

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: VRM

TA 3722-VIE: Improving Project Financial Management Through Decentralization			Amount Approved: \$ 500,000 Revised amount: \$ 500,000	
Executing Agency: Ministry of Finance	Source of Funding: TASF		TA Amount Undisbursed \$86,089.18	TA Amount Utilized \$413,910.82
Date			Completion Date	
Approval 19 Oct 2001	Signing 13 Nov 2001	Fielding of Consultants 15 Sep 2002	Original 31 Mar 2003	Actual 30 April 2005
			Closing Date	
			Original 31 Mar 2003	Actual 31 July 2005
Description				
<p>Since 1993, Official Development Assistance (ODA) has been playing a significant role in financing development expenditures in Vietnam. In 2000, ODA disbursements accounted for 65 percent of Government's total capital expenditures. However, of the total committed ODA fund of US\$17.5 billion, about US\$9.5 billion was disbursed by the end of 2000. The low disbursement is attributable to delays in both project preparation and problems in project implementation, including project financial management issues. Drawbacks in government's regulations on fund allocation, expenditure control and tax also caused problems in overall project management.</p> <p>In April 2000, the Government, together with Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC) and the World Bank (WB) issued an Action Plan for Strengthening Capacity and Effectiveness of ODA. It required the Ministry of Finance (MOF) to improve and complete ODA related regulations on finance and accounting, set up standard financial management procedures for project management units (PMUs) and facilitate decentralization of financial management. As more and more projects were decentralized and implemented by the local government authorities, there is a need to address both policy reform and improve capacity of staff in financial management of ODA projects.</p>				
Objective and Scope				
<p>The objective of the TA is to assist the Government in improving project financial management through decentralization, thereby enhancing the portfolio management and efficient utilization of ODA funds. The scope of the TA includes:</p> <ul style="list-style-type: none"> (i) Improving the decentralized structure for project financial management: Review pending issues related to the project financial management, prepare models of decentralized project financial management, and associated guidelines. (ii) Strengthening capacity of PMUs at different levels in project financial management: This component supports training of about 700 staff from Ministry of Finance, Ministry of Planning and Investment, line ministries, Development Assistance Fund, State Treasury, and PMUs on issues related to project financial management. (iii) Developing a financial management handbook for ODA financed projects: A comprehensive handbook is compiled to provide guidelines on budget preparation, disbursement, accounting and auditing, taxation and final account preparation for ODA projects. (iv) Recommending sustainable measures for improving project financial management: The TA proposes a mechanism for continuous upgrading of knowledge and skills through training of staff involved in project financial management. 				
Evaluation of Inputs				
<p>To implement the TA, Ministry of Finance set up a TA Steering Committee which was chaired by Vice Minister of Finance Le Thi Bang Tam. A working group was also established to work with consultants on various aspects of project financial management. The Working Group comprised experts from External Finance Department, State Budget Department, State Treasury, Accounting Policy Department, and Tax Department and Investment Department of MOF.</p> <p>An International Project Financial Management Specialist was recruited for a period of 5 person months to provide overall advice to the project. A local Project Financial Management Specialist was engaged for a period of 18 person months to assist the International Project Financial Management Specialist and to coordinate with the Working Group on preparation of the Project Financial Management Handbook. Given some cited weaknesses in contract negotiation and management, an international contract negotiation specialist and a local contract negotiation specialist were recruited for one month each to prepare guidelines and training on consulting and civil work contract preparation and negotiation. During the TA implementation period, a local accounting expert and a local tax expert were engaged for a period of 3 person months and 1 person month respectively to address policy constraints related to project accounting and taxation. The consultants also conducted training for staff of relevant ministries, agencies and local authorities.</p> <p>The consultants worked closely with the Working Group of the Ministry of Finance to identify issues and constraints related to decentralized project financial management and to prepare guidelines to enable better understanding of financial management issues by PMUs. Performance of consultants was generally satisfactory. The MOF, through its Working Group, also actively participated in implementation of project activities and showed its strong ownership of the project.</p>				

Evaluation of Outputs

The Ministry of Finance is generally satisfied with the outputs of the TA. The ministry was able to capitalize on the recommendations by the consultant team by incorporating them in the revised regulations on budget planning, accounting and taxation. The training component was a core activity of the TA, which particularly focused on staff at the local level who are involved in project management. This will generate long-term impacts.

Component I - Improving the Decentralization Structure of Project Financial Management: The 2002 State Budget Law allows for state budget management, disbursement and implementation at the central, provincial, district, and commune levels, and this lays the overall foundation for decentralization of the project financial management. Under the TA, the consultants undertook a diagnostic review of the current policies and regulations related to the budget planning process for investment projects, disbursement of funds, expenditure control by the State Treasury, and project accounting regulations. Some of the identified drawbacks were addressed in the revised regulations. Specifically, a more flexible approach was adopted in budget planning and allocation to facilitate disbursements. Post-check method for expenditures was increasingly used with the newly issued Decision 78 on ODA Fund Disbursement. In the area of taxation, clearer and more streamlined procedures on tax payment and VAT refund by PMUs and contractors were issued. The TA also helped draft accounting guidelines with simplified forms and reporting requirements for the commune PMUs. Models of project financial management including guidelines on flow of funds, and accounting and reporting procedures were prepared for centralized and decentralized projects. This serves as a good basis for executing agencies to select the most appropriate model and associated procedures for their specific projects.

Component II - Strengthening Capacity in Project Financial Management in accordance with the Decentralization Policy: Under the TA, 18 training courses were organized to train 984 staff of central ministries, agencies, local authorities, and PMUs on topics related to project financial management, including disbursement and expenditure control, project accounting policies and practice, taxation, and contract negotiation. Evaluation of the training courses was conducted, which showed general satisfaction by the participants. Trainees expressed their special interest in the course on project accounting and taxation and requested such courses to be held more regularly.

Component III - Developing a Financial Management Handbook for ODA financed Projects: A Financial Management Handbook was compiled, which provides principles and guidelines for financial management of projects. The handbook includes 10 chapters and covers all aspects of project financial management. The handbook was not only useful in training staff but also provides good reference material for preparation of financial management manual for each project.

Component IV - Recommending Sustainable Measures for Improving Project Financial Management: A training course for trainers was organized by the Academy of Finance under the Ministry of Finance. The participants included experienced staff of the Ministry of Finance. The participants were trained in all aspects of project financial management. The Academy of Finance maintains all lecture notes and both soft and hard copies of the Financial Management Handbook for future training programs to improve staff capacity.

Overall Assessment and Rating

Overall, the intended objective of the TA has been achieved and all expected outputs were delivered. The TA provided useful inputs for the Ministry of Finance in revising some policies and regulations related to financial management of ODA projects. The overall policy framework in Vietnam, which was recently developed, supports decentralization of project management including financial management. The TA helped in providing more focused and clearer guidelines on overall decentralized financial management for implementation at the central, provincial, district and commune levels.

In drafting the handbook, a number of consultation workshops were undertaken to consolidate inputs and comments from related ministries, agencies and local authorities. The handbook is a good reference document for PMUs in their daily financial management of their respective projects. All four components were successfully completed. The Project is rated "successful".

Major Lessons Learned

Government ownership in the TA is important for the successful implementation of the TA. Members of the Working Group established by MOF were very active in working with the consultant team to identify problems in financial management policies. Consultation with stakeholders including PMUs and local authorities during the TA preparation and implementation is important so that the TA output was designed and implemented to meet the needs of those involved in project management.

Recommendations and Follow-Up Actions

Improving the policies and capacity related to project financial management is a continuous process, which requires the Government agencies to maintain close communication with the PMUs in order to better understand their problems and to receive their feedback on existing regulations. There needs to be a process of annual review of policies and regulations and in making necessary modifications as required. The Ministry of Finance should take the lead in this process. The TA produced a hand book on financial management, which is an important resource for PMUs. It is recommended that staff of new projects should be trained and equipped with the handbook.

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