

**Paris Declaration/Hanoi Core Statement Phase 2 Evaluation**  
**Vietnam Country Evaluation**

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## List of acronyms

AAA	Accra Agenda for Action
ADB	Asian Development Bank
AEF	Aid Effectiveness Forum
AFD	Agence Francaise de Developpement (French Development Agency)
ASEAN	Association of South East Asian Nations
CCBP	Comprehensive Capacity Building Program
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CIDA	Canadian International Development Agency
CPIA	Country Policy and Institutional Analysis
CSO	Civil society organisation
DAC	OECD Development Assistance Committee
DFID	Department for International Development
DP	Development Partner
EFA	Education For All
EU	European Union
FDI	Foreign Direct Investment
GAVI	Global Alliance for Vaccines and Immunisation
GDP	Gross Domestic Product
GEF	Global Environmental Fund
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GoV	Government of Vietnam
GSO	Government Statistics Office
HCS	Hanoi Core Statement
HIV	Human Immuno-Deficiency Virus
HPG	Health Partnership Group
IBRD	International Bank of Reconstruction and Development
IDA	International Development Association
IFI	International financial institution
IHP	International Health Partnership
IMF	International Monetary Fund
INGO	International Non-Government Organisation
JPPR	Joint Portfolio Performance Review
LMDG	Like-Minded Donor Group
MARD	Ministry of Agriculture and Rural Development
MDG	Millennium Development Goals
MIC	Middle Income Status
MoF	Ministry of Finance
MoH	Ministry of Health
MoLISA	Ministry of Labour and Social Affairs

MONRE	Ministry of Natural Resources and the Environment
MPI	Ministry of Planning and Investment
MTEF	Medium-Term Expenditure Framework
NA	National Assembly
NGO	Non-government organisation
NTP	National Targeted Programme
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
P135	Programme 135
PBA	Programme-Based Approach
PD	Paris Declaration
PEFA	Public Financial Management and Accountability framework
PEPFAR	US President's Emergency Plan for AIDS Relief
PFM	Public financial management
PGAE	Partnership Group on Aid Effectiveness
PMU	Project Management Unit
PPP	Purchasing Power Parity
PRSC	Poverty Reduction Support Credit
REDD	UN Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
SEDP	Socio-Economic Development Plan
SOE	State-Owned Enterprise
SoI	Statement of Intent
SWAp	Sector-Wide Approach
TB	Tuberculosis
TBS	Targeted Budget Support
UN	United Nations
UNICEF	United Nations Children's Fund
VAMESP	Vietnam-Australia Monitoring and Evaluation Strengthening Project
V-HAP	Vietnam Harmonization Action Plan
VUFO	Vietnam Union of Friendship Organisations
WHO	World Health Organization
WTO	World Trade Organization

## Executive summary

Vietnam is one of 24 partner countries that have agreed to participate in the second phase of the evaluation of the Paris Declaration. The first phase was conducted in 2007/8, and focused on the inputs and early outputs of the implementation process. The second phase is being conducted in preparation for the 4<sup>th</sup> High Level Forum in Korea in 2011 and emphasises outcomes and results, to establish whether the long-term goals of the Paris Declaration are being achieved. However, the methodology acknowledges that the contribution of the Paris Declaration to development results may not yet be visible, and calls for an exploration of causal chains that are only just beginning to emerge.

The main evaluation mission was conducted over a 3-week period from 19 July to 7 August 2010, and involved key informant interviews with a wide range of Government of Vietnam stakeholders and Development Partners, as well as independent observers. A range of data was collected on aid flows and national development results, and a qualitative survey was distributed to stakeholders, with responses received from 11 Development Partners, 4 line ministries and 7 provinces. The Evaluation Team would like to express their appreciation to the staff of the Ministry of Planning and Investment, who provided excellent management and logistical support to the evaluation. However, we should stress that the opinions expressed in this evaluation are entirely our own.

The evaluation report is structured around the three core questions in the evaluation matrix.

### **1. What are the important factors that have affected the relevance and implementation of the Paris Declaration and its potential effects on aid effectiveness and development results?**

Vietnam was the first country to localise the 2005 Paris Declaration on Aid Effectiveness, and has been one of the most active in its implementation. The Hanoi Core Statement (HCS) was adopted within a few months of the Paris High-Level Forum, with all major DPs signing up to its principles and commitments. It had a number of precursors. In the preceding period, a number of donor groupings had emerged to promote harmonisation and alignment. In 2004, the government created the Partnership Group on Aid Effectiveness to bring together these different initiatives under its own leadership. One of the early actions of this Group was to adopt the HCS, which mirrors the content of the Paris Declaration very closely

Since then, Vietnam has developed an elaborate architecture for promoting aid effectiveness, including permanent dialogue structures, *ad hoc* thematic working groups and regular reporting and review processes. The Ministry of Planning and Investment is an energetic champion of the aid effectiveness agenda at both international and national levels. On the donor side, the donors who are active in aid effectiveness processes constitute together more than 95% of total development assistance. There are some different interests among the donor groups within the aid effectiveness agenda. The development banks focus mainly on boosting the efficiency of project implementation and the quality of country systems, while the bilateral donors have worked together to pilot the introduction of new aid modalities. The One UN Reform process, of which Vietnam is a pilot country, is helping to rationalise the donor presence.

The evaluation identifies a number of contextual factors that have shaped the high level of engagement by both government and donors with the aid effectiveness agenda. First, Vietnam has very strong national ownership of the development agenda, and one of the most impressive records on poverty reduction in the world. Poverty fell from 60% over the national poverty line

in 1990 to 28.9% in 2002, 16% in 2006 and a likely 10-12% in 2010. This gives donors confidence that their aid will be used effectively, despite significant institutional weaknesses. It enabled the donors to introduce general budget support at a remarkably early stage in Vietnam's economic transition, before there was even a published budget. Second, Vietnam is by no means an aid-dependent country, and is strongly resistant to external pressure on its domestic policy processes. Well before the Paris Declaration, donors in Vietnam realised there was little value in attempting to use conditionality to lever policy change. This meant that Vietnam and its Development Partners achieved a more mature development partnership at an early stage. Finally, Vietnam's recent achievement of Middle-Income Country status means that there is a limited time horizon for aid. The government is therefore determined to use the HCS as a tool for extracting the maximum value from the remaining aid flows. However, some donors have already begun to shift the balance of their assistance away from traditional sectoral support towards technical assistance in niche areas, which results in regression against some of the Paris Declaration indicators. The implications of this trend for the national aid-effectiveness agenda are still being determined.

## **2. To what extent and how has the implementation of the Paris Declaration led to an improvement in the efficiency of aid delivery, the management and use of aid and better partnerships?**

Vietnam has gone further than most countries in articulating aid effectiveness commitments and establishing structures and processes for taking them forward. However, it has also discovered that moving from general principles to concrete changes in aid practices is difficult and time consuming. The issues quickly become complex and technical, and protracted negotiation is needed to identify practical solutions and compromises. Many of the commitments involve changing national rules and institutions, which in Vietnam can be a slow process. There are some strong vested interests in traditional aid practices that are hard to overcome. Poor communication across government and weak capacity in the provinces become a real constraint. On the donor side, implementation encounters restrictive headquarter rules, risk aversion, institutional inertia, capacity constraints in small aid missions and fatigue with time-consuming aid processes. The diplomatic norms that govern the development partnership mean that only very soft forms of mutual accountability are possible. As a result, aid effectiveness processes are inherently prone to stalling, and need to be constantly reinvigorated.

To its credit, the Ministry of Planning and Investment has not allowed the implementation process to grind to a halt, but has continued to experiment with new structures and processes to keep it moving forward. However, practical change has come in the form of small steps, rather than major breakthroughs.

Although there is gradual change underway in many areas of the development partnership, the evaluation identifies two areas of change under the HCS that are particularly important.

The first is the shift towards new aid modalities and programme-based approaches. Donors have experimented with changing aid modalities in areas such as rural water and sanitation, education, Programme 135 (targeted at ethnic minorities), rural transport and (prospectively) health. This shift has been far from easy. The initiative for changing aid modalities has come almost entirely from the donor side, and has had to overcome a range of obstacles, including a legal framework for aid management that treats projects as the default option and a set of incentives that favour traditional projects. Programme-based approaches are also more difficult to implement in Vietnam's highly decentralised system of government, especially given continuing weaknesses in financial reporting and results management. For these reasons, new

aid modalities have mostly taken the form of targeted budget support delivered through national poverty reduction programmes (National Target Programmes), rather than full Sector-Wide Approaches or sectoral budget support.

Under the Paris Declaration, programme-based approaches are used as a proxy for simplification of procedures among donors. In fact, they are a more ambitious form of assistance that requires higher intensity effort on both sides than traditional projects. The real significance of programme-based approaches lies in achieving a more strategic engagement by donors in strengthening core sectoral capacities and processes for policy making, planning, budgeting and managing for results. In the sectors that have moved furthest towards programme-based approaches, we find evidence of greater policy influence for donors, particularly around the targeting of expenditure for the poorest communities. Counterparts show an increased understanding of the importance of results management and a greater willingness to experiment with new tools and approaches. There has been some strengthening of community participation in development initiatives, which is potentially an important contribution to the decentralisation process. In the health sector, the Ministry of Health and donors are working intensively on improving the quality of the national health strategy and its accompanying expenditure framework as a precondition for sectoral budget support. These are not dramatic changes, but they are evidence that donors and their counterparts are working more intensively on the things that matter.

The second domain of change is strengthening country systems for public investment management. This is happening in a number of ways. Donors have supported horizontal reforms of public financial management and procurement systems. There have been capacity building programmes, including strengthening the ability of central agencies like the Public Procurement Agency to conduct training across the administration. There has been joint analysis of the gaps between country systems and international standards. There have been improvements to Vietnamese regulations on environmental and social safeguards. There has been alignment of donor and country procedures in a few areas, including project feasibility studies and monitoring and reporting tools. The Six Banks have agreed with the government a Plan of Action to address outstanding bottlenecks in project implementation.

As a result, there have clearly been some improvements in country systems and capacities for public investment management, including at the provincial level. The development banks report that there have been some recent improvements in the efficiency of project implementation. However, line ministries and provinces are still experiencing significant delays in project start-up and implementation, which remains their main aid-effectiveness concern.

There are aspects of the Paris Declaration/HCS that have not received the same level of attention in Vietnam, such as improving the division of labour among donors, encouraging joint programming and delegated cooperation, increasing joint missions or improving the predictability of aid flows. While these are desirable goals and have shown some measure of improvement over the past five years, in a country that is not aid dependent they are not seen as high priorities.

### **3. Has the implementation of HCS strengthened the contribution of aid to sustainable development results? How?**

To attribute development results to HCS implementation, we have to begin from the findings on intermediate outcomes – namely, the extent to which the HCS has brought about meaningful changes in aid practices – and then consider whether those changes have helped increase

Vietnam's rate of progress towards its development goals. The changes in the development partnership identified here are still at a fairly early stage, but they do suggest where the main causal pathways from HCS implementation to development results are likely to appear in the future.

- i) The shift from fragmented project aid towards programme-based approaches leads to a more intensive engagement by donors in building up core sectoral capacities for planning, budgeting and results management, leading to greater development effectiveness at the sectoral level.
- ii) More intensive investments in improving country systems for managing development expenditure, supported by greater willingness of donors to use those systems for aid delivery, leads to efficiency gains for all development expenditure.

However, these benefits are still largely in the future. Even in Vietnam, with the high level of effort that has gone into HCS implementation, the bulk of assistance is still delivered in much the same way as it was before the HCS – neither through programme-based approaches nor using country systems. For this reason, it is not possible to conclude that there has been a major impact of the HCS on development effectiveness at this point. It would be more realistic to look for that impact towards the end of the next five-year planning cycle. However, there is enough evidence of emerging results to justify continued investment in this important agenda.

### **Recommendations for strengthening aid effectiveness in Vietnam**

The evaluation offers a number of practical recommendations for strengthening the aid effectiveness agenda in Vietnam. These are:

- i) Improve the legal and institutional framework for aid management to provide guidance to ministries on the design of programme-based approaches and new aid modalities.
- ii) Strengthen the role of the Ministry of Planning and Investment in supporting new aid modalities, including disseminating lessons on designing and implementing programme-based approaches.
- iii) Clarify Vietnam's policy on the use of less-concessional development finance by establishing criteria based on overall development return, rather than direct financial return.
- iv) Clarify the roles and responsibilities of different government agencies in climate change finance, and establish a single body to coordinate assistance.
- v) Review the role of project management units in the Vietnamese system of aid management, to reduce fragmentation within ministries and increase the prospect of sustainable capacity development.
- vi) Increase the use of objective assessment tools for country systems, particularly in public financial management.
- vii) Pursue the development of programme-based approaches in appropriate sectors, but without adopting overly complex funding modalities, by encouraging line ministries and donors to agree on a practical agenda for strengthening core sectoral processes like planning, budgeting and results management.
- viii) Incorporate assessments of institutional capacity gaps into sectoral strategies, to help ministries and donors agree on a common capacity building agenda and division of labour.
- ix) Develop an agenda for the Aid Effectiveness Forum that covers issues that cross over aid effectiveness and development policy, and cannot be addressed in sectoral

Partnership Groups. Some of the issues could be referred to donor groups to prepare positions papers to present to the Aid Effectiveness Forum.

- x) Strengthen the relationship between sectoral Partnership Groups and the Aid Effectiveness Forum by setting down guidelines on the roles of Partnerships Groups and how to improve their efficiency. Task each Partnership Group with articulating priority actions for improving aid effectiveness, and to report on progress annually to the Aid Effectiveness Forum.

## Contents

<b>A. Introduction .....</b>	<b>1</b>
<b>B. Contextual factors affecting the aid effectiveness agenda .....</b>	<b>3</b>
<b>1 Economic transition.....</b>	<b>3</b>
<b>2 Poverty reduction and social development.....</b>	<b>4</b>
<b>3 Governance and institutions .....</b>	<b>6</b>
<b>4 ODA and development finance .....</b>	<b>9</b>
<b>5 Aid effectiveness commitments and processes .....</b>	<b>12</b>
<b>6 Conclusions on the Paris Declaration in context .....</b>	<b>15</b>
<b>C. Has the HCS led to improvements in aid delivery and partnerships? .....</b>	<b>19</b>
<b>1 Country ownership over development .....</b>	<b>19</b>
1.1 Stronger national strategies and operational frameworks.....	19
<i>i) Government leadership on aid management.....</i>	<i>19</i>
<i>ii) The SEDP as a framework for alignment.....</i>	<i>20</i>
<i>iii) Participation in development policy .....</i>	<i>21</i>
1.2 Alignment of aid .....	22
<i>i) Alignment with strategies and priorities.....</i>	<i>22</i>
<i>ii) Alignment with country PFM systems.....</i>	<i>25</i>
<i>iii) Alignment with country procurement systems .....</i>	<i>25</i>
<i>iv) Other alignment issues.....</i>	<i>26</i>
1.3 Conditionalities .....	28
<b>2 Building more inclusive and effective partnerships for development.....</b>	<b>29</b>
2.1 Division of labour and aid fragmentation.....	29
2.2 Reformed and simplified donor procedures .....	29
2.3 More predictable aid flows.....	30
2.4 DP delegation of authority and incentives for partnerships .....	31
2.5 Integration of global programmes .....	31
2.6 Stronger capacity to manage for results .....	32
<b>3 Delivering and accounting for development results.....</b>	<b>33</b>
<b>4 Conclusions on the effects of HCS implementation .....</b>	<b>34</b>
<b>D. Has the HCS strengthened ODA's contribution to development results? .....</b>	<b>38</b>
<b>1 Sector results .....</b>	<b>38</b>
<b>2 Improved pro-poor targeting .....</b>	<b>39</b>
<b>3 Increases in institutional capacity and social capital.....</b>	<b>39</b>
<b>4 Aid modalities .....</b>	<b>40</b>

<b>E. Conclusions and recommendations .....</b>	<b>42</b>
<b>1 Relevance of the Paris Declaration/HCS in Vietnam .....</b>	<b>42</b>
<b>2 HCS contribution to aid effectiveness and development results? .....</b>	<b>43</b>
<b>3 Aid effectiveness and MIC status .....</b>	<b>45</b>
<b>4 Lessons from the Vietnamese experience for the High-Level Forum .....</b>	<b>46</b>
<b>5 Recommendations for aid effectiveness in Vietnam .....</b>	<b>49</b>
2.1 The legal and institutional framework for ODA management .....	49
2.2 Use of country systems.....	50
2.3 Programme-based approaches.....	50
2.4 Strengthen the national aid architecture.....	51
<b>Annex 1: Consolidated Survey Responses .....</b>	<b>53</b>

## A. Introduction

Vietnam was the first country to localise the 2005 Paris Declaration on Aid Effectiveness, and has been one of the most active in its implementation. The Hanoi Core Statement (HCS) was adopted with a few months of the Paris High-Level Forum, with all major Development Partners (DPs) signing up to its principles and commitments. Its implementation has been pursued through an elaborate set of structure and processes. The HCS has become an integral part of the development partnership in Vietnam.

The requirement for an independent evaluation of the Paris Declaration was built into the Declaration itself, and reaffirmed in the Accra Agenda for Action of 2008 (AAA). The first phase of the evaluation was conducted in 2007/8, and focused on the inputs and early outputs of the implementation process. The second phase of the evaluation is being conducted in preparation for the 4<sup>th</sup> High Level Forum in Korea in 2011. It emphasises outcomes and results, assembling evidence as to whether the long-term goals of the Paris Declaration are being achieved. Vietnam is one of 24 partner countries that have agreed to participate in the evaluation. For countries like Vietnam that have localised the Paris Declaration, the evaluation will focus on the national version, although in the case of the HCS the content is very similar. The Vietnam country evaluation at the same time serves as the third round of Independent Monitoring of the HCS, the first two rounds having been conducted in 2007 and 2008.

The purpose of the evaluation is to examine the effects of the HCS on improving the contribution of ODA to the achievement of national development goals. It should support lesson learning at both the international and national levels. There are three core evaluation questions:

1. What are the important factors that have affected the relevance and implementation of the HCS and its potential effects on aid effectiveness and development results? (The HCS in context).
2. To what extent, and how, has the implementation of the HCS led to an improvement in the efficiency of aid delivery, the management and use of aid and better partnerships? (Process and intermediate outcomes).
3. Has the implementation of HCS strengthened the contribution of aid to sustainable development results? How? (Development outcomes).

These core questions are further elaborated in the form of an evaluation matrix, which sets out detailed questions, indicators and sources of evidence. The methodology is standard across the participating countries, to enable comparability of results, but has been adapted as necessary to the Vietnamese context. The methodology calls for a detailed exploration of the country context to identify factors that have influenced implementation of the Paris commitments and their impact on development results.

The Paris Declaration codified a range of principles that had emerged from the evolution of aid practices over the preceding decade. In Vietnam, one of the functions of the HCS was to bring together under GoV leadership a range of harmonisation and alignment initiatives that were already underway. These precursors are treated as an integral part of the HCS process. The subject of the evaluation is therefore not exclusively the instrument itself, but the behaviours and practices it advocates.

The methodology recognises that many of the results from HCS implementation may not yet be visible. It calls for dynamic analysis, exploring causal chains that are beginning to emerge, to test the theory of change underlying the aid effectiveness agenda.

The evaluation draws on a number of information sources:

- i) the extensive literature on aid effectiveness in Vietnam, including periodic reporting from the Partnership Group on Aid Effectiveness, thematic studies, project and programme evaluations and past Independent Monitoring reports;
- ii) available statistical data, including socio-economic data, ODA figures and Paris Declaration monitoring surveys;
- iii) key informant interviews with GoV agencies (Ministry of Planning and Investment, Ministry of Finance, State Bank of Vietnam, the National Assembly, Ministry of Health, Ministry of Transport, Ministry of Agriculture and Rural Development; Ministry of Labour and Social Affairs, Commission on Ethnic Minorities, Bac Ninh and Bac Giang provinces), DPs and international NGOs;
- iv) surveys were distributed to all DP members of the Aid Effectiveness Forum and a number of line ministries and provinces. Responses were received from with 11 DPs, three line ministries and five provinces. A summary of the responses can be found in Annex 7;
- v) a light case study of the health sector.

There has been limited participation from Vietnamese civil society in this evaluation. Vietnamese civil society is not very engaged in the aid effectiveness agenda and not well structured to make a collective input into a process like this. International NGOs were invited to contribute to the analysis. We received useful briefings and information from the VUFO-NGO Resource Centre, which acts as a secretariat to international NGOs, but the timing of the evaluation mission over the summer break limited wider participation.

The main evaluation mission was conducted over a 3-week period from 19 July to 7 August 2010. The Evaluation Team would like to express their appreciation to the staff of the Foreign Economic Relations Department of MPI and the Comprehensive Capacity Building Program (CCBP), who provided excellent management and logistical support to the evaluation mission. However, we should stress that the opinions expressed in this evaluation are entirely our own.

The evaluation report is structured according to the three main evaluation questions. Part B looks at contextual factors affecting the aid effectiveness agenda. Part C examines intermediate results – that is, the impact of the HCS on improving the efficiency of aid and the quality of the development partnership. It is structured in three parts, following the main headings from the AAA. Part D considers whether the HCS has improved ODA's contribution to development results. Part E sets out conclusions and recommendations.

## B. Contextual factors affecting the aid effectiveness agenda

This chapter addresses the first of the three Core Evaluation Questions:

**“What are the important factors that have affected the relevance and implementation of the Paris Declaration and its potential effects on aid effectiveness and development results?”**

It looks at Vietnam’s economic transition, its record on growth and poverty reduction and its governance and institutional capacities. It analyses the profile of ODA and its significance among other sources of development finance. It explores how Vietnam has engaged with the aid effectiveness agenda, and what are the interests among the different actors in changing aid practices. It concludes by highlighting the contextual factors that seem to have had the greatest influence on shaping the national aid effectiveness agenda.

### 1 Economic transition

In the space of a single generation, Vietnam has been through one of the most dramatic economic transformations in modern history. In the early 1990s, it was among the poorest countries in the world. Two decades later, it has achieved Middle Income Country (MIC) status,<sup>1</sup> along the way lifting nearly half of the population above the national poverty line.<sup>2</sup> Only China can boast a similar speed of poverty reduction.

Vietnam began its transformation from a command to a market economy in 1986, when the historic 6<sup>th</sup> Party Congress launched the Doi Moi or ‘Renovation’ reform programme. Though its impact has been dramatic, the transformation was a carefully managed process, proceeding through small-scale pilots that were gradually scaled up. It began with the liberalisation of food markets, creating incentives for farmers that boosted agricultural productivity and transformed the livelihoods of the rural population. It moved onto reform of State-Owned Enterprises (SOEs), through a gradual liberalisation of production quotas, wages and prices, exposing them to market forces and boosting production and employment. Experiments with equitisation of SOEs began in the 1990s and then accelerated after 2001, with the remaining SOEs<sup>3</sup> increasingly given management autonomy from government ministries and agencies. The banking sector went through a similar process, with reforms requiring state-owned banks to compete on a commercial basis. International trade was encouraged through the abolition of SOE monopolies, the liberalisation of prices and the unification and realignment of the exchange rate.

Economic transformation was accompanied by rebuilding ties with the international community. In 1993, Vietnam resumed relations with the international financial institutions (World Bank, IMF and ADB) and bilateral donors, giving it access to large-scale development assistance. It became an ASEAN member in 1995 and signed a Bilateral Trade Agreement with the United States in 2001. In 2006, it became a member of the World Trade Organization, taking on an ambitious programme of commitments to open its economy to international competition, facilitate foreign investment, reduce state intervention into the market and create a sound business environment.

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<sup>1</sup> I.e., *per capita* GNI of more than US\$995, which Vietnam achieved in 2009. According to some definitions, a country must reach this figure in 3 consecutive years to qualify as a MIC, which would put Vietnam on the threshold.

<sup>2</sup> MPI, “Midterm Review of the 2006- 2010 SEDP Performance”, 2008.

<sup>3</sup> Since July 2010, all SOEs have to be registered as limited liability or stock companies, although the state can retain a controlling stake: Law on Enterprises 2005.

The Vietnamese economy responded rapidly to these reforms, growing at an average of 7.5% between 1990 and 2008. The growth was strongly pro-poor in nature, beginning in the agricultural sector where poverty was deepest, and moving on to mass employment creation in labour intensive sectors like garments and footwear. Until 2009, annual trade growth reached 20-30%, led by crude oil,<sup>4</sup> garments, footwear, processed wood, aquaculture and more recently electronic products. Foreign Direct Investment (FDI) has been attracted by the low cost of labour, accounting for as much as 30% of all investment.<sup>5</sup> The share of the private sector in the economy increased from 36.6% in 2000 to 55.9% in 2008, and now accounts for 70% of industrial output and 90% of job creation. Overall, per capita income increased from US\$98 in 1990 to US\$402 in 2000 and US\$1,064 in 2009. Inevitably, however, income growth has been concentrated around large population centres where export-oriented manufacturing has clustered.

Over the last two years, growth rates have slowed as a result of the global financial crisis. There have also been important changes in the nature of economic growth, linked to Vietnam's achievement of MIC status. As productivity has increased, higher value-added exports such as electronic products have become more important. There has been a major real-estate boom (prices jumped 263% in 2007), with FDI moving into hotels and other real estate. While there is every prospect that high economic growth will continue, there are concerns that growth in the future will be less pro-poor in nature.

## **2 Poverty reduction and social development**

Economic growth concentrated in agriculture and low-wage industries has had a dramatic impact on reducing poverty. According to the national poverty line, poverty fell from 58% in 1992 to 19.5% in 2004 and 14.5% in 2008. Preliminary figures for 2010 suggest 10-12% (8-9 million people) still in poverty. Using the international poverty line (US\$1 per day at PPP), the reduction was from 39.9% in 1993 to 4.1% in 2008. The pro-poor nature of growth has meant only modest overall increases in income inequality, with the Gini coefficient rising from 0.39 in 1999 to 0.43 in 2008.<sup>6</sup> However, there are still many households living just above the poverty line and vulnerable to falling back into poverty.

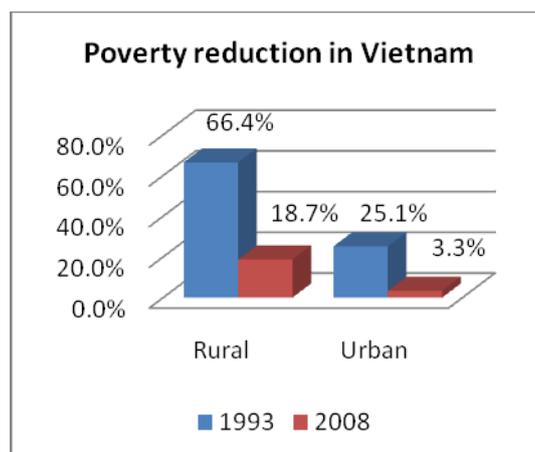
Poverty reduction has been most dramatic in the prime agricultural areas of the Red and Mekong River deltas, and in the population centres of the southeast where manufacturing has been concentrated. Poverty has been most difficult to address in the Northern Highlands, where the poverty rate remains at 25.1% (2008), and among the ethnic minority groups. Poverty rates among ethnic minorities are at nearly 50%, compared to 9% for the majority population, while food poverty, at nearly 30%, is ten times that among the majority. Studies have suggested that the high incidence of poverty among ethnic minorities relates to lower educational attainment and land ownership, limited access to financial services and markets and cultural factors, including language differences. There may also be significant levels of hidden poverty in urban areas, following rapid urbanisation.

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<sup>4</sup> The proportion of crude oil in total exports fell from 23% in 2005 to 11% in 2008, and will decline quickly in the coming years as reserves are depleted.

<sup>5</sup> It reached its highest proportion during the Asian financial crisis (1995-97) and the global financial crisis (2007-09).

<sup>6</sup> Arkadie, Brian at al, "Joint Country Analysis of Viet Nam", draft July 2010, p. 78.



Source: Socialist Republic of Vietnam, “MDG 2010 National Report”, Hanoi, August 2010

Faced with these more difficult challenges, the rate of poverty reduction has now slowed substantially, and Vietnam faces a substantial risk that continued rapid economic growth will lead to increasing inequality in the future.

Alongside reduction in income poverty, social development has progressed steadily, with the Human Development Index increasing from 0.561 in 1985 to 0.725 in 2007. Life expectancy has increased from 57.4 years in 1980 to 74.3 in 2007. Vietnam achieved its MDG goal of universal primary education to national standards<sup>7</sup> by 2000, but there are still substantial quality issues and the primary school completion rate is as low as 70% in some provinces. Vietnam eliminated the gender gap in education in 2004, with girls now making up more than half of Upper Secondary and College enrolments. The national literacy rate stands at 93.2%.

Vietnam is on track to achieve its health-related MDGs, with the targets for the 2005-2010 period already met. Malnutrition among children under 5 has fallen below the 2010 target of 20%, while under-5 and infant mortality reached 24.4 and 16 per 1,000 live births, which is at or below the MDG targets for 2010.<sup>8</sup> Maternal mortality is at 69 per 100,000 live births, showing major progress from the 1990 figure of 233. The rate of new HIV infections is on the decline, and goals on mortality and morbidity from malaria and TB have been achieved.<sup>9</sup>

In some aspects of gender equality, in particular access to services, Vietnam has performed very well. At 83%, the labour force participation rate of working age women is extremely high. The figure of 26% female representatives in the National Assembly is the highest in the ASEAN region, although the proportion of women in ministerial or equivalent posts in government is only 4.5%, down from 12% in the previous term of government. There are still major equity issues in land, with only 11% of women in rural areas registered as joint title holders for their land, despite laws requiring their registration. Family violence is a serious concern, particularly in remote and mountainous areas, and trafficking in women and children has become a growing problem, the true extent of which is unknown. There are acute problems of gender equity

<sup>7</sup> A commune is recognised as reaching national standards if 80% of 14-year-old children complete the elementary curriculum, or 70% in mountainous and difficult areas. 1,808 of 9,111 communes have not yet reached this target: *Draft National MDG 2010 Report*, p. 35.

<sup>8</sup> Socialist Republic of Vietnam, “MDG 2010 National Report”, Hanoi, August 2010.

<sup>9</sup> Ministry of Health and Health Partnership Group, “Joint Annual Health Review 2009”, Hanoi, December 2009, p. 11.

among the minority populations, particularly for women heading households while their husbands are absent as migrant labourers.

<b>Gender equality in Vietnam</b>
<p>A recent study suggests 13 key challenges for gender equality in Vietnam.</p> <ul style="list-style-type: none"><li>• Women benefit unevenly from economic growth and WTO accession.</li><li>• Women are harder hit in times of economic crisis.</li><li>• Migration offers both benefits and risks to women in Viet Nam.</li><li>• Women have specific needs for social protection but are less likely to receive coverage than men.</li><li>• A lower retirement age for women constrains women's participation in decision-making and management.</li><li>• Sex-selective abortion reflects a preference for sons.</li><li>• Privatisation of services is likely to have a disproportionate impact on women and girls.</li><li>• Intimate partner transmission may drive an increase in the HIV epidemic</li><li>• Ethnic minority women and girls continue to lag behind on a range of indicators.</li><li>• Women's participation in decision-making outside the household lags behind other countries in the region, in particular at the local level.</li><li>• Violence against women is a threat to human security with high costs for families, communities and the economy.</li><li>• Women face barriers to accessing their legal rights to land.</li><li>• There are specific vulnerabilities to climate change for women and men.</li></ul> <p style="text-align: right;"><i>Arkadie, Brian at al., "Joint Country Analysis of Viet Nam", draft July 2010</i></p>

The MDGs on environmental sustainability remain a major challenge for Vietnam, which is one of the most vulnerable countries in the world to the impacts of climate change. Although both GoV and DPs have become much more active in this area, with major new funds now becoming available for climate change adaptation, development in Vietnam remains characterised by wasteful exploitation of natural resources, particularly forests, and extensive land degradation and loss of biological diversity.

### **3 Governance and institutions**

Vietnam's transformation from a command to a market economy has required an equally dramatic transformation of its governance institutions, in a process that is still underway. Vietnam's rapid achievement of MIC status has left it relatively little time to develop the policies and institutions required to manage the risks associated with integration into the global economy and the social pressures that attend rapid growth. While Vietnam's administrative capacity is strong relative to many developing countries, it also displays some notable institutional deficits.

The structure of the Vietnamese administration is being transformed through an ambitious process of decentralisation. Traditionally, the administration was highly centralised, with many powers vested directly in the prime minister. There has been a de-concentration of authority to government ministries and agencies, which are given more autonomy to manage their budgets and operations. This has involved the creation of a regulatory framework for the public sector, in what one former government official described as a shift "from the rule of man to the rule of law". This has by no means been a straightforward process. Vietnam has a complex framework of administrative laws and lesser legal instruments that are often contradictory or difficult to

interpret. This can work against de-concentration, as officials tend to refer disputable questions back to the highest levels rather than exercise their own autonomy. One observer described the administration as “a decentralised system, superimposed on a highly centralised mindset.”

There has also been a major transfer of resources and responsibilities down to provincial level, where nearly half of all development expenditure now takes place. Provinces exercise considerable budgetary autonomy, with relatively weak reporting on expenditure back to the central level. Sectoral departments in the provinces are subject to the authority of the Provincial People’s Committees, with guidance from the central ministry. This arrangement does not facilitate the implementation of national development programmes. To improve the targeting of resources to national development needs, Vietnam has developed a series of National Target Programmes (NTPs) – ring-fenced budgetary allocations delivering funds to provinces for specific development purposes. This has had a strong influence on the way programmatic assistance to Vietnam has evolved. With only a few recent exceptions, DPs have stayed away from sectoral budget support and comprehensive Sector-Wide Approaches (SWAs), owing to the difficulty of tracking expenditure through a highly decentralised system. Instead, they have favoured directing funds through NTPs in what is known as ‘targeted budget support’.

Vietnam’s commitment to pro-poor growth is strongly evidenced by its system of fiscal transfers, which accomplishes a major redistribution of resources to the poorest areas. For example, as much as 75% of local tax revenues from Ho Chi Minh City are diverted to poorer provinces, some of which receive transfers equivalent to 50% of their GDP. This is supplemented by a significant number of additional NTPs and other national programmes targeting under-developed areas. One recent mapping counted 41 national poverty-oriented programmes, most of which are concentrated in mountainous and ethnic minority areas.<sup>10</sup> This visible commitment to poverty reduction has given DPs the confidence to provide large volumes of general budget support to Vietnam, despite the poor reporting of expenditure. There are, however, significant concerns about the efficiency of pro-poor expenditure. Vietnamese poverty reduction efforts remain fragmented and poorly coordinated, and the difficulties Vietnam has with financial reporting and results management across its highly decentralised system make it very difficult to assess impact. DPs are also concerned about the increasing volume of user fees imposed for public services (both formally and informally), which is regressive in its effects and may lead to a two-tier system of public services between wealthier and poorer provinces.

Development planning has a long tradition in Vietnam, with a 5-year planning cycle synchronised at the national, sectoral and provincial levels. The fact that the Socio-Economic Development Plans (SEDPs) are an integral part of the Vietnamese system of government has meant that ‘ownership’ of the national development agenda (at least across executive government) has always been strong. However, the nature of the planning process has had to change dramatically as the economic system changed. Traditionally, development planning consisted mainly of enumerating production targets for the centrally planned economy and specifying related government outputs such as the construction of infrastructure. Over the last two planning cycles, GoV has introduced a range of innovations to modernise its planning process, including more surveys and analytical work on poverty, broader consultation and the introduction of results frameworks and national monitoring systems. However, there are still a range of shortcomings with the process. Planning and budgeting are institutionally separated between MPI and the Ministry of Finance (MoF). MoF is responsible for the recurrent budget, while MPI screens and approves capital projects. There are weaknesses in the integration of the national SEDP with sectoral strategies. The planning framework remains very broad, with many

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<sup>10</sup> Richard Jones *et al.*, “A mapping exercise: poverty reduction programmes and policies in Vietnam”, UNDP, 2009.

goals but a lack of detail on priorities and policy instruments. As a result, DP programmes tend to be aligned as a matter of course with the SEDP.

There have been significant improvements in public financial management (PFM) and procurement. A decade ago, the state budget was a confidential document. The budget process has now become much more transparent, and accountability has been increased by placing the State Audit of Vietnam under the National Assembly. PFM reforms, in particular the introduction of an IT-based treasury and budget management system, have gradually strengthened fiduciary controls. However, DPs have been concerned at the delayed adoption of a new State Budget Law, expected in 2009, and the slow take-up of standard diagnostic tools such as the OECD-approved Public Financial Management Accountability (PEFA) framework. On procurement, a new Public Procurement Law adopted in 2005 was generally regarded as a significant step forward, although still short of international standards in a number of respects (see below). Overall, Vietnam's IDA Resource Allocation Index (formerly CPIA) score is 3.8 for its public sector, which is at the top end of IDA-eligible countries in Asia and on a level with Indonesia.

Vietnam continues its single-party political system under the leadership of the Communist Party of Vietnam, and enjoys a high level of political stability despite its dramatic economic transformation. Despite the lack of political competition, there is growing space for democratic input into the development process. The National Assembly has in recent times taken a more active role vis-à-vis the executive, putting a stop to a number of prestige projects it considered unjustified. Civil society is represented by official mass organisations, which are state financed, and a relatively weak local NGO community which is active in service delivery but has limited voice in the policy sphere. Although freedom of the press is guaranteed by law, there are still some practical restrictions on reporting on sensitive areas such as corruption. In recent years, Vietnam has been introducing reforms to change the top-down nature of the planning process by strengthening grass-roots democracy at the town and commune level, but the capacity and interest of communities to engage in participatory planning has been fairly slow to emerge.

Overall, economic transformation in Vietnam has been a slow and deliberate process, without radical changes of direction or wholesale import of foreign policy models.<sup>11</sup> Policy development works through careful piloting of new ideas and the painstaking construction of consensus through collective decision-making processes. These processes are largely opaque to outsiders and resistant to external pressure. In the early 2000s, Vietnam allowed its IMF programme to lapse rather than submit to the conditionalities involved. This led DPs to conclude well before the Paris Declaration that policy conditionality was generally unhelpful. Rather, policy influence depends upon building relationships of trust with key opinion makers over many years. GoV officials are generally open to well-informed advice based on detailed knowledge of Vietnamese conditions.

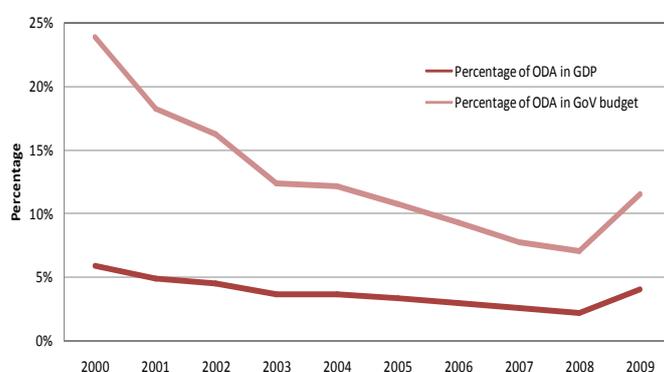
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<sup>11</sup> Martin Rama, "Making difficult choices: Vietnam in transition", Commission on Growth and Development Working Paper No. 40, 2008.

## 4 ODA and development finance

In absolute terms, Vietnam is one of the top five recipients of ODA in the world.<sup>12</sup> The total volume of ODA committed and disbursed has increased steadily over the past decade, from US\$2,400 and \$1,650 million respectively in 2000 to \$5,014 and \$1,937 million in 2008.<sup>13</sup> The growing gap between commitments and disbursements is symptomatic both of a young and expanding aid programme and of lags in disbursement due to procedural inefficiencies.

However, Vietnam is by no means an aid-dependent country, with ODA providing only a minor share of development finance. The proportion of ODA to GDP fell from 5.9% in 2000 to 2.2% in 2008, and the share of ODA in the national budget declined from 23.9% in 2000 to 7.1% in 2008.<sup>14</sup> The total volume of ODA is less than Foreign Direct Investment, tourist revenues or remittances. It is nonetheless regarded by GoV as a catalyst for other investment flows and an important source of finance in its own right, accounting for 12-13% of the total state investment budget.<sup>15</sup>



Vietnam's extraordinary success in poverty reduction, and arguably its wholehearted embrace of the aid effectiveness agenda, has attracted a growing number of donors, from 40 in 2000 to 46 in 2005 and 51 in 2009 (28 bilateral and 23 multilateral). This includes non-OECD donors from Eastern Europe, Asia and the Middle East. According to MPI figures, China is the largest non-OECD donor, with aid commitments since 2000 of around US\$560 million, which is under 2% of all ODA.

The ODA profile is dominated by lending from the Six Bank group (World Bank, ADB and development banks from Japan, France, Germany and Korea), which between them supplied 85% of total ODA to Vietnam since 2000, and more than 90% in 2009 as a result of some large stimulus packages. Of all new ODA commitments in 2008, 92% were loans and 83% came from the World Bank, ADB and Japan.

With a large donor community but a very high proportion of aid coming from a small number of large donors, Vietnam displays both a high concentration of aid into large investment projects and a 'long tail' of small donors providing relatively insignificant amounts of aid. In fact, taking

<sup>12</sup> According to OECD data, it is exceeded by Afghanistan, Iraq, the Palestinian Occupied Territories and Ethiopia: OECD, "Development Cooperation Report 2010", Statistical Annex, p. 228.

<sup>13</sup> All ODA figures in this section are based on data provided to the evaluation by MPI.

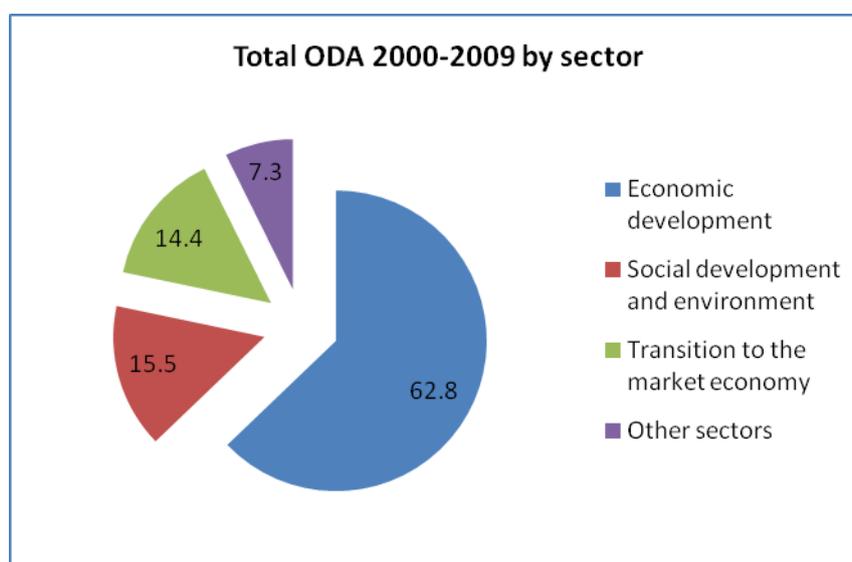
<sup>14</sup> Both percentages increased temporarily in 2009 due to emergency support from the development banks for GoV's stimulus packages.

<sup>15</sup> "Review of the Progress on the Realization of ODA Strategic Framework for 2006 – 2010 period and ODA vision beyond 2010", Presentation by Dr. Ho Quang Minh, Director General, FERD, MPI, June 2010.

total ODA commitments from 2000 to 2009, there are 40 donors that together provided less than 10% of total ODA. Arguably, this proliferation of small donors gives rise to disproportionately high transaction costs for the ODA portfolio as a whole. It is clear, however, that GoV does not see it in these terms. Each bilateral aid relationship is seen as important in diplomatic terms, and there has been no attempt to discourage small bilateral donors. MPI notes that the number of separate ODA agreements has declined substantially over the years, while the average size of project has increased from US\$15.8 million in 2001-05 to \$58 million in 2006-09 (although these numbers are skewed by the large emergency budget support programmes in 2008/09).<sup>16</sup> MPI also notes that the One UN Reforms are helping to reduce fragmentation.

Average size of ODA projects			
Period	No. of ODA agreements	Total budget (US\$ m)	Average project size (US\$ m)
1993-2000	1,025	13,866	13.52
2001-2005	713	11,238	15.76
2006-2009	298	17,283	57.99

The sectoral allocation of ODA in the period 2000-2009 shows a strong emphasis towards the economic sector,<sup>17</sup> which at US\$19 billion represents 63% of all assistance. Within this segment, the largest items are transport infrastructure (27% of all ODA), followed by energy infrastructure (17%) and agriculture and rural development (7%). Social development and environmental protection received US\$4.7 billion, or 16% of assistance. Transition to the market economy (which includes general budget support, administrative reform, the financial sector and the business environment) received US\$4.4 billion or 14% of the total, while ‘other sectors’ (principally security) received \$2.2 billion or 7%.



<sup>16</sup> “Review of the Progress on the Realization of ODA Strategic Framework for 2006 – 2010 period and ODA vision beyond 2010”, Presentation by Dr. Ho Quang Minh, Director General, FERD, MPI, June 2010.

<sup>17</sup> This MPI classification includes industry, agriculture and rural development, forestry, trade, irrigation, fishing, energy, transportation, communications, water supply and sanitation and urban development.

There is no Joint Assistance Strategy in Vietnam, but GoV manages its ODA according to a 5-year Strategic Framework for ODA Mobilisation and Utilisation 2006-2010, issued by the Prime Minister. Among other things, the Strategic Framework sets out the institutional responsibilities for ODA management and describes the procedures involved for approval of individual projects. As the focal point for ODA management, MPI screens requests for assistance from GoV agencies and compiles an ODA Requesting List. It also receives offers of support from donors, and works with MoF and line agencies on technical and financial appraisal. The process has in the past been highly centralised, with all project concepts and designs needing direct approval from the Prime Minister, but is now being decentralised to line ministries and agencies.

The Strategic Framework does not express any strong preference on aid modalities, stating that:

“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.”<sup>18</sup>

MPI statistics do not break down ODA by modality. According to the 2008 Paris Declaration monitoring survey, 21% of assistance was budget support and another 26% was other programme-based assistance (although definitional problems render the latter figure unreliable). The flagship aid programme in Vietnam has been the Poverty Reduction Support Credit (PRSC) – a multi-donor general budget support instrument which began in 2001 and will have its final annual cycle in 2011. Managed by the World Bank, the PRSC at its height attracted 12 donors and contributions of over US\$200 million per annum.<sup>19</sup> The PRSC, which is widely recognised as representing best practice in general budget support, has become a key part of the national aid architecture, providing a platform for dialogue between GoV and DPs on short-term policy priorities. Policy actions are set within sector working groups, and included in an annual Performance Assessment Framework as triggers and benchmarks. The PRSC contains only a soft form of financial incentive. Each DP determines its level of funding based on its own criteria, which in some cases relate to performance in the previous year. However, the main function of the PRSC is not the conditionality but the structured process of policy dialogue it enables.

Vietnam’s ODA profile is beginning to change as a result of its achievement of MIC status. A number of bilateral donors have begun to scale back their assistance, and others plan to do so in the future. DPs are beginning to change the nature of their assistance. For example, the Netherlands and Sweden have already begun to move away from traditional sector-based support towards technical assistance in niche areas, which is more characteristic of development assistance to MICs. While most DPs have not made firm decisions about the future of their assistance, there is general agreement that this is the likely direction of travel for most bilateral donors. This has important implications for aid effectiveness. This kind of niche technical assistance is less likely to be delivered through country systems or jointly with other donors, which in the Dutch experience means slipping backwards on the Paris Declaration indicators. It is not, however, necessarily less effective. For this reason, GoV and DPs have begun to discuss how the national aid effectiveness agenda will need to be adapted to reflect this change.

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<sup>18</sup> Strategic Framework for ODA Mobilisation and Utilisation 2006-2010, Para. 11. A new Strategic Framework is now under preparation.

<sup>19</sup> In 2009, the World Bank and Japan provided large additional loans in support of GoV’s fiscal stimulus measures, which temporarily increased the PRSC envelope to around US\$900 million.

When it comes to multilateral assistance, the upper threshold for IDA eligibility is a *per capita* GNI of around US\$1,165 (adjusted every year), which Vietnam will reach in the next 2-3 years. However, this is not a strict cut-off, and some countries continue to access IDA funds for some considerable time. Vietnam will also have increasing access to less concessional IBRD funds, as well as commercial finance.

## 5 Aid effectiveness commitments and processes

Vietnam was one of the first countries to localise the Paris Declaration, through its 2005 Hanoi Core Statement (HCS). There were a number of precursors to the HCS. A recognised need for greater harmonisation in aid delivery had led to the emergence of a number of sectoral Partnership Groups and donor groupings, including the Like-Minded Donor Group (LMDG), Six Banks (as it later became known), the EU and its member states, and the UN agencies, each of which was pursuing a range of initiatives on harmonisation and alignment.

In 2004, GoV created the Partnership Group on Aid Effectiveness (PGAE) in order to bring together these different strands of activity under GoV leadership. It began by developing a Vietnam Harmonization Action Plan (V-HAP), which carried forward initiatives launched by the LMDG and Six Banks. This led on to the HCS, which localised the Paris Declaration commitments into a national instrument. The HCS mirrors the content of the Paris Declaration almost exactly, except that the commitment on untying of aid was left out and the target for the percentage of aid provided through programme-based approaches was set at a more ambitious 75%, rather than 66%.

Following the Accra High-Level Forum in September 2008, MPI launched a process to localise the Accra Agenda for Action (AAA). It prepared an Implementation Framework in the form of a matrix setting out the additional AAA commitments, processes that would contribute to their implementation, the responsible agencies and the time line. After six months of consultations, the Framework was formally adopted by the PGAE, endorsed by the Vice Minister of Planning and Investment and widely distributed to GoV agencies. However, according to some DP officials interviewed for this evaluation, there were concerns among the DP community as to whether the additional commitments in the AAA were particularly relevant to the specific challenges facing Vietnam as it moved towards MIC status.

Vietnam has an elaborate architecture for promoting aid coordination and aid effectiveness, that has grown up incrementally over the years rather than according to any overarching design.

- The Consultative Group (CG), jointly organised by GoV and the World Bank, has a main meeting and a mid-term thematic meeting every year, with the participation of the Prime Minister. These are highly formal events that provide opportunities for DPs, singly or in groups, to present statements to GoV on policy issues.
- From 2004 to 2009, the PGAE was the primary forum for dialogue on aid effectiveness. It met monthly, and was chaired jointly by MPI and a DP on a rotating basis. Its effectiveness varied at different points in time. In the period following the HCS, the commitment from DPs and MPI to the process was very high. However, as the agenda moved from broad principles to detailed work on specific topics, the discussions became more technical and progress more difficult to achieve. The first Independent Monitoring Report noted that the PGAE had become something between a policy forum and a

technical working group, without serving either function satisfactorily.<sup>20</sup> There was limited attendance by GoV agencies other than MPI, raising concerns as to the depth of commitment across government. The PGAE was also seen as lacking the authority to achieve progress on the more difficult elements of the aid effectiveness agenda.

- In January 2010, the PGAE was replaced by the Aid Effectiveness Forum (AEF). The AEF has a broader remit, to discuss not just the technicalities of aid delivery but development effectiveness issues as a whole. Participation from GoV is broader, with regular attendance by MPI, MoF, the National Assembly and a selection of line ministries and provinces. International NGOs are also represented. The AEF meets just before each CG, enabling commitments or sticking points to be referred to the higher level. It also has an Executive Committee to take forward activities between AEF meetings. It will have a hierarchical relationship to the sectoral Partnership Groups, although it is not yet clear how this will be implemented. One of the main agenda items for the AEF is dialogue on the implications of MIC status and the changing aid profile for the national aid effectiveness agenda.
- A number of Thematic Groups have been established from time to time under the PGAE, to deal with topics like procurement, financial management, environmental and social safeguards and capacity building. These are technical discussions that need a dedicated forum.
- Vietnam currently has 22 sector Partnership Groups. They vary considerably in their history, form and level of effectiveness. A 2001 report described a ‘partnership journey’, in which line ministries and DPs in each sector proceed from a shared diagnosis of the challenges, through the development of shared action plans and the mobilisation of resources, to developing common implementation and monitoring arrangements.<sup>21</sup> The Partnership Groups are all at different stages in this process of evolution.
- As stated above, the PRSC has become an important part of the national aid architecture, providing a platform for dialogue between GoV and DPs on short-term policy priorities (non-funding DPs are also able to participate in the process). Triggers and benchmarks are proposed by sectoral PRSC Working Groups, which broadly but not exactly correspond with the Partnership Groups.

A series of donor groupings are also integral to the aid architecture in Vietnam.

- The Like-Minded Donor Group (LMDG) is an informal association of 14 bilateral agencies<sup>22</sup> created in 2001 to promote harmonisation, joint programming and new aid modalities. It has launched many aid-effectiveness initiatives over the years, including a joint Harmonization Project which funds capacity building ODA management and some ambitious pilots of new aid modalities, in particular targeted budget support. It has an Innovation Fund, which funds analytical work and pilot activities. The LMDG group often agrees joint positions to take into dialogue with GoV.
- The Six Banks (originally three) was created in 2002 as a platform for the development banks to address common issues affecting the quality and efficiency of their projects. Based on a biannual Joint Portfolio Performance Review (JPPR), the Six Banks lead on dialogue with GoV on the legal framework for ODA and public investment management, and are working to resolve inconsistencies between donor and country

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<sup>20</sup> Marcus Cox *et al.*, “Independent Monitoring Report on Implementation of the Hanoi Core Statement”, November 2007, p. 31.

<sup>21</sup> “Putting Partnerships to Work”, An informal report for the Consultative Group Meeting, Hanoi, 2001, p. 5.

<sup>22</sup> Australia, Belgium, Canada, Denmark, Finland, Germany, Ireland, the Netherlands, New Zealand, Norway, Sweden, Switzerland and the United Kingdom.

systems. The Six Banks have agreed a series of Action Plans with GoV to improve the implementation performance of ODA projects.

- The European Union and its member states have been active in aid effectiveness, first agreeing a Road Map for Closer Coordination and Harmonisation in February 2005 that contained four commitments that were additional to the HCS: i) provide all capacity building assistance through coordinated programmes with increased use of multi-donor arrangements; ii) channel 50% of public sector assistance through country systems; iii) avoid establishing any new Project Implementation Units; and iv) reduce the number of uncoordinated missions by 50%.<sup>23</sup> The EU brokered an agreement between its members and UN agencies on joint cost norms for project management, which eliminated donor-financed salary top-ups for government officials engaged in managing aid projects. The EU is currently leading discussions on division of labour, as well preparing the ground for sectoral budget support in the health sector. The EU has Working Groups on health, education and private sector development. It publishes an annual Blue Book, indicating where the member states are active and addressing policy issues like the development of new aid modalities.
- Vietnam agreed in 2006 to be a pilot country for the One UN Initiative – a reform of the UN presence in-country to establish One Plan, One Plan Fund, One Leader, One Set of Management Practices and One UN House. These reforms are progressively reorganising the 18 UN agencies in Vietnam to enable them to participate in aid management processes as a single actor, improving coordination and reducing transaction costs. UN staff from different agencies working on common thematic areas are now formed into inter-agency teams. A series of Programme Coordination Groups have been established to facilitate this. A number of DPs are now funding UN activities in Vietnam via the common Fund, and a single UN House is under construction and will be ready in 2011.

HCS implementation is also supported by a number of joint review process, including:

- regular participation in Paris Declaration monitoring;
- regular progress reports by the PGAE/AEF;<sup>24</sup>
- three rounds of Independent Monitoring of implementation of the PD/HCS by an external evaluation team (including this evaluation), to supporting learning from experience and mutual accountability.<sup>25</sup>

Vietnam therefore has policies, structures and processes for improving aid effectiveness that are as elaborate as any country in the world, giving rise to Vietnam's international reputation as a global leader on aid effectiveness. This creates an enabling environment for improving aid effectiveness. However, making concrete changes to aid practices – for example, changing aid modalities or aligning with country systems – is still a complex process, requiring great effort and commitment on all sides.

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<sup>23</sup> A review of these commitments in 2009 found that progress had been made against the first three, while the fourth was lagging behind: AEF, "Aid Effectiveness Progress Report", June 2010, p. 18.

<sup>24</sup> As well as annual reports, there was a mid-term review of implementation of the PD/HCS prepared for the 2008 CG, and an Aid Effectiveness Progress Report prepared for the first meeting of the AEF.

<sup>25</sup> Marcus Cox *et al.*, "Independent Monitoring Report on Implementation of the Hanoi Core Statement", November 2007 (<http://www.ambhanoi.um.dk/NR/rdonlyres/A96B7D03-8698-4BB5-9C82-FFBBF13B65D8/0/HCSIndependentMonitoringReport2007.pdf>); Katarina Kotoglou *et al.*, "Independent Monitoring of the Implementation of the Hanoi Core Statement at Sectoral and Sub-National Level in Vietnam", December 2008 (<http://www.opml.co.uk/go.rm?id=1915>).

MPI's Foreign Economic Relations Department is an energetic champion of aid effectiveness. It has invested a great deal of time and effort in PD/HCS-related processes, at both international and national levels. MPI's understanding of aid effectiveness issues is very high, and it has shown an admirable willingness to experiment with new structures and initiatives to keep the implementation process moving forward. On the other hand, its practical authority to change behaviours across government agencies is limited. As in most developing countries, communication and coordination across line ministries in Vietnam is often poor. MPI has certainly made significant efforts to build understanding of the HCS across government through its Comprehensive Capacity Building Program (CCPB),<sup>26</sup> jointly funded by the LMDG donors and the World Bank. Over the three rounds of Independent Monitoring of the HCS since 2007, the impact of these efforts has become increasingly visible, with line ministries and provinces now displaying a much better understanding of the HCS principles and commitments.

Not surprisingly, line ministries and provinces have a somewhat different set of interests around aid effectiveness. They are principally concerned about the speed of implementation of traditional aid projects. Through the survey and in interviews, they noted that long delays in the start-up of ODA projects raise transaction costs and reduce development impact. They therefore welcome the HCS commitment to greater harmonisation and alignment of DP and GoV rules and procedures. On the other hand, when it comes to moving away from traditional project modalities towards on-budget, programmatic support, the incentives are generally not supportive, for reasons outlined below.

On the DP side, all of the OECD donors are signatories of the HCS. There are of course some DPs whose participation is fairly nominal, but they constitute a small share of assistance. DPs who are active participants in aid effectiveness processes (namely, the members of the Six Banks, LMDG, EU and UN groups) together constitute around 95% of total ODA. The groups have somewhat different interests within the aid effectiveness agenda. The Six Banks have traditionally been concerned mainly with boosting the efficiency of project implementation and the quality of country systems, while the LMDG and EU groups have worked to introduce new aid modalities and other forms of harmonisation.

## **6 Conclusions on the Paris Declaration in context**

In summary, Vietnam and its DPs have shown very significant engagement with the aid effectiveness agenda. DPs were engaged in antecedent activities from 2000 onwards through the development of the PRSC and the establishment of sectoral Partnership Groups and the four donor groupings. GoV then progressively assumed leadership of the process from 2004 onwards, through the creation of the PGAE and adoption of the HCS. There has been, and continues to be, a very significant number of processes to implement the HCS commitments.

There are a number of contextual factors that stand out as shaping the form and implementation of the aid effectiveness agenda in Vietnam. First, there is a very high level of national ownership of the development agenda, together with an extremely impressive record on growth and poverty reduction. This gives DPs confidence that their aid will be used effectively, despite continuing weaknesses in country systems. In particular, Vietnam's record of directing a significant share of its own budgetary resources towards poverty reduction encouraged DPs to shift to general budget support at a very early stage, even before there was a published budget.

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<sup>26</sup> <http://ccbp.mpi.gov.vn/Default.aspx?alias=ccbp.mpi.gov.vn/English>.

Second, Vietnam's lack of aid dependence has resulted in a better dynamic between government and DPs than is seen in many other developing countries. Vietnam has always been resistant to external pressure on its domestic policy processes. Long before the Paris Declaration, after the IMF programme lapsed over disagreements on the conditionality, DPs in Vietnam realised there was little value in attempting to use aid to lever policy change. Although there were many occasions when DPs, particularly the World Bank, would like to have seen Vietnam move more swiftly on economic transition, they chose to focus their assistance and their policy dialogue on achieving goals to which the government was clearly committed. This meant that Vietnam and its DPs achieved a relatively mature development partnership at an early stage, and the PRSC developed into a global model of good practice in this respect. However, the relatively small contribution of ODA to the national budget can also make the sectors reluctant to open up their planning and budgeting processes to full DP participation. For this reason, the elaborate and rather intrusive forms of Sector-Wide Approach found in some aid-dependent countries have not emerged in Vietnam.

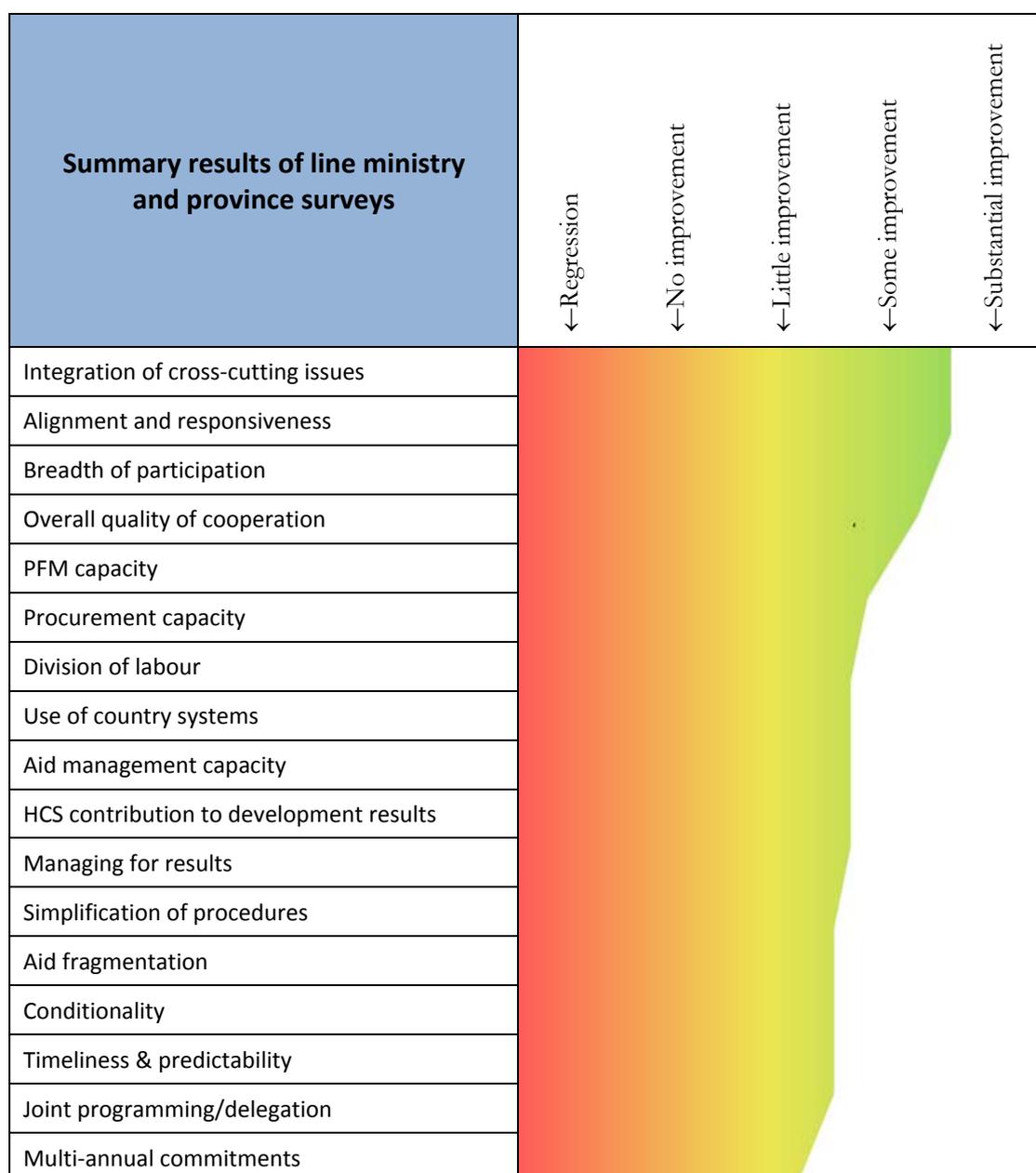
Third, GoV has made a very strong and public commitment to the aid effectiveness agenda, in order to maximise the contribution of ODA to its development agenda. It also serves Vietnam's diplomatic agenda to be seen as a model partner country. While the level of engagement necessarily varies across the government, MPI has been a very effective champion of the agenda, and has shown a willingness to experiment with a range of initiatives and processes to keep it moving forward.

Fourth, Vietnam's very rapid achievement of MIC status has left it with some striking institutional deficits for a country at its level of development. There are still major weaknesses in planning and budgeting. The on-going process of decentralisation is exposing major capacity constraints, and the country is still trying to find development policy instruments that work effectively in a decentralised environment. Goals such as bringing country PFM systems up to international standards and introducing effective management for results remain major challenges.

Finally, the debate on aid effectiveness in Vietnam is increasingly shaped by Vietnam's achievement of MIC status. Vietnam will have access to new sources of development finance, including less concessional finance from the development banks and a wider range of commercial finance. It will need to develop its policies for how to make best use of these new funding sources. At least one donor, the Netherlands, has already shifted the balance of its assistance away from traditional sectoral support towards capacity building and technical assistance in niche areas. Others are likely to follow suit. The implications of this for aid effectiveness still need to be assessed, but it appears that assistance of this kind is less likely to be delivered jointly or through country systems. It does, however, need to be closely linked to the national development agenda, and principles like managing for results will continue to be extremely important.

### Summary of Survey Results

Note: As part of the evaluation, we surveyed a sample of line ministries, provinces and DPs on questions in the evaluation matrix. Respondents were asked to rate the level of progress on a scale of 1 (Substantial improvement) to 5 (regression), and could provide additional comments if they wished. We had responses from 4 line ministries, 7 provinces and 12 DPs. The GoV responses are summarised in the first table, and the DP responses in the second table. The questions are reordered from most to least improvement. The full survey instruments are included in Annex X, together with average scores and a summary of the comments.



<p style="text-align: center;"><b>Summary results of DP survey</b></p>	<p style="text-align: center;">←Regression</p>	<p style="text-align: center;">←No improvement</p>	<p style="text-align: center;">←Little improvement</p>	<p style="text-align: center;">←Some improvement</p>	<p style="text-align: center;">←Substantial improvement</p>
Untying of aid					
Reducing the burden of conditionality					
Delegated cooperation among DPs					
Simplification of DP procedures					
DP responsiveness to GoV requests					
Joint/harmonised programming					
Multi-annual funding commitments					
Overall change in DP behaviour					
Breadth of participation in the SEDP					
DP use of country systems					
Timeliness and predictability of aid					
GoV leadership of aid coordination – national					
DP incentives for aid effectiveness					
National accountability					
GoV leadership of aid coordination – sectoral					
Improvement in PFM					
Reduction/integration of PMUs					
DP rating of their own selectivity					
Decentralisation of aid agencies					
Improvement in procurement					
Mutual accountability					
Efficiency of aid management processes					
SEDP as framework for alignment					
Managing for results					
Overall change in GoV behaviour					
Reduced fragmentation of aid					
Anti-corruption efforts					

## C. Has the HCS led to improvements in aid delivery and partnerships?

This chapter looks at the second of the Core Evaluation Questions:

**“To what extent and how has the implementation of the Paris Declaration led to an improvement in the efficiency of aid delivery, the management and use of aid and better partnerships?”**

This refers to the intermediate results of the HCS – its impact on the processes surrounding ODA delivery. The evaluation matrix is structured according to the three chapters of the AAA, namely:

- country ownership over development;
- more inclusive and effective partnerships for development;
- delivering and accounting for development results.

Under these headings, we briefly examine each of the main principles and commitments in the HCS, looking at to what extent there has been change in the quality of the development partnership since and as a result of the HCS. In accordance with the evaluation methodology, we include processes that began prior to the HCS in the analysis where these are an integral part of the national aid effectiveness agenda.

### 1 Country ownership over development

#### *1.1 Stronger national strategies and operational frameworks*

##### *i) Government leadership on aid management*

GoV leadership of aid management and coordination is generally considered fairly strong. While ODA is only a minor part of development finance in Vietnam, GoV has some clear ideas about its catalytic role in overcoming bottlenecks in infrastructure and public institutions and ensuring balanced, pro-poor development. Rather than focusing on the comparative advantage of individual DPs, GoV prefers to focus on the comparative advantage of ODA among other sources of development finance. Some DPs report receiving very specific requests and guidance from GoV on the shape of their country programmes, while others commented that it is sometimes difficult to get clear answers from GoV as to whether particular projects are genuine priorities.

There is a clear assignment of institutional responsibilities for ODA management. MPI acts as focal point, responsible for preparing the 5-year Strategic Framework for ODA Utilisation and Management, strengthening the legal and institutional framework for ODA management, acting as intermediary between DPs and recipient institutions and providing technical support on individual projects. However, poor communication between MPI and line ministries undermines MPI's capacity to intermediate effectively. MoF provides financial oversight, collects disbursement data and ensures it is reflected on the budget (sometimes with considerable time lags). The State Bank of Vietnam coordinates relations with the World Bank, ADB and IMF. The roles and responsibilities of line ministries are clearly articulated in the legal framework, and in recent years the process has become more decentralised. The National Assembly has become more active in supervising ODA management, receiving regular reports from MPI and MoF on aid flows and directly approving projects of national significance (e.g., major infrastructure). There is an ODA Inter-Ministerial Task Force on problem solving which

was established in September 2004. It works with DPs, especially the Six Banks, to resolve bottlenecks in ODA utilisation and align DP and country systems for ODA management. All these process have shown steady improvement over the life of the HCS.

While the legal framework for ODA management has improved, it is still in need of work. Decree 131 acknowledges that a range of aid modalities are possible (project, sector, programme and budget support), it lacks detailed guidance on the design and management of new aid modalities. As a result, DPs trying to move away from traditional projects have found they are working against the grain of the legal and institutional framework, making the design process long and difficult.

DPs report mixed experience with country leadership at the sectoral level. Some of the sectoral Partnership Groups are effectively led by the responsible GoV institution, while others have fairly token participation. The line ministries and provinces consulted by the evaluation team reported that they had a good understanding of the different strengths and preferences of the DPs they dealt with, which helped them negotiate assistance. All considered that DPs were generally responsive to their needs, plans and strategies.

Vietnam is in the process of developing an ambitious ODA database which will unify donor-supplied ODA data with project monitoring data collected by GoV agencies through a unified national monitoring and reporting system. The initiative is being developed under the International Accountability and Transparency Initiative.

Overall, there has been steady progress in this area, with the prospect of further progress through the next iteration of the Strategic Framework and on-going revisions to the legal framework.

#### *ii) The SEDP as a framework for alignment*

Vietnam's 5-year national development plans (SEDPs) are embedded in the system of governance and enjoy a high degree of national ownership. The national SEDP is synchronised with 5-year sectoral and provincial plans, although the linkages between them are not always clear.

The SEDP (both the 2006-2010 strategy and its successor, which is now being drafted) do not provide a particularly strong framework for aligning ODA, for a number of reasons. They are very high-level documents with plenty of narrative, but limited detail on concrete priorities and policy instruments. In the current draft of SEDP 2011-2015, DPs are concerned that more attention is given to promoting rapid economic growth than to addressing the equity issues it gives rise to. Work on the draft is on-going.

The SEDP is not linked to any annual or multi-annual budget process. Vietnam has been piloting a Medium-Term Expenditure Framework (MTEF) for some years, but progress has been fairly slow and the institutional challenges of how to link an MoF-managed MTEF with an MPI-managed planning process have not been resolved.

The line ministries and provinces consulted by the evaluation asserted that their policies and strategies fully reflected cross-cutting issues such as gender equality, social exclusion and the environment. There are large numbers of GoV programmes targeting vulnerable groups. Environmental sustainability is one of the pillars of the SEDP, and with Vietnam particularly vulnerable to climate change, investment in environmental issues is rapidly scaling up. On

gender equality, Vietnam has done well on securing equity in basic service provision and in 2006 passed a Law on Gender Equality, with implementation assigned to a Department of Gender Equality within MoLISA. As outlined above, there are some pressing issues on gender equality that still need to be addressed.

### *iii) Participation in development policy*

Involvement of the National Assembly (NA) in the planning process has increased substantially. The NA (both through its committees and individual members) is involved in the preparation of the SEDP from an early stage. The NA committee system has become more active, in part because of support from DPs, giving the NA greater capacity to scrutinise laws and policies. MPI's CCBP has organised a workshop with NA committees on the HCS, and the NA is active in the Executive Committee of the AEF.

International NGOs are recognised as interlocutors on development policy and aid management. They submit consolidated comments on draft SEDPs, and participate through representatives in CG meetings, the AEF and various sectoral Partnership Groups. However, in recent times the level of participation of the INGO community in these processes has fallen away somewhat. The VUFO-NGO Resource Centre<sup>27</sup> is a voluntary membership body that acts as secretariat to a group of 121 INGOs, out of a total of some 700 INGOs active in Vietnam (although many operate from outside the country). It supports around 20 working groups that coordinate and pursue common interests among the INGOs, and maintains a mailing list that can be used to collect feedback on particular development issues. It also plays an advocacy role regarding the legal framework for INGOs, which continues to present some challenges. However, the Resource Centre lacks the resources to take full advantage of the opportunities for participation available to the INGOs.

National civil society does not play a major role in the development policy process. In Vietnam, there is no sharp dividing line between the state and civil society, with state-funded mass organisations having the official role of aggregating social interests.<sup>28</sup> There has been a proliferation of organisations over the past decade, with “tens of thousands” reportedly active at grass-roots level and around 300 operating across the country.<sup>29</sup> These organisations play an important role in conveying the concerns and interests of citizens to local authorities, delivering services, community awareness raising and monitoring the delivery of development projects. This indicates that participation by citizens in local governance is gradually improving. In some areas, such as the health sector, GoV is beginning to recognise the value of more structured partnerships with CSOs, who are invited to participate in the Health Partnership Group. However, in most areas, CSOs are not seen by GoV as interlocutors in national policy development.

Over the past decade, there has been a gradual opening of political space for public dialogue on issues such as freedom of speech, access to justice and minority rights – areas that bear indirectly on democratic development. GoV is clearly aware that growing community interest in such areas needs to be accommodated, but keeps civil society organisations on a fairly tight leash by specifying through regulations the activities in which they are permitted to engage. However, while GoV has the legal tools for controlling civil society activities, it uses them sparingly.

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<sup>27</sup> <http://www.ngocentre.org.vn/>.

<sup>28</sup> Wishcermann, Jorg, “Civil Society Action and Governance in Vietnam: Selected Findings from an Empirical Survey”, *Journal of Current Southeast Asian Affairs*, 29(2), 2010, 3-40.

<sup>29</sup> VUFO-NGO Resource Centre, “Forms of engagement between state agencies and civil society organizations in Vietnam: Study Report”, December 2008.

## 1.2 Alignment of aid

### *i) Alignment with strategies and priorities*

The broad nature of the SEDP means that alignment of DP country programmes is not an onerous requirement. All DPs reported that they used the SEDP as a frame of reference for their programming, but in a fairly nominal way. They are responsive to direct requests from counterparts, but these are not usually framed in terms of the SEDP. In the survey, most DPs rated themselves highly in terms of their responsiveness to new priorities identified by GoV, and this was confirmed in the responses from line ministries and provinces.

More meaningful forms of alignment occur at the sectoral level, but depend upon the extent to which the sector has articulated a clear, evidence-based strategy linked to its budget process, and whether it uses this strategy as a reference point for managing its assistance. There are some sectors where requests for donor support continue to be made in *ad hoc* way, resulting in a fragmented ODA profile. The health sector has operated in this way, with most donor assistance going into vertical or disease-specific programmes, which works against the coherent development of the health system as a whole. The Ministry of Health and DPs are now trying to break away from this pattern, with the EU leading on the preparation of a sectoral budget support operation (see Box).

Programme-based approaches are therefore an important tool of alignment. However, across the sectors, the shift towards programmatic assistance has been fairly slow. There has been progress in a number of areas, including in rural water and sanitation, Programme 135 (local infrastructure for minority communities), forestry and to some extent education. There is also progress in transport where, although the sector is not well suited to programmatic assistance (except for rural transport), DPs have made a concerted investment in strengthening the ministry's planning capacity.

A number of factors stand in the way of greater use of programme-based approaches. First, there is a clear attachment to traditional project modalities on the part of GoV staff, which comes both from their greater familiarity with this modality and from the additional financial incentives involved in employment in Project Implementation Units.<sup>30</sup> Second, the Vietnamese legal framework for ODA management lacks detailed guidance for line ministries on how to design and implement PBAs and new aid modalities. As a result, traditional projects are much easier for DPs and line ministries to design and implement.

Third, putting aid through the budget creates some genuine difficulties for line ministries. Sector-wide initiatives are challenging to implement through Vietnam's highly decentralised system, especially given weaknesses in financial reporting and managing for results. A traditional project management structure circumvents this by creating a direct line of authority from a central PMU to provincial PMUs. This gives the line ministry both the authority and extra human resources for project implementation. By contrast, where ODA finances sectoral programmes through the budget without creating PMUs, the provinces perceive it as an increase in responsibility with no increase in administrative resources, making it more difficult to secure implementation.

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<sup>30</sup> Note that under GoV rules, staff engaged in implementation of ODA projects may receive a loading of up to 30% on their salary, but this comes from the budget, not donor finance. A number of DP officials interviewed for this evaluation expressed concern that other DPs were continuing to offer financial incentives to GoV staff in ways that were contrary to the EU/UN agreement on cost norms.

## Re-organising the development partnership in health

Traditionally, health has been one of the least coherent sectors in Vietnam for ODA management. There are 27 DPs active in the sector, between them providing around 10% of the national health budget. There are around 75 on-going projects, mostly under US\$500,000 in size, with almost all of them funded by a single donor.<sup>31</sup> Seventeen of the DPs between them provide less than 10% of ODA to the sector.

This scattered assistance profile both reflects and contributes to the fragmentation of the Ministry of Health (MoH) itself. Over the years, the health sector has been organised into a large number of National Targeted Programmes (NTPs) for particular diseases or thematic areas (e.g., nutrition or immunisation). The NTPs are investment vehicles created to channel funds to the provinces for specific health priorities, circumventing the problems created by decentralisation of the health budget. Some were created at the behest of DPs looking for rapid progress on specific indicators. They tend to focus on fairly superficial interventions at the expense of long-term investments in building up the health system. NTPs have their own procedures, cost norms and reporting requirements. They reportedly make life very difficult for health professionals at the local level, who are overwhelmed with parallel reporting requirements.

The proliferation of NTPs has proved a major barrier to developing a coherent national health strategy. The fragmentation of funding means that there is no single health budget. It took a one-year tracking study simply to identify all health-related expenditure. The NTPs – particularly those that are donor financed – have little incentive to participate in planning and budgeting processes. With technical capacity concentrated in the NTPs, the Ministry has been weak at policy making and coordination. Planning is heavily input-driven (e.g., no of beds, staff numbers, equipment), and lacks clarity on service delivery priorities. There is no regulatory framework for public and private health providers or supervision of quality standards. The health information management system is extremely weak, and there is no practice of using what data is available for planning or management purposes.<sup>32</sup>

In the absence of effective leadership from MoH, there have been extensive problems with coordinating capacity building support.<sup>33</sup> Most assistance has gone into strengthening PMUs, rather than mainstreaming capacity, which detracts from improving service delivery and overall management. There has been no coordination on technical standards. There are multiple, inconsistent initiatives on planning and budgeting underway in different provinces. Even for pilot activities, there needs to be some kind of agreed framework of technical standards to enable the results to be measured and compared.

One of the consequences of the lack of effective regulation of the health sector has been a creeping privatisation.<sup>34</sup> Some 63% of total health expenditure is now funded from user contributions. DPs are extremely concerned that this is highly inequitable, and likely to result in a split system between wealthy and poorer areas. Against this background, simply increasing total health expenditure is unlikely to benefit the poorest communities.

From 2007, MoH launched a number of initiatives to improve the effectiveness of ODA in the sector. It formalised the Health Partnership Group (HPG), which meets on a quarterly basis. Both local and international health NGOs are members of the group. It introduced the Joint Annual Health Review, which analyses the challenges facing the sector, and each year addresses a different thematic area (e.g., health finance, human resources). In 2009, MoH developed the Statement of Intent – an aid effectiveness agenda specifically for the health sector. It sets out a number of joint commitments between MoH and DPs:

- MoH agrees to lead on the development of a viable, results-oriented, 5-year national health plan,

<sup>31</sup> Martinez, “How external support for Health and HIV will evolve as Vietnam becomes a Middle-Income Country”, July 2008.

<sup>32</sup> ECORYS, “Participatory capacity assessment for the formulation of the Vietnam Health Sector Capacity Support Project”, October 2008.

<sup>33</sup> Van Konkelenberg, Ron et al., “Report on harmonization and alignment of TA support in Vietnam”, Report for Ministry of Health, GTZ and JICA, March 2010.

<sup>34</sup> UNICEF, “Health equity in Viet Nam: A situational analysis focused on maternal and child mortality”, Hanoi, 2009.

with an overall costing framework, in order to establish the foundations for programmatic assistance. The 5-year plan will be translated into annual plans, with a results framework updated annually and including quantitative indicators, analytical work, agreed policy actions and implementation activities.

- The EU is preparing a sectoral budget support programme, conditional on preparation of an acceptable national health plan. MoH is to develop guidelines for DPs on programmatic assistance, although for the time being no other DP has agreed to move towards budget support. All assistance should be aligned to the 5-year plan, irrespective of the funding modality.
- A study on harmonisation and alignment of technical assistance has been prepared,<sup>35</sup> with a view to strengthening MoH leadership.
- The MoH has agreed lead a review of approval, procurement and disbursement procedures for health aid, although for the time being this is being left to the Six Banks. There are some distinct procurement challenges in the health sector that will need to be addressed.
- Joint Annual Health Reviews are to continue, providing a platform for policy dialogue and mutual accountability.
- The HPG has been strengthened through the preparation of TORs and joint donor financing of a secretariat within MoH (currently WHO, PEPFAR, UNFPA, UNICEF and the EU all contribute funds). The HPG Secretariat is working towards the establishment of Technical Working Groups on particular thematic issues, like planning and budgeting.
- Preparation of a database of DP activities, to be updated on an annual basis. The data has been collected and entered into a simple spreadsheet format for ease of use. However, DPs have not yet validated the data, due to difficulties with capturing pipeline projects and disaggregating them across priority areas. MoH hopes that it will be able to publish the database on its website shortly, to promote transparency.
- Once the database is ready, MoH will carry out a review of how well DP assistance is aligned to the 5-year plan. It will also conduct a review of the timeliness and accuracy of financial information provided by DPs.

The Statement of Intent sets out a very ambitious aid-effectiveness agenda, which has the potential to address some of the current problems with ODA in the sector. As one DP put it, the goal is a SWAp without the complex funding mechanisms. MoH is clearly committed to the process, and progress is reviewed at each quarterly HPG meeting.

There have been some early results. The new 5-five year health plan appears likely to be much more strategic than its predecessor, drawing on the Joint Annual Health Review 2010 and WHO's six building blocks for health system strengthening.<sup>36</sup> It was also prepared in a more participatory way, with preliminary consultations on the priorities and a series of workshops involving provinces, health institutions and NGOs. Vietnam has now signed up to the International Health Partnership Plus initiative, which will involve a joint assessment of the national health plan as a step towards greater alignment of funding from the vertical health funds through a Joint Financing Platform (see section 2.5).

However, there are still some significant challenges to be overcome. The sector still has a line item rather than programmatic budget, which will make linking the health strategy to the budget difficult. There is a great deal to be done on strengthening the health information management system and introducing the use of results data for policy making and planning. The NTPs are still in place, and may pose a barrier to integrated planning of the sector. However, both MoH and DPs report that these issues are now at least central to their dialogue.

In sum, the evidence that existing ODA practices in the health sector are dysfunctional and need to change is extremely strong. The Statement of Intent sets out an ambitious but highly relevant agenda for moving forward. Some of its objectives, however, will be take considerable time to implement. The earliest we could therefore hope to see some impact on health results would be towards the end of the coming five-year planning cycle.

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<sup>35</sup> Van Konkelenberg, *op. cit.*

<sup>36</sup> These are service delivery, health workforce, health information system, drugs/products/technology, financing, and leadership/governance.

### *ii) Alignment with country PFM systems*

Alignment with country systems has been a major focus of effort by MPI and DPs, with the Six Banks leading on a joint technical dialogue. This is an area where some clear differences have emerged between the different groups of DP.

PFM has been a major focus of DP support, with two rounds of World Bank-managed Multi-Donor Trust Funds supported by LMDG donors and the EU. The current fund is supporting a coherent programme of reforms outlined by MoF in a 'Single Strategic Document' with annual implementation plans. The capacity of MoF to manage technical assistance has clearly improved over time. Among the achievements to date have been increased budget transparency and improved expenditure controls. Work is currently underway to introduce a new Chart of Accounts and public sector accounting standards.

Some DPs take the view that this amounts to solid progress, which has led to a steady reduction in fiduciary risk. Others point to some structural problems with Vietnam's PFM systems that are proving difficult to resolve. The gaps between budgeted and actual revenues and expenditure are still substantial, and many user fees are not included on the budget. The lack of integration of recurrent and capital budgets results in unbalanced public expenditure, in particular a neglect of maintenance. The MTEF pilots have proved difficult to reconcile with the Vietnamese system of fiscal decentralisation, and have not made much progress. DPs are concerned that a new Budget Law, originally scheduled for 2009, has been deferred, the 2004 Public Expenditure Review has not been repeated, official approval of the 2007 Country Financial Accountability Assessment (CFAA) had been long delayed, there are no Public Expenditure Tracking surveys, and GoV has so far declined to make use of the Public Expenditure and Financial Accountability (PEFA) assessment tool. This is despite a formal commitment under the HCS to using these joint diagnostic tools (para. 18). This makes DPs concerned that there are limits on the willingness of GoV to open up its budget processes to greater external scrutiny.

There has been a steady increase in the number of DPs making use of the treasury system to manage their assistance, including through forms of budget support at national, sectoral or provincial level and in traditional projects where the flow of funds is via the treasury system. However, for large investment projects, DPs still 'ring fence' their funds through the use of designated PMU bank accounts, separate accounting procedures and external audit by private firms. It will not be possible to judge exactly how much the use of country PFM systems has increased until the next round of Paris Declaration monitoring in 2011. There are certainly still cases where PMUs are required to produce two parallel sets of financial reports, one for GoV and the other for DPs, perhaps because country systems do not yet meet DP needs for output-based reporting.

### *iii) Alignment with country procurement systems*

On procurement, there has been substantial improvement to the legal framework. Vietnam introduced a new Law on Public Procurement in 2005, prepared with World Bank support. This was further revised in 2009, and some 16 circulars are to be issued in 2010 clarifying different aspects of implementation. Procurement functions have been decentralised. The Public Procurement Agency, which sits within MPI, has changed its role from carrying out procurement on behalf of other GoV institutions to providing capacity building support and supervision for procurement across the administration. It has received extensive DP support, with many of its staff trained abroad. The result has been a steady increase in procurement capacity, although still with significant gaps at lower levels of government.

While Vietnamese procurement rules are based broadly on international standards, there are some important differences. Vietnamese regulations allow much greater use of direct contracting, with the financial thresholds increased in recent years as part of the government's fiscal stimulus measures. There is also reportedly a widespread practice of dividing large tenders into smaller components to bring them within the threshold for direct contracting, with consequent efficiency losses.<sup>37</sup> SOEs are permitted to bid for contracts let by their own controlling ministry, giving rise to potential conflicts of interest. The Vietnamese system still allows for imposition of price ceilings for individual items in the bidding process (at the discretion of the implementing agency), rather than requiring bidders to compete on price. As a result, when projects are delayed, budgets often prove to be inadequate, making it necessary to repeat the tender. It can also create incentives for collusion and other malpractice.<sup>38</sup> As far as the Public Procurement Agency is concerned, these are technical points on which compromise should be easy to reach. However, for DPs involved in major investment projects, they represent fundamental points of difference.

Many bilateral donors now use country systems for national procurement as their default option. Most report that the experience has been positive, and that using country systems helps improve procurement capacity in counterpart institutions. However, the increased thresholds for direct contracting is threatening the progress that has been made. One DP noted that, for projects involving only small-scale procurement, competitive tendering has been eliminated altogether, which is not acceptable.

The development banks have a different practice. They use country systems with some modification for local competitive bidding and shopping (a limited tender procedure), but usually insist on their own rules and systems for international competitive bidding and hiring consultants. There appears to be no immediate prospect of a change in this practice. The World Bank has launched an international pilot on increasing use of country procurement systems, but Vietnam proved to be ineligible to participate, meeting only 3 of the 17 criteria. The multilateral banks have received some criticism from bilateral donors and MPI for their lack of flexibility in this area, but note that restrictive rules imposed by their managing boards make it impossible to compromise further.

According to GoV staff, applying DP procurement rules does not in itself result in major efficiency losses, once PMU staff are trained in their use. The problem has been a lack of clarity on which rules to apply in which circumstances. GoV regulations require PMUs to follow DP regulations where these are included in formal project agreements. However, PMU staff often attempt to follow both sets of rules out of an excess of caution, leading to duplication of procedures. MPI and the Six Banks have now prepared a circular specifying exactly what are the remaining differences between GoV and DP rules, to make it easier for PMU staff. Note, however, that this is a way of working around the lack of alignment, rather than a resolution of the underlying problems.

#### *iv) Other alignment issues*

There has been a gradual alignment of Vietnamese rules on environmental and social safeguards with international standards. Through PGAE Thematic Groups, the DPs and GoV have carried

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<sup>37</sup> One DP informed the evaluation that a US\$360 million project had been split into more than 100 separate procurement packages, in order to make it accessible to Vietnamese companies.

<sup>38</sup> ODA Inter-Ministerial Task Force, "Fifth Joint portfolio Performance Review (JPPR V)", Hai Phong, May 2007, pp. 36-7.

out detailed gap analysis of the safeguard systems. Country environmental safeguards are broadly similar to international standards, although lack of capacity for environmental impact assessment means that DPs often do not use country systems for large projects. On social safeguards, there are still some significant outstanding issues concerning involuntary resettlement and compensation for land acquisition, particularly in respect of informal title and unlicensed construction.

Most DPs state that they have reduced the number of PMUs involved in their aid projects, as well as taking measures to improve their integration with the counterpart institution. For example, the EU has moved away from appointing international co-directors of PMUs, leaving GoV staff fully accountable for project management. As in other countries, there has been considerable debate among DPs over the definition of ‘parallel PMU’ – one of the Paris Declaration indicators. In fact, this indicator is difficult to apply to Vietnam. Vietnamese regulations<sup>39</sup> require the establishment of a PMU for all projects over 1 billion VND (approx. US\$50,000), with dedicated staff and its own bank account. In a formal sense, therefore, PMUs represent an integral part of the Vietnamese system for managing public investments.

However, the problem remains that capacity developed within project-specific PMUs tends to be lost at project completion. The combination of Vietnamese rules and DP practices ensures a proliferation of PMUs – in the Ministry of Health, for example, there are reportedly 28 separate PMUs, even though external assistance is only 5-10% of government health expenditure.<sup>40</sup> Under the EU/UN agreement on cost norms, PMU staff are no longer paid directly from project funds (although we encountered some doubts as to whether all DPs are respecting this agreement). However, Vietnamese regulations allow PMU staff to receive a loading of up to 30% on their salaries, and there are other financial benefits associated with aid projects. The resulting distortions within counterpart institutions can be quite serious, setting up conflict between those involved in ODA-financed projects and those who are not. In practice, it can mean that PMU staff find it difficult to get cooperation from other GoV staff, which weakens the influence of the project. Some line ministries have reportedly recognised that this arrangement is problematic. However, the financial benefits involved create a powerful set of incentives that work against change. This is an issue that GoV will need to consider carefully as it continues to develop its legal and institutional framework for public investment management.

There have been two important measures agreed between the Six Banks and MPI to remove bottlenecks in project implementation. The banks and MPI have harmonised their guidelines for feasibility studies. They have also introduced an Aligned Monitoring Tool, which covers both financial and progress reporting. Both these measures are appreciated by implementing agencies. The Six Banks and MPI have developed a second Joint Action Plan of further measures, which was recently approved by the Minister of Planning and Investment.

In general, systems alignment is limited to non-project aid (e.g., budget support, development policy lending) and projects administered by LMDG donors. For major investments, the progress has been quite limited. Discussions have been protracted and highly technical in nature, held back by the inability of some DPs to compromise. However, it is also apparent that gaps and contradictions within the Vietnamese legal system are as much a cause of delay in project implementation as non-use of country systems by DPs.

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<sup>39</sup> Circular No. 03/2007/TT-BKH under Decree 131/2006/ND-CP on ODA management and utilization.

<sup>40</sup> Phyllida Travis *et al.*, “Joint Assessment of National Health Strategies: IHP+ Scoping Mission to Vietnam”, April 2010, p. 1; Javier Martinez, “How external support for health and HIV will evolve as Viet Nam becomes a Middle-Income Country”, 2010.

### *1.3 Conditionalities*

DPs in Vietnam came to the conclusion well before the HCS that crude forms of policy conditionality – namely, using the promise of financial support to leverage policy change – were ineffective and damaging to the development partnership. As a result, Vietnam's PRSC, launched in 2001, has developed into a model of best practice on conditionality in budget support operations, based on principles which were subsequently reflected in the Paris Declaration and AAA. The annual conditions take the form of short-term policy actions designed to achieve Vietnam's stated development goals. They are negotiated between GoV and DPs through sectoral working groups, with non-funding DPs able to participate, making the instrument a key platform for policy dialogue on development policy. The existence of a standing structure for policy dialogue was a useful counterbalance to the PGAE, which focused on the procedural side of aid effectiveness.

There is a joint annual assessment of progress against triggers and benchmarks in the policy matrix. The financial incentive is a soft one. Each DP makes its own decision as to how the level of implementation will affect its funding level for the following year. In practice, when individual triggers are not met, they are usually carried over into the following year for reassessment, as the timing of individual policy actions is seen as less important than the overall direction of change. The State Bank of Vietnam, which leads PRSC negotiations on behalf of GoV, informed us that, while budget support is only a minor share of the national budget, GoV considers the PRSC to be a prestigious programme and that its successful implementation has contributed to Vietnam's international reputation. Line ministries also report that the process is sometimes useful to them in lobbying for new laws or budget allocations.

Most observers agree that the policy dialogue was most useful in the early years of the PRSC, when it provided DPs with a platform for engaging with GoV during a key phase in its economic transition programme. The PRSC became less influential in its later years, for various reasons. As more DPs joined, the policy matrix became overcrowded with too many competing policy agendas. The World Bank also introduced a range of other development policy loans linked to specific reforms, which meant the PRSC no longer provided a single platform for policy dialogue. The PRSC has always involved high transaction costs, which only increased with the participation of more DPs. Management of the process became very challenging, and resulted in friction between the World Bank, which sought to preserve the coherence of the instrument, and other funders, each of which brought their own policy and procedural requirements. As a result of all these factors, the quality of participation has fallen away in recent years, with GoV sectors participating at a more junior level and some of the bilateral funders falling away.

2011 will therefore mark the final year of the 10-year PRSC cycle. DPs are currently discussing the options for budget support operations in the future, including the use of more sector-based policy instruments. The end of the PRSC will, however, leave a key gap in the aid architecture that may need to be filled.

In the survey, most DPs asserted that they do not make use of any conditionality in their programmes, other than linking funding to agreed measures of progress on programme implementation. 'Reducing the burden of conditionality' and 'untying aid' are the two areas in which DPs scored their own performance the highest. By contrast, several of the ministries and provinces stated that they had not experienced any reduction in the burden of conditionality, and that donor conditions were not developed in a consultative manner. The difference may be one of interpretation, as the GoV agencies clearly interpret DP procedural requirements and social and environment safeguards as forms of conditionality.

## **2 Building more inclusive and effective partnerships for development**

### ***2.1 Division of labour and aid fragmentation***

There has been no formal process for improving division of labour in Vietnam along the lines anticipated in the AAA. The EU has been leading discussions on the issue through the EU Development Councillor's Group, and is hoping to launch a self-assessment on comparative advantage among EU member states. For the time being, neither MPI nor other DPs appear to have much enthusiasm for the idea. GoV prefers to set out its priorities and leave each DP to select among them according to its own interests and specialisation. Vietnam is able to offset any resulting imbalance in ODA allocation from domestic resources. MPI also takes the view that a formal assessment of DP comparative advantage would be a divisive exercise, and that improving complementarity between ODA and other sources of development finance is a more important objective.

Despite the lack of a formal division of labour exercise, most DPs who responded to the survey reported that they had increased the focus and selectivity of their own programmes, or were in the process of doing so. However, there appear to be a number of different trends at play here. Over the life of the HCS, there has been an increase in the amount of ODA contributed to large multi-donor programmes, including the PRSC, sectoral budget support operations, World Bank-administered trust funds and other programmatic assistance. More recently, however, some DPs have shifted their emphasis away from large-scale sectoral support towards technical assistance in niche areas, which could result in greater fragmentation.

Only a small number of donors engage in delegated cooperation or silent partnerships. There are various examples within the EU and LMDG groups, as well as bilateral donors contributing to World Bank-managed trust funds. There is far more delegation to lead donors when it comes to analytical work and policy dialogue. All the major DP groupings – LMDG, Six Banks, EU and the UN family – have arrangements in place to develop joint positions and represent each other in dialogue.

The majority of DPs report that they have completely untied their assistance, with minor exceptions, in many cases before the Paris Declaration was signed. The main exceptions are some forms of Canadian project assistance (scheduled to be fully untied by 2012-13) and Japanese grant aid (loans are mostly untied). Nonetheless, it was notable that a number of provinces reported that they had seen no reduction in tying of aid. This may reflect the long time lags in ODA delivery, with some provinces still implementing projects designed 7 or 8 years ago.

### ***2.2 Reformed and simplified donor procedures***

All DPs who responded to the survey were able to report a range of measures that they had taken since the HCSS to simplify their procedures and reduce transaction costs for counterparts. These included delegated cooperation, joint programming, more use of budget support, increased use of country systems, better integration of PMUs and the adoption of common EU/UN cost norms. The Six Banks have introduced common feasibility study guidelines, harmonised monitoring and reporting tools, common technical guidelines in a number of sectors (education, water supply, transport), measures to clarify differences between DP and country procurement rules and on-going efforts to reform PMUs.

The One UN Reform process is the single most ambitious attempt at simplifying procedures. The UN is in the process of reorganising its presence in-country so that, in the future, it will be able to participate in aid management and coordination processes as a unified entity. Practical steps already taken include Harmonised Programme and Project Management Guidelines across the UN agencies and a Harmonised Approach to Cash Transfers, which standardises funding modalities.

One of the HCS commitments under this heading is to increase the use of programme-based approaches (PBAs), to a target of 75% of all assistance by 2010. In the 2008 Paris Declaration monitoring survey, it was reported that 58% of all assistance was programme-based, but disagreements on the definition render this figure unreliable. Where PBAs have been introduced, there has been no reduction in transaction costs for either DPs or their GoV counterparts. PBAs are a more ambitious and more demanding form of assistance. They require intensive work on both sides on putting in place an adequate plan, budgetary framework and monitoring arrangements. There is no standard model for a PBA, which makes negotiating assistance more complex. Where there are large numbers of participating DPs, as with targeted budget support in education or Programme 135, the transaction costs tend to be even higher, with more procedural requirements to satisfy.

The idea that PBAs offer a way of simplifying ODA has therefore proved unfounded. Rather, they offer a platform for a more strategic engagement by DPs in building core sector capacities in policy making, planning, budgeting and managing for results. These benefits are not automatic; a PBA is only as good as the quality and intensity of effort invested in it by DPs and GoV. To enter into a PBA in the expectation that it will reduce transaction costs is therefore unrealistic and unhelpful.

### *2.3 More predictable aid flows*

During the evaluation, neither DPs nor GoV mentioned predictability of aid flows as an issue. Vietnam has the flexibility within its budget to make up any unexpected shortfalls in ODA disbursements. Putting aid onto the budget therefore does not involve the same level of risk as it does in aid-dependent countries.

Most DPs who responded to the survey (including DFID, Denmark, Belgium, the European Union, the World Bank, Finland and France) make multi-annual funding commitments as a matter of course. Some DPs have an annual planning cycle which means they can only provide indicative multi-annual funding commitments, but they report that these projections are usually accurate. Occasionally, a DP is required to reduce its assistance as a result of domestic budgetary constraints or changes in global ODA priorities. The UN noted that its efforts at multi-annual funding are frequently frustrated by the fact that DPs only make annual funding commitments to UN agencies.

There are significant problems with the timeliness of disbursement, but they relate principally to over-optimistic timelines and delays in project implementation. This is overwhelmingly the main aid effectiveness concern for most GoV institutions, particularly provinces. The causes of delay they identified included:

- limited capacity of PMUs;
- poor coordination between DPs and beneficiary institutions due to geographical distance, language and cultural differences;
- problems with land tenure and site clearance;

- delays in engaging consultants;
- poor capacity of contractors;
- differences in rules and procedures between DPs and GoV;
- lack of qualified accounting staff for financial reporting; and
- low ceilings for PMU bank accounts.

The delays come from a mixture of capacity constraints in a highly decentralised system, weaknesses in the Vietnamese legal framework for public investment management and clashes between Vietnamese laws and DP requirements. Delay tends to give rise to yet more delay – as, for example, when a tender becomes outdated and has to be repeated.

#### ***2.4 DP delegation of authority and incentives for partnerships***

Most DPs rate their corporate commitment to the aid effectiveness agenda as very high. Many of them include aid effectiveness principles in the job descriptions of senior staff and in corporate performance management systems. Some, however, are held back by inflexible corporate rules and procedures.

DPs vary in the extent to which they have delegated authority to their country offices to make funding decisions and determine aid modalities. Some DPs (DFID, Danida, Netherlands, Ireland) have fully delegated programming authority (with various levels of HQ approval). Others still have a relatively centralised structure (Belgium, Finland, AFD, CIDA, Japan), while UN agencies vary according to the funding modality of each agency. The World Bank Vietnam programme is one of its most decentralised, with a resident Country Director and staff of 125 (80% Vietnamese), and close to 60% of project preparation and supervision done in the country office. However, policies on use of country systems are set centrally, giving the country office little room for manoeuvre.

#### ***2.5 Integration of global programmes***

Global or vertical funds feature primarily in the health sector and in climate change financing. In the health sector, the large vertical funds – the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) and the Global Alliance for Vaccines and Immunisation (GAVI) – provide funding on the basis of applications to periodic funding rounds, which are not synchronised with the national budget calendar and are inherently difficult to integrate with sectoral plans and budgets. This way of working has tended to contribute to the fragmentation of health financing in Vietnam.

Vietnam is now participating in the International Health Partnership (IHP) initiative, which has the potential to transform the way the vertical health funds operate, from funding individual proposals to supporting the national health strategy as a whole, with timetables aligned to the national budget cycle. This depends upon a satisfactory assessment of the new Health Sector Strategy, now under development.

Vietnam has been identified as one of the countries of the world most vulnerable to the effects of climate change, and major external funds are expected in the coming years to assist with adaptation. Climate change is a particularly challenging issue for GoV, due to its inherently multi-sectoral nature. There is a clear danger that rapid scaling up of international support in this area could lead to unhelpful rivalries among the ministries involved. It is not yet resolved whether climate change funding should be treated as ODA and subject to the same principles

and coordination mechanisms. A national policy framework for climate change is beginning to emerge, but there is a need for greater role clarity across GoV institutions (MPI, MoF, Ministry of Natural Resources and the Environment, Ministry of Agriculture and Rural Development). In December 2008, GoV launched the National Target Program to Respond to Climate Change (NTP-RCC), which lays down some general principles but not a costed action plan. GoV has now instructed ministries and provinces to prepare their respective climate change action plans. The process is under the coordination of MONRE, which as a relatively junior ministry may struggle to play this role effectively.

There is no single forum for coordination of the donor response to climate change, although the issue has been discussed in the AEF. Harmonisation among the donors is reported to be at an early stage. Much of the funding comes from global funds, particularly the Global Environmental Fund (GEF). These funds are centrally administered and not particularly sensitive to the need for alignment. In 2009, JICA and the French Development Agency (AFD) launched the Support Program to Respond to Climate Change, which takes the form of budget support for climate change. Other support remains in project form, despite a clear preference from MoF for budget support.

On the whole, therefore, integration of vertical funds into national policy frameworks is underway, but at an early stage.

## ***2.6 Stronger capacity to manage for results***

Managing for results remains an area of weaknesses for the Vietnamese administration. It faces a number of structural challenges in this area. The budget is still organised on a line item basis, which makes it difficult to track the allocation of resources into specific programmes (other than NTPs). Decentralisation has shifted service delivery down to lower levels of government where reporting capacity is weaker, making it difficult for central ministries to track the impact of national programmes. Staff in decentralised positions appear to have little incentive to comply with reporting requirements. As a result, routine administrative data is still very weak. As noted above, while GoV has a large number of pro-poor programmes, it has relatively little capacity to monitor their impact and improve their targeting. This is arguably the most serious constraint on development effectiveness in Vietnam, but is by no means straightforward to resolve.

On the positive side, there have been significant improvements in work of the General Statistics Office (GSO) since 2005. The GSO is a large institution, with 63 provincial and 700 district offices, and around 600 staff. It now has a regular survey programme in place, although some DPs expressed concerns about data quality. Under a directive from the Prime Minister and with support from a World Bank loan, the GSO has launched a major programme to bring its data up to international standards. It is also developing a national statistics strategy.

As a result of improvements in the GSO, the MDG monitoring process is considerably improved, and the new draft MDG report contains a great deal of useful information and analysis. However, it has an uncertain relationship with SEDP monitoring. MPI is currently preparing a monitoring framework for the next SEDP, which is expected to be a substantial improvement on its predecessor. However, weaknesses in the SEDP and its lack of a clear link to the budget make it a difficult strategy to monitor, except at the level of very broad development outcomes.

As a result of weaknesses in reporting within the administration, most DP projects still make use of stand-alone monitoring arrangements. The main exceptions are the PBAs in areas such as

rural water and sanitation and Programme 135. In these programmes, DPs have put considerable effort into developing more robust sectoral monitoring frameworks, introducing new tools for results management and getting beneficiary communities involved in monitoring. In some cases, they have designed their funding in ways that create incentives for better results reporting – for example, by giving higher levels of funding to provinces that meet programme reporting requirements. This has had some effect, but whether it produces sustainable impact is unclear. The evaluation did however note that line ministry that are receiving programmatic support appear to have a greater awareness of the importance of monitoring and evaluation and greater familiarity with the tools and methodology promoted by DPs. However, even in the most advanced sectors, introduce the practice of making use of results data for policy making and management is at an early stage.

### **3 Delivering and accounting for development results**

As in most countries, accountability is perhaps the hardest of the Paris implementation to put into practice in Vietnam. There have been some cautious signs of improvement over the past five years, but it is unlikely that they are attributable to the Paris Declaration/HCS.

While GoV continues to show a strong political commitment to growth and poverty reduction, its institutions face little direct accountability for their performance in promoting development. Although budget transparency has improved, with expenditure figures now published on the MoF website, there are no mechanisms in place that would enable citizens to track expenditure on particular development items. Weakness in reporting on results makes it difficult to ascertain whether individual programmes have been effective. There is little or no performance management at the level of individual GoV staff. Institutional rivalries and poor communication across ministerial boundaries make it difficult for the key central institutions – the Office of Government, MPI and MoF – to hold line ministries to account for their contribution to national development goals. In the on-going processes of administrative decentralisation, many functions have been passed to lower levels of government without clear lines of accountability to ensure their satisfactory performance.

However, there are some positive developments. The National Assembly has become more active in the development arena, including on aid effectiveness and aid management. There are reporting processes in place from the executive to the National Assembly on SEDP implementation, and the National Assembly committees are active in various policy areas. Reforms to create ‘one-stop shops’ for administrative services to business at the provincial level have greatly increased the transparency of local institutional performance. GoV publishes figures on the efficiency of individual provinces, which reportedly influences levels of business investment and therefore creates healthy competition among the provinces. There is also a trend towards increased involvement of local communities in local development initiatives, although we were not able to assess the extent to which that has increased local accountability.

As discussed, civil society does not play an accountability role in the Vietnamese system. There are mass organisations that have some input into policy in various areas, but which are government controlled and financed. Local NGOs are gradually acquiring a voice in discrete areas of service delivery, but do not usually critique government policies and actions.

Vietnam has strong anticorruption laws that are compliant with the UN Convention on Anti-Corruption – for example, the provisions on asset declaration by GoV officials. However, implementation is reportedly weak, and some DPs are pessimistic about GoV’s commitment to fighting corruption. Progress on strengthening the Government Inspectorate has been slow,

despite extensive donor assistance. There is as yet no effective protection of whistleblowers. There is no follow-up to the asset declarations. There are some limitations on the freedom of the media to report on corruption issues. DPs engage with GoV in a semi-annual Anticorruption Dialogue, led by Sweden, and note that GoV has become more open in recent years to discussing topics that were previously very sensitive. However, most DPs take the view that the practical results so far have been limited.

Accountability of the DPs is also limited. Some DPs have their own accountability mechanisms. For example, the EU monitors its collective performance against the four additional commitments in the European Consensus, with the results feeding into the EU Aid Effectiveness Road Map 2010. By and large, however, there is no mechanism for holding DPs to their Paris Declaration/HCS commitments. While there are multiple platforms for discussing aid effectiveness, these tend to be quite diplomatic in style. Pointing a finger directly at individual DPs for non-compliance with their commitments would go against the diplomatic norms by which they operate. On issues like parallel PMUs or cost norms, where DP compliance with their commitments is clearly not complete, there are many discussions but little concrete action. DPs are hoping that the transformation of the PGAE into the AEF, with broader participation from GoV and the National Assembly, will strengthen mutual accountability.

Vietnam has conducted three rounds of Independent Monitoring of aid effectiveness (of which this evaluation is the latest). The reports have been generally well received and discussed at a high level between GoV and DPs. A number of the recommendations have been taken forward – including those relating to the restructuring of the PGAE. The exercise has shown the value of a qualitative assessment which looks behind the Paris Declaration indicators to the goals they are intended to advance. However, it does not change the essentially voluntary nature of the HCS commitments.

#### **4 Conclusions on the effects of HCS implementation**

MPI and DPs have demonstrated a high level of commitment to using the Paris Declaration/HCS to strengthen their development partnership. The national aid architecture – that is, the structures and processes used for managing the development partnership – has become more elaborate and sophisticated, and continues to evolve. There is now sustained and serious attention given to the factors that influence the efficiency and effectiveness of ODA. There are regular review and reporting processes that enable the partners to generate collective lessons and adjust accordingly. With few exceptions, the core group of DPs, representing a large majority of ODA, have internalised the Paris principles to a high degree, such that they have become synonymous with ‘good aid’. There has also been significant improvement in the extent to which aid effectiveness principles are understood across line ministries and provinces.

However, Vietnam has also discovered that moving from general principles to concrete changes in aid practices is a challenging process and cannot be accomplished quickly. The issues soon become complex and technical, and protracted negotiation is needed to identify practical solutions and compromises. Many of the commitments involve changing national rules and institutions, which in Vietnam can be a slow process. There are some strong vested interests in traditional aid practices that are hard to overcome. Poor communication across government and weak capacity in the provinces become a real constraint. On the DP side, implementation encounters restrictive headquarter rules, risk aversion, institutional inertia, capacity constraints in small aid missions and fatigue with time-consuming aid processes. The diplomatic norms that govern the development partnership mean that only very soft forms of mutual accountability are

possible. As a result, aid effectiveness processes are inherently prone to stalling, and need to be constantly reinvigorated.

None of these problems is unique to Vietnam. In fact, one might argue that Vietnam has encountered these challenges because it has gone further along the path from general commitments to practical implementation than other countries. To its credit, it has not allowed the implementation process to grind to a halt, but has continued to experiment with new structures and processes to keep it moving forward. In this respect, many observers are optimistic that the new Aid Effectiveness Forum will bring a new lease of life to the aid effectiveness agenda.

There are two areas of change that stand out as particularly important. Both remain at a relatively early stage.

The first is the shift towards new aid modalities and programme-based assistance, led by the LMDG, the EU and the World Bank. DPs have experimented with changing aid modalities in areas such as rural water and sanitation, education, Programme 135, rural transport and (prospectively) health. This shift has been far from easy. The initiative for changing aid modalities has come almost entirely from the DP side, and has had to overcome a range of obstacles, including:

- greater familiarity and comfort of line agencies and provinces with traditional projects;
- the distorting effects of project financial incentives;
- the challenges of implementing national programmes in a highly decentralised environment;
- significant weaknesses in financial reporting and results management;
- a reluctance on the part of the line ministries to open up their planning and budgeting processes to external scrutiny and participation, given the small share of ODA in sectoral budgets.

For these reasons, new aid modalities have mostly taken the form of targeted budget support directed through National Targeted Programmes, rather than full SWAPs or sectoral budget support (the proposed EU budget support for health will be the first truly sector-wide PBA in Vietnam).

The Paris Declaration/HCS treats PBAs as an indicator of simplification of procedures among DPs. In fact, this has not proved the case in Vietnam. PBAs are a more ambitious form of assistance that requires higher intensity effort on both sides than traditional projects. The real significance of PBAs lies in achieving a more strategic engagement by DPs in strengthening core sectoral capacities and processes for policy making, planning, budgeting, service delivery and managing for results. Even though ODA in these sectors is only a minor part of the resource envelope, by engaging in these core functions PBAs can have a strategic impact across the sector as a whole. Thus, in both Programme 135 and rural water and sanitation, there is evidence of greater policy influence (e.g., more attention to sanitation issues) and improved targeting of policy instruments to ethnic minority communities. Counterparts show an increased understanding of the importance of managing for results and a willingness to use some of the tools and methodologies promoted by DPs. There has been some strengthening of community participation in development initiatives, which is potentially an important contribution to the decentralisation process. In the health sector, we see MoH and DPs working intensively on improving the quality of the national health strategy and its accompanying expenditure framework as a precondition for sectoral budget support. These are not dramatic changes, but

they are evidence that DPs and their counterparts are talking in a meaningful way about the right things.<sup>41</sup>

The second domain of change is strengthening country systems for public investment management. This is happening in a number of ways. There have been DP-supported reforms of PFM and procurement systems. There have been capacity building programmes, including strengthening the capacity of the Public Procurement Agency to conduct training across GoV and capacity building of PMU staff within individual investment projects. There has been joint diagnostic work and gap analysis between country systems and international standards. There have been improvements to Vietnamese regulations on environmental and social safeguards. There has been alignment of DP and country procedures in a few areas, including project feasibility studies and monitoring and reporting. The Six Banks have agreed with GoV a Plan of Action to address outstanding bottlenecks in project implementation. Some of these measures involve reforms to country systems; others are ‘work-arounds’ where alignment has not yet proved possible.

While this is an important area of change, it is not an easy one to make progress on. Vietnam has not made as much use as it might of objective diagnostic tools, to show the extent of improvement. However, there have clearly been some improvements in country systems and capacities, including at provincial level, although with many outstanding issues to address. We will not know the extent to which DP use of country systems has increased until the 2011 Paris Declaration monitoring survey. While there will certainly have been progress, it will mostly be attributable to higher levels of budget support and development policy lending, which use country systems automatically. There will also have been increases in use of country systems among the LMDG donors, some of whom now make the use of country systems their default option. There will not have been much change in large investment projects, which continue to form the bulk of ODA to Vietnam. There has been some criticism of the multilateral development banks for their lack of flexibility in this respect, although staff point to inflexibility at Board level and the continuing high fiduciary risk ratings of their projects as the reason.

Our conclusion is that there are some serious issues with Vietnamese procurements rules that justify the cautious approach of the development banks for large investment projects. However, there does appear to be more scope for use of the national treasury system as the conduit for ODA funds. It is an open question whether the best way to strengthen country systems is to make use of them whatever their shortcomings and try to improve them from the inside (the approach of the LMDG/EU groups) or to negotiate changes to country systems as a precondition to using them (the Six Banks’ approach). Vietnam present no clear evidence as to which approach is more effective in improving country systems. Having a mixture of approaches among the DPs may in fact be a sensible approach.

In terms of the impact on efficiency of ODA delivery, line ministries and provinces are still experiencing extensive delays in project start-up and implementation. This remains overwhelmingly their main aid-effectiveness concern. For their part, the Six Banks report that there have been improvements in project implementation rates. The World Bank’s disbursement ratio<sup>42</sup> has increased from 12.6% in 2008 to an estimated 19% in 2010, suggesting that more recent projects are experiencing fewer delays in start-up. However, there are lengthy time lags involved in project preparation, so it is not surprising that GoV agencies have not yet

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<sup>41</sup> For further details, see Mark Minford, “Effectiveness of Donor Support in Supporting P135 Phase 2 and Targeted Budget Support for Education for All: Synthesis Report for LMDG”, Hanoi, September 2010.

<sup>42</sup> The ratio of disbursements during the year over the un-disbursed balance at the beginning of the year, excluding fast-disbursing development policy loans.

experienced these improvements. Overall, there is evidence that the efficiency of project implementation is increasing, but this is a recent phenomenon.

There are aspects of the Paris Declaration/HCS that have not received equal priority. There is no real consensus among the stakeholders on whether improving division of labour is a priority, and how it should be done. GoV agencies did not express any particular concern with the transaction costs associated with ODA coordination, and have not actively promoted joint programming, delegated cooperation or joint missions. Predictability of aid flows is not a critical issue for Vietnam, because the volumes are small relative to the budget and there is flexibility within the budget execution process to make up shortfalls caused by delays in ODA disbursement. While there has been some progress in all these areas, they have not been a focus of attention in HCS implementation.

The AAA has not added much impetus to the HCS. Compared to the Paris Declaration, the AAA places greater emphasis on democratic ownership and accountability. These are difficult principles to apply in Vietnam, with its unique political system. This does not mean that democratic ownership and accountability are not improving within the Vietnamese system. In fact, taking a long-term perspective, it is clear that Vietnam is responding gradually to the new pressures and demands triggered by socio-economic development. There is more emphasis on community participation and the need for development processes to respond to popular expectations. However, it is unlikely that these changes are attributable to the Paris Declaration/HCS or the actions of DPs (with the possible exception of capacity building for the National Assembly). Apart from the anti-corruption and human rights spheres, DPs have generally respected GoV's preference that they stay away from questions of political governance.

The evaluation framework asks if there have been any unintended effects of the Paris Declaration for aid effectiveness. We have only two points to make here. The first is that some of the more elaborate harmonisation initiatives have arguably proved counterproductive. The Vietnamese experience is that new aid modalities with more than four or five DPs participating (e.g., targeted budget support in education, Programme 135 and arguably the PRSC itself) encounter diminishing returns and at a certain point become less effective with more DPs, due to the difficulties of accommodating so many policy agendas and institutional requirements. More harmonisation is therefore not always better. The second point is that the Paris Declaration has led to GoV and DPs spending much of their time talking about the mechanics of aid delivery. Some stakeholders take the view that this focus has been at the expense of dialogue on development itself and the many difficult policy choices facing Vietnam. If so, the balance will need to be corrected in the follow-up to the Paris Declaration and the HCS.

## **D. Has the HCS strengthened ODA's contribution to development results?**

This chapter addresses the third of the core evaluation questions, namely:

**“Has the implementation of HCS strengthened the contribution of aid to sustainable development results? How?”**

We are asked to examine the experience with sector-level results, improvements in the targeting of pro-poor programmes and general increases in institutional capacity. We are also asked if there is evidence of different aid modalities making different contributions to aid effectiveness.

To attribute development results to HCS implementation, we have to begin from the findings on intermediate outcomes – namely, the extent to which the HCS has brought about meaningful changes in aid practices. We must then examine whether those changes have helped to increase Vietnam's rate of progress towards its development goals, or show credible signs of doing so in the future.

The findings on intermediate outcomes immediately suggest that it may be premature to look for too much development impact at this stage. The key changes that we identified – namely, improvements in core sectoral systems and capacities through programme-based support and improvements in country systems for public investment management – are still at a fairly early stage. Nonetheless, the findings are enough to indicate where results are most likely to appear in the future.

### **1 Sector results**

Our sectoral case study showed that the health sector in Vietnam has in recent years been fragmented into a large number of disease-specific National Targeted Programs (NTPs), each with its own management arrangements, cost norms and reporting systems. These NTPs emerged as a way of delivering national programmes in a highly decentralised environment, but at a significant cost to the integrated development of the health sector. The NTPs have little incentive to collaborate with each other in support of the national health plan. Multiple funding channels have made the true scope of the health budget very difficult to determine.

The ODA profile in health has both reflected and contributed to this fragmentation. DPs with specific agendas of their own have found the NTPs to be convenient funding channels for their own programmes. The shortcomings of fragmented and poorly coordinated assistance are therefore readily apparent.

The Statement of Intent and the preparation underway for sector budget support have the potential to change these dynamics. The attention being given by the EU and other partners to improving the national health strategy, integrating the health budget and introducing a more strategic approach to health system strengthening should provide MoH with much greater capacity to manage the future development of the public health system. In due course, we would expect to see not merely increases in the scale of basic health services, but also greater capacity to address some of the pressing equity issues in the sector. However, it is clearly premature to be measuring these results, as this transformation is still at a very early stage. The benefits will probably not be visible until the end of the next 5-year planning cycle.

Similar stories can be told in a number of other sectors where groups of DPs have sought to accomplish a similar shift in the nature of their engagement – notably rural water and sanitation

and Programme 135. However, as these new approaches are less than two years old, their impact has not started to appear in the development indicators. It is therefore not possible at this stage to identify any acceleration in sectoral development results that can be attributed to the HCS.

## **2 Improved pro-poor targeting**

GoV has a strong record of prioritising pro-poor development, but has struggled to find the policy instruments to address entrenched poverty in remote areas and among the ethnic minorities. This is an area where there has been extensive DP support. DPs are clearly concerned about the inequities that have resulted from rapid economic growth, and worried that the increasing trend towards user payments for public services will further disadvantage the poor. These concerns are raised regularly in policy dialogue with their GoV counterparts. DPs have channelled a large share of their assistance into programmes for ethnic minorities, where poverty rates are highest. GoV's flagship programme in this area, Programme 135, has received over US\$300 million in budget support from six donors over the HCS period. Through budget support and related technical assistance, DPs have promoted a number of new tools and approaches, including the first comprehensive baseline survey, participatory planning tools and a citizens' report card methodology imported from Thailand. A recent review of targeted budget support for Programme 135 found that it had increase the volume of spending to the poorest communes, through its direct flow-of-funds effects, but found that it was unclear whether the programme had resulted in overall improvements in the targeting of expenditure. It had supported the introduction of policy reforms to improve expenditure on Operations and Maintenance, but it was unclear to what extent practices had changed at provincial level.<sup>43</sup> At the national level, DPs have invested in building up the national survey programme, to provide better quality and more disaggregated data on poor and excluded groups, and to identify differential impacts of development on men and women.

The line ministries and provinces surveyed in this evaluation were confident that their sectoral and provincial strategies address cross-cutting issues and social exclusion. In fact, this was the area in which the strongest improvement was recorded. On the downside, there has been relatively slow progress on budgetary reforms that would improve overall resource allocation, and there remain deep deficits in managing for results (both collecting evidence on results and using it to inform policy and management decisions) across the administration.

There is therefore evidence of improve pro-poor targeting in the sectors that have moved toward PBAs, which is attributable to the HCS. However, the impact is modest and limited to a few areas.

## **3 Increases in institutional capacity and social capital**

It is extremely difficult to separate out the impact of the HCS on institutional capacity. Most ODA projects include a capacity-development component. In Vietnam, as in many other countries, making capacity development more effective is one of the most difficult challenges. The first Independent Monitoring report noted that GoV agencies tend to be poor at diagnosing their own capacity constraints, and provide little guidance to DPs on the kind of assistance they need. Few sector strategies adequately address the institutional prerequisites for the achievement of their development goals. In the absence of effective country leadership of capacity building,

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<sup>43</sup> Mark Minford & Pham Huy Tuan Kiet, "Effectiveness of Donor Support in Supporting P135 Phase 2", September 2010.

there was scepticism among GoV officials about many capacity building projects, particularly those involving foreign technical advisers.

Since then, MPI and DPs have explored options for strengthening capacity development. They examined the possibility of a national capacity building strategy, but found that the problem was too broad to be addressed in a single strategy. As a result, it would be difficult to conclude that the HCS and its processes had led to any overall increase in the effectiveness of capacity building. Of course, there are many individual instances of high quality capacity building, particularly in niche areas where GoV has recognised the need to learn from foreign experience.

On the other hand, there have been definite improvements in GoV's capacity to manage public investments. This is clearly related to the emphasis in the HCS on strengthening and using country systems. There have been improvements to procurement legislation and capacities, at both central and local level. Social and environmental safeguards have been strengthened. Project preparation procedures have been standardised and simplified, and standard monitoring and reporting tools introduced. This suggests that, as a result of the HCS, GoV now has better capacity to make use of the new sources of development finance that it will have access to as a MIC. However, there are still many outstanding issues to resolve.

The evaluation team did not find any plausible link between HCS implementation and levels of social capital. As a measure of social cohesion and interconnectedness, social capital is a feature of society that is not susceptible to influence through changes in aid practice. If we take levels of civil society organisation (a subset of social capital), there is evidence of increases in the density of grassroots social organisation in Vietnam, but no evidence that this is a product of the HCS.

#### **4 Aid modalities**

No clear picture emerges from the Vietnam experience as to the inherent superiority of any particular aid modality, and GoV continues to be willing to accommodate the diverse preferences of DPs. Vietnam still has a great need for infrastructure development, and projects remain the most efficient way of delivering major capital investments. In fact, given the importance GoV attaches to infrastructure development, the HCS target of 75% of assistance as PBAs is probably set too high. Similarly, Vietnam has a need for technical assistance in niche areas, which likewise is efficiently delivered through projects. There is therefore no basis for concluding that there should be a general move away from aid projects.

However, the value of establishing PMUs for all aid projects is questionable. PMUs are part of the Vietnamese system for managing public investments, rather than a donor requirement. However, they give rise to a number of problems. PMUs use additional financial incentives to attract qualified staff, and therefore often lose this capacity on project completion. They also create friction within GoV institutions, making coordination of development initiatives more difficult.

New aid modalities have proved most appropriate in areas that are dominated by recurrent expenditure (especially the social sectors) and multiple, small-scale capital investments (e.g. rural water and sanitation, rural roads). They provide an effective means of supporting decentralised service delivery. The transition to new aid modalities in Vietnam has not been easy, working against the grain both of the legal system for ODA management and the incentives of counterpart institutions, but there is some evidence that line ministries are beginning to recognise the value of moving away from PMUs. However, there is nothing inherently

transformative about putting aid through the budget. The value of new aid modalities are that they provide a platform for engaging with the core processes that determine sectoral performance – policy making, planning, budgeting, service delivery, managing for results. The value of budget support is a function of the intensity of effort that all sides put into strengthening these processes. In Vietnam, PBAs do appear to increase the intensity of the engagement. However, there are still question marks as to whether the sectors are willing to open up their processes to close scrutiny by DPs, whatever aid modality is on offer.

## E. Conclusions and recommendations

### 1 Relevance of the Paris Declaration/HCS in Vietnam

It is clear that both GoV and DPs have found the HCS to be a useful tool for strengthening the development partnership in Vietnam. The principles and commitments in the HCS have provided a common normative framework that has helped the partners work around their institutional differences in pursuit of common goals. The processes established to support HCS implementation have provided an organisational structure for the development partnership, with a range of platforms and mechanisms for collective action. The emergence of the four donor groupings in advance of the HCS showed there was a demand for new ways of organising the development partnership. The HCS and the PGAE brought these efforts into a common structure under GoV leadership. It is clear that GoV places great importance in a well-ordered development partnership, and has embraced the Paris Declaration as a means of achieving that.

The HCS has provided an organisational structure and a frame of reference for a number of joint efforts to improve aid effectiveness. These include:

- the work of MPI in strengthening the legal framework for ODA management;
- the joint efforts of MPI and DPs to bring country systems for public investment management closer to international standards in areas such as procurement, public financial management and environmental and social safeguards;
- joint efforts by the Six Banks and MPI to overcome bottlenecks and improve implementation rates in large investment projects;
- the efforts of the LMDG, EU and other DPs to introduce new aid modalities to improve the quality of engagement at sectoral level;
- joint efforts by the EU and UN to reduce the distorting effects of PMUs by reducing their number, improving their integration with counterparts and standardising cost norms;
- efforts by many of the DPs to reduce aid fragmentation and transaction costs through joint programming and greater use of country systems; and
- various efforts to simplify and streamline DP procedures, in particular the One UN Reform process.

These important aid-effectiveness initiatives have all taken the Paris Declaration/HCS as a reference point and organising framework.

However, change in all of these areas has come in small steps, rather than major breakthroughs, and many of them are still at an early stage. Vietnam has learned that moving from broad commitments to practical changes in aid practices is a challenging process with few quick wins and many frustrations. Many of the commitments involve changing the national legal framework and strengthening capacity across a decentralised administration, which is necessarily a slow process. There is a lot of inertia and vested interests around traditional aid practices that are difficult to overcome.

Many of the DPs remain frustrated that the national aid effectiveness agenda is too open-ended, providing a ‘soft’ set of norms in which few aid practices are actually proscribed. This vagueness suits GoV’s approach to managing the development partnership, which is to accommodate the different interests and preferences of its donors. It leaves plenty of scope for both DPs and GoV agencies to pay lip service to HCS principles without doing much to change their practices.

As one DP put it, the danger is that the HCS is seen “only as discourse” to be used in discussions between GoV and donors, and not as a series of practical commitments.

There is also some concern that the HCS has focused the GoV/DP dialogue on the mechanics of aid delivery, at the expense of broader questions of development policy. There is a clear desire on the part of many stakeholders to bring this back into balance.

## **2 HCS contribution to aid effectiveness and development results?**

The evaluation has concluded that the two areas of HCS implementation with the greatest potential for lasting impact are (i) improvement in the quality of sectoral support through more use of programme-based approaches (PBAs); and (ii) efforts to bring country systems up to international standards.

It remains difficult to determine the true extent of usage of PBAs in Vietnam. In fact, setting a numerical target for PBAs under the Paris Declaration/HCS has led to a rather unproductive debate on the definition of PBAs, detracting attention from the underlying goals and principles. However, for those sectors that have made the effort to design and implement PBAs, particularly where they involve an element of sectoral or targeted budget support, there is clear evidence that it has improved the quality of engagement. The foundations for a PBA are a realistic, prioritised sectoral strategy, linked to a budget framework that includes both national resources and external assistance, and supported by joint monitoring against a common results framework. For various reasons, these basic building blocks of planning, budgeting and managing for results are still very challenging for line ministries in Vietnam. The advantage of PBAs is that, instead of working around these institutional deficits through vertical project structures, it makes them the focus of external assistance. Instead of concentrating capacity within PMUs, where it is liable to be lost on project completion, they support the core capacity of the counterpart institution.

For example, the EU and other DPs are working intensively with the Ministry of Health on producing its first ever results-oriented and costed sectoral strategy. DPs supporting Programme 135 are helping improve the targeting of poverty reduction programmes through new monitoring and reporting tools. Targeted budget support to rural water and sanitation is helping to address the traditional neglect of operations and maintenance expenditure, to improve the efficiency of public investments. These are the kind of strategic objectives that have the potential for lasting impact beyond the limited time span of ODA projects. However, all these processes are still at a fairly early stage, and will have to continue for a number of years to produce sustainable results.

Many DPs are questioning whether it is worth investing in new PBAs now that Vietnam has reached MIC status and sectoral support may have only a few years left to run. It is true that complex new funding modalities can take several years to put in place, and are unlikely to attract donors who are already working to an exit strategy. However, there are two answers to this question. The first is that it is clearly premature for DPs to be looking to exit the social sectors in Vietnam. All the evidence is that Vietnam will face increasing difficulties in maintaining its policy of balanced development, due to the changing nature of economic growth and the creeping privatisation (‘socialisation’) of public services. The social sectors are not yet equipped with the policy instruments and capacities to meet these challenges, and will need traditional sector support for some time to come.

Second, PBAs do not necessarily have to include complex funding modalities. The Vietnamese experience has been that joint programmes with too many DPs involved become difficult to manage and encounter diminishing returns. The essence of a PBA is not the funding modality, but the joint platform it provides for engaging intensively with the core sectoral processes of planning, budgeting and managing for results. Having sectoral or targeted budget support from a number of donors as the core of the PBA is helpful as an organising framework, but to be effective it needs to be integrated with good quality policy dialogue, diagnostic work and technical assistance to overcome institutional deficits. The health sector's Statement of Intent – being like a SWAp but without the complex funding modalities – is therefore a very interesting model. It provides an organising framework for DPs which are supporting MoH to strengthen its core capacities, whether or not they choose to join the EU in providing sectoral budget support.

A major outstanding challenge for Vietnam is how to adapt PBAs to a decentralised environment. As responsibility for service delivery and development expenditure is decentralised, the capacity-building needs increase exponentially and coordination challenges become more difficult. Central ministries need to redefine their role from project implementers to policy makers and regulatory bodies. Managing for results – namely collecting spending and performance data and feeding it back into policy and management decisions – is more difficult for decentralised activities. NTPs have developed as a pragmatic solution for implementing national development programmes in a decentralised environment. However, a continuing proliferation of NTPs, each with their own operational and reporting requirements, is unlikely to be helpful.

In principle, channelling aid through the budget should offer an efficient means of funding decentralised service delivery and development expenditure. However, in practice, provincial authorities often find that sectoral budget support operations impose additional operational and reporting requirements without providing any visible additional resources for implementing them. This leads to a preference for traditional projects, which provide additional administrative resources to provinces in the form of PMUs. Finding ways to boost programme management capacity in the provinces is a key challenge for both GoV and DPs.

On country systems, there is a broad range of activities underway to bring them up to international standards, including horizontal reforms in PFM and procurement, joint diagnostic work and gap analysis, capacity building programmes and a major shift by some of the DPs towards using country systems for ODA delivery. The idea of establishing a common legal framework for all public investment, whether financed from external assistance or domestic resources, has not yet eventuated. In fact, Vietnam has moved further away from this goal, in part because of GoV's recent use of public procurement for economic stimulus purposes. MPI and the Six Banks have therefore had to find ways of working around the outstanding differences between national and DP rules, so that they do not delay project implementation. Overall, however, there is evidence that Vietnamese systems for public investment management have improved over the HCS period. This is beginning to be reflected in improved disbursement ratios for the development banks, although only very recently.

These are important areas of change with the potential to deliver real improvements in development effectiveness over time. The main causal pathways from HCS implementation to development results would therefore appear to be as follows.

- i) The shift from fragmented project aid towards PBAs leads to a more intensive engagement by DPs in building up core sectoral capacities for planning, budgeting and

management for results, leading to greater development effectiveness in the sector as a whole.

- ii) More intensive investments in improving country systems for managing development expenditure, and a shift by DPs to using those systems for ODA delivery, leads to efficiency gains for all development expenditure.
- iii) A reduction in the fragmentation of ODA (through greater selectivity in DP programmes, joint programming and new aid modalities) and improved alignment of ODA with country systems (through reduction in the number of parallel PMUs, reduction in additional financial incentives for GoV staff) reduces the distortions associated with past aid practices and leads to more sustainable capacity development.

However, these benefits are still largely in the future. Even in Vietnam, with the high level of effort that has gone into HCS implementation, the bulk of assistance is still delivered in much the same way as it was before the HCS – neither through PBAs nor using country systems. For this reason, it is not possible to conclude that, at this point in time, there has been a major impact of the HCS on development effectiveness. It would be more realistic to look for that impact towards the end of the next five-year planning cycle. However, there is enough evidence of emerging results to justify continued investment in this important agenda.

### **3 Aid effectiveness and MIC status**

Stakeholders in Vietnam are now asking how the aid effectiveness agenda should evolve to reflect Vietnam's achievement of MIC status and the changing aid profile that will accompany it. This is a complex topic that will require extensive dialogue between GoV and DPs in the coming period. However, some useful starting points for that dialogue emerge from this evaluation.

Some of the bilateral donors have indicated that they are likely to scale down their assistance and shift from broad sectoral programmes towards technical assistance in niche areas. This change appears to be driven more by the DPs' own global priorities than by any impending change in Vietnam's development needs. Vietnam's development challenges are only going to grow more complex and difficult in the coming period as economic growth and structural change in the economy lead to increased inequality and accompanying challenges such as rapid urbanisation. A retreat from broad sectoral support into smaller scale capacity development would seem to assume that Vietnam already has the basic systems in place to manage a complex development agenda. However, Vietnam's rapid achievement of MIC status has left it with some striking institutional deficits, particularly in planning and budgeting. We therefore take the view that it is premature for DPs to be moving away from broad sectoral support at this stage. This is particularly the case in the social sectors, where bilateral donors in particular would seem to have a comparative advantage in helping GoV to address pressing equity issues. This means remaining engaged with policy dialogue, planning and budgeting, ideally in a coordinated way through PBAs.

However, if a shift to smaller-scale TA is inevitable, then coordination of this kind of assistance will become a pressing aid effectiveness issue. DPs cannot assume that GoV ministries and agencies are yet in a position to become sophisticated consumers of TA. TA is the most fragmented part of the aid portfolio, and often poorly coordinated at the policy or technical level. Ministries need to develop the capacity to diagnose their own capacity constraints as an integral part of their sectoral planning processes, and to provide more guidance to DPs as to the kinds of TA they need. It would be useful if the next generation of sectoral strategies could contain – or be followed by – detailed assessments of what capacity is required to achieve sectoral goals, and what are the priorities for assistance. Ministries should also be more active in

reviewing offers of TA and project designs to ensure they are compatible at a policy and technical level with the ministries' own objectives.

A second implication of Vietnam's MIC status is that development finance will progressively be provided on less concessional terms. In the next ODA Strategic Framework, currently under preparation, GoV will need to specify the uses of different types of development finance. At present, MoF takes the view that less concessional loans should only be used for projects that are capable of generating a direct financial return for the project owner, to enable them to service the loan. This is probably too restrictive an interpretation. Given the fungibility of development finance, what matters is not the direct financial return on the loan, but its contribution to achieving national development goals. Blended finance from the World Bank and the ADB will continue to offer significantly better than commercial terms for some time to come, and should be used to contribute to a wide range of development goals.

A third implication is the need to shift from a narrow or technical approach to aid effectiveness towards a broader development effectiveness agenda. Until now, there has been a clear separation between the GoV/DP dialogue on aid effectiveness (taking place in the PGAE and its various technical working groups and related processes) and development policy (the PRSC and the Partnership Groups). There is a consensus that this separation no longer makes sense for Vietnam. The AEF has been created in order bring the different strands of dialogue together. The issues that need to be addressed in the AEF in the coming year, and beyond the life of the HCS, will cross over aid effectiveness and development policy. They may include the following.

- How can Vietnam as a rapidly growing MIC improve the targeting of its pro-poor policies and instruments and maintain equity in the social sectors? How can DP resources best be deployed to help improve equity in service delivery and the efficiency of national expenditure on poverty reduction?
- How can Vietnam best manage its development expenditure in a decentralised environment? Do National Targeted Programmes need to be rationalised or redesigned? How can donors best support decentralised service delivery and development programmes? What are effective strategies for building capacity at decentralised levels?
- How can GoV make managing for results part of its institutional culture? How can it generate incentives for provinces and local authorities to generate and make use of information on development results?
- Are PMUs the most effective tool for building capacity for managing public investments? Could project management functions be better integrated into regular administrative bodies, to limit institutional distortions? Is there a case for consolidating PMUs in particular sectors or areas, or making more use of outsourcing of project management functions to private companies?
- How should finance for climate change adaptation be organised? How can incentives be created for the line ministries involved in adaptation to work collaboratively, rather than in competition?

#### **4 Lessons from the Vietnamese experience for the High-Level Forum**

Though Vietnam is unique in many ways, its intensive engagement with the aid effectiveness agenda from an early stage has created a wealth of experience and lessons that can help inform the international debate leading up to the fourth High-Level Forum in 2011.

One of the most basic lessons is that more should be done to adapt the aid effectiveness agenda to country conditions. Vietnam moved very quickly to localise the aid effectiveness agenda in

the sense of reaffirming the Paris Declaration with a local instrument. However, it has never really localised the agenda in the sense of specifying how the Paris principles should apply in the national context or setting its own priorities within a very broad agenda. As a consequence, the undoubted commitment of GoV and DPs to the Paris principles has remained at a rather abstract level. There is a lack of clarity as to what exactly needs to change in aid practices. This creates the risk that the agenda remains just a “discourse” or set of soft norms, rather than a concrete programme of action. This makes it difficult to measure progress or hold stakeholders to account for their actions.

In the Vietnamese case, many of the Paris Declaration/HCS indicators have proved to be rather poor proxies of progress on aid effectiveness. Stakeholders have little confidence that they will gain meaningful data from the Paris Declaration survey exercise. A number of issues with the indicators were raised during the evaluation.

- The indicators on use of country systems mainly pick up changes in aid modality. Movements in this indicator reflect the proportion of budget support in total assistance and the number of Development Policy Loans in the World Bank country programme, rather than changes in use of country systems in traditional projects. Progress on use of country systems involves many nuances – i.e., which country systems are being used in what circumstances and with what added conditions or safeguards – that are hard to capture numerically.
- The proportion of assistance given in the form of PBAs is used in the Paris Declaration/HCS as an indicator for DPs’ use of common arrangements and simplification of procedures. While PBAs are a very important part of the aid effectiveness agenda, they do not necessarily involve common arrangements and they rarely simplify procedures. As the OECD definition indicates, PBA is shorthand for a complex set of processes for improving the quality of DP support at national or sectoral level. This usually involves a lengthy transition process, with no clear endpoint. It is often difficult for DPs to determine the point at which their assistance crosses the line to become a PBA, as it depends not merely on the characteristics of the project but also on wider developments in the sector. Asking DPs to rate each of their projects as either a PBA or not produces arbitrary and unreliable results.
- The number of parallel PMUs is not a meaningful indicator in Vietnam, as PMUs are part of the national system for managing investment projects. While there are many outstanding issues regarding the use of PMUs, very few are parallel in the sense intended in the Paris Declaration.
- No useable definition of coordinated technical assistance has emerged. GoV ministries and agencies remain relatively poor at articulating their capacity building needs and providing clear guidance to DPs on their preferences.
- During this evaluation, none of the stakeholders we interviewed mentioned joint analytical work or joint missions as pressing aid effectiveness issues for Vietnam.

The Vietnam experience suggests some ways in which aid effectiveness priorities are likely to differ in countries that are moving towards MIC status.

- As the partner country becomes less aid dependent, its bargaining power with DPs increases, leading to a more balanced development partnership. The freedom to decline aid with unwelcome conditions helps implementation of the Paris commitment to drawing conditions exclusively from the partner country’s own development priorities.

DPs compete for influence based on the merits of their policy advice and technical support, which creates a more healthy dynamic.

- The partner country becomes less exposed to volatilities in aid flows, making predictability of commitments and disbursements less of a concern.
- The partner country becomes less concerned with reducing the transaction costs around aid projects, although delays in implementing large investment projects continue to be a concern. Where aid has a limited time to left to run, aid efficiency becomes less important than increasing impact.
- There has been little appetite in Vietnam for a formal division of labour exercise of the type envisaged in the Paris Declaration/AAA. With aid representing only a small share of the budget, the efficiency gains from a major reorganisation of the donor presence are unlikely to be sufficient to justify the effort – particularly when some of the bilateral aid programmes only have a few years left to run. In fact, the division of labour that matters more in Vietnam is between different sources of development finance. As Vietnam reaches MIC status, it has access to greater diversity in funding sources. Determining the comparative advantage of different types of aid (TA, grants, more and less concessional lending) versus budgetary resources and commercial finance will be a key issue for GoV in the coming period.
- Aligning aid with country systems presents different challenges in MICs. In aid-dependent countries, where most major investment projects are donor-financed, adapting country systems to donor requirements is a pragmatic step, and the main challenge is building the necessary capacity to implement them. In countries where the majority of development investment is financed from national resources, there may be legitimate reasons why country systems cannot readily be adapted to the requirements of the IFIs. In Vietnam, for example, the government is concerned that adapting procurement regulations entirely to DP requirements would leave too much procurement beyond the reach of Vietnamese companies. It is also concerned that the competition requirements are inappropriate for small-scale procurement in remote areas, where it is difficult to find qualified bidders. While GoV remains committed to achieving international standards, a longer transition period may be required.
- It is notable that complex SWAPs have not been used in Vietnam. Where aid is only a small share of sectoral budgets, ministries may be less willing to open their planning and budgeting processes to full participation by DPs. New aid modalities in Vietnam have therefore developed in the direction of targeted budget support for specific GoV pro-poor programmes, rather than full SWAPs.

No picture emerges from Vietnam on the inherent superiority of any particular aid modality. Traditional projects continue to be the most efficient means of organising large-scale capital investments, and there is no suggestion that this should change. In fact, given that a high proportion of Vietnam's ODA goes towards transport and energy infrastructure, it is questionable whether the target of 75% PBAs is either achievable or desirable. However, new aid modalities have played an important role. The move towards PBAs has clearly been facilitated by the willingness of some donors to experiment with sectoral and targeted budget support. These provide a useful platform on which to engage with core sectoral planning and budgeting processes. However, it is not necessary – or even desirable – for too many donors to participate in complex, joint funding instruments. The Vietnamese experience suggests that these encounter diminishing returns with too many participants, each bringing its own policy agenda and procedural requirements. The quality of engagement depends not on funding modality, but on close integration of policy dialogue, technical assistance and funding. This requires strong sectoral coordination processes.

There is nothing inherently transformative about putting aid on the budget. While budget support can be a very good platform for engagement, its effectiveness still depends on the intensity of effort which DPs and counterparts invest in the process. For this reason, it is unhelpful to think of new aid modalities as strategies for simplifying procedures or lowering transaction costs. In fact, they require more intensive engagement on both sides. DPs that embark on this form of assistance need to ensure that they have the resources to support this intensity of effort.

Vietnam is still looking for ways to ensure effective country leadership of capacity development. Technical assistance is still fragmented across too many projects that are poorly coordinated at the policy and technical level. MPI and DPs have looked at the possibility of a national capacity building strategy, but found that the issues were too complex for a single, cross-cutting strategy. To achieve effective country leadership, what is needed is much greater attention to capacity issues in sectoral strategies. Capacity requirements should be analysed alongside financial needs as core inputs in sectoral strategies. Ministries need to analyse their capacity gaps and provide DPs with clear guidance on what kinds of support they require. They should also put in place screening mechanisms to ensure that offers of technical assistance are consistent with their capacity development plans.

Finally, Vietnam has experimented with different ways of organising implementation of the aid effectiveness agenda. Like many other countries, it has found the implementation process to be resource intensive and rather fatiguing for participants, and therefore prone to stalling. The processes have to be reorganised at regular intervals to preserve the momentum. One of the lessons learned along the way has been to refer dialogue on technical issues to dedicated working groups, while leaving the main aid effectiveness fora for higher level policy dialogue. The emerging consensus in Vietnam, however, is that the separation of dialogue on aid effectiveness from broader development policy issues has been too rigid, and that in the future the discussions need to be brought back together.

## **5 Recommendations for aid effectiveness in Vietnam**

These conclusions suggest a number of ways in which implementation of the aid effectiveness agenda could be strengthened over the remaining life of the HCS.

### ***2.1 The legal and institutional framework for ODA management***

**Clarify the legal framework for PBAs and new aid modalities:** Under the legal framework for ODA management, there are no detailed guidelines in place for DPs and line ministries to draw on in designing PBAs or new aid modalities. As a result, traditional projects are still treated as the default option, and other modalities are exceptions that need to be negotiated from scratch. Revisions to Decree 131 are required in order to place projects and on-budget support on the same legal footing, to provide guidance and encouragement to sectors working towards PBAs, and to remove or reformulate rules that are inconsistent with PBA principles (e.g., requirements for the establishment of PMUs with dedicated staff for all projects).

**More support from MPI for new aid modalities:** While MPI has disseminated the HCS principles and commitments across government, it does not provide active support to the line ministries on the choice and design of aid modalities. Some of the line ministries we consulted stated that they had shared their experiences with programmatic assistance on the international stage, but not with other GoV agencies. It would be helpful for MPI to provide more guidance to line ministries on how to design PBAs, which aid modalities are available and how they can be

designed. A starting point would be to document the experiences of different sectors with designing and implementing PBAs and new aid modalities, and disseminating the lessons.

**Clarify policy on the use of less-concessional development finance:** In the new Strategic Framework for ODA Mobilisation and Utilisation 2011-2015 (now under preparation), GoV should consider broadening its approach to the use of less-concessional development loans, beyond projects with direct financial returns. Given the fungibility of finance, GoV should establish criteria based upon overall development return and the comparative advantage of different sources of development finance.

**Organise climate change financing:** Vietnam is likely to receive large volumes of external assistance for climate change adaptation in the coming period. It would be advisable for GoV to make the decision that climate change funding should as far as possible be subject to the same principles, legal framework and coordinating processes as ODA. A policy framework and an institutional structure for managing adaptation activities are beginning to emerge, but there is a need for greater clarity on the roles of MPI, MoF, MONRE and MARD. It would be helpful for more DPs to join Japan and France in providing budget support. At present, there are several different fora in which DPs supporting climate change meet. It would be useful for the AEF to establish a single body, such as a Partnership Group on Climate Change, to coordinate assistance. Its first task should be to agree on a common set of principles and coordinating structures for assistance. Care needs to be taken to ensure that external finance creates positive incentives for collaboration among the ministries involved, rather than fostering unhelpful competition for resources. There is an urgent need to develop reporting mechanisms on adaptation spending and activities.

**Review of the role of PMUs:** There needs to be a review of the role of PMUs in the Vietnamese system of ODA management. The current practice of establishing a separate PMU for each ODA project is standing in the way of sustainable capacity development, making it more likely that skilled personnel will be lost on project completion. PMUs also cause fragmentation and friction within ministries and provinces. There is still a good case for using PMUs for large capital investment projects, although there may be scope to merge the PMUs within a single sector to increase efficiency and to look at alternative solutions such as engaging private companies for project management. The case for establishing PMUs for smaller bilateral projects, particularly in the social sectors, is much weaker.

## *2.2 Use of country systems*

**Make more use of objective assessment tools:** GoV has not made as much use as it could of joint assessment tools for country systems based on agreed international standards, despite an explicit commitment in the HCS to do so. This is particularly the case for PFM, where the long delay in approval of the 2007 CFAA and the reluctance to adopt the PEFA assessment framework have been a cause of concern to DPs. These diagnostic tools would provide GoV with a means of holding DPs to account for their commitments on use of country systems.

## *2.3 Programme-based approaches*

**Avoid exit-strategy thinking:** Some DPs have already decided that Vietnam's achievement of MIC status requires a change in the scale and nature of their assistance, such as moving away from sectoral support towards technical assistance in niche areas. Others have not yet decided how they will respond. It would be very unhelpful for DPs to signal prematurely that their engagement in the social sectors is coming to an end. It is clear that Vietnam still needs

extensive support in these areas. Line ministries need to remain convinced that it is worth investing time in ODA-funded processes, including PBAs.

**Develop PBAs without the complex funding arrangements:** PBAs are demonstrating their value in areas where the main focus of assistance is recurrent expenditure (funding of service delivery) or multiple small-scale capital expenditure (e.g., rural transport). Vietnam has not embraced the kind of SWAPs seen in aid-dependent countries, and the experience with very complex joint funding arrangements has been mixed. However, the health sector offers an interesting model for how sectoral support can be reorganised along programmatic lines without radical changes to funding modalities. It involves securing agreement between the ministry and DPs on what should be done to strengthen core sectoral processes (planning, budgeting, managing for results), and developing a clear action plan and division of labour for taking this forward. Experience shows that it is useful to have a core of donors providing targeted or sectoral budget support, as this creates a useful platform for organising the PBA. However, other DPs can also contribute by making sure their projects are closely aligned to sectoral plans and expenditure frameworks, and by supporting sector-wide initiatives to strengthen planning, budgeting and managing for results.

**Maintain intensity of engagement in PBAs:** PBAs represent a more demanding form of engagement for DPs. DPs are required to devote time and effort not just to delivering their own programmes, but also to providing input into the development of the sector as a whole. They need the human resources and technical expertise to do this. For DPs with smaller country programmes, increasing the selectivity of their engagement (i.e., engaging in fewer sectors) is usually necessary to achieve this.

**Reorganise capacity development at the sectoral level:** To date, Vietnamese ministries have not been very good at assessing their own capacity constraints or providing leadership to DPs on the kinds of capacity building support they require. As a result, a lot of capacity building assistance in Vietnam is still supply-driven and poorly coordinated at the technical level. As sectors begin to adopt more results-oriented planning processes, there is an opportunity to change this dynamic by integrating capacity assessments into sectoral strategies. Each sectoral strategy should include (or be followed up by) an assessment of what institutional capacities are required to achieve sectoral development goals, and an analysis of where current capacity falls short. This would provide a basis for the line ministry and DPs to agree an overall capacity building agenda and a division of labour among the DPs. Sectoral Partnership Groups could also consider introducing some kind of screening process for new technical assistance projects, to make sure they are consistent at a technical level with the ministry's objectives and the assistance provided by other donors.

#### *2.4 Strengthen the national aid architecture*

**Establish a development effectiveness agenda for the AEF:** Stakeholders have recognised a need to broaden the dialogue in the AEF from technical issues around aid delivery towards more general development effectiveness topics. The AEF should set itself an agenda of issues that cross over aid effectiveness and development policy. These should be issues that apply to more than one sector, and need to be discussed at a higher level than sectoral Partnership Groups. Possible examples include:

- improving the targeting of pro-poor policy instruments and preserving equity in service delivery;

- managing development expenditure in a decentralised system, and the future of National Targeted Programmes;
- strengthening capacities and incentives for managing for results in line ministries, provinces and local authorities;
- the future of PMUs and options for building sustainable capacity for managing public investments; and
- policy instruments, coordination mechanisms and funding modalities for climate change adaptation.

In the past, the PGAE referred technical issues to Technical Working Groups. It may also be appropriate for the AEF to create some dedicated processes for pursuing particular development effectiveness issues. Some of the topics could be delegated to particular donor groups, to conduct diagnostic and analytical work and develop position papers to present to the AEF. The Six Banks are already engaged in examining the future of PMUs. The LMDG, EU and UN groups could decide on a division of labour for addressing the first three topics. There may be a need to create a dedicated Partnership Group on Climate Change.

**Strengthen the relationship between sectoral Partnership Groups and the AEF:** The AEF was established as a more senior forum to the sectoral Partnership Groups, but no clear relationship between them has yet emerged. This relationship could be elaborated in two ways.

First, the AEF could set down some guidelines to improve the functioning and efficiency of Partnership Groups. These would have to be quite open-ended in nature, as the Partnership Groups differ in their capacities and needs. However, it would be helpful to provide guidance on what makes for an effective Partnership Group, in terms of level of participation from the ministry and DPs, participation of other stakeholders and organisation (e.g., establishment of a secretariat). Guidance could also be offered on possible roles for Partnership Groups to play in sectoral planning and budgeting, developing PBAs and new aid modalities, coordinating technical assistance projects and conducting joint annual reviews to improve mutual accountability.

Second, the AEF could task the Partnership Groups to come up with their own sectoral aid effectiveness action plans. These need not be as elaborate or ambitious as the health sector's Statement of Intent. It would be sufficient for most Partnership Groups to set down three or four priority actions for improving aid effectiveness each year. This could include actions such as developing a matrix or database of existing assistance, improving information flows between DPs and the ministry, conducting diagnostic work, developing a common priorities for technical assistance, reviewing division of labour and so on. The Partnership Groups could then be asked to report back to the AEF at year end on their progress in implementing these priority actions. Such a mechanism would provide greater accountability, while remaining flexible enough to allow for each Partnership Group to determine its own priorities.

## Annex 1: Consolidated Survey Responses

As part of the evaluation, three survey instruments were developed to capture the perceptions of different stakeholders as to various aspects of HCS implementation. Surveys were sent to:

- all Development Partner members of the Aid Effectiveness Forum, with 11 responses received;
- four line ministries (Ministry of Construction, Ministry of Agriculture and Rural Development, Ministry of National Resources and the Environment and Ministry of Health);
- twelve provinces, with seven responses received (Thua Thien Hue, Ho Chi Minh City, Lao Cai, Bac Ninh, Nghe An, Quang Tri and Can Tho).

Respondents were asked to provide a scoring of the level of progress (either their own progress, or collective) against different HCS commitments. The scale used was as follows:

- 1 Substantial improvement
- 2 Some improvement
- 3 Little improvement
- 4 No improvement
- 5 Regression

Respondents were also invited to make comments on any of the issues raised.

In the case of the DP questionnaires, these were provided directly to the Evaluation Team to preserve the anonymity of the responses. For the line ministry and provincial questionnaires, the responses were collected by MPI and translated by the Evaluation Team.

The responses are summarised. Factual points on individual DP programmes are included, but general opinions are kept anonymous.

### Development Partner Survey

<i>Comments</i>	<i>Average rating (1-5)</i>
<b>Part A Country ownership of the development process</b>	
1 How do you rate improvements in the level of leadership/guidance provided by GoV to DPs on aid coordination and aid practices at the central level?	
DPs recognise that GoV has been an early mover on localising the PD and creating an implementation framework for the AAA. They recognise MPI as a global leader in the field, with a very detailed understanding of the issues. They note the importance of the Strategic Framework for ODA Utilisation and Management, and they appreciate the effort that has gone into creating the Aid Effectiveness Forum, with greater participation of the National Assembly, line ministries and CSOs, and strengthening country leadership of the Consultative Group process.	2.4
There are concerns, however, as to how far the commitment extends beyond MPI to	

<i>Comments</i>	<i>Average rating (1-5)</i>
<p>other GoV agencies. While a lot of effort is put into dialogue on aid effectiveness, producing many ‘in principle’ commitments, practical guidance from GoV to DPs on aid practices is more limited. GoV rarely requests DPs to work in a more harmonised way. When it comes to shifting to new aid modalities or increasing use of country systems, DPs receive mixed messages from their counterparts, and at times active resistance to innovation. This is in part due to the complexities and inconsistencies in the legal framework for ODA management</p>	
<p>2 How do you rate improvements in GoV leadership on aid coordination in the sectors where you are most closely engaged?</p>	
<p>DPs report a mixed picture on GoV leadership at the sectoral level. There has been gradual improvements in leadership capacity in a number of ministries, although this may be a result of general increases in staff capacity rather than any specific HCS measures. Coordination tends to be best in sectors with a PBA in place (e.g., TBS for EFA; P-135; water and sanitation), yet even in those cases progress is slow and at risk of stalling.</p>	2.5
<p>3 To what extent has the SEDP become stronger as a framework for development cooperation, taking into account consistency with sectoral strategies and linkages to the annual and multi-annual budget processes?</p>	
<p>DPs note the importance of the SEDP within Vietnam’s planning traditions, and its role in articulating the government’s medium-term development vision. However, they note various shortcomings with the content of both the current and the forthcoming SEDP, which are broad, complex and lacking in prioritisation. There is little discussion of the trade-offs between different goals, particularly rapid growth and equity. There is little clarity as to how investments or policy instruments will be used to achieve the development goals. The SEDP is not linked to an annual or multi-annual budget process, and is not always consistent with sectoral strategies (although in some areas, like health, the link is getting stronger). Because of its breadth, alignment of DP assistance to the SEDP is a fairly nominal achievement.</p> <p>Opinions are divided as to whether the next SEDP (2010-2015) demonstrates any improvement in terms of consultative process. While DPs have had their input, there are concerns that the involvement of national stakeholders may have narrowed. In terms of content, there are concerns that the draft focuses on economic growth at the expense of equity and the social sectors. One DP stated:</p> <p style="padding-left: 40px;">“Overall, the last draft SEDP gives the impression of a country forging ahead with a strategy to overcome a new set of challenges posed by Vietnam’s middle income country status. Less clear is how Vietnam will address the uncompleted poverty agenda and growing inequality, especially for ethnic minorities, women, the rural poor and the new and emerging poor such as urban migrants.”</p> <p>The DPs acknowledge GoV’s efforts to strengthen the SEDP monitoring framework, but would like to see more indicators of quality and efficiency, as well as quantity.</p>	2.7
<p>4 Have the National Assembly, civil society, the private sector and local government become more involved in the formulation and monitoring of the SEDP and sectoral strategies?</p>	
<p>DPs draw a distinction between the National Assembly and civil society. The National Assembly has become more involved in recent times in setting national development policy, with some recent high profile interventions. International NGOs make their input into the SEDP and sectoral strategies, but Vietnamese CSOs are not playing a significant role in the policy process. Local government participates through the</p>	2.3

<i>Comments</i>	<i>Average rating (1-5)</i>
bottom-up nature of the planning process, with provincial strategies used as inputs into the SEDP. There is limited involvement of the private sector in setting general development policy, although the Vietnam Business Forum provides an opportunity to raise specific issues of interest to the business community.	
5 How effectively have DPs responded to changes in national development priorities and/or financing gaps identified by government? Can you provide any examples where your own programme has adapted to emerging needs?	
DPs consider that they have responded well to emerging priorities indicated by GoV. This includes not just a large and rapid response by WB and ADB to the economic crisis in 2009, but also the national priorities on infrastructure, trade and foreign investment. A number of DPs have responded to specific request for assistance in particular sectors or areas.	2.1
6 How do you rate the progress made by DPs in (i) reducing the burden of conditionality; and (ii) ensuring that any conditions are developed through transparent, consultative processes?	
DPs are agreed that conditionality in the traditional sense is not used in Vietnam. The PRSC uses a soft form of conditionality, with transparent, joint processes for selecting and monitoring triggers and benchmarks that are supportive of national development goals, and is widely considered to represent best practice. Most DPs do not use conditionalities in their bilateral projects, although funding may be conditional on the agreed measure of progress on project implementation.	2.0
7 How do you rate the level of improvement in national PFM systems and capacities?	
There are a range of views on progress in strengthening national PFM systems. Some DPs believe that DP assistance on PFM reform has brought steady improvements, and a generally acceptable level of fiduciary risk for using country PFM systems. Others believe that progress has lagged in recent years, with delays in approving the 2007 CFAA, slow adoption of the MTEF, government's reluctance to use the PEFA assessment methodology and delayed revision of the State Budget Law. DPs would like to see faster progress in this area.	2.5
8 How do rate the level of improvement in national procurement systems and capacities?	
Opinions are also divided on progress in strengthen national procurement systems. Some DPs take the view that Vietnam's Law on Procurement is sound, and that capacity is steadily improving, including at sub-national level. Other donors, particularly the development banks, while acknowledging progress in many areas, point to the difficulty of resolving a number of fundamental problems, including the use of price ceilings in bidding, excessive use of direct contracting and conflicts of interest where State Owned Companies bid for contracts let by their own line ministries. These concerns relate mainly to large-scale investment projects. The local procurement systems used by most of the bilateral DPs for their projects are generally regarded as adequate.	2.6
9 What progress have you made on increasing the use of national PFM and procurement systems in your own programme? If you have recent quantitative data, please provide it. Has use of national PFM systems become your default option? Where you do not use country systems, do you provide reasons to GoV?	
Use of country systems in Vietnam is closely correlated with the type of aid modality. The large multi-donor PBAs (such as P-135, Education for All, Rural Water and Sanitation) and some provincial budget support programmes (e.g., from CIDA, Danida) are fully integrated with country systems, in some cases with some additional fiduciary controls. Some donors (e.g., DFID, EU, Danida) provide the majority of their assistance in this form, and therefore score very highly on use of country systems.	2.3

<i>Comments</i>	<i>Average rating (1-5)</i>
<p>In traditional projects, change is happening more slowly. Some bilateral donors are experimenting with using the treasury system and country rules for local procurement. It is notable that since 2008, the Netherlands has readjusted its strategy away from pooling funds in larger programmes towards technical assistance in niche areas, as part of responding to Vietnam's MIC status, and has therefore moved away from use of country systems.</p> <p>Some of the bilateral DPs noted that the initiative to increase use of country systems must always come from the DP side, and in some cases meets substantial resistance from GoV.</p> <p>The development banks present a different picture. The World Bank provides around 30% of its assistance in the form of development policy loans, which in a nominal sense pass through country systems, but makes little use of country systems for investment lending. Large investment projects use separate or 'ring-fenced' procedures for handling funds, with designated PMU bank accounts, separate accounting procedures and external audit by private firms. The banks use international rules for International Competitive Bidding and the engagement of consultants, and country systems with some modification for National Competitive Bidding, Shopping and Direct Contracting. The World Bank notes that Vietnam did not come close to qualifying to participate in a global pilot on use of the country procurement systems in Bank-financed operations, as it complied with only 3 of the 17 OECD-DAC indicators.</p>	
<p>10 What progress have you made in reducing the number of Project Implementation Units (PMUs) in your country programme, and improving their integration with counterpart institutions? Please describe the changes.</p>	
<p>DPs note that PMUs must be established under Vietnamese regulations (Circular No. 03/2007/TT-BKH under Decree 131/2006/ND-CP on ODA management and utilization) for all projects over 1 billion VND (approx. US\$50,000). PMUs are therefore part of the Vietnamese system for ODA management, and for the most part fully integrated into counterpart institutions. (DPs note that this rule is inconsistent with the shift towards PBAs and budget support.)</p> <p>However, there are still some uncertainties within Vietnamese law as to the legal status of PMUs, and a proliferation of PMUs is considered unhelpful for building sustainable capacity. The Six Banks are currently working with MPI to examine how to reform the system of PMUs through revisions to Decree 131.</p> <p>DPs have tried to reduce the overall number of PMUs, with some success, although with reportedly little support from GoV. There have also been efforts to improve their integration. Since the HCS was signed, for example, DPs have moved away from providing top-up salaries to PMU staff (although under Vietnamese law staff are entitled to a loading of up to 30% on their regular salaries). The EU has moved away from having international co-directors of PMUs and requiring foreign technical assistance providers to countersign project dossiers, leaving GoV staff fully accountable.</p>	2.5
<p><b>Part B Building more inclusive and effective partnerships for development</b></p>	
<p>11 To what extent have you increased the selectivity of your country programme, based on your comparative advantage? Please provide examples. Is GoV providing you with any leadership on division of labour?</p>	

<i>Comments</i>	<i>Average rating (1-5)</i>
<p>There has been no government-led initiative to improve division of labour in Vietnam. A few DPs report that they have had encouragement from GoV to focus their assistance in certain areas, and that they have been responsive to that. For example, GoV expressed a preference for the Netherlands to focus its technical assistance on water management and agriculture. However, most DPs have chosen their own priorities, based on criteria such as lagging MDGs, and a number report moving out of sectors like health, PFM and P-135 that are relatively overcrowded.</p> <p>The EU is currently leading its member states on a self-assessment exercise to determine comparative advantage, although it notes some hesitance on the part of GoV to participate.</p> <p>Most DPs report that they have increased the focus of their programmes, or are in the process of doing so.</p>	2.5
12 What overall progress has there been in improving the selectivity and reducing the fragmentation of aid in Vietnam?	
<p>DPs report a number of trends at play here. First, over the life of the HCS there has been an increase in DPs contributing to multi-donor programmes, including the PRSC, sectoral budget support operations, MDTFs and other programmatic assistance. However, many of the sectors remain quite fragmented, with DPs slow to combine their efforts.</p> <p>In recent times some DPs have shifted their emphasis away from large-scale sectoral support towards technical assistance in niche areas, which is provided on a bilateral basis. This raises some new problems with coordination. For example, Japan, the US, Australia, Denmark and the Netherlands are all offering assistance on delta management. It is not clear that GoV has the capacity to reconcile differences in the technical approaches on offer.</p> <p>Overall, there has been little progress on reducing fragmentation, and some suggest even some regression.</p>	2.9
13 Has your organisation increased the level of delegation of authority to country level for aid programming? Please describe current situation.	
<p>There are some sharp differences among the DPs on their level of delegated authority to make funding decisions and determine aid modalities. Some DPs (DFID, Danida, Netherlands, Ireland) have fully delegated programming authority (with various levels of HQ approval). Others still have a relatively centralised structure (Belgium, Finland, AFD, CIDA), with the EU at a mid-point and the UN agencies varying significantly according to the funding modality of each agency. The World Bank country programme is one of the most decentralised, with a resident Country Director and staff of 125 (80% Vietnamese), and close to 60% of project preparation and supervision handled out of the country office.</p>	2.5
14 Have you increased your use of delegated cooperation arrangements/silent partnerships with other donors? Are you willing to be represented by other donors in policy dialogue at the sectoral level? Please provide examples.	
<p>Only a few donors engage in delegated cooperation or silent partnerships in their programming. The DFID programme is entirely joint in nature, with different partners taking the lead on particular sectors or areas. The Netherlands is represented by Australia on HIV-AIDS and Denmark and Australia on water and sanitation. Sweden has delegated cooperation with Denmark in the justice sector. There are a few other examples, but most donors do not use formal delegated cooperation arrangements.</p>	2.0

<i>Comments</i>	<i>Average rating (1-5)</i>
<p>On policy dialogue, there is a much higher level of delegation within the annual PRSC process, consultations on the SEDP, preparation of joint donor statements at AEF and CG meetings, and within larger sectoral programmes such as health and P-135. Within the major DP groupings – LMDG, Six Banks, EU and the UN families – there are various arrangements in place for DPs to represent each other in policy dialogue.</p>	
<p>15 Bilateral donors only: Have you increased your untying of aid? Please describe the current situation. For untied procurement, do firms from your own country still have a significant advantage in tender processes?</p>	
<p>The majority of DPs have completely untied their assistance, with minor exceptions, in some cases before the Paris Declaration. The main exceptions are within Canadian and Japanese aid.</p>	1.8
<p>16 What progress have you made in reforming and simplifying your procedures, to reduce transaction costs for counterparts? Please provide examples.</p>	
<p>All DPs in Vietnam are able to point to a range of measures taken since the HCS to simplify procedures and reduce transaction costs. This includes delegated cooperation, joint programming, budget support arrangements, increased use of country systems, better integration of PMUs and adoption of common UN-EU Cost Norms.</p> <p>The Six Banks have worked with GoV to improve the harmonisation of their lending procedures with government rules and regulations, including developing aligned monitoring and reporting tools, common feasibility study guidelines, common sector guidelines in a number of areas (education, water supply, transport), clarifying differences in international and local procurement norms and reform of PMUs. There is some question as to whether this has yet resulted in reduced transaction costs for GoV agencies, as the changeover is challenging and in some cases has generated parallel requirements.</p> <p>The One UN Reform processes contains various elements of simplification for GoV counterparts, including Harmonised Programme and Project Management Guidelines and the Harmonised Approach to Cash Transfers which standardises funding modalities.</p>	2.0
<p>17 To what extent have you increased your use of joint or harmonised arrangements with other donors at project/programme level (e.g., joint planning, funding, management or monitoring)? Please list the most important/innovative examples.</p>	
<p>DPs provided multiple examples of joint and harmonised programming, including:</p> <ul style="list-style-type: none"> <li>• the PRSC;</li> <li>• Rural Transport 3;</li> <li>• HIV projects;</li> <li>• Rural Water and Sanitation NTP budget support;</li> <li>• LMDG investments in harmonisation and alignment and other joint analytical work;</li> <li>• the Justice Partnership Programme;</li> <li>• the Programme on Strengthening Comprehensive Capacity of the Inspectorate System basket fund for anti-corruption;</li> <li>• the School Education Quality Assurance Programme;</li> <li>• the Health Sector Capacity Support Project;</li> <li>• Programme 135 for minorities;</li> <li>• PFM Multi-Donor Trust Fund;</li> </ul>	2.1

<i>Comments</i>	<i>Average rating (1-5)</i>
<ul style="list-style-type: none"> <li>• the Trust Fund for Forestry;</li> <li>• Mekong Project Development Facility;</li> <li>• Joint donor support for One UN reforms.</li> </ul> <p>For a number of DPs, joint programming is the default option. For others, it is limited to special ‘harmonisation’ initiatives, rather than regular programming. Some DPs predict that, as assistance shifts in the future from large sectoral programmes towards technical assistance in niche areas, there will be less joint programming.</p>	
<p>18 To what extent are the Paris Declaration/Accra Agenda for Action principles and behaviours included in job descriptions and performance management systems for your staff? Are corporate incentives supportive of aid effectiveness principles?</p>	
<p>Some DPs have fully integrated aid effectiveness into their job descriptions and performance management systems on a global basis. For example, DFID includes aid effectiveness principles in TORs for advisers and its annual Performance Management Framework. Job descriptions in Danida require staff to improve their understanding of country systems in order to use them for aid delivery, while programme management guidelines encourage adherence to the Paris and Accra principles. The EC has a Backbone Strategy on support modalities which incorporates AE principles, which are also included in job descriptions for development cooperation positions. Ireland includes coordination and AE principles in job descriptions for senior managers and advisors working on joint programmes.</p> <p>Other DPs have no formal mechanisms for incentivising the Paris principles, beyond a general corporate commitment. The UN is now including a reference to the One UN Reform initiative in its job descriptions, but notes that corporate incentives for individual UN agencies to become more deeply involved in external aid effectiveness initiatives remain relatively weak.</p>	2.4
<p>19 To what extent have you increased the proportion of assistance provided through multi-annual commitments? If available, please provide figures.</p>	
<p>Most DPs (DFID, Denmark; Belgium; the EC; the World Bank; Finland; France) make multi-annual funding commitments as a matter of course. Some DPs (CIDA; Ireland; Japan) have an annual planning cycle, which means they can only provide indicative multi-annual funding commitments, but note that these projections are usually accurate (although Ireland suffered budget cuts in 2009 and 2010 of almost 30%). The UN’s efforts at multi-annual funding are frequently frustrated by the fact that DPs make only annual commitments to UN funding. The Netherlands provided multi-annual commitments up to 2008, but having changed the nature of its assistance this is no longer the case. The World Bank notes that, while its lending activities are planned on a 3-year rolling basis, Trust Fund resources (a small proportion of the assistance) is short-term in nature. Efforts are underway to address this.</p>	2.1
<p>20 What progress have you made on improving the timeliness and predictability of assistance? Please describe measures taken and/or challenges encountered.</p>	
<p>DPs that most delays in disbursement relate to unforeseen problems with project implementation or over-ambitious timelines in the original project design. Often the delays are for purely bureaucratic reasons, such as long delays in signing formal project agreements even after the design is finalised. The EU notes that its internal approval processes remain slow, with more than a year between the start of the identification of a project and the decision to fund it. Only Ireland, CIDA and the UN noted a problem with predictability on the supply side, due to shifts in annual budgets or funding agreements.</p>	2.3

<i>Comments</i>	<i>Average rating (1-5)</i>
<p>DPs note that, as aid is a very small percentage of the budget in Vietnam, the fiscal effects of unpredictability are very limited.</p>	
<p><b>Part C Delivering and accounting for development results</b></p>	
<p>21 How do you rate the level of improvement in Vietnam's ability to monitor development results at the national and sectoral level?</p>	
<p>DPs are agreed that managing for results remains one of the most challenging HCS principles for GoV. They note some improvements since 2005. The work of the General Statistics Office is improving, with a regular survey programme in place (although some DPs have concerns about data quality). The MDG report now under preparation is seen as a high quality document making good use of results data, but DPs question whether it is linked to the preparation of the SEDP. Monitoring against the SEDP has been weak in the past, but DPs note that efforts are underway to strengthen the SEDP monitoring framework.</p> <p>At the sectoral and local level, the picture is mixed, with less progress reported. DPs note that monitoring is still focused on inputs and quantitative targets, with little attention to monitoring the quality of interventions or their impact.</p>	2.7
<p>22 Have there been improvements in national efforts to address corruption? What difference have they made?</p>	
<p>DPs engage in a semi-annual Anticorruption Dialogue with GoV, led by Sweden, and note that GoV has become more open to discussing topics that were formerly very sensitive. However, while noting that various anticorruption measures have been taken within the administrative reform programme, DPs continue to have concerns about the depth of GoV commitment. They note that Vietnam has strong anticorruption laws and strategies, compliant with the UN Convention on Anti-Corruption, covering areas like transparency and asset declaration by government officials, but that implementation is very weak. Progress on strengthening the Government Inspectorate has been slow, despite extensive donor assistance. Whistleblowers are not yet protected. The media is not free to report on corruption scandals.</p>	3.3
<p>23 Has mutual accountability of GoV and DPs around aid practices improved? Which mechanisms or processes have proved most effective for mutual accountability?</p>	
<p>Most DPs are quite pessimistic about the level of mutual accountability that has been achieved in Vietnam, despite the existence of multiple platforms for discussing aid effectiveness. While the Independent Monitoring process under the HCS has been useful in identifying issues, the HCS commitments are still essentially voluntary, and neither GoV or DPs are interested in policing compliance. On issues like parallel PMUs or compliance with agreed cost norms, discussion is often side-tracked into sterile debates on definitions, and diplomatic norms prevent any real peer pressure from emerging. Disputes over the definitions of indicators in the Paris Declaration monitoring surveys have limited their value.</p> <p>DPs are hoping that the transformation of the PGAE into the Aid Effectiveness Forum, with broader participation of the National Assembly, Partnership Groups and civil society, will strengthen mutual accountability.</p> <p>Some DPs have their own accountability mechanisms. For example, the EU monitors its performance against the four additional commitments in the European Consensus, with the results reflects in the EU Aid Effectiveness Roadmap 2010. The Joint Portfolio Performance Review of the Six Banks is also a useful accountability</p>	2.6

<i>Comments</i>	<i>Average rating (1-5)</i>
<p>mechanism.</p> <p>The UN has introduced reforms to simplify and strengthen its monitoring and reporting process. Its Programme Coordinating Groups (which bring together staff from different UN agencies working in similar areas) hold annual reviews with GoV and donor counterparts, to discuss progress against joint work plans. This is a Tripartite National Task Force to oversee the UN reform process.</p>	
<p>24 Has there been any increase in accountability of GoV to parliament and society for its progress on development results?</p>	
<p>DPs are encouraged at the stronger role being played by the National Assembly in the national development agenda. The NA recently rejected a number of major development projects proposed by government, on the basis that the development case had not been made. Ministers now face a higher level of questioning from MPs, and the National Assembly is represented in the Aid Effectiveness Forum.</p> <p>National civil society does not play a strong accountability. Some local NGOs are represented in sectoral Partnership Groups, but mainly as service delivery organisations. There is limited engagement of CSOs in monitoring, although over the longer-term it is possible to see a gradual increasing in public dialogue on development issues.</p>	2.4
<p><b>Part D Overall impact of the HCS</b></p>	
<p>25 How do you rate the overall change in DP behaviour in response to the HCS?</p>	
<p>There are some doubts within the DP community as to whether DPs are going beyond lip-service to the HCS principles and making fundamental changes in their behaviour. Some DPs point to a lack of strong incentives for change. Some note that the HCS offers a very ‘soft’ set of rules, as few practices were actually proscribed. Joint activities by the Six Banks, LMDG, EU and UN groups were all suggested as important examples of meaningful change.</p>	2.2
<p>26 To what extent has the behaviour of your GoV counterparts changed in response to the HCS?</p>	
<p>DPs are less convinced that there has been significant change of behaviour on the part of their GoV counterparts. While acknowledging the ownership on the part of central ministries such as MPI and Ministry of Finance, other ministries and agencies appear to regard HCS “only as a particular discourse to be applied in discussions with donors and not as a series of commitments to be implemented in practice”. DPs note that implementing many of the commitments, especially those related to planning, budgeting, managing for results and using country systems, require improvements in cross-government systems that will require long-term efforts.</p>	2.8
<p>27 Are any of the HCS principles (ownership; alignment; harmonisation; managing for results; mutual accountability) lagging behind?</p>	
<p>All of the main HCS/PD principles except ‘ownership’ were mentioned by at least one DP as lagging behind. Managing for results was mentioned by the most DPs as a critical area for improvement, due to its importance for Vietnam’s future development. Effective mutual accountability mechanisms are yet to be established. Some DPs mentioned the need for more meaningful alignment, which requires stronger planning at national, sectoral and provincial levels to produce clear priorities. Slow improvements in GoV management of public resources is also holding back systems alignment. Harmonisation is also lagging behind, given the lack of a clear division of labour among</p>	Not scored

<i>Comments</i>	<i>Average rating (1-5)</i>
DPs and the continuing existence of complex, inconsistent donor rules and procedures.	
28 How efficient do you consider aid management processes in Vietnam? Are there are signs of fatigue with the process?	
<p>DPs drew some clear distinctions here. Overall, Vietnam manages its ODA efficiently, in economic terms, given the number of donors involved. Success rates of development projects in Vietnam are high.</p> <p>However, approval processes for assistance are still slow and cumbersome, and overall disbursement rates stand at less than 50%. DPs also point to complexities and internal inconsistencies in the legal framework for ODA management that are taking many years to resolve.</p> <p>Aid effectiveness processes (e.g., the PGAE and other Partnership Groups) have generally not been seen as particularly efficient, and a number of DPs report extensive fatigue with the processes on all sides.</p> <p>DPs also note that aid effectiveness issues are changing quickly as a result of the changing profile of assistance, and that existing commitments and processes need to be kept under constant review.</p>	2.6
29 Is there evidence that aid provided in accordance with the HCS principles has more sustainable impact? What do you see as the main causal linkages between aid effectiveness and development results in Vietnam?	
<p>DPs noted that this was a difficult question to answer, due to time lags involved, the small share of ODA in national development results and problems of attribution. DPs identified possible causal chains between aid effectiveness and development results as follows:</p> <ul style="list-style-type: none"> <li>• country ownership of development programmes, to improve sustainability;</li> <li>• stronger country systems, as a result of DP support;</li> <li>• improved sectoral policies, budget frameworks and results management within sectoral programmes (PBAs).</li> </ul>	Not scored
30 Please feel free to add any additional comments regarding the relevance, implementation or impact of the HCS in Vietnam, including any suggestions for how the aid effectiveness agenda should be taken forward in the future.	
<p>DPs mentioned a number of priorities for the aid effectiveness agenda, including:</p> <ul style="list-style-type: none"> <li>• strengthening national and international accountability mechanisms;</li> <li>• getting line ministries and provinces more involved in aid effectiveness dialogue;</li> <li>• strengthening linkages between the Aid Effectiveness Forum and high-level policy discussions, including the Consultative Group Meetings;</li> <li>• ensuring that aid effectiveness initiatives themselves are results oriented and relevant to the country context, and not ‘trapped’ in too quantitative an approach;</li> <li>• strengthening coordination among GoV agencies;</li> <li>• simplification of dialogue structures;</li> <li>• improving the quality of national and sectoral policy frameworks and strategies, to include clear and costed priorities and address capacity constraints.</li> </ul>	Not scored

## Ministry and Province Survey

<i>Comment</i>	<i>Rating (1-5)</i>
1 Has the level of fragmentation of aid (ratio between small and large projects) improved?	
The 2 ministries and 3 of the provinces were agreed that fragmentation had reduced, with larger ODA projects with longer time scales becoming more common. Two of the provinces saw no change.	2.6
2 Has there been improvement in the alignment of aid with sectoral/provincial development policies and strategies? Have donors responded effectively to new priorities or funding gaps identified by the sector/province?	
Most respondents were very positive about the willingness of DPs to align with sectoral or provincial strategies and to respond to emerging priorities.	1.6
3 Has there been any increase in the level of involvement of civil society, the private sector and local authorities in the formulation, implementation and monitoring of the sector/province's development policies and strategies? Please describe what processes exist for participation.	
All of the respondents took the view that there had been substantial improvement in the level of participation by mass organisations, trade unions, the private sector, local governments and grass roots organisations in the planning and implementation of development activities. They cited improvements in consultations on sectoral/provincial strategies, participation in monitoring frameworks, and community consultation meetings during project preparation. Projects are more likely to include components to develop local capacity to participate.	1.6
4 Does your sector/province's development strategy deal sufficiently with cross-cutting issues such as gender equality, human rights and environmental sustainability?	
All the respondents stated that cross-cutting issues were integrated effectively into their strategies, except for the Ministry of Construction, which considered the question not to be relevant. One province emphasised the importance of sustainable development in its SEDP, while another stressed gender equality. One respondent commented that vulnerable people are always priority beneficiaries in development projects.	1.3
5 How much has public financial management capacity in your sector/province increased? Have you received donor assistance in this area? Please describe.	
All the respondents considered that their public financial management capacity had increased, in some cases substantially and others only moderately. Donor support to this area mainly comes in the form of capacity development components of investment projects.	1.9
6 How much has procurement capacity in your sector/province increased? Have you received donor assistance in this area? Please describe.	
All respondents reported improvements in procurement capacity, as a result of greater use of country systems and TA components in ODA projects.	1.9
7 Have donors increased their use of country public financial management and procurement systems for aid delivery? Please describe the current situation.	

<i>Comment</i>	<i>Rating (1-5)</i>
Respondents noted that more DPs are using Vietnamese systems for financial management (including audit) and national procurement. They also noted that, in large investment projects, the gaps between DP and Vietnamese rules are being gradually reduced, and that the thresholds for using national procurement through Vietnamese systems have been raised.	2.0
8 Have donors taken steps to reduce the burden of conditionality in their assistance? Are conditions developed in a consultative and transparent way?	
Three of the respondents stated that there had been no reduction in the burden of conditionality, and that donor conditions were not developed in a consultative manner. The other respondents said that conditions had been reduced, relating this to greater use of country of systems and a reduction in tied aid. They noted that environmental and social safeguard policies were still burdensome, but agreed that the standards were based on dialogue and consensus.	2.6
9 . Do donors work according to an agreed division of labour in the sector/province? Do you provide guidance to donors on where they should work?	
Both provinces and line ministries stated that they provide guidance to DPs as to how and where to direct their assistance, based on the DP's stated priorities and their comparative advantage. DPs are reportedly responsive to direction. Beyond that, there are no formal processes for division of labour in place. None of the respondents mentioned a problem with gaps or overlaps.	1.9
10 Has there been any increase in joint programming or delegated cooperation in the sector/province? Please list the most important examples.	
The respondents were able to list only a few examples of joint programming or delegated cooperation, and two of the provinces stated that they knew of no joint or coordinated activity among DPs. There were several references to World Bank projects co-funded by bilateral donors.	2.9
11 Have donors taken steps to simplify their procedures to reduce transaction costs for the sector/province? Please describe the most important changes.	
Respondents agreed that there had been some simplification of procedures, although some noted that the improvement was only slight. The main example noted was alignment of project management processes with Vietnamese systems, particularly the aligned monitoring tool. MARD noted that a group of six donors use a common system for reporting, monitoring and assessment. Overall, however, respondents stated that the time and effort that goes into project preparation and negotiation is still far too high.	2.4
12 Are donors providing more of their assistance as multi-annual commitments?	
The 2 ministries and 3 of the provinces were agreed that there had been an increase in multi-annual commitments since 2005. Two provinces stated that they had no examples of multi-annual support.	3.0
13 Has there been any improvement in the timeliness and predictability of disbursements? What are the most common factors leading to delays in disbursement?	
Slow disbursement on ODA projects remains the overwhelming concern of the survey respondents. Some noted that the situation had improved in recent years; others saw little or no improvement. Lack of timeliness and predictability of disbursement relates almost entirely to slow project approval and implementation. Delays to project approval can mean that tenders become outdated and have to be repeated. Factors causing delayed implementation include:	2.7

<i>Comment</i>	<i>Rating (1-5)</i>
<ul style="list-style-type: none"> <li>• limited capacity of PMUs;</li> <li>• poor coordination between DPs and beneficiaries due to geographical distance, language and cultural differences;</li> <li>• problems with land tenure and site clearance;</li> <li>• delays on the DP side in engaging consultants;</li> <li>• poor capacity of contractors;</li> <li>• differences in rules and procedures between DP and GoV;</li> <li>• lack of qualified accounting staff for financial reporting;</li> <li>• low ceilings for PMU bank accounts.</li> </ul> <p>Respondents noted that these issues are slowly being addressed through the alignment of procedures.</p>	
<p>14 Have there been improvements in the sector/province's capacity to monitor outcomes under the sectoral/provincial strategy? Do donors support the development of monitoring capacity? Are there any joint reviews of progress with donors? Do donors make use of the sector/province's monitoring systems, or make their own arrangements for monitoring?</p>	
<p>Most respondents stated that there had been significant improvements in their monitoring capacity. They cited the aligned monitoring tool developed by MPI with the Six Banks as a major step forward. They noted that ODA projects are often accompanied by technical assistance on monitoring. Some of the provinces have also received assistance through the CCBP and VAMESP on monitoring their SEDP.</p> <p>However, respondents also noted that many DPs still insist on using their own monitoring systems.</p>	2.1
<p>15 Do you believe there has been increase in the efficiency and effectiveness of aid as a result of the HCS? Has it improved the quality of cooperation between the sector/province and development partners?</p>	
<p>All of the respondents reported significant improvements in the quality of cooperation between themselves and DPs since 2005. One respondent queried whether this was a result of the HCS or other factors.</p>	1.7
<p>16 Has the HCS helped to strengthen the sector/province's capacity to manage the development process? Please describe the most important changes.</p>	
<p>Most respondents agreed that the HCS had improved their capacity to management the development process. Among the factors mentioned were:</p> <ul style="list-style-type: none"> <li>• improvements in participation of communities in the SEDP and project selection, planning and monitoring;</li> <li>• improved management capacity within PMUs;</li> <li>• a stronger legal framework for public investment management;</li> <li>• higher volumes of ODA.</li> </ul> <p>Only one province stated that there had been no impact.</p>	2.0
<p>17 Has the HCS led to an acceleration of progress towards the sector/province's development goals?</p>	
<p>Most respondents stated that the HCS had made a contribution to improving the rate of development, mainly through increased volumes of ODA and more efficient utilisation.</p>	2.0

<i>Comment</i>	<i>Rating (1-5)</i>
<p>18 Please feel free to add any additional comments regarding the relevance, implementation or impact of the HCS in Vietnam, including any suggestions for how the aid effectiveness agenda should be taken forward in the future.</p>	
<p>The majority of comments related to the need to increase the speed and efficiency of project implementation. Respondents noted that, in a 5-year project, disbursement often does not begin until the 3<sup>rd</sup> or 4<sup>th</sup> year, which causes further delays due to outdated designs and procurement, and reduces development impact. Possible solutions include:</p> <ul style="list-style-type: none"> <li>• further decentralisation of ODA management to provincial level, to avoid unnecessary delays;</li> <li>• further harmonisation of systems and procedures for project planning, design, implementation, reporting and M&amp;E among DPs, which would allow PMUs to manage projects from several donors;</li> <li>• greater alignment of DP and GoV systems.</li> </ul> <p>One respondent mentioned the need to create incentives to improve managing for results.</p> <p>Another mentioned that Vietnam's Middle-Income Status is likely to bring about substantial changes in its relations with DPs.</p>	<p>Not scored</p>