

**2006 ASIAN REGIONAL FORUM ON AID EFFECTIVENESS:  
IMPLEMENTATION, MONITORING AND EVALUATION**

**MANILA, OCTOBER 2006**

**What structures and processes are emerging at country level to  
support a more effective and accountable development partnership?**

**Vietnam country case**

September 2006

Marcus Cox  
Agulhas

The opinions expressed in this case study are the author's alone,  
and do not represent the official views of the organisers of  
the Asian Regional Forum on Aid Effectiveness

~ Table of contents ~

<b>1. INTRODUCTION</b> .....	<b>1</b>
<b>2. CONTEXT</b> .....	<b>1</b>
2.1 Vietnam's record in growth and poverty reduction .....	1
2.2 External assistance and the development partnership .....	3
<b>3. AID EFFECTIVENESS STRUCTURES, PROCESSES AND INSTRUMENTS</b> .....	<b>4</b>
3.1 Localising aid effectiveness commitments .....	5
3.2 Government-led structures for dialogue .....	7
3.3 Donor groupings .....	10
3.4 Monitoring aid effectiveness .....	12
<b>4. STRENGTHENING AID-MANAGEMENT CAPACITY</b> .....	<b>14</b>
<b>5. IMPROVING THE EFFECTIVENESS OF PROJECT AID</b> .....	<b>14</b>
<b>6. WORKING WITH NEW AID MODALITIES</b> .....	<b>17</b>
<b>7. COSTS AND BENEFITS</b> .....	<b>19</b>
<b>8. IMPACT ASSESSMENT</b> .....	<b>20</b>
<b>9. LESSONS LEARNED</b> .....	<b>22</b>
<b>BIBLIOGRAPHY</b> .....	<b>25</b>

## 1. Introduction

1. This case study is one of a series being prepared for presentation at the Asian Regional Forum on Aid Effectiveness: Implementation, Monitoring and Evaluation in Manila in October 2006. It examines the evolution of structures and processes at country level to support increased aid effectiveness. It assesses how aid effectiveness initiatives are being promoted and managed, and what impact they are having on improving the coherence and effectiveness of development assistance. The case study examines how the principles and commitments in the Paris Declaration are being put into action, and whether they are supporting the emergence of a more mature, effective and accountable development partnership.

2. This country study presents the experience in Vietnam. It is based on existing literature, supplemented by interviews with Government, donor and civil society stakeholders during a week-long visit in July 2006. A draft of the case study has been reviewed by the Government of Vietnam and donor stakeholders, but the opinions expressed in the case study are the author's alone and do not reflect the official views of the organisers of the Asian Regional Forum.

3. This analysis will be combined with lessons from Cambodia in a larger thematic case study for presentation at the Asia Regional Forum on Aid Effectiveness in Manila in October 2006.

## 2. Context

### 2.1 *Vietnam's record in growth and poverty reduction*

4. Vietnam's record in growth and poverty reduction over the past 15 years has been extremely impressive. Since the late 1980s, when Vietnam first began introducing market-oriented reforms and ending its isolation from the global economy, it has averaged annual growth rates of 6-7%. The growth has been broadly pro-poor in nature, and Vietnam's record on poverty reduction is among the most successful in the developing world. The number of people living in extreme poverty fell from 58.1% in 1993 to 24.1% in 2004, for an average decline of over 3% per year. Vietnam has already achieved the first of the Millennium Development Goals (MDGs) – to halve poverty by 2015.<sup>1</sup>

5. The Government's commitment to equity and improved social service delivery has resulted in social indicators that are superior to those of most countries at a similar level of *per capita* income. Literacy and primary school enrolment rates are over 90%, and the Government has now focused its efforts on improving the quality of education services. Vaccination rates for major infectious diseases have risen to over 90%. At 69, life expectancy in Vietnam compares favourably with many middle-income countries, while infant and under-five mortality have declined to 19 and 23 per 1,000 live births respectively.<sup>2</sup>

---

<sup>1</sup> United Nations Country Team Vietnam, "MDGs and Viet Nam's Socio-Economic Development Plan 2006-2010", Hanoi, November 2005, p. 3.

<sup>2</sup> *Ibid.*, p. 10.

6. The changing economic system has required changes in the nature of the Vietnamese State, which are still underway. In recent years, the Government has launched a series of major reform initiatives. The accountability of Government to the National Assembly has been strengthened, and formal parliamentary control over the budget process established. There has been extensive administrative and fiscal decentralisation, with half of budget expenditures now decided at sub-national level. Public financial management systems have been strengthened, and reforms introduced to improve the professionalism and service-orientation of the public administration. Many of these reforms are still at an early stage, and donors are still concerned about weaknesses in financial controls and project-management capacity. The Government has acknowledge the need for improvements in institutional, organisational and personnel capacity right across the public administration, with the most acute needs at sub-national levels. Nonetheless, governance capacity in Vietnam is relatively strong, as evidenced by its progress towards membership of the World Trade Organization.

7. Vietnam's central planning tradition is acknowledged to be an asset for effective development policy, but needs to be adapted to focus on development outcomes rather than production targets, with the State playing an enabling rather than a directive role. The Comprehensive Poverty Reduction and Growth Strategy (CPRGS), approved in 2002, was the first major step towards a new development planning model. Though it provided a useful instrument for policy dialogue and alignment of external assistance, it was prepared outside of Vietnam's constitutionally mandated 5-year planning cycle, and was not well linked to resource allocation. With the new Socio-Economic Development Plan 2006-2010 (SEDP), approved in 2006, the poverty reduction strategy has been merged with the 5-year plan, creating a more solid foundation for alignment of external assistance.

8. The SEDP is at a fairly high level of generality, and needs to be further elaborated through sectoral and regional plans, and through the creation of an effective link to the budgetary process. At present, the separation of planning and finance functions, and the institutional split between the Public Investment Program (PIP) and recurrent budget, make it difficult to align resources to the SEDP. Medium-Term Expenditure Frameworks (MTEFs) are being piloted in four line ministries and provincial governments.

9. While ownership of development policy at central government level is in general very high, external partners often find it difficult to understand or to influence the way in which development policy is made. According to one recent study,

“institutional arrangements for policy-making, planning and implementation are complex in Vietnam. Unambiguous statements of policy directions are rarely made and it is unclear how policy-making is undertaken. There is no multi-party system to scrutinise public policy and to contest government office; accountability is to the Party rather than the electorate. Decision-making at all levels is characterised by consensus-seeking as a strong guiding principle, engaging a wide range of actors before decisions are finalised, thus sharing responsibility and reducing the political risks involved in making difficult decisions. The emphasis on collective leadership and consensus has the merit of maintaining stability and involving many elements

of society in decisions, but it is also the root cause of many problems in relation to the slow response of government to critical issues.”<sup>3</sup>

10. This complex political and administrative culture can make it difficult for external partners to identify what is official policy on key issues. On the whole, however, the combination of an impressive track record in promoting pro-poor growth, solid Government capacity and a set of credible reform processes are the key factors that define the development partnership in Vietnam. As one donor official put it, “one could not hope for a better policy environment.”

## 2.2 *External assistance and the development partnership*

11. Since Vietnam opened to the global economy, donors have arrived in large numbers, reflecting a global trend towards supporting good performers. There are now around 25 bilateral and 19 multilateral development partners operating in Vietnam,<sup>4</sup> with combined pledges of more than US\$3.7 billion in 2006, making Vietnam one of the top ten recipients of overseas development assistance (ODA) in the world, although disbursement rates are around 50%. Japan is the leading bilateral donor, and Japan, the World Bank and the Asian Development Bank (ADB) together account for 70% of ODA. The European Union (the Commission and member states) are jointly the third largest donor, and the largest provider of grant assistance. Eighty percent of all ODA is in the form of loans. A recent survey suggested that 19% is delivered through budget support and other forms of programme aid, while 78% is in the form of single agency or co-financed projects.<sup>5</sup>

12. Vietnam is by no means aid dependent. ODA represents on average about 4.5% of GDP, and less than 12% of the total government budget.<sup>6</sup> As a means of financing the current account deficit, ODA is less significant than FDI, tourist revenues and remittances. It is nonetheless regarded by Government as an important source of development financing, providing around 30% of capital investments.<sup>7</sup>

13. Vietnam’s strong record and lack of aid dependence place it in a strong bargaining position vis-à-vis its development partners. Policy conditionality during the 1990s was largely unsuccessful, with Government unwilling to commit to policies that had not emerged from its own processes of dialogue and consensus-building. The Government chose to discontinue its Poverty Reduction and Growth Facility (PRGF) with the International Monetary Fund (IMF), rather than meet the accompanying conditionalities.

14. This strong bargaining position has enabled Vietnam to move quickly towards a more mature aid relationship, based on strong country leadership. The Vietnamese Government is open to policy ideas from its development partners, and adept at sourcing appropriate technical input from partners. For their part, donors have recognised the

---

<sup>3</sup> Ann Bartholomew, Robert Leurs & Adam McCarty, “Joint Evaluation of General Budget Support 1994-2004: Vietnam Country Report”, University of Birmingham, May 2006, p. 47.

<sup>4</sup> Ann Bartholomew, Robert Leurs & Adam McCarty, “Joint Evaluation of General Budget Support 1994-2004: Vietnam Country Report”, University of Birmingham, May 2006, p. 9.

<sup>5</sup> Partnership Group on Aid Effectiveness, “Continuing to Advance Aid Effectiveness”, Prepared for the Mid-Term Consultative Group Meeting, June 2006, p. 79.

<sup>6</sup> Bartholomew, *op. cit.*, p. 9.

<sup>7</sup> Figures provided by the Ministry of Finance.

importance of providing policy advice and technical input that is supportive of the Government's development goals.

15. One of the most distinctive features of the development partnership is the extent to which the Government of Vietnam has embraced the global aid effectiveness agenda as its own. It engaged with harmonisation and alignment at an early stage, hosting preparatory meetings for the Rome and Paris High-Level Forums, co-chairing the DAC Joint Venture on Paris Declaration Monitoring and acting as a pilot country for a number of initiatives. Following the 2005 Paris Declaration, the Vietnamese Government and its development partners quickly reproduced the Paris commitments and indicators at country level in the form of the Hanoi Core Statement on Aid Effectiveness (June 2005). The Government has made a considerable investment of time and effort in developing the aid effectiveness structures and processes described in this case study.

16. There is still much to be improved in aid delivery in Vietnam. Disbursements are notoriously slow, with aid utilisation rates averaging 60-70%. The problem stems from complex and cumbersome procedures on both the Government and donor sides. The national legal framework for public-investment management is complex and often inconsistent, decision-making is over-centralised, and there is a lack of capacity across the administration in core areas such as procurement, project management, financial accounting, environmental and social impact assessment and monitoring and evaluation. With the support of its development partners, the Government has launched a series of initiatives to rationalise its procedures and strengthen ODA management capacity. These efforts are gradually facilitating the use of country systems for ODA delivery in a number of discrete areas. Nonetheless, simplification, harmonisation and alignment with government systems still has a long way to go.

17. The Government predicts that *per capita* GDP in Vietnam will have reached US\$1,000 by 2010, marking Vietnam's graduation to middle-income country status.<sup>8</sup> In the following years, Vietnam's access to ODA grants and concessional financing will gradually decline. This provides a time horizon for aid effectiveness initiatives, whose implications have not been fully assessed. Some observers argue that it is essential to push ahead with the improving ODA disbursement and targeting, in order to make the most of the remaining time. Others argue that certain aid effectiveness measures, such as the introduction of complex new funding modalities, are not feasible in the time remaining.

### **3. Aid effectiveness structures, processes and instruments**

18. A notable feature of the Vietnam experience is the extent to which the Government has embraced the global aid effectiveness agenda as its own. Rather than selecting a few priority areas from the many commitments in the Paris Declaration, Vietnam has engaged actively across the entire range. According to MPI, the Paris Declaration commitments are a set of complementary activities, rather than a sequence, and need to be pursued in parallel.

19. The Government explains its embrace of aid effectiveness as a method of maximising the benefit from ODA and accelerating progress towards the country's development goals. Ministry of Planning and Investment (MPI) officials stress that

---

<sup>8</sup> Jacquemin & Bainbridge, "Perceptions of development partners and evidence on aid effectiveness: Viet Nam case study", October 2005, p. 7.

ODA is not a free resource. Eighty percent is in the forms of loans that must be repaid from domestic revenues. The Government's stated policy is therefore to be selective in accepting aid, and to manage aid delivery effectively. "The Vietnamese people must not be a victim of poor ODA practices."

20. This reflects the close familiarity of senior figures in MPI with global debates on aid effectiveness. Vietnam has invested significant time and effort in participating in OECD DAC aid effectiveness fora and initiatives. It may also be fair to say that Vietnam has been quite influential in shaping the global agenda, which draws heavily on the experiences of a handful of more successful countries.

### *3.1 Localising aid effectiveness commitments*

21. Within a few months of the Paris Declaration, Vietnam produced, together with its development partners, a document called the **Hanoi Core Statement on Aid Effectiveness (HCS)**. The HCS was adopted by the mid-term Consultative Group meeting in June 2005 and approved by the Prime Minister in September 2005. It localises the principles and commitments agreed at Paris in condensed form as 'Partnership Commitments' for Vietnam. Most of the commitments are consistent across the two documents, but there are some differences. The HCS, for example, excludes any reference to the untying of aid (Paris Declaration para. 31 and Indicator 8), but adds a commitment by donors to phase out paid incentives for government officials administering aid-financed activities (HCS, para. 8).

22. The HCS includes a list of 14 indicators, along with indicative targets for 2010. In many cases, these are more ambitious than those in the Paris Declaration. For example, by 2010, Vietnam hopes to eliminate parallel Project Management Units (PMUs), ensure all capacity building programmes are country led and to achieve 75% of all aid disbursements according to agreed schedules. Fifty percent of aid flows, and at least 50% of funds from 50% of donors, should use country systems for procurement and financial management. Seventy-five percent of aid interventions should be managed at country-office level, and 75% of aid should be programme-based.

23. There have been a series of donor surveys (two in 2005 and one in 2006) to establish baselines against these indicators. The repetition was a result of difficulties in achieving agreement among donors on definitions and methodology, and ensuring adequate quality data. The most recent survey will be used as Vietnam's contribution to the DAC process of establishing global baselines for the Paris Declaration. The survey also poses a series of qualitative questions to donors – for example, asking them to note the main barriers to achieving the targets – which will help to identify the extent to which the obstacles arise from country conditions or institutional rigidity among donors. Surveys of Government agencies have since been conducted to complement the donor survey.

24. While the 2006 survey data is still being analysed, Table 1 presents some of the available baseline data against the 2010 targets.

25. Donors report a generally strong commitment on the part of their institutions to work towards the HCS goals. However, there was concern that some donor agencies were prepared to sign up to aid effectiveness commitments at the political level, without working through the practical implications and the institutional challenges they would

present. Not all donors are optimistic of meeting the 2010 targets. Some of the donor officials interviewed for this study understood the HCS targets in terms of signposts indicating a direction of travel, rather than binding commitments. Even so, articulating clear targets was generally considered to be a helpful strategy. In some cases, the targets and surveys had helped country offices to advocate to their own headquarters for greater flexibility on rules and procedures.

<b>Table 1 Hanoi Core Statement: Baselines and Targets</b>		
<b>Hanoi Core Statement goal</b>	<b>Performance indicator and 2010 target</b>	<b>2006 baseline (preliminary results<sup>9</sup>)</b>
Donors strengthen GoV capacity by avoiding parallel PMUs	No parallel PMUs	165 at national level 390 at provincial level
GoV integrates capacity-building programmes into the SEDP and related plans	100% of capacity building aid delivered through GoV-led and coordinated programs	78.2% by value of ODA
Donors progressively rely on GoV procurement systems	50% of aid flows, and 50% of donors for 50% of their aid, use GoV procurement systems	38% by value (including budget support), but only 19.4% of project aid
Donors progressively rely on GoV PFM and accounting systems	50% of aid flows, and 50% of donors for 50% of their aid, use GoV budgeting, financial reporting and auditing systems	By value:- Budgeting system: 37% Financial reporting system: 33% Auditing system: 26%
Donors enhance the predictability of aid	75% of aid disbursed on schedule	78% per original plan 83% per annual plan
Aid projects use improved Government environmental and social safeguards	30% of EIAs and SIAs carried out using government systems	EIAs: 71.5% by number SIAs: 78.7% by number <sup>10</sup>
GoV and donors increasingly use PBAs	75% of aid is national or sector programme-based	52.8% by value

26. To implement the HCS, Government and donors prepare a 6-monthly Harmonization Action Plan. The Action Plan identifies the responsible institutions and sets tasks for the Partnership Group on Aid Effectiveness (PGAE) and working groups (see below). It includes measures to improve both donor and Government practices, and includes a series of surveys and analytical work to further define baselines and targets.

<sup>9</sup> Taken from PGAE, "Continuing to Advance Aid Effectiveness", Report to Mid-Term Consultative Group Meeting, June 2006, pp. 71-80. These are preliminary results based on survey responses from 30 donors, representing 97% of ODA.

<sup>10</sup> These results are strongly influenced by the SIDA survey returns, which account for 60% of EIAs and 77.5% of SIAs reported in the survey. If SIDA is excluded, the results are 26% for EIAs and 7% for SIAs.

27. One of the objectives is to improve knowledge and awareness of the HCS across the Vietnamese administration. The PGAE has approved a Communication and Dissemination Strategy, which includes workshops for public officials from line ministries and provincial governments, a video on aid effectiveness issues (which has been shown on Vietnamese television), and the distribution of leaflets.

### 3.2 *Government-led structures for dialogue*

28. The structures for dialogue around ODA have emerged organically over the past 6-7 years, rather than according to an overarching design. New working groups have been created on Government or donor initiative as needed, but have rarely been disbanded. This has resulted in a complex and sometimes overlapping network of working groups, leading to concerns on the part of some donors that aid effectiveness initiatives have become ‘over-bureaucratised’.

29. Nonetheless, most informants rate the dialogue as open and constructive, and note the importance of well-designed and managed working groups as a means of focusing collective effort on the practical challenges posed by the HCS.

30. The **Consultative Group (CG)** is at the apex of the structure. Originally chaired by the World Bank and held outside the country, the CG is now co-chaired by the Vietnamese Minister of Planning and Investment and held in Vietnam. Vietnamese and International NGOs and representatives of the Vietnam Business Forum participate as observers. The main CG meeting serves as an annual pledging conference, and provides political oversight for external assistance. Major development strategies, policy initiatives and institutional reform are presented and discussed at the CG. Government informants note that the form and content of the CG have been adapted over the years to reflect the strengthening aid relationship, and that communication has become more open and effective. The mid-term CG is a less formal event, intended for more substantive debate and dialogue on particular development and aid effectiveness issues.

31. As different donor groupings designed to promote harmonisation and alignment have proliferated in recent years (see next section), the Vietnamese Government has recognised a need to “harmonise among the harmonisers”. In 2003, it created the **Partnership Group on Aid Effectiveness (PGAE)** to serve as the primary forum for dialogue on harmonisation and alignment. The PGAE meets every month and is co-chaired by MPI and one of the donors on a rotating basis. The drafting of the HCS was undertaken by a PGAE working group known as the ‘Friends of the Co-Chairs’. The PGAE was originally established as one of 20 Partnership Groups addressing particular sectors or thematic areas, but has grown in status as the aid effectiveness agenda in Vietnam has developed.

32. The PGAE has in turn established a series of **Thematic Groups** to pursue particular HCS objectives (see Table 2). The Thematic Groups are comprised of donor representatives and Government officials from relevant agencies. MPI has been the driving force from the Government side; some observers noted that participation from other ministries has been less effective. Progress within the Thematic Groups has varied, depending on the personalities involved and the technical complexity of the subject. The Thematic Groups on procurement and public financial management have been able to build on existing analysis and work in progress, and have strong technical input from the

Five Banks and other donors. The Thematic Group on cost norms, by contrast, is the first sustained attempt to address a problem that is both technically and politically demanding, and participants expect that it will take time to make substantial progress.

<b>Table 2 Activities of the PGAE Thematic Groups 2006</b>	
<i>Procurement</i>	Developing an Action Plan to support implementation of the new Procurement Law, based on four themes: (i) strengthening the legal and institutional framework, including preparing subsidiary legal instruments; (ii) analytical work on gaps between government and donor systems; (iii) 'quick wins' on systems alignment; (iv) capacity building.
<i>Public financial management</i>	Developed a work plan and began the process of preparing a single strategy document on PFM reform, which is to include a unified capacity-building programme and measures for coordinating donor resources.
<i>ODA on budget</i>	Working towards agreeing objectives and guidelines for reflecting ODA on the budget. It will explore measures for increasing aid predictability.
<i>EIA</i>	Building on a study carried out by the Five Banks in 2005, the Group is commission analytical work on gaps between Government and donor environmental standards and will develop a Joint Action Plan.
<i>SIA</i>	Plans to commission gap analysis between Government and donor standards on social protection and develop a Joint Action Plan.
<i>Cost norms</i>	Working to increase transparency and harmonisation among donors in cost areas such as local salaries, consultants' fees, allowances and office expenditure, and to meet HCS commitments towards phasing out paid incentives to government officials and parallel PMUs. Conducting a baseline study in order to report options to the PGAE.
<i>Independent monitoring</i>	Developed a concept for independent monitoring of donors and government performance under the HCS (see below).
<i>Communications</i>	Prepared a Communications Strategy for the HCS, identifying targets groups, key messages and communications channels.

33. Some donor officials note that participating actively in the Thematic Groups places a considerable burden on their time. It tends to be donor staff, rather than

consultants, that participate in these groups, and it appears largely fortuitous as to whether the right expertise is present around the table. Nonetheless, there was agreement that the Thematic Groups are engaged in important work, and that *ad hoc*, time-limited working groups focused on practical issues are a useful instrument for organising joint work on aid effectiveness.

34. A second structure of working groups, known as **Partnership Groups**, has evolved over time in particular sectors or thematic areas. There are approximately twenty in total. The Partnership Groups are intended to improve coordination and promote open dialogue between Government agencies and development partners. Their broad objectives have been articulated as a ‘Partnership Journey’, following a broad sequence from common technical diagnosis through the development of shared action plans and the mobilisation of funding, through to implementation, monitoring and feedback. They vary in format and degree of formality. Some began as donor coordination structures, in which Government agencies have gradually become more involved. Others were initiated by Government to manage donor efforts in a particular sector. Some have remained at the level of an informal structure for information sharing. Fifteen of the groups have a Government chair or co-chair, and in some cases line ministries provide a secretariat. Many of them were active participants in SEDP formulation, but they have do not yet have a defined role in SEDP monitoring and evaluation.

35. PGAE reports have concluded that there is no ‘one size fits all’ for an effective Partnership Group. The appropriate form depends upon the intensity of cooperation and the level of coordination needed in any given area. In areas where new aid modalities are being developed, work within the Partnership Group has become much more intensive. In the education sector, a group of donors have been piloting a targeted budget support (TBS) programme. This has required intensive cooperation among donors, the Ministry of Education and Training and the Ministry of Finance. While the transaction costs have been very high, all participants point to the value of this phase of intensive joint work in building familiarity and trust among partners, which in turn facilitates sectoral coordination (including among donors that do not provide TBS). The Health Partnership Group has likewise proved an effective mechanism for sharing expertise and agreeing the division of labour among donors, and is now exploring options for moving towards a Sector-Wide Approach (SWAp). In the forestry sector, the Partnership Group also serves as a steering committee for a Multi-Donor Trust Fund. It includes not just the donors and Government agencies, but also a range of civil society actors – some 40 voting members in total – although this has proved cumbersome for effective decision making.

36. In cases where Partnership Groups have been less effective, observers have pointed to a lack of technical expertise, weak motivation among participants, reluctance to tackle difficult issues and, above all, weak leadership or participation from the relevant Government agencies as the main problems.

37. These various structures are designed primarily for managing the relationship between Government and donors. Participation from wider Vietnamese society is still quite limited, but gradually improving. The involvement of the National Assembly (NA) in development planning and budget formulation is being strengthened. The NA is constitutionally required to approve the 5-year socio-economic development plans, and reportedly engages in lively debates on prioritisation within the Public Investment Plan. There is a Vietnam Business Forum, jointly chaired by the MPI, the World Bank and the

International Finance Corporation, which facilitates dialogue between Government and business associations on improving the business environment, and meets just prior to the semi-annual CG meetings to provide input. International NGOs are represented at CG meetings and in a number of the Partnership Groups. Involvement of national NGOs in the policy dialogue is reportedly still quite limited. The legal basis for non-profit associations is not strong, and national NGOs are not always accepted as having a legitimate place in policy discussions.

**Table 3 List of Partnership Groups**

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

### 3.3 Donor groupings

38. In recent years, a number of structures have emerged on the donor side, in recognition of the need for improved harmonisation. The **Like-Minded Donor Group (LMDG)** was established in 2001 as a loose association of six bilateral agencies (later expanding to twelve – Australia, Canada, Denmark, Finland, Germany, Ireland, the Netherlands, New Zealand, Norway, Sweden, Switzerland and the United Kingdom) to pursue possibilities for harmonisation, joint programming and promoting new aid modalities. It aims to promote change through practical action and demonstration effects. One of its earliest activities was a study on transaction costs for bilateral grant aid. Together with the European Union member states and other donors, LMDG provided coordinated comments on the draft SEDP, sharing the lead role in different areas. There are several projects where LMDG members are providing joint or collaborative support, with one partner managing the policy dialogue on behalf of others. These include support to a national socioeconomic monitoring system, the Public Administration Reform Master Program, the Multi-Donor Trust Fund for Public Financial Management, procurement reforms and the CCBP. Members of the group have also been instrumental in piloting new aid modalities, including sectoral budget support for primary education and Programme 135.

39. The LMDG meets fortnightly under a rotating chair, and serves as a platform for sharing ideas and receiving feedback. Since the PGAE emerged as a Government-led

forum for aid effectiveness, questions have emerged about the continuing value of the LMDG. However, most participants point to the need for donors to have their own forum to debate issues and develop common positions, in order to make a coherent contribution at the PGAE.

40. The **Five Banks** is another association of donors that predates the PGAE. It was created in 2002 as an association of three development banks – ADB, the Japan Bank for International Cooperation (JBIC) and the World Bank – to promote the simplification and harmonisation of procedures and to address common problems with portfolio implementation. The German development bank KfW and the French AFD joined in 2003. With total annual commitments of US\$1.5 billion, the Five Banks account for around 70% of ODA to Vietnam. The Five Banks meet monthly, and prepare an annual Action Plan which divides the lead role for particular thematic areas among the five agencies (see Table 4). The Five Banks carry out a Joint Portfolio Review every second year, which is a major analytical work addressing practical barriers to greater use of country systems. They provide joint technical input into government reform processes, including on project preparation, procurement, environmental and social assessments and project monitoring and reporting (see Table 5 for a summary of their main achievements).

41. As with the LMDG, the Five Banks is a structure that enables an important group of donors to prepare consolidated inputs into other aid effectiveness structures and initiatives. Although it is time-consuming for the members, they are confident that the existence of the group relieves Government of the burden of parallel dialogue with the banks individually, and also results in higher quality technical inputs.

42. The **European Union (EU)** acts as another donor grouping for promoting harmonisation and alignment, working according to a Road Map for Closer Coordination and Harmonisation Among EU Donors in Vietnam (February 2005). EU member states and the European Commission meet regularly to discuss areas of common interest, including through monthly meetings and annual retreats, and on occasion prepare joint positions for CG meetings or other fora on issues such as human rights and corruption. They have nominated five sectors (health, education, private-sector development, trade and governance) and one geographical area (Central Highlands) in which to intensify coordination, and have establish various working groups to facilitate this, although their effectiveness has been mixed.<sup>11</sup> An EU-Vietnam Masterplan, negotiated with the Vietnamese Government, provides guidelines for programming in different sectors, and nominates particular EU member heads of mission to lead on the dialogue with particular Vietnamese ministries. The EU members also work to a common set of cost norms for local experts. As with the other donor groups, questions are sometimes raised as to the value of pursuing some of these activities (for example, the Blue Book database of donor activities, or sectoral working groups) among a subset of donors, rather than across the donor community as a whole.<sup>12</sup>

43. In addition, the **UN agencies** are proposing to pilot ‘One UN’ reforms in Vietnam. A number of recent papers have been produced discussing how to overcome the UN’s legacy of “institutional proliferation” and over-complex governance structures. One paper notes that the Government of Vietnam is a strong proponent of UN reform,

---

<sup>11</sup> EU Presidency (Austria), “Report from the EU Development Counsellors to Heads of Mission (HoM) on progress in implementing the EU Roadmap on Harmonisation”, Hanoi, April 2006.

<sup>12</sup> *Ibid.*, p. 6.

seeing the UN at present as fragmented and under-resourced, placing a disproportionate burden on Government aid-coordination mechanisms.<sup>13</sup> Strong government leadership makes Vietnam a conducive environment to pilot UN reform. A roadmap has been prepared to transform the three main UN development agencies, UNDP, UNFPA and UNICEF, into a single agency, on the basis of a single work plan, budget, management and set of management practices.<sup>14</sup>

44. A further set of **PRSC working groups** has been established to support the annual PRSC cycle. Each year, a matrix of development outcomes and priority policy actions is agreed between Government and the participating donors, and provides triggers for disbursement levels under the PRSC. The working groups are primarily for the donors to agree common positions leading up to those discussions, although in some cases Government representatives also participate. In an arrangement unique to Vietnam, they are also open to non-funding donors, who contribute in areas where they have a policy interest or particular expertise. (The work of these groups is detailed in another case study.) There is substantial overlap between the PRSC structures and the Partnership Groups.

45. Some of these donor grouping predate the emergence of the PGAE as the primary, Government-led forum for promoting aid effectiveness. There is debate within all of the groups as to what is their distinctive value. Many of the specific harmonisation initiatives they promote begin among a small group of donors, before being expanded to incorporate other donors under Government leadership. Experience therefore suggests that these groups need to be quite fluid in their form and selection of issues, in order to fit within an evolving country environment.

### **3.4 Monitoring aid effectiveness**

46. The development of monitoring and evaluation systems to measure improvements in aid effectiveness is a new area of activity globally. Although Vietnam does not have a strong tradition of M&E and is still in the process of designing a monitoring system for the SEDP, it has begun to formulate some very ambitious goals for monitoring commitments in the HCS. The goals of the proposed HCS monitoring system include:

- tracking progress against the 14 HCS indicators;
- monitoring Government/donor dialogue on aid effectiveness, including the work of the Partnership Groups;
- monitoring progress against the action plans developed by the PGAE Thematic Groups;
- conducting analysis and producing recommendations on desirable actions on aid effectiveness;
- disseminating lessons learned through workshops and website development;
- reviewing the impact of the HCS on improving Government systems and donor behaviour, and on overall aid effectiveness.<sup>15</sup>

---

<sup>13</sup> Ryan, Jordan & Jesper Morch, "United Nations Reform: A Country Perspective", Hanoi, 2005, p. 5.

<sup>14</sup> United Nations Development Group in Vietnam, "Harmonisation of UNDG Agencies: Towards One United Nations in Viet Nam", February 2006.

<sup>15</sup> PGAE, "Continuing to Advance Aid Effectiveness", Report to Mid-Term Consultative Group Meeting, June 2006, pp. 20-25.

47. Preparatory work is underway in three main areas. First, there have been three surveys of donors to establish baselines for the HCS.<sup>16</sup> The exercise had to be repeated because of the difficulty of agreeing definitions among the donors on terms such as ‘parallel PMUs’, and because of concerns about the quality of the data. Since the latest survey (May 2006), PGAE has agreed to update the survey on an annual basis. To reduce transaction costs for donors, the Comprehensive Capacity Building Programme in MPI has begun work on automating the donor baseline for coming surveys. This will be linked to donor contributions to the Development Assistance Database (DAD), which tracks project-level ODA data reported by donors. A number of Government agencies at both central and local levels were also surveyed during July 2006. The results will be combined with the donor survey as inputs to the country worksheet for the Global Paris Declaration Monitoring Report. The survey exercise is itself assessed as a useful tool for promoting reflection and debate among the donors and Government on the practical implications of aid effectiveness commitments.

48. Vietnam is one out of around 20 countries worldwide that have embarked on developing an Aid Information Management System (AIMS) through the online Development Assistance Database (DAD), which has been up and running since early 2006. Unlike other DAD systems, the DAD in Vietnam has captured essentially the entire aid portfolio in Vietnam, building upon the work of UNDP in collecting data from donors from 1993 to 2003. Donor agencies now update their data onto the DAD, in accordance with their HCS commitment. At this stage, the focus is on strengthening the quality of data in the system. There are plans to use the system for aid coordination and informing decision-making in the near future.

49. The second area will be regular reporting by donors and Government agencies on their performance against HCS indicators. Because the commitments under the HCS are collective in nature, the monitoring system should be owned jointly by Government and donors. The key stakeholders on both sides will be responsible for monitoring their progress towards HCS targets.<sup>17</sup> They will produce regular monitoring reports, based on reporting formats to be developed following detailed analysis of the baseline survey results.

50. The third component will be independent monitoring and evaluation of HCS implementation, to be carried out by an Independent Monitoring Team every other year. The proposal is to invite a team of independent international and Vietnamese experts to evaluate Government and donor performance against a number of selected HCS targets, and to carry out detailed reviews of individual donors on a voluntary basis.

51. It is not entirely clear how the proposed HCS M&E system will relate to the SEDP monitoring system, which is still under development. However, the VAMESP project,<sup>18</sup> supported by Australia, is piloting a single project monitoring format for PMUs.

---

<sup>16</sup> The first survey was conducted as a World Bank-led exercise in May 2005 and attracted only 12 donor participants. The second survey conducted in November 2005 as the first Government-led exercise, which boosted the number of participants to 26.

<sup>17</sup> PGAE, “M&E Approach and Methodology for Implementation of the HCS” in PGAE, “Continuing to Advance Aid Effectiveness”, prepared for the Mid-Term Consultative Group Meeting, June 2006.

<sup>18</sup> Vietnam Australia Monitoring and Evaluation Strengthening Project.

#### 4. Strengthening aid-management capacity

52. While Vietnam displays strong commitment to leading on aid coordination, this has in the past been somewhat weakened by capacity constraints. Government has recognised that improving aid-management capacity is a key part of increasing aid effectiveness. This involves a number of different initiatives, including strengthening the legal and institutional framework, improving country systems for project management, and gradually reducing reliance on stand-alone project management arrangements.

53. In Vietnam, the legal framework for managing aid projects, and public investments generally, is notoriously complex, with multiple levels of legal instrument that are often unclear and contradictory.<sup>19</sup> Approval and management processes are highly centralised, resulting in extensive delays in implementation. Government has been simplifying the legal framework (Decree 17/2001/ND-CP on ODA Management and Utilisation, and related instruments), giving more authority to line agencies to manage ODA projects and strengthening monitoring and evaluation. There has also been legislative reform in the areas of public investment, procurement and environmental protection. These changes have gone some way to improving efficiency, although bureaucratic practices are slow to change.

54. Government is also preparing a document entitled Strategic Framework on ODA Attraction and Mobilization 2006-2010. This sets out guiding principles for donors on how to match ODA flows with Government investment priorities, and a range of policies and measures to increase effectiveness and efficiency.

55. There is also a Comprehensive Capacity Building Programme (CCBP), funded by World Bank/Japan and the Like-Minded Donor Group, which supports the Vietnamese Government to build ODA-management capacity, including strengthening the regulatory framework, raising awareness among government officials on new aid modalities and solving practical problems around aid administration.

#### 5. Improving the effectiveness of project aid

56. Vietnam has very favourable conditions for pursuing aid effectiveness, and has been a global leader in a number of areas. However, the Vietnam experience also demonstrates just how difficult it can be to make progress towards the Paris Declaration goal of delivering aid through country systems. Efforts to promote systems alignment are still quite recent, and it is too early to evaluate their impact. Nonetheless, some observers are concerned that the elaborate structures for organising aid effectiveness initiatives have not been matched by practical progress in this area, and that some donors may have signed up to commitments at the political level that they are at present institutionally unable to fulfil.

57. Nearly 80% of ODA to Vietnam is in the form of projects, which are likely to remain the predominant funding modality for the foreseeable future. Slow disbursement of projects remains one of the most pressing aid effectiveness issues. In May 2005, the Five Banks carried out a Joint Portfolio Review to identify common problems with portfolio implementation. The Review found that, while the success rate across the

---

<sup>19</sup> See Five Banks, "Joint Portfolio Performance Review IV: Strengthening quality of ODA management", May 2005.

Banks is high, implementation of projects tends to be very slow, particularly during the start-up phase. Among the problems identified were:

- an inconsistent legal framework for public investment management, with over-centralised decision-making;
- significant gaps in project management capacity;
- delays in project preparation, often caused by inadequate feasibility studies;
- a weak and often inconsistent regulatory framework for procurement, with an overly complex decision-making process;
- long delays in hiring consultants, with the gap from Loan Agreement to contracting consultants for detailed design work averaging up to 2 years.

58. Supplementing country systems with additional donor requirements adds still more delays to the administration of projects. Working together with MPI and other donors, the Five Banks have set themselves the goal of improving project performance by simplifying, harmonisation and aligning systems and procedures across the project management cycle.

59. In practice, most of the effort has gone on strengthening country systems, rather than simplifying or harmonising donor requirements to improve the efficiency of aid projects. With ODA providing only a minority of development financing, and most PMUs responsible for managing both ODA projects and national investment funds, a judgement was made that the priority should be on bringing country systems as a whole up to international standards.

60. Together with MPI and other donors in the Partnership Groups and PGAE Thematic Groups, a series of priority areas were agreed (see Table 4). The reform process typically involves the following elements:

- identifying common standards and requirements among the Five Banks;
- gap analysis between the Banks' standards and country rules and procedures;
- presentation of conclusions for discussion with Government and other donors;
- developing an action plan;
- technical support to Government to improve legal instruments;
- preparation of instruments (guidelines; manuals);
- piloting the instruments in particular institutions or projects;
- providing capacity building support for roll out across the administration.

61. The process is gradually bringing the country systems for investment management up to standards required by donors. This has allowed for a convergence between country and donor systems in a number of areas, including Standard Bidding Documents for local procurement, common content for feasibility studies and joint monitoring and reporting tools.

62. This is a painstaking process – it has taken 2-3 years to achieve alignment in each of these areas. In the meantime, only a small percentage of ODA-funded projects are using country systems, and only in certain discrete areas. According to the 2006 survey, less than 20% of project aid is using country procurement systems, but this relates only to local procurement. At the present rate of progress, it will be many years before the HCS targets are reached.

<b>Table 4 Progress on systems alignment</b>	
<b>Area</b>	<b>Highlights</b>
<b>Legal framework for ODA management</b>	<ul style="list-style-type: none"> <li>◆ Decree 17 on ODA management revised</li> <li>◆ Public Investment Decree revised</li> </ul>
<b>Procurement</b>	<ul style="list-style-type: none"> <li>◆ New Procurement Law Adopted</li> <li>◆ Guidelines on implementation and training modules under preparation</li> <li>◆ Standard Bidding Document for Goods agreed</li> <li>◆ Govt Procurement Bulletin developed</li> </ul>
<b>Project preparation</b>	<ul style="list-style-type: none"> <li>◆ Study on Project Preparation Standards and Procedures for both Five Banks and GoV</li> <li>◆ Road map developed for common project preparation system</li> <li>◆ Common structure for Feasibility Studies agreed</li> </ul>
<b>Environmental and social protection</b>	<ul style="list-style-type: none"> <li>◆ New Environmental Protection Law adopted</li> <li>◆ Action Plan to harmonise and align environmental safeguards</li> <li>◆ Gap analysis between country and donor standards for social protection agreed (focusing on resettlement)</li> </ul>
<b>Monitoring and reporting</b>	<ul style="list-style-type: none"> <li>◆ Common project reporting format agreed and being piloted</li> <li>◆ Common monitoring tool agreed and being piloted</li> </ul>

63. Most observers agree that the focus on strengthening country systems as a whole is appropriate in Vietnam. However, it is also clear that slow implementation of projects is not just a result of weak country systems, but of the additional requirements imposed by donors. According to the Vietnam Development Report 2006,

“More strikingly, investment projects without donor funding do disburse well in Vietnam. A comparison of 71 large-scale infrastructure projects in the 1996-2001 PIP [Public Investment Program] is revealing in this respect. Those projects can be ranked according the share of their total cost paid for by ODA resources. It turns out that project completion is much more advanced, in any of the years between 1996 and 2000, among the projects with the lowest share of donor funding.”<sup>20</sup>

64. This suggests that donors could be doing more in the short term to simplify and harmonise procedures among themselves, and to adapt their procedures so as to make greater use of those Vietnamese systems that are already functioning adequately.

65. Vietnam and its development partners have also agreed to some other ambitious goals under the HCS. They have pledged to eliminate parallel PMUs by 2010. All PMUs in Vietnam are to some extent integrated with their parent agency – reporting lines are always to the responsible Government agency, and PMU Directors are often vice-ministers or senior officials. However, the degree of integration varies significantly. In some cases, staff are drawn from the parent agency; in others cases, they are externally

<sup>20</sup> “Vietnam Development Report 2005: Governance”, Joint Donor Report to Hanoi CG Meeting, December 2004, pp. 128-9.

recruited on separate terms and conditions, and will carry their skills away with them on project completion. Government and donors are also committed to eliminating paid incentives for Government officials involved in administering aid projects. This is a difficult challenge, both for donors and line ministries. Donors are used to offering financial incentives to ensure their projects receive focused attention from suitably qualified staff. A significant share of the income of public officials in certain agencies come from these incentives. Meeting those goals requires a fundamental change in the way aid projects are managed. MPI is presently studying options for reforming PMUs.

## **6. Working with new aid modalities**

66. An alternative approach to achieving greater harmonisation and alignment has been the introduction of new aid modalities, in particular sectoral (or targeted) budget support. Directing funds through the budget to support a particular strategy, sector or programme potentially provides a much shorter path to achieving the HCS goals, compared to the painstaking work of aligning project management with country systems. In Vietnam, where SWAps have been slow to develop, budget support through existing Government programmes has become the predominant form of programme-based support.

67. However, sectoral budget support is still a very recent phenomenon in Vietnam, and there is little consensus among the donor as to the preconditions, or as to the results of the existing pilots. Some donors remain concerned about the level of fiduciary risk, and whether Vietnamese PFM systems are strong enough to ensure that budget support reaches its intended beneficiaries. Other donors argue that budget support provides donors with the ideal platform to influence the development of core planning and budget systems.

68. One TBS arrangement supports a National Target Program for the socio-economic development of poor communes, known as Program 135. National Target Programs are vehicles developed by the Vietnamese Government during the 1990s, during the decentralisation process, to ensure that development funds and social expenditures were reaching the geographical areas and social groups in greatest need. They include measures such as local infrastructure projects, small credit schemes and exemptions from user fees on social services. They are generally assessed as effective instruments for tackling poverty in remote areas, although there is scope for improved targeting. Program 135 provides poor communes with funds for local infrastructure projects, and supports other activities such as agricultural extension services and local capacity building.

69. DFID first trialled the provision of budget support through Program 135 on a pilot basis in 2005, when the Program had already been running for a number of years. DFID's agreement with the Government includes a number of measures to address programming and fiduciary weaknesses, but does not require any additional management arrangements or reporting. Following a successful pilot, other donors are now preparing to join the TBS mechanism. A Partnership Committee was established to oversee the TBS arrangement.

70. Another example of a TBS arrangement is budget support to primary education. The decision to move towards TBS followed a number of years of successful project support, coordinated loosely through the Education Sector Group. The decision to

target primary education followed the preferences of Government, supporting its goal of shifting from quantitative to qualitative development in the sector. The TBS, which is a mixture of grant and loan, is directed through the national budget. It is not available for spending on salaries, but can cover both capital investments and other recurrent costs, such as school books. The donors have accepted Government financial management, procurement and reporting systems, although there are some additional reporting requirements and an independent audit. TBS is supported by a US\$5m Technical Assistance (TA) fund, which is being used among other things to develop a management information system. The participating donors all used the same Project Appraisal Document, but have concluded additional, bilateral MoUs with the Ministry.

71. Development of TBS for primary education has taken two and a half years of intensive work on the part of donors and the Ministry. According to donor participants, the greatest challenges have come from managerial weaknesses, staff shortages and capacity gaps both in the central ministry and at provincial level. The TA fund enables the Ministry to engage consultants to help set the programme in place, but the Ministry has reportedly been too stretched to make effective use of the instrument. As a result, donors within the Education Sector Group find themselves providing the kind of hands-on support that would traditionally have been provided by a PMU. Donors are hoping that these very high transaction costs will reduce once the programme is fully operational.

72. There are concerns among some of the participating donors about the pace and sequence followed for developing TBS. While there is broad agreement on the need for programme-based approaches with elements of budget support, some donors believe that there should be more intensive capacity-building support to strengthen basic systems, before budget support is offered. Some believe that the aid effectiveness agenda, together with pressures to increase disbursement levels, are leading to in appropriate haste towards new aid modalities.

“People are taking naïve decisions under the influence of disbursement pressures... The aid effectiveness agenda is forcing people into modalities that are unproven and unprepared.”

73. As well as the fiduciary risks, donors remain concerned about whether they will be able to demonstrate to their own organisations that their contributions to budget support are reaching the intended beneficiaries.

74. However, the available evidence does not necessarily support the view that there are higher risks associated with TBS than with traditional projects. While corruption remains a concern, tracking surveys of the Government’s National Targeted Programmes have revealed leakage rates as low as 3%.

75. It is interesting to note that Sector-Wide Approaches (SWAs) have not yet appeared in Vietnam, although they are under discussion in some sectors. Few sectors in Vietnam have detailed, operational strategies covering the entire sector, or employ a unified budgetary framework to programme development activities.

76. The sequence for development programme-based approaches differs from many other aid recipients, where SWAs have been used as a platform to strengthen sectoral planning and budgeting, before the sector has graduated to budget support. The

difference may lie in the existence of the National Targeted Programs in Vietnam, which provided established and tested channel for budget support. Work with these programmes may be more efficient for donors than attempting to engage with the sector as a whole – particularly where ODA is only a small portion of the total financing for the sector. It may also reflect the complexity of developing a full SWAp in a decentralised environment.

77. Government informants welcome TBS as an efficient means of delivering assistance, which both lowers transaction costs and is easier to deliver through Vietnam's decentralised systems. However, the Vietnamese Government has not given clear guidance to donors on the use of different aid modalities. The Government places strong emphasis on the alignment of ODA with country priorities and strategies, but remains open to different funding modalities.

78. There may be a number of reasons for the Government apparent caution on new aid modalities. One is that Government places a high value on ODA for large infrastructure development, which all observers agree should remain in project form. Another is that many in Government are still not familiar with the new aid modalities. Most importantly, there are genuine differences in view across the administration. There are strong vested interests in some quarters in retaining traditional projects and the structures required to administer them. New aid modalities shift power and resources in complex ways, and perceptions of the costs and benefits depend very much on the position of the observer. In the Vietnamese tradition of consensus-based policies, this makes it difficult for the Government to take a decisive stand on the issue. However, one of the components of the Comprehensive Capacity Building Programme in MPI has been to increase awareness and understanding of new aid modalities, and to support their introduction in different sectors. This will involve strengthening the legal framework for budget support, and developing guidelines and a manual on how to implement different aid modalities.

## **7. Costs and benefits**

79. All observers would agree that a great deal of time and effort is required to put in place effective structures for managing aid effectiveness. Neither the costs nor the benefits are possible to quantify. While there are concerns on all sides about the time commitments involved, there appears to be a fair degree of confidence on all sides that the benefits will outweigh the costs.

80. The Government of Vietnam clear attaches considerable importance to improving aid effectiveness. It sees a well-managed relationship with donors as a means of maximising the benefits of ODA, and of advancing its broader agenda of integration with the global economy. Its aid effectiveness efforts have gone in parallel with reforms to facilitate WTO accession. The limited time horizon for ODA in Vietnam provide an additional incentive for increasing aid utilisation rates as quickly as possible. Its efforts to improve the legal and institutional environment for public-investment management have the potential to deliver major benefits beyond the ODA portfolio.

81. To secure these benefits, the Government has had to invest considerable resources in managing ODA. The Foreign Economic Relations Department of MPI is dedicated to managing the aid relationship, and faces an ever-growing work load as the aid portfolio grows and becomes more complex. Other agencies involved in aid

effectiveness include the Office of Government, Ministry of Finance, Ministry of Foreign Affairs and the State Bank of Vietnam, as well as the International Relations Departments within line ministries. Developing new aid modalities has proved particularly time consuming for all participants.

82. A number of strategies have emerged for managing the costs. The Comprehensive Capacity Building Program, located within MPI but dedicated to strengthening ODA management across Government, is making an important contribution. Government stresses the importance of making sure that aid effectiveness structures and processes are closely linked to on-going reform processes. As one MPI informant put it, “Anything else is just decoration.” The creation of the PGAE Thematic Groups, despite some overlaps with existing structures, is an attempt to focus the aid effectiveness dialogue in concrete areas where progress is needed.

83. Some cost savings for Government are already apparent, particularly around the policy dialogue. The PGAE, Partnership Groups, the PRSC and donor groupings such as the Five Banks, the European Union and the LMDG are all designed to promote a coherent, unified dialogue. Donors in Vietnam have acquired the habit of discussing issues with each other first and approaching Government with joint or coordinated positions, rather than requiring Government to engage in multiple, parallel dialogues. This is clearly appreciated by Government officials.

84. From the donor perspective, active engagement in aid effectiveness structures is proving to be a very time consuming process. Smaller bilateral agencies with few staff in country are particularly stretched. There are some complaints about ‘over-bureaucratisation’ of the aid effectiveness agenda, with too many overlapping structures. Groups of donors have begun to select a lead donor for specific issues or fora, which is a positive response to the higher costs.

85. However, the donors are not always well set up to participate in joint work on aid effectiveness. Because it is usually donor staff, rather than consultants, that participate in aid effectiveness structures, it is often only fortuitous if the right expertise is present in the appropriate forum. Some donor staff continue to feel that the efforts required to participate effectively in aid effectiveness structures are not recognised or rewarded by their own organisations. Nonetheless, there is a general acceptance that investments in dialogue and relationship building are essential to doing aid well in Vietnam.

## **8. Impact assessment**

86. Vietnam is well advanced in developing structures to promote aid effectiveness and a more mature development partnership. The level of leadership by Government of the aid effectiveness agenda is exemplary, and is clearly welcomed by donors. The investments made by Government in this arena are giving donors more confidence that their aid is being put to good use, and are therefore helping to maximise aid flows to Vietnam.

87. The quality of the institutional structures is generally assessed as high, but with scope for improvement. There are concerns about duplication across structures, in particular between the Thematic Groups, the Partnership Groups and the PRSC Working Groups, some of which are addressing substantially the same set of issues. There may be a need for rationalisation among these structures. There are also periodic

concerns from donors about the extent of Vietnamese engagement with and leadership of these bodies. On occasion, when the level of participation is not high enough, the policy dialogue ceases to be meaningful.

88. There have clearly been positive behavioural changes on both government and donor sides, but the pace and depth of change is open to interpretation. Donors in Vietnam are in the habit of working in a cooperative way, and of accepting Government leadership of the policy agenda. In part because Vietnam is not aid dependent, the relationship appears healthy and well balanced, which enhances the quality of dialogue. This is a very positive finding. As ODA provides only a minor proportion of development spending in Vietnam, the quality of dialogue is fundamental to the impact of development assistance.

89. There is a strong commitment by donors to aligning their assistance with country owned development policies and strategies. However, the SEDP is drafted in broad terms, and alignment has so far not required any major change to existing programmes. The commitment to alignment will be tested more in the future, as Vietnam articulates its funding priorities and elaborates detailed sectoral plans. Integrating ODA into the budget, and integrating capital and recurrent expenditure through the development of an MTEF, will also allow for greater alignment.

90. Alignment with country systems is a more complex story. There have been considerable efforts by Government and donors to strengthen country systems across the project management cycle. The pace of change has been quite slow, but this may be necessary, even positive. Long processes of consultation are part of doing business in Vietnam. By building ownership across the administration, they make it more likely that legal and institutional reforms will result in improved practices. Given that aid is only a small part of development expenditure, the focus on strengthening broader country systems is appropriate. However, use of country systems for aid delivery (other than through the new aid modalities) remains very limited, and it is not clear that the pace of change is sufficient to meet the HCS targets. More flexibility from donors will be required to adapt their requirements to allow for greater use of country systems. The development of new aid modalities is also helping to facilitate systems alignment, by creating greater familiarity and comfort with country planning and budgeting systems.

91. The joint commitment to eliminate parallel PMUs and paid incentives for public officials are ambitious and commendable, offering the potential to address some of the worst distortions caused by traditional project aid. However, there is as yet no clear strategy for how this will be achieved. If Vietnam is able to make progress in this contentious area, it will provide a valuable lesson for other countries.

92. Harmonisation among donors at the strategic level appears strong. There are some good examples of coordinated programming and effective division of labour in a number of sectors, and in key thematic areas such as public finance reforms and SEDP monitoring. Donors have also worked together well to develop pilots in new aid modalities. Joint analytical work has become more common, in particular the annual Vietnam Development Report and a two-yearly Public Expenditure Review, and there is a website for sharing analytical work.<sup>21</sup> There is a high-level of informal coordination

---

<sup>21</sup> See [www.countryanalyticwork.net](http://www.countryanalyticwork.net).

among the donors which makes them better able to respond collectively to new challenges, such as avian influenza.

93. Interestingly, however, donors in Vietnam have not gone very far with harmonisation through delegated cooperation, joint country planning or even joint funding arrangements. There are of course examples of joint work among the donors, but the balance of effort has been towards alignment of assistance with Government-led strategies and programmes, rather than initiatives among groups of donors. Some observers consider that this is a result of the strong leadership provided by the Vietnamese Government. It may be that, once Government-led structure for aid coordination reach a certain level of maturity, harmonisation initiatives among groups of donors are no longer so important.

94. Managing for development results is a relatively new concept in Vietnam. A monitoring system for the SEDP is still under development, and the practice of using results information systematically to inform policy making is not yet established. However, major initiatives to build up monitoring capacity are underway.

95. An elaborate system for monitoring commitments under the HCS is now being put in place, including baseline surveys, analytical work, regular reporting and independent reviews. It is unlikely in the short-medium term that this monitoring system will be able to demonstrate clear linkages between HCS commitments and development results – an inherently difficult challenge. However, it will help to reinforce mutual accountability among donors, and between donors and Government, around aid effectiveness commitments. Some donor staff are already reporting that the 2006 survey, by ranking their performance alongside that of other donors, is helping them to promote the HCS agenda within their own organisations. Efforts to increase transparency around the HCS should create useful peer pressures. It will help to ensure that the aid effectiveness agenda in Vietnam goes beyond what one donor calls “harmonisation of rhetoric”.

## **9. Lessons learned**

96. Vietnam offers an unusually favourable environment for improving aid effectiveness, due to strong country leadership, relatively high capacity and proven record in poverty reduction. If the Paris Declaration can be implemented anywhere, it is here. The Vietnamese will therefore continue to be influential in shaping the global aid effectiveness agenda. However, the set of initiatives described here have emerged in response to a particular set of country conditions, and may not be replicable elsewhere.

97. Government has engaged effectively across the range of Paris Declaration principles and commitments, treating them not as sequential steps but processes that need to be managed simultaneously. This results in a very ambitious set of processes, which are probably feasible only under conditions of strong Government leadership and a relatively mature development partnership. Even in Vietnam, some donors would prefer to see greater prioritisation – for example, focusing efforts on boosting aid utilisation rates or improving management for development results.

98. Vietnam has moved quickly towards alignment with country-led strategies and programmes, without a great number of harmonisation initiatives among donors. Donors need to coordinate with each other at the strategic level, and groups like the

LMDG, the Five Banks and the European Union are important in advancing the aid effectiveness agenda. However, the Government has now assumed leadership of the process through the PGAE. Some informants commented that there was no need for donor-to-donor exercises like joint country strategies, when Government leadership was strong.

99. Vietnam places a strong emphasis on the quality of dialogue with its development partners, which greatly facilitates improved aid effectiveness. While considerable effort has gone in to building up structures for dialogue, the key factors determining the quality of dialogue are not the design of working groups, but rather the level of Government leadership, the ability to pull together the right technical inputs, and the relatively equal bargaining power between Government and donors.

100. In terms of the structures themselves, there is still scope for rationalisation and improvement. Working groups must be closely linked to ongoing reform processes or they risk becoming, as one Government informant warned, “mere decoration”.

101. Increasing the use of country systems for aid delivery is proving a slow and painstaking process, and at the present rate of progress it is difficult to see how the HCS targets will be met. Bringing country systems up to international standards is necessarily a slow process. However, some observers are concerned that donors are not being sufficiently flexible. This is an area where more analysis would be beneficial, to identify practical constraints on both the donor and Government sides to faster alignment.

102. Vietnam has set itself the ambitious task of phasing out parallel PMUs and eliminating salary supplements. These are difficult challenges, which are encountering institutional resistance on both the Government and donor sides. It will take considerable political will to push these reforms through.

103. Introducing new aid modalities provides a shorter path to policy and systems alignment. Observers agree that, while project aid is necessary for large investments like infrastructure, budget support is appropriate in the social sectors and in areas such as rural transport which require multiple smaller investments matched with recurrent expenditure. There is no consensus, however, on the preconditions for effective sectoral budget support. Some donors believe that there should be a sustained period of TA to build up basic systems, before graduating to budget support. Others believe that budget support provides the ideal platform for engaging with systems development. The Vietnam experience shows that the willingness of certain donors to make early moves towards sectoral budget support has had an important demonstration effect for other donors.

104. A period of intensive effort on the part of both donors and Government is required to introduce new aid modalities. Donor officials have been required to take on some of the routine support tasks traditionally assigned to PMUs. Considerable capacity has to be developed in line ministries and at provincial level. There needs to be a process for identifying capacity constraints and providing focused TA.

105. M&E around new aid modalities is extremely important in order to allow donors to demonstrate that their support is reaching its intended beneficiaries.

106. The costs and benefits for partner countries of new aid modalities depend on the position of the observer. Among Government officials directly involved in aid effectiveness, there is confidence that new aid modalities reduce transaction costs and provide a boost to the development of planning and budgeting functions. However, there are also vested interests that stand to lose from changing aid modalities.

107. On the donor side, an on-principle commitment to aid effectiveness is not enough to deliver major changes in behaviour. Donors must continue to adapt their rules, procedures and staff incentives to facilitate effective partnership working, including delegation of authority to country level. Government sees partnership working as requiring a cultural shift within the donor community, internalised by both donor staff and consultants and reflected in all their dealings with country counterparts. Performance assessment of donor staff is still based on disbursements, rather than aid effectiveness, which can lead to a reluctance to relinquish control over aid delivery.

## Bibliography

- “Action plan on ODA simplification and harmonisation”, 2004
- “Memorandum of Understanding between the Government of the Socialist Republic of Vietnam and Targeted Budget Support Partners regarding a Targeted Budget Support for National Education for All Plan Implementation Program”, undated
- “One-pager action of PRSC 5”, December 2005
- “Overview of policy actions proposed under PRSC5”, December 2005
- “Vietnam Development Report 2005: Governance”, Joint Donor Report to Hanoi CG Meeting, December 2004
- “Vietnam Development Report 2006: Business”, Joint Donor Report to Hanoi CG Meeting, December 2005
- Asian Development Bank, JICA & World Bank, “Vietnam Harmonization of Procedures”, January 2003
- Asian Development Bank, “Country Economic Review: Socialist Republic of Vietnam”, November 2000
- Asian Development Bank, “Country strategy and program update 2006-2008: Viet Nam”, August 2005
- AusAID, “Vietnam Australia Monitoring and Evaluation Strengthening Project - Phase II Output to Purpose Review”, 2006
- Bartholomew, Ann & Stephen Lister, “Managing aid in Vietnam: a country case study”, Prepared for the OECD DAC Task Force on Donor Practices”, September 2002
- Bartholomew, Ann, Robert Leurs & Adam McCarty, “Joint Evaluation of General Budget Support 1994-2004: Vietnam Country Report”, August 2005
- DAC Task Force on Donor Practices, “Harmonisation of Bilateral Grant Procedures in Vietnam”, September 2002
- DAC, “Survey on harmonisation and alignment: Vietnam”, 2004
- DFID, “Vietnam: Country Assistance Plan 2004-2006”, January 2004
- European Commission, “EC-Vietnam Country Strategy Paper 2002-2006”, 2002
- European Commission, “PRSC 6-10: Options for a strengthened instrument”, 2006
- European Commission, “The National Indicative Programme 2005-2006 Vietnam”, 2005
- European Union Presidency, “Report from the EU Development Counsellors to Heads of Mission (HoM) on progress in implementing the EU Roadmap on Harmonisation”, Hanoi, March 2006
- Five Banks, “Joint Portfolio Performance Review IV: Strengthening quality of ODA management”, May 2005
- Five Banks, “The Five Banks’ Initiative: From Procedural Harmonization among the Banks to Joint Support for Better Country Systems”, Vietnam, December 2005
- Five Banks, “World Plan for 2006”, 2006
- Government of Vietnam & World Bank, “Vietnam: managing public expenditure for poverty reduction and growth - Vol. I: Cross-sectoral issues”, April 2005
- Government of Vietnam et al., “Hanoi Core Statement Indicators and Targets”, June 2005
- Government of Vietnam et al., “Moving towards 2010: Vietnam Partnership Report”, Informal Report for the Hanoi CG Meeting, December 2004

- Government of Vietnam et al., “Working in Partnership to Deliver Results: Vietnam Partnership Report 2005”, Informal Report for the Hanoi CG Meeting, December 2005
- Government of Vietnam, “Hanoi Core Statement on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results”, July 2005
- Government of Vietnam, “The comprehensive poverty reduction and growth strategy (CPRGS)”, November 2003
- Government of Vietnam, “Vietnam Food Safety and Agricultural Health Action Plan”, February 2006
- Government of Vietnam, “Vietnam Harmonisation Action Plan”, draft, June 2005
- Government of Vietnam, “Vietnam ODA Strategic Framework for Period 2006-2010: Executive Summary”, draft, 2005
- Government of Vietnam, “Vietnam: growth and reduction of poverty: Annual Progress Report of 2002-3”, November 2003
- Government of Vietnam, LMDG & EC, “Mid Term Review of the Multi Donor Trust Fund in support of the Public Financial Management Reform initiative: Report”, February 2006
- IMF & IDA, “Joint Staff Assessment of the Poverty Reduction Strategy Paper Annual Progress Report”, 2003
- Jacquemin & Bainbridge, “Perceptions of development partners and evidence on aid effectiveness: Viet Nam case study”, October 2005
- JICA & CIEM, “Study on donor practices in Vietnam - grant aid and transaction costs”, March 2003
- JICA, “Japan’s development cooperation in Vietnam: supporting broad-based growth with poverty reduction”, May 2002
- Like Minded Donor Group, “Progress Report 2005”, 2005
- Like Minded Donor Group, “Supporting country-led development in Vietnam: LMDG Action Plan 2005”, June 2005
- Menocal, Alina & Sarah Mulley, “Learning from experience? A review of recipient-Government efforts to manage donor relations and improve the quality of aid”, ODI Working Paper 268, May 2006
- Ministry of Agriculture & Rural Development & Ministry of Health, “Vietnam Integrated National Operational Program for Avian and Human Influenza 2006-2010”, Hanoi, May 2006
- Ministry of Agriculture & Rural Development, “Memorandum of Agreement: Forest Sector Support Program and Partnership”, Hanoi, November 2001
- Ministry of Transport, “The applicability of a Sector-Wide Approach”, Hanoi, April 2005
- Ministry of Planning & Investment, “Progress report on simplification, harmonisation and capacity building for greater aid effectiveness”, Prepared for Mid-Term CG Meeting, 2004
- Ohno, Izumi & Kenichi Ohno, “Fostering true ownership in Vietnam: from donor management to policy autonomy and content” in Izumi Ohno (ed.), *True Ownership and Policy Autonomy: Managing Donors and Owning Policies*, (GRIPS Development Forum, Tokyo: 2005), p. 67
- Partnership Group on Aid Effectiveness, “Continuing to advance aid effectiveness”, Report to Mid-Term CG Meeting, June 2006
- Partnership Group on Aid Effectiveness, “Harmonisation and alignment for greater aid effectiveness in Vietnam - Report 2004”, December 2004
- Partnership Group on Aid Effectiveness, “New Aid Instruments Awareness Raising Framework”, 2004

- Partnership Group on Aid Effectiveness, “Working together to improve aid effectiveness for supporting sustainable development in Vietnam”, December 2005
- Ryan, Jordan & Jesper Morch, “United Nations Reform: A Country Perspective”, Hanoi, 2005
- United Nations et al., “Joint Donor Comments on the draft ODA Strategic Framework”, November 2005
- United Nations Development Group in Vietnam, “Harmonisation of UNDG Agencies: Towards One United Nations in Viet Nam”, February 2006
- United Nations, “Common Country Assessment for Viet Nam”, November 2004
- United Nations, “MDGs and Viet Nam’s Socio-Economic Development Plan 2006-2010”, November 2005
- United Nations, “United Nations Development Assistance Framework for the Socialist Republic of Viet Nam 2006-2010”, June 2005
- World Bank, “CDF Report for Vietnam”, draft, June 2006
- World Bank, “Country Assistance Strategy”, September 2002
- World Bank, “Project appraisal document for a public financial reform project”, April 2003
- World Bank, “Taking stock: an update on Vietnam’s economic developments and reforms by the World Bank in Vietnam”, December 2005
- World Bank, “Vietnam Country Financial Accountability Assessment”, October 2001
- World Bank, “Proposed Credit to the Socialist Republic of Vietnam for a Fifth Poverty Reduction Support Operation”, May 2006