

The survey sought to measure objective evidence of progress against 13 key indicators on harmonisation and alignment (see Foreword). A four-point scaling system was used for all of the “Yes/No” questions:

1. “Yes without reservations” represented here as: **YES!**
2. “Yes with reservations”: represented here as: YES
3. “No with reservations” represented here as: NO
4. “No without reservations” represented here as: **NO!**

Specific technical criteria were suggested to guide responses (See Annexes). Respondents were also invited to provide a brief explanation when they expressed reservations (Categories 2 and 3 above). The qualitative information they provided has informed this chapter.

A poverty-reduction strategy (PRS) was established in 2002 and provides a sound basis on which donors can align — 65% of donors consulted in this Survey reported aligning to the government’s development strategy. The Ministry of Planning and Investment (MPI) has proved to be seminal in providing the leadership under which initiatives to enhance aid effectiveness are designed, implemented and monitored. Important elements of the framework are the Harmonisation Action Plan endorsed by the government and the donor community in June 2004, as well as the establishment of the Partnership Group on Aid Effectiveness which has become the prime forum for dialogue between the government and donors on these issues. In order to strengthen aid management, the government has launched the Comprehensive Capacity-Building Programme (CCBP), which is being supported by donors. Donors and the government are also developing a better understanding of the functioning of different aid modalities and their added value in enhancing the effectiveness of aid delivery in Vietnam.

OWNERSHIP

According to the Overseas Development Institute¹:

Vietnam is an atypical “PRSP country”. It is not aid-dependent, does not qualify for HIPC II [heavily-indebted poor countries] debt relief, and has already achieved much on its own: since 1986, cautious economic liberalisation, building upon a foundation of investments in human development and egalitarian land distribution, has resulted in high growth and an extraordinary rate of poverty reduction. Although the incentives to produce a strategy acceptable to the IFIs [international financial institutions] remain significant, they are not overwhelming. This fact, combined with an unusually flexible approach by the IFIs, has empowered the government of Vietnam, helping it to hold donors to the principle of national ownership.

A CLEAR AGENDA ON HARMONISATION

The government realised the need early on to develop mechanisms to ensure that it could exercise effective leadership over the aid effectiveness agenda. The Partnership Group for Aid Effectiveness was formed in December 2003 to create a regular forum for the government and donors to discuss aid effectiveness issues. The close partnership that has developed, supported by over 20 partnership groups, is facilitating the co-ordination among the government and donors on key sector issues. Its first task was to finalise Vietnam’s first country-based harmonisation action plan; the first draft was presented by the government at the consultative group (CG) meeting in December 2003 and finalised at the mid-term CG meeting

1. Overseas Development Institute (2004), “Politics & the PRSP Approach”, *Working Paper* 241.

FIGURE 14.1
INDICATOR 1

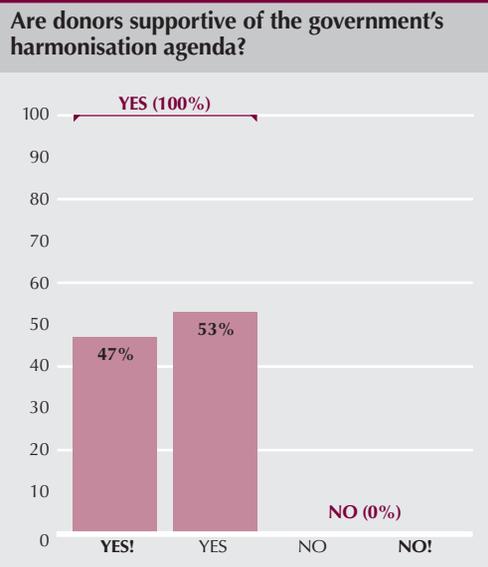


TABLE 14.1
INDICATOR 2

Is government co-ordinating aid?

Is there a formalised process for dialogue?	YES!	
Is government proactive?	YES	
Is government in the driving seat?	YES	
Do donors' rules support harmonisation?		NO
65%		
% of donors who take part in co-ordination		

in June 2004. The partnership group's monthly meetings have seen a growing participation from both government and donors. With the Harmonisation Action Plan and its accompanying monitoring framework, the government has set up a comprehensive and measurable framework to further improve the efficiency and effectiveness of aid use in Vietnam. The MPI is currently being supported by a European Commission resident adviser for aid harmonisation.

FORMAL GOVERNMENT-LED FRAMEWORK FOR DIALOGUE AND CO-ORDINATION

It is recognised by all parties that strong leadership exercised by the government is key in ensuring that aid delivery is aligned to government plans and priorities. This requires an effective framework to provide the government

with the mechanisms, tools and capacity to lead in this area. With the establishment of the Partnership Group on Aid Effectiveness and the Harmonisation Action Plan and through the more than 20 partnership groups, the government is leading the dialogue with the donors.

One bilateral donor notes, however, that: "Political willingness to align and harmonise is real, but strict and very centralised decision-making procedures are a strong impediment."

The non-governmental organisation community emphasises the importance of ownership at the local level, noting that "poverty targeting must be done locally, applying different approaches in different areas, in a decentralised manner with strong local ownership."

Government decentralisation is adding an additional challenge to this process.

There are many co-ordination bodies: at least 19 thematic working groups as well as 24 sectoral partnership groups. Government ownership is reported to be strong in some of these groups, with donor agencies taking a stronger leading role in others. These arrangements do however come with a high cost; one bilateral donor, for example, notes that attendance at this number of groups is "very time consuming".

According to this survey, the government is increasingly confronting donors for not abiding by national plans, urging them to "get to action" and regularly requesting progress reports. Recent government comments concerning the degree of donor engagements for the next five-year plan is a good example of this. However, at this stage no sanctions are applied to donors who are not contributing to harmonisation or who are not aligned with agreed national principles.

The government believes that donors fully support its agenda and are currently taking steps to implement it. It notes, however, that: "A number of donors use complex procedures and focus on making sure their funds are appropriately spent, rather than facilitating the creation of development impacts" (see Table 14.1 – Indicator 2).

CAPACITY DEVELOPMENT

The government recognises that weak capacity has been a limiting factor in ensuring effective and efficient aid co-ordination. For example, it draws attention to the capacity constraints involved in co-ordinating 50 different donors. All government initiatives, both strategic at the macro level and technical at the implementation level, aim to build sustainable national systems. The government is revising its aid-management legislation and has launched a Comprehensive Capacity-Building Programme (CCBP) with the view of strengthening institutional and organisational arrangements and developing management capacity to design, plan and deliver effective aid management. Donors are providing support for the drafting of these documents and the development of new aid instruments (i.e. sector-wide approaches and budget support) via the Like Minded Donor Group (LMDG),² the Five Bank Harmonisation Initiative (also called the Five Banks Group³), European Union initiatives and other bilateral initiatives.

Both donors and the government agree that weaknesses exist in the government's capacity in financial management and procurement, budget planning and execution and aid co-ordination (see Table 14.2. – Indicator 3). The level of support provided for capacity building is significant but, according to the government, not sufficient to “fully” meet its needs. Aid co-ordination challenges remain important at the provincial level.

2. Canada, Denmark, Finland, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom make up Hanoi-based Like Minded Donor Group.

3. The World Bank, Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC), *Kreditanstalt für Wiederaufbau* (Germany) and the *Agence Française de Développement* (France) make up the Five Bank Harmonisation Initiative.

Capacity development		
► Have weaknesses been identified?		
In public financial management	YES!	
In budget planning and execution	YES!	
In co-ordination of aid	YES!	
► Are weaknesses being addressed?		
In public financial management	YES!	
In budget planning and execution	YES!	
In co-ordination of aid	YES	
► Is the level of support appropriate?		
In public financial management	YES	
In budget planning and execution	YES	
In co-ordination of aid	YES	

TABLE 14.2
INDICATOR 3

ALIGNMENT

RELIANCE ON PARTNERS' NATIONAL DEVELOPMENT STRATEGIES

Vietnam's PRS, based on its ten-year socio-economic development plan, is called the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). Donors report that performance under it has been good; there is a good degree of leadership and ownership, particularly at the higher level. One donor notes that:

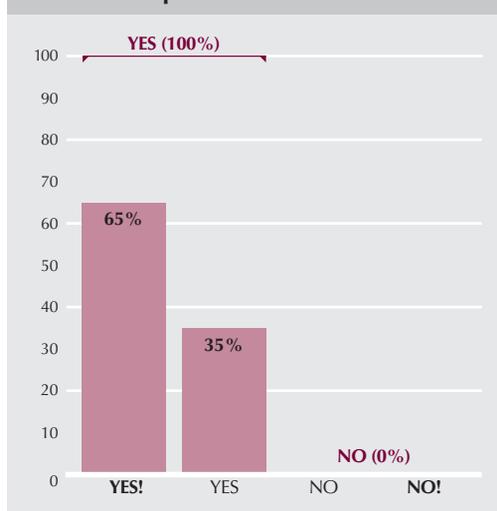
“It does seem that the CPRGS is ‘owned’ by senior leadership, but this commitment falls short of the PRSP ideal of broad country ownership.”

Issues of wider understanding, as well as questions about the need to align donor headquarters' guidance and local office implementation, highlight the need for the process to be strengthened. A process is underway to merge the CPRGS into the government's next five-year Socio-Economic Development Plan 2006-10 (SEDP). Major progress will be made if this goal is attained.

An active dialogue between the government and donors on the formulation of the SEDP is underway. An informal working group has been established to co-ordinate donor activities in support of the preparation of the SEDP.

FIGURE 14.2
INDICATOR 4

Do donors rely on the PRS when programming official development assistance?



Line ministries and provincial governments are developing their respective plans in consultation with major stakeholders, including the donor community. At the provincial level, the MPI is co-ordinating a multi-province initiative, with the support of some ten donors, to strengthen the skills and capacity needed for a more bottom-up style of planning. There are differences in the approach and scope of activities in this process across provinces, but a number of common issues have been identified - and these need addressing in a systematic manner. The Poverty Task Force has initiated a review of this provincial experience in order to incorporate lessons learned into the SEDP.

A master plan on official development assistance (ODA) mobilisation and utilisation (2006–10) is also being developed to establish the strategic direction for ODA use over the coming five-year period. This plan will identify guiding principles, priorities and criteria for the use of aid to support the achievement of the SEDP targets. The formulation of the master plan is being undertaken in a consultative manner; a series of workshops have been organised to review the impact of previous support and to identify the needs of various domestic stakeholders for future assistance.

Even though all donors claim to rely on the PRS when programming assistance (see Figure 14.2 – Indicator 4), the extent to which the annual progress review (APR) influences donor resource-allocation decisions is limited. Comments made by respondents about the APR include: “the review process does not allow sufficient scope for serious discussion on allocation of resources”; the “APR is not concrete enough”; and “allocations were more or less pre-destined due to long-term commitments”.

BUDGET SUPPORT

The increasing use of programme-based approaches for aid delivery in Vietnam over several years has generated interest in developing a better and clearer understanding of the concepts, implementation mechanisms, and the added value of different modalities in strengthening the effectiveness of aid delivery. One bilateral donor, making the point that there is no “right” aid modality for every circumstance, notes that:

There is a common understanding among both the donor community and the government in Vietnam that a diversification of aid modalities is important for efficient and effective ODA mobilisation and it is necessary for the government to utilise the most appropriate aid modalities in response to varying development needs.

There have been a considerable number of activities that have improved understanding of the options available to both government and donors to best support Vietnam’s growth and poverty-reduction efforts. Japan and the United Kingdom have worked together to draft a paper on the role of new aid modalities in the Vietnamese context, which has now become the agreed basis for future discussions on the diversification of aid modalities. This identified a number of challenges in introducing new aid modalities, which include:

- The confusion over the concepts and terminology involved in new aid instruments.

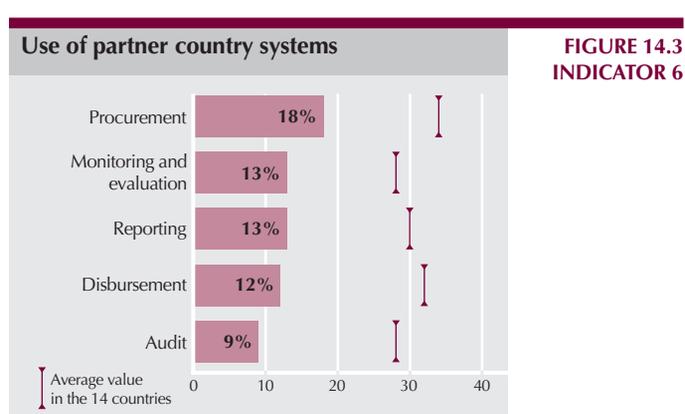
Is budget support predictable and aligned?					TABLE 14.3 INDICATOR 5
Are budget support donors making:	YES!	YES	NO	NO!	
► multi-annual commitments?	Belgium Canada Denmark United Kingdom World Bank	France Netherlands NGOs United Nations	Finland Sweden ADB European Commission	United States	
► timely commitments?	Canada United Kingdom European Commission World Bank	Denmark NGOs	Finland ADB	Denmark IMF	
► timely disbursements?	Canada Denmark United Kingdom IMF World Bank	European Commission NGOs	Finland ADB		

- The lack of clarity of the management arrangements for new aid modalities.
- The lack of appreciation of the benefits of such approaches and where they are most appropriate.
- The need for the government to lead the donors in adopting these instruments.
- The need for the relevant ministries to be open about their plans and budgets to enable donors to support them.

To address these challenges, an aid modality component has been included in the CCBP and several awareness-raising activities were held in 2004 (e.g. training events on sector approaches).

A study in 2002 indicated that, from the German perspective, the Vietnamese fiscal and administrative systems are not transparent or accountable enough, although this may also be linked to the question about whether direct budget support is an effective approach.

A large group of donors (including Belgium, Canada, Denmark, Japan, Netherlands, United Kingdom, Asian Development Bank [ADB], European Commission and the World Bank) are either currently (through the PRSC, poverty-reduction support credit), or are planning to, provide budget support to Vietnam (see Table 14.3 – Indicator 5).



PROJECT SUPPORT

In comparison with other countries surveyed, Vietnamese government systems are used to a lesser extent than the average (see Figure 14.3 – Indicator 6). Weaknesses in the country system currently pose significant challenges for donors. The IMF notes that national audit standards and procedures are “very weak”.

The Five Banks Group has taken the lead in supporting the Vietnamese government in its work on harmonisation and alignment of procedures, focusing on: procurement; financial management; environmental and social safeguards; project preparation; and project

TABLE 14.4
INDICATOR 8

Alignment with sector programmes					
	Health	Education	Water	Transport	Agriculture
► Are sector systems in place?					
Is government leading in the sector?	YES	YES	YES	YES	YES
Does a clear sector policy exist?	NO	YES	NO	NO	YES
Is a sector medium-term expenditure framework (MTEF) in place?	NO	NO	NO	NO	NO
Is there sector co-ordination?	NO	YES	NO	YES!	YES
Is a sector monitoring system in place?	NO	NO	NO	NO	NO!
Are systems being harmonised?	NO!	NO	NO!	NO	NO
► Are donors supporting the sector systems?					
Are the systems aligned with government policies?	YES	YES!	YES	NO	NO
Are funds integrated into the MTEF?	NO	NO	NO	NO	NO
Are donors using the government monitoring system?	NO	NO	NO	NO	NO

reporting. Significant progress has taken place via these initiatives. Recent outputs include:

- Draft common documents for local competitive bidding which could also be utilised for locally financed projects.
- Draft common reporting format.
- A detailed comparison of the Five Banks and government environmental safeguard requirements for harmonising environmental impact assessment practices.
- Joint portfolio reviews between the Five Banks Group and the government to support the improvement of performance and disbursement rates for aid projects.

SECTOR SUPPORT

Indicator 8 measures donor support to sectors in key policy areas (see Table 14.4).

Health sector

Nearly 90% of donors provide support to the health sector in Vietnam, with a few countries (Germany, Norway, United Kingdom, United States) concentrating their support in the area of HIV/AIDS. The Ministry of Health has just started implementing government sector policies and 50% of donors are relying on them to

programme their sector assistance. Strategies include the “Strategy for People’s Health Care and Protection 2001-10”, “National Nutrition Strategy 2001-10” and the recently re-released national HIV/AIDS strategy. The World Bank notes that while the overall policy framework is acceptable, it is too broad to provide specific guidance on programming. Several joint government/donor working groups exist, both formal and informal, in the health sector. Sector performance management systems are yet to be established.

Education sector

Over 80% of donors are active in the education sector. Though an overall government sector strategy exists, it lacks clear prioritisation and realistic implementation arrangements. Education sector working group meetings used to be chaired jointly by the government and donors, but the government has taken the lead since July 2004. The survey shows that 81% of donors participate in these fora. Performance management systems and a process for progressing towards harmonised systems are currently being designed as part of the sector budget support mechanism.

Water sector

Over 60% of donors support the water sector. There is sector co-ordination at national, provincial and river basin/coastal zone levels with several donors involved in sector programmes in the Red River Basin and Central Vietnam, and programmes developed by the Mekong River Commission in the Mekong River Basin. Some 88% of donors are involved in sector co-ordination fora. Performance monitoring systems are currently weak, particularly at the qualitative level.

Transport sector

50% of the government's transport budget is donor-financed and a sector strategy exists. The strategy was prepared through a participatory approach via a Japanese/World Bank initiative. Less than half of donors are active in the sector. The Japan Bank for International Cooperation (JBIC) has one full-time expert to co-ordinate donor activities in this field, who is working on rationalising support to the maintenance sector where there are currently 27 separate interventions. The transport donor partnership group is also providing support to the Ministry of Transport to develop its five-year plan (2006-10), with the view of developing a common strategy with which donors will align. In early 2005, the transport donor partnership group also aims to bring Japan, ADB, the World Bank and others together with the Ministry of Transport to agree on a long-term, jointly owned maintenance strategy. Sector budget support is also being trialled in the rural transport sub-sector.

Rural development

80% of donors are involved in the rural development sector. The majority of donor support to the sector does not rely on the government sector strategy, however. The government's national targeted poverty-reduction programmes are under review and once the review has been completed (in 2005), more donors expect to be able to support the rural development sector. There are no government performance monitoring systems in place in the sector.

One of the first sector-wide approaches in Vietnam was applied in the forestry sector. The existing trust fund for forests represents a starting point for the harmonisation of finance.

Other sectors

Several donors are supporting governance and public administration reform (PAR). A PAR partnership forum has existed since 2003 with the United Nations Development Programme; and the LMDG is providing strategic support for the implementation of the PAR master plan 2001-2010. Core elements of this involve institutional and organisational development, management reforms and gradual transfer of power from a central to provincial level. The plan is linked to the government's "e-government initiatives".

Other sectors receiving donor support include disaster management; fisheries; the legal sector; small and medium-sized enterprise (SME) and private sector development; economic reform; and urban development.

HARMONISATION

Several harmonisation initiatives are taking place in Vietnam, including: the Five Banks Group, the LMDG and the United Nations Development Group (UNDG). Several bilateral initiatives are underway, including Japan and the World Bank operating under the common framework of the harmonisation action plan.

The government of Vietnam is trying to balance the need to receive support with the desire to avoid externally imposed conditions, many imposed as part of donor global procedures. Harmonisation of conditions at the sector level has begun, but little progress has been made to date. In the rural development sector, a Forestry Trust Fund was established in June 2004, based on a sector-wide approach.

A significant number of donor missions, of which less than 5% involve more than one agency, are placing a significant burden on government agencies that are already overstretched.

**TABLE 14.5
INDICATOR 7**

Are donors streamlining conditionality?	
Direct budget support	YES
Health sector	NO
Education sector	NO
Water sector	YES
Transport/road sector	NO
Rural development agriculture	NO

**TABLE 14.6
INDICATOR 9**

Who is delegating co-operation?			
YES!	YES	NO	NO!
Australia	Norway	Switzerland	Belgium
Canada	United Nations	NGOs	France
Denmark			Germany
Finland			Japan
Netherlands			United States
Sweden			ADB
United Kingdom			IMF
European Commission			
World Bank			

The government has expressed increasing concern as well about the high transaction costs associated with the multiplicity of donor agencies' operational policies, procedures, and practices.

Priority areas for developing greater harmonisation include: capacity-building support to the government; streamlining and harmonisation of donor procedures; development of joint donor strategies, programmes and analytical work; and more effective monitoring and reporting. Some donors would also add the wider use of multi-donor financing mechanisms such as sector budget support to this list. In Vietnam, however, the majority of donors tend to agree that a mix of different aid modalities will result in the most effective implementation of assistance to achieve sector coherence in the framework of a government-led strategy.

STREAMLINING CONDITIONALITY

Donors have streamlined conditionality when providing direct budget support, as well as in the water sector (see Table 14.5 – Indicator 7).

Different triggers were established at the outset of the CPRGS to monitor progress in the reform agenda. These triggers, which are detailed in the World Bank's PRSC document, provide measurable benchmarks covering the three pillars of the reform agenda. A wide range of donors have either joined the PRSC already or are considering whether to do so in the future. As a result of this collaboration, the PRSC will be worth around USD 220 million (of which USD 120 million are provided by donors other than the World Bank) in 2004.

DELEGATED CO-OPERATION

Indicator 9 shows that 45% of donors in Vietnam claim to be party to an agreement to perform tasks on behalf of other donors (see Table 14.6). Examples include arrangements within the LMDG where members take lead responsibility for different tasks; for example, the United Kingdom is the lead agency for public sector financial reform, and Switzerland is the lead agency for public administration reform. The United Nations takes the lead in many programmatic areas, with activities financed through pooled funding mechanisms.

DONOR FIELD MISSIONS

Approximately 400 missions took place in Vietnam in 2003. Seven organisations (World Bank, NGOs, Japan, Germany, Denmark, ADB and the United Kingdom) accounted for 75% of the total number of missions. Only a small part of all missions were undertaken jointly between donors (see Figure 14.4 – Indicator 10).

STREAMLINING DIAGNOSTIC REVIEWS

Five diagnostic reviews were undertaken between 2001 and 2003, all of which involved joint donor teams (see Table 14.7 – Indicator 11).

DISCLOSING INFORMATION

42% of donors claim to notify the government on indicative disbursements they plan to release over at least a three-year period. A further 32% qualified their responses (Indicator 12a – Table not presented). For example, the United Kingdom commits allocations for two years, but the third year's projection is indicative, contingent on UK government spending reviews. Germany has just started making commitments bi-annually rather than annually.

Some 50% of donors claim to provide comprehensive and regular information about in-country disbursements (Indicator 12b – Table not presented). The remainder of respondents qualify their answers, for example by stating that while information given is comprehensive, it is provided annually, a year in arrears. Japan is conducting an annual portfolio review bilaterally with the government to discuss the annual disbursement plans and the government actions necessary to secure the plan.

Only 37% of donors regularly shared information on their country analytic work (see Table 14.8 – Indicator 13). Several donors explain that while analytical work is not regularly posted on Web sites, they share it with relevant stakeholders by e-mail, through co-ordination groups and/or through the Ministry of Finance. Others report problems sharing information as some donor documents are not available in English.

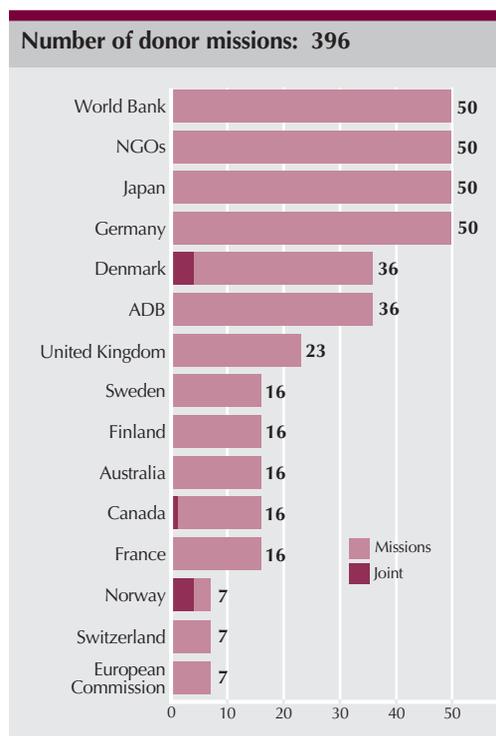


FIGURE 14.4
INDICATOR 10

Are diagnostic reviews being streamlined?

Diagnostic reviews (2001-03)	Was it undertaken jointly?
CFAA	YES
PER	YES
CPAR	YES
EACFM	YES
Five Banks JPR	YES

TABLE 14.7
INDICATOR 11

Who is sharing country analytic work?

YES!	YES	NO	NO!
France	Australia	Germany	Belgium
United States	Denmark	Norway	
ADB	Finland	Sweden	
European Commission	Japan		
IMF	Netherlands		
United Nations	Switzerland		
World Bank	United Kingdom		
	NGOs		

TABLE 14.8
INDICATOR 13

ACRONYMS

ADB	Asian Development Bank
APR	Annual progress review
CCBP	Comprehensive Capacity-Building Programme (Vietnam)
CFAA	Country financial accountability assessment
CG	Consultative group
CPAR	Country procurement assessment review
CPRGS	Comprehensive Poverty Reduction and Growth Strategy (Vietnam)
EACFM	<i>Ex ante</i> assessment of country financial management (European Commission)
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JPR	Joint portfolio review
LMDG	Like Minded Donor Group (Vietnam)
MPI	Ministry of Planning and Investment (Vietnam)
MTEF	Medium-term expenditure framework
NGO	Non-governmental organisation
ODA	Official development assistance
PAR	Public administration reform
PER	Public expenditure review
PRS	Poverty-reduction strategy
PRSC	Poverty-reduction support credit
PRSP	Poverty-reduction strategy paper
SEDP	Socio-Economic Development Plan (Vietnam)
UN	United Nations