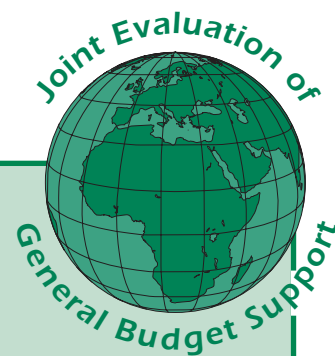


# Partnership General Budget Support: Vietnam Brief



**The Joint Evaluation of General Budget Support 1994–2004** was commissioned by a group of 24 aid agencies and 7 partner governments to assess to what extent and under what circumstances GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth.

This independent study was led by the International Development Department of the University of Birmingham. Its outputs are a Synthesis Report, and seven country case studies, for Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam.

## Origins and organisation of PGBS in Vietnam

Earlier forms of budget support in Vietnam (from the IMF, World Bank and Asian Development Bank) all experienced difficulties over conditionality.

The World Bank's Poverty Reduction Support Credit (PRSC) has become the only established mechanism for providing PGBS. This started in 2001, with co-funding from other donors.

The PRSC has been based on the government's own reform programme – the 2002 Comprehensive Poverty Reduction and Growth Strategy (CPRGS) – with conditionality replaced by 'triggers', used to decide the level of annual PRSC funding, and verify that the overall reform process is moving forward.

The policy dialogue between the government and donors focuses on the implementation of policies, rather than introducing new ones.

The number of participating donors has steadily increased. By 2004 the World Bank was joined by seven PRSC co-financiers – the Asian Development Bank, Canada, Denmark, the European Commission, Japan, the Netherlands and the United Kingdom.

It is planned that the CPRGS will be fully integrated into the government's Socio-Economic Development Plan (SEDP) for the 2006–2010 PRSC cycle, and the PRSC policy matrix will be drawn more directly from the SEDP.

## How much PGBS did Vietnam receive?

Disbursements are shown in Table 1. The PRSC constituted between 7% and 10% of total official aid during the period 2001–2004. In 2004, PRSC

funding was about 1.4% of central government expenditure.

## What were the benefits?

The PRSC supported increased pro-poor spending, both by providing finance and by supporting government pro-poor policies.

- PRSC funding helped the government to implement pro-poor initiatives such as the Health Care Fund for the Poor, without extra burden on the budget.
- The reliable scheduling and delivery of PGBS has improved the efficiency of public expenditure.
- Recent PRSCs include policy actions to improve service delivery in health and education; it is too early to judge their effect, but their potential impact is significant.

PGBS supported fiscal discipline by:

- Helping to fund the budget deficit and reducing the costs of financing.
- Providing an incentive to keep macroeconomic reform on track.

The budget process has always been owned by the government, but PGBS has strengthened the process by bringing more discretionary aid funds on budget.

The government already had a good track record on poverty reduction, resulting from economic reform and growth. PGBS has supported non-income poverty reduction through increasing the use of health and education services by poor groups. It has addressed income poverty by focusing on the macroeconomic environment to stimulate economic growth.

Various PGBS policy actions strengthened transparency and accountability in public financial management. These have been reinforced by complementary non-PGBS programmes.

Fiduciary risks are considered to be at an acceptable level in Vietnam. There is no reason to believe that the PRSC is more vulnerable than projects. Anti-corruption measures are included in recent PRSCs, but it is too soon to tell if

## What is Partnership General Budget Support?

General Budget Support (GBS) is aid funding to government that is not earmarked to specific projects or expenditure items. It is disbursed through the government's own financial management system. Although the funds are not earmarked, they are part of a package which includes dialogue and conditions, technical assistance and capacity building, and donor efforts to harmonise their aid and align it with government strategies and procedures.

Partnership GBS emerged in the late 1990s to support national poverty reduction strategies. By channelling funds through national systems, it also aims to strengthen national planning and implementation capacity, increasing the effectiveness of all public expenditure, including aid.

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

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

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

there is the political will to address these issues.

PGBS has influenced sectoral policies. It has strengthened incentives to pursue reform, and supports reformers in government and the ruling Communist Party.

PGBS has increased harmonisation and alignment by:

- Providing a framework for alignment with government policy and systems.
- Aligning the PRSC planning cycle with government planning and budget cycles.
- Increased use of government implementation systems with more aid on-budget.

The use of government systems to disburse funds reduces government transaction costs throughout the project implementation cycle. Disbursement rates are higher than for other forms of aid.

### How did Vietnam compare with other countries studied?

Vietnam is much less aid-dependent than other countries in the study, and has the strongest record of growth and poverty reduction.

PGBS has not been such an important source of finance as in Uganda, Mozambique and Burkina Faso – all cases where PGBS has come to play a central role in aid management.

The PRSC in Vietnam has been backing a winner, demonstrating the usefulness of PGBS when there is already a good track record on poverty reduction and macroeconomic management.

PGBS discussions and policy conditions have helped to address cross-sectoral issues related to the environment and HIV/AIDS. (Democracy and human rights issues were deliberately excluded from the policy matrix due to the government's unwillingness to engage in dialogue on these issues.)

### What were the drawbacks and limitations?

Systemic weaknesses in government capacity meant that policy actions were not always translated into effective outcomes.

The high level of ownership at central agency level did not always extend to line ministries, who were often not represented in the dialogue.

The Vietnamese government is highly decentralised, and central budget support has not addressed weaknesses at provincial level.

### What was the evaluation's overall assessment?

PGBS has been an effective method of achieving alignment with government policies and has enhanced aid coordination.

PGBS provides a mechanism for donors to engage in high-level policy dialogue with the government and provides an incentive to keep reforms on track.

The flow of funds from PGBS supports pro-poor expenditures and helps to finance policy reforms. However, the main effects of PGBS arise from the implementation of budget-related policy actions included in the PRSC policy matrix.

The primary effect of PGBS has probably been on non-income poverty, with only weak effects on income poverty reduction and empowerment of the poor.

Given its good track record, providing the government with additional funding through PGBS appears to be an

efficient and effective way to support poverty reduction.

PGBS is a useful complement to other forms of aid.

### Main Recommendations

#### Design of PGBS

- Co-funders should make three-year to five-year funding commitments.
- Widen the PRSC negotiating team and establish an agreed set of guiding principles for the PRSC.

#### PGBS Analysis and Evaluation

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

#### Aid Coordination

- Include a wider range of stakeholders in dialogue.
- Coordinate more closely with projects linked to the PRSC reform programme.
- Develop a strategy to guide when other forms of budget support can be used to complement PGBS.
- Ensure stronger coordination and linkages with other aid modalities.

#### Capacity Building

- Consider the scope for provincial budget support linked to capacity building.
- Include capacity building and technical assistance within PRSC activities.

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The full report (and a longer summary) can be obtained from the OECD DAC website at:  
[www.oecd.org/dac/evaluation](http://www.oecd.org/dac/evaluation) or from the DFID website at  
[www.dfid.gov.uk/aboutdfid/performance/evaluation-news.asp](http://www.dfid.gov.uk/aboutdfid/performance/evaluation-news.asp)