards, and the establishment of a complaints mechanism.

Nonetheless, the World Bank assesses that a number of serious defects remain, including rules allowing direct contracting for contract under VND 1 billion (approx. US\$65,000), even where direct competition is possible, insufficient time for bid preparation, use of a subjective merit point system for bid evaluation, and requirements that contracts must be awarded within the approved bid price. While the Government seeks to control costs through price ceilings on contracts, when ceilings are set unrealistically low, it can generate incentives for collusion and other malpractice, as well as interfering with the efficiency of the market. The Bank sees no prospect of increasing its use of country procurement systems until these more fundamental points are resolved, together with further progress on strengthening procurement capacity.

For each project, the Bank assesses the capacity of the implementing agencies to carry out the required procurement, and determines the level of associated risk. The level of risk determines the scope and intensity of Bank supervision, and the threshold value of procurement subject to prior review by the Bank. For several projects in Vietnam, the capacity of the implementing agencies range from insufficient to average, and the associated risk ranges from Substantial to High. This is consistent with the procurement risk ratings of other donors. Based on this risk rating, the prior review thresholds for most projects are low, for example, US\$200,000 for works, US\$100,000 for goods, US\$100,000 for contracts with consulting firms and US\$50,000 for contracts with individual consultants.

Public financial management

World Bank policies permit the use of country public financial management (PFM) systems and institutions where they are assessed by the World Bank as adequate. PFM systems include systems for budgeting, commitment and expenditure processing, accounting, financial reporting, auditing and disbursement arrangements.

The diagnostic work prepared to date recognises significant improvements in recent years, including a stronger legal framework, a realistic and fairly comprehensive budgeting system, improved central expenditure controls, and an expanding audit coverage through the Independent State Audit of Vietnam. However, the World Bank continues to be concerned about weaknesses in systems and compliance gaps that limit

Government's capacity to manage and report on its use of public resources. Fiduciary risk is assessed as Moderate to Substantial for most projects.

As a result, the World Bank does not use country PFM systems for investment projects. Funds are held in dedicated accounts at commercial banks, and additional safeguards are agreed for each project, including separate financial accounting systems and project-specific financial management manuals. All projects must be audited in accordance with international standards. At present, the Bank assesses that the State Audit of Vietnam (SAV) does not yet have the resources or capacity to meet these requirements. Bank projects are therefore audited by private companies, engaged by the PMU.

However, all new projects now use the Aligned Monitoring Tool for financial reporting. In addition, the World Bank is piloting more extensive use of country systems through the Education for All targeted budget support programme. This will provide greater understanding of the performance of country systems and the risks involved, and may generate lessons for greater use of country systems in the future.

Together with other donors, the World Bank is supporting major PFM reforms in Vietnam that will eventually allow for more extensive use of country systems. These include the introduction of an integrated Treasury and Budgeting Management System (TABMIS), which will provide the capability to record ODA-funded projects within the government accounting and reporting system. The Bank plans to increase its use of country systems once these reforms are fully implemented and assessed as reliable.

Safeguards

On environmental safeguards, a study commissioned by the EIA Thematic Group found a 70% correspondence between World Bank requirements and country regulations for Environmental Impact Assessments (EIA). The main differences include screening and scoping of EIA, the independence of EIA consultants and the quality of environmental management plans (EMP). The study found that implementation capacity and compliance monitoring practices are weak. For the highly decentralised Ministry of Natural Resources and Environment (MONRE), where the authority for EIA review and clearance have been delegated to district level, there are significant gaps in review procedures, while capacity to monitor the implementation of EMPs is limited. As a result, the Bank has limited confidence in using country procedures at this point.

On social safeguards, the World Bank policies on involuntary resettlement are about 60% aligned with country regulations, in respect of compensation and support to those affected by involuntary land acquisition. A detailed gap analysis is currently underway. The main point of difference is in respect of compensation for illegal structures. The Bank's policy is to compensate all displaced persons for loss of structures at replacement cost, regardless of their legal status. The national laws allow for assistance at up to 80% of the cost of illegal structures. The Vietnamese position is that providing equal compensation for illegal structures would be unfair, and encourage the violation of construction laws.

Project management

Probably the most progress on systems alignment has been around project management. The World Bank has worked with the Five Banks and AusAID's VAMESPII project to

develop an Aligned Monitoring Tool for project reporting (including procurement reporting), which is now being used in 18 of the World Bank's 38 projects. The Government has now instructed its PMUs to use the tool for all ODA-financed projects. However, financial reporting is yet to be aligned.

There has also been progress on project preparation. Common guidelines on feasibility studies have been agreed in principle, but are awaiting some steps from the Government side before it becomes standardised, including adoption of the necessary regulations. There remain a number of problems to be sorted out, including inconsistencies in the Vietnamese legal framework.

The World Bank's programme is 95% government executed. Its PMUs are established according to Vietnamese regulations, which require a PMU for all investment projects, whether or not ODA-financed. The PMUs are established by and accountable to the counterpart agency, rather than to the World Bank. Government cost norms for project management are used for all loan-financed projects, although there are some exceptions for grants. This means that additional financial incentives are not paid to government officials from project funds (under Vietnamese regulations, staff administering ODA projects are given double salary, but this is not a World Bank requirement).

Policy on use of country systems

The World Bank understands its commitment under the HCS as assisting the Government to strengthen its systems, and to using those systems as and when they reach international standards. World Bank rules do not permit any compromise on those standards. The World Bank's objective is that, by the time Vietnam reaches MIC status, its systems should be strong enough to allow it to access IBRD and commercial finance. This is already an ambitious agenda.

Against this understanding, the World Bank is presently meeting its commitment. There is no question that it is making a major investment of time and resources in strengthening country systems. Its engagement is strategic and well coordinated with other donors. It has promoted the use of objective analytical tools to identify problems with country systems, and has helped the Government to lead on these assessments. Although progress on system reform is often very slow, for reasons analysed in the main Monitoring Report, this is not necessarily a reflection on the quality of World Bank assistance. While stressing that major reforms to country systems usually take many years, the World Bank is confident that it will be in a position to achieve the HCS targets by 2010.

For the time being, the World Bank continues to assess the risks associated with use of country PFM and procurement systems as moderate to high. This assessment is shared by other donors. It notes that the high rate of corruption may be an inevitable effect of Vietnam's current rapid economic growth and stage of development, and is unlikely to be resolved quickly.

Nonetheless, the IMT heard persistent criticism of the World Bank's approach to using country systems, from both Government and other donors. Other donors recognise that there is a trade-off between the higher fiduciary risk associated with use of country systems, and the greater development benefits and sustainability that it offers (see, for example, the DFID case study). World Bank regulations do not permit it to make such a

trade-off within the design of an investment project. Some government officials also expressed the view that certain World Bank standards – e.g., on procurement and social safeguards – were inappropriate for Vietnamese conditions.

The Bank's response to these criticisms is that its commitment to using country systems is reflected by the increasing proportion of on-budget lending (DPLs) in its portfolio, which are expected to reach 40% of disbursements in the coming financial year. It is not permitted to, and does not recognise any value, in compromising on its fiduciary standards for investment loans.

On balance, it is difficult to see much scope for increasing use of country PFM and procurement systems in the short term, until the reform processes are more advanced. According to PMU staff interviewed by IMT, the World Bank's policy on use of country systems is not a major cause of project delays, as compared to legal inconsistencies and managerial problems on the Vietnamese side. The IMT concurs with the World Bank's view that the priority is to bring Vietnamese systems up to the highest possible standard. Nonetheless, the World Bank should endeavour to be as flexible as possible, and to search actively for ways to maximise its use of systems (and minimise the burden of any additional conditions), including continuing to expand its use of programmatic lending. Best practice in this field suggests that the fiduciary risks of using country system should be balanced against the benefits of greater sustainability.

Organising HCS implementation

The World Bank does not have any specific action plan on aid effectiveness. It does, however, periodically assess its own performance. The results are incorporated in an annex to the CPS.

Compared to other World Bank offices, the World Bank in Vietnam is relatively decentralised, with 23 of 37 operations managed by in-country staff. This gives it greater scope to develop good working relations with government counterparts and other donors. Most decisions on aid-effectiveness topics are made locally, subject to approval by the Board for major decisions. However, both World Bank staff and external observers note that the culture of the World Bank is risk averse, particularly when it comes to fiduciary issues.

The World Bank is an active participant in a wide range of aid-effectiveness bodies and processes. It currently holds the donor co-chair of the PGAE, and is active in a number of its Thematic Groups. It works closely with the Five Banks on diagnostic work and on providing capacity building for country systems. It plays an important role in sectoral Partnership Groups in its programming areas. It has invested a large amount of time and effort in developing the PRSC into a dialogue platform in which the donors can collectively negotiate with Government on policy priorities. Most of its extensive programme of analytical work is conducted jointly with Government and other donors.

The World Bank's leading role in many of these processes is acknowledged and appreciated by Government. However, there do seem to be some weaknesses in the World Bank's relationships with bilateral donors. Some of the donor officials interviewed by the IMT described the World Bank as impatient with the time required to work collaboratively with others, with a tendency to focus on products to the exclusion of process. There are tensions associated with the fast pace of preparation of the PRSC.

There are also reported to be poor relations in some areas with the UN, marked by unclear division of labour and a lack of dialogue.

To counterbalance this, there were reports of some good working relationships at the sectoral level between the World Bank and other donors, including UN specialized agencies. A good example is the preparation in 2006 of the Integrated National Operational Program for Avian and Human Influenza (*The Green Book*), which resulted from the collaboration between Ministries of Health and Agriculture and 11 agencies, including UN, bilateral and multilateral agencies. Similarly, the preparation and financing of Program 135 illustrates the World Bank's ability and willingness to work with Government and Donor partners.

Some tensions of this nature are inevitable when the World Bank leads complex processes involving other donors, but they need to be managed. As a large office with a lot of in-country capacity, the World Bank at times may appear to be impatient with the limitations of smaller donors and the process requirements of working collaboratively with them. However, the World Bank should remain aware of the benefits of stronger partnerships, particularly in connection with the PRSC. The instrument would benefit from giving other donors greater opportunity to lead the dialogue in areas where they have the comparative advantage, as well as improved integration with sectoral coordination and dialogue processes.

2. Department for International Development (DFID)

Introduction

Among Vietnam's donors, DFID has taken a distinctive path in its quest for greater aid effectiveness. It has shifted 70% of its programme 'upstream' into general and targeted budget support. Of the remaining portfolio, all its projects are co-financed, and all but one are administered by other donors on behalf of DFID. As an organisation, it devotes a significant amount of time and energy to influencing others and promoting aid effectiveness.

The UK is committed to providing approximately £50 million (US\$104 million) per annum to Vietnam until 2010, making it the second largest bilateral. It provides £20 million in general budget support through the PRSC, and a further £14 million in two targeted budget support (TBS) programmes: Programme 135 (for the poorest communes) and Education For All (EFA). It has a series of projects financed through the World Bank, including on rural development in ethnic minority areas in the Central Highlands, rural transport and a further two education projects. It has a co-financed project with the Asian Development Bank (ADB) in the Central Highlands, and ADB has also administered the Making Markets Work Better for the Poor programme on DFID's behalf. DFID has provided core funding to UNDP through the Strategic Partnership Initiative, and provides a trust fund within the World Bank to support poverty research and analysis. Its only directly administered project is in HIV-AIDS. Its main engagement on governance is through a multi-donor trust fund for public financial management (PFM).

| DFID 2006 Baseline Survey results for Vietnam | | |
|---|--|--|
| HCS Indicator | 2010 target | DFID's 2006 Baseline Survey results |
| Donor assistance aligned to the SEDP and other strategies | 100% of donors aligned | Aligned |
| Donors avoid parallel PMUs | No parallel PMUs | No parallel PMUs |
| GoV-led capacity-building programmes with coordinated donor support | 100% of aid for capacity-building delivered through GoV-led and coordinated programmes | 100% |
| Donors progressively rely on country procurement systems | 50% of aid flows | 62% |
| Donors progressively rely on country PFM systems | 50% of aid flows | 62% |
| Donors enhance the predictability of future aid | 75% of aid disbursed according to agreed schedules | 100% (DFID figure) 62% (GoV figure) |
| GoV and donors improve environmental and social safeguards | 30% of EIAs and SIAs use country systems | Covered by World Bank data |

| | | |
|--|--|--|
| Fewer, better core diagnostic work | 100% of donors use core diagnostic work 75% of country analytical work shared | 100% of missions coordinated 100% of country analytical work shared |
| GoV and donors rely increasingly on programme-based approaches | 75% of aid is national or sector programme based | 61% |
| Donors maximise decentralisation and delegation to country level | 75% of aid interventions managed at country level | 100% |

In recent years, DFID has made promoting aid effectiveness one of the four primary objectives of its Country Assistance Plan (CAP): “to improve the effectiveness of aid in Vietnam through broadening and deepening relationships with the main donors to further harmonisation.” It has devoted considerable time to promoting new aid modalities and joint funding arrangements among the LMDG members, and to supporting the PGAE and One UN reforms. The table above shows its 2006 Baseline Survey results. It shows that DFID has already achieved the 2010 HCS targets, with the possible exception of predictability of aid, although this may reflect discrepancies in the reporting of ODA on the budget on the Government side.

Given the high level of effort that has gone into aid effectiveness, the DFID experience may be quite informative for other donors assessing options for improving aid effectiveness.

Alignment and country leadership

Conditionality and mutual commitments

DFID has placed its development partnership with Vietnam on a structured, multi-annual basis through the conclusion of a 10-year Development Partnership Arrangement (DPA). The DPA sets out mutual commitments on both sides of the development partnership (although they are not legally binding). DFID commits itself to providing £50 million per annum for the next 5 years, subject to 3-year, rolling commitments. Seventy percent of this will be in the form of budget support. From 2010, when Vietnam reaches Middle Income Status, DFID financial support will be reduced.

The DPA contains commitments on both sides of the development partnership. The partners agree to work jointly on achieving poverty reduction and the MDGs, promoting human rights and strengthening financial management and accountability. In addition to its financial commitments, DFID agrees to:

- maximise the effectiveness of its assistance, through untied aid and harmonised, multi-donor frameworks;
- support GoV leadership of HCS implementation;
- align project management as far as possible with GoV procedures;
- work with other donors to improve harmonisation and alignment, and reduce the burden of conditionality.

GoV commits itself to:

- implementing the SEDP;
- leading on harmonisation and alignment;
- using ODA effectively by improving PFM and fighting corruption;
- ensuring open and effective dialogue with donors and domestic stakeholders.

DFID's approach to conditionality is also set out in the DPA. It states that the UK will reduce or interrupt assistance only if:

- Vietnam deviates from agreed development objectives;
- Vietnam significantly violates its international human rights commitments;
- there is a significant breakdown in government systems.

The multi-annual commitment is clearly valued by GoV, and makes the reciprocal nature of the commitments in the DPA more serious. It is therefore a good model for promoting mutual accountability.

It also provides DFID with a platform for raising human rights and governance concerns. However, DFID does not rate the influence of the donor community on such issues as particularly high. It has focused its governance work mainly on corruption, through support to public financial management (PFM) and the National Assembly's Committee for Economic and Budgetary Affairs (CEBA). The new draft Country Assistance Plan 2007-2011 suggests a pragmatic approach to issues of political governance, stressing economic development as the main driver of political change.

On governance and civil and political rights, global experience has taught us that countries need to start reforms from where they are; and donors need to be pragmatic in supporting developing countries to make progress. Where countries are growing fast and gradually deepening democracy such as in Vietnam, it makes sense to build on this progress while working to strengthen accountability. Economic development can help democracies to emerge and be sustained. We have also learnt that building democratic values and institutions takes time - the democratic institutions in Europe took centuries to evolve.⁴¹

Alignment at national level

DFID assesses the SEDP as "ambitious but credible". Its draft Country Assistance Plan 2007-2011 (CAP) assesses country leadership of the development agenda as very strong, and notes that there has been a substantial increase in the pro-poor orientation of government policy and spending over the past five years. It acknowledges that there is considerable ground for strengthening planning and budgeting, but nonetheless concludes that the SEDP provides a solid basis for alignment. Given Vietnam's economic growth rates and lack of aid dependence, DFID assesses that its most important contribution is in providing policy ideas and technical expertise to assist GoV with the achievement of its development goals.

⁴¹ Draft CAP 2007-2011, p. 18.

From the SEDP's broad range of objectives, the CAP focuses on the areas where DFID has the experience, expertise and opportunity to make a significant impact. There are three objectives in DFID's draft CAP:

1. Promote inclusive and sustainable growth;
2. Improve the quality and inclusiveness of services for the poor and vulnerable;
3. Promote effective and accountable governance

Of these, the first two correspond with the first two pillars of the SEDP (growth and social services), while the third corresponds to the fourth SEDP pillar (strengthening governance).

DFID acknowledges that its own corporate priorities also play a role in determining its focus areas. For example, both water and sanitation and HIV-AIDS are presently being promoted strongly by DFID at the global level. However, these also represent off-track MDGs for Vietnam, and are in line with GoV's stated priorities.

DFID acknowledges that alignment with the SEDP is not a particularly onerous obligation, given the breadth of the document. It hopes in the future to develop a results framework for the CAP that is fully aligned with the government's own results framework, building on the work recently completed by MPI. In DFID's view, this is potentially a more rigorous test of alignment.

Strengthening country ownership

A number of DFID's interventions seek to strengthen country ownership of the development agenda.

- DFID funds a flexible trust fund for poverty-related research activities (the Poverty Analysis and Poverty Advice Support Programme – PAPAP), situated in the World Bank. The fund has enabled the Bank to support the emergence of research and analysis capacity in both government and civil society, and has encouraged a better understanding of growth and social inclusion. Its work has helped to strengthen the poverty-orientation of the SEDP.
- DFID has sought to strengthen the role of the National Assembly in the development process through support to the Office of the National Assembly and its Committee for Economic and Budgetary Affairs.
- DFID's leading role in PFM has helped to raise government's awareness of the importance of good budgeting and financial reporting to effective planning, and to prepare the way for the introduction of a Medium-Term Expenditure Framework.
- By supporting the Partnership Groups and promoting the use of new aid modalities, DFID has made important contributions to strengthening government capacity to lead on ODA management in the sectors where it is engaged.

DFID consults with international and Vietnamese NGOs and other civil society actors in connection with its own programme. It has also encouraged GoV to invite civil society representatives to attend the Consultative Group and other coordination bodies. However, despite a clear lack of resources within Vietnamese civil society to play an active role in research and advocacy, there has been limited direct support to the NGO

sector. DFID is now planning to develop a long-term civil society capacity-building strategy.

Aid modalities

Globally, DFID has a commitment to maximising its use of budget support modalities in partner countries with a demonstrated commitment to poverty reduction. Its policy is that budget support may be offered in the following circumstances:

- i) the partner government's planned budget priorities support poverty reduction;
- ii) there is commitment to making the administrative, technical and financial systems robust and reliable, so that funds help to reduce poverty effectively; and
- iii) provision of PRBS will produce significant benefits relative to other forms of aid delivery.⁴²

Given Vietnam's track record on poverty reduction, DFID believes the case for budget support in Vietnam to be very strong, despite concerns about fiduciary risk (see below). The high level of fiscal decentralisation in Vietnam provides an additional justification for directing aid through the budget, to help support stronger intergovernmental relationships.

DFID has been active in promoting the PRSC to other donors and internationally. But probably its most influential role has been in developing Targeted Budget Support (TBS). TBS is channelled through National Targeted Programs (NTPs), which are special budgetary channels used by the Government to direct additional development resources to the poorest communities.

DFID has provided TBS to two NTPs – Programme 135, which provides infrastructure to the poorest communes, and Education for All (EFA), which aims at introducing fundamental quality standards into basic education. Programme 135 was a pilot programme established in part to demonstrate to other donors that support of this kind was viable in Vietnam. It now has 7 partners. TBA-EFA was then established jointly with a number of other donors, and now has 8 partners. DFID has therefore had considerable success in promoting the use of on-budget support.

In principle, TBS offers an effective platform for engaging with the strategic development of the sectors, in particular their planning and budgeting processes. Both programmes include a technical-assistance component designed to strengthen resource allocation. In TBS-EFA, one of the agreed goals of the programme is the introduction of Fundamental School Quality Levels (FSQL) as a budgetary allocation formula, designed to bring remote areas up to the national minimum standards in basic education. If it succeeds in doing so, the programme will have strengthened the allocation of national resources, as well as international assistance – a highly strategic investment.

It is too soon to conclude on the overall effectiveness of the TBS pilots, and DFID and its partners have commissioned detailed analysis on the subject. At present, however, there is significant scepticism among the partners that the pilots are demonstrating their potential. Integration of technical assistance and financial support has not been very effective, with problems of management and sequencing. In the education sector,

⁴² DFID, "Poverty reduction budget support: a DFID policy paper", May 2004, p. 4.

country leadership of the agreed reforms has been relatively weak. As a result, underlying institutional problems – including the weakness of planning and budgeting at provincial level, the lack of effective oversight by national government, inadequate financial reporting and the weakness of outcome monitoring – make it difficult to demonstrate at this point what contribution TBS is making. Among some of the donor partners, there is scepticism as to whether the TBS pilots have demonstrated greater potential as a platform for addressing these problems than would traditional technical-assistance projects. Some partners are of the view that beginning with more traditional capacity-building support, with the promise of budget support offered as an incentive for reform, might have been a more effective. For its part, DFID believes that, by channelling their aid through the budget, the donors have gained a deeper understanding of institutional issues in the sector, and have established a platform for engaging more effectively with the reform process.

While it is too soon to judge the TBS programmes as a whole, the experience to date does demonstrate that, while TBS may indeed offer a good platform for engaging strategically with a sector, it still requires a sustained, high-intensity effort on both donor and government sides to realise this potential. There may have been unrealistic expectations on the part of some donors as to the pace of reform that could be achieved, and consequently as to the appropriate scope and length of the programmes.

There have also been issues with the management arrangements for complex, multi-donor partnerships. Although there have been attempts to nominate particular donors to lead on different aspects of the programme, developing consensus among the donors remains very time consuming. There has been frustration among the partners at finding themselves drawn into technical details that, in a more traditional project delivery structure, would have been left to a PMU or implementing agency. As a result, donors report a significant increase in their own transactions (the effect on GoV's transaction costs has not yet been assessed). This suggests that there is still considerable room for developing more efficient and streamlined management processes.

Using country systems

In its new CAP, DFID makes an explicit commitment not to develop any stand-alone sector projects outside of government systems.⁴³ The CAP states:

“Most Government project management units are responsible for managing both ODA projects and national investment funds, with ODA providing only a small overall part of development funding. The priority should be to bring country management systems up to international standards and donors to use them rather than imposing their own systems.”

In the 2006 HCS Baseline Survey, DFID reported that 62% of its programme used country procurement and PFM systems. This figure corresponded to the percentage of budget support in the country programme at that time, and is ahead of the HCS targets.

DFID has a more robust approach to fiduciary risk than most other donors. DFID acknowledges that county systems in most developing countries do not reach international standards. However, it takes the view that using imperfect systems as far as

⁴³ DFID, “Vietnam Country Assistance Plan 2007-2001: Aiming High”, draft for consultation, June 2007, p. 26.

possible is both a more sustainable way of providing assistance, and the most effective strategy for strengthening the systems themselves. DFID therefore weighs the development benefits against the fiduciary risk, and can opt to direct its funds through the budget provided that the partner country has a credible commitment to strengthening its systems.⁴⁴

DFID's commitments and disbursements under the PRSC and TBS programmes are aligned with the government's budgetary calendar, allowing the contribution to be properly reflected in the budget.

Of the remaining portfolio, most is co-funding of World Bank projects and under Bank management. These projects do not use country systems to any significant extent (see World Bank case study). This is of some concern to DFID, and is acknowledged as a cost of joint funding. DFID has tried to influence the Bank to increase its use of Development Policy Loans, which use country systems, in both education and transport. The funds channelled through the World Bank do not use parallel PMUs or additional financial incentives for government employees.

Organising HCS implementation

DFID has a strong institutional commitment to pursuing aid effectiveness. Globally, the Department has responded to the Paris Declaration with a Medium-Term Action Plan on Aid Effectiveness dated November 2005 (currently under revision). Its aid-effectiveness goals are reflected in DFID's performance management systems, from the corporate level (Public Service Agreement targets), through departments (Directors' Delivery Plans and Performance Frameworks) to guidance on preparing Country Assistance Plans. According to one UK government assessment, DFID has established a "clear line of sight" from corporate to team and personal objectives.⁴⁵ Aid-effectiveness goals are built into institutional incentives at all levels, and staff recognise aid effectiveness as part of their responsibility. This results in a high degree of coherence in DFID's engagement with the Paris agenda.

According to the results of the 2006 OECD-DAC Baseline Survey, at the global level DFID has already achieved substantially all of the aid-effectiveness targets set out under the Paris Declaration and the EU Action Plan on Harmonisation. However, there are some important country and regional variations in the figures. More recent assessments by DFID have found that the most common shortfalls were in predictability of aid, reflecting aid on the budget and programme-based approaches.⁴⁶

Over recent years, DFID Vietnam has been a champion of the aid-effectiveness agenda within DFID, leading a Department-wide trend towards more use of budget support. DFID's draft CAP contains the following commitment:

"We will change our own behaviour as a donor. We will not agree time extensions to slow disbursing or under performing projects in any but the most exceptional circumstances. We will also focus on results across the programme and not develop any new stand-alone sectoral projects with other donors outside Government. We

⁴⁴ DFID, "Managing fiduciary risk when providing direct budget support", March 2002, p. 2.

⁴⁵ UK Civil Service, "Capability Review of the Department for International Development", March 2007, p. 19.

⁴⁶ Interviews with a number of DFID HQ staff.

will monitor our relationship with Government through our annual talks on the Development Partnership [Arrangement] (DPA). We will also ensure that DFID respects the principles in the DPA on the predictability of our aid and that our corporate responsibility is effectively discharged.”

| DFID's global results for the OECD-DAC Baseline Survey | | | | | | |
|--|--|---|-------|---------------------|-----------------------|------------------------|
| Indicators | | Definitions | | 2005 Baseline ratio | Average country ratio | 2010 Targets |
| 3 | Aid flows are aligned on national priorities | Aid for government sector in budget (USD m) | 921 | 84% | 45% | 92% |
| | | Aid disbursed for government sector (USD m) | 1 102 | | | |
| 4 | Strengthen capacity by co-ordinated support | Coordinated Technical co-operation (USD m) | 153 | 61% | 52% | Target of 50% achieved |
| | | Technical co-operation (USD m) | 250 | | | |
| 5a | Use of country public financial management systems | Use of PFM systems (USD m) | 825 | 75% | 53% | 50% (EU Target) |
| | | Aid disbursed for government sector (USD m) | 1 102 | | | |
| 5b | Use of country procurement systems | Use of procurement systems (USD m) | 839 | 76% | 51% | 50% (EU Target) |
| | | Aid disbursed for government sector (USD m) | 1 102 | | | |
| 6 | Avoid parallel implementation structures | Number of parallel PIUs | 41 | 41 | 1.8 | 14.0 |
| | | Number of countries | 23 | | | |
| 7 | Aid is more predictable | Aid recorded as disbursed (USD m) | 988 | 90% | 48% | 95% |
| | | Aid scheduled for disbursement (USD m) | 1 094 | | | |
| 8 | Aid is untied | Untied aid (USD m) | 2 356 | 100% | 100% | Target achieved |
| | | Total bilateral aid (USD m) | 2 356 | | | |
| 9 | Use of common arrangements or procedures | Programme-based approaches (USD m) | 901 | 59% | 50% | 66% |
| | | Total aid disbursed (USD m) | 1 523 | | | |
| 10a | Joint missions | Number of joint missions (number) | 156 | 44% | 44% | Target of 40% achieved |
| | | Total number of missions (number) | 354 | | | |
| 10b | Joint country analytic work | Number of joint analyses (number) | 73 | 69% | 69% | Target of 66% achieved |
| | | Total number of country analyses (number) | 106 | | | |

Source: <http://www.oecd.org/dataoecd/49/16/39383153.xls>

Information covers data reported in 23 countries out of 34 and reflects 50% of country programmed aid in 2005.

Staff time allocated to aid-effectiveness initiatives is commensurate with this commitment, with two advisers spending up to half of their time on aid-effectiveness issues, and other staff also actively engaged at different levels in promoting harmonisation and alignment. This has enabled DFID to play a leading role in various fora, including the PGAE, the LMDG and the PRSC. DFID Vietnam is a fully decentralised office, with all of its programme managed at the country level. The office has the authority to negotiate joint funding arrangements and aid-effectiveness commitments, subject to approval for major spending decisions.

One issue confronting DFID is how to reconcile time-intensive aid-effectiveness commitments with the scaling up of its programme and constraints on its administrative budget. DFID's Vietnam programme has expanded rapidly in recent years, without a proportionate increase in staffing. As a result, the office has been under pressure to deliver programmes with light management arrangements, often through silent partnerships with other donors. These have not always proved to be effective.

DFID staff are therefore increasingly conscious of the need to rationalise the time and effort they put into aid effectiveness. In particular, complex, multi-donor initiatives have

sometimes increased transaction costs, without a commensurate return in improved aid. Likewise, there is a perception that some of the dialogue structures among donors, and between donors and government, have lost focus and become burdensome. As a result, in recent times DFID has focused its attention on two areas: promoting One UN reforms; and the organisation of this Independent Monitoring process.

DFID has an active influencing agenda, seeking to promote changes in aid practices across the donor community as a whole. It has been a strong supporter of the Like-Minded Donor Group (LMDG) as a forum for promoting strategic coordination and harmonisation, including new aid modalities and joint funding arrangements. The LMDG meets fortnightly to share information and develop common positions to take to other fora, in particular the PGAE. They have an informal arrangement for sharing the lead role in dialogue across different areas of common interest: for example, the Dutch lead on PFM, AusAID on water and DFID on the PRSC. LMDG members have established a Harmonization Project, from which they fund joint initiatives such as capacity-building for ODA management. The project has a component to support innovations in aid delivery, from which it has recently funded a part-time aid-effectiveness adviser.

Other partnerships are pursued through co-funding arrangements and secondments. DFID is able to mix its funds with other donor's, and willing to act as the silent partner. It has made funds available to both UNDP and the World Bank, to boost their capacity in strategic areas. This reflects a global commitment to strengthening the multilateral system, as well as increasing the share of multilateral funding within the UK aid budget.

DFID's leadership role on aid effectiveness is broadly welcomed by GoV and other donors, but some partners noted that DFID is sometimes inclined to be 'preachy' in its relations with others, and insufficiently sensitive to the institutional constraints they are under. This is consistent with the findings of the DAC Peer Review, which noted with approval DFID's instrumental role in inspiring and promoting the Paris Declaration, but also pointed out:

“While this leadership is seen in most contexts as helpful, it also can give rise to a certain concern. Donors who do not support select DFID themes with the same degree of enthusiasm (e.g. budget support) or whose political leadership is not yet comfortable with the international effectiveness agenda can find their field missions inadvertently labelled by others as less than fully collaborative. In this sense, DFID may be perceived as ‘long on strategy, short on tactics’ when working in these partnerships.”

The CAP stresses the importance of improving the division of labour among donors, while noting that this has proved difficult to achieve to date. It does not propose any specific mechanism for advancing it.

3. Belgium

Overview of Belgian Development Cooperation

Bilateral cooperation between Vietnam and Belgium began first in 1977, and was resumed in 1992 after several years of interruption. During the period 2000-2006, the country programme totalled €41.9, together with debt relief of €26.66 million and a counter value fund⁴⁷ for the amount of €7.9 million. The programme currently under implementation involves a total volume of assistance of €39.4, all of which takes the form of grants. The programme covers four main sectors, as shown in the table.

| Sectoral composition of current Belgian development assistance to Vietnam | |
|--|------------------------------|
| Sector | Budget (million Euro) |
| Water, sanitation and waste management | €13.4 |
| Education | €9.5 + €0.9 per year |
| Agriculture and rural development | €11.5 |
| Governance/institutional strengthening | €4.5 |

The programme is overseen by two senior development officers within the Belgian Embassy, representing the Directorate General for Development Operation, together with one national officer. Projects within the bilateral programme are managed by Belgian Technical Cooperation (BTC), a public company with a social charter. Its relations with the Belgian government are set out in a management contract.

In addition to the bilateral programme, there are other Belgian actors engaged in providing development assistance, including NGOs, universities and regional bodies, all of which are funded by the Belgian government.

Belgium is a member of both the EU member states and the Like-Minded Donor Group (LMDG). It participates in the Partnership Group on Aid Effectiveness (PGAE), as well as in sector working groups on education and health.

Belgium has one joint programme – Targeted Budget Support-Education for All (TBS-EFA) – which provides assistance through the budget for basic education. All other activities are projects, many of them with a specific geographic focus.

Overview of HCS implementation

This section summarises the results for the Belgian programme from the 2006 Paris Declaration Baseline Survey.

⁴⁷ Instead of paying debt to Belgium, the equivalent amount is accumulated in the State Treasury to be used for socio-economic development.

| Belgium results for the 2005 Baseline Survey | |
|---|--|
| Indicator | Belgian result |
| 2. All donor assistance strategies aligned with the SEDP 2006-2010 and the related strategies by 2010 | On track. New Belgian cooperation programme (2007-2010) aligns 100% with SEDP and is being prepared with MPI, MoF, OG, concerned line Ministries and local authorities. |
| 3. No parallel PMUs by 2010 | Off track. Belgium had 8 PMUs in 2005, all of which were parallel. Belgium thought it was not feasible to integrate PMUs for on-going projects, some of which will not be completed by 2010. However, the 2007 EU-UN guidelines on cost norms, which eliminate top-ups for GoV officials, may accelerate the process of integration. |
| 4. 100% of aid for capacity building delivered through partner-led and coordinated programs by 2010 | Partly off track. There are two programmes dedicated to capacity building, notably a training facility and the bilateral scholarships. The first is partner-led and coordinated, but the latter is managed by the Embassy and BTC. Capacity building components within other projects tend to be partner-led and coordinated and respond to the needs of the counterpart institution, but do not fall within a broader capacity-building programme. |
| 5. 50% of total ODA and 50% of donors using the Government procurement system for 50% of their ODA | Off track. Only 5% of Belgian assistance (US\$0.8 of \$14.9 million) in 2005 was disbursed through the national procurement system. Since then, Belgium has joined the TBS-EFA programme, which has increased the percentage. While Belgium uses the Vietnamese Procurement Law in almost all of its projects, procurement is managed by the PMU Director and BTC Resident Representative, rather than the counterpart agency, owing to restrictions in Belgian legislation. |
| 6. 50% of total ODA and 50% of donors using the Government financial management system for 50% of their ODA | Off track. Belgian regulations do not permit the use of country PFM systems within the framework of projects. However, Belgium is now participating in TBS-EFA, and will look for other opportunities to use the Vietnamese budget system (at central and provincial level) for programme delivery. |
| 7. 75% of aid disbursed on schedule | On track. 40% of assistance was disbursed according to the disbursement plan in the original agreement, and 80% according to the updated annual disbursement plan. Belgium considers it feasible to meet this target. |
| 8: 100% of EIA & SIA completed to international standards and at least 30% using country systems | Belgium had no EIA or SIA at that time. It sees no problem in meeting this target in the future. |
| 9. Core Diagnostic Work used by all donors & at least 75% of Country Analytical Work used by 2 or more donors by 2010 | Of 9 missions taken by Belgium, none was coordinated with other donors. Of two Core Analytical Work, none was undertaken jointly with other donors. However, Belgium makes extensive use of analytical work produced by other donors, and considers it feasible to achieve this target. |
| 10. 50% of donors using common project/program tools | Off track. Belgium rules at present require the use of Belgian planning and M&E methodologies. However, Belgium is willing to consider more use of country systems once an acceptable country format is agreed between GoV and donors (i.e., implementation of Decree 131). |
| 11. 75% of aid is national or sector program based | In 2005, none of the Belgium support was programme based or co-financed with other donors. However, Belgium is committed to increasing its share of co-financed and programmatic support by 2010. |
| 12. 75% of aid interventions are managed at the country level | The approval of new programmes is still very centralised. However, projects are mainly managed at country level. |

Country leadership and alignment

Alignment of Belgian assistance to Vietnamese strategies

Belgium's development cooperation to Vietnam is governed by two documents: "Vietnam: Strategy Note" and "Indicative Cooperation Programme Vietnam-Belgium". These two documents describe the direct bilateral Belgian ODA programmes in the country and set the direction for the assistance.

The ongoing programme has been based on "Vietnam: Strategy Note 2000-2006". As this Strategy Note was elaborated before the first SEDP, it was not necessarily in line with the Vietnamese development strategy, in particular during the period 2001-2005. Moreover, the programme was sometimes changed through the intervention of Belgian government ministers on the occasion of their visits to the country. The limited alignment of the Belgian programme to the national strategy, and its susceptibility to political influence, have made the ongoing programme quite diverse. Projects in four different sectors and in several geographic regions are currently under execution, indicating a lack of prioritisation or attempt to build up any clear area of comparative advantage.

Some ongoing projects have suffered from a lack of ownership or commitment from Vietnamese counterparts, who did not assign a sufficient number of qualified officials to staff the PMUs. As a result, the projects have resorted to recruiting their management and technical staff from the private sector, leading to poorly integrated or parallel management structures.

Belgium has now made a significant effort to improve alignment of its programme, concluding in a recent Strategy Note that "programmes should be more aligned with the general priorities of the Vietnamese Government and more specifically with the recently approved SEDP".⁴⁸ When preparing its new strategy, "Vietnam: Strategy Note 2007-2010", Belgium paid significant attention to aligning with SEDP 2006-2010. The new strategy follows the pillar structure of the SEDP. Education and rural development fit within the Pillar 2 on 'Social Equity', while water supply and sanitation correspond to the Pillar 3 on 'Environment'. Moreover, public administration reform is closely related to the Pillar 4 on 'Governance'. Of these areas, water supply and sanitation and public administration reform are both indicated by the Government as high priority areas.

By aligning its strategy with the SEDP, the Embassy expects that the new programme will be less prone to *ad hoc* changes. It should also lead to stronger ownership and commitment from Vietnamese counterparts, because the new projects are designed to meet specific government needs.

The relationship between alignment of the strategies and ownership by the project counterparts, however, may not prove to be that simple. The Vietnamese strategy, including SEDP 2006-2010 covers a wide variety of issues. Most donor programmes are therefore automatically aligned to the SEDP. However, since the policy priorities of the SEDP are quite broad it is not always clear how they relate to sector strategies and development plans. Vietnam's high level of decentralisation further complicates the ownership question. Communes are rarely involved in district level planning, and

⁴⁸ p12, "Vietnam: Strategy Note 2007-2010" Directorate General for Development Cooperation

districts are usually excluded from provincial level planning processes, with the result that plans do not always reflect local priorities. Therefore, even though the new programme is fully aligned with the current SEDP and the planning body of the government (MPI) fully agrees with its higher-level objectives and focus areas, individual projects may still suffer from weak integration into the sector strategy and consequently limited commitment from line ministry and/or local government level.

It is to be noted, however, that the new programmes are prepared on the request of and in close cooperation with the local (province/district) and central authorities (MPI, OG).

Policy dialogue with Vietnamese agencies

The Embassy, BTC and the government have a policy dialogue on development cooperation through a Joint Working Team that meets three or four times a year. MPI, MoF, MoFA, the Office of Government and relevant line ministries participate in this dialogue from the Vietnamese side. Belgium also has various opportunities to participate in policy dialogue through programme steering committees. Because of the lack of participation in joint programmes, opportunities for joint policy dialogue with other donors are limited. Participation in TBS-EFA offers the main opportunity for a joint dialogue.

Use of country systems

Use of procurement system

Almost all Belgian projects conform with Vietnamese legislation for the procurement of goods and services. However, in order to speed up implementation, the PMUs manage the bidding process, thus bypassing the financial departments of the counterpart government agencies. This procedure is however fully foreseen in the Vietnamese Bidding Law, which allows for deviations from standard procedures for ODA funded projects.

Use of financial management system

Belgium is currently implementing both project-type assistance and budget support to the education sector (TBS-EFA). In the case of project type assistance, Belgium does not use the government financial management system. PMUs have their own accounts in commercial banks, and funds are directly transferred from BTC to these accounts without going through the State Treasury. In addition, financial reporting for all Belgian-funded projects must be done through a standard software package. The Belgian programme is not permitted to compromise on these rules.

In the case of budget support, Belgium uses the government financial management system and channels the funds through the State Treasury. As a new participant to this kind of support in Vietnam, Belgium is required to look very closely at fiduciary risk.

Parallel PMUs

Belgium currently has 13 PMUs for project-type assistance, of which 8 are considered to be parallel. In many cases, the director of the PMU is a senior official of the government, such as a director of the concerned department at the line ministry or a vice chairman at the provincial level. However, these directors are usually very busy with other commitments, and spend very little time managing the project. Consequently, foreign expatriates in the project offices, whose formal role is restricted to technical advise, find themselves drawn into the daily management of the projects. Moreover, as the counterpart agency often fails to provide enough qualified staff to the PMU, core staff members of the projects must often be recruited from the private sector, which requires the offer of a competitive salary. Currently, PMU directors receive salary top-ups from the project as an incentive for their participation.

Belgian officials would like to see all of the PMUs integrated into the government system as soon as possible. However, there are various practical constraints.

One of the constraints from the Belgian side is its budget system, which is prepared on a single-year basis. Any unused portion of the project budget each year cannot be carried forward to the next year. In order not to face a reduction in their project budgets, PMU managers are from the outset under strong pressure to disburse their funds on time. Recruitment of management staff from the private sector and the payment of top-up salaries to GoV officials are techniques used to ensure timely implementation.

In addition, there is resistance from Vietnamese counterparts to phasing out top-ups for on-going projects.

Organising HCS implementation

Head office's action plan for the Paris Declaration

In order to achieve the objectives of the Paris Declaration, the Belgian Directorate General for Development Operation adopted an action plan in June 2007, entitled “Plan for the Harmonisation and the Alignment of Aid (H&A Plan)”. This plan sets out the aid-effectiveness initiatives that Belgian Development Cooperation will pursue in the following five years. A gradual change in the policy-administrative culture over a long period of time is proposed. In order to avoid fragmentation of cooperation, for instance, the plan suggests that Belgium should promote sectoral specialisation and concentrate on a maximum of two sectors.⁴⁹ Moreover, so as to avoid small, isolated interventions, the plan proposes the adoption of a coherent “sector approach”. Concerning aid modalities, the plan points out that the choice should be made in the sectoral context and that, in many cases, a mix of budget support and project-type assistance is the best solution.

According to the Embassy, this plan is an important step towards improving the effectiveness of Belgian government bilateral aid. A variety of practical measures are proposed to achieve the “Objectives for the H&A plan”. Many of the measures are closely related to the achievement of the HCS as well. This plan was, however, only recently adopted, and these measures have not yet been put into practice at the country level.

⁴⁹ p5, “Improvement of the effectiveness of the Belgian governmental bilateral aid, Plan for the Harmonisation and the Alignment of aid (H&A plan)”, 8 June 2007.

Delegation of authority to the field

The level of delegation of authority to the country level is still limited. Even after the Strategy Note and Indicative Cooperation Programme are approved by the head office, the Embassy and BTC officials need to obtain approval from the head office at several stages. Due to this limited delegation, Belgium sometimes cannot make timely decisions to participate in joint programmes with other donors. The slow progress of delegation to the country level seems to be one of the main constraints for Belgium to achieve the objectives of HCS.

Inflexible budget system

The budget allocation by Belgium is on an annual basis, which complicates programme preparation and generates strong spending pressure for projects. The Belgian mission has a ceiling on the funds it can hold in its bank account at any given time. If some projects are unable to disburse as scheduled and the accumulated amount of unused funds reaches this ceiling, the mission is unable to request any additional funds for other projects. This creates incentives for staff to focus on efficiency of disbursement over sustainability and development impact.

Harmonisation with other donors

To date, other than the TBS-EFA programme, Belgium has made limited progress on harmonisation at the programming level.

In the coming period, Belgian plans to focus its assistance on two sectors: (i) Support for Water and Sanitation Programmes, including Waste Management, and (ii) Governance, Capacity Building and Institutional Strengthening. Stronger sectoral focus should help Belgium implement more joint programmes with other donors in the sectors concerned. Furthermore, under the new strategy, Belgium intends to participate in budget or sector support programmes at central or at local level wherever possible. This would promote more effective harmonization of aid with other donors.

With regard to the dialogue on aid effectiveness, Belgium participates in the PGAE meetings as well as two of the sector working groups. It also takes part in the discussions at EU and LMDG level. According to the Embassy officials, however, less than 10% of their time would be spent on specific aid effectiveness issues. Belgium officials have some reservations about the efficiency and effectiveness of the current aid effectiveness structures.

4. Danida

Introduction

This case study assess Danida's progress towards meeting its commitments under the Hanoi Core Statement (HCS), including aligning to Vietnamese development strategies, use of country systems and participation in dialogue mechanism. The case study is based on documents provided by Danida, together with interviews with staff from the Danish Embassy in Vietnam.

Contextual factors

Vietnam receives ODA of about US\$1.5 billion per year. The major multilateral donors are the World Bank and Asian Development Bank, followed by EU and UN system. The largest bilateral donor is Japan followed by France, UK and Denmark (providing about US\$66 million a year).

With continued annual growth rates of about 8% and an impressive rate of poverty reduction, Vietnam's goal of becoming a Middle-Income Country by 2010 seems achievable. Its rapid growth makes the ambitious target of reducing the general poverty rate to 10% by 2010 realistic. However, a few socio-economic indicators, especially on rural water and sanitation and HIV/AIDS transmission rates, are lagging behind.

According to the Vietnam-Denmark Partnership agreement, poverty reduction is the overriding objective of Denmark's development policy. This means helping the poor through investments in human development and poverty-oriented economic growth. The policy also stresses the importance of democratisation, participation of women, sustainable economic growth, promotion of human rights and good governance, environmental protection and adaptation to climate change.

The fundamental principles of Danish aid are to ensure that delivery occurs through strategic, performance-oriented activities centred on sector programme support, and that cooperation is based on the partner country's own strategies and policies. Denmark follows a policy selectivity, concentrating its aid in countries with the demonstrated will and capacity to promote long-term, sustainable development. In this regard, Vietnam has been a partner since 1993 based on its low income *per capita*, its commitment to reform and its achievements in poverty reduction.

Danida's Guidelines for Programme Management indicate that the country programmes are to have a poverty focus as the core, and are to address cross-cutting issues. In order to avoid spreading resources too thinly, the guidelines indicate that no more than three programme components (and three sub-components) are to be included in each programme. Delivery modalities are to be based on thorough institutional analysis, and management structures are to be clearly defined in the programme. The guidelines indicate that monitoring systems should objectives, targets and indicators clearly defined.

Areas of intervention

Danida's programming areas have been reviewed from time to time, drawing on lessons from past experience. For instance, the evaluation of Danida's 1993-2000 experience proposed greater attention to poverty reduction, gender equality, good governance and

ownership, as well as the need to shift away from individual projects and parallel structures. Actions were taken to implement these recommendations in the subsequent period.

Danida delayed the preparation of its new country strategy until the finalisation of Vietnam's Socio-Economic Development Plan 2006-2010 (SEDP), in order to achieve greater alignment. This enabled it adopt objectives and indicators for its country programme that closely mirror those in the SEDP. The new Country Strategy for Danish Development Assistance to Vietnam (2006-2010) is therefore well aligned to the SEDP, and all activities are based on existing sector and provincial plans and strategies.

Along with other donors, Denmark provided its input into the development of the SEDP. Areas of influence include strengthening the focus on social inclusion of ethnic minorities, judicial and legal reform, stronger recognition of HIV-AIDS, and the adoption of a results-based monitoring and evaluation framework for the SEDP, which will serve as the basis for annual, mid-term and final reviews of the SEDP. The framework improves transparency, accountability, and the management of information related to the SEDP.

Danida's current country programme contains five separate but mutually interdependent components.

1. Support to the reform programme

- PRSC (17%),
- PAR and Judicial reforms (6%). PAR currently focusing on one province, with four others to be added in 2008. It includes fiscal decentralisation, decentralisation to districts and communes, public service orientation and capacity development.
- Corruption and good governance.

2. Sustainable production

- Agriculture (10%), focusing on rural poverty reduction through sustainable agricultural development.
- Fisheries (12%) targeting the poor segments of communities in 9 provinces (primary fishing, aquaculture and small traders). The objective of this programme is to allow less privileged parts of the rural population engaged in fisheries to benefit from sustainable and economic development of the fisheries sector.
- Private sector development (16%), focusing on the business environment and SMEs at the national level (dispute resolution and dialogue), provincial level (business environment, dialogue and administration) and enterprise level (working conditions and business development services).

3. Human development

- Water supply and sanitation (19%) with a focus on rural water supply and sanitation and integrated water-resource management.

- Human resource development, including research.
4. Cross-cutting issues: strengthening:
 - democratisation and popular participation;
 - respect for human rights;
 - gender;
 - environment (15%) with focus on urban poor and mainstreaming; and
 - cultural cooperation (creativity, participation and diversity).
 5. Strengthening the fight against HIV/AIDS (mainstreaming it into all sector programmes and other activities).

The geographical areas of focus is Mekong Delta, Northwest, North Central and Central Highlands Provinces with high incidence of poverty and ethnic minorities. Other bilateral activities include mixed credit scheme providing concessional loans to development projects, support to research capacity development and support through Danish NGOs.

Danida's country programme still appears to be more spread out than recommended in the country programming guidelines, which may dilute impact and reduce the quality of the engagement. Danida reports that it is following a gradual process of increasing its specialisation and complementarity with other donors.

At the programming level, experience has shown that where sector policy and action plans are clear in the Vietnamese system, integration of Danish support into the Vietnamese country systems has tended to be easier. Sometimes the degree of clarity differs between sub-sectors within one ministry. For example, within MARD support to the water sector is based on multi-donor budget support, while support to fisheries is programme support. In fisheries, sector coordination remains limited as most donors, apart from Danida, fund mainly small projects, and the responsible Department within MARD has been slow to take the lead on coordination.

Denmark participates in basket funding with other donors. Together with a number of other donors, Denmark is providing joint funding to the Ministry of Natural Resources and Environment. The current rural water and sanitation programme is also provided jointly with other donors (Australia and the Netherlands) through targeted programme budget support. The support is fully aligned and requires no additional structures, financing or management systems from the donor side.

The finalisation of a Vietnamese 5-Year Development Plan for Small and Medium Sized Enterprises (approved in 2006) has increased the scope for alignment of donor inputs in this sector. The Plan calls for the establishment of Provincial SME Coordination Committees (SME PCCs). In the four provinces where Danida is active, PMU structures had been created prior to the establishment of the PCCs. Danida is leaving it to the provincial authorities to merge the two structures, as and when it proves feasible. Government leadership in the SME sector is still at a relatively early stage, leading to some overlaps and conflicts among the different donor intervention. However, there are

moves underway to strengthen coordination through the development of different groups and processes.

Danida's approach in fisheries has evolved over time, with parallel structures established during the first phase of the programme now dismantled in favour of closer alignment. This experience suggests that progress towards greater use of country systems depends on adaptation on both sides.

Use of country systems

Danida's policy is to progressively increase its use of country systems, against a very low baseline. Danida's efforts to increase its use of country systems began with efforts to make sector programmes more integrated with the country partner structures. Alignment began in the new business sector and environment programmes, and is being taken further in the second generation of water and sanitation, agriculture and fisheries sector programmes, as well as in the new governance programme.

Danish support has shifted from project support based on parallel systems until 2004, to primarily programme support in activities developed since then. The shift has been accomplished at the end of the phase of the various programmes. Only two parallel PMUs remain – one in the legal sector reform programme and one in the business sector programme. Danida expects to increase its use of sector budget support as public financial management and accountability improves.

Making substantial changes to the management arrangements for on-going programmes has proved a problem, because of existing programme agreements. Danida reports meeting some resistance from its Vietnam counterparts to more rapid elimination of parallel structures. There is a need for more dialogue and clear plan of action as to how to go about adapting existing programmes.

Support to capacity development has been provided in the form of technical cooperation or technical assistance. The total amount of such support in 2005 was \$21.7 million, of which \$1.5 million (7%) was provided in collaboration with other donors and \$1.7 million (8%) was provided through programmes led and coordinated by the Vietnamese partner agency. Against this low baseline, Danida expects to be able to deliver all its technical assistance through government-led programmes by 2008. Danida has also made a conscious effort to shift its foreign technical advisers out of direct management roles, leaving the responsibility for implementation of activities to staff in national partner institutions.

Some components of the Danish assistance are channelled through the Ministry of Finance (MoF), but then deposited into special project bank accounts. This does not constitute use of country PFM systems, because the payments bypass the treasury and the regular budgetary process. As a result, Danida's record on use of country PFM systems is rather poor. At the time of the 2006 Baseline Survey, the amount disbursed through the national budget system and using country auditing procedures was limited to the \$983,600 given in the form of budget support, while the volume of funds using Vietnamese financial reporting systems was \$2.3 million. In total, that left only 1% of Danish assistance using country PFM systems at that point.

Since then, Danida has gained more experience in channelling funds through the treasury system, through new programmes in agriculture and rural development and governance. One of the remaining obstacles noted by Danida to greater use of Vietnamese PFM systems is the lack of a standardised public accounting system (currently under development). However, the latest financial accountability assessment suggests that Danida could be more proactive in using country PFM systems.

Until now, Danida's use of country procurement systems has been limited. In 2005, only \$983,600 in support (1% of the total) was provided in support of programmes using country procurement, while \$64.9 million was in the form of project aid using an independent procurement agent. As with other donors, Danida has continuing concerns about national capacity and fiduciary risk. However, it is now piloting the use of country procurement systems in its agriculture and rural development and legal reform programmes, and has decided to use national procurement systems for all programmes from 2008, subject to support and supervision from an external procurement agent. Danida notes the need for clearer guidance from MPI as to how to accomplish the shift to greater use of country procurement systems.

There has been some important progress regarding cost norms. As an EU member state, Danida is bound by the recent EU-UN Agreement on Cost Norms (2007). Denmark has been seeking opportunities to use GoV cost norms and phase out additional payments to project management staff, but has reportedly encountered reluctance from its Vietnamese counterparts. GoV argues that more capacity building is required before the more generous donor cost norms can be phased out. It points out that staff qualified to manage ODA projects are in high demand, and that additional financial incentives are needed to attract them. However, it would be better for questions of capacity development and remuneration of managerial staff to be addressed comprehensively, rather than in the context of specific ODA projects.

Monitoring of the Danida country programme will be done through Vietnam's SEDP monitoring system, together with household surveys and consultative and participatory poverty assessments. The overall assessment of the outcome of the Danish country programme as a whole will be based on the collective results of all activities supported by the government of Vietnam and its development partners.

Dialogue structures

There are a range of structures for dialogue between GoV and donors, including the PGAE, PRSC and the sectoral/thematic Partnership Groups. Dialogue among donors is spread across a number of different donor groupings, of which Danida participates in the LMDG and the European Union group.

There are some concerns with the number of different dialogue structures, with consequent of duplication and fatigue. There may be a case for rationalisation these structures, in order to reduce transaction costs and enhance the benefits.

At sector level, the EU Private Sector Development group (EU-PSD) – which Denmark chaired until recently – shows promising results in bringing together EU donors, some LMDG and other interested donors (e.g. multilaterals, US and Japan). The group has been instrumental in guiding new donor entrants to the sector (e.g. Ireland and Spain) and the group also produced a common EU input on PSD to the most recent Vietnam

Development Report. Danida also participate in the SME Partnership Group, where advisers and staff from the 25 donor agencies involved in the sector (and to some extent GoV) meet to exchange information on on-going programmes. It has established five thematic sub-groups (e.g. on finance to SMEs, Local Economic Development, etc.). Some joint activities have also been initiated, including joint training course on BDS and a provincial forum on local economic development.

Donor-GoV dialogue occurs through the PRSC and PGAE groups. PGAE focuses on the implementation of the HCS in respect of harmonisation and new aid modalities. The focus has been on communication and dissemination of HCS, improving government systems and structures (procurement, PFM and aid on budget), harmonising and aligning cost norms and introducing Environmental and Social Impact Assessments. Denmark co-chaired the PGAE in 2006 and the Embassy has devoted considerable management and staff resources to supporting and moving forward the implementation of HCS commitments to improve aid effectiveness.

The PRSC provides a forum for dialogue on development policy. The objective of the PRSC is to strengthen reforms consistent with the four pillars: business development, social inclusion, natural resources and modern governance. PRSC is the major policy dialogue vehicle on overall policy reform process. It uses a policy matrix and annual triggers for achievements in important reform areas. Through the policy dialogue under PRSC, Denmark is committed to promoting gender, good governance, decentralisation, popular participation, rights-based issues and environment.

Coordination of missions and delegated cooperation are still limited. An exception is the Danida BPS and the EC Private Sector Programme, which managed to coordinate their programme reviews in 2007 (e.g. shared consultants and back-to-back meetings with GoV officials), thus reducing transaction costs for GoV.

The Embassy of Denmark has resolved to promote harmonisation, joint funding arrangements and joint reviews to the extent possible. Further opportunities for joint funding or other relevant harmonisation efforts are being pursued that can be accommodated within the focus areas. One particular initiative that has been spearheaded by the Embassy of Denmark is the establishment of the Independent Monitoring process, which commenced in 2007. The objective is to assess the overall progress in implementing the HCS, including changes in government and donor behaviour and in the quality of the development partnership based on a detailed assessment of a selected number of strategic areas of the implementation of the HCS.