

# Partnership General Budget Support in Vietnam



## The Joint Evaluation of General Budget Support 1994-2004

In 2004 a group of 17 donors and 7 partner governments commissioned a joint evaluation of General Budget Support (GBS). Its purpose was:

**to assess to what extent and under what circumstances GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth.**

The outputs of the study are a Synthesis Report, and seven country case studies, for Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam.

The Vietnam study was prepared by  
*Ann Bartholomew, Robert Leurs, Adam McCarty.*

### Background: Aid and Development in Vietnam

Although Vietnam is a low-income developing country, it has had a very good record on poverty reduction and macroeconomic stability since a programme of economic renovation ('Doi Moi') was initiated in the late 1980s. The government's success in its efforts to reduce poverty and boost economic growth is widely acknowledged, and witnessed by achievements in social as well as economic indicators. Between 1993–2000 the number of people below the poverty line fell from 53% to 29%. This occurred through economic growth stimulated by the Doi Moi reforms, while government also established targeted programmes aimed at the poorest areas.

Vietnam is not heavily aid-dependent: official aid averaged less than 5% of Gross National Income during the evaluation period. Vietnam's principal aid partners are Japan, the World Bank and the Asian Development Bank, but it also receives aid from a large number of other donors. It has been involved in several initiatives to increase the harmonisation and effectiveness of aid.

### Origins and Design of PGBS

#### Origins

Although Vietnam did not qualify for HIPC debt relief, the government prepared a national poverty reduction strategy in order to access the Poverty Reduction and Growth Facility (PRGF) of the International Monetary Fund (IMF) and the World Bank's Poverty Reduction Support Credit (PRSC). An Interim Poverty Reduction Strategy Paper (PRSP) was approved in 2001, followed in 2002 by the full PRSP (known as the Comprehensive Poverty Reduction and Growth Strategy – CPRGS).

The PRSC initiated a more partnership-orientated approach to budget support,

and has been the only PGBS instrument in Vietnam. The PRSC started in 2001, providing funding for the government reform programme, while related projects and programmes provide technical assistance.

Previously, various other forms of budget support had been used to back the Government of Vietnam's reform programme. These included structural adjustment lending by the IMF and World Bank and quick-disbursing policy loans by the Asian Development Bank. However, all experienced difficulties in disbursement due to problems in fulfilling conditions.

The PGBS (PRSC) design was influenced by these experiences and the problems resulting from attempting to impose policies not approved through a consensus-based decision-making process. The PRSC has been based on the government's own reform programme, with conditionality replaced by 'triggers', used to decide the level of annual PRSC lending, and verify that the overall reform process is moving forward.

#### Design

A policy matrix outlines the policy

actions that government agrees to take, and a series of triggers are used by the World Bank to evaluate whether they have been met. The policy matrix consists of three pillars:

- Pillar 1: policy actions relating to the transition to a market economy
- Pillar 2: social exclusion and environmental sustainability
- Pillar 3: modern governance.

Unearmarked funds are disbursed directly to the State Bank of Vietnam. Depending on the assessment of the speed of reforms being implemented, the World Bank can disburse in line with a low, base or high case scenario. PRSCs 1–3 were all base-case lending. Co-financiers provide grants or parallel credits on their own concessional terms. The PRSC is based on a two-year cycle; actions to be included in the policy matrix are discussed and negotiated the year before the credit is disbursed. A number of the actions in the policy matrix – usually about twelve – are identified as triggers and must be undertaken before the credit is disbursed.

The policy dialogue between the government and donors is focused on

### What is Partnership General Budget Support?

- General Budget Support (GBS) is aid funding to government that is not earmarked to specific projects or expenditure items. It is disbursed through the government's own financial management system. The finance is accompanied by other "inputs": conditions and procedures for dialogue, donor efforts to harmonise their aid and align it with national policies and procedures, and technical assistance and capacity building.
- In the late 1990s "new GBS" or "partnership GBS" (PGBS) emerged as a response to dissatisfaction with earlier aid instruments. "Partnership" is contrasted with the imposed conditionality of the structural adjustment era. PGBS is intended to support partner countries' poverty reduction strategies. By channelling funds through national systems, it also aims to strengthen national planning and implementation capacity, increasing the effectiveness of all public expenditure, including aid.

### Approach to the Evaluation

- The evaluation was not intended to compare budget support with sector support or project aid. However, the evaluators found that there is not a sharp distinction between general and sector budget support, that many of the non-financial inputs to PGBS are shared across aid modalities, and that interactions between PGBS and other modalities are important in explaining its effects.
- The evaluation was based on a logical framework: this identified the inputs of PGBS and then traced its various possible effects from inputs to activities to outputs, outcomes and impacts.
- PGBS has been operating for only a few years, and it is often just one among a number of influences on outcomes and impacts. This makes it difficult to be certain about its long-term effects, but medium-term effects are clearer. The study set unusually rigorous standards for an aid evaluation, and applied the same methodology consistently across the seven countries.
- This was an independent evaluation. Its findings and recommendations are those of the evaluation team.

the 'how' rather than the 'what' – influencing the implementation of policies, rather than introducing new ones.

### PRSC Financiers

The first World Bank Poverty Reduction Support Credit (2001–02) was co-financed by Denmark, the Netherlands, Sweden and the UK. By the time of PRSC3 (2004), the seven co-financiers were Denmark, the Netherlands, the UK, the Asian Development Bank, the European Commission, Canada and Japan. Subsequently, the number of co-financiers for PRSC4 (2005) rose to eleven, with the addition of Ireland, Sweden, Spain and France.

### Disbursements

PRSC1 totalled USD 250m in funding from the World Bank and USD 22.6m in co-financing. The amount involved in PRSC2 was lower at USD 100m from

the World Bank and USD 40m from co-financiers, while in PRSC3 the World Bank provided USD 100m and co-funding was USD 57m. This represented around 7–10% of official aid (see Table 1). For PRSC4, USD 100m has been committed by the World Bank and USD 125m by co-financiers.

### PGBS effects on public expenditure and service delivery

#### Public Expenditure

There has been an increase in pro-poor spending in recent years which has been supported by PGBS funding and policy actions directed at education and health.

- Education spending has increased from 8.3% (1994) to 17.5% (2004); health spending has declined slightly from 4.2% to 3.7% (but as overall total public expenditure has risen considerably, this still represents a large increase in absolute terms).
- PRSC funding allows the government to implement pro-poor initiatives such as the Health Care Fund for the Poor,

without extra burden on the budget.

- The reliable scheduling and delivery of PGBS has had an impact on the efficiency of public expenditure.

#### Delivery of Public Services

PGBS effects on service delivery in health and education are mostly related to policy actions from PRSCs 3–5; it is too early to judge their effectiveness, but their potential impact is significant. There has been little capacity building in sector ministries or service delivery institutions, although there is evidence of PGBS supporting service institutions to become more responsive to beneficiaries.

### PGBS Effects on Poverty and Growth

#### Macroeconomic Performance

The government has a good record on macroeconomic stability and fiscal discipline. Controlling inflation and the budget deficit have been government priorities since the early 1990s. However PGBS reinforces this fiscal discipline by:

- Funding a significant proportion of the budget deficit, reducing the costs of financing.
- Providing an incentive to keep macroeconomic reform on track.

#### Poverty Reduction

The government already has a good track record on poverty reduction, resulting from the economic growth achieved by the economic reform process. PGBS has supported non-income poverty reduction through increasing the use of health and education services by poor groups and income poverty through focusing on the macroeconomic environment to stimulate economic growth. However, PGBS had a weak impact on empowerment of the poor. Administration of justice, greater participation in decision-making and accountability of government have only been partially engaged with in PGBS.

### Did PGBS change the level or composition of aid to Vietnam?

The evaluators judged that PGBS in Vietnam involved a moderate increase in total aid funding, but a much more significant increase in the level and proportion of aid funds on-budget. Off-budget funding is dominated by projects, for which, in aggregate, PGBS has been a substitute.

### Institutional Effects of PGBS

#### Planning and Budgeting Systems

The budget process has always been owned by the government, but PGBS

**Table 1: Partnership General Budget Support and Total Aid in Vietnam**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Total ODA (actual) (USDm)</b>	990	891	965	1,119	1,204	1,462	1,725	1,509	1,378	1,892	2,013
<b>Total Partnership GBS disbursements (USDm)</b>								150	123	140	157
<b>PGBS as % total ODA (%)</b>								10%	9%	7%	8%
<b>ODA as % GNI (%)</b>	6%	4%	4%	4%	4%	5%	6%	5%	4%	5%	4%

Note: Only the first three PRSCs disbursed during the evaluation period.

has strengthened the process by bringing more discretionary aid funds on budget.

Until recently there was little transparency in budget planning. Various PGBS policy actions have been aimed at clarifying powers and responsibilities and strengthening transparency and accountability in public financial management. These have been reinforced by complementary non-PGBS programmes, such as the Public Financial Management Reform (PFMR) Initiative.

#### *Policies and Policy Processes*

CPRGS preparation drew on a well established framework for dialogue between donors and the government, and this has been continued by the PRSC. At the same time, policy processes are difficult to influence due to a complex and opaque institutional system. The PRSC policy matrix is based on reform-linked policy actions; PGBS provides a further incentive to pursue reform, and supports reformers within government and the Party. There is also evidence of PGBS influence on policy, particularly the content of sectoral policies.

#### *Government Capacity and Capacity Building*

Despite the significant number of policy actions requiring implementation by central and sector agencies, the PRSC makes no direct provision for addressing systemic weaknesses in government capacity. As a result, policy actions may not be translated into effective outcomes. In addition, the Vietnamese government is highly decentralised, and central budget support does not address weaknesses at provincial level.

### **PGBS and Aid Effectiveness**

#### *Relevance*

The design of PGBS in Vietnam was a relevant response to previous weaknesses in the approach to conditionality and a valid attempt to strengthen the use of government systems.

#### *Harmonisation and Alignment of Aid*

PGBS has increased the level of harmonisation and alignment through:

- Providing a framework for alignment with government policy and systems.
- Aligning the PRSC planning cycle with government planning and budget cycles. The World Bank and some, but not all, co-financiers have aligned commitment and disbursement with this.
- Increased use of government

implementation systems with more aid on-budget.

#### *Transaction costs*

PGBS uses government systems to disburse funds. This reduces government transaction costs throughout the project implementation cycle. As around 8% of official aid is now flowing through the PRSC, this represents a significant gain for government.

#### **Cross-cutting issues**

- After an unsuccessful policy action in PRSC1, **gender** dropped out of the matrices, (although it was later included in PRSC5). Gender was not effectively mainstreamed in the PRSC.
- An action plan for **HIV/AIDS** has been agreed and initial steps have been taken towards implementation. PRSC influence on government awareness and action was a very positive contribution.
- The **environment** has been extensively incorporated into the PGBS process with the expansion of policy actions from PRSCs 2–5. This has complemented support to environmental policy through other modalities.
- **Democracy and human rights** were deliberately excluded from the policy matrix due to the government's unwillingness to engage in dialogue on these issues.

#### *Quality of Partnership*

There is strong **government ownership** of policy and PGBS is designed to support the government's own reform programme. Strong government ownership has influenced the design of PGBS, with triggers that represent a 'soft' form of conditionality, allowing for judgement rather than a strict quantitative analysis. The PRSC's partnership approach represents a fundamental difference from previous budget support modalities. However, the high level of ownership at central agency level does not always extend to line ministries, who are often not represented in the dialogue.

#### **Interaction of aid modalities –**

Although many of PGBS policy actions support activities undertaken through other aid modalities, the extent of complementarity varies depending on whether the donor is a co-financier.

**Coherence** – More recently, there has

been some divergence in expectations and approaches of donors and government, as PGBS has evolved and the number of co-financiers has increased.

### **Risks and Unintended Effects of PGBS**

*Unpredictability* – PRSC funds have been delivered on schedule.

Disbursements were not affected by the cessation of the PRGF when the government would not allow external audits of foreign exchange holdings.

*Balance between Public and Private Sectors* – The PRSC has included policy support for private sector development. Pillar 1 of the PRSC policy matrix aims to encourage structural reform and a more liberalised competitive economy, involving a stronger role for the private sector and less government intervention.

*Fiduciary Risks and Corruption* – Fiduciary risk involved in PGBS was already being addressed prior to the introduction of the PRSC, through continuing initiatives to strengthen public finance management systems. By the time the PRSC began, fiduciary risk was considered to be at an acceptable level in Vietnam. A certain amount of leakage is acknowledged to occur from projects; it appears reasonable to believe that this will be no more or even less from the PRSC. Anti-corruption measures were included in PRSC3 onwards, but it is too soon to discern whether there is the political will to address these issues. PGBS policy actions have aimed at improving the transparency of budget systems, access to information and strengthening of systems which reinforces democratic accountability as a whole.

### **Sustainability of PGBS**

PGBS has evolved over several cycles, to reflect the concerns and interests of co-financiers as new donors join and flaws in the original design are acknowledged. The increase in co-financiers has created coordination problems, as individual donors' agendas differ. To date, the design of PGBS seems sufficiently flexible to accommodate most donors' concerns. The programme is robust enough to resolve agenda issues and there is overall consensus on PGBS objectives.

### **Overall Conclusions**

PGBS in Vietnam has been a successful case of donor-government collaboration, of learning from experience, and achievement of objectives. Given its good track record,

providing the government with additional funding through PGBS appears to be an efficient and effective way to support poverty reduction.

The clearest and most direct effects of PGBS were seen in:

- An evolving design of PGBS which has become more relevant to the country context and increasingly pro-poor as the policy agenda has expanded.
- Increased aid coordination and alignment with government policy.
- A strong disbursement record of PGBS in comparison to other aid modalities.
- Lower transaction costs of expenditure for government.

- Strengthening of policy and implementation through the dialogue, which is a key element of the PRSC.
- Evidence of future potential linkages on service delivery and poverty impacts.

The main weaknesses in performance against the criteria adopted by the evaluation were: insufficient alignment of disbursement of co-financiers' funds; limited ex-post impact analysis, and monitoring and evaluation of PRSC policy actions; lack of attention to cross-cutting issues; difficulties in coordination between co-financiers; a World Bank PRSC timetable which limits the consultation process; limited participation in consultation; little coordination with other aid modalities;

and a lack of technical assistance and capacity building.

### Future Prospects

In the 2006–2010 PRSC cycle, the CPRGS will be fully integrated into the government's Socio-Economic Development Plan (SEDP), and the PRSC policy matrix should be drawn more directly from the SEDP. At the end of this period, Vietnam is likely to be approaching middle-income country status. The PRSP may be a useful mechanism in the transition to lower levels of official aid. Meanwhile, a number of donors are interested in applying partnership budget support principles to sector and provincial support instruments.

## Recommendations

### Design of PGBS

- Co-financiers should make long-term funding (three-year to five-year) commitments.
- Involve PRSC co-financiers in the negotiating team and develop consultation forums that bridge the annual PRSC negotiation cycles.
- Establish an agreed set of guiding principles for the PRSC.

### PGBS Analysis and Evaluation

- Prioritise analytical work to support linking PRSC policy actions to the government Socio-Economic Development Plan.
- Develop a stronger evaluation system to assess outcomes and impact of PRSCs.

### Aid Coordination

- Widen policy dialogue to include a wider range of stakeholders.
- Map official aid activities to PRSC areas and coordinate more closely with projects linked to the PRSC reform programme.
- Develop a strategy to guide when other forms of budget support can be used to complement PGBS.
- Ensure stronger coordination and linkages with other aid modalities.

### Capacity Building

- Consider giving provincial budget support within a PGBS framework and undertaking complementary capacity-building programmes at provincial level.
- Include capacity building and technical assistance within PRSC activities.

Any enquiries about this evaluation should be addressed to:

Publications Officer, Evaluation Department  
Department for International Development  
Abercrombie House  
East Kilbride, Glasgow G75 8EA

Email: [ev-dept@dfid.gov.uk](mailto:ev-dept@dfid.gov.uk)  
Tel: +44(0)1355 843387  
Fax: +44(0)1355 843642

Full reports can be obtained from the DFID website at:  
[www.dfid.gov.uk/aboutdfid/performance/evaluation-news.asp](http://www.dfid.gov.uk/aboutdfid/performance/evaluation-news.asp)  
or from the OECD/DAC website at: [www.oecd.org/dac/evaluation](http://www.oecd.org/dac/evaluation)