

Partnership Group on Aid Effectiveness Vietnam

Independent Monitoring Report on Implementation of the Hanoi Core Statement

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This report was prepared by an independent monitoring team. It does not reflect the official views of the Government of Vietnam, Development Partners or other organisations consulted by the team.

Executive Summary

Within a few months of the Paris Declaration on Aid Effectiveness in 2005, Vietnam and its Development Partners adopted the Hanoi Core Statement on Aid Effectiveness (HCS), setting out 28 Partnership Commitments and fourteen targets to be achieved by 2010. The HCS provides that the Government of Vietnam (GoV) and donors should periodically review their progress against these commitments through an Independent Monitoring process. This is the first such exercise.

The assessment was carried out by an Independent Monitoring Team (IMT), using a methodology agreed with the Management Board established by the Partnership Group on Aid Effectiveness to oversee the process. It offers an overview of HCS implementation to date, plus detailed examination of three thematic areas: (i) country leadership and donor alignment behind the national development agenda; (ii) use of country systems for ODA delivery; and (iii) organising HCS implementation. These themes were explored through case studies of three sectors – education, transport and rural water and sanitation. The IMT also conducted reviews of four donors (Belgium, Danida, DFID and the World Bank) that are participating in the exercise on a voluntary basis.

Under the HCS, the Independent Monitoring process is intended to support mutual accountability. The IMT is called upon to make judgments on the quality of effort by both GoV and donors to implement the HCS, and to point out any shortcomings.

Since the adoption of the HCS, Vietnam and its Development Partners have launched an impressive number of initiatives to strengthen what is already in many respects a mature and effective Development Partnership. The judgments contained in this report are made against the high standards that Vietnam and its Development Partners have set for themselves. While this report focuses on areas where there is scope for improvement, this should not be read as detracting from the very important achievements to date.

Country Leadership and Donor Alignment

Country ownership of the development agenda in Vietnam continues to be very strong. GoV's pursuit of rapid economic growth is matched by a commitment to ensure that the benefits are shared equitably across society. Its budget allocations are pro-poor in nature, and its record on poverty reduction is among the best in the world. Vietnam has already achieved the first of its Millennium Development Goals – to halve poverty by 2015. This demonstrated commitment to pro-poor growth provides an essential foundation for the strong Development Partnership in Vietnam.

Ownership of the national development agenda beyond government is becoming broader. The Socio-Economic Development Plan 2006-2010 (SEDP) was developed through extensive consultations across Vietnamese society, with stronger participation by the National Assembly than in the past. GoV has made a clear commitment to strengthening grass-roots

democracy, and local communities are able to participate in setting local development priorities. However, there is scope for creating more permanent dialogue structures with civil society, as well as for greater donor assistance to build civil society capacity to engage in the policy process.

There is a well-developed policy dialogue between donors and GoV, which is respectful of country ownership. In place of traditional policy conditionality, donors direct their analytical work and policy advice towards helping Vietnam to achieve its development goals. The Poverty Reduction Support Credit (PRSC) – the general budget support instrument – has evolved into an effective platform for GoV and donors to agree an annual set of policy actions to achieve Vietnam's development goals. The PRSC contains a soft financial incentive, in that disbursements from the World Bank are linked to performance against the previous year's commitments, but does not contain formal policy conditionality. The PRSC process is welcomed by line ministries, who see it as an opportunity to signal their priorities.

Vietnam's capacity to lead on development strategy has improved significantly. Compared to its predecessors, the SEDP is based on a broader knowledge base on poverty in Vietnam, following major investments in surveys and analytical work. The development agenda has been expanded to include new challenges such as environmental protection, and there is now a results framework based on logical results chains. However, there is still some way to go to turn the SEDP into a fully operational strategy. A stronger link between the planning process and the recurrent and capital budgets would improve prioritisation, and create a more solid basis for donor alignment. Work on integrating planning and budgeting is underway through pilot Medium-Term Expenditure Frameworks.

Most donors have aligned their country programmes to the SEDP, or are in the process of doing so. However, alignment at this level is not a very onerous commitment, and has not involved any significant reorientation in donor programmes. Aligning at the sectoral level is a more difficult challenge, which depends on the state of planning and budgeting processes in the sectors, as well as on the quality of engagement by donors. There is significant variation across the sectors on the extent of alignment. In the most advanced sectors, such as education, line ministries have begun to plan their activities against a common resource envelope, which includes both national resources and ODA. This has taken several years of harmonisation and alignment efforts to achieve. In sectors where this has not yet happened, external assistance is still fragmented. For example, the Ministry of Agriculture and Rural Development reports that it has 260 separate aid projects, which makes it difficult to maintain strategic oversight. Most donors have now changed their programming practices, and work closely with their Vietnamese counterparts and other donors to ensure their activities are aligned with GoV strategies and priorities. However, a significant share of ODA to Vietnam is still in the form of stand-alone project aid.

The IMT concludes that the HCS target of 75% of aid delivered in the form of Programme-Based Approaches is a key priority for Vietnam. Donors should ensure that their sectoral assistance is helping to build the policies, systems and capacities that Vietnam will need as it approaches Middle-Income Country (MIC) status.

Since the HCS was adopted, new aid modalities, principally targeted budget support, have been trialled in education, small infrastructure and rural water and sanitation. Directing assistance through the budget offers an effective means of engaging with the challenges of decentralised service delivery. However the experience to date suggests that it is not budget support itself, but the quality of the engagement that accompanies it, that determines impact. Budget support complements, but does not substitute for, intensive policy dialogue, high-quality relationships and well-designed capacity building. Donors that enter into budget support arrangements in the hope of reducing their own transaction costs are likely to be disappointed.

Country leadership of capacity-building assistance continues to present problems in Vietnam. GoV has a number of capacity-building programmes underway, particularly on ODA management, but in general is not providing donors with sufficient guidance on the kinds of support it needs. Many line ministries appear sceptical of the value of foreign technical assistance, and the record of technical assistance procured and managed by line ministries is not particularly encouraging.

Use of Country Systems

Vietnam is committed to establishing a single legal and institutional framework for public investment, covering both ODA and national resources. This is an extremely important objective, given Vietnam's approaching MIC status and its need to access new sources of development finance. Both GoV and donors are living up to their commitments to invest in strengthening country systems for ODA management, and there is an impressive range of legal reform and capacity-building programmes underway. Key achievements have included new regulations on ODA management, a new Procurement Law, common project-management tools, and an extensive, on-going programme of public-financial management reform. The Five Banks and other donors have provided well-coordinated and strategic support to these processes.

So far, however, the record on use of country systems is still quite modest. The 2006 Baseline Survey recorded 33% of ODA using country procurement systems, and only 27% using public financial management systems. Most of this is accounted for by the PRSC and other forms of on-budget support. The IMT noted some clear differences of approach among donors to the use of the country systems.

- i) The development banks have increased their use of programmatic lending, which automatically uses country systems, but are not yet using country systems for invest-

ment loans. Taking a strict reading of the HCS, they recognise an obligation to use country systems only as and when they reach international standards. Until then, they are bound by rules preventing them from compromising on their fiduciary standards.

- ii) There is a group of bilateral donors that now have more permissive rules regarding use of country systems, that enable them to balance the greater development impact and sustainability of using country systems against the potentially higher fiduciary risk. These donors have begun to change their practices for new projects, although they still have a substantial legacy of on-going activities that are proving difficult to change.
- iii) There remain a significant number of bilateral and multi-lateral donors whose rules do not permit use of country systems to any great extent. Under the Baseline Survey, 18 of 34 donors were using country PFM systems for less than 10% of their aid.

Most donors are honouring their commitment not to create parallel structures for aid delivery, or pay additional financial incentives to GoV employees, in respect of new aid projects. A recent EU-UN agreement to align donor and GoV cost norms by 2010 is an important milestone in eliminating parallel project structures. However, donors report resistance from their Vietnamese counterparts to changing management arrangements on existing projects. GoV and donors will need to develop a process for integrating existing projects as quickly as possible, if the HCS targets are to be met.

There are still inconsistencies within Vietnamese legislation on ODA management, and between Vietnam regulations and donor rules, that need to be resolved in order to improve the project implementation rate and facilitate greater use of country systems. There is scope for the Government to improve its management of complex reform processes.

Organising HCS Implementation

Since the adoption of the HCS in 2005, Vietnam and its Development Partners have launched an ambitious set of structures and processes to support its implementation, under the leadership of the Partnership Group on Aid Effectiveness (PGAE). Two years on, implementation has entered into a detailed, technical phase, where progress does not always appear commensurate with the efforts being put in. Some changes to the process are needed to sustain momentum and guard against the danger of fatigue.

There are more than 20 sectoral or thematic Partnership Groups, which vary significantly in composition and function. Some have evolved into effective structures for policy dialogue and strategic coordination; others remain at the level of information sharing. While there is no single model for an effective Partnership Group, line ministries and donors should be jointly accountable to the PGAE for their progress on strengthening their structures and processes. Donor harmonisation in Vietnam works through relatively

informal donor groupings – the Five Banks, the Like-Minded Donor Group, the EU Member States, the UN family – rather than a more structured process such as a joint assistance strategy. Donors are generally well coordinated in their preparation of analytical work and policy advice, and there is an increasing volume of joint programming. However, complementarity and division of labour are not well developed. Joint programming initiatives involving large numbers of donors in areas like education have resulted in complex and sometimes cumbersome management structures. It is likely that considerable efficiency gains could be realised by donors being more selective in their choice of programming areas, and making more use of silent partnerships and lead donor arrangements.

There is a broad consensus that the PGAE needs to be revitalised. The practice of preparing annual aid-effectiveness action plans has fallen away. The PGAE has become drawn into the technical detail of implementation, making it less effective as a forum for promoting mutual accountability. The IMT concludes that mutual accountability would be strengthened by separating political oversight from the technical management of HCS implementation. Technical processes should be entrusted to ad hoc, short-term Thematic Groups. The PGAE itself should focus on developing and overseeing the implementation of an annual HCS Action Plan, focusing on a limited number of genuine strategic priorities. It should ensure that deadlocks and areas of poor performance are referred to the appropriate political authorities for early resolution.

Recommendations

The IMT recommends four priority areas for strengthening aid effectiveness in Vietnam, for inclusion in an annual action plan on HCS implementation.

1. **Building Stronger Sectoral Capacity through Programme-Based Approaches.** Donors and GoV should intensify their efforts to ensure that external assistance fits within a strategic approach to the development of each sector. The form, sequencing and funding modalities will vary in each case, but the goals should include: clear medium-term strategies; strengthening planning and budgeting processes to enable ODA to be programmed jointly with national resources; greater harmonisation and joint programming among donors; clear identification of capacity-building needs and preferred assistance modalities; and commitment to strengthening country systems and using them for ODA delivery. The primary function of the Partnership Groups should be to agree on a strategic approach to developing and implementing PBAs.
2. **Improve Country Leadership of Capacity Building.** GoV needs to place greater priority on diagnosing its own capacity-building needs, developing its capacity-building strategies and providing donors clear guidance on preferred support modalities. GoV and donors should agree on a comprehensive approach to capacity building, as required under the HCS, and on practical measures to

strengthen country leadership of capacity-building support. It is recommended that this issue be addressed in detail in the next round of independent monitoring.

3. **Bring Country Systems up to International Standards.** In the remaining period before Vietnam reaches MIC status, GoV and donors should intensify their efforts to create a common legal and institutional framework for public-investment management, for both ODA and national resources. This would improve project implementation rates, and ensure that capacity developed within ODA projects supports all development expenditure. Donors should make clear commitments to using country systems for ODA delivery once specific reform targets and capacity levels are achieved, based on objective assessment tools. GoV needs to consider whether there is scope to accelerate progress by improving its management of the reform process.
4. **Phase out Parallel PMUs and Additional Financial Incentives.** Parallel ODA structures compromise sustainability and distort resource allocation. Donors need to make a clear commitment, not merely to avoiding parallel structures and financial incentives for new projects, but also to phasing them out for existing projects. This will entail some careful change management, including additional capacity-building support to assist GoV with the integration of existing projects. GoV and donors should jointly develop a road map for accomplishing this.