

**Partnership Group for Aid Effectiveness**

Harmonisation and Alignment  
for Greater Aid Effectiveness  
in Vietnam - Report 2004

**December 2004**

## 0. EXECUTIVE SUMMARY

In 2004, the Government of Vietnam launched the preparation for the next round of planning in support of the country's socio-economic development 2006-2010. In order to ensure the best use of Official Development Assistance (ODA) for the implementation of Vietnam's development agenda, this year witnessed the planning and implementation of a comprehensive set of actions addressing aid effectiveness on all fronts.

The Government of Vietnam provided the leadership and the framework under which initiatives to enhance aid effectiveness and efficiency were designed, implemented and monitored. An important element of this framework is the Harmonisation Action Plan (HAP), developed by the Government through the Partnership Group on Aid Effectiveness (PGAE). Based on the principles of the Rome Declaration, the HAP provides the development community in Vietnam with both a vision for effective aid delivery, and concrete steps to make this vision reality.

### Aid Effectiveness in Vietnam – 10 Highlights in 2004

- Revision of Legal Framework for ODA (Decree 17)
- Preparation of ODA Master Plan
- Establishment of an Inter-ministerial Task Force to improve ODA delivery
- Establishment of the Partnership Group on Aid Effectiveness
- Implementation of Government-led Harmonisation Action Plan
- Donor Commitment to Alignment to the 5 Year Plan
- Participation in the Global Dialogue on Aid Effectiveness
- Launching of the Comprehensive Capacity Building Programme (CCBP) for ODA Management
- Piloting Joint Reporting Formats
- Preparation of Targeted Budget Support in Education

The PGAE became in 2004 the prime forum for dialogue between Government and donors on issues of aid effectiveness. Formulation, implementation and monitoring of the HAP have, in the short time of its existence, helped to further reinforce the Government's capacity to provide leadership, and yielded concrete results in donors' alignment to Government policies, plans and systems. The Comprehensive Capacity Building Programme (CCBP) for ODA Management was launched to support the development of sustainable institutional and management capacity for aid delivery.

The purpose of this report is to allow the development community in Vietnam to review the progress achieved in improving aid effectiveness during 2004, and consider the next steps to take in 2005. Some of the key actions in the coming year would be to implement the new ODA legal framework, to review donor alignment of country programmes with ODA Master Plan and the next five year plan, as well as to develop a framework against which to monitor and document results on streamlining and aid management.

The second High-Level Forum in March 2005, as well as other regional and global events, will likely bring new perspectives and insights on harmonisation and alignment for aid effectiveness. A review of Vietnam's Harmonisation Action Plan during 2005 will reflect those new perspectives to ensure that it remains a useful instrument.

**Table of Contents**

0. Executive Summary.....	2
1. Background.....	5
2. The Aid Effectiveness agenda in Vietnam .....	5
3. Ownership.....	6
4. Alignment.....	7
4.1. Alignment to Government Five Year Development Plan .....	7
4.2. Alignment to Government Sector Strategies .....	9
5. Streamlining.....	10
5.1. Strengthening the Overall ODA Management Framework.....	10
5.2. Simplifying and Streamlining Donor Operations .....	11
5.3. Harmonisation and Alignment of Procedures to Government Systems.....	13
5.4. Diversification of Aid Modalities .....	15
6. Toward Paris and Beyond .....	17

**Boxes**

1. Challenges in the Existing ODA Legal Framework
2. Objectives of the ODA Master Plan
3. EU Actions Towards Sector Alignment
4. UN Common Country Programming
5. Mission of the Government Task Force on Problem-Solving
6. Improving the Effectiveness of Japan's Grant Aid
7. LMDG Delegated Cooperation
8. Dimensions of Donor Decentralisation
9. Comparison between Environmental Safeguard Procedures among the Five Banks and the Government
10. Examples of Diversification of Aid Modalities
11. Examples of Progress on New Aid Modalities - Targeted Budget Support in the Education Sector & Forest Sector Support Program

**Annex**

1. Vietnam Harmonization Action Plan (HAP)

**Acronyms**

CCBP	Comprehensive Capacity Building Programme
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
HAP	Harmonisation Action Plan
LMDG	Like Minded Donor Group
MPI	Ministry of Planning and Investment
MTEF	Medium Term Expenditure Framework
ODA	Official Development Assistance
PGAE	Partnership Group for Aid Effectiveness
PRSC	Poverty Reduction Strategy Credit
SEDP	Socio Economic Development Plan

## 1. BACKGROUND

**Vietnam's Use of Official Development Assistance (ODA).** Vietnam's successes in economic management and unparalleled reduction in poverty have been matched by increasing commitments by donors. Since Vietnam resumed aid relations with the international donor community in 1993, over USD 25 billion of ODA have been committed to help fight poverty and sustain growth through finance for economic and social infrastructure, i.e., transport, power supply, agriculture and rural development, education and training and other development needs. In 2004 (until the end of October), signed ODA commitments reached USD 2.1 billion, with concessional loans accounting for 90% and grants for 10%. Estimated disbursements during the same period reached USD 1.4 billion.

**Key challenges.** After ten years of receiving aid resources, Vietnam has reviewed the efficiency and effectiveness of ODA deployment in the country. This exercise has indicated that whilst donor assistance has in general made a substantial contribution to the cause of socio-economic development in Vietnam, a number of constraints that impede a better and more effective use of such resources have been identified. These constraints include the lack of an overall long-term plan for ODA mobilisation and utilisation, cumbersome and lengthy decision-making processes, deficiency in the current legal framework in ensuring effective use of aid resources, as well as weak institutional and human capacity to execute ODA projects. The challenges facing donors similarly lie in lengthy decision-making processes, various barriers to joint donor actions, slow emergence of a joint vision and clear goals for effective aid delivery, as well as lack of incentives for staff to engage in harmonisation and co-ordination.

## 2. THE AID EFFECTIVENESS AGENDA IN VIETNAM

**Building Effective Partnerships.** Recognizing the potential complexities of ODA management processes and faced with rapidly increasing ODA flows, the Government of Vietnam early urged donors to build partnerships to reduce the management burden on the country's administration. The drive to improve overall aid effectiveness, along with on-going reform efforts and the strong government commitment to poverty reduction, makes Vietnam well suited for piloting efforts to coordinate donor assistance. As a consequence, recent years have seen an important shift in the way in which Vietnam's international partners seek to co-ordinate and build partnerships to support the country's development.

**Alignment to Government Strategies, Priorities and Systems.** The activities started out centering on procedural streamlining and at the High-Level Forum on Harmonisation and Alignment in Rome, the progress on donor harmonisation in Vietnam was showcased. Since then the Government has integrated its efforts of aid efficiency within a broader strategic approach to enhance overall aid effectiveness. The donor community and the Government agree that the ultimate objective is to align operations to Vietnam's own strategies, priorities and systems. Working toward this objective, strengthening Government's public administration capacity and systems are crucial and donors are currently providing assistance in this regard.

**Vietnam Harmonisation Action Plan.**<sup>1</sup> To support this agenda, a comprehensive Harmonisation Action Plan (HAP) was endorsed by the Mid-Term Consultative Group Meeting in June 2004. The Harmonisation Action Plan is based on the principles of country ownership, alignment and streamlining as endorsed in the Rome High-Level Forum. Progresses under each of these three pillars are given in the following chapters.

---

<sup>1</sup> Attached in Annex 1

### 3. OWNERSHIP

**Definition of Ownership.** The term “ownership” is commonly understood to imply the way in which the Government drives its development process. While there is a general agreement on the role of ownership in ensuring the ultimate attainment of the country’s development goals, the question of how to exercise ownership in concrete situations is often found to depend on the capacity of the parties on the recipient side. Therefore, a strong legal, institutional and management framework for ODA resources, and a strategic capacity building agenda are critical to ensure sustainable development for the nation.

#### Objective

Strong leadership exercised by the Government of Vietnam is key to ensuring that aid delivery is aligned to Government plans and priorities, well coordinated to avoid overlaps and waste of resources, as well as streamlined to minimise transaction costs and maximise benefits to the public end users. This requires that an effective framework is in place providing the Government with the mechanisms, tools and capacity to lead and coordinate the operations of donors active in the country.

#### Progress

**Establishing Effective Co-ordination Mechanisms.** The Government early realised the need to develop mechanisms to ensure the exercise of leadership over the aid efficiency and effectiveness agenda. A close partnership supported by over 20 Partnership Groups is facilitating the co-ordination among the Government and donors on key sector issues. The establishment of the Partnership Group for Aid Effectiveness (PGAE), which in its monthly meetings has seen a growing participation from the Government and donor agencies, is providing a mechanism for regular Government-donor dialogue on overall issues of aid effectiveness. With the Harmonisation Action Plan (HAP) and its accompanying Monitoring Framework, the Government has set up a comprehensive, yet actionable and measurable framework to further improve the efficiency and effectiveness of aid use in Vietnam. The Ministry of Planning and Investment is currently supported with a EU resident adviser for Aid Harmonisation.

**Revision of the ODA Legal Framework.** In the context of large ODA flows, the legal framework governing ODA mobilisation and utilisation is critical. Issued in May 2001, the Decree 17 is the highest level legal document governing the use and management of ODA resources in Vietnam. Over the past three years, this Decree has played an important role in strengthening the overall framework for aid management. However, a number of gaps have been identified calling for a revision of the document (see Box 1). To undertake a revision, an ad-hoc Government Inter-Ministerial Task Force has been established. A first draft of the revised Decree 17 is expected before the end of the year and should address the identified gaps, while guiding the utilization of ODA in line with the overall Five Year Plan and ODA Master Plan frameworks currently being developed by the Government (see further Chapter 4).

#### **Box 1. Challenges in the Existing ODA Legal Framework**

- Inconsistency between this framework and other ODA-related legal regulations, especially in the area of investment and construction management which are better aligned with the Government’s decentralisation policy;
- Insufficient coverage of a wider range of financing options other than project aid modality; and
- Lack of a strong foundation for promoting donor harmonisation and alignment with the Government systems and procedures.

**Building Sustainable Country Systems.** The Government recognises that weak capacity has been a limiting factor in ensuring effective and efficient use of ODA in support of the country’s socio-economic development. In a context of deepened country leadership supported by closer ties with the development partners, all initiatives taken by the Government, whether strategic at a macro level, or technical at the implementation level, are aiming towards building sustainable system for the country’s development. In formulating and implementing the Comprehensive Capacity Building

Program (CCBP), the Government and the donor community have designed a comprehensive and systematic effort to strengthen institutional and organisational arrangements as well as building management capacity to design, plan and deliver ODA.

**Vietnam's Participation in the Global Dialogue on Aid Effectiveness.** As the harmonisation and aid effectiveness agenda has become a greater shared concern of the international development community, Vietnam has been actively engaging in international exchanges to share experiences through the OECD/DAC and its Working Party on Aid Effectiveness, with donor agencies at headquarter levels, as well as with various other aid receiving countries. These international discussions have provided valuable inputs for furthering the aid effectiveness agenda in Vietnam, while the on-going harmonisation and alignment process in Vietnam in turn has provided other recipient countries embarking on similar efforts with useful and concrete lessons learnt.<sup>2</sup>

### **Next Steps**

- Continue implementing and review/update the Harmonisation Action Plan (HAP) and Monitoring Framework in connection with the Second High-Level-Forum in Paris
- Further strengthen the PGAE mechanism through e.g. wider Government participation
- Continued dialogue on finalisation of the Revision of Decree 17
- Set up monitoring and feedback system for effective enforcement of revised Decree 17 including establishment of implementation guidelines
- Participation in global and regional events, notably HLF-II

## **4. ALIGNMENT**

**Definition of Alignment.** In the context of the Government of Vietnam's Harmonisation Action Plan, alignment is defined as (i) cooperation between the Government and donors toward the formulation and implementation of the Five Year Socio Economic Development Plan (2006-2010) to ensure donors' alignment to it, and (ii) donors' alignment with Government's sector/sub-sector policies, strategies, and priorities. The issue of alignment to Government systems is reported on in Chapter 5 Streamlining.

### **4.1. Alignment to Government Five Year Development Plan**

#### **Objective**

The overall objective is for donors to align future assistance to the priorities of the Government's Five-Year Socio-Economic Development Plan 2006-2010 (SEDP). The Prime Minister's Directive 33, sets out the framework for the preparation of the SEDP and presents a firm commitment from the Government to use CPRGS principles<sup>3</sup> and objectives in formulating the plan.

#### **Progress**

**Consultative Mechanisms Established.** There is an active dialogue between the Government and the donors on the formulation of the SEDP. Line Ministries and Provincial Governments are

---

<sup>2</sup> During 2004, Vietnam has participated in all meetings of the OECD/DAC Task Team on Harmonisation and Alignment and the Joint Venture on Public Financial Management, as well as in the development of OECD/DAC Good Practices Papers on Harmonisation. Vietnam also participated in the preparatory meeting for the second High Level Forum held in Nicaragua to collect partner countries' viewpoints on progress made, challenges encountered, indicators for performance, as well as recommendations for the DAC and for the HLF-II. At the regional level, Vietnam participated in the Regional preparatory meeting for HLF-II held in Bangkok.

<sup>3</sup> A discussion paper on "Defining the CPRGS approach" has been prepared and submitted to the Government under Japan's initiative to (i) more clearly define the CPRGS approach that has been frequently mentioned by donors and (ii) provide more concrete interpretations of it for planners of the SEDP, sector strategies and local development plans for their reference.

developing their respective plans in consultation with major stakeholders, including the donor community. MPI will then synthesise these plans into a National Plan to be completed by May 2005. To coordinate donor-activities in support of Vietnam's preparation of the SEDP, an informal working group has been established.

**Strengthening the Planning Process.** On a national level, donors are providing technical assistance and training to support the alignment of development strategies with the SEDP and help strengthening planning processes. At the provincial level, MPI has been coordinating a multi-province initiative with the support by some 10 donors to strengthen the skills and capacity needed for a more bottom-up style of planning. There are differences in the approach and scope of activities in this process across provinces, but also a number of common issues have been identified as need addressing in a systematic manner. The Poverty Task Force has initiated a review of this provincial experience in order to incorporate lessons learned into the SEDP.

#### **Developing an ODA Master Plan.**

To establish the strategic direction for ODA use over the coming five year plan period, a Master Plan on ODA Mobilisation and Utilisation 2006 - 2010 is being developed. The Master Plan will identify guiding principles, priorities and criteria for ODA utilisation to support the achievement of the SEDP targets. The formulation of the ODA Master Plan is being undertaken in a consultative manner and a series of workshops have been organised to review the impact of previous ODA support and to identify needs of various domestic stakeholders for future ODA assistance.<sup>4</sup>

#### **Box 2. Objectives of the ODA Master Plan**

- To evaluate the process of ODA mobilisation and utilisation in Vietnam in the last ten years at the macro level (national economy, region, sector);
- To identify strategic directions for ODA utilisation in the 2006-2010 period in order to fulfill the targets of the Socio- Economic Development Strategy for the 2001-2010 period;
- To suggest a system of guiding principles, priorities and criteria to allocate ODA equitably and appropriately;
- To identify ODA needs for 2006-2010 with due considerations on the balance between ODA and other resources as well as Vietnam's capacity to absorb ODA; and
- To recommend institutional changes in the ODA mobilisation and utilisation framework with the aim of increasing ODA efficiency and effectiveness.

**Developing a Common Results-Based Monitoring Framework.** The Government is working closely with the development partners to design common indicators for assessing progress towards its strategic objectives, as set out in the five year plan, ten year strategy, and the Vietnam Development Goals with the goal to identify 45 strategic level indicators per sector that can be consistently measured by all stakeholders. This work is critical in providing key indicators for improved donor alignment and will allow the Government to assess relative contributions of each donor agency, and how the support provided is aligned with the outcomes that the Government is trying to achieve.

#### **Next Steps**

- Government of Vietnam finalises SEDP and ODA Master Plan in consultation with donor community
- Donors review alignment of their country programmes with new ODA Master Plan and SEDP
- Donors explore opportunities for joint analysis and preparation of results-based programming frameworks

<sup>4</sup> A number of regional consultative workshops were held with domestic partners and a consultative workshop to discuss the Master Plan with the international development partners, sector ministries and provincial agencies were held in 18 and 19 November.

## 4.2. Alignment to Government Sector Strategies

### Box 4. UN Common Country Programming

The United Nations in Vietnam is in the process of developing its next UNDAF (2006-2010). The UN's review of the development context is set out in the Common Country Assessment (CCA). A series of workshops and small sessions were conducted with Government and other development partners to identify high priority areas for joint UN system intervention as well as related strategic outcomes for each priority area.

Based on the UNDAF outcomes, the next step in this process is for three United Nations Development Group Executive Committee member UN agencies (UNDP, UNFPA and UNICEF) to elaborate their individual Country Programme for the next 5 years.

### Objective

The overall objective is to ensure that donors support Government priorities. It is widely recognised that the promotion of sector alignment, irrespective of aid modality, is an important and practical means to support ownership and improve aid effectiveness.

### Progress

**Piloting Enhanced Sector Alignment.** Active discussions to promote and pursue alignment to Government sector plans and strategies

have been initiated. In order to advance the alignment process, (i) Government priorities are to be clearly shared between line ministries and donors concerned, (ii) donors are to review their support in light of sector alignment, and (iii) mechanisms to monitor this process are to be put in place. In order to coordinate this work, a working group has been established under the framework of the PGAE. Within this working group, several pilot sectors have been suggested (education, transport, etc.) and the guiding principles to take this work forward have been discussed. The pilots would be undertaken as part of the work of the Partnership Groups. In view of the variety of development needs, the presence of various aid instruments ensures complementarities and this exercise will focus on sector alignment irrespective of aid modalities.

**Mechanisms for Consultation on Sectoral Five Year Plans.** The above exercise of enhanced sector alignment should go hand in hand with the work to provide input for the formulation of the five year plan for each sector. Specific donors have been identified as sector facilitators, who would finance and together with line ministries organise activities to integrate the bottom-up planning approach into the sectoral development planning and ensure donor alignment. Ministry of Agriculture and Rural Development has for example shared with major stakeholders, including the donor community, its Guidelines for formulation of the Agriculture and Rural Development Sector Plan and organised a consultative workshop. Donor engagement with Ministry of Education and Training around the formulation of the national and provincial five year plans in the education sector has also been initiated, with DFID and EC as facilitators. Similarly, donors are supporting the Ministry of Transport in the preparation of the SEDP through input from a sector review examining gaps between sector strategies and the current status of investments and institutional aspects.

### Box 3. EU Actions Toward Sector Alignment

In the context of its Action Plan for Closer Harmonisation and Co-ordination among EU Donors in Vietnam, the European Union has established in mid-2004 working groups in a number of sectors (health, education, private sector development) and one geographical area (Central Highlands) to promote alignment with Government policies and programmes. These groups review coherence of the EU's support to those sectors and alignment with Government priorities, conduct joint analytical work and plan joint activities.

**Progress of the Partnership Groups and Other Coordination Efforts.** Many efforts have been made in 2004 to promote sector alignment in various fora. A summary of the activities during 2004 by the more than twenty Partnership Groups is available in a separate report.<sup>5</sup> In the Transport Partnership Group, co-chaired by the Ministry of Transport and Japan, donors have advanced policy alignment in two important priority areas of (i) operation and management of roads and bridges, and (ii) improvement of urban transport system in Hanoi. As a prerequisite for alignment and streamlining, the EU has produced an overview of essential data of its assistance portfolio in Vietnam, known as the Blue Book.

**Developing Appropriate Funding Mechanisms to Support Sector Alignment.** Development of joint funding mechanisms in support of sector/sub-sector programs is one important measure

<sup>5</sup> Toward 2010 Vietnam Partnership Report

to promote sector alignment. In various sectors, initiatives are underway to formulate a common policy framework supported by a joint funding mechanism (See further Section 5.3). During 2004, a third Poverty Reduction Support Credit (PRSC) has been agreed. The PRSC III is supported by seven donors and has developed into an effective instrument for ensuring a coherent donor approach to macro-economic and structural reform policy issues, but is increasingly also a powerful platform for building agreement on sectoral strategic issues amongst the wider donor community and the Government. In order to facilitate an effective engagement of EU donors in the preparation and monitoring of PRSC III and PRSC IV, the EU organised working groups focussing on the different PRSC fields.

### **Next Steps**

- Donors support and use Government monitoring systems for assessing overall socio-economic trends, achievement of sectoral targets and the effectiveness of ODA.
- For the pilot sectors identified, the Partnership Groups will review the alignment of donor initiatives to Government sector policies and programmes.

## **5. STREAMLINING**

### **5.1. Strengthening the Overall ODA Management Framework**

#### **Objective**

Strengthen and streamline the overall ODA management framework in order to improve aid efficiency and increase ODA delivery.

#### **Progress**

**Strong Government Commitment to Improving ODA Delivery.** The year 2004 has seen an encouraging high-level commitment from the Government in tackling the problems of aid effectiveness and efficiency. The National Disbursement Conference held and chaired for the first time by the Deputy Prime Minister Vu Khoan, followed by a Prime Minister's Decision on the establishment of an Inter-Ministerial Task Force to troubleshoot delays and issues in implementation of ODA projects is proof of this commitment. In Directive No. 17 issued in May this year, the Prime Minister has clearly assigned tasks aiming at boosting the overall ODA implementation in Vietnam to different ministries, central agencies and provinces. This high-level of commitment, supported by mechanisms for closer intra-Government co-ordination has created a strong stimulus for the internal ODA stakeholders at all levels, as well as confidence on the side of the international development partners on the viability and prospect of the aid effectiveness agenda.

**Revising and Updating the Overall Institutional Framework for ODA Management.** In the Directive, the Prime Minister touched upon the regulatory measures needed to streamline and improve the overall framework, whether this is review and updates on Decree 17 on ODA Management, Decree 22/1998/ND-CP on compensation for land clearance, the prompt issuance of the two new Decrees on Land Law and Construction Law Implementation, or the financial regulations governing the provisions of counterpart funding for ODA projects and expenditure rate for PMUs. The Prime Minister also directed the implementation of the national-level capacity development program, the performance of the Harmonisation Action Plan, and more importantly, stressed the demand to see a closer co-ordination among various ODA stakeholders at both central and local levels to systematically respond to implementation bottlenecks. Government agencies are currently working on a consolidated proposal for a Decree on decentralisation of state management from the central Government to local Governments of centrally-affiliated cities and provinces.

**Building ODA Management Capacity.** An innovative and comprehensive approach to capacity building was designed and launched during 2004, with financing from LMDG, and WB/Japan PHRD. The key objectives of this Comprehensive Capacity Building Program (CCBP) is to (i) strengthen the legal and institutional framework for ODA management, (ii) develop an overall strategy for ODA project management capacity building in Vietnam, (iii) provide problem-solving support to ODA projects experiencing implementation difficulties and (iv) facilitate the introduction and implementation of new aid modalities in Vietnam.

**Speeding up ODA Delivery.** Within the framework of CCBP, a problem-solving team has been deployed to facilitate and support the work of the Government Task Force on Problem Solving, to deal with the slow pace of ODA implementation. This team is tasked to, in close consultation with key stakeholders, identify implementation problems and develop Action Plans to implement solutions for a number of bank-financed projects. Initial findings of the CCBP team have indicated a range of problems. From the diagnosis, a number of areas for “quick wins” would be selected for immediate interventions to attain tangible improvements in the performance and disbursement rates of the targeted projects, while options for resolving in-depth problems identified would be further investigated and presented to the Inter-Ministerial Task Force for decision-making.

**Box 5. Mission of the Government Task Force  
on Problem-solving:**

- assist the Prime Minister in identifying and making timely interventions to tackle problems found in the implementation process of ODA projects and programs;
- assist the Prime Minister in monitoring the compliance of concerned ministries, central agencies, provinces and other related stakeholders in the implementation of approved solutions by the setforth conditions and timeliness.
- report on a periodical basis to the Prime Minister on progresses achieved and recommend on policy actions to be taken for acceleration of implementation of aid projects.

### **Next Steps**

- Decentralisation of ODA management procedures to ministries and lower levels of government within an accountability and responsibility framework.
- Undertake a study on the current status of ODA project implementation to provide a baseline against which to monitor progress in ODA implementation in liaison with other initiatives, e.g, updating the Transaction Cost Study carried out by JICA/CIEM
- Pilot solutions approved by the Government Task Force on Problem Solving
- Design and deliver a program to support the development of certifiable expert workforce in project/program management through experiential/problem-based learning methodology.

## **5.2. Simplifying and Streamlining Donor Operations**

### **Objective**

Simplify and streamline the way donors operate to deliver ODA more efficiently.

### **Progress**

**Joint Donor Activities.** An important part of streamlining the donor effort is the increasing number of joint donor activities that are taking place in Vietnam. Examples of recent joint analytical work are the Vietnam Development Report 2004 and the analysis on the role of infrastructure in the CPRGS by Japan, DFID, World Bank and other donors concerned. Joint projects and programs between donors are now becoming common practice as a way to reduce the transaction costs on Government. Recent initiatives include the Multi-donor Trust Fund for Public Financial Management, the PRSC, the CCBP, the LMDG harmonisation project, in addition to the new aid modalities outlined in section 5.4 of this report.

**Box 6. Improving the Effectiveness of Japan's Grant Aid  
("Sit Down & Talk" Initiative)**

**Objective:** Improve the effectiveness of Japan's grant aid in reducing the transaction cost through the dialogue between Japan and MPI.

**Actions taken:** A joint action plan was formulated in June 2004 covering 16 concrete measures.

Strengthening Dialogue: Intensive dialogues in 11 sectors contributed to fostering shared recognition on priorities and challenges for each sector.

Participation and Capacity Building: 3 pilot projects have been under consideration to promote participatory project formulation and implementation.

**Next steps:** Continue this initiative paying attention to the following factors:  
Improve the modality of project formulation and selection in the next year with particular attention paid to the role played by MPI and maximise the benefit of decentralization of JICA Vietnam Office and link it with the outcome of the initiative

**Donor Simplification.** In order to simplify procedures, a number of various donor initiatives are on-going. Japan has initiated a process to improve the effectiveness of its assistance (see Box 6). The World Bank has recently revised its expenditure policy to allow for more flexibility in the scope of its financing. This is expected to significantly reduce the transaction costs involved in preparation and implementation of World Bank projects in Vietnam. The Like-Minded Donor Group is delegating cooperation to reduce transaction costs (see Box 7). In order to reduce the multitude of different bilateral cooperation agreements, the European Union (EU) established a draft model standard framework agreement for EU donors covering administrative issues related to co-operation with Vietnam.

**Box 7. LMDG Delegated Cooperation**

The Like-Minded Group of Donors (LMDG) operates delegated cooperation in a number of sectors. This system is based on a single donor taking the lead with pooled financing significantly reducing the transactions costs among donors and providing faster and more flexible responses to Government.

**Donor Decentralisation.** Decentralisation generally makes aid programs more responsive to the needs of host countries, minimises delays in programming cycles, reduces transaction costs, increases the quality of program/project design and implementation, and improves policy dialogue with the local government and partners. While a number of donor agencies have continued decentralisation to their country offices in Vietnam, a common understanding of the nature of decentralisation, and a joint policy of donors toward decentralisation based on this common understanding, is yet to be developed. The below table lists a number of dimensions (developed by UNDP) in which decentralisation could be measured:

Box 8. Dimensions of Donor Decentralisation		
<ul style="list-style-type: none"> <li>• Staff Recruitment, Assessment and Incentives</li> <li>• Country strategy</li> <li>• Programme themes/Portfolio focuses</li> <li>• Funding allocation (to portfolio/programs/projects)</li> <li>• Program/portfolio formulation and implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Fact-finding missions</li> <li>• Need assessment</li> <li>• Programme Formulation</li> <li>• Project Appraisal Project Approval</li> <li>• Workplan approval</li> <li>• Budget management</li> <li>• Procurement/TA recruitment</li> </ul>	<ul style="list-style-type: none"> <li>• Financial disbursement</li> <li>• Monitoring and Evaluation</li> <li>• Reporting</li> <li>• Program evaluation</li> <li>• Country strategy evaluation/review</li> <li>• Partnerships/ Cost-sharing</li> </ul>

**Next Steps**

- Donors continue to develop and implement joint activities, where appropriate, to reduce the transaction cost burden on Government and ensure more efficient delivery of aid.
- Identify and begin implementation of concrete initiatives to reduce the burden on Government administration such as joint missions, mission free periods etc.
- Donors outline their plans for decentralisation (to country offices) over the next 5 years.

### 5.3. Harmonisation and Alignment of Procedures to Government Systems

#### Objective

Improved alignment of donor systems, such as for procurement and financial management, safeguards, to the Government System to reduce transaction costs and build sustainable capacity

#### Progress

Significant work is being undertaken to strengthen Government Systems to allow donors to align procedures with the ones used by the Government for managing its own funds. The five bank group (ADB, AFD, JBIC, KfW, WB) has taken the lead in supporting the Government in its work on harmonisation and alignment of procedures focusing on (i) Procurement, (ii) Financial Management (iii) Environmental and Social Safeguards, (iv) Project Preparation and (v) Project Reporting.

**Procurement.** The Government is moving towards establishing a clear and consistent framework for public procurement and has developed a draft Procurement Ordinance, incorporating the good procurement principles established by the Decree 66. While significant progress has been made, the Country Procurement Assessment Report Update in 2004 concluded that there is a strong need for further improving the existing procurement system to address a number of key challenges including fragmentation, insufficient use of competitive bidding or more internationally-accepted bid evaluation methods. To support the Government in developing an efficient public procurement system and facilitate donor alignment, the five banks have jointly provided comments on the draft Procurement Ordinance. As part of this process, draft common documents for National/Local Competitive Bidding for Goods are being developed, with other documents expected to follow.

In the context of donor funded programmes and projects, the European Union has published in 2004 a revision of its Cost Norms, which define the reimbursable cost for local inputs to projects funded by EU Member States, and the European Commission. The Cost Norms provide transparency and help avoid competition among donors for local resources.

**Financial Management.** Financial management has been identified as an area where harmonisation and alignment to the Government system could have a potentially large impact on aid effectiveness and Vietnam continues to make steady progress in strengthening public expenditure management. The Government plans to pilot the development of Medium-Term Expenditure Frameworks (MTEFs) in four sectors and four provinces with the intention to present a series of simple scenarios for sectoral or provincial government spending and its allocation over a period of three to five years. Scenarios for the capital and recurrent sides of the budget will be developed in an integrated way, for each sub-sector and level of government, with reference to the development goals of the sectors. The MTEF pilots will provide donors with a better understanding of the budgeting process and thereby facilitate future sector program development.

There are also a number of initiatives to streamline procedures of the five banks. As part of the VAMESP reporting pilot, described below, a common financial reporting format for the five banks is being piloted. It has earlier been proposed to use the audit guidelines developed by the Multilateral Development Banks (MDB) technical working group on harmonisation, as a starting point for developing common audit practices.

**Environmental Safeguards.** In order to explore ways to simplify procedures and align with Government systems, a detailed comparison of the five banks and Government safeguard requirements was carried out in 2004. Some differences are relatively minor and practices could be simplified through for example clear guidance, checklists and / or reporting tools etc. Other differences are more significant, reflecting key safeguard and due diligence

requirements of the banks which could not be tacked with in local bases. It may be possible to simplify and reduce the time and cost associated with these requirements through improved capacity, tools and templates. A menu of actions have been suggested to address the differences between the five banks and the Government and currently, they are discussing how to develop a Draft Action Plan to address gaps over the coming years.

Box 9. Comparison between Environmental Safeguard Procedures among the Five Banks and the Government	
Minor Differences	Significant Differences
<ul style="list-style-type: none"> <li>▪ EA activities required after screening (especially for Category 2 / B projects)</li> <li>▪ Language of EIA reports</li> <li>▪ Requirement for and contents of Environmental Management Plans</li> </ul>	<ul style="list-style-type: none"> <li>▪ Screening method to ensure consistent categorisation</li> <li>▪ Independence of experts who carry out EA studies</li> <li>▪ Scope and ToR preparation for Category 1 / A EIA studies (especially involvement of affected people therein)</li> <li>▪ Public participation in the EA process</li> <li>▪ Information disclosure in the EA process</li> </ul>

**Social Safeguards.** A similar approach to the one taken for environmental safeguards is being followed with ADB taking the lead in organizing a gap analysis of the procedures and practices of the five banks and the Government. Subsequently, actions to streamline and align procedures will be identified.

**Project Preparation.** Streamlining of project preparation procedures and standards would be essential to improving Vietnam's ODA disbursement rate, while maintaining a high program quality. It has been agreed to work towards establishing capacity, procedures and standards on the Vietnamese side that would allow to gradually reduce the need for additional expertise and documentation from the banks with the ultimate objective to reach a unified process that meets the appraisal requirements of the Five Banks and the Government. A team of experts started to work in the last quarter of 2004 to identify similarities and gaps between the five banks and the Government system for Feasibility Studies. The goal is to develop a road map for future harmonisation work in this area. First results are expected by the end of 2004.

**Project Reporting.** There has been significant progress in developing harmonised reporting frameworks over the year. Ground breaking work by the Ministry of Planning and Investment (MPI) and the AUSAID funded VAMESP programme has initiated the development of common ODA project reporting formats. The draft reporting formats have followed government procedures detailed in MPI's Circular 6 and meet donor requirements. At this stage two formats have been drafted for loans and grants. These are now being field-tested. Results and final formats will be rolled out in December 2004 as a basis for further Government approval of reporting formats for donor activities.

### Next Steps

- Undertake a baseline study of the donor operation procedures (cycle time, cost, schedule, etc) as a basis for identifying streamlining opportunities
- Government and Donors reach agreement on issues related to the overall procurement framework, the Procurement Ordinance and the implementation of Standard Bidding Documents for Goods and Works.
- In the area of financial management, common agreed audit TORs are revised to include anti-corruption measures, peer review of auditors is undertaken and the common financial assessment methodology is implemented.
- Action Plans for addressing gaps between Government and Donor systems on environmental safeguards, social safeguards and project preparation are implemented.
- A Harmonised Government and Donor reporting format is institutionalised subsequent to the five banks' approval of a joint reporting format as part of the revised Decree 17

implementation guideline and is implemented for all five banks projects.

#### 5.4. Diversification of Aid Modalities

##### **Objective**

Enhanced ability of the Government of Vietnam to evaluate, define, plan, mobilise resources and implement the most appropriate aid modalities in response to varying development problems.

##### **Progress**

**The Role of Aid Modalities.** The increasing practical use of program based approaches in ODA delivery in Vietnam over the past few years has created interest in having a better and clearer understanding on the concept, the implementation mechanisms, as well as the added value in strengthening the effectiveness agenda of aid delivery in the country. Based on the principle that government request support from donors in the form which most effectively supports Vietnam's growth and poverty reduction efforts, there have been considerable activities throughout the year in developing increased understanding of the options available to government and donors. Japan and DFID worked together to draft a paper on the role of new aid modalities in the Vietnamese context which has now become the agreed basis for future discussions on the diversification of aid modalities.

Box 10. Examples of Diversification of Aid Modalities			
Sector	Proposed modality	Donors involved	Status
Education	Targeted budget support through Government programme to achieve fundamental school quality levels for all children	Belgium, CIDA NORAD, DFID, EC, WB	In design – pilot next year
Forestry	Multi – donor trust fund to support government 10,000 hectare programme	Netherlands, Germany	Support underway
Programme 135 (and subsequent programme)	Targeted budget support through Government programme to support the poorest communes	DFID 1 <sup>st</sup> phase	One year pilot agreed for 2005
Rural transport	Provincial budget support to transport plans	WB, DFID	Two pilot provinces in 2005
Public Financial Management	Multidonor Trust Fund Second phase – full transfer of management to Government	Canada, Denmark, the Netherlands, Norway, Sweden, Switzerland, DFID and WB	First phase underway 2 <sup>nd</sup> phase in 2005
Rural water and sanitation	Targeted budget support through Government programme to achieve the targets set out in the rural water and sanitation strategy	AusAid Danida, (possibly WB & DFID)	Scoping study underway

**Challenges in Diversifying Aid Modalities.** A number of challenges in introducing new aid modalities have been identified including :

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

### **Building Capacity and Awareness to Support Diversification.**

To address these challenges, within the scope of CCBP, a New Aid Modality Component has been designed with the aim to raise general awareness about programme-based approaches, facilitate on-going pilots of new aid initiatives in Vietnam, to review pre-conditions and facilitating conditions for Sector Programmes, to identify additional potential applications for new aid modality and assist in preparing the legal and administrative base for implementing Sector Programmes with good practice. There have also been several awareness raising activities during the year, such as training events on sector approaches and both donors and Government officials attended a CIDA funded sector approach event in Tokyo over the summer. The EU/EC organised a series of training events on sector support programmes and budget support

#### **Box 11. Examples of Progress on New Aid Modalities**

##### **Targeted Budget Support in the Education Sector**

**Objective:** A group of six donors are working to align support to the existing Government strategic goals and priorities, as set forward in the Education For All Action Plan (EFA) 2003-2015.

**Progress:** A funding gap in the EFA in the order of MUSD 100 for the initial years is proposed to be filled by donor lending and grants through Targeted Budget Support (TBS). It is envisaged that donor funds will be channelled directly through the Government's financial and management channels. The TBS is supported by the Medium Term Expenditure Framework (MTEF) pilot in the education sector

**Next Steps:** A Pre-Appraisal was undertaken in October 2004. The Feasibility Report is expected by early next year and the implementation of the TBS is planned for mid-2005.

##### **Forest Sector Support Program (FSSP) and Partnership**

**Objective:** The Government and 19 international partners signed a Memorandum of Agreement (MoA) on the Forest Sector Support Program (FSSP) and Partnership in 2001. The MoA establishes the basic principle of working towards harmonization of FSSP goals, objectives and implementation with government policies, plans and programs in a mutually beneficial dialogue.

**Progress:** A Working Group was established to support the initiative and is finalizing a report on "Harmonization of Investment Procedures and Project Implementation Frameworks", which presents initial recommendations to simplify and standardise approaches, procedures, and cost norms.

**Next Steps:** Establish a formal agreement between MARD and involved donors on harmonised approaches and procedures and institutionalize the Harmonization of the Implementation Framework (HIF) through creation of structures and processes on central and province level.

**Piloting New Aid Modalities.** There are a number of concrete initiatives being undertaken to pilot the use of new aid modalities, notably in the education and forestry sector (see Box 10 and 11). The Government of Vietnam also approved the use of budget support to both programme 135 and two provincial transport plans. It is anticipated that these pilots will provide valuable experience for the Government and donor community to base their future support on. DFID's support to the Government's Poverty Reduction Program 135, will be channelled directly to the Government's as a precursor to potential longer-term support. DFID will be supporting the Government to strengthen the fiduciary framework around Program 135 and look for other ways to achieve a steady improvement in Program 135 performance.

### **Next Steps**

- Gaps to allow the piloting of new aid modalities are identified and addressed
- The legal framework is updated to provide procedures and guidelines for implementing pilot sector programs
- Training needs are identified and addressed through the CCBP

## 6. TOWARD PARIS AND BEYOND

**Preparing for the 2<sup>nd</sup> High Level Forum in Paris.** In March 2005, high-level representatives of partner countries and donors will reconvene for the Second High Level Forum to review progress in harmonisation, alignment and aid effectiveness. The focus will be on concrete achievements since the first High Level Forum held in Rome in February 2003, and on ways to push the harmonisation process forward. Like many other partner countries, Vietnam has benefited greatly from the Rome Declaration. It has stimulated the harmonisation process in Vietnam and enabled the country to be among the first in completing its own Harmonisation Action Plan. The development and implementation of this Plan have generated a number of good practices and lessons learnt. These lessons, which will form an important input to the international discussions, are presented below.

**Strengthening Government ownership and Government-led Partnerships.** Improving aid effectiveness to achieve Vietnam's overall development goals requires strong government ownership. To effectively exercise ownership, experience has shown that capacity development is the most critical factor. Capacity development involves strengthening country systems in terms of strategy and planning, the legal framework and its enforcement, institutional and human resources, as well as monitoring and evaluation mechanisms. These elements are essential to ensure that Vietnam can effectively lead the development process and strengthen partnerships with the donor community.

**Ensuring Donor Alignment with Government Policies, Strategies and Priorities.** Over time, alignment has increasingly been perceived as a practical means to support ownership and improve aid effectiveness. Donors should co-ordinate and work closely with the Government to align their support with the country's priorities and the Five-Year Plan should be the document to which donors align their assistance. Government strategies should take prominence over those of donors, and guide what donors do. Sector coherence should be promoted and pursued. A variety of aid instruments to support government plans and priorities should be regarded as complementary, in view of the diversity of development needs. It is encouraging to witness the increasing level of co-ordination among the various development partners to ensure donor alignment to Government's plans and priorities.

**Streamlining by Aligning to Government Systems.** Streamlining on an operational level is valuable in maximising efficiency and effectiveness of ODA. In this regard, Vietnam's diverse harmonisation and simplification initiatives are showing interesting results. Encouragingly, the growing interaction among the various initiatives has helped disseminate lessons learnt and good practices. It is recognized that efficiency gains will be maximised by donor alignment to the country's own systems. This requires a focus on capacity development to strengthen the existing system. Among the different dimensions of streamlining, decentralisation in the donor system is also one important aspect in improving the efficiency of operation, through improving decision making and ongoing processes of policy dialogue.

**Managing for Development Results.** Managing for Development Results is an emerging, and increasingly important concept. This means shifting the focus of monitoring to results and outcomes in the development process, rather than inputs. In this direction, Vietnam has started to introduce results-based management (RBM) in several key sectors and sub-sectors. Subsequently, these could form the basis for resource allocation. The integration of results-based elements into planning and formulation, as well as the monitoring and evaluation system of the country would be the most effective way to realise this new agenda.

**Sharing a Vision.** The progress that Government and the donor community in Vietnam have made in harmonisation and aid effectiveness is beyond what would have been expected a few years ago. Looking ahead, it is important for both Government and donors to further strengthen their partnership and share the vision of building a sustainable system for the country, where resources are utilised effectively and efficiently to attain Vietnam's goal of becoming a developed economy characterised by sustainable growth and equitable access to resources.