

Evaluation of General Budget Support – Vietnam Country Report

**A Joint Evaluation
of General Budget
Support 1994-2004**



The Joint Evaluation of General Budget Support is supported and guided by the following organisations and countries, which form its Steering Group:

Bilateral Aid Agencies

Agency for French Development (AFD)	Australian Agency for International Development (AusAID)	Canadian International Development Agency (CIDA)
Department for International Development, United Kingdom (DFID)	Development Cooperation, Ireland (DCI)	Federal Ministry for Economic Cooperation and Development, Germany
Federal Public Service Foreign Affairs, Belgium	Japan Bank for International Cooperation (JBIC)	Japan International Cooperation Agency (JICA)
Ministry of Foreign Affairs, Japan (MOFA)	Ministry of Foreign Affairs, Netherlands	Ministry of Foreign Affairs, Spain
New Zealand Agency for International Development (NZAID)	Norwegian Agency for Development Cooperation (Norad)	Portuguese Development Cooperation
Royal Danish Ministry of Foreign Affairs	State Secretariat for Economic Affairs, Switzerland (SECO)	Swedish International Development Cooperation Agency (Sida)
United States Agency for International Development (USAID)		

Multilateral Aid Agencies

EuropeAid, European Commission	Inter American Development Bank, IADB	International Monetary Fund (IMF)
Organisation for Economic Co-operation and Development (OECD), DAC	The World Bank	

Governments

Burkina Faso	Malawi
Mozambique	Nicaragua
Rwanda	Uganda
Vietnam	

JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004

Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam



Vietnam Country Report



May 2006



Ann Bartholomew

Robert Leurs

Adam McCarty



Development
Researchers'
Network



International Development Department
School of Public Policy
University of Birmingham
Edgbaston
Birmingham B15 2TT, U.K.
Tel: +44 (0) 121 414 5009
Fax: +44 (0) 121 414 7995
Website: www.idd.bham.ac.uk

Study contacts

Country Team Leader:

Ann Bartholomew – annb@mokoro.co.uk

Study Coordinator:

Rebecca Carter – R.L.Carter@bham.ac.uk

PREFACE

The Joint Evaluation of General Budget Support (GBS) was commissioned by a consortium of donor agencies and 7 partner Governments* under the auspices of the DAC Network on Development Evaluation. The evaluation followed a DFID GBS Evaluability Study which established an Evaluation Framework for GBS. This framework was agreed with DAC Network members in 2003. A Steering Group (SG) and Management Group (MG), both chaired by DFID, were established to coordinate the evaluation. The study was carried out by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The purpose of the evaluation was to assess to what extent, and under what circumstances, GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation identifies evidence, good practice, lessons learned and recommendations for future policies and operations.

This report is one of 7 country level evaluations (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam). Fieldwork took place between October-December 2004 and May-July 2005.

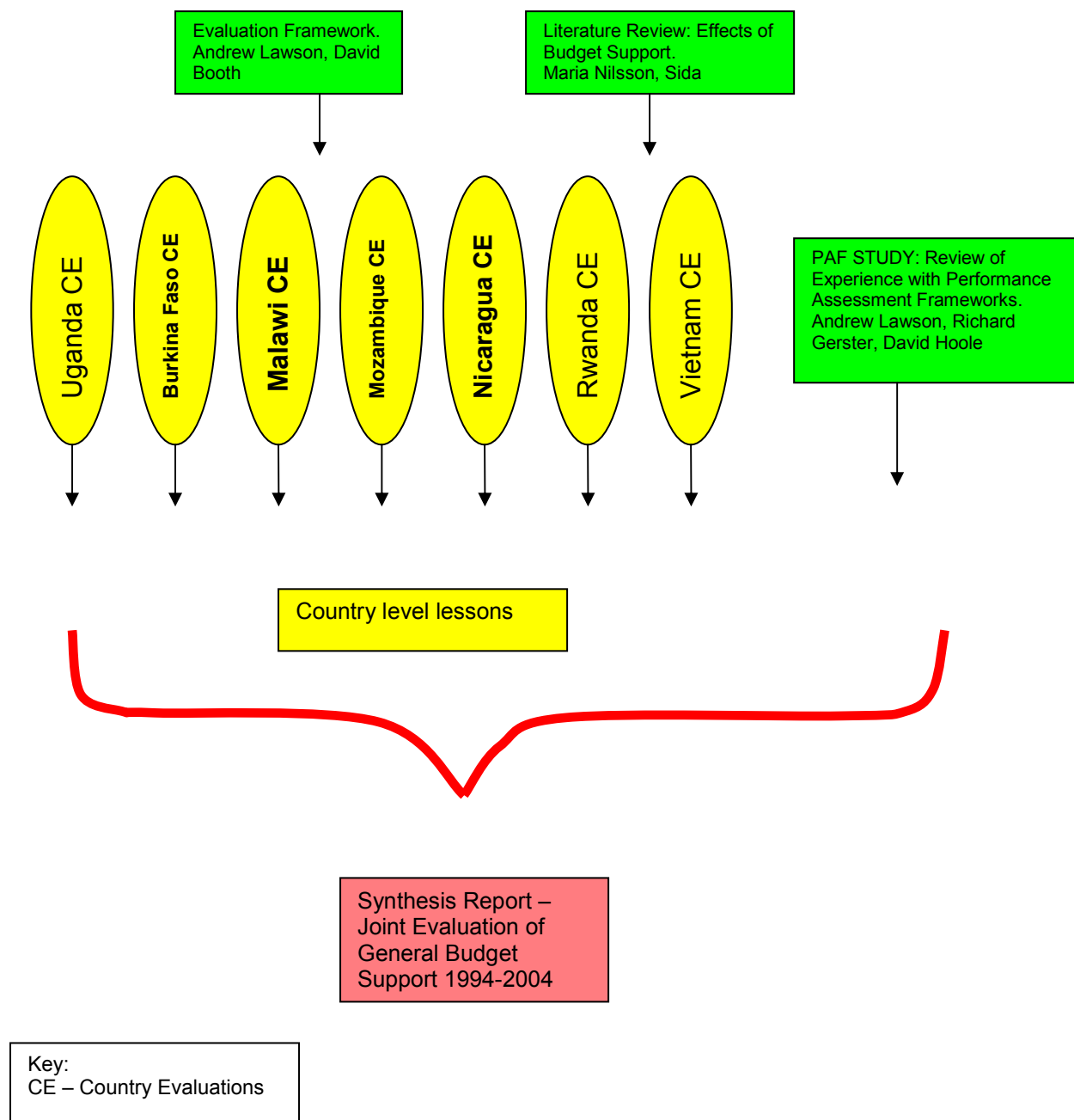
This report represents the views of its authors and not necessarily the views of the Steering Group or its members.

*The consortium comprised the Governments of Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Japan, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and USA, plus the European Commission (EC), the Japan Bank for International Cooperation (JBIC) and the Inter American Development Bank (IADB), the IMF, OECD/DAC and the World Bank. The evaluation was undertaken in collaboration with the Governments of Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam, who were also members of the SG. The study was designed to interact closely with aid agencies and with government and other stakeholders at country level. There were government and donor contact points in each country.

Joint Evaluation of General Budget Support 1994-2004

The Evaluation Framework, Literature Review and PAF Study were contracted separately. The remaining reports were authored by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The diagram below shows how the reports in this series fit together:



A Management Group (MG) led the process:

Kate Tench, (Chair) DFID
Alexandra Chambel-Figueiredo, European Commission
Nele Degraeuwe, Belgian Technical Cooperation
Martin van der Linde, Consultant to the Netherlands Ministry of Foreign Affairs
Bob Napier, DFID

We are grateful for the contributions of former MG members:

True Schedvin, EuropeAid, European Commission
Susanna Lundstrom, Sida, Sweden
Fred van der Kraaij, IOB, Netherlands
Joe Reid, DFID

Any enquiries about this evaluation should be addressed to:

Publications Officer
Evaluation Department
Department for International Development
Abercrombie House
East Kilbride
Glasgow
G75 8EA

Email: ev-dept@dfid.gov.uk
Tel: +44(0)1355 843387
Fax: +44(0)1355 843642

Further reports can be obtained from the DFID website at :

<http://www.dfid.gov.uk/aboutdfid/performance/evaluation-news.asp>

or from the OECD/DAC website at :

www.oecd.org/dac/evaluation

Nick York
Head of DFID Evaluation Department and
Chair of Joint Evaluation of GBS Steering Group

Joint Evaluation of General Budget Support

VIETNAM COUNTRY REPORT

Contents

Abbreviations and Acronyms	vi
Acknowledgements	ix
Currency, Exchange Rate and Fiscal Year	ix
EXECUTIVE SUMMARY	S1
PART A: CONTEXT/DESCRIPTION	1
A1. Introduction and Conceptual Framework	1
Introduction	1
Objectives and Approach to the Evaluation	1
What is General Budget Support?	1
Purpose and Focus of the Evaluation	2
Evaluation Methodology	2
Country Report Structure	4
The Evaluation in Vietnam	5
A2. The Context for Budget Support in Vietnam	7
Overview	7
Poverty Reduction Strategy	7
Macroeconomic Management	8
Public Finance Management	8
Governance	8
Aid Flows	9
A3. The Evolution of Partnership GBS in Vietnam	11
Introduction	11
Aid Modalities	11
Developments in Aid Management and Coordination	13
Origins of PGBS in Vietnam	16
Donor Readiness for GBS	16
Government's Perspectives and Readiness	16
PART B: EVALUATION QUESTIONS: ANALYSIS AND MAIN FINDINGS	19
B1. The Relevance of Partnership GBS	19
Introduction	19
Relevant Facts: The Design of PGBS	19
Objectives and Intent of PGBS	19
Level and Nature of PGBS Funding	20
Policy Dialogue and Conditionality	20
Harmonisation and Alignment Inputs of PGBS	21
PGBS TA and Capacity Building	22
Assessment against Evaluation Criteria	22
Relevance to the Context	22
Dialogue, Conditionality and Ownership	23
Poverty Orientation	25
Coherence and Consistency of the Design	25
Response to Previous Weaknesses in Aid Management	26
Principal Causality Chains	26
Counterfactual	27

B2. The Effects of Partnership GBS on Harmonisation and Alignment	29
Introduction	29
Relevant Facts: Harmonisation and Alignment	29
Assessment against Evaluation Criteria	30
Policy Alignment	30
Government Leadership	31
Alignment with Government Systems	31
Government planning and budget cycles	31
Government implementation systems	32
Harmonisation among Donors and Modalities	33
Principal Causality Chains	34
Counterfactual	34
B3. The Effects of Partnership GBS on Public Expenditures	35
Introduction	35
Relevant Facts: Trends in Public Expenditure	35
Assessment against Evaluation Criteria	37
Influence on Expenditure Allocation	37
Discretionary Expenditure	38
Predictability	38
Efficiency of Expenditure	39
Transaction Costs	39
Principal Causality Chains	39
Counterfactual	40
B4. The Effects of Partnership GBS on Planning and Budgeting Systems	41
Introduction	41
Relevant Facts: Planning and Budgeting Systems in Vietnam	41
Assessment against Evaluation Criteria	43
Systemic Effects on the Budget Process	43
Ownership	43
Accountability	43
Durability	44
Capacity Development	44
Principal Causality Chains	44
Counterfactual	45
B5. The Effects of Partnership GBS on Policies and Policy Processes	47
Introduction	47
Relevant Facts: Policy-Making in Vietnam	47
Assessment against Evaluation Criteria	49
Influence on Reform Process	49
Ownership and effectiveness	49
Participation	51
Learning	51
Influence on Policy Content	52
Public and private sectors	52
Sector policies	53
Principal Causality Chains	53
Counterfactual	53
B6. The Effects of Partnership GBS on Macroeconomic Performance	55
Introduction	55
Relevant Facts: Macroeconomic Performance	55
Assessment against Evaluation Criteria	56
Macroeconomic Effects	56
Fiscal discipline and macroeconomic stability	56
Cost of budget finance	57
Private investment	57
Domestic revenue	58

Facilitating Institutional Change	58
Principal Causality Chains	58
Counterfactual	59
B7. The Effects of Partnership GBS on the Delivery of Public Services	61
Introduction	61
Relevant Facts: Service Delivery in Education and Health	61
Assessment against Evaluation Criteria	62
Pro-Poor Public Service Delivery	62
Capacity and Responsiveness of Service Delivery Institutions	63
Principal Causality Chains	64
Counterfactual	64
B8. The Effects of Partnership GBS on Poverty Reduction	65
Introduction	65
Relevant Facts: Poverty Reduction	65
Assessment against Evaluation Criteria	66
Basic Services for the Poor	66
Income Poverty	67
Empowerment	68
Principal Causality Chains	69
Counterfactual	70
B9. The Sustainability of Partnership GBS	71
Introduction	71
Relevant Facts: Sustainability of PGBS	71
Assessment against Evaluation Criteria	72
Shared Learning between Government and Donors	72
Comprehensive and Effective Review and Adjustment	73
Feedback to Stakeholders	74
Principal Causality Chains	74
Counterfactual	74
PART C: CROSS-CUTTING ISSUES	77
C1. Cross-Cutting Policy Issues	77
Introduction	77
Gender	77
HIV/AIDS	78
Environment	79
Democracy and Human Rights	80
C2. Public and Private Sector Issues	81
Introduction	81
GOV Policies on Growth and Private Sector	81
PRSC Influence	81
C3. Government Capacity and Capacity Building	83
Capacity Building	83
Decentralisation	83
C4. Quality of Partnership	85
Introduction	85
Ownership and Conditionality	85
Interplay between Aid Modalities	86
Transaction Costs	86
C5. Political Governance and Corruption	89
Governance	89
Corruption	89

Overall Conclusion	90
PART D: SYNTHESIS – OVERALL CONCLUSIONS AND RECOMMENDATION	91
D1. Overall Assessment of PGBS in Vietnam	91
Introduction	91
Overall Conclusion	91
Summary of Causality Findings	91
Strengths of PGBS	92
Weaknesses and Challenges	93
The Counterfactual	95
D2. PGBS in Vietnam – Future Prospects	97
Introduction	97
Move to Other Budget Support Modalities	97
Decentralisation	97
Incorporation of the CPRGS into the Five-year Socio-Economic Development Plan	97
Accession to MIC Status	98
Scaling-up and Aid Effectiveness	98
PRSC Poverty Focus	99
D3. Summary of Conclusions and Recommendations	101
High Priority	101
Medium Priority	101
Lower Priority	101
Bibliography	113
 Figures	
Figure A1.1: Causality Map for the Enhanced Evaluation Framework	3
Figure A2.1: Annual ODA Disbursements: 1993–2003	10
 Boxes	
Box A1.1: Structure of the Country Report	4
Box A3.1: The Experience of Programme-Based Lending in Vietnam in the 1990s	12
Box A3.2: The AsDB Experience of Programme Lending	12
Box A3.3: Chronology of Key Events	14
Box B3.1: Definition and Tracking of Pro-Poor Expenditure	36
Box B4.1: Proposed Policy Actions Relating to the Budget Process in PRSCs 4 and 5	42
Box B5.1: Constraints to Engaging In Policy Dialogue with Government	48
 Tables	
Table D3.1: Summary of Findings, Conclusions and Recommendations	103

List of Annexes

Annex 1: Approach and Methods	123
Annex 1A: Summary of the Evaluation Methodology	123
Annex 1B: Note on Approach and Methods adopted in Vietnam	131
Annex 2: Country Background	135
Annex 2A: Basic Country Data	135
Annex 2B: Public Expenditure Data	141
Annex 3: Aid to Vietnam	145
Annex 3A: Aid Data	145
Annex 3B: Inventory of GBS and Related Programmes	149
Annex 3C: Donor Involvement with PRSC Issues	157
Annex 3D: The Policy Matrix for the PRSC Programmes 1–5	159
Annex 3E: The Triggers for the PRSC Programmes 1–4	171
Annex 4: Public Finance Management in Vietnam	175
Annex 5: Summary of Causality Findings	185

Abbreviations and Acronyms

5MHRP	5 Million Hectare Reforestation Programme
AAP	Assessment and Action Plan (HIPC)
AFD	Agence Française de Développement (French Development Agency)
AFTA	Asean Free Trade Area
AsDB	Asian Development Bank
ASEAN	Association of South East Asian Nations
BS	budget support
CAS	Country Assistance Strategy
CB	capacity building
CCBP	Comprehensive Capacity Building Plan
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CIDA	Canadian International Development Agency
CPAR	Country Procurement Assessment Report
CPIA	Country Policy and Institutional Assessment
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CPV	Communist Party of Vietnam
DAC	Development Assistance Committee
DAF	Development Assistance Fund
Danida	Danish International Development Agency
DFID	Department of International Development
DONRE	Department of Natural Resources and the Environment
EC	European Commission
EEF	Enhanced Evaluation Framework
EF	Evaluation Framework
EFA	Education for All
EIA	environmental impact assessment
EIU	Economist Intelligence Unit
ESAF	Enhanced Structural Adjustment Facility
EVN	Electricity of Vietnam
FDI	foreign direct investment
IR	Inception Report
FMP	Financial Modernisation Programme
FSSP	Forestry Sector Support Programme
FSSP&P	Forestry Sector Support Programme and Partnership
FY	financial year
GBS	General Budget Support
GC	General Corporations
GDP	gross domestic product
GFS	Governance Finance Statistics (IMF)
GOV	Government of Vietnam
H&A	harmonisation and alignment
HCFP	Health Care Fund for the Poor
HEPR	Hunger Eradication and Poverty Reduction

HIPC	Heavily Indebted Poor Countries
IAS	International Accounting Standard
IDA	International Development Association (World Bank)
IDD	International Development Department (University of Birmingham)
IFS	International Financial Statistics
ILO	International Labour Organization
IMF	International Monetary Fund
IP	international partner
I-PRSP	Interim Poverty Reduction Strategy Paper
JBIC	Japan Bank for International Cooperation
JC	job creation
JSB	joint stock bank
KfW	German Development Bank (<i>Kreditanstalt für Wiederaufbau</i>)
LMDG	Like Minded Donor Group
MARD	Ministry of Agriculture and Rural Development
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund
MIC	middle-income country
MOA	memorandum of agreement
MOC	Ministry of Construction
MOF	Ministry of Finance
MOLISA	Ministry of Labour, Invalids and Social Affairs
MOT	Ministry of Transport
MPI	Ministry of Planning and Investment
MTEF	Medium Term Expenditure Framework
NCFAW	National Council for the Advancement of Women
NGO	non-governmental organisation
NOIP	National Office of Industrial Property
NPL	non-performing loan
NTP	National Target Programme
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OSS	one-stop shop
PAR	Public Administration Reform
PEFA	Public Expenditure and Financial Accountability
PER-IFA	Public Expenditure Review and Integrated Fiduciary Assessment
PFM	public finance management
PFMR	Public Financial Management Reform
PGBS	Partnership General Budget Support
PGAE	Partnership Group on Aid Effectiveness
PIP	Public Investment Programme
PRGF	Poverty Reduction and Growth Facility
Programme 135	Programme for Socio-Economic Development in the Specially Difficult Communes
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Assessment
PTF	Poverty Task Force

PWG	Poverty Working Group
QR	quantitative restriction
SAC	Structural Adjustment Credit
SBV	State Bank of Vietnam
SEDP	Socio-Economic Development Plan
Sida	Swedish International Development Cooperation Agency
SOCB	state-owned commercial bank
SOE	state-owned enterprise
SPS	sanitary and phytosanitary
SWAp	sector wide approach
TA	technical assistance
TABMIS	Treasury and Budget Management Information System
UK	United Kingdom
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
USA	United States of America
USAID	US Agency for International Development
USBTA	US—Vietnam Bilateral Trade Agreement
VBSP	Vietnam Bank for Social Policies
VDGs	Vietnam Development Goals
VLSS	Vietnam Living Standards Survey
VND	Vietnamese Dong
WB	World Bank
WTO	World Trade Organization

Acknowledgements

The evaluation team would like to express their gratitude for all the assistance provided by the Ministry of Planning and Investment, DFID Hanoi and the in-country steering group (DFID, EC, Sida and the Netherlands). Also, to all those stakeholders in other ministries and government departments, and international partners who provided valuable input to the study in meetings with the team and workshops.

Further thanks are extended to Brian Van Arkadie and Mary Scott for valuable contributions and insights during the field visits and report drafting.

Findings and opinions in this report are those of the evaluation team and should not be ascribed to any of the agencies that sponsored the study.

Currency, Exchange Rate and Fiscal Year

Currency	Vietnamese Dong (VND)
Exchange Rates	1 USD = VND 15,908.0 1 EUR = VND 19,107.9 (source: Financial Times 6 March 2006)
Fiscal Year	Calendar Year

EXECUTIVE SUMMARY

Part A: Context and Description of PGBS

Introduction and Conceptual Framework

S1. Vietnam is one of the seven case studies in a joint evaluation of General Budget Support (GBS). The finance in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance (TA) and capacity building, and efforts at harmonisation and alignment by the GBS donors. Other forms of programme aid, including debt relief and balance of payments support, may also be considered as budget support when they generate resources that can be used to finance the government budget, but this evaluation concentrates on so-called “new” or “Partnership” GBS (PGBS). This focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions.

S2. Although the evaluation focuses on PGBS, it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. The purpose of the evaluation is to assess to what extent, and under what circumstances, PGBS is efficient and effective for achieving sustainable impacts on poverty reduction and growth. The Vietnam study followed the same methodology as the other country cases. This is fully set out in the Inception Report approved by the Steering Committee for the study, and involves working through “levels of analysis” from the entry conditions at the point that PGBS was adopted, to the inputs made by PGBS, their immediate effects, output, outcomes and impacts on poverty reduction.

S3. The main benefits from PGBS are expected to derive from reinforcing countries’ ownership, enhancing the performance and accountability of partner governments’ public finance management (PFM) systems, minimising transaction costs and increasing the predictability of resources and reducing volatility (OECD DAC 2005a). This study examines these themes as well as assessing the extent to which other effects occur, such as increased harmonisation and alignment, strengthening of policy and processes, supporting macroeconomic stability and increasing the efficiency and effectiveness of service delivery.

The Context for Budget Support in Vietnam

S4. The first step towards the use of PGBS began with the development by the Government of Vietnam (GOV) of an Interim Poverty Reduction Strategy Paper (I-PRSP), which entailed a participatory consultation (national, sub-national and community level) on the contents of the strategy. Following approval of the I-PRSP in 2001, an International Monetary Fund (IMF) Poverty Reduction and Growth Facility (PRGF) arrangement and the first World Bank Poverty Reduction Support Credit (PRSC) were agreed, with which a more partnership-oriented approach to GBS began. The full Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was completed in 2002.

S5. PGBS in the form of the PRSC started in 2001 before the CPRGS was finalised and is now in its fourth operation. The PRSC provides funding for the GOV reform programme, while related projects and programmes provide the TA and further funding to support implementation.

S6. PRSC1 totalled USD 250m in funding from the World Bank and USD 22.6m in co-financing. The amount involved in PRSC2 was lower at USD 100m from the World Bank and USD 40m from co-financiers, while in PRSC3 the World Bank provided USD 100m and co-funding equalled USD 57m. For PRSC4, USD 100m has been committed by the World Bank

and USD 125m by co-financiers. This represents around 7.5% to 10% of Official Development Assistance (ODA).

S7. In addition, various other forms of GBS have been used in the past with the objective of supporting the GOV reform programme. The World Bank Structural Adjustment Credit (SAC) 1 ran from 1994–2000, but only a small percentage of funds were disbursed. The Asian Development Bank (AsDB) funded two quick-disbursing loans which, although they were rated as effective in subsequent evaluations, experienced disbursement problems due to failure to adhere to conditionality.

S8. In 1994 the IMF put in place a three-year arrangement under the Enhanced Structural Adjustment Facility (ESAF). Under this arrangement, two mid-term reviews were completed broadly as scheduled, but the programme went off-track thereafter. Agreement could not be reached on a third annual arrangement, and the programme expired in 1997. A similar problem occurred with the IMF PRGF which was suspended in 2002 as both sides could not agree on safeguard measures and it expired in 2004. The Japan Bank for International Cooperation (JBIC) also gave quick-disbursing support in the form of the New Miyazawa Initiative which was aimed at alleviating the impacts of the Asian crisis by promoting economic reform and encouraging the development of the private sector.

S9. The design of PGBS, and the PRSC in particular, has been influenced by the experience of these previous forms of GBS and the problems which resulted from conditionality and attempting to impose policies that had not been approved through the consensus-based decision-making process. As a result, the PRSC has been based on the government's own reform programme and conditionality has been replaced by "triggers" which are used to decide the level of annual PRSC lending and verify that the overall reform process is moving forward.

The Evolution of Partnership GBS in Vietnam

S10. The World Bank-led PRSC began with PRSC1 in 2001; continued with PRSC2 in 2003; and PRSC3 in 2004. PRSCs 4–5 have recently been negotiated. Funding provided through the PRSC is aimed at supporting the CPRGS and the government reform programme. A policy matrix outlines the policy actions that the government agrees to take and a series of triggers are used by the World Bank to evaluate whether they have been met. The policy matrix consists of three pillars. Pillar 1 includes policy actions relating to the transition to a market economy; Pillar 2 social exclusion and environmental sustainability; and Pillar 3 modern governance. Initially PRSC1 was a Structural Adjustment Credit (SAC) style of loan, but as the PRSC has evolved, further pillars were added and its scope was increased. The number of IPs co-financing the PRSC has increased from four in PRSC1 to seven in PRSC3, and 11 in PRSC4.

S11. Funds are disbursed directly to the State Bank of Vietnam via a trust fund and are channelled to the state budget and are unearmarked. For the World Bank, the PRSC is on highly concessional loan terms. Depending on the assessment of the speed of reforms being implemented, the World Bank can disburse at low, base or high-case scenarios (PRSCs 1–3 have all been base-case lending). Co-financiers provide non-reimbursable grants or parallel credits on their own concessional terms.

Part B: Analysis of PGBS

Relevance of Partnership GBS

S12. The GOV was considered eligible for PGBS as it already had a good record on poverty reduction and a strong track record on macroeconomic management. Between 1993 and 2002 the number of people below the poverty line fell from 53% to 29%. This occurred through

economic growth stimulated by “Doi Moi” reforms which began liberalising the economy, while the government also established targeted poverty programmes aimed at poverty alleviation in the poorest areas and communes. This gave international partners (IPs) confidence in the GOV’s ability to manage the economy and implement structural reform with a continued focus on economic growth and poverty reduction.

S13. The PRSC itself is organised into three pillars which are drawn from the CPRGS and reflect CPRGS objectives and priorities which are aimed at poverty reduction. The policy actions included within these pillars are designed to reinforce the implementation of policies that are part of the GOV reform programme. The PRSC is designed to provide an additional incentive to undertake these reforms through the provision of funding and policy dialogue to support the design of reforms.

S14. The PRSC is based on a two-year cycle with discussion and negotiation of the actions to be included in the PRSC policy matrix undertaken the year before the credit is disbursed. The policy actions included in the matrix then have to be undertaken prior to the disbursement of the credit. Not all of the policy actions in the policy matrix are used to judge progress on implementation. A sub-set of policy actions, usually around 12, are used as indicators of progress and are called triggers. Progress towards meeting these triggers is used to decide the level of World Bank lending for the next annual PRSC. They are rated as either satisfactory, highly satisfactory or partially satisfactory and are used to decide whether lending should be high-case, base-case or low-case lending.

S15. The design of the PRSC is appropriate to the Vietnamese context as programme lending with strict conditionality has not worked in the past. The PRSC triggers reflect this experience as they are based on policy actions agreed with the GOV rather than imposed, which are drawn from the GOV’s own reform programme. This means that there is GOV ownership of policy and policy dialogue is focused on the “how” rather than the “what” – influencing the *implementation* of policies rather than introducing new ones.

Effects on Harmonisation and Alignment

S16. In Vietnam there has been a variety of harmonisation and alignment initiatives, but progress has been slower than anticipated and has focused more on harmonising procedures and alignment with government policy, rather than aligning with government systems. The incentive to engage in this process originated from the need to resolve the disbursement problems presented by projects, the influence of “good practice” in aid management initiatives and an acknowledgement of the benefits of collaboration in a congested aid market.

S17. The PRSC has provided a mechanism through which alignment with GOV policy and systems can occur in practice, although there appears to have been less impact on harmonisation. There is evidence of increasing alignment to government policy and systems through the PRSC, as well as through the provision of a common policy framework for IPs to work within. This has increased IP coordination as more co-financiers have joined the PRSC, while IPs can participate in the policy matrix discussions regardless of whether they are a co-financier. It is unlikely that this would have occurred through previous forms of programme aid: although they used GOV systems, they did not result in policy alignment as they were not owned by the GOV and did not provide a coherent policy framework within which IPs could work.

Effects on Public Expenditure

S18. The term pro-poor expenditure is frequently used in Vietnam but is rarely defined and is often used in the context of pro-poor growth policies. According to the IMF (2004a) pro-poor

expenditure in Vietnam will involve the following three elements: i) reorientation of government spending towards social sectors, basic infrastructure and other activities that benefit the poor; ii) improvement in the efficiency and targeting of spending in sectors relevant to growth and poverty reduction; and iii) tax reforms that improve both efficiency and equity. According to this definition, the share of total government expenditure devoted to pro-poor spending has increased in recent years with the education sector experiencing an increase from 8.29% of total budget expenditure in 1994 to 17.5% in 2004. The share of health has declined slightly from 4.2% to 3.7% of total expenditure, although as overall total public expenditure has risen considerably, this still represents a large increase in absolute terms.

S19. This effect will have been reinforced by some of the “pro-poor” policy actions in the PRSC which need significant financial support for implementation, such as the Health Care Fund for the Poor (HCFP) and increasing funds for education. Therefore, additional PRSC funding allows the GOV to undertake these initiatives which might otherwise be a considerable burden on the budget.

S20. The PRSC represents an additional amount of funding for the state budget. This has had an influence on the costs of financing the budget. PRSC funding was equal to 16.4% of the overall fiscal deficit (excluding net lending) in 2001, 18.7% in 2002, 18.8% in 2003 and 43.0% in 2004. Given that the PRSC represents concessionary financing these funds would have lowered budget financing costs.

Effects on Planning and Budgeting Systems

S21. The budget process has always been owned by the GOV and until recently there was little transparency in budget planning. Various PRSC policy actions have been aimed at reforming the budget process by clarifying powers and responsibilities and strengthening transparency and accountability in public finance management. These have been reinforced by complementary non-PGBS programmes, such as the Public Financial Management Reform (PFMR) initiative.

S22. The PRSC also brings ODA funds on-budget, which enhances GOV ownership and control of the budgetary process. There was considered to be a moderate link between PGBS activities and increased operational efficiency of PFM systems, while there was a weaker link with increased allocative efficiency as many initiatives targeted at this area are reasonably recent and the impact has yet to be seen. However, although there has been much progress in the budgeting process, there has been less transformation in the planning process.

Effects on Policies and Policy Processes

S23. Influencing policy processes is difficult due to real and protected ownership in Vietnam, which is reflected in the opaque nature of institutional policy-making processes. For this reason there has been little influence of PGBS on policy-making processes. Influencing policy content is an area that has had some success due to a variety of factors. An already well-established framework for policy dialogue between IPs and the GOV existed due to the CPRGS process, and the PRSC working groups have been able to continue this. The GOV has always appreciated policy advice and has been willing to listen to different points of view and adopt best practice where appropriate. The division of labour in terms of sharing expertise among PRSC co-financiers means that the IP with the most experience in a particular sector has led the associated PRSC working group and used contacts within GOV brought from their experience of working through project modalities. This has resulted in some IP participation in the development of regulatory frameworks and sector policy.

Effects on Macroeconomic Performance

S24. The GOV has a good record on macroeconomic stability and fiscal discipline. Controlling inflation and the budget deficit have been GOV policy priorities since the early 1990s and fiscal stability was achieved before significant ODA. Macroeconomic stability would probably have been maintained regardless of these additional financial inflows and PGBS funds. This is evidenced by GOV targets relating to the budget deficit and other macroeconomic variables that suggest an ongoing commitment to fiscal discipline. However, one role that PGBS does play is to keep the macroeconomic reform programme on track and PGBS funding provides an incentive to do this.

Effects on the Delivery of Public Services

S25. The effects of PGBS on service delivery in health and education in particular have been moderate as the PRSC has included a variety of policy actions aimed at increasing the efficiency and effectiveness of pro-poor service delivery. All these policy actions should increase efficiency, but as most of them are in PRSCs 3–5, it is too early to judge their effectiveness, particularly in health. However, in the future the impacts of PGBS on both efficiency and effectiveness could potentially be strong as there is a significant amount of PGBS work being undertaken in both these sectors.

Effects on Poverty Reduction

S26. The GOV has a good track record on poverty reduction, which resulted from the economic reform process which significantly increased economic growth. Other significant factors underlying indirect and direct public poverty reduction initiatives include the rapidly increasing volume of public spending, the various progressive pro-poor distribution formulas for public expenditure and the national targeted poverty programmes.

S27. PGBS has supported this process, through increasing the use of health and education services by poor groups, while the PRSC has had a strong focus on the macroeconomic environment. Pillar 1 supports the transition to a market economy through a structural reform agenda which should increase economic growth and therefore continue to reduce poverty. This reflects the general consensus regarding the relative importance of economic growth for poverty reduction in Vietnam.

S28. The link between PGBS and improving the empowerment of poor people is weaker. The administration of justice has not been effectively addressed through this process, although greater participation and accountability of the government has been achieved to a moderate degree. Democratic accountability and human rights have not been included due to the unwillingness of GOV to engage with IPs on these issues.

The Sustainability of PGBS

S29. The PRSC has clearly evolved over its three cycles and the way in which it has changed has reflected the concerns and interests of the co-financiers as new IPs join and flaws in the original design are acknowledged. Coordination is now more of a challenge as the number of co-financiers has increased and some IPs perceive that co-financing the PRSC is a way in which they can further their individual agendas. Thus far, it seems that the design of the PRSC has been sufficiently flexible to not only evolve over time, but also accommodate most IPs' concerns. Despite recent disquiet on the part of some IPs regarding the timetable for consultation and content of the PRSC, the programme appears to be sufficiently robust to resolve these issues. The stock-take undertaken by the World Bank in 2005 shows a willingness to build on lessons learned.

S30. Vietnam's accession to middle-income status, which may be as soon as 2010, may have consequences for the PRSC. This will mean that PRSC financing can no longer be provided through soft loans and as a result the GOV may find borrowing on external markets a more attractive option, rather than going through the comparatively time-consuming process of negotiating a PRSC.

Part C: Cross-Cutting Issues

S31. Cross-cutting issues have traditionally been addressed through the framework of partnership working groups which were established as part of the CPRGS process. These have had varying degrees of success which are often directly related to government involvement in these groups. Prior to this, other mechanisms for budget support (BS) such as the SAC and PRGF were solely focused on economic reform while issues such as gender and the environment were addressed through projects.

Policy CCIs

S32. Gender, the environment and HIV/AIDS have been specifically included within the PRSC process with varying success. The PRSC policy actions relating to the environment have been the most successful and, to a lesser extent, HIV/AIDS initiatives have experienced some success as both have resulted in strategic frameworks being developed. Gender dropped out of the policy matrix after PRSC1 policy actions were unsuccessfully implemented and has been re-included in PRSC5.

Public and Private Sector Issues

S33. One of the main aims of the reform programme, and hence the PRSC, has been to support moves to a more liberalised competitive economy, which involved a stronger role for the private sector and less government intervention. Progress has been made in moving towards trade liberalisation and World Trade Organization (WTO) accession and various initiatives have been put in place to level the playing field for private companies through the establishment of laws and regulatory frameworks. State-owned enterprise (SOE) and financial sector reform have made less progress even though a substantial number of policy actions have focused on these two areas. Nevertheless, progress has been made in other areas of Pillar 1, particularly those relating to trade liberalisation and the private sector.

Government Capacity and Capacity Building

S34. Weaknesses in government capacity have not been addressed through PGBS as TA and capacity building is not included within the PRSC, but through complementary activities. However, there have been PGBS policy actions aimed at strengthening GOV systems and decentralisation has been included with various policy actions aimed to strengthen and harmonise regulatory frameworks at the provincial level.

Quality of Partnership

S35. There is strong government ownership of policy and the reform programme. The CPRGS process was generally acknowledged to be owned by government, which provided the basis for the PRSC policy matrix, while the intention to use the GOV's own Socio-Economic Development Plan (SEDP) instead of the CPRGS for the PRSC 6–10 cycle will strengthen ownership further. Strong government ownership has influenced the design of the PGBS with “triggers” that represent a soft form of conditionality and allow for judgement in their appraisal rather than a strict quantitative analysis. There are differences in perception of the triggers with IPs seeing them more as a method of monitoring progress in the reform programme and GOV perceiving them as conditions, although they acknowledge that they are not as stringent as in the pre-PGBS era. Overall evidence indicated that the PRSC approach incorporated many aspects of

the partnership PGBS approach which represented a fundamental difference from previous BS modalities.

S36. The PRSC uses government systems to disburse funds, which represents a fall in the transaction costs for government in terms of not having to use multiple procedures. This means that transaction costs are reduced throughout the project implementation cycle, as there is no necessity to use parallel systems which differ from those of the government. However, there are transaction costs of negotiation but it is still likely that these are less than if negotiations took place with individual IPs. As around 10% of ODA is now flowing through the PRSC this should represent a significant gain for government through the subsequent reduction in transaction costs.

Political Governance and Corruption

S37. Vietnam has a one-party system and as such is not a pluralist democracy, although recently the GOV has been more responsive to calls for more accountability. PRSC policy actions have aimed at improving the transparency of budget systems, access to information and strengthening of systems which reinforce democratic accountability as a whole.

S38. The two main concerns regarding corruption that relate to PGBS are that first, failure to curb corruption could result in the benefits of economic growth accruing to elite sections of society rather than being distributed more equally, which would also undermine the poverty reduction focus of the reform programme. The second is the fiduciary risk element of using GOV systems to channel PRSC funds which may result in leakage if there are not appropriate mechanisms for financial oversight put in place. Anti-corruption measures were included in PRSC3 onwards, but it is too soon to discern whether there is the political will to address these issues.

S39. Fiduciary risk involved in PGBS was addressed prior to the introduction of the PRSC and has been on-going through initiatives to strengthen PFM systems. By the time the PRSC began, fiduciary risk was considered to be at an acceptable level in Vietnam. A certain amount of leakage is acknowledged to occur from projects; it appears reasonable to believe that this will be no more or even less from the PRSC. Overall, the PRSC is providing a mechanism to coordinate IP support for anti-corruption measures and reduce fiduciary risk which means that the PRSC is dealing with GOV corruption directly, rather than seeking to bypass it.

Part D: Synthesis – Overall Conclusions and Recommendations

Overall Assessment of PGBS in Vietnam

S40. The broad conclusion of the evaluation was that the PRSC in Vietnam represented a successful example of government–donor collaboration, of learning from experience and of achievement of objectives. Given the GOV's good record on poverty reduction, providing the GOV with additional funding through PGBS would also seem to be an efficient and effective way to support poverty reduction.

S41. The main effects of the PRSC were found to be from all three main flows of PGBS (funds, institutions and policy) with a strong effect on the policy side, which is not surprising given that PGBS is designed to support the GOV reform programme, through strengthening policies and implementation.

S42. In terms of the evaluation framework, there were strong effects at Level 1 inputs to Level 3 outputs, but after this point the linkages become less clear at Level 4 outcomes and Level 5 impacts. At Level 4 there was a moderate link to pro-poor service delivery and

appropriate private sector regulatory policies leading to a more conducive growth-enhancing environment. This is then likely to have some impact at Level 5 on income and non-income poverty, although there is not sufficient evidence to link this to a specific PGBS effect with any certainty. This is because the PGBS measures on service delivery are relatively recent and the effects of many policy actions are yet to feed through and become clearer, particularly those relating to sector policies and expenditure frameworks which were introduced in later PRSC cycles.

S43. The causality analysis indicates some of the positive outcomes of PGBS in Vietnam which relate to:

- an evolving design of PGBS which has become increasingly pro-poor as the policy agenda has expanded and relevant to the country context;
- increased aid coordination and alignment with GOV policy;
- a strong disbursement record of PGBS in comparison to other aid modalities;
- evidence of lowering of transaction costs from the budget process for government;
- PGBS assisting in strengthening policy and implementation through the dialogue which is a key element of the PRSC;
- evidence of future potential linkages on service delivery and Level 5 poverty impacts.

S44. There were also areas of weakness which stem either from issues in the PGBS design or from an inadequate national response to these issues:

- Alignment and disbursement of co-financiers' funds with the GOV budget cycle could be improved.
- There is limited ex post impact analysis of PRSC policy actions and weaknesses in monitoring and evaluation of policy actions.
- There is lack of attention to cross-cutting issues, such as gender.
- Expansion of co-financiers has led to growing difficulties of coordination and cohesion of the process.
- There is a need to follow the World Bank PRSC timetable, which limits the consultation process.
- Consultation is limited to core ministries and co-financiers.
- There is little coordination with other aid modalities.
- There is inadequate attention to TA and capacity building to underpin implementation of policy actions.

PGBS in Vietnam – Future Prospects

S45. The study also examines other significant issues that relate to PGBS in Vietnam that are likely to influence the applicability of PGBS and overall aid effectiveness. These are the relationship between PGBS and other aid modalities, decentralisation, the incorporation of the CPRGS into the Socio-Economic Development Plan (SEDP), accession to middle-income country (MIC) status, the pro-poor emphasis of the PRSC and issues regarding the scaling up of aid.

S46. There has been a move towards experimenting with other budget support modalities and currently there are various sector budget support initiatives that are being piloted, directed at government poverty programmes and sector budget support. The synergies between PGBS and other forms of BS should be carefully considered as, although they may in some cases be complementary, they have potential to undermine the benefits of the PRSC. This means that

there should be careful discussion regarding the risk of fragmentation in the overall aid framework that may result and consideration of the way in which other forms of BS or sector-wide approaches (SWAs) could reinforce each other rather than being perceived as alternatives.

S47. The GOV is highly decentralised with around 44% of the budget channelled directly to provinces and an increasing number of decisions made at lower levels of government. One risk of central budget support is that it reinforces central budget control and there may well be a case for allocation to provincial level budgets. As capacity varies at provincial level and it is at this level that many decisions and policy actions will be undertaken, consideration to capacity building at this level should also be given.

S48. Currently the CPRGS acts as a basis for the policy matrix and has represented a comprehensive framework for the PRSC which addresses well the GOV reform programme and IP pro-poor agenda. In the 2006–2010 PRSC cycle the CPRGS will be replaced by the GOV's own five-year SEDP 2006–2010. This is clearly an opportunity to ensure that the PRSC is based directly on GOV policies and priorities, but it implies that there will have to be a reworking of the three pillar policy matrix to reflect the SEDP. It is important that the principles of the PRSC policy matrix remain and that there are follow-up measures included from the previous PRSC cycle.

S49. It is likely that Vietnam will graduate from being a low-income to a middle-income country in 2010. This will have implications for the sustainability of the PRSC programme. The next five-year cycle of the PRSC is planned to run from 2006 to 2011 and after this point if Vietnam does become an MIC it may not qualify for concessional funding from the World Bank and after 2010 the World Bank would have to switch to loans at a higher rates. This may be a less attractive option for the GOV as the transaction cost of negotiation and complying with PRSC conditionality may well outweigh the benefits and Vietnam may choose to borrow on external markets. On the other hand, funding through PGBS could provide a mechanism through which a transition to lower levels of aid flows could occur.

S50. The amount of funding provided through budget support has increased significantly during the course of the PRSC cycle. Further scaling up of budget support would seem logical on the basis of the benefits that stem from this aid modality. In particular, the more funding that is channelled through budget support should increase aid effectiveness, increase donor harmonisation and alignment and reduce transaction costs. However, this would mean that capacity within GOV, particularly at sector ministry and provincial level, should be strengthened and more attention should be paid to the impact of decentralisation.

S51. Analysis of poverty reduction trends suggests that although poverty has been substantially reduced through achieving high rates of economic growth, this trend may not continue in the future. This suggests that the PRSC should pay more attention to the poverty impacts of policy actions in order to ensure that it is achieving its poverty reduction goals. This requires more robust monitoring and evaluation to determine poverty reduction impacts with adjustment to the inputs of the PRSC as required. It may also imply that the PRSC may not be the only aid instrument that is needed to achieve poverty reduction in these harder-to-reach groups. It could be that other aid modalities are appropriate and there needs to be careful consideration of the way in which they complement each other.

Recommendations

S52. Based on the assessment of PGBS outlined above, the report recommends that the World Bank and co-financiers should undertake the following:

- R1 Co-financiers should make long-term funding (three-year to five-year) commitments and provide schedules for disbursement.
- R2 Development of an evaluation system to provide adequate evidence on impact and progress towards achieving outcomes for PRSC 4–5 and for the next PRSC cycle 6–10.
- R3 Formation of a PRSC negotiating team involving other co-financiers and the development of ongoing forums for discussion and consultation that bridge the annual PRSC negotiation cycles.
- R4 Ensure that sufficient analytical work is undertaken to support the shift from using the CPRGS to the SEDP and that it provides an adequate basis for the development of policy actions.
- R5 Establish a set of guiding principles for the PRSC which co-financiers agree to when they join. This could be undertaken in tandem with the recommendation on the development of an overall strategy for budget support.
- R6 Widen the policy dialogue and consultation process to include a wider range of stakeholders – NGOs, business community, sector ministries, non-co-financiers.
- R7 Improve linkages between partnership and PRSC working groups.
- R8 Pay more attention to the inclusion of gender issues and gender mainstreaming within the PRSC policy matrix.
- R9 Ensure that there is stronger mapping of ODA activities to PRSC areas and coordinate more closely with projects linked to the PRSC reform programme.
- R10 Development of a strategy to guide when other forms of budget support can be used to complement PGBS.
- R11 Consider the option of giving provincial budget support within a PGBS framework and undertaking complementary capacity-building programmes at provincial level.
- R12 Include capacity building and TA within PRSC activities or ensure closer coordination with PRSC policy actions and complementary activities being undertaken through other aid modalities.
- R13 Ensure stronger coordination and linkages with other aid modalities undertaking complementary activities to the PRSC to ensure that they are continued after MIC accession and develop a strategy to ensure a continuation of the PRSC process.

PART A: CONTEXT/DESCRIPTION

A1. Introduction and Conceptual Framework

Introduction

A1.1 Vietnam is one of seven case studies in a joint evaluation of General Budget Support (GBS). Each country study has contributed to the Synthesis Report of the evaluation, but this is also intended to be a free-standing report of value to country stakeholders. This chapter explains the background to the evaluation, its methodology and the process that has been followed in Vietnam. Annex 1A to this report is a concise summary of the study methodology. Full details of the background and methodology for the multi-country evaluation are in the Inception Report (IDD & Associates 2005).

Objectives and Approach to the Evaluation

What is General Budget Support?

A1.2 Budget support is a form of programme aid in which official development assistance (ODA) that is not linked to specific project activities is channelled directly to partner governments using their own allocation, procurement and accounting systems. GBS (in contrast to sector budget support) is not earmarked to a particular sector or set of activities within the government budget. The foreign exchange in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance (TA) and capacity building, and efforts at harmonisation and alignment by the international partners (IPs) providing GBS. Other forms of programme aid (including debt relief and other balance of payments support) may also generate resources that can be used to finance the government budget; therefore they could also be considered as budget support. However, the present evaluation focuses on a particular form of budget support that has recently become prominent.

A1.3 A new rationale for GBS emerged in the late 1990s, closely linked to the development of poverty reduction strategies. So-called "new" or "Partnership" General Budget Support (PGBS) focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions. The range of expected effects from partnership GBS is very wide. The terms of reference (TOR)¹ for this study draw attention to:

- improved *coordination* and *harmonisation* among IPs and *alignment* with partner country systems (including budget systems and result systems) and policies;
- *lower transaction costs*;
- *higher allocative efficiency of public expenditures*;
- *greater predictability* of funding (to avoid earlier "stop and go" problems of programme aid);
- *increased effectiveness of the state and public administration* as GBS is aligned with and uses government allocation and financial management systems;
- *improved domestic accountability* through increased focus on the Government's own accountability channels.

¹ The full terms of reference are annexed to the Inception Report (IDD & Associates 2005).

Purpose and Focus of the Evaluation

A1.4 As summarised in the TOR:

The purpose of the evaluation is to evaluate to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward-looking and focused on providing lessons learned while also addressing joint donor accountability at the country level.

A1.5 Although the evaluation focuses on more recent partnership GBS (PGBS), it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. It is not a comparative evaluation of different aid modalities, although the assessment of PGBS requires examination of its interactions with project aid and other forms of programme aid. The joint donor approach to evaluation recognises that PGBS has to be evaluated as a whole, since it is not possible to separate out the effects of different IPs' financial contributions. However, there is a special interest in comparing various different approaches to the design and management of PGBS.

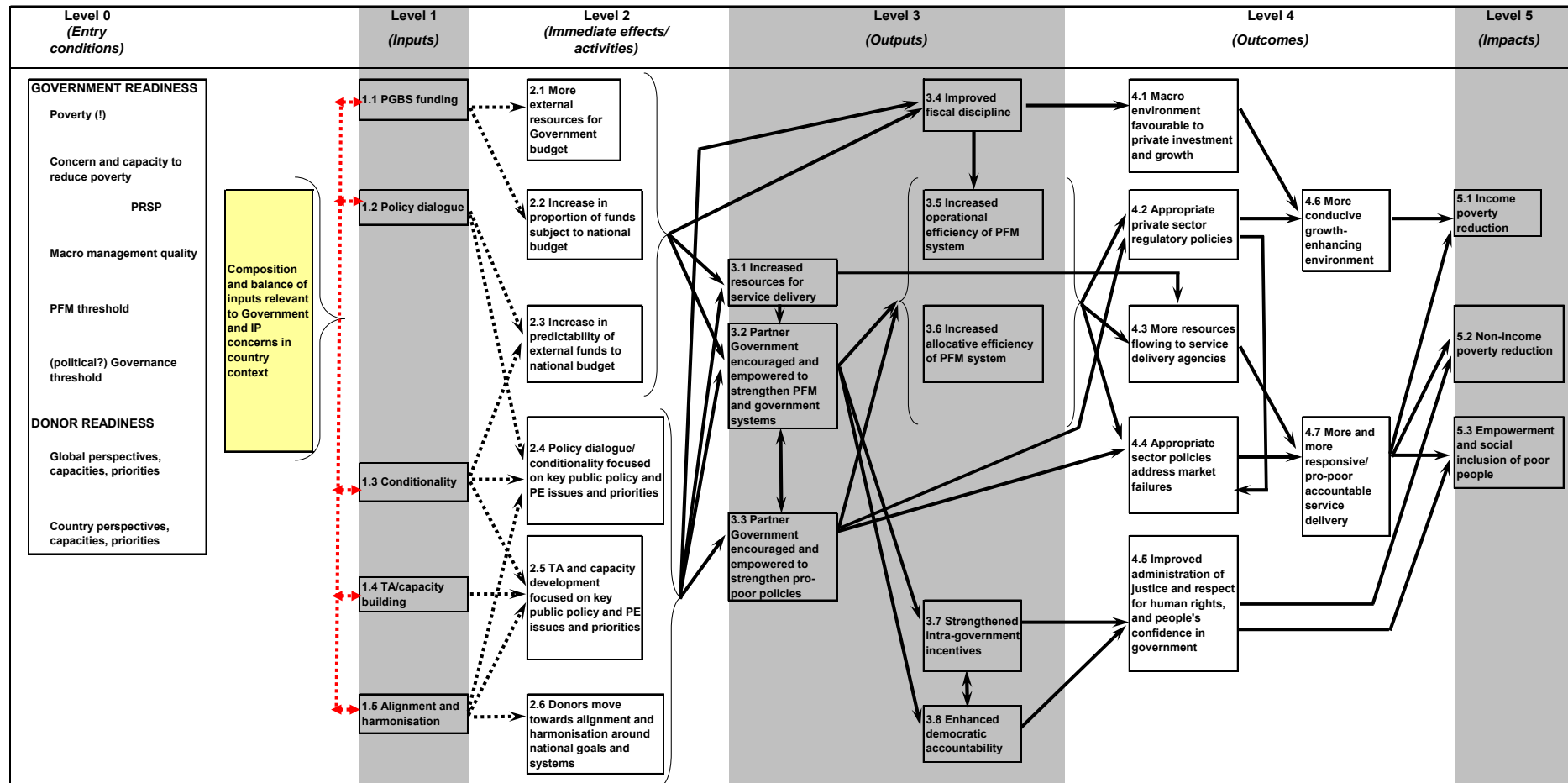
Evaluation Methodology

A1.6 The evaluation is based on a specially developed methodology which was further refined during the inception phase of the study. The Enhanced Evaluation Framework (EEF) has the following key elements:

- It applies the five standard evaluation criteria of the OECD's Development Assistance Committee (DAC) – relevance, effectiveness, efficiency, impact and sustainability.
- A logical framework depicts the possible sequence of effects of PGBS and allows them to be systematically tested. There are five main levels:
 - Level 1: the inputs (funds, plus dialogue and conditionality, harmonisation and alignment, TA and capacity building)
 - Level 2: the immediate effects (activities)
 - Level 3: outputs
 - Level 4: outcomes
 - Level 5: impacts.
- The entry conditions for PGBS (i.e. the circumstances in which PGBS is introduced) are conceived as "Level 0" of the logical framework.
- PGBS is conceived as having three main types of effect: flow-of-funds effects, institutional effects and policy effects. These effects overlap and interact with each other.
- There is particular attention to monitoring and feedback effects at all levels of the framework.
- The framework allows for the disaggregation of PGBS inputs, and notes their interaction with non-PGBS inputs.
- Similarly, it allows for the disaggregation of the poverty impacts of PGBS (income poverty, non-income dimensions reflected in the Millennium Development Goals, and empowerment of the poor).

A1.7 Annex 1A sets out these elements of the EEF more fully. From them, a causality map has been developed (Figure A1.1 below), which depicts the main cause-and-effect links to be tested by the evaluation.

Figure A1.1: Causality Map for the Enhanced Evaluation Framework



Country Report Structure

A1.8 The methodology ensures a standard approach to the evaluation across the seven case-study countries, and all seven country reports follow the same structure based on the same overarching evaluation questions. To enhance consistency across the country studies, a simple rating system is used in addressing the evaluation questions posed in Part B of the report; this is explained in Annex 1A. The TOR require special attention to gender, environment, HIV/AIDS, and democracy and human rights. These and a number of other cross-cutting themes are addressed in an additional section (Part C). A final section (Part D) presents the overall assessment and recommendations for Vietnam. The report structure is summarised in Box A1.1. The final section of this chapter describes the study process in Vietnam.

Box A1.1: Structure of the Country Report

Executive Summary

Part A: Context/Description

- A1. Introduction and Conceptual Framework
- A2. The Context for Budget Support in Vietnam
- A3. The Evolution of Partnership GBS in Vietnam

Part B: Evaluation Questions: Analysis and Main Findings

- B1. The Relevance of Partnership GBS
- B2. The Effects of Partnership GBS on Harmonisation and Alignment
- B3. The Effects of Partnership GBS on Public Expenditures
- B4. The Effects of Partnership GBS on Planning and Budgeting Systems
- B5. The Effects of Partnership GBS on Policies and Policy Processes
- B6. The Effects of Partnership GBS on Macroeconomic Performance
- B7. The Effects of Partnership GBS on the Delivery of Public Services
- B8. The Effects of Partnership GBS on Poverty Reduction
- B9. The Sustainability of Partnership GBS

Part C: Cross-Cutting Issues

- C1. Cross-Cutting Policy Issues (gender, environment, HIV/AIDS, democracy and human rights)
- C2. Public and Private Sector Issues
- C3. Government Capacity and Capacity Building
- C4. Quality of Partnership
- C5. Political Governance and Corruption

Part D: Synthesis – Overall Conclusions and Recommendations

- D1. Overall Assessment of PGBS in Vietnam
- D2. PGBS in Vietnam – Future Prospects
- D3. Summary of Conclusions and Recommendations

Bibliography

Annexes

- 1. Approach and Methods
- 2. Country Background
- 3. Aid to Vietnam
- 4. Public Finance Management
- 5. Summary of Causality Findings

The Evaluation in Vietnam

A1.9 The Vietnam study was based on two field trips: a two-week inception visit in October 2004, followed by another three-week field visit in May 2005. The evaluation was undertaken by a team of six people, three of whom were part of the team for both visits. The purpose of the inception visit was to undertake five specific analyses (of partnership, public finance management, macroeconomics, institutions and poverty) in relation to the overall evaluation question for the period 1994–2004, and an interim report was produced as part of the first visit outputs. The purpose of the second visit was to focus specifically and in more detail on answering the overall evaluation question in relation to the Poverty Reduction Support Credit (PRSC), which was judged by the country team to constitute the only operational example of PGBS in Vietnam.

A1.10 A review of secondary literature provided the analytical basis of the study (see the Bibliography for the documents consulted). The information gathered from secondary sources was supplemented by interviews with staff of IPs, of central agencies and sector ministries of the Government of Vietnam (GOV), and of non-governmental organisations (NGOs). This allowed for further triangulation of information. Unfortunately, official arrangements for the first visit were not completed in time for the study team to undertake many interviews with the GOV, but a selection of interviews with the GOV were undertaken during the second visit. Annex 1B provides further details on approach and methodology, including a list of organisations visited (Table 1B.1).

A1.11 DFID was the in-country focal point for the study, while the Ministry of Planning and Investment (MPI) provided the GOV liaison. The study was also guided by a steering group which consisted of DFID (chair), the Netherlands, the European Commission (EC) and Sida. The steering group assisted with arrangements for the second visit and provided useful feedback on the Interim Report. At the beginning of the second field visit there was a workshop held to raise awareness of the study. This was attended by many people from both the government and IP side and proved to be very useful in terms of familiarising participants with the study. At the end of the second field visit a wrap-up meeting was held with the steering group and MPI to disseminate preliminary study findings.

A1.12 This final report takes account of comments on the first full draft, which was circulated in September 2005. It has also benefited from the team leader's participation in the PRSC stock taking, held in Hanoi, October 2005.

A2. The Context for Budget Support in Vietnam

Overview

A2.1 Although Vietnam is a low-income developing country, it has had a very good record on poverty reduction and macroeconomic stability since a programme of economic renovation (“Doi Moi”) was initiated in the late 1980s. The government’s success in its efforts to reduce poverty and boost economic growth is widely acknowledged, with achievements in social as well as economic indicators. Vietnam is considered to have prudent and appropriate macroeconomic policies that have generated macroeconomic stability (including sustainable levels of external debt) and an environment conducive for growth (IMF 2004b; 2003b; and 2002). However, Vietnam has followed a different strategy from other transition economies; massive divestiture of state assets is not a central component, and the pace of structural reform in the state-owned sector has been an issue between the GOV and the international financial institutions (World Bank 2004b; IMF 2004b, 2003b and 2002). Vietnam has pursued a strategy of integration with the world economy; it joined the Association of South East Asian Nations (ASEAN) in 1996, concluded a bilateral trade agreement with the USA (the US–Vietnam Bilateral Trade Agreement (USBTA), signed in 2001), and has applied for World Trade Organization (WTO) membership.

Poverty Reduction Strategy

A2.2 By 2001, a key step in the evolution towards the use of PGBS had been taken with development by the GOV of an Interim Poverty Reduction Strategy Paper (I-PRSP). I-PRSP discussions were started in mid-2000, with MPI as the focal point for its development. This represented a shift in responsibility away from the Ministry of Labour, Invalids and Social Affairs (MOLISA), which had previously been the lead ministry on poverty issues and had an existing poverty reduction strategy. A pre-existing Poverty Working Group/Poverty Task Force (PWG/PTF) was revived and restructured, as part of the development and consultation process for I-PRSP development, which also involved participatory consultation (at national, sub-national and community levels) on the contents of the strategy (Nørland et al 2003).

A2.3 Following approval of the I-PRSP in 2001, an IMF Poverty Reduction and Growth Facility (PRGF) and the first World Bank Poverty Reduction Support Credit (PRSC) were agreed. This began a more partnership-oriented approach to GBS, and a key reason for developing the strategy had been achieved. Nørland et al report that:

“the government...was just as interested in completing the process within a short time frame as it gave access to new lending, and demonstrated that the government was capable of obtaining resources for the country” (Nørland et al (2003: 91).

Work on the PRSP continued until May 2002, when the final Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was presented (Nørland et al 2003: 83).

A2.4 Although the PRSC started before the CPRGS was finalised, the operation is designed to be aligned with this strategy (or the I-PRSP in the case of PRSC1). IPs were satisfied that the CPRGS was a good-quality document, prepared in a participatory and country-driven way and strongly GOV-owned, and this allowed them to provide financing through the PRSC.

Macroeconomic Management

A2.5 The macroeconomic management record of the GOV is very good. GDP per capita expanded by around 6% per year during 1993–2002 (see Annex 2A), while prudent fiscal policy has resulted in small budget deficits, a relatively small stock of debt and a sustainable share of public spending in GDP (World Bank 2005b).

A2.6 Economic growth has been accompanied by remarkable poverty reduction, with the poverty headcount falling from 58% in 1993, to 37% in 1998; 29% in 2002; and as low as 26% by 2004, meaning that 50 million people have been lifted out of poverty in the last decade (World Bank 2004b and World Bank 2005a). However, poverty reduction was not even. The Vietnam Living Standard Survey (VLSS 1992–93, 1997–98 and 2002) and Poverty Survey (1999) show that reductions in poverty were different between rural and urban areas, economic regions, ethnic groups, education and gender. Sida (see Larsson 2002) and the World Bank (2004b and 2003a) highlight that poverty remains a mainly rural problem, with ethnic minorities also disproportionately represented among the poor.

Public Finance Management

A2.7 Public finance management (PFM) work in recent years has resulted in major changes and improvements. One of the main drivers for change has been the government's decentralisation policies, which have represented a challenge in maintaining efficiency and effectiveness of public expenditure management in an increasingly decentralised system. Aid and TA have played a significant role in the PFM reforms that have taken place; it has been most effective when supporting government-led reform efforts. Improvements in PFM have occurred mainly through the Public Administration Reform (PAR) programme and Public Financial Management Reform (PFMR), which have assisted the GOV in strengthening systems to meet international standards.

A2.8 A series of diagnostic studies was undertaken on PFM systems to evaluate the level of fiduciary risk as a precursor for PGBS. There have been public expenditure reviews (PERs) in 1996, 2000 and 2004, a review of fiscal transparency in 1999, a Country Financial Accountability Assessment (CFAA) in 2001, a Country Procurement Assessment Review (CPAR) in 2002 (the last two were both updated in the course of the 2004 PER/Integrated Fiduciary Assessment) and an EC Public Finance Diagnostic Study (2004). Overall, there was a general consensus that there have been improvements in the quality of PFM and, although weaknesses still remain, fiduciary risk was perceived to be at an acceptable level by donors. An overview of the strengths and weaknesses in PFM is presented in Annex 4. The current situation is summarised by the EC Diagnostic Study (2004):

The Government of Vietnam is clearly capable of managing its public expenditure well in support of public policy objectives and is well aware of areas where further improvement is required (2AC 2004).

Governance

A2.9 Vietnam is a one-party political system. The President is the ceremonial Head of State and represents the State of Vietnam in domestic and foreign affairs.² The President is elected by the National Assembly for a term of five years. The National Assembly meets twice a year (May and October) for ordinary sessions. A number of National Assembly committees meet more frequently.

² The descriptive sections that follow are a synthesis of various United Nations Development Programme (UNDP) reports listed in the bibliography.

A2.10 The Communist Party of Vietnam (CPV) controls both the electoral process and the executive. The role of the Party remains opaque. Various documents record the need for CPV consultation or approval. Senior government officials are also CPV members. Further, the Party maintains its own modest administrative structure of policy discussion and analysis groups parallel to those of the government.

A2.11 The central government is chaired by the Prime Minister and contains 17 ministries, five ministry-level organisations, and 26 other agencies. The government operates at three local levels (provinces, districts and communes) with 64 provincial-level administrative units. Each level of local administration has an executive (the People's Committee) and a legislative arm (the People's Council). A significant degree of autonomy exists for local administrations, leading to regional diversity in policy implementation and considerable decentralisation at the provincial level.

A2.12 The World Bank Country Policy and Institutional Assessment 2003 (CPIA), which looked at the 2001–2003 period in Vietnam, ranked Vietnam as below average on quality of governance. Human rights are still restricted, particularly in areas related to freedom of speech and the level of democracy. Improvements in participation and accountability of local governance have occurred through decentralisation, which is increasingly giving responsibility to local governments for financing and administering social services. The Grassroots Democracy Decree, the Budget Law and the Rural Development Decree have also encouraged more transparency and participation at provincial level.

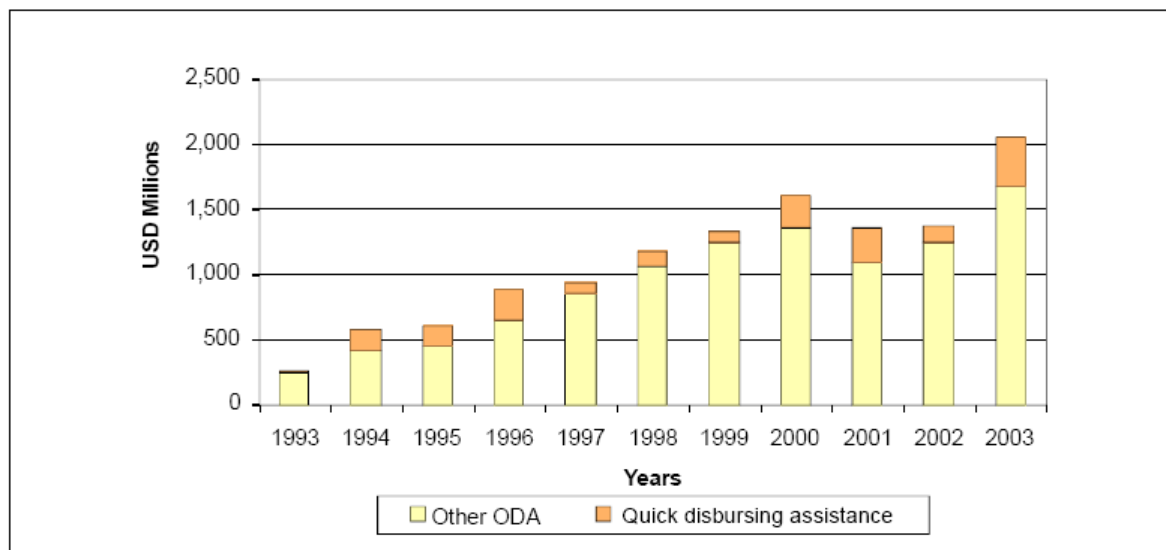
Aid Flows

A2.13 Vietnam is not heavily aid-dependent. Official Development Assistance (ODA) accounted for an annual average of 4.5% of GNI from 1994–2003 (OECD DAC 2005–2006); as a percentage of government expenditure it comprised 18% in 2000 and 12% in 2001.

A2.14 In 2003, 25 bilateral IPs, 19 multilateral IPs and 500 NGOs were operating in Vietnam. Japan, the World Bank and the Asian Development Bank (AsDB) are the three largest IPs; other IPs among the top 10 donors in 2003 were France, Australia, Denmark, the EC, the Netherlands, Germany and the UK. The top 10 IPs represented around 88% of total ODA disbursements with around 580 projects or 52% of all projects reported in 2003 (United Nations Development Programme [UNDP] 2004). There have been some changes among the top 10 over the period of the study; the IMF and the United Nations recently dropped out of the list (after 2002). Japan has been the top donor in Vietnam every year since 1995 except 1996 and 1997 (when it was recorded as the third and second largest donor respectively). Japanese ODA accounted for 29% of total ODA to Vietnam in 2003; 24% in 2001, 53% in 2000, 40% in 1999, and 31% in 1998 (UNDP 2004).

A2.15 Aid in Vietnam is still dominated by projects which accounted for 54% of aid flows in 2003. TA comprised 28% and programme aid 18% of aid flows (UNDP 2004).³

³ UNDP has been collecting data on ODA disbursements in Vietnam since 1993 for an annual "Overview of Official Development Assistance in Viet Nam" as well as for "Vietnam Development Cooperation Reports". Information submitted by the international community is used to produce extremely useful data breaking aid down by sector, type, terms, donor and region. UNDP data on annual ODA disbursements is, to a large degree, consistent with OECD DAC disbursement records for Vietnam.

Figure A2.1: Annual ODA Disbursements: 1993–2003

Source: UNDP Vietnam 2005b:33.

A2.16 Quick-disbursing aid (i.e. GBS and balance of payments support) represented 10% of total ODA in 2002 (USD 132m). This was down from 20% of ODA or USD 272m in 2001, mainly due to the suspension of the IMF PRGF programme. The proportion of quick-disbursing aid rose again in 2003 (to a value of USD 375m). The increase was partly due to the disbursement of USD 122.6m from the first PRSC at the beginning of 2003 instead of at the end of 2002 as planned. The second PRSC disbursed USD 140m in 2003. These two projects alone represented 82% of total disbursements of quick-disbursing aid and 15% of total ODA disbursements in 2003 (UNDP 2004). Figure A2.1 shows the trends in quick-disbursing and other aid flows and Annex 3A contains further breakdowns of aid flows by sector and type.

A3. The Evolution of Partnership GBS in Vietnam

Introduction

A3.1 This chapter covers the origins and evolution of PGBS in Vietnam against the background of the main aid modalities that have been used during the study period. Vietnam remains very project-focused; this has been the approach that the GOV and IPs have favoured since the early 1990s when large-scale lending to Vietnam resumed. However, the growth in the number of donors and the volume of their ODA commitments during the 1990s led to increasing problems with disbursement. The primary response to this was to try to improve the environment for projects through initiatives aimed at harmonisation and alignment and increased IP collaboration.

Aid Modalities

A3.2 Annex 3B is an inventory of the programme aid operations that are currently being used and have been used in the past. The World Bank provided a structural adjustment credit (SAC) in 1994, the IMF an enhanced structural adjustment facility (ESAF) in 1994, and the Asian Development Bank (AsDB) quick-disbursing loans which began in 1995. Large-scale programme aid under Japan's Miyazawa Initiative was provided in 1999, and the IMF launched the PRGF at the beginning of 2001 (this was suspended in 2002). These quick-disbursing aid and programme-lending instruments were designed to support policy reforms and provide financial support faster than through project aid.

A3.3 The World Bank SAC and IMF ESAF were not initially particularly successful, for reasons outlined in Box A3.1. Programme loans from the AsDB for Agriculture and Finance (see Box A3.2) were subject to delays in disbursement due to slow progress on reforms, but nevertheless were assessed as having been effective. In the case of the Agriculture Sector Programme, overall it was rated successful, on the threshold of the highly successful category and considered highly relevant (Asian Development Bank 2002).

A3.4 Japanese programme lending through the New Miyazawa Initiative was a response to the Asian economic crisis. A JPY 20bn economic reform support loan to the Vietnamese Government was agreed in September 1999, and provided through the Japan Bank for International Cooperation (JBIC). The loan was aimed at supporting policy actions in three areas: private sector promotion, auditing of 100 large state-owned companies, and tariffication of non-tariff barriers. This was to assist progress towards a market economy.

A3.5 A survey was undertaken in 2001 to monitor the execution of articles agreed to, most of which involved the reform, abolition or creation of systems and organisations (JBIC 2002). Through interviews, an analysis of laws and regulations, and a questionnaire, the survey assessed achievements in relation to each agreed policy action, but did not give an evaluation of the programme as a whole. It found mixed results. Part of the private sector promotion articles included policy actions to strengthen the financial environment; many of these actions had only been partially achieved or had yet to be implemented. In contrast, most of the business environment policy actions had been successfully achieved. Improvement of the investment environment for foreign capital policy actions had been only partially met, while organisational measures had been more or less put in place. The specified audit of 100 large SOEs had been delayed due to financial problems, and the tariffication of non-tariff barriers was ongoing.

Box A3.1: The Experience of Programme-Based Lending in Vietnam in the 1990s

A Sida study was undertaken on the effectiveness of aid conditionality in programme-based lending in eight countries during the 1990s (Sida 1999). Vietnam was one of the countries included and the lessons from this experience provide a useful background to the evolution of later PGBS approaches. The study noted that international financial institutions (IFIs) began lending in 1994 not as a result of economic crisis, as there were no balance of payments, debt or inflation problems; despite this, lending was undertaken in exchange for economic policy reform. There was no attempt to include political conditionality in any of these loans as a lack of aid dependency led IPs to acknowledge that a reduction in aid was not likely to bring political changes. Both the IMF and the World Bank programmes were interrupted in 1996–1997 when conditions were not complied with. The IMF did not disburse the third annual tranche of the 1994 ESAF, and the World Bank stopped negotiations for a new SAC. The World Bank had already delayed disbursements on its first SAC due to non-compliance.

There was a variety of reasons for non-compliance with conditions. First, one of the major implementation constraints was that negotiators on the government side did not have the power to implement reforms; the process of policy-making is diffuse and it is unclear who has the power to agree and implement reforms. Second, the three main areas where reforms had been slow (state-owned enterprises (SOEs), banking and trade reform) were sectors where there were powerful interests against the reform process. Trade reform has been more successful in recent years, but SOE and banking reform have still not been undertaken with any enthusiasm. Third, economic growth was already strong prior to the intervention of IFIs, and advice given by IPs had less credibility given the government's already strong record on macroeconomic management. Similarly, there was less pressure on IFIs to continue lending as Vietnam did not have large debts to multilateral agencies and economic stabilisation had already been achieved.

Source: Dijkstra 1999.

Box A3.2: The AsDB Experience of Programme Lending

The AsDB programme included two sectoral loans in agriculture and finance, which were intended to provide quick-disbursing balance of payments support and to promote economic reforms. Between 1995 and 2000, USD 310.8m was disbursed to the agricultural sector and USD 220m to the financial sector. The agriculture sector loan promoted a series of reforms to enhance the efficiency of rural markets and strengthen rural institutions. There was some delay in meeting the agricultural sector loan conditions, but the programme was successfully completed. The financial sector loan was aimed at establishing the legal, regulatory and supervisory framework of the banking system, and at the diversification of financial institutions. This loan experienced delays in disbursement of the second tranche because of failures to introduce the required measures.

Subsequent evaluations of these AsDB policy-based lending operations concluded that the efficiency of this type of lending was constrained by the focus on the rapid approval of laws, decrees and regulations which i) were delayed by the lengthy consultation process prior to implementation; ii) were difficult to implement due to inconsistencies between new and existing legal frameworks; and iii) sufficient assistance was not always given to the design of the legal framework, which often needed revising. It was also noted that policy reform is most likely to be successful when it is "locally owned", based on a national political consensus. If this exists, then conditionality is not necessary; if it does not, then conditionality is unlikely to work.

Source: Asian Development Bank 2001 and Van Arkadie et al 1999.

A3.6 Forestry is the only sector to have adopted a sector wide approach (SWAp) in Vietnam. In 1998, the IP community and the GOV agreed to establish a partnership support programme for the National Five Million Hectares Reforestation Programme 1998–2010 (5MHRP). A memorandum of agreement between the GOV and 15 IPs was signed in 1999. After two years of implementing 5MHRP partnership activities (2000–2001), the broader Forest Sector Support Programme and Partnership (FSSP&P) was formulated. The FSSP&P memorandum of

agreement (MOA) was signed in November 2001 between the GOV and 19 IPs (now expanded to 22 signatories). The Forest Sector Support Programme (FSSP) will support the implementation of the entire forest sector development strategy (including the 5MHRP). This is an “embedded project” type of SWAp. A common policy and implementation framework is used, but IP funding is channelled to projects within the framework. IPs were reluctant to use government systems, due to concerns regarding fiduciary risk and transparency which have also prevented similar approaches being used by IPs in other sectors.

A3.7 Pooled funding among donors (apart from the PRSC) has been rare. The Multi-Donor Trust Fund (MDTF) is a pooled funding arrangement involving seven IPs (Canada, Denmark, the Netherlands, Norway, Sweden, Switzerland and the UK) to provide support to the GOV Financial Modernisation Programme (FMP), which is a key element of the Master Programme on Public Administration Reform (PAR).

A3.8 Initiatives in providing provincial budget support to rural transport are being piloted by DFID (UK) in two provinces during 2005 and DFID has also agreed a one-year pilot of targeted budget support through the GOV programme to support the poorest communes (Programme 135) during 2005. In education, targeted budget support through a GOV programme to achieve fundamental school quality levels for all children was designed during 2004 for piloting during 2005 with support from Belgium, Canada, the European Commission (EC), the United Kingdom (UK) and the World Bank.

A3.9 In rural water and sanitation, a scoping study for potential targeted budget support by AusAID, Danida (and possibly the World Bank and DFID) was conducted in 2004, again looking to provide support through an existing GOV programme to achieve targets set out in its sector strategy (Partnership Group on Aid Effectiveness [PGAE] 2004: 15).

Developments in Aid Management and Coordination

A3.10 Most bilateral and multilateral IPs began operating in Vietnam after the lifting of the US embargo in the early 1990s. Multilaterals such as the World Bank and the IMF provided technical advice without funding between 1988 and 1993, while a few current IPs (e.g. Sweden, UNDP, United Nations Children’s Fund [UNICEF]) were present during the 1970s and 1980s, which enabled them to develop a close relationship with the government. This has allowed them to tackle sensitive issues such as human rights and maintain their position of trust by not merging their interests with other donors’ agendas. Before 1993, the UNDP was the most important multilateral IP, coordinating advice and the international community. This position was overtaken by the World Bank, which became a much more significant financier and, via leadership of the Consultative Group (CG) meetings, took the pivotal role in IP coordination; it has maintained this through leading the CPRGS and PRSC processes.

A3.11 Box A3.3 shows key dates and periods in the evolution of aid relationships. The final period identified (2001+) is when the CPRGS was finalised and “partnership” GBS operations began, and is therefore the main focus of this evaluation. However, the periods after the lifting of the US embargo (1994–1997) and the Asian crisis (1998–2000) are also highly relevant: they provide the background against which PGBS emerged, and are when experimentation with programme-based approaches to aid can be identified for certain IPs.

Box A3.3: Chronology of Key Events

Date	Event
1979–1985	<i>Partial and stalled reforms</i> <ul style="list-style-type: none"> Measures introduced to allow more autonomy for economic actors, mainly in agriculture, but also SOEs. Attempts to reverse liberalisation in 1972–1985. During this time period very few IPs present apart from UNDP, UNICEF and Sida. Aid from most IPs, except USSR suspended in 1978 following invasion of Kampuchea.
1986–1988	<i>First phase of Doi Moi</i> <ul style="list-style-type: none"> Sixth party congress in December 1986 launches Doi Moi (new way) redefining the role of central planning. 1987 price controls were removed on all commodities except rice and kerosene. Abolition of control posts for internal trade. Foreign Investment law introduces open door policy. 1988 separation of central and commercial banking. Soviet aid dominant, Sweden is largest Western IP.
1989–1993	<i>Second phase of Doi Moi</i> <ul style="list-style-type: none"> Stabilisation and more intensive reform efforts. Replacement of planning with market mechanisms; most direct subsidies and price controls removed. Various laws enacted on foreign investment, private enterprise and land laws. 1989 the collapse of Soviet aid occurred. Technical advice given by World Bank and IMF without funding.
1994–1997	<i>US embargo lifted</i> <ul style="list-style-type: none"> 1994 resumption of relations with USA. IMF ESAF and World Bank SACs begin in 1994. 1994 first Consultative Group meeting. 1997 decree on aid management.
1998–2000	<i>Further reforms initiated as a response to the Asian crisis</i> <ul style="list-style-type: none"> 1998 CG mid-year review meetings. 1999 JBIC Miyazawa initiative to provide financial support in response to the Asian crisis. In mid-2000 I-PRSP preparation began. World Bank <i>Attacking Poverty</i> Report in 2000, which put poverty on the agenda and resulted in the establishment of extensive partnership groups and dialogue on the issue.
2001+	<i>Development of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS)</i> <ul style="list-style-type: none"> IMF PRGF programme began in 2001 and was suspended in 2002. World Bank PRSC1 in 2001–02, PRSC2 in 2003 and PRSC3 in 2004. PRSC4 currently being finalised (May 2005), along with DFID budget support to the government's national poverty reduction programme (Programme for Socio-Economic Development in the Specially Difficult Communes or Programme 135) and pilots of provincial level budget support.

A3.12 With over 40 multilateral and bilateral IPs operating in Vietnam, diversity of approaches can be observed in a number of areas. Current IP strategies are divided: a number of bilaterals and multilaterals are under strong central mandates which limit the extent to which they can coordinate or deliver aid using flexible approaches; others, such as those who formed the Like Minded Donor Group (LMDG), have been more focused on developing new approaches to improve aid effectiveness. Donor decentralisation is seen, among other things, to make programmes more responsive to the host country and improve policy dialogue (PGAE 2004: 12).

A3.13 Previously, IPs such as Germany, France and Spain have focused on TA and project-based approaches as they have opted not to use non-project aid modalities. Similarly, the need to be accountable to a home constituency and differentiate aid products limits the scope of IPs such as the US Agency for International Development (USAID), while some small IPs believe that their funds could provide more value added in non-budget support aid modalities. Among multilaterals, which have institutional mandates that are applied across countries, the degree of decentralisation allowed is often directly related to the scope for innovation. For instance, the World Bank is more decentralised in its operations than the AsDB and can therefore be more innovative, while Japan traditionally has allowed little latitude in local decision-making. However,

this has recently begun to change as both Japan and the AsDB became co-financiers of PRSC3, while France and Spain have begun to consider contributing to future PRSCs.

A3.14 Overlapping sub-groups of IPs include:

- i) The Like-Minded Donor Group (LMDG). The LMDG was formed from the Utstein group and initially comprised seven bilateral IPs (Finland, Germany, the Netherlands, Norway, Sweden, Switzerland and the UK). Since then, Denmark and Canada have joined while others participate without accepting the whole agenda or contributing funding (Australia and Japan). The LMDG has been active in promoting the expansion of non-project aid modalities.
- ii) Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD DAC) IPs. Vietnam has been a focus for a number of OECD DAC studies and initiatives.
- iii) European Union (EU) members (who, due to significant overlap in membership, are working increasingly closely with the LMDG, both individually and through the EC, for example in producing joint comments on documents such as the draft PRSC4 project document).
- iv) Nordic countries (Sweden and Finland were present in the 1970s and 1980s, which enabled them to develop a strong relationship with the GOV).
- v) UN agencies (the UNDP and UNICEF were also present in the 1970s and 1980s).
- vi) The Development Banks (World Bank, Japan Bank for International Cooperation [JBIC], Asian Development Bank [AsDB], French Development Agency [AFD] and German Development Bank [KfW]), who are engaged in efforts to harmonise working practices.

A3.15 The institutional framework for aid management evolved in the mid-1990s when Vietnam became a new recipient of Western aid and, in response, the GOV developed new ways of managing the growing number of donors. In 1996, legislation was introduced to clarify responsibilities and procedures for ODA management. This gave Vietnamese institutions the main role in project identification and management, with ODA flows channelled through government planning and financial management systems where possible. In 2001 these regulations were updated with Decree 17 outlining policy for the use and management of ODA, and Decree 88 covering procurement.

A3.16 MPI has the overall responsibility for aid coordination, with the Ministry of Finance (MOF) and the Office of Government also playing an important role. The decentralisation process has given provincial and district bodies a more important part in the coordination and implementation of aid-funded projects at local level.

A3.17 Decree 17, which is the highest level legal document governing the use and management of ODA resources in Vietnam, is currently being revised to “address the identified gaps, while guiding the utilisation of ODA in line with the overall Five Year Plan and ODA Master Plan frameworks currently being developed by the Government” (PGAE 2004: 6).⁴ As mentioned above, MPI has the overall coordination role, with the MOF responsible for the disbursement of ODA and the Office of Government approving new ODA inflows. The State Bank of Vietnam coordinates GBS, while International Departments for Cooperation have been established in many sector ministries, with project management units overseeing the running of individual projects.

⁴ The current decree does not provide procedures for budget support and is focused on projects as the main form of aid modality. See PGAE 2004: 6 for more information.

Origins of PGBS in Vietnam

Donor Readiness for GBS

A3.18 A change in IP strategy was occurring at a global level, where IPs were looking to move away from project support and move towards budget support in acknowledgement of the perceived gains that this could have in terms of aid effectiveness. For example, the EC produced guidelines which encouraged country offices to use budget support where possible, and the World Bank designated Vietnam a PRSC pilot.

A3.19 Most IPs considered that Vietnam's good record on macroeconomics, PFM and poverty reduction made it a good candidate for PGBS, and fiduciary risk was deemed to be at an acceptable level. There was also a view that, as the amount they contributed to the PRSC was relatively small, the risk was low and they could afford to experiment with a new aid modality. On the other hand, Sida co-funded PRSC1, but pulled out of PRSC2 due to head office concerns about problems with fiduciary risk in another country which was part of Sida's global programme.

A3.20 IPs (including non-financiers) are involved with the PRSC process on different issues based on their areas of interest and experience (see Annex 3C). This gives them an opportunity to strengthen the content of policy in these areas, and also to maintain their leadership in their areas of expertise.

A3.21 Another motive for involvement with the PRSC is the fear of missing out on a growing "club" of IPs. The perceived success of the PRSC in engaging the GOV and influencing policy dialogue has resulted in some IPs co-financing the PRSC as a mechanism to keep their interests on the agenda.

A3.22 Although the PRSC is the only approach to PGBS during the evaluation period, 2005 has seen a number of new initiatives being negotiated (see ¶A3.8), indicating IP interest in trying out approaches in addition to the PRSC. There have been also moves by some IPs, such as Danida, to channel all funding for project support through GOV systems relying on their disbursement and auditing procedures.

Government's Perspectives and Readiness

A3.23 Vietnam prepared a poverty reduction strategy paper (PRSP), renamed the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), even though as a non-HIPC country it was not required to do so. The GOV chose to undertake this process in order to qualify for access to PRSC and PRGF funding. The CPRGS process was generally perceived by IPs to have been widely consultative and participatory and to strongly reflect GOV plans and objectives and a commitment to poverty reduction (World Bank 2003c, IMF 2004a). Overall, as the GOV had a strong poverty reduction record and had used public resources effectively to pursue a poverty reduction strategy, there was a strong presumption by IPs that resources channelled through the PRSC would be effectively used for poverty reduction purposes.

A3.24 Government representatives felt that the different approach of PGBS allowed it to support the GOV reform agenda, with IPs able to influence the agenda in certain areas and answer the *how* question of reform implementation rather than *what* should be on the agenda. High GOV ownership of the reform process means that aid instruments that can adapt or respond to the Vietnamese context (e.g. the strong emphasis on economic growth as a driver of poverty reduction) and support the government in the areas they want to reform are likely to be most successful in the long term. By aligning with the GOV CPRGS, the PRSC attempts to

achieve this and the incorporation of the CPRGS into the GOV five-year plan should enhance this further (PGAE 2004:7).

A3.25 There is less awareness within the government regarding the implications of PGBS; historically there has been a strong bias towards projects and there are strong vested interests for maintaining this approach, particularly in sector ministries. More budget support implies a shift of responsibility away from sector ministries, which will lose project funding to the MOF, through which budget support would be channelled.

A3.26 Budget support is therefore perceived as good for budget managers in the central ministries, but perhaps less so for sector ministries who lose their direct link to IP funds through projects. However, this shift does not necessarily solely imply a loss of power for sector ministries. By receiving internal and external resources through one channel from the MOF, the ministries benefit from less complicated disbursement procedures than those operated by individual IPs and do not have to manage parallel funding channels, different reporting requirements, etc. Having a large number of projects does not (at least in principle) increase the budget allocation for a sector, as the budget law requires project funds to be reported so that resources received this way may be offset against internal resource allocations.

PART B: EVALUATION QUESTIONS: ANALYSIS AND MAIN FINDINGS

B1. The Relevance of Partnership GBS

How does the evolving PGBS design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?

Introduction

B1.1 This chapter is concerned with Level 0 (entry conditions) and Level 1 (inputs) of the EEF (see ¶A1.6) and is about the relevance of the various PGBS inputs (i.e. funding, policy dialogue, conditionality, TA and capacity building, and harmonisation and alignment). Relevance, according to the DAC definition, is “the extent to which the objectives of a development intervention are consistent with beneficiaries’ requirements, country needs, global priorities and partners’ and donors’ policies” (see Annex 1A, Box 1A.2).

B1.2 This chapter and all subsequent chapters will focus on the PRSC from 2001 to the present and will also be forward-looking where appropriate.

Relevant Facts: The Design of PGBS

Objectives and Intent of PGBS

B1.3 PRSC1 was originally designed as a second structural adjustment credit (SAC 2) (World Bank 2003b: 4). The original objective of PRSC1 was to support the GOV reform programme and implementation of the GOV poverty reduction strategy as outlined in the Interim Poverty Reduction Strategy Paper (I-PRSP). The focus was on structural economic issues, because these were seen as the main constraint on rapid and sustainable poverty reduction (World Bank 2001a). The second credit, PRSC2, continued these same objectives although it was now based on the CPRGS (the name adopted for the full PRSP). The focus of the PRSC was widened to incorporate all aspects of the CPRGS. It thus reflected the three pillars of the CPRGS: completing the transition to the market economy (Pillar 1), making development inclusive (Pillar 2), and building modern governance (Pillar 3). PRSC3 expanded to include more actions related to human development and the objective of the credit was now restated to include not only objectives related to the reform programme but also to emphasise the importance of dialogue with the GOV and rewarding success:

The present operation provides further support to Vietnam’s reform program. It is the platform on which the donor community stays engaged with a client that has delivered an outstanding growth and poverty reduction performance (World Bank 2004b).

B1.4 PRSC4, which began in 2005, also draws policy actions from the CPRGS, as does PRSC5, which will begin in 2006. For PRSC cycles 6–10, the basis will change as the CPRGS will be incorporated into the GOV five-year Socio-Economic Development Plan (SEDP) and the policy actions will emerge from the objectives and strategies of this plan.

B1.5 Past experience has led to the general acceptance that IPs cannot buy reform in Vietnam. The PRSC is seen as a mechanism through which to gain access to high-level policy dialogue and support the GOV reform agenda. IPs try to influence key areas and bring in their previous experiences (e.g. from projects) by engaging in sector working groups and dialogue

around areas of their specific interest and expertise. (See Annex 3C for main areas of donor interests during PRSC3 and PRSC4.)

B1.6 IPs use the PRSC to attempt to coordinate their funding and streamline policy dialogue. Although the PRSC itself involves a lot of negotiations, it has the potential to reduce the transaction costs for government that arise from overlaps and having to deal with individual IPs (PGAE 2004: 6). By coordinating funding under one umbrella, the PRSC reduces the overall number of conditions IPs require government to meet. It also represents a shift to a new type of conditionality, as it rewards performance rather than pushing for reforms.

B1.7 By aligning more with GOV systems, IPs are moving away from having parallel systems and reporting requirements, which can be costly and time-consuming to comply with. This use of government systems, combined with TA in related areas from projects, is expected to strengthen these systems, with support in crucial areas such as public administration reform (PAR) and public finance management (PFM) complementing the PRSC.

B1.8 As an instrument, the PRSC allows for relatively quick disbursement (compared with projects, where disbursements are often delayed due to the need to meet specific requirements and procedures). The PRSC in Vietnam has had an excellent disbursement record (the six-month delay in PRSC1 is the only one so far).

Level and Nature of PGBS Funding

B1.9 Details of the level of PGBS funding for both the PRSC and other GBS initiatives can be found in Annex 3B. PRSC1 totalled USD 250m in funding from the World Bank and USD 22.6m in co-financing. The amount involved in PRSC2 was lower at USD 100m from the World Bank and USD 40m from co-financiers, while in PRSC3 the World Bank provided USD 100m and co-funding equalled USD 57m. For PRSC4, USD 100m has been committed by the World Bank and USD 125m by co-financiers.

B1.10 PRSC1 began in 2001. The structural reform agenda was its main focus, with an emphasis on liberalising trade, reforming state-owned enterprises (SOEs), strengthening the banking sector, enhancing the environment for the private sector and improving PFM. PRSC2 began in 2003 and the scope of reforms supported in PRSC2 was broadened to include not only structural reforms but policy actions aimed at socially inclusive development and building the basis of modern governance. Education, health, environmental sustainability, land management and legal development were all included. PRSCs 3–5 are based on the same policy areas with the addition of social protection in PRSC5.

B1.11 The number of IPs co-financing the PRSC has increased from four in PRSC1 to seven in PRSC3, and 11 in PRSC4. The first PRSC was co-financed by Denmark, the Netherlands, Sweden and the UK. The second was co-financed by the same donors apart from Sweden, which did not contribute. In addition to these three, the AsDB, Canada, the EC and Japan co-financed PRSC3. Funds are disbursed to the State Bank of Vietnam; they are not earmarked and are not linked to specific purchase or procurement requirements. GOV procedures are used for disbursement, reporting and auditing and all funds are channelled through the state budget.

Policy Dialogue and Conditionality

B1.12 Policy dialogue and discussions regarding conditionality are based on the reforms which the GOV commits to undertake and the way in which they will be implemented. As outlined in ¶B1.3, these are incorporated into a policy matrix which is divided into three pillars which are

based on the three main areas of the CPRGS. (Annex 3D summarises the policy matrixes of PRSCs 1–5.) Pillar 1 of the PRSC is transition to a market economy, Pillar 2 is social inclusion and environmental sustainability, and Pillar 3 is modern governance. GOV policy actions are agreed for each of the three pillars. The PRSC is based on a two-year cycle, with discussion and negotiation of the actions to be included in the PRSC policy matrix undertaken the year before the credit is disbursed. The policy actions included in the matrix then have to be undertaken prior to the disbursement of the credit. The number of policy actions has increased considerably over the course of the PRSC cycle from 15 in PRSC1 to 41 in PRSC3.

B1.13 Not all of the policy actions in the policy matrix are used to judge progress on implementation. A sub-set of policy actions, usually around 12, are used as indicators of progress and are called triggers. Progress towards meeting these triggers is used to decide the level of World Bank lending for the next annual PRSC. They are rated as satisfactory, highly satisfactory, partially satisfactory or unsatisfactory and are used to decide whether lending should be at high-case, base-case or low-case level. (See Annex 3E for a list of triggers used for PRSCs 1–4.) According to the World Bank (2005b), triggers are used to judge progress on policy actions and are not considered to be conditions.

B1.14 The PRSC also uses development outcomes to monitor the three areas of the GOV reform programme; indicators are derived from the CPRGS and other GOV plans and strategies. These are used to assess progress in each area included in the policy matrix through providing a baseline for 2001, the outcome expected by 2006 and latest available progress (World Bank 2005b).

B1.15 All PRSC operations to date have been base-case lending, which means that there has been satisfactory progress in most policy actions and that there has not been backtracking. A serious reversal in progress would lead to low-case lending whereas high-case lending would result from all triggers having been met. Other policy actions that do not relate to triggers are used for monitoring purposes and do not directly influence disbursement levels.

B1.16 There is a National Steering Committee for the PRSC and CPRGS which is led by the Deputy Prime Minister in charge of economic reforms; 22 line ministries and other government agencies sit on the committee. This is meant to ensure that its members have authority over the entire range of policy areas covered by the PRSC. A Programme Coordination Unit has also been established by the State Bank of Vietnam to assist in coordination of the process and to facilitate policy dialogue between the World Bank, IPs and line ministries. There are 15 working groups which are the focal point of policy discussion surrounding the key policy areas included in the matrix. The lead is taken by the IP with the greatest expertise and other IPs select which working groups that they wish to attend. The main areas which IPs are involved in can be seen in Annex 3E. Even if IPs are not co-financiers of the PRSC, they are able to attend the working groups and participate in the policy discussion. Government officials also attend the working groups although the extent of their participation varies between groups.

Harmonisation and Alignment Inputs of PGBS

B1.17 Wider international concerns about harmonisation and alignment and improving aid effectiveness have also motivated IP involvement with the PRSC process. The contributions of harmonisation and alignment concerns to involvement with the PRSC are discussed in depth in Chapter B2. A number of IPs have centrally developed guidelines which advocate moves towards providing funding through programme instruments such as budget support where practical and appropriate (e.g. World Bank, DFID, CIDA, EC). All of these IPs were mandated by global head offices to use budget support modalities where possible, while the EC had designated Vietnam as a PGBS pilot. Others such as Japan and France, and potential co-

financiers, are using a Vietnam-specific analysis which means they are giving PGBS due to the demonstrated benefits of co-financing the PRSC. This suggests that in practice official mandates can be sufficiently flexible to allow the giving of budget support when necessary.

PGBS TA and Capacity Building

B1.18 The PRSC as such contains no specific elements of TA or capacity building. It is closely linked with other World Bank and co-financiers' development assistance which provides the necessary support. The PRSC supports the adoption of policy reform and provides funding for policy actions, while policy lending supports implementation and the two are therefore complementary. The main programmes that provide TA and capacity building are the Public Administration Reform (PAR) programme and the Public Financial Management Reform (PFMR). Further details of these and other PGBS-related programmes can be found in Annex 3B. Under the PAR, the sub-components of the Financial Modernisation Programme (FMP) cover issues which are concerns of the PRSC, around which some policy actions have been based. Supporting the PAR in general is also a concern, as administrative systems are important for effective implementation and sustainability of policy actions articulated through the PRSC, and the quality of public administration is a condition for the level of World Bank lending and for certain IPs to provide co-financing through the framework. Hence, the Multi-Donor Trust Fund (MDTF) which supports the MOF can be seen to be complementary to the PRSC, although it is a separate funding facility tied to short-term TA, training and travel for the MOF.

Assessment against Evaluation Criteria

Relevance to the Context

The extent to which the strengths and weaknesses of the financial, economic, social, political and institutional context are taken into account in the evolving PGBS design.		
Level: ***	Trend: +	Confidence: ***

Financial context

B1.19 There appears to be a general consensus about the perceived, demonstrable and continuing improvements in PFM. These have constituted minimum "entry" conditions for some IPs (see EC 2004) and are reflected in the increasing number of PRSC co-financiers.⁵ There is still a perceived fiduciary risk which relates to the lack of detail and transparency of the budget, but overall this is not considered a significant issue for most IPs.

B1.20 Analysis undertaken by IPs prior to joining the PRSC process was then used to develop policy actions that were designed to address the areas of weakness identified, such as institutional capacity and PFM. These complemented work that IPs were already undertaking in these areas through projects and programmes.

Economic context

B1.21 There also appears to be a general consensus about the sound macroeconomic management record of the GOV, which is why there are no economic triggers in the PRSC. However, a number of IPs would like to see greater and/or faster economic reforms on a number of fronts, although there is acknowledgement that it is difficult to push the pace of

⁵ In order to ensure that satisfactory fiduciary and institutional standards have been met, analytical studies were undertaken to underpin the support credit. These consisted of: a) a cross-cutting assessment of Vietnamese development policy; b) an assessment of country financial accountability. This was carried out via the Public Expenditure Review-Integrated Fiduciary Assessment (Government of Vietnam and World Bank 2005), the CFAA (World Bank 2001b) and CPAR (World Bank 2002b).

reforms through the PRSC process. Some noteworthy ongoing examples are the reform of state-owned enterprises (SOEs) and state-owned commercial banks (SOCBs), together with the related issues of integrating the Public Investment Programme (PIP) more effectively into the Socio-Economic Development Plan (SEDP) and matching capital and recurrent expenditures (World Bank 2005b). The PRSC has provided one forum for dialogue about these reforms and includes a number of agreed policy actions in relation to both of these sets of reforms. However, the PRSC is not the only forum for policy dialogue. Several IPs (PRSC financiers and others) are continuing to use bilateral channels. Representatives of some of the PRSC co-financiers who do so felt that their PRSC involvement or contribution provided additional influence in that context.

Social and political context

B1.22 There appears to be widespread recognition and consensus about the failure of earlier types of policy conditionality (in Vietnam and elsewhere), as well as about the clear sovereignty and independence of the GOV. The PRSC is therefore more appropriate than its predecessors in Vietnam, because of its greater relative emphasis on supporting rather than “buying” GOV policy reforms, and on strengthening the hand of reformers. This is also evidenced by the policy actions and triggers of the PRSC and the more flexible approach to assessing progress towards meeting triggers. It is interesting to contrast this with the ESAF programme, where there were instructions that the IMF:

not be too accommodating of perceived political constraints in the reform programme (IMF 2004a: 51).

Institutional context

B1.23 The ongoing decentralisation process in Vietnam involves increasing decision-making autonomy and distribution of public resources at provincial level, while administrative reforms are also tending to increase the responsibility assigned to line ministries and service delivery agencies of the central government. This has a number of implications for the PRSC. One is whether the PRSC is too focused on central government, both in terms of GOV involvement in the policy dialogue and in terms of the focus of its policy actions. This in practice means the involvement of only the MPI, the MOF and the State Bank of Vietnam. This is important as the Party is a key decision-maker and policies have to be approved by it (see Chapter B5) and line ministries need to implement policy actions. Currently there is little dialogue with the Party or line ministries. Another is whether the implications of the implementation of national policy reforms has been thought through sufficiently at sub-national levels, particularly in relation to building the various capacities required to do so effectively at those levels. The provincial “roll out” of the participatory planning process associated with the national CPRGS, despite all its remaining acknowledged challenges, represents one way in which the PRSC is trying to deal with this issue. The proposed adoption of medium term expenditure frameworks (MTEFs) in pilot provinces is another.

Dialogue, Conditionality and Ownership

The extent to which PGBS policy dialogue and conditionalities are consistent with high levels of ownership by government and sensitivity to country constraints.

Level: **

Trend: +

Confidence: **

B1.24 As noted above, the PRSC was developed from the CPRGS, which was developed in parallel to the government’s Five-Year Plan (2001–2005) and the Ten-Year Socio-Economic Development Strategy, which are the main government policy documents. There has been debate as to the extent to which the CPRGS was owned by the GOV as, for example, the five-year and ten-year plans were debated by the National Assembly but the CPRGS was not (Conway 2004). The government describes the CPRGS as an action plan for its own planning

documents and there are many overlaps. However, the GOV now intends to incorporate the CPRGS into its next five-year plan, the SEDP, which means that the PRSC will in the future be based directly on GOV plans.

B1.25 In terms of government ownership of the PRSC, there appears to be a high level of GOV ownership from the core agencies (MPI, MOF and State Bank of Vietnam) but less so from other central government institutions and sector ministries. This was confirmed by the evaluation team's meetings with sector ministries, which often had not heard of the PRSC or of policy actions that were relevant to their sectors. Even among the three core agencies there were clearly tensions regarding the PRSC; although MPI has traditionally had responsibility for aid coordination, the PRSC is channelled through the State Bank of Vietnam with funds managed by the MOF, implying a shift not only of responsibility but also of power.

B1.26 IPs' difficulties in engaging in the policy process are consistent with high government ownership. IPs have found it difficult to participate in policy-making, as they often do not know who are the key decision-makers in government or how the process of policy-making is carried out in practice (see Chapter B5). The PRSC policy dialogue is deliberately aimed at influencing the content of GOV policy, the *how* rather than the *what*, rather than introducing new policy. Given the environment, which is one of strong ownership and protection of policy-making, the PRSC and the working groups which discuss policy are designed to provide inputs into GOV policy and suggestions for implementation.

B1.27 Much of the dialogue is between higher level government officials and is undertaken by the World Bank. Often, junior officials participate in the sector working groups, but this does not necessarily mean that the dialogue is not genuine. The junior officials report back to higher levels of government who discuss the proposed policy actions and triggers, while the World Bank, as lead IP for the PRSC, represents the co-financiers. It can be argued that this approach makes the PRSC a reasonably efficient mechanism for reducing the transaction costs of this type of dialogue.

B1.28 Previously, conditionality for GBS under SAC lending, the PRGF and AsDB lending caused disbursement delays and suspension of lending when the GOV was unable to meet the necessary conditions in a timely way. The PRSC was designed with triggers rather than strict conditions to overcome this problem. As the triggers are based on policy actions that are in turn based on the GOV reform programme and agreed with the GOV, it is more likely that they will be carried out than if they had been externally introduced. The approach is more flexible as the judgement criteria are not so rigid; as long as sufficient triggers are rated satisfactory then lending will continue. This means that it is unlikely that funding would be suspended unless there were major reversals in the reform process.

B1.29 Despite this, the GOV and IPs do appear to have different understandings and expectations of the PRSC in terms of conditionality. These are discussed in more detail in Chapter C4. These differences mainly stem from the extent to which triggers are perceived to be conditions, which is a view shared by most of the GOV and some IPs, while other IPs see them as less significant and more as an instrument to monitor progress.

Poverty Orientation

The extent to which the PGBS design reflects objectives and strategies related to all the dimensions of poverty reduction.

Level: ***

Trend: +

Confidence: ***

B1.30 The PRSC scores highly on this criterion because of its comprehensive three-pillar design based on the CPRGS. Policy actions are aimed at a variety of areas which should have a positive influence on poverty reduction, in particular those in Pillar 2 which relate to social inclusion and areas such as health and education. It also reflects CPRGS objectives and priorities (although it inevitably reflects some of this more/better than others) and draws on various other sources of inspiration (e.g. IP analytic work, country assistance strategies, other GOV poverty-reduction-related objectives and strategies not captured in the CPRGS, etc.).

B1.31 There are some IP concerns that specific poverty-reduction-related objectives and strategies (e.g. on gender, human rights, infrastructure and the quality of public investments) are not adequately reflected in the PRSC. Probably the best-known example of this (which was resolved through an extra chapter added to the CPRGS in 2003) was the inadequate recognition of the importance of large-scale infrastructure investments for poverty reduction, which was a concern of JBIC. This example also illustrates the dilemma for some IPs, which is: a) that smaller PRSC IPs may be less likely to see their particular agendas reflected in the PRSC; and b) that there is a difficult trade-off between the extent and the manageability of the PRSC process and the timely implementation of its various policy actions and triggers. However, IPs expressed general satisfaction with the pro-poor nature of the design, which has increased over time with the addition of more pro-poor policy actions such as social protection in PRSC4 and more education-focused and health-focused actions in PRSCs 3–4.

Coherence and Consistency of the Design

Coherence and consistency of the PGBS design, taking into account the extent to which the different partners (various IPs and government) show differences in expectations and approaches related to PGBS or some of its components.

Level: **

Trend: +

Confidence: ***

B1.32 Both the GOV and IPs agree on a key feature of PGBS design: that its focus is to support the GOV reform programme and it is a way in which they can engage in policy dialogue on these issues. It is also perceived by IPs as a useful way of helping to build core central government capacities (e.g. in PFM) and to move towards greater IP coordination and alignment with planning and budgetary cycles. The design of the PRSC has also adapted over time to accommodate the interests and objectives of IPs. This is particularly illustrated by the addition of Pillars 2 and 3, which reflected more closely pro-poor concerns of IPs.

B1.33 GOV officials also expressed a general satisfaction with the process, noting a positive evolution of GOV involvement and leadership from PRSC1 to the current PRSC4. Some parts of the GOV also saw the PRSC as a useful opportunity for sharing information and resources and for mutual learning with IPs (and each other), as well as for aligning IPs more effectively behind GOV policy priorities.

B1.34 Overall, IPs acknowledge the important role that the World Bank has played in providing coherence to the PRSC process and agree this is the major benefit from having a World Bank-led PGBS mechanism. There appeared to be general satisfaction with the dialogue process, although there were some concerns regarding the tight annual schedule for the PRSC process.

This is due to the fact that the World Bank has to adhere to an internal timetable for PRSC submissions, which often limits the time available for consultation and discussion.

B1.35 The PRSC also includes many policy actions but a limited number of triggers, to avoid over-burdening government. These “triggers” are evaluated using a bottom-line assessment allowing for judgement rather than on a strict quantitative basis, which appears to be in keeping with an environment where strict conditionality has not been effective (World Bank 2005b: 16).

B1.36 There were some IP concerns relating to systems for monitoring and evaluation which are discussed in further detail in Chapter B9. There were also differences between some IPs’ perceptions of the objectives of the PRSC: some clearly saw co-financing the PRSC as a way of “buying a seat at the table”, whereas others saw it more as a way of not only engaging in dialogue but also promoting the H&A agenda.

Response to Previous Weaknesses in Aid Management

The extent to which the PGBS design responds to analyses of previous weaknesses in aid management systems and processes.

Level: ***	Trend: =	Confidence: ***
------------	----------	-----------------

B1.37 The PGBS in Vietnam appears to have been motivated by a number of factors (from the IPs’ points of view). One is as a way of participating in national policy dialogue and influencing policy reforms, which IPs have not been able to do successfully through projects. Another is as a response to the well-known and documented critiques of projects, in terms of disbursement delays, limited impact, lack of government ownership, duplication, gaps, lack of integration with government programmes, etc. These critiques have also been presented in the form of good budget support or donorship principles, such as government ownership, IP harmonisation and alignment etc. (Ohno and Nijya 2004). The PRSC has been designed to overcome these problems by operating within government systems, supporting national strategies and priorities, and seeking a form of conditionality that reflects cooperation between the partners. Partnership groups also enhance the possibility of dialogue and increased aid coordination which did not occur under other forms of GBS, while basing the policy matrix on the GOV reform programme ensures ownership.

B1.38 Also, the disbursement record of projects has not been good. Although most (though not all) IPs stated that their PGBS funding was not an addition to their total aid commitments for Vietnam, the PRSC has a better disbursement record than projects, implying an increase in total disbursements if not total commitments. The design of the PRSC has better facilitated disbursements than other aid modalities.

Principal Causality Chains

B1.39 This chapter does not evaluate a causality chain, but aims to assess the extent to which the design of PGBS reflects the Level 0 entry conditions in the EEF. The design of PGBS has responded to the national context and created a framework that reflected strong government ownership and a good record on poverty reduction and macroeconomic management. Weaknesses, such as shortcomings in PFM systems, were also reflected in the PGBS, by inclusion in the policy matrix or in complementary TA programmes, while the design was intended to address the problems previously experienced with programme aid and projects.

Counterfactual

B1.40 Previous forms of programme aid did not take into account strong GOV ownership of policy; when they attempted to impose policy they were not effective and lending was held up, often on technicalities. Much has been achieved through projects in Vietnam, and there are obviously circumstances in which projects are the appropriate modality; but there are also well-documented practical and systemic problems that arise from the use of parallel systems.

B1.41 However, it should be noted that the PRSC is designed to complement other forms of aid. Most co-financiers not only co-finance the PRSC, but also undertake other projects and programmes. Policy actions in the PRSC are designed to complement and reinforce the implementation of these other aid modalities. Therefore it is not a question of either/or, but whether the PRSC combined with these other projects and programmes has been more effective than if the PRSC did not exist. In this context, the PRSC seems well designed, given previous experiences with other aid modalities.

B2. The Effects of Partnership GBS on Harmonisation and Alignment

Has PGBS contributed to greater harmonisation and alignment of the aid process?

Introduction

B2.1 Harmonisation relates to the process of adapting IP procedures and practices in order to ensure a common approach. Alignment refers to the fit of IP policies, procedures and practices with national strategies, institutions and processes. Alignment has two principal dimensions: with government policies and with government systems. There is a strong presumption by IPs and in the literature on aid effectiveness that harmonisation and alignment (H&A) will make aid more effective, although this is not self-evident. H&A is considered as one of the non-financial inputs of PGBS. This chapter is primarily concerned with whether H&A is taking place.

B2.2 The part of the causality map being tested in this chapter is whether H&A inputs at Level 1 of the EEF result, at Level 2, in IPs moving towards alignment and harmonisation around national goals and targets. In other words, do IPs' intentions lead to action on H&A? If there is such action, it should also have an influence on the effectiveness and efficiency of PGBS further along the EEF. It may also affect other, non-PGBS, aid inputs through increased aid coordination.

Relevant Facts: Harmonisation and Alignment

B2.3 In Vietnam there have been a variety of H&A initiatives but, despite the existence of a Harmonisation Action Plan and various other initiatives, progress has been slower than anticipated and has focused more on harmonising procedures and on policy alignment, rather than aligning with government systems.⁶ The incentive to engage in this process originated from the need to resolve the disbursement problems presented by projects, the influence of "good practice" in aid management initiatives and an acknowledgement of the benefits of collaboration in a congested market (Lister 2003). Harmonisation and coordination have mainly been of a strategic nature aimed at improving aid effectiveness, with little alignment with government systems. This has been due to the inability of some IPs to engage in harmonisation and alignment due to inflexible rules and to the difficulty of harmonising with government budgetary systems which are not transparent, as well as concerns regarding fiduciary risk (IMF 2004).

B2.4 The Like Minded Donor Group (LMDG) has been very vocal in pressing for improvements in aid effectiveness and promoting the harmonisation agenda. The group has shifted its focus away from attempting to harmonise existing ODA procedures to harmonising through new aid modalities. This came as a result of realising that institutional inflexibilities made it more difficult to harmonise procedures that already existed; therefore new aid operations and modalities offered a more promising method of pushing forward the harmonisation agenda.

B2.5 The harmonisation agenda appears in more recent years to have spread to a wider spectrum of IPs. Some of this is due to peer pressure from the LMDG, but also international trends, such as OECD DAC guidelines on IP practices, the Monterrey Consensus and the Rome

⁶ See Partnership Group on Aid Effectiveness (PGAE) 2004 for examples of H&A initiatives, and Bartholomew and Lister (2002).

and Paris Declarations on Aid Effectiveness (OECD DAC 2005b). Problems with project disbursement have led to more IPs becoming aware of the advantages of coordination and cooperation. More recently there has been a realisation that alignment with government systems is preferable, and IPs have focused on strengthening government systems, notably financial management. Currently a variety of activities are centred on this, some of which are part of the PGBS process.⁷ The extent to which PGBS has resulted in further harmonisation and alignment is considered below.

Assessment against Evaluation Criteria

Policy Alignment

The extent to which PGBS has contributed to increased IP alignment with government policies at national and sectoral levels through:			
(a) aligning aid objectives and conditions with government objectives and targets			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: ***

B2.6 The overall policy alignment process began with the development of the CPRGS, which started in 2000 and was completed in 2002. The CPRGS then became the main focus for policy alignment; it facilitated the development of an institutional network for consultation and provided a government-owned policy framework to align with. The LMDG was instrumental in aligning funding policy and strategy with the CPRGS although not all major donors were aligned with it (World Bank 2004). Thus there was already a positive trend towards policy alignment which could be built on and further supported by the PRSC process.

B2.7 As outlined in Chapter B1, the PRSC policy matrix is based on the CPRGS and the GOV reform plans. Therefore, policy alignment is strong, with aid objectives and conditions aligned with government objectives and targets.

B2.8 The monitoring systems for the PRSC are also based on the Millennium Development Goals (MDGs), which were adapted by the GOV to localise them; currently the GOV is working with IPs to design common indicators for assessing progress towards these objectives. There is also an initiative to develop common indicators for the five-year plan, which will then be used as monitoring indicators for the PRSC as well. Conditions are negotiated in a similar way based on policy actions and triggers which are used to assess the extent to which policy actions have been achieved in each pillar of the PRSC. Again, these are based on the policy actions which are drawn from the GOV reform agenda and there is consultation with the GOV to ensure that the triggers will be achievable and fit with GOV policies and objectives.

B2.9 Overall the PRSC has improved policy alignment between IPs and the GOV as it has provided a common policy framework to align with. It has also played an important role in coordinating IPs' policies and actions with each other, with the expansion of co-financiers further strengthening this process. The co-financiers also include IPs who were not previously concerned with the H&A agenda, which indicates some measure of success in increasing aid coordination. It should also be noted that the PRSC was reported as playing a role in coordinating the GOV system. Several GOV respondents noted that the process of discussion between central government and sector ministries led to increased clarity regarding government

⁷ See Government of Vietnam and Development Partners 2005 for the most recent outline of the harmonisation and alignment agenda.

policy, accountability for specific policies and enhanced the information-sharing process at a government-wide level.

Government Leadership

(b) increasingly relying on government aid coordination, analytic work, TA management			
General situation:	Level: *	Trend: =	Confidence: ***
PGBS influence:	Effect: null	Efficiency: *	Confidence: ***

B2.10 The origins of GOV and IP joint participation in analytical work is in the development of the World Bank Country Assistance Strategy (CAS) in 1998, which involved consultations between the United Nations (UN), international NGOs and some mass organisations such as the Women's Union. The CAS took poverty reduction as its focus and the World Bank suggested that MPI should establish a joint-government Donor–NGO Poverty Working Group (PWG) and a smaller Poverty Task Force (PTF) to focus on urgent issues and implementation. The WB launched a series of participatory poverty assessments, which consulted with local officials from village to ministry level, donors, international NGOs, and Vietnamese professionals; this culminated in the World Bank Vietnam Development Report “Attacking Poverty” in 2000. The PTF was then prominent in the development of the CPRGS.

B2.11 More recently there has been little GOV leadership in analytical work or TA management on which IPs rely, apart from the 2005 Poverty Expenditure Review (PER), which took a participatory approach. However, this only involved GOV commenting on the work that had been undertaken by the World Bank-led PER team. The main way in which GOV is involved in analytical work is through partnership working groups, which engage in policy discussion on a variety of issues. The success of these working groups varies, however; it often depends on the extent to which there is government interest and involvement. Similarly the sector working groups of the PRSC work with differing effectiveness.

B2.12 The TA programmes that the PRSC complements play a key role in improving GOV capacity and improving IP confidence in government systems. In particular PAR and PFM reform have influenced government strategies to strengthen government systems towards standards and procedures that could be acceptable to IPs as well as government. The more recent Comprehensive Capacity Building Plan (CCBP) also aims to build capacity in MPI to manage projects and other forms of aid more effectively. However, these are not government-managed and there is little evidence of the PGBS or other previous forms of programme aid leading to GOV management of TA.

Alignment with Government Systems

Government planning and budget cycles

The extent to which PGBS has contributed to increased alignment with government systems at national and sectoral levels through:			
(a) aligning fund commitment and disbursement with government planning and budget cycles			
General situation:	Level: *	Trend: =	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: ***

B2.13 The PRSC process is aligned with government planning and budgeting cycles as the annual negotiation cycle for the PRSC begins in October, with finalisation of the PRSC policy

matrix and triggers for the following two years in May of the next year. Submission to the World Bank board with the proposed level of funding occurs in June. The World Bank then disburses around the middle of the fiscal year (January–December) with co-financiers following later in the year as and when commitments are approved and released (World Bank 2005b). This fits with the GOV planning and budgetary calendar, as the GOV issues a decree in June each year authorising the preparation of the budget for the following year. The budget is prepared and fine-tuned until November, when a second session of the National Assembly endorses the budget (World Bank 2000). By this point commitments from the World Bank and most co-financiers have been confirmed. The only disconnect is that some co-financiers do not confirm commitments in time for them to be fed into the budget preparation process and the timing of disbursement from co-financiers is not known for certain in advance. This causes considerable problems for the MOF, which sometimes has to borrow to make up funding shortfalls if co-financiers' disbursements are late in the budget year.

B2.14 Currently, commitments are made by co-financiers on a yearly basis, with a few co-financiers such as DFID and Denmark announcing commitments on a three-yearly and five-yearly basis respectively. As the GOV uses a five-year planning horizon and will be implementing three-year rolling MTEFs, this lack of certainty over future commitments will to a certain extent constrain efficient planning. However, the PRSC itself operates on a two-year cycle as outlined in B1.3.

B2.15 Alignment with GOV planning cycles will be strengthened when the CPRGS is incorporated into the GOV's own five-year plan, the SEDP. This will mean that for the PRSC 6–10 cycle the PRSC policy actions will be taken from the SEDP and the PRSC cycle itself will span the five-year time period of the SEDP. This will be further complemented by co-financiers moving to longer-term PRSC commitments.

Government implementation systems

(b) increasingly relying on government cash management, procurement, implementation, monitoring, reporting and auditing.			
General situation:	Level: *	Trend: +	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: ***

B2.16 There is little use of government implementation systems as most IPs use projects and operate parallel systems. There have been some recent moves towards more use of GOV systems through, for example, the Multi-Donor Trust Fund for the MOF which allows the ministry to manage funds for TA and from the Danes, who are beginning to channel all project funding through MOF systems.

B2.17 The design of the PRSC allows for funds to be disbursed to the State Bank of Vietnam using World Bank International Development Association (IDA) disbursement procedures for development policy lending. Formally, funds can only be used for eligible purchases, which are those related to the policy actions in the PRSC. Reporting procedures require reporting of the exact sum received into the SBV deposit account and a submission of a report on receipts and disbursements for the deposit account. Disbursement is not linked to any specific purchases and no procurement requirements need to be satisfied (World Bank 2005b). Therefore, once the funds have been disbursed, GOV systems are used for implementation, monitoring and auditing and there is no tracking of PRSC funds. It is interesting to note that this is the same channel through which IMF PRGF funds are disbursed, although this is regarded as balance of payments support rather than GBS.

B2.18 As the project modality is dominant in Vietnam, most IPs establish parallel systems through which they disburse aid. Moreover, most aid is still off-budget and not under GOV control. As the PRSC comprises approximately 10% of total aid, this represents a significant increase in the amount of aid funds that are on budget. As they are disbursed entirely through GOV systems, the PRSC is a very efficient way of supporting government implementation.

B2.19 More recently there has been an interest in using other aid modalities which use government systems, which probably stems from the “demonstration effect” of the PRSC. The positive experience to date of using GOV systems has led to some IPs being more willing to move towards greater use of GOV systems in other aid instruments.

Harmonisation among Donors and Modalities

The extent to which PGBS has contributed to improving overall coordination and complementarities of IPs' programmes.			
General situation:	Level: *	Trend: +	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: ***

B2.20 An extensive and well documented institutional framework exists which facilitates the process of dialogue and coordination between IPs and government. This began with the first IP meetings in 1993, while in 1994 the first Consultative Group (CG) meeting was held. Since then, 10 CG meetings have taken place, held in-country and chaired by the GOV and the World Bank. Since 1998 there have also been mid-year review meetings. A series of partnership groups were established as part of the CPRGS process, which increased the quality of dialogue and consultation between IPs. Parallel groups were then established as part of the PRSC. The proliferation of partnership groups has led to enhanced levels of dialogue between IPs, which the PRSC co-financiers have used to further expand the process of dialogue.

B2.21 The PRSC has played a coordinating role for policy dialogue by acting as a focal point for co-financiers on policy issues, which has resulted in a common policy framework being developed before it goes to government. This reduces transaction costs for the GOV as it is dealing with fewer IPs, although the process of negotiating the PRSC is also time-consuming for both the World Bank and the GOV. This coordinating role is enhanced by the fact that those who are not co-financiers of the PRSC, particularly smaller IPs or those who are restricted from being co-financiers, are allowed to be involved in sector working groups. However, many IPs are still outside the process and NGOs are only partially involved as consultation occurs once the PRSC draft is almost complete.

B2.22 Complementarities between IP programmes do occur as each IP focuses on the area in which it has the most expertise and relevant government contacts and joins the appropriate sector working group. It is also possible that enhanced levels of engagement between IPs and government centred on the PRSC and CPRGS have had spill-over effects into other areas and have generally raised and strengthened the level of cooperation and dialogue in other aid modalities too.

B2.23 There have been drawbacks with the process as many co-financiers consulted commented that the annual cycle does not involve sufficient time for in-depth dialogue or consultation once the PRSC document is prepared. This is due to time constraints faced by the World Bank, who have to adhere to an internal bank timetable for approval, which limits the time available for consultation. Furthermore, the GOV does not engage in all the working groups, attending only groups that reflect their particular needs and interests, while often only junior level

government officials or those from international departments attend meetings, not the policy-makers. There were also various criticisms from a few IPs who felt that important issues were not being addressed within the PRSC, such as human rights or social development issues. As such, there was a clear contrast between the “soft” approach of the World Bank and that of those IPs who felt there was a case for pushing harder on some issues. As more co-financiers have joined the PRSC, coordination has become more difficult for these reasons; interests have started to diverge, because some more recent co-financiers have joined to protect their interests and push their aid agenda rather than to pursue a harmonised approach.

The extent to which there have been specific complementarities between PGBS and other forms of aid.

General situation:	Level: *	Trend: =	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: **

B2.24 The PRSC is one of a range of aid modalities and is complementary as it is addressing the same areas that are being supported through projects, and co-financiers bring their expertise gained through mainly project activities to the PRSC process. Often the policy matrix actions provide the regulatory or policy framework which can then be followed by IPs in their activities or alternatively they support inputs already being provided. For example, policy actions related to SOEs are underpinned by the World Bank and DFID-funded project “Pilot Restructuring Project of Three General Corporations”, whereas a variety of support is being provided in the environmental sector, but the approval of a national strategy in PRSC2 provides a framework to align activities with. Therefore, the key role of the PGBS is that it supplies the policy framework which is agreed with IPs and the GOV and there are a variety of complementary TA activities, often through projects, that are put in place to support this.

Principal Causality Chains

B2.25 The principal causality chain is Level 1.5 to Level 2.6, which is H&A inputs resulting in IPs moving towards H&A around national goals and systems. There appears to be a clear linkage in this instance as the PRSC has provided a mechanism through which alignment with GOV policy and systems can occur in practice, and ODA is being provided in a harmonised way. There is evidence of increasing alignment to government policy and systems through the PRSC, as well as through the provision of a common policy framework for IPs to work within. In the future this is likely to be enhanced due to the demonstration effect of the PRSC which, by using GOV systems, has increased confidence in these systems, making IPs more willing to use them and other types of BS, and through more co-financiers joining the PRSC.

Counterfactual

B2.26 To date harmonisation and alignment have been promoted mainly through OECD DAC initiatives in Vietnam. The PRSC appears to be complementary to these initiatives and has been successful in coordinating IPs and improving alignment and promoting harmonisation. This would have been more difficult to achieve in an aid environment that focused primarily on a project modality, as in Vietnam most projects establish parallel systems and do not use regular GOV systems. Although previous forms of programme aid such as the PRGF, SAC or the Miyazawa initiative used GOV systems, they did not result in policy alignment as they were not owned by the GOV and therefore did not provide a coherent policy framework around which other IPs could align. Therefore, it seems likely that increased funding through the PRSC has resulted in an increased aggregate effectiveness of aid flows.

B3. The Effects of Partnership GBS on Public Expenditures

How efficient, effective and sustainable has been the contribution of PGBS to the performance of public expenditures?

Introduction

B3.1 This chapter relates to the transition from Level 2 (activities/immediate effects) to Level 3 (outputs) of the EEF. It will examine two principal causality chains – i.e. streams of possible effects arising from different PGBS inputs:

- whether an increase in funds subject to the national budget (2.2) and an increase in predictability of external funds to the national budget (2.3) leads to partner governments being empowered to strengthen systems (3.2) and therefore to increased operational and allocative efficiency of PFM (3.5/3.6);
- whether policy dialogue/conditionality/TA capacity building focused on key public policy issues (2.4/2.5) leads to increased resources for service delivery (3.1).

B3.2 This chapter first surveys the public expenditure record of Vietnam, then assesses PGBS against to the evaluation criteria. Finally, it summarises the findings on the principal causality chains and the counterfactual evidence.

Relevant Facts: Trends in Public Expenditure

B3.3 It is useful to begin by considering the public expenditure record of the GOV, in relation to the extent to which it is pro-poor and has generated or will generate pro-poor growth. Vietnam's approach to definition and tracking of pro-poor expenditures is reviewed in Box B3.1.

B3.4 Table 2A.3 in Annex 2A outlines the composition of state budget expenditure between 1994 and 2004. It is not possible to give figures prior to 1994 as the state budget was not published before this date. Total public expenditure has almost doubled during this time period, with education increasing its share of the budget and health holding its share constant. Education experienced an increase from 8.29% of total budget expenditure in 1994 to 17.5% in 2004 (Government of Vietnam and World Bank 2005). The share of health has declined slightly from 4.2 % in 1994 to 3.77% of total expenditure in 2004; as total public expenditure has risen considerably, this still represents a large increase in absolute terms. Social insurance expenditure has decreased from 11.2% in 1994 to 8.6% of total budget expenditure, but this also represents a significant increase in absolute terms. According to the IMF and their definition of pro-poor, pro-growth expenditure (outlined in Box B3.1), total direct poverty reduction expenditure rose from 5.1% of GDP in 1999 to 6.13% of GDP in 2003 (IMF 2004a). They also note that this trend predates the PRGF and the CPRGS, which suggests the motivation for this came from other factors.

B3.5 In fact, this pattern of public spending reflects the GOV concern for growth-with-equity. Income differs considerably between provinces, as do poverty rates. Hanoi, Ho Chi Minh City and Haiphong are the richest provinces, and equity objectives are pursued through progressive transfers of recurrent revenues across provinces. These three provinces annually transfer more than VND 3m per person to poorer provinces (Government of Vietnam and World Bank 2005). National programmes also target the poorest communes, while the Public Investment Programme (PIP) is more growth-focused.

Box B3.1: Definition and Tracking of Pro-Poor Expenditure

The term pro-poor expenditure is frequently used in Vietnam, usually in the context of pro-poor growth policies, but is very rarely defined. In the pre-PGBS period there was little focus on pro-poor expenditure in programme lending. The SAC, annual ESAF arrangements and AsDB conditionality were mainly focused on structural elements of the reform agenda and included SOE reform, private sector development and fiscal reform (IMF 2004a: 51). The PRGF was similar and continued the structural reform agenda.

The I-PRSP, which later became the CPRGS (in 2002) set out a growth-based strategy for poverty reduction and included three broad objectives which were based on the GOV reform programme. These were:

1. high growth through a transition to a market economy implemented by a structural reform agenda;
2. an equitable, socially inclusive, and sustainable pattern of growth implemented by appropriate sectoral and social policies and programmes;
3. adoption of a modern public administration, legal and governance system.

There was no specific prioritisation of particular expenditures that were considered to be pro-poor within the CPRGS.

PRSC1 began in 2001 and was based on the Interim Poverty Reduction Strategy Paper (I-PRSP). The structural reform agenda was the main focus with an emphasis on liberalising trade, reforming SOE, strengthening the banking sector, enhancing the environment for the private sector and improving PFM. The scope of reforms supported in PRSC2, which began in 2003, was broadened to include not only structural reforms but policy actions aimed at socially inclusive development and building the basis of modern governance. Education, health, environmental sustainability, land management and legal development were all included. PRSCs 3–5 are based on the same policy areas with the addition of social protection in PRSC5.

According to the IMF (2004a: 49), a pro-poor and pro-growth budget in the context of the PRGF in Vietnam will involve the following three elements:

- (a) reorientation of government spending towards social sectors, basic infrastructure and other activities that benefit the poor;
- (b) improvement in the efficiency and targeting of spending in sectors relevant to growth and poverty reduction; and
- (c) tax reforms that improve both efficiency and equity.

This includes current expenditure on education, health and family planning and capital expenditure on education, training, health and poverty-related projects in the agricultural, transportation, electricity and water sectors.

An additional important area of public pro-poor spending in Vietnam is the government poverty reduction programmes: the National Target Programme for Hunger Eradication and Poverty Reduction (NTP HEPR-JC) and the Programme for Socio-economic Development in Communes Faced with Extreme Difficulty (Programme 135).

As government expenditure data is only published in a relatively aggregated format it is difficult to identify these specific pro-poor expenditures and as a result makes them difficult to track over time.

B3.6 Central allocation of recurrent budgets for provinces is highly pro-poor. In effect, Hanoi, Ho Chi Minh City and Haiphong cross-subsidise the expenditure budgets of most of the rest of Vietnam. The annual subsidy from these three is over USD 200 per capita, with the poorest provinces getting a net transfer of about USD 50 per capita (World Bank 2003b).

B3.7 In addition, there are national programmes that target the poorest communes. Since 2001, these programmes have included the Hunger Eradication and Poverty Reduction and Job Creation Programme (HEPR-JC), Programme 135, and programmes in health, population and family planning, water, education and culture. In 2002 they constituted 3.4% of total state expenditure, up from 2.9% during 1999–2001.

B3.8 Public investment expenditure priorities, however, remain regressive across provinces, reflecting the strategic emphasis on “growth corridors” and ongoing subsidies to state enterprises. In 2002, public investment expenditures in the least poor provinces were about USD 150–200 per capita, compared to USD 40–80 per capita in the poorest (World Bank 2003b). After a decade of TA and conditionality, IPs’ progress towards improving the efficiency and focus of public investment planning has been slow. Only part of public investment is included in the state budget, and there are separate budgets for recurrent and capital expenditures.

Despite representing a claim on almost one fifth of Vietnam’s GDP, the PIP remains basically a compilation of projects submitted by line ministries, provincial governments and General Corporations. The criteria used to select the projects to be undertaken, and the link between spending on investment and recurrent expenditures are weak at best. (World Bank 2003b: 95)

B3.9 However, the Public Expenditure Review and Integrated Fiduciary Assessment (PER-IFA) 2005 does point out that progress has been made in public investment planning, particularly through decentralisation, giving more budgetary discretion and autonomy not only to provinces, but also to government agencies at every level. The modernisation of public expenditure management systems is also ongoing with the focus on fiduciary standards, making the process and its outputs more systematic and transparent, with the introduction of MTEFs reinforcing this.⁸ Lastly, there have been efforts to integrate aid into national systems of resource management, by recognition that a comprehensive planning perspective requires aid to be better integrated into GOV plans and budgets, and by the development of a more elaborate set of institutions for dialogue and coordination between Vietnam and its aid partners. Both the PIP and later the CPRGS were introduced as ways of making GOV planning more transparent to its external partners.

Assessment against Evaluation Criteria

Influence on Expenditure Allocation

The influence of PGBS funds on the levels and shares of pro-poor expenditures.			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: **	Confidence: **

B3.10 The share of total government expenditure devoted to pro-poor spending has increased since 1997. In recent years there has been a contribution from PRSC funds to increasing levels of pro-poor public expenditure. Given that the PRSC funds are 100% discretionary (as they are not earmarked) and GOV policy has become increasingly pro-poor, it is reasonable to infer that PRSC funding has supported the trend of increasing levels of pro-poor public expenditure.

⁸ See Annex 4 for more on the status of PFM systems.

B3.11 As outlined under relevant facts above, there has been a significant increase in expenditures that could be judged to be pro-poor such as in education and health. Moreover, some of the pro-poor policy actions in the PRSC imply considerable financial support to implement, such as Health Care Funds for the Poor (HCFP) and increasing funds for education. The costs of these programmes are outlined in Annex 2, Table 2B.3. Therefore additional PRSC funding allows the GOV to undertake these initiatives which might otherwise represent a considerable burden on the budget. Interviews with the MOF supported this, as they stated that PRSC funds were spent on ensuring implementation of agreed policy actions.

Discretionary Expenditure

The extent to which the PGBS funds have contributed to the increase in the proportion of external funds subject to the national budget			
General situation:	Level: *	Trend: =	Confidence: ***
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: ***

B3.12 PRSC resources are non-earmarked and fully discretionary. PRSC funding represents around 10% of total aid; this represents a significant increase in funds that are now on-budget, as the majority of aid flows are off-budget. Calculations of the discretionary resources available to the GOV through the budget indicate that just under one-third of the budget is discretionary, and PRSC funding represented approximately 8.2% of additional discretionary funds in 2001, 5.5% in 2002 and 7.75% in 2003 (see Annex 2B, Table 2B.2).⁹

Predictability

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall predictability of aid flows and public expenditures.			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: **	Confidence: **

B3.13 The amount of PGBS funding available has been moderately predictable. The use of triggers means that the World Bank contribution is decided on an annual basis, but the number of IPs co-financing the PRSC and hence total funding is often not confirmed until late in the process. Some IPs have announced PRSC contributions on a medium-term three-year or five-year basis, which has assisted in giving the GOV some level of certainty. There have been fluctuations in the overall PRSC funding that the GOV received from year to year, but these have not been very large, particularly when considered in relation to the disbursement record of projects. Disbursement of PRSC funds from the World Bank has been predictable with disbursements matching commitments, but disbursements by co-financiers have been less predictable. The PRSC 1 co-financiers' disbursement was delayed by six months due to difficulties with the GOV not having met key triggers, and the timing of co-financiers' funding is less predictable as it is disbursed throughout the budget year. The global figure for disbursement delays for ODA loans between 1993–2004 was approximately 35% in Vietnam (USD 10.5bn disbursed, out of USD 16.9bn in commitments [World Bank 2004e]). The disbursement record of the PRSC is fairly good in comparison.

⁹ The calculations of the discretionary element of the GOV budget undertaken were rather rudimentary as disaggregated budget data were lacking and no data in the appropriate format were available for 2004. Although some funds are off-budget, it was not possible to get a precise figure for these or for the elements of the government budget that are earmarked. However, the figure arrived at is similar to the one reached by MPI, who state that 32% of the government budget was discretionary in 2002 (www.mpi.gov.vn/plans).

Efficiency of Expenditure

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall efficiency of public expenditures and aid flows.			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B3.14 As noted, the PRSC has represented a significant increase in aid flows which are on budget; this promotes allocative efficiency in terms of the matching of expenditure allocations to GOV priorities. Operational efficiency has improved through related project and programme activities that have been designed to complement and support PRSC funding and increase the efficiency of both public expenditures and aid flows. These initiatives have been undertaken as part of the Public Financial Management Reform (PFMR) programme (see ¶B4.6 and ¶B4.7).

Transaction Costs

The influence of PGBS on the transaction costs of the budget process and utilising aid.			
General situation:	Level: *	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B3.15 Transaction costs are known to be reasonably high in Vietnam for the GOV, as the prevalence of projects results in parallel systems and considerable time spent in negotiating with IPs and using different procedures. The PRSC has reduced the transaction costs for the GOV and the administrative and budget process costs of utilising aid. Normally parallel systems would be used for ODA funds, but the use of GOV systems for the PRSC has reduced the administrative burden involved as their own budget systems and reporting procedures can be used. Although negotiation of the PRSC is a time-consuming process for both IPs and the GOV, this probably represents less transaction costs than if co-financiers were involved in the negotiation of individual projects instead. (See Chapter C4 for more on transaction cost issues.)

Principal Causality Chains

B3.16 The PRSC clearly does represent an increase in ODA funds subject to the national budget (2.2) and to a moderate degree an increase in the predictability of external funds to the national budget (2.3). Through policy actions that reinforced activities undertaken in the PFMR project there has been a moderate level of assistance to partner governments to strengthen systems and therefore there is some increased operational and allocative efficiency of PFM (3.5/3.6). Furthermore, the incentive of PRSC funds has probably provided an additional motivation to implement PFM reform (see Chapter B4). Therefore, there is a moderate linkage in this causality chain.

B3.17 Policy dialogue/conditionality/TA capacity building has also focused on key public policy issues (2.4/2.5) and thus far has had a moderate impact on the availability of increased resources for service delivery (3.1).

Counterfactual

B3.18 PGBS has been a key mechanism for channelling funds through government systems and the PFMR initiative has been important in terms of increasing the efficiency of these systems. In principle, this could also occur if projects were to use government systems but currently most projects in Vietnam operate parallel systems. The GOV already has a reasonable public expenditure record so less aid would still result in similar priorities, but PRSC funding allows a higher level of public expenditure and underpins the focus on pro-poor spending and enhancing service delivery.

B4. The Effects of Partnership GBS on Planning and Budgeting Systems

How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?

Introduction

B4.1 This chapter addresses the effects of PGBS on planning and budgeting systems; it traces through a causality chain from Level 2 to Level 3 to evaluate whether:

policy dialogue, conditionality, TA and IP alignment and harmonisation (2.4/2.5/2.6) have enhanced partner governments' ability to strengthen PFM and government systems (3.2), leading to operational and allocative efficiency of PFM systems, strengthened intra-governmental incentives and enhanced democratic accountability (3.5/3.6/3.7).

B4.2 This chapter begins by providing an overview of planning and budgeting systems in Vietnam and then assesses the extent to which PGBS has played a role in strengthening these systems.

Relevant Facts: Planning and Budgeting Systems in Vietnam

B4.3 There has been a lot of diagnostic work undertaken on PFM systems in recent years. There have been public expenditure reviews in 1996, 2000 and 2004, a review of fiscal transparency in 1999, a Country Financial Accountability Assessment (CFAA) in 2001, a Country Procurement Assessment Review (CPAR) in 2002 (the last two were both updated in the course of the 2004 PER/IFA) and an EC Public Finance Diagnostic Study. Findings are summarised in Annex 4, which also outlines Vietnam's performance against the framework of Public Expenditure and Financial Accountability (PEFA) indicators (a set of 28 high-level performance indicators which has been developed, as a basis for assessing improvements in PFM performance over time).

B4.4 There is a general consensus that the quality of PFM has improved, although weaknesses still remain. There have been important improvements in treasury management and control of budget execution, but there are still issues regarding transparency of budgets and expenditures as well as budget formulation. There is also a lack of a multi-year perspective in fiscal planning, expenditure policy-making and budgeting; pilot medium-term expenditure frameworks (MTEFs) for four sectors (Education, Health, Agriculture and Rural Development and Transport) and in four provinces have only just been begun despite being a policy recommendation in the 2000 Public Expenditure Review (Government of Vietnam and World Bank 2005: 54). A key objective of these MTEF pilots is also to take account of decentralisation of public expenditure management institutions by strengthening public expenditure planning capacity at provincial level, as well as linkages between national sectoral planning and provincial planning.

B4.5 The scope and nature of external audit and oversight has been addressed and strengthened in recent years, although it remains weak. However, there has been an increase in oversight by the National Assembly and the provincial People's Councils over public finances. Improvement is still needed in oversight by the National Assembly over public finances, while the State Audit of Vietnam needs to become more effective. Audit reports should be published

and financial accountability and transparency at sub-national levels needs to be strengthened (Government of Vietnam and World Bank 2005: 67).

B4.6 There has been significant IP support to assist in the strengthening of planning and budgeting systems. The main support is through the PFMR initiative which focuses on strengthening budget planning, execution, reporting and accountability. The Multi-Donor Trust Fund (MDTF) which provides resources to the MOF to initiate projects involving TA in this sector¹⁰ and the UNDP Public Administration Reform programme (PAR) are providing assistance in this area. Further details of these programmes are outlined in Annex 3B.

B4.7 The PRSC includes policy actions related to planning and budgeting systems in Pillar 3 on Modern Governance. The majority of these actions are part of the PFMR initiative and the role of the PRSC is to reinforce and provide an additional incentive to undertake these reforms, with the TA being provided through the PFMR. In PRSC1 there were policy actions: a) to undertake a PER with a timetable to implement its recommendations; b) to publish sectoral breakdowns of at least 75% of government spending; and c) for the State Treasury to manage an information system for government expenditures. These actions were undertaken although with some delay as the PER was published in 2005 and presumably the recommendations have yet to be implemented. In 2004 there was disclosure of the entire state budget plan and a management information system (MIS) was installed in the Treasury (World Bank 2004e).

B4.8 Under PRSC2 the policy actions were to adopt a Budget Law with progress on decentralisation and transparency, which was passed in 2002 and became effective in 2004. In PRSC3 policy actions included piloting an MTEF in education, unifying accounting systems in the state budget and the state treasury, and designing an overall treasury and budget management integrated system. These activities are all progressing and the draft PRSC4 Project Document (World Bank 2005b) comments on the significant progress that has been made in PFM.

B4.9 There are various other policy actions related to strengthening budgetary processes in PRSCs 4–5 which should work towards more efficient allocation of budget resources if they are effectively implemented. These are shown in Box B4.1 below.

Box B4.1: Proposed Policy Actions Relating to the Budget Process in PRSCs 4 and 5

PRSC4

- Improve the evaluation of socio-economic returns of public investment projects.
- Issue regulations to improve financial disclosure for all state budget entities including SOEs.
- Launch an assessment of the fiscal risks associated with SOEs, SOCBs and Development Assistance Fund (DAF).

PRSC5

- Issue transparent budget allocation norms redistributing resources to the poorest provinces.
- Adopt the multiyear rolling principle in budget preparation.
- Adopt international sector accounting standards for cash basis.
- Implement an MTEF in education and transport.

Source: World Bank 2005b.

¹⁰ The Multi-Donor Trust Fund is funded by Canada, Denmark, the Netherlands, Norway, Sweden, Switzerland and the UK. The purpose of the MDTF is to strengthen MOF capacity to implement selected reforms under the FMP through the provision of TA, workshops and training. For further details see Claussen 2004.

Assessment against Evaluation Criteria

Systemic Effects on the Budget Process

Ownership

The extent to which an increase in predictable and discretionary resources has helped to increase ownership of the budget process and commitment to improved budgeting.			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: *	Efficiency: **	Confidence: **

B4.10 The budget process has always been owned by the government in Vietnam and until recently there was little transparency in budget planning. The State Budget Law in 2002 played a key role in reforming the budget process by clarifying powers and responsibilities and strengthening transparency and accountability in PFM. In PRSC2 the adoption of the State Budget Law was included as a policy action and this was duly undertaken in 2004. Although GOV ownership is high, it is compromised by the fact that most ODA funds are off-budget, but as the PGBS brings funds on-budget, this enhances GOV ownership and control of the budgetary process, and this means that PGBS is a reasonably efficient method of achieving increased ownership.

B4.11 The effect of PGBS on commitment to improved budgeting has been weak for institutional reasons in Vietnam. This is because there is a split in the planning and budgeting function between the Ministry of Planning and Investment and the MOF. A system of “dual budgeting” results in the MOF preparing the fiscal framework and recurrent budget estimates while the Ministry of Planning and Investment prepares the Public Investment Programme (PIP) and the investment budget. This process has resulted in serious imbalances between recurrent and capital expenditure (Government of Vietnam and World Bank 2005: 53).

Accountability

The extent to which the increased use of government systems and processes helped to improve the accountability of public expenditures.			
General situation:	Level: *	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: **	Confidence: **

B4.12 Annex 4 shows that Vietnam scores weakly on external scrutiny and audit (see comments against Public Expenditure and Financial Accountability (PEFA) indicators PI-26 and PI-27). There is also little participation in the annual budget process as there is a lack of transparency (PI-11). As PRSC funds have been channelled through government systems and use GOV auditing and reporting structures, there has been increased interest by donors in improving these processes and improving accountability. These issues have been addressed through governance issues highlighted in Pillar 3 of the Policy Matrix and also relate to donors' concerns regarding weaknesses in democratic accountability.

B4.13 PRSC funding may well have provided an incentive for government to institute reforms. There have also been various initiatives which have aimed to improve the accountability of public expenditure. Those specific to the PRSC are outlined above and focus on improving transparency by publishing the state budget and clarifying roles and responsibilities, undertaken in the State Budget Law, and integrating core treasury and budget management information systems. These actions were also supported through the PFMR Initiative. Future PRSC policy actions such as making budget norms more transparent, reducing corruption and adopting international accounting actions will also play a role. Other initiatives that have improved

accountability of the public expenditure system have been through the Decree on Grassroots Democracy, which requires communes to make budgets and final accounts public, and laws that strengthen accounting and auditing and increasing oversight by the National Assembly.

Durability

The extent to which PGBS supports government in internalising such improvements (ensuring the sustainability of the whole process).			
General situation:	Level: *	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: **	Confidence: **

B4.14 Institutions for budget planning and management have been strengthened over the past decade with the major reforms occurring as part of the 2002 State Budget Law which was included as part of the PRSC process. Further reforms still remain to be undertaken. These are related to the need for more coordination and joint working between the MOF and Ministry of Planning and Investment (see ¶B4.11), the need for implementation of MTEFs and strengthened links between performance indicators and budgetary decisions and better monitoring of service delivery (Government of Vietnam and World Bank 2005: 53).

B4.15 Despite this, it appears that some of the improvements brought about through the PRSC policy actions have been effectively implemented and internalised within government. The budget itself has become more transparent as each year more information has been disclosed. The 2005 PER was undertaken with strong participation from the GOV, which again suggests that they wished to engage in this process. Other areas that the PRSC have addressed mainly relate to the introduction of new systems such as the new Treasury and Budget Management Information System (TABMIS) for Treasury and Budget management information and to the introduction of the pilot MTEFs. This indicates that the PRSC is supporting the internalisation of these changes.

Capacity Development

The extent to which PGBS is supporting capacity development in PFM.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: ***

B4.16 Capacity development in PFM through TA is not being directly addressed through PGBS as the main work is being undertaken through the PAR and PFMR reform programmes which have provided the TA to develop capacity at central and sub-national levels of government (see ¶B1.18). There is a stronger link between the PRSC and the enhancement of GOV systems through the linkage between the PFMR and the PRSC, both of which closely involve the World Bank. There is less linkage between the PAR programme and the PRSC and the linkage between many other non-PRSC projects and programmes with the PRSC is often poor.

Principal Causality Chains

B4.17 The most persuasive causal links are as follows.

- (a) The link between 2.4/2.5/2.6 and 3.6 (increased allocative efficiency of PFM systems); this is a moderate link, which can be attributed with a moderate level of confidence, but the linkage may be strengthened in the future due to policy actions proposed under PRSCs 4 and 5.

- (b) The GOV has always had good fiscal discipline and the PRSC only had a minor role in supporting fiscal discipline, which means this link is weak. There has been a moderate impact on intra-governmental incentives (3.7) as the PRSC through policy actions has reinforced the incentives to undertake reforms which have strengthened budgeting and planning.
- (c) There is a moderate link to democratic accountability with a moderate level of confidence in this judgement; there have been moves towards transparency of the budget process but accountability is still not strong (3.8).

Counterfactual

B4.18 Previous programme aid operations did not focus on improving planning and budgeting as they were mainly focused on structural reform of the macroeconomy. There have been a variety of projects and programmes which have supported this area and have been successful in improving budgeting systems, particularly PFMR. The PRSC is complementary to the PFMR as it supports implementation of its activities, and, taken as a whole, this approach has been more effective than previous ones. Also, as most of the policy actions related to this area are in PRSCs 4–5, it is possible that the PRSC will have stronger effects in the future.

B5. The Effects of Partnership GBS on Policies and Policy Processes

How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?

Introduction

B5.1 This chapter addresses the extent to which the PRSC has resulted in improved public policy and processes. As such it focuses on tracing causality from Level 2 (immediate effects) to Level 4 (outcomes) in the EEF to evaluate whether, through the PRSC:

policy dialogue/conditionality focused on key public policy and public expenditure issues and priorities (2.4); TA and capacity development focused on key public policy and PE issues (2.5); and IPs moving towards alignment and harmonisation around national goals and systems (2.6); has led to pro-poor policies and targeting (3.3) which in turn leads to appropriate sector policies to address market failure (4.4) and appropriate private sector regulatory policies (4.2).

B5.2 The analysis begins by providing an overview of policy-making processes in Vietnam, then continues with an assessment of whether PGBS has played a role in enhancing either policies or policy processes.

Relevant Facts: Policy-Making in Vietnam¹¹

B5.3 There has been an effective and dynamic reform process in Vietnam, which began with a programme of economic reform (“Doi Moi”) in the late 1980s. These reforms involved a shift from state controls to a reliance on market mechanisms for economic management and resulted in substantial reductions in poverty and a good track record on macroeconomic stability (see ¶A2.1). Despite this, the 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.

B5.4 Policies and decisions are developed through a process of vertical and horizontal consensus-building. This involves the Party, legislature (National Assembly and People’s Councils), the state management bodies (government and People’s Committees) and the executive (ministries and departments). The process of policy-making involves negotiation between vertical and horizontal lines of authority and then clarification of broad policy frameworks which are then interpreted at a local level into directives and planning recommendations. This process results in provincial governments adapting policy directives to local situations, and the outcome is considerable regional diversity in policy interpretation and implementation.

¹¹ This section draws heavily on Van Arkadie and Mallon (2003).

B5.5 There is still a general lack of adequate administrative capability, particularly at the provincial level, which limits the prospects for a more effective form of decentralisation. Implementation itself is characterised by a tendency to experiment with reforms on a pilot basis. If they are then deemed successful they are rolled out country-wide. Another feature is the slow/quick pattern of reforms that is often observed. Little activity occurs on a particular issue then suddenly an initiative is vigorously implemented. This is due to the consensus-driven decision-making process described above, which means that it takes time to reach a decision, but once it is made, changes can happen quickly.

B5.6 The complex system of policy-making has resulted in difficulties for donors, who often are not aware who the key policy makers are both within the Party and government. The problems experienced by donors in engaging in policy dialogue are outlined in Box B5.1, although it should be noted that some donors have more problems in accessing GOV than others. Often it depends on the past relationship with the GOV and the influence of the donor. Policy-making is often reactive and experience-based in Vietnam with experimentation through pilot projects before reforms are scaled up. Policy-makers will often consider a wide range of international practices and policies before deciding on an appropriate course of action for Vietnam. This indicates the way in which the GOV is prepared to learn from and experiment with different ways of designing and implementing policy.

Box B5.1: Constraints to Engaging In Policy Dialogue with Government

“Donors face several problems in finding good actors for the policy dialogue. First, although at first sight Vietnam still has a centralized political system, in practice policy-making is a diffuse process. There is a large role for consensus building at all levels. Second, organizations such as the Party, the Fatherland Front and the Army play an important role, but this role is not visible to donors. They do not know whether they deal with representatives of these organizations when talking to government officials. Third, form often replaces substance in Vietnamese policy-making: laws may be approved but this does not have consequences for implementation. Fourth, it is often not clear what the ‘current’ government position is, since policies are often not defined and policy changes are just reactive and made in response to crises. Fifth, sharp distinctions between categories, such as the public and private domain or government vs. state-owned enterprises, are often not applicable. In sum, neither donors nor policy-makers know who has the power to implement reforms, or what the outcome of the decision-making process will be. These factors also reduce the probability that eventual outcomes of the policy dialogue will be implemented” (Donge and White 1998).

Source: cited in Dijkstra 1999: 24.

B5.7 There have been some examples of donors and the GOV engaging in joint policy-making. The CPRGS process involved wide consultation with the GOV, donors and NGOs through a network of working groups (see ¶A2.2) and the next Socio-Economic Development Plan which is currently being developed will involve donor participation as it will provide the basis for the PRSC 6–10 cycle.

Assessment against Evaluation Criteria

Influence on Reform Process

Ownership and effectiveness

The extent to which PGBS (allowing for the time lags of its operations) has helped (is helping) to establish/maintain a comprehensive, coherent and effective pro-poor reform process, owned by the government.			
General situation:	Level: ***	Trend: +	Confidence: ***
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: ***

B5.8 As noted in ¶B5.3, an effective reform programme already existed in Vietnam prior to PGBS. The objective of the PRSC in Vietnam is to support the reform process which is outlined in GOV plans and the CPRGS (World Bank 2004e). This means that the reform process is very much owned by the GOV with the PRSC policy matrix based on the reform programme. To date, no policy actions have been introduced which are not in GOV plans or the CPRGS and the GOV is not willing to introduce elements that do not fit with its strategies and objectives.¹² The policy actions and triggers are also discussed with the GOV and announced annually in advance for the next PRSC cycle and form the basis of policy dialogue. Therefore, there is little doubt that the reform programme is already strongly owned by the GOV and PGBS has helped maintain an effective reform programme by keeping up the momentum and strengthening the hand of reformers within the GOV.

B5.9 The first PRSC was focused mainly on economic measures under Pillar 2, with social inclusion and environmental sustainability included in Pillar 2 in PRSC2, and modern governance under Pillar 3 only being comprehensively addressed by PRSC3. The policy action matrix and triggers can be seen in Annex 3D and many programmes other than the PRSC have been supporting these policy actions, through TA and additional funding. This means that both the PRSC and various complementary activities have played a part in supporting the reform process. There is also an important role played in maintaining the reform programme on track and strengthening the hand of reformers in the GOV and party. Although the PRSC sum involved is reasonably small as a proportion of the government budget, it still provides an additional revenue source to the GOV, which provides an incentive to fulfil the agreed actions and therefore represents an efficient mechanism for doing so.

B5.10 It does not appear that the PRSC has assisted in speeding up the reforms as the areas that made slow progress prior to the PRSC, such as the reform of SOEs and the financial sector, are still weak parts of the reform programme (WB 2005b). This reluctance on the part of the GOV to implement these reforms existed prior to the PRSC with both projects and previous forms of programme aid aimed at reform in these areas experiencing little success. This is also commented on by the World Bank (2005), which states that:

the speed at which progress is made towards the attainment of development outcomes within each of these areas (of the PRSC policy matrix) crucially depends on the political will to implement reforms (World Bank 2005b).

B5.11 However, there is a significant role played by the World Bank in behind-the-scenes discussion with both the GOV and the Party. The World Bank points to the inclusion of WTO accession in 2003, anti-corruption in 2004 and banking reform in 2005 as examples of where

¹² An example of this is democracy and human rights, which is not included in the PRSC due to the GOV's unwillingness to engage in discussions on these issues. Further discussion of this can be found in Chapter C1 on cross-cutting issues.

access to officials through the PRSC process allowed progress to be made on implementation in these areas (World Bank handout from PRSC Stocktake 2005).

B5.12 Additionally, even though policies are established through laws or decrees, in practice implementation is very varied; in some areas (e.g. PAR) change has been very slow. Capacity to implement is also variable with unclear lines of decision-making and responsibility, combined with a lack of overall clarity regarding GOV policy (Van Arkadie and Mallon 2003). There is also weak capacity in legal drafting and problems with implementation of laws. Armytage and Cao Xuan (2005) noted that:

the key characteristics of legal normative documents are that they are of a poor quality and: a) ineffective as public policy instruments (fail to reflect goals of GOV); b) inconsistent with the constitution and other laws; c) difficult to implement owing to lack of clarity, vagueness and ambiguity; d) internally confused and contradictory; e) reflect departmental self-interest rather than the public interest; f) inefficient, poorly drafted and late (Armytage and Cao Xuan 2005: 4).

As many of the PRSC policy actions involve issuing regulations, decrees or new laws, it is worth bearing in mind that there is no guarantee that all policies will be implemented effectively or that they will be sustainable in the medium to long term.

B5.13 The IPs perceive that one of the key objectives of PGBS is to engage in high-level policy dialogue and through this strengthen GOV policy-making and influence the design and content of the reform process. It was often reported by respondents that IPs were “buying in” to high-level policy dialogue through the PRSC. As such, the PRSC does appear to provide a more effective mechanism for increasing policy dialogue than projects, as being a co-financier provides access to the GOV through discussions on policy actions and triggers. The partnership groups are another means to contribute to policy design, particularly for smaller IPs who are unlikely to gain this type of access to policy dialogue with the GOV on their own. For all IPs, policy dialogue with the GOV through the PRSC can also have overlapping synergies with other projects and programmes which they implement.

B5.14 On the other hand, many of these discussions are with lower level GOV officials or aid management departments which do not have influence over policy-making decisions (Shanks et al 2004). Given that the GOV has always welcomed new ideas from a variety of sources it is likely that donor dialogue and discussion in partnership groups will comprise just one of many influences on the government policy-making process.

B5.15 Overall, PGBS appears to have had an effect on the reform programme through strengthening the design and implementation of policy through policy dialogue, with complementary TA projects providing support with implementation. It is probable that the policy dialogue process has strengthened the content of policies by providing expertise on these issues. This has particularly had an impact in PFM, the environment, HIV/AIDS and education (see Chapter C1 for discussion of PGBS and the environment and HIV/AIDS). The significant amounts of TA focused on these sectors have then played a role in reinforcing and funding implementation.

Participation

...in which, an appropriate range of stakeholders is involved in policy formulation and review			
General situation:	Level: *	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: *	Confidence: **

B5.16 There are a variety of organisations that are involved in policy formulation and review (see ¶B5.4). These are all governmental or quasi-governmental organisations with little involvement from business organisations or actors outside the political system. IPs are involved in the policy formulation process through PRSC policy dialogue with government and the Party. However, participation from government is limited to central government ministries, with little involvement from sector ministries. At provincial level there is also little awareness of the process. Civil society and involvement of the business community is also lacking, although most civil society organisations in Vietnam have GOV or party affiliation and therefore cannot be classed as civil society in the usual sense.

B5.17 There is little NGO participation, with consultations occurring towards the end of the PRSC formulation process and little sharing of information prior to this. Although IPs who are considering becoming co-financiers can be involved in the policy dialogue, there is no participation from the larger IPs such as the IMF and UNDP, who are unlikely to contribute funding. This limits the extent to which the PRSC can act in a wider aid coordination capacity.

B5.18 However, the CPRGS preparation process did involve a wide range of stakeholders and as it is currently planned to have a process of consultation which will be participatory to develop the next SEDP (see ¶B5.7).

Learning

...in which, policy processes encourage both government and IPs to learn from experience and adapt policies to country circumstances			
General situation:	Level: *	Trend: =	Confidence: ***
PGBS influence:	Effect: *	Efficiency: *	Confidence: ***

B5.19 The policy-making process is known to be opaque in Vietnam and this lack of transparency means that it is difficult for IPs to engage in policy processes due to the problems outlined in ¶B5.6. Formal responsibility for final decisions on policies lies with the Party through the Politburo rather than with the GOV, and PGBS policy dialogue takes place with the government. For example, one obstacle to banking reform is that this policy has not yet been ratified by the Party and as a consequence there has been little progress towards reform. The process through which the PRSC policy actions are developed means that government is consulted initially to confirm the policies that they intend to undertake and then IPs discuss the triggers and policy actions. The GOV then comes into the negotiation process later with often junior members of the GOV involved. As a result, the development of policy actions, triggers and outcomes takes place through a parallel mechanism to the GOV policy-making process which is an internal process that is not well understood.

B5.20 The PGBS approach may not have had a major impact on GOV policy-making, but it has led to more transparent monitoring of many policies through the PRSC triggers and monitoring of the CPRGS process. It can be seen as part of a wider process which has led the GOV to become increasingly aware of the international experience it can draw on to improve its policy.

B5.21 The PRSC has clearly evolved over the PRSC 1–5 cycle and this indicates an ability to adapt policy to country circumstances and learn from experiences (see ¶B9.11). The PRSC Stocktake in 2005 was another example of both GOV and IPs engaging in this process (see ¶B9.7).

Influence on Policy Content

Public and private sectors

...in which, policies address major market failures, the regulatory environment and the appropriate balance between public and private sectors			
General situation:	Level: *	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: *	Confidence: **

B5.22 Many of the policy actions and triggers in the PRSC are aimed at creating a strong regulatory environment, addressing market failures and reducing the role of the state. Pillar 1 for PRSCs 1–3 focuses on trade liberalisation, equitisation of state-owned enterprises, restructuring the financial sector and providing a strong regulatory framework with adequate supervisory capacity. Private sector development is addressed through strengthening the legal framework via approving the enterprise law, adopting resolutions on private sector development and strengthening intellectual property rights. Environmental protection regulations have also been included as have actions on poverty reduction, such as creating Health Care Funds for the Poor and policy actions aimed at social protection in PRSCs 4–5.

B5.23 To date, there are still many market and regulatory failures and reform has been slow in sensitive areas such as the financial sector and enterprise reform (World Bank 2004 CAS Progress Report; World Bank 2004b). Trade integration is rated by the World Bank (2005b) as having made substantial progress towards WTO accession and also achieved various other trade benchmarks that were included. In SOE reform, there was limited success in reaching nearly all the indicators, resulting in a continued bias towards state ownership. It was noted by the Economist Intelligence Unit (EIU) (2005) that the pace of equitisation has remained slow and, even after equitisation, the state still remains the largest shareholder in many instances with on average 47% of shares in equitised SOEs held by the state, 38% by staff and employees and 15% by the public. The legal sector has not been comprehensively addressed in the PRSC; however, other complementary initiatives in this sector are undertaken through projects, with some policy actions reinforced through inclusion under Pillar 3 on Governance in PRSC2.

B5.24 There have been successes in private sector development where there has been more progress with targets met and a new land law passed improving access to land. The telecommunication sector had been opened up to competition and a new electricity law had been introduced to improve the regulatory framework. Also, more success has been achieved in environmental initiatives with approval for a national strategy for environmental protection and other actions designed to improve the regulatory framework.

B5.25 These successes stem not only from PRSC policy actions and triggers, but also from dialogue within partnership groups which are involved in discussing similar issues such as regulatory frameworks and policy reform.¹³ Furthermore, there is also a lot of project support in

¹³ For instance, the Public Financial Management Group Partnership has been particularly successful in engaging the GOV and has been an area where the PRSC has had success in meeting the required triggers (Bartholomew and Lister 2004). Additionally the “Joint Government-donor-NGO partnership groups (2004) *Moving Towards 2010: Vietnam Partnership Report*” lists all the relevant project support in areas related to these partnerships.

these sectors which the PRSC is complementing and as such, both partnership groups and TA provided by projects can be considered as part of this overall PGBS approach.

Sector policies

...in which, appropriate sector policies complement public expenditures			
General situation:	Level: *	Trend: =	Confidence: **
PGBS influence:	Effect: *	Efficiency:*	Confidence: **

B5.26 Sector policies aimed at health, education, agriculture and transport were not dealt with in much detail in PRSCs 1–3. Education was included in PRSC2 through a policy action to adopt the Education for All Framework to attain targets by 2015 and in PRSC3 there were policy actions to raise the expenditure share of education and training to 17.1% of the budget and adopt minimum quality standards for primary schools nationwide. In health there was a policy action in PRSC2 to issue a decision creating Health Care Funds for the Poor (HCFPs) and in PRSC3 to establish HCFPs in all provinces and establish an action plan for HIV/AIDS based on a public health approach.

B5.27 Draft PRSC 4–5 policy actions include establishing MTEFs in education, health, agriculture and rural development and these are likely to have a greater impact on sector strategies and policies if implemented effectively. However, thus far sector ministries have had little engagement with the PRSC policy dialogue process and evaluation team interviews found low awareness of the PRSC among those interviewed. Additionally, there is little evidence thus far of a strong link between sector policies and expenditure planning. Nevertheless, although the current effect is weak, the impact is likely to be stronger in the future as further policy actions are implemented, particularly those related to the MTEF process (see ¶B4.4).

Principal Causality Chains

B5.28 The principal causality chain assumes that policy dialogue/conditionality/TA and capacity building focused on key public policy and public expenditure issues and priorities (2.4/2.5) and IPs moving towards alignment and harmonisation around national goals and systems (2.6) leads to pro-poor policies and targeting (3.3), which in turn leads to appropriate sector policies to address market failure (4.4) and appropriate private sector regulatory policies (4.2).

B5.29 The PRSC has involved policy dialogue which has supported the design of policies in the reform programme rather than inclusion of specific IP driven reforms. This means that although the PRSC has contributed to the development of policy content, there has not been involvement in policy processes. There has clearly been policy dialogue and related TA/capacity building in complementary programmes which support key public policy and PE issues and priorities. Policy actions address 2.6, 4.2 and 4.4 so there are moderate links further down the causality chain, although some of these policy actions are included in PRSCs 4–5, so at present it is unclear how effectively they will be implemented. Nevertheless, there is potential for linkages within this causality chain in the future, but at present the confidence judgement can only be moderate.

Counterfactual

B5.30 Previous forms of programme aid have also involved policy dialogue, but the use of hard conditionality resulted in these programmes being suspended, although discussion with the GOV still continued even though funding stopped. Projects have also been a way in which donors engage in dialogue with GOV, but this has tended to focus on specific sectors. As IPs have found it difficult to identify key policy-makers, a number of approaches are currently being

used to engage policy-makers at different levels of government and related institutions. The PGBS approach through the PRSC, TA and partnership groups appears to be an effective way of engaging in dialogue; the funding involved ensures GOV attention and there is a continuous process of policy review and adaptation to lessons learned. This is less likely to be the case if the PRSC and partnership groups were not part of the overall aid environment.

B6. The Effects of Partnership GBS on Macroeconomic Performance

How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?

Introduction

B6.1 This chapter relates to the transition from Level 2 (immediate effects) to Level 4 (outcomes) of the EEF. It will cover two streams of effects/PGBS inputs (i.e. all Level two immediate effects/activities as they relate to improved fiscal discipline, and a growth-friendly macroenvironment) postulated in this framework.

B6.2 The main causal hypotheses of the EEF to be addressed in this chapter are:

- that external resources for the GOV budget (2.1), an increase in the proportion of funds subject to the national budget (2.2) and an increase in predictability of external funds to the national budget (2.3) result in improved fiscal discipline (3.4) and therefore a macroeconomic environment favourable to private investment and growth (4.1) and a more conducive growth-enhancing environment (4.6);
- that policy dialogue/conditionality focused on key public policy and public expenditure issues (2.4), TA and capacity development focused on key public policy and public expenditure issues (2.5) and IPs moving towards alignment and harmonisation around national goals and systems lead to improved fiscal discipline (3.4) and therefore a macroeconomic environment favourable to private investment and growth (4.1) and a more conducive growth-enhancing environment (4.6).

Relevant Facts: Macroeconomic Performance

B6.3 The GOV has a strong macroeconomic record with the achievement of a sustained period of economic growth since the “Doi Moi” reform programme began in the late 1980s. Average GDP growth was 7.2% per annum in the 1990s with GDP doubling between 1991 and 2000. After a slowdown in economic growth as a result of the Asian crisis, GDP growth picked up again and has averaged over 6% per annum since this period. Agricultural liberalisation provided a growth stimulus in the early years of the reform programme while foreign direct investment (FDI) inflows and more recently a strong export performance have underpinned current economic growth (IMF 2003).

B6.4 Other key macroeconomic indicators have also been good, with inflation below 5% since 2000 and fiscal deficits maintained between 0% and 3% of GDP for the past decade. The balance of payments has also strengthened due to the significant increase in exports and the external debt burden has decreased due largely to output growth, export expansion and debt restructuring operations (IMF 2003 and 2005).

B6.5 ODA has been peripheral to the macroeconomic success story in Vietnam.¹⁴ Inflows of ODA were insignificant until about 1996, and thereafter are on much the same scale as official foreign exchange inflows from foreign investments, private transfers (overseas Vietnamese and migrant workers), and, more recently, commercial loans. The macroeconomic structural adjustment period in Vietnam, however, was during 1988–1991, when state enterprises shed

¹⁴ This follows the analysis in World Bank (1998) *Assessing Aid* ch. 5 and Van Arkadie and Mallon (2003).

one quarter of all workers (absolute numbers have increased since then), and inflation was brought down from over 250% per annum during 1986–1988 (to remain below 15% per annum after 1992). This reform period also saw banks offering positive real interest rates on deposits, the removal of centrally planned prices, and raising the foreign exchange rate six-fold to catch up with the black market rate (Le Dang and McCarty 1995).

B6.6 Therefore, ODA does not seem to have had a notable impact on the key macroeconomic variables for short-run stability (IMF 2003a). The period in which the majority of the reforms was undertaken was 1989–1992, which also marked a turning point in macroeconomic performance (Van Arkadie and Mallon 2003). ODA and other foreign exchange inflows rose rapidly from 1995 to 1997 and by this point the current account deficit was falling, and so was inflation (despite a modestly rising budget deficit), and the debt-service ratio had stabilised and then fallen.

B6.7 There are no specific macroeconomic policy actions included in the PRSC policy matrix, probably because of general IP satisfaction with prevailing macroeconomic policies and an implicit assumption that they will continue. There are, however, policy actions aimed at structural reforms under Pillar 1 which plays a role in underpinning and supporting the transition to a liberalised macroeconomy.

B6.8 The IMF ceased funding in 2004 under their PRGF, which was aimed at supporting macroeconomic reform (IMF 2005). This happened because of unwillingness by the GOV to reveal detailed economic data as required for IMF Article IV consultations. The particular issue in point was a refusal to allow auditing of foreign exchange reserves. However, the IMF's own Evaluation Office came to the following conclusions about the need for PRGF funding to support the macroeconomy:

At a more fundamental level, the case of Vietnam raises important questions about the value added of an IMF-supported programme in a low-income country experiencing macroeconomic stability and no pressing financing gap. While programme financing was clearly appreciated, it is not obvious that a PRGF-supported programme with higher-than-average access was the most appropriate mechanism to support sound macroeconomic performance (IMF 2004a: 9).

B6.9 The breakdown of the PRGF relationship has not affected aid from other IFIs or bilateral donors. Although IMF on-track status is usually a requirement, Vietnam's differences with the IMF were seen as technical, and not as an indication of unsatisfactory macroeconomic management.

Assessment against Evaluation Criteria

Macroeconomic Effects

Fiscal discipline and macroeconomic stability

The extent to which PGBS has contributed to fiscal discipline and macroeconomic stability.			
General situation:	Level: ***	Trend: =	Confidence: ***
PGBS influence:	Effect: na	Efficiency: **	Confidence: **

B6.10 As noted above, the GOV has a good record on macroeconomic stability and fiscal discipline. Controlling inflation and the budget deficit have been GOV policy priorities since the early 1990s and fiscal stability was achieved before significant ODA. Macroeconomic stability would probably have been maintained regardless of these additional financial inflows and PGBS funds, as the GOV has in place targets relating to the budget deficit and other macroeconomic variables that suggest an ongoing commitment to fiscal discipline. However, the role that PGBS

does play is to help keep the macroeconomic reform programme on track and PGBS funding provides an incentive to do this (see ¶B5.9).

Cost of budget finance

The extent to which PGBS funding has reduced the cost of budget financing.			
General situation:	Level: *	Trend: -	Confidence: **
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: **

B6.11 The budget deficit hovered around 3–4% of GDP after 2000, compared to 1–2% during the late 1990s. The PRSC has clearly had an influence on the costs of financing the budget as Table 2B.1 shows in Annex 2B that PRSC funding was equal to 16.4% of the overall fiscal deficit (excluding net lending) in 2001, 18.7% in 2002, 18.8% in 2003 and 43.0% in 2004. This suggests that PRSC funding represents a significant proportion of the budget deficit and has therefore contributed towards financing the budget deficit.

B6.12 Given that the PRSC represents concessionary financing and many co-financiers provide funding in the form of grants, these funds have lowered budget financing costs. The GOV clearly values concessionary financing: this was the motive for preparing a PRSP (the CPRGS) even though Vietnam was not eligible for HIPC debt relief.

B6.13 The state budget in 2002 indicates that interest payments were 4.4% of total expenditure, a figure that has gradually increased from 2.7% in 1999 (Government of Vietnam and World Bank 2005). Part of the PRSC financing is in the form of grants from some co-financiers whereas others provide parallel lending. This is at World Bank International Development Association (IDA) terms as opposed to an interest rate of 8.3% which the GOV currently pays on recently issued five-year bonds. The alternative would be to borrow on domestic markets where the interest rate on domestic debt measured in dollar terms would be 6.1% (World Bank 2004e). Therefore alternative sources of borrowing represent a considerable premium over PRSC terms.

Private investment

The extent to which PGBS funding of public expenditures has adversely affected private investment.			
General situation:	Level: null	Trend: =	Confidence: *
PGBS influence:	Effect: null	Efficiency: **	Confidence: **

B6.14 The corporate private sector in Vietnam is still in its early stages of development, so there have been no crowding-out effects from PRSC funds. Private investment, including FDI, has risen during the past decade (although FDI inflows dipped in the late 1990s following the Asian crisis). The inflows have been mainly in response to growing market demand and institutional reforms, although the active and public donor support has a positive influence on investor perceptions. (See Chapter C2 for more on public/private sector issues.)

Domestic revenue

The extent to which PGBS funding of public expenditure has adversely affected domestic revenue collection.			
General situation:	Level: ***	Trend: +	Confidence: ***
PGBS influence:	Effect: not found	Efficiency: na	Confidence: **

B6.15 There has been a steady move towards a modern taxation regime based on a value added tax (VAT), income and company taxes. The introduction of user charges in health and education has also increased domestic revenue. The development of new pro-market forms of taxation has allowed a reduction in the share of government revenues coming directly from state enterprises and a decrease in the trade taxes share of revenues. PGBS could in theory reduce the incentive to undertake tax reforms as cheap PRSC funds might substitute for more rigorous implementation of the tax regime. There is no obvious evidence for such an effect, as strong economic growth has resulted in rising government revenues and the GOV has consistently over-performed on revenue collection (IMF 2003a). Government revenues and grants increased by 14% in nominal terms between 1998 and 2003, while as a percentage of GDP they have risen from 20.8% in 1997 to 23.1% in 2003 (Government of Vietnam and World Bank 2005). Therefore, access to PRSC funds does not appear to be delaying revenue-raising reforms or undermining revenue-raising effort.

Facilitating Institutional Change

The extent to which such improvement has been stable over the years and has allowed changes in institutional behaviour (private sector investment, central bank decisions, etc.).			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: *	Efficiency: **	Confidence: **

B6.16 The GOV has established a long track record of sound macroeconomic management, including weathering the Asian crisis of the late 1990s, and this has contributed to a very positive investment climate in which institutional transformation of the Vietnamese economy is proceeding rapidly. Because the PRSC is recent and is only a minor reinforcement of pre-established macroeconomic stability, it cannot be credited with more than a small contribution to this situation.

Principal Causality Chains

B6.17 PRSC funding clearly does provide more external resources for the GOV budget (2.1), an increase in the proportion of funds subject to the national budget (2.2), and some increase in predictability of external funds to the national budget (2.3). As fiscal discipline was already good, the effect of PRSC funds is to support this and provide a motivation to keep the reforms on track (3.4). Therefore there is a moderate flow-of-funds effect that has resulted in a macroeconomic environment more favourable to private investment and growth (4.1) or a more conducive growth-enhancing environment (4.6).

B6.18 Policy dialogue/conditionality/TA have focused on key public policy and public expenditure issues (2.4), and IPs have moved towards alignment and harmonisation around national goals and systems (2.6). Policy actions have supported fiscal discipline (3.4) by focusing on policy actions aimed at liberalising the economy. This should have supported a shift towards a macroeconomic environment more favourable to private investment and growth (4.1) and a more conducive growth-enhancing environment (4.6).

Counterfactual

B6.19 Given that the GOV has a good record on macroeconomic and fiscal performance, changes in aid modalities are unlikely to enhance this performance significantly. Stand-alone projects would be unable to have a major impact and previous forms of programme aid have, like the PRSC, supported GOV macroeconomic policies, but their conditionality was ineffective. In the light of this, the design of PGBS is appropriate to the Vietnamese context as funds provided are likely to be used in an efficient manner due to the degree of fiscal discipline which already exists and the fact that appropriate macropolicies are already in place.

B7. The Effects of Partnership GBS on the Delivery of Public Services

How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?

Introduction

B7.1 This chapter relates to the transition from Level 3 (outputs) to Level 4 (outcomes) of the EEF. The three main causal hypotheses to be tested in this chapter are that the PRSC has:

- contributed to more and more responsive/pro-poor accountable service delivery (4.7), through increased resources for service delivery (4.3), due to more resources flowing to service delivery agencies (3.1);
- contributed to more and more responsive/pro-poor accountable service delivery (4.7), by encouraging and empowering the partner government to strengthen pro-poor policies (3.3) and through the formulation of appropriate sector policies which address market failures (4.4);
- contributed to more and more responsive/pro-poor accountable service delivery (4.7), by appropriate sector policies to address market failures (4.4) as a result of increasing the operational and allocative efficiency of the PFM system (3.5/3.6).

B7.2 The next section will briefly present relevant facts about service delivery in the education and health sectors, to provide a relevant broader context within which to locate the effects of the PGBS on service delivery. The subsequent sections will then draw overall conclusions about the extent to which the PGBS has contributed to the three causality chains listed above.

Relevant Facts: Service Delivery in Education and Health

B7.3 The Ministry of Education and Training has overall policy responsibility for the sector and for the management of higher institutions. Provinces manage higher secondary schools, and districts and communes manage lower secondary, primary and pre-primary schools (Government of Vietnam and World Bank 2005).

B7.4 The main objectives of the GOV education policy are contained in the 2002 CPRGS, the Education Strategic Development Plan for 2001–10 (2003), the Education for All (EFA) Plan (2003) and the Secondary Education Master Plan (2002). An overarching objective is to increase participation in all levels of education, particularly of disadvantaged communities (ibid).

B7.5 The GOV has clearly given priority to education expenditures in policy and in practice. This included the target of increasing the education share of public expenditure from 15% in 2000 to 18% by 2005, a target which has already been exceeded in practice by 2004 (ibid). The education outcome indicators monitored through the PRSC indicate progress on most fronts. For example, between 1998 and the latest figures available, the net primary school enrolment rate increased from 88% to 90% and lower secondary school enrolment went up from 62% to 72% (ibid). Overall trends in terms of gender inequalities are also positive (Government of Vietnam and World Bank 2005), as are the rates of class repetition and drop-out, which are relatively low (ibid).

B7.6 The Ministry of Health has overall responsibility for health policy, whereas provinces have responsibility for providing services within their local areas. As a result, the health sector is very decentralised with, in 2002, 76.8% of expenditure at local level. Despite improvements in national health indicators since the 1990s, there have been limited gains for some groups of the population and growing inequalities. State budget spending on health grew rapidly during the period 1991–2002. Expenditure increased from around 1% of GDP and 6% of total state budget spending in 1991 to about 1.6% of GDP and 6.5% of total state budget spending in 2002. In constant (1994) terms, per capita state budget health expenditure grew from VND 20,000 in 1991 to about VND 64,000 in 2002. Even so, Vietnam's spending on health is comparatively low relative to international standards and the Public Expenditure Review and Integrated Fiduciary Assessment (PER-IFA) stated that "Limited government health funding is currently spread very thinly among a very wide range of activities" (World Bank 2005c).

B7.7 Various innovations in the health sector have been introduced, such as user fees and fee schedules, social health insurance, establishing province-level Health Care Funds for the Poor (HCFP) to finance free health care for the poor, and Decree 10 (2002) has created a government-wide framework for the managerial autonomy of revenue-raising units (including public hospitals).

B7.8 Report card surveys on service delivery in education, health and administrative services have also recently been undertaken on a pilot basis in four provinces (World Bank 2004e). Findings from these surveys show an acceptable level of satisfaction across population groups, services and cities. A number of surveys (e.g. the qualitative household survey done for the 2004 Hunger Eradication and Poverty Reduction (HEPR) programme evaluation) indicate that many "poor" people appreciate the education fee exemptions. For example, 12% of the HEPR beneficiary survey respondents claimed that they would not have enrolled their children in school in the absence of the exemptions (World Bank 2004e).

Assessment against Evaluation Criteria

Pro-Poor Public Service Delivery

The extent to which PGBS has contributed to increasing the efficiency and effectiveness of pro-poor public service delivery and improving the access of poor people.			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B7.9 The PRSC has had a variety of policy actions aimed at increasing the efficiency and effectiveness of pro-poor service delivery. In education the adoption of EFA was included as a policy action in PRSC2, as were minimum quality standards for primary schools. In PRSC3, raising the share of education expenditure to 17.1% was a policy action which reinforced an already stated GOV commitment to undertake this. A proposed PRSC4 policy action is to evaluate 8% of all teachers based on the new primary teacher profile for career development and to bring a percentage of schools in poor areas up to minimum quality standards. The piloting of a sectoral MTEF is also a policy action for PRSC5, as is the development of an inclusive educational strategy for children with disabilities. There are also plans for a World Bank-led targeted budget support programme for the EFA initiative in 2005 which will further support PRSC policy actions and current work under the PFMR initiative is providing support for the implementation of an MTEF.

B7.10 There were no policy actions on health in PRSC1 and only one in PRSC2 (issuing a decision creating province-level HCFPs). In PRSC3 there were two: to establish HCFPs in all

provinces and pay central government contributions and establish an action programme for the HIV/AIDS strategy based on a public health approach. Proposed future (PRSC5) policy actions also include the piloting of an MTEF in the health sector.

B7.11 Although these policy actions have increased efficiency, as most of them are in PRSCs 3–5, it is too early to judge how effectively they have been implemented, particularly in health. The impacts of PGBS on both efficiency and effectiveness could potentially be strong in the future as there is a significant amount of PGBS work being undertaken in both these sectors.

Capacity and Responsiveness of Service Delivery Institutions

The extent to which PGBS has contributed towards developing the sustainable capacity of service delivery institutions.			
General situation:	Level: *	Trend: =	Confidence: *
PGBS influence:	Effect: *	Efficiency:*	Confidence: *

B7.12 There has been no associated capacity building in sector ministries or service delivery institutions as there has been no training provided under the auspices of the PRSC. There has however been training and capacity-building activities undertaken as part of the PFMR and the PAR which are complementary to the PRSC. Therefore, due to this the PRSC has had weak effects on developing capacity as it has been indirect and hasn't proved to be a particularly efficient way to undertake these activities thus far.

The extent to which PGBS has contributed towards service delivery institutions becoming more responsive to beneficiaries.			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B7.13 The decentralisation process which is supported by PRSC policy actions, and changes in the education and health sector which reflect this, represent significant changes in the relationship between delivery institutions and beneficiaries. Particularly for health, the introduction of health insurance, the HCFP and charges under Decree 10 involve different models of service delivery than were in place previously. The introduction of an action plan to tackle HIV/AIDS through a public health approach is also a significant departure from previous methods of dealing with the issue as a social problem. All these changes should in principle have increased the effectiveness of service delivery.

B7.14 Other changes have occurred under the PAR programme whose implementation has been reinforced by subsequent PRSC policy actions. These are the introduction of one-stop shops (OSS) and score cards to rate service delivery. In PRSC3, there was a policy action for the OSS model to be promulgated in national policy, while the report card approach was to be piloted in four urban sites in PRSC4. In PRSC5 there is a policy action to strengthen the accountability of public service delivery units operating under Decree 10. The State Budget Law 2004, whose adoption was a PRSC2 policy action, also gives more flexibility to local authorities in allocating funding to health and education sectors.

Principal Causality Chains

B7.15 The effects of the PRSC on service delivery in general, and education in particular, are likely to have been moderate and relate to the principal causality chains as follows.

- The PRSC has moderately contributed to more responsive/pro-poor accountable service delivery (4.7), through increased resources for service delivery (4.3), as a result of policy actions designed to increase funds and more efficient PFM systems. There is moderate confidence in this judgement.
- There is a moderate link which again is made with moderate confidence between the PRSC contributing to more responsive/pro-poor accountable service delivery (4.7), by encouraging and empowering the partner government to strengthen pro-poor (3.3) policies and through the formulation of appropriate sector policies, which address market failures (4.4). This is the main focus of many PRSC policy actions which are supported by other PGBS programmes such as in education and health where policy actions aimed at supporting the introduction of HIV/AIDS and health insurance should make service delivery in this area more effective.
- Finally, the contribution of the PRSC to more responsive/pro-poor accountable service delivery (4.7), by appropriate sector policies to address market failures (4.4) through increasing the operational and allocative efficiency of the PFM system (3.5/3.6) is likely to be moderate with a moderate level of confidence at this point. Once MTEFs have been implemented, this may become stronger.

Counterfactual

B7.16 Previous forms of programme aid such as SAL and the PRGF focused on economic issues and therefore did not encompass service delivery. There is no reason why they could not have been adapted to do so, as they were also linked to policy dialogue and related TA activities. Project support could also have similar impacts if they were linked to an overarching sector policy framework such as an MTEF which donors could align around. Sector wide approaches are another route through which this could take place. However, thus far in Vietnam, these approaches have not included channelling funds through GOV systems and therefore the potential operational and allocative efficiency effects on PFM systems which translate into efficiency gains are likely to be less.

B8. The Effects of Partnership GBS on Poverty Reduction

How far has PGBS strengthened government impact on poverty?

Introduction

B8.1 This chapter relates to the transition from Level 4 (outcomes) to Level 5 (impacts) of the EEF. The four main causal hypotheses in the EEF to be tested in this chapter are that PGBS has:

- led to the empowerment and social inclusion of poor people (5.3), through more responsive service delivery (4.7);
- reduced income poverty (5.1), through increasing the scope for a more conducive growth-enhancing environment (4.6);
- reduced non-income poverty (5.1/5.2) through improved administration of justice and respect for human rights and people's confidence in government (4.5) which has been as a result of strengthened governmental incentives (3.7) and partner governments empowered to strengthen systems (3.2);
- reduced non-income poverty (5.1/5.2) through improved administration of justice and respect for human rights and people's confidence in government (4.5) which has been as a result of enhanced democratic accountability (3.8) and partner governments empowered to strengthen systems (3.2).

B8.2 The next section of this chapter will briefly present relevant facts about income and non-income poverty-reduction levels, trends and causes in Vietnam over the 1994–2004 period to provide a relevant broader context within which to locate PGBS. The remaining sections will then go on to draw overall conclusions about the extent to which PGBS has contributed to the four causality chains listed above.

Relevant Facts: Poverty Reduction

B8.3 The income poverty rate in Vietnam declined from 53% in 1993, to 37% in 1998, to 29% in 2002.¹⁵ Latest figures suggest that it could have fallen to around 26% in 2004, or possibly even further (World Bank 2005b). Similarly, Vietnam is also making significant progress against most of the non-income poverty indicators and is on track to meet several of the millennium development goals (MDGs). However, these aggregate figures hide many important differences, both across different population groups and across different parts of Vietnam. These differences (and the aggregate figures themselves) are well documented (see UNDP 2003b, UNDP 2004b and the World Bank 2003c).

B8.4 Two methods are used to measure poverty in Vietnam. The first uses a bottom-up methodology compiled from local officials calculating the number of poor households at village level on the basis of household income. This is designed and implemented by the Ministry of Labour, Invalids and Social Affairs (MOLISA). The second is applied by the General Statistics Office and is top-down through a representative survey of households and poverty mapping.

¹⁵ Poverty figures are based on the national poverty datum lines.

B8.5 The causes of economic growth and poverty reduction in Vietnam are also well documented. Apart from the agricultural reforms in the 1980s and 1990s (which pre-dated ODA), the most important drivers of continuing economic growth and poverty reduction (through economic growth) are widely acknowledged (e.g. by Van Arkadie and Mallon 2003; and by Glewwe et al 2004) to be enterprise reform and trade liberalisation. Large and increasing exports, FDI and foreign remittances all make an important contribution in this respect.

B8.6 The most significant factors underlying indirect and direct public poverty reduction initiatives include the rapidly increasing volume of public spending (also based mainly on economic growth), the public investment programme (although this could be made significantly more pro-poor than it is at present – see Larsen et al 2004), the various progressive pro-poor distribution formulas for public expenditure (at least to province level and for recurrent, as opposed to capital expenditures – see the PER 2005) and the various national targeted programmes, most of which started in 1998, such as the Hunger Eradication and Poverty Reduction (HEPR) programme and Programme 135. According to Larsen et al (2004), each additional point of GDP spending on infrastructure has led to a proportionate reduction in the poverty rate of about 0.5%, with an even larger impact in poorer provinces. Similarly, Minford (2004) claims that the HEPR programme, the biggest nationally targeted programme, is achieving a reduction in the poverty rate of 280,000–300,000 persons per annum.

B8.7 Regardless of the poverty reduction record in Vietnam, poverty still has a strong geographical dimension. There have been reductions in poverty in all regions, but the speed of poverty reduction has varied. In remoter areas, poverty reduction has been less compared to other regions, and some areas such as the Central Highlands have had limited poverty reduction over the last few years (World Bank 2003c). There is also more poverty among ethnic minorities and there has been much less progress in reducing poverty among these groups. This, combined with indications that inequality is increasing, suggests that reliance on economic growth to reduce poverty, as has been the case in the past, may not be sufficient in the future and other more specific targeting may be needed to tackle the problem (International Labour Organization [ILO], Sida, UNDP, 2004).

Assessment against Evaluation Criteria

Basic Services for the Poor

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including:

(a) the use of health, education and other basic services by poor groups.

General situation:	Level: ***	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: **	Confidence: *

B8.8 There are a variety of policy actions in the PRSC both in health and education that are designed to increase access to basic services by poor groups. In particular the PRSC has played a role in reinforcing policies that the GOV has already committed to and have been discussed within sectoral partnership working groups under the CPRGS (Joint Government-NGO 2004). In education an example of this was the PRSC2 policy action which was to adopt the EFA and in PRSC3 to raise the expenditure share of education and training to 17.1% of the budget.

B8.9 There are various other policy actions in the education sector that are aimed at raising both the efficiency and effectiveness of education. These are adopting minimum quality standards for primary schools nationwide, evaluating 8% of teachers based on a new teacher profile for career development and bringing a designated percentage of schools in poor zones up to minimum quality standards. Future PRSC5 actions relate to introducing an MTEF, which should increase allocative efficiency and a strategy for disabled children.

B8.10 In health, policy actions included the issuing of a decision creating HCFPs at province level, the establishment of HCFPs in all provinces and payment of central government contributions and, in PRSC5, issuing regulations for the operation of provincial HCFPs. This is an example where additional funding through the PRSC has provided the financing to implement a measure which would otherwise be costly (World Bank 2005b). Other policy actions have been focused on increasing the effectiveness of interventions through developing an action programme for an HIV/AIDS strategy based on a public health approach and an action plan for tuberculosis prevention. The PRSC5 policy action to pilot an MTEF in health should assist in strengthening allocative efficiency.

B8.11 Assessment of the health and education triggers related to PRSC4 indicates that they were rated as satisfactory and highly satisfactory respectively. Development outcome indicators show that, in health, HCFPs have been created with central government funding and an HIV/AIDS strategy has been adopted with initial steps taken towards implementation. In education, the improvement of school quality levels is under way, with targets on primary school enrolment met and net secondary enrolment rates showing improvement but not yet meeting the target (World Bank 2005b).¹⁶

B8.12 In addition, a number of surveys (e.g. the qualitative household survey done for the 2004 HEPR programme evaluation) also indicate that many “poor” people appreciate the education fee exemptions and health care for the poor funds. As many of the initiatives in both sectors are still in their early stages it is expected that there will be stronger impacts on service delivery in the future.

Income Poverty

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including

(b) the improvement of the macroeconomic environment leading to increased incomes and economic opportunities for the poor.

General situation:	Level: ***	Trend: +	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: **

B8.13 The GOV already has a good record on the macroeconomy and economic growth as outlined in Chapter B6. However, the PGBS approach through supporting structural reform of the economy reflects a broad consensus in the literature (e.g. Van Arkadie and Mallon 2003; Glewwe et al 2004) about the relative importance of economic growth for poverty reduction in Vietnam. PGBS has supported an already good GOV record on macroeconomic policy and has contributed to keeping the reforms on track, which should encourage further economic growth and as a result poverty reduction and increased opportunities for the poor.

¹⁶ These indicators are not however broken down by gender and relate to increases in overall school enrolment in education and overall mortality rates for health.

B8.14 PGBS has had a strong focus on the macroeconomic environment with Pillar 1 supporting the transition to a market economy through a structural reform agenda which emphasises trade liberalisation, reforming SOEs, strengthening the banking sector, enhancing the environment for the private sector and improving PFM. This is reflected in PRSCs 1–3, which included 16 policy actions in the financial sector, 11 aimed at trade integration, 10 involving state-owned enterprises and seven for private sector development. There are also related PGBS projects which the PRSC policy actions are designed to reinforce which are in operation in the main areas listed above. Therefore, the main PGBS link has been through the policy actions supporting the structural reform agenda.

B8.15 Evidence from the economic development outcome indicators monitored as part of the PRSC process is also positive on many economic fronts. For example, between 2001 and the latest figures available, the ratio of exports to GDP increased from 47% to 58%, the number of SOEs dropped from 5,334 to 4,200, private investment increased from 14% to 15.5% of GDP and formal sector employment increased from 0.5 million to 2.5 million (World Bank 2005b). On the other hand, progress has been slow in some areas such as SOE reform and financial sector reform, although the PRSC4 triggers were all assessed as satisfactory or highly satisfactory for Pillar 1.

Empowerment

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including

(c) the empowerment of poor people because of improvements in the accountability of government, greater participation in processes of decision-making, or improvements in the administration of justice.

General situation:	Level: *	Trend: +	Confidence: **
PGBS influence:	Effect: *	Efficiency: **	Confidence: **

B8.16 Modern governance is addressed under Pillar 3 of the PRSC with 18 policy actions in PRSCs 1–3 relating to planning processes, PFM, financial accountability, legal development, public administration reform, anti-corruption and information availability. All of these can potentially contribute to the increased accountability of government. Only two of these relate to legal development/administration of justice (legal documents to be published in Official Gazette and transfer of local courts management from the Ministry of Justice to the Supreme People's Court). None relates specifically to human rights (this falls outside the World Bank Articles of Agreement and does not form part of the GOV PRSC agenda).

B8.17 The administration of justice has been partially addressed through the PRSC as there has been a policy action to approve a legal and judicial development strategy based on the legal needs assessment and the trigger related to this was assessed as satisfactory. In PRSC5 there is a policy action to take effective steps towards enhanced independence of the courts at all levels. These policy actions are designed to move forward work that has been carried out through projects in this area and extensive policy dialogue in partnership working groups. This means that PGBS is likely to have a stronger impact on the administration of justice in the future.

B8.18 Greater participation in decision-making processes and accountability of the government has been addressed primarily through PAR reform with PRSC policy actions providing further motivation to undertake these reforms. In PRSC3 there were policy actions to promulgate the OSS model as a national policy and to implement a report card approach to service delivery

piloted in four urban areas. The former initiative should increase the efficiency and transparency of government procedures, while the latter should result in greater accountability of service providers. The monitoring of development outcomes indicates that the OSS model has been adopted in all 64 provinces although its quality is deemed to need attention (World Bank 2005b).

B8.19 Adoption of the Grassroots Democracy Decree was included as a policy action in PRSC2. This decree is designed to increase participation and accountability at provincial level as information must be published on laws, policies, administrative procedures, budget planning and expenditures and local governments must consult with local people on draft plans and involve them with the monitoring of local funds. However, in practice direct participation of local people in commune-level budget exercises was found to be limited (World Bank 2005).

B8.20 The planning process at provincial level has been complemented through PRSC policy actions which focus on issuing guidelines to roll out the CPRGS approach to provincial planning, scaling up the roll-out of the CPRGS to provincial level and organising a broad consultation with a poverty focus on the next 2006–2010 Socio-Economic Development Plan (SEDP). These actions are designed to encourage a more participatory approach to planning. The latest progress monitoring report notes that the provincial CPRGS roll-out is currently under way in 19 provinces and consultations for the next SEDP are about to begin.

Principal Causality Chains

B8.21 The effects of the PGBS on all four hypothesised causality chains are outlined below.

- There is moderate evidence of greater empowerment and social inclusion of poor people (5.3), through more responsive service delivery (4.7). The main activities to enhance service delivery have been through other PGBS programmes such as PAR which have been reinforced by policy actions aimed at this in the PRSC. These are likely to become stronger in the future as further policy actions are implemented under PRSC5. Therefore there is a moderate link with a moderate degree of confidence.
- PGBS has been focused on developing a more conducive growth-enhancing environment (4.6), by reinforcing an already good GOV record in this area. As studies indicate that economic growth has been the main mechanism through which reduced income poverty has occurred in Vietnam (5.1), it can be inferred that PGBS has contributed to this process. This means that there is a moderate link with a moderate degree of confidence.
- Human rights have explicitly not been included in the PRSC and very few measures have been directed at legal reform. This means that reduced non-income poverty (5.1/5.2) through improved administration of justice and respect for human rights and people's confidence in government (4.5) has not occurred through PGBS. In this instance, there is no link with a moderate degree of confidence in this judgement.
- Again there is no link between enhanced democratic accountability resulting in improved administration of justice and respect for human rights leading to a reduction in non-income/income poverty, for the reasons cited above.

Counterfactual

B8.22 Previous programme aid was aimed at improving the economic environment, but there wasn't the pro-poor emphasis of PGBS and therefore it is unlikely that this type of ODA would have been just as successful as the PGBS at reducing income poverty. Service delivery and accountability and participation have been addressed well through PGBS as considerable policy dialogue had been part of the process, but this approach has complemented activities in the same area being undertaken by projects. On the other hand, legal reform and human rights issues have to date been dealt with exclusively through a project approach, although there is in practice no reason why they could not also be addressed within the PGBS framework.

B9. The Sustainability of Partnership GBS

Is the PGBS process itself sustainable?

Introduction

B9.1 The question dealt with in this chapter relates to the specified feedback loops of the EEF. This chapter will first review the experience of the PGBS in Vietnam, secondly it will evaluate the sustainability of PGBS, thirdly it will examine the extent of any feedback loops and finally it will consider the counterfactual.

B9.2 The issue of sustainability is particularly important in relation to PGBS as many of the outcomes require long-term institutional changes which in turn imply that PGBS must be pursued over a long time horizon in order to be effective. This means that there must be sufficient monitoring and feedback in order to reassure stakeholders that the desired outcomes are being achieved to sustain interest in the process.

Relevant Facts: Sustainability of PGBS

B9.3 As the PRSC uses GOV systems and supports the GOV reform programme through the CPRGS, in principle, the PRSC process should be more sustainable than other aid modalities as it does not require the establishment of parallel systems. It also works towards strengthening GOV systems, particular those relating to PFM and service delivery, and focuses on bringing about institutional change. The PRSC process itself has demonstrated the capacity to evolve since its inception both in terms of design and the number of co-financiers involved. PRSC1 was focused on the economic and structural reform programme whereas PRSC2 onwards was broadened to include social development, governance and environmental issues which reflected more specifically the concerns of the IPs and the CPRGS.

B9.4 The amount of dialogue has also increased, as under PRSC1 it was a learning experience and the policy dialogue was limited. The extent of policy dialogue both between IPs and with the GOV has broadened in later PRSC cycles, although currently there have been concerns voiced by IPs regarding its scope and adequacy. This is primarily a result of the need to conform to an annual PRSC cycle which limits the time available for consultation.

B9.5 The number of co-financiers has increased from four in PRSC1 to 11 in PRSC4, and it is possible that around 15 IPs will fund PRSC5. Co-financiers now include a number of IPs who have previously focused on a project approach such as Japan, the EC, France, and Spain, with others such as Germany considering becoming co-funders in the future. This reflects the success of the PRSC and the perception that IPs will be left behind if they are not involved, as well as the relaxation of head office guidelines on aid delivery modalities.

B9.6 The development of the CPRGS and the participatory approach that was followed provided the basis for the PRSC, as the CPRGS was a strategic plan with a focus not only on economic growth, but also the Vietnam Development Goals (VDGs) and poverty reduction. In the next PRSC cycle from 2006–2010, the CPRGS will be replaced by the GOV's own SEDP which will provide a basis for the policy matrix and PRSC objectives. The previous five-year plans involved wide consultation with mass organisations, while the CPRGS involved new participatory methods and it is has subsequently been rolled out to sub-national levels of

government. Therefore it is expected that a mix of these approaches will be used in the preparation of the SEDP and a process of shared learning will take place.

B9.7 There has also been a willingness to discuss lessons learned during the PRSC process, which is evidenced by the World Bank undertaking a stock-taking of the PRSC in 2005. This involved both the GOV and IPs, who discussed the strengths and weaknesses of the PRSC design and processes to make adaptations which will feed into the next PRSC cycle, which is planned from 2006–2010.

B9.8 The monitoring system for the PRSC is based on the CPRGS development objectives and other plans and strategies of the GOV (World Bank 2005b). When the PRSC first began there was not a comprehensive set of indicators in place to monitor and evaluate the economic reform programme. Nonetheless, a set of development objectives and relevant indicators were developed for the CPRGS. The system uses 136 indicators. Two of the indicators are composite indicators – the Human Development Index and Gender Development Index – while 100 are outcome indicators, nine are output indicators, seven are input indicators, 17 are impact indicators and one is unclassified (consumer price index) (GTZ 2004).

B9.9 There are problems with the monitoring process. The major constraint is the lack of a well-defined set of indicators to monitor and evaluate implementation progress as statistical data is not reliable or is unavailable (World Bank 2004e). Of the 136 indicators, there is reliable data for 85 of the indicators, with no easily available and reliable input indicators, while the majority of the data not available is related to poverty reduction (GTZ 2004). The incorporation of the CPRGS into the five-year SEDP will make it even more pressing to have effective tools to monitor the impact of policy reforms.

B9.10 The PRSC triggers themselves are assessed by the World Bank on a partially satisfactory, satisfactory, highly satisfactory scale which then link into low-case, base-case and high-case lending. Some IPs were not comfortable with the “high, low and base-case” model of the PRSC and expressed dissatisfaction with the ways in which it is currently being monitored and evaluated. The Joint Staff Advisory Note (JSAN 2005) noted that it was too general and relates to the progress report of the CPRGS, rather than to the PRSC and it was felt that the World Bank assessment matrix was too subjective and lacked transparency. More fundamentally, there is no baseline against which the PRSC can be measured, although the 2006–10 SEDP is intending to introduce one, and there is no systematic Poverty and Social Impact Assessment (PSIA) in Vietnam (Joint Nordic Monitoring Exercise 2003). On the other hand, progress is being made to rationalise the number of development outcome indicators and align these more closely to the VDGs, with clear roles for the main actors (e.g. the General Statistics Office, MOLISA, MPI and others) proposed in the process (Nokkala 2005).

Assessment against Evaluation Criteria

Shared Learning between Government and Donors

The extent to which PGBS allows a shared learning process between government and IPs with flexible mechanisms for adjusting to experience (including adjustment to maximise the complementarities among different forms of aid).

Level: **	Trend: =	Confidence: ***
-----------	----------	-----------------

B9.11 The PRSC has clearly evolved over its three cycles and the way in which it has changed has reflected the concerns and interests of the co-financiers as new IPs join and flaws in the original design are acknowledged. For example, additional pillars have been added to include

social exclusion, the environment and governance in response to IP concerns (see ¶B9.3). This has led to a debate regarding the nature of the triggers and also content of the policy matrix as some IPs wish to focus more on corruption and human rights, but generally there is overall consensus as to PRSC objectives. The recent stock-taking exercise also shows a willingness to learn lessons and adapt the PRSC to overcome perceived weaknesses particularly in design, as the number of co-financiers has become larger and a new PRSC cycle from 2006–2010 begins (see ¶B9.7).

B9.12 A more dictatorial approach by the World Bank would not facilitate such debate, which in turn would threaten PRSC sustainability. Reasonable flexibility in managing the PRSC process (such as agreeing with bilateral donors to add more social triggers) is a reason for confidence about its sustainability among donors. Thus far, it seems that the design of the PRSC has been sufficiently flexible to not only evolve over time but also accommodate most IPs' concerns. Despite recent disquiet regarding the timetable for consultation and content of the PRSC, the programme appears to be sufficiently robust to resolve these issues.

B9.13 There has also been an overall impact on aid coordination generally from the PGBS which has stemmed from more co-financiers joining the PRSC. This has resulted in a sharing of experiences and incorporation of different viewpoints. The incorporation of a chapter on large-scale infrastructure into the CPRGS by JICA and the subsequent joining of the PRSC by Japan is an example of this. Also the newly established Partnership Group on Aid Effectiveness (PGAE) has been an important forum for dialogue between the GOV and IPs. This group aims to enhance aid effectiveness, particularly through looking at alternative aid modalities and ways to strength harmonisation and alignment (PGAE 2004). Many of the PRSC co-financiers are also members of this group, as are various government ministries.

B9.14 There have been demonstration effects of channelling funds through GOV systems as well. Currently some IPs are looking to use GOV systems for other aid modalities such as projects and the PRSC experience has clearly had a positive impact in terms of persuading some IPs that sector budget support and target budget support might be successful. Again, these are examples of shared learning.

Comprehensive and Effective Review and Adjustment

The extent to which such a process encompasses all the three main flows of PGBS (funds, institutions and policies) with adjustments related to actual results at all stages in the chains of causality (from quality of inputs to overall poverty impact).

Level: *

Trend: +

Confidence: **

B9.15 The main review process occurs annually with the achievement of policy actions measured through a review of triggers, an assessment of overall progress in the reform programme and progress towards meeting development outcomes (see ¶B1.13 and ¶B1.14). This process identifies areas where reforms have either lagged behind or have progressed at the expected rate. This information is then used to develop or adjust policy actions for subsequent PRSC cycles or is used by IPs to identify other activities that they might wish to implement to support the reform programme outside the PRSC framework.

B9.16 Adjustments to the funding from the World Bank occurs through the annual review of the low, medium or high base-case lending scenario which is based on the previous year's progress on policy actions as measured by the triggers. Although to date there has only been base case lending, this decision is reviewed annually. Similarly co-financiers' contributions are dependent on funding decisions both at head office and at country level and the opportunity cost of

providing more PRSC funds. It also seems that most IPs are not considering scaling up contributions, which suggests that better performance may not be rewarded by more funds.

B9.17 The main drawback is that there is currently insufficient ex post evaluation of policy actions effects to inform decisions regarding major adjustments in institutional or policy reforms. At the same time, insufficient (theoretical and empirical) linkages to specific outcome indicators make monitoring difficult (see ¶B9.9).

Feedback to Stakeholders

The extent to which the process provides appropriate and timely feedback to all stakeholders so as to ensure the continuity and durability of PGBS.		
Level: **	Trend: +	Confidence: ***

B9.18 The PRSC process is well managed locally by the World Bank in Vietnam with sufficient feedback and coordination systems, given the need to also meet deadlines and synthesise sometimes divergent stakeholder views. The constraint that the process works within is that as it is a World Bank coordinated mechanism it has to adhere to internal deadlines which may not allow for as extensive consultation as many IPs would wish.

B9.19 The only concern is that many of the institutional developments which PGBS support have an inherently long time scale, which does not fit with the short-term horizons of PRSC preparation. It is possible that as M&E systems do not provide adequate feedback on progress of key objectives of policy reform (particularly poverty reduction) this could cause dissatisfaction with the pace of reforms and lead IPs to lose interest in the PRSC and move attention to other aid modalities. However, as many of the reforms that the PRSC is supporting are being implemented through related PGBS programmes and are long-term inputs (PAR and PFMR), it is unlikely that this will have major impact.

Principal Causality Chains

B9.20 The evaluation framework points to feedback loops not only between Level 5 impacts and Level 0 entry conditions of the EEF, but between all levels of the EEF. These can be seen in the case of the PRSC as it impacts on other forms of aid modalities as the aid coordination frameworks developed make other IP activities more efficient, as do the policy dialogue benefits. These not only spill over into other areas but also enhance the overall aid environment through feeding back into other levels of the EEF.

B9.21 There are also demonstration effects of channelling funds through GOV systems as currently some IPs are looking to use GOV systems for other aid modalities such as projects, although others are waiting to see how the PRSC operates for longer before doing this. It has clearly had a positive impact in terms of persuading some IPs that sector budget support might be successful, as it has proved to be an efficient form of delivering aid and reducing transaction costs. Therefore, there are reasons to believe that the PRSC will be sustainable, as it is reducing transaction costs and has synergies to other aid modalities and generally enhances the overall aid environment.

Counterfactual

B9.22 The counterfactual tests to what extent other forms of aid will be similarly or more sustainable or effective in terms of providing these types of feedback loop. It is unlikely that stand-alone projects would do this as transaction costs would not be reduced and common

policy frameworks would not be in place which would strengthen aid coordination and alignment. Alignment would only occur if GOV systems were being used, but this has not happened widely in Vietnam so far. Therefore, these effects are only likely to be generated from approaches similar to PGBS, but could be through sector wide approaches or sector budget support as well for example.

B9.23 Another consideration is the extent to which the PRSC is sustainable after 2010 (when the next SEDP period ends, and the date when Vietnam is likely to reach MIC status). It is unlikely that lending would cease immediately under a PRSC, but loans would not be on such a concessional basis, and, as the next PRSC cycle runs until 2011, this could in practice result in a break in the cycle. On the other hand, funding through PGBS could provide a mechanism through which a transition to lower levels of aid flows could occur.

PART C: CROSS-CUTTING ISSUES

C1. Cross-Cutting Policy Issues

Introduction

C1.1 This section of the report examines the main cross-cutting issues (CCIs) and assesses the extent to which they are being addressed through the PGBS process. The first chapter focuses on the policy CCIs of gender, environment, HIV/AIDS, democracy and human rights. The next chapters consider public and private sector issues, government capacity and capacity building, quality of partnership and political governance and corruption. These issues are particularly relevant to the Vietnamese context and have an impact on the potential to achieve the outcomes outlined in the evaluation framework.

C1.2 Cross-cutting issues have traditionally been addressed through the framework of partnership working groups which were established as part of the CPRGS process. These have had varying degrees of success, which often is directly related to government involvement in these groups. Prior to this, other mechanisms for programme aid such as the SAC, ESAF and PRGF were solely focused on economic reform, while issues such as gender and the environment were addressed through projects. More recently gender, the environment, corruption, decentralisation and HIV/AIDS have been included within the PRSC process. A more extensive discussion of all of these cross-cutting themes and the extent to which they are being addressed through PGBS follows below.

Gender

C1.3 Vietnam has a reasonably good record on improving gender equality and the well-being of women. There have been advances in narrowing gender gaps, but they continue to exist. Health and education indicators for women are worse than for men, wage differentials persist, and women are under-represented in the formal labour market. There are also differences in access to credit and land, time worked, political representation, and participation in decision-making (AsDB 2002: 7). For example, 90% of adult men are literate whereas this only applies to 79% of women. Women are also under-represented in the electoral process with low levels of representation in the National Assembly and no women in the Politburo.

C1.4 A large proportion of the poor are women, as they lack access to the formal labour market, have worse educational opportunities and access to health care, and work longer hours for less pay than men (AsDB 2002: 25). Gender inequality is also worse within poor households, while although evidence indicates that female headed households are no worse off than male headed households, women in households with no adult male or adult children present tend to be worse off. Additionally girls in poor households are less likely to be sent to school and illiteracy is also related to poverty (AsDB 2002: 26).

C1.5 There is strong national ownership of gender issues through the National Council for the Advancement of Women (NCFAW), which was very active in the drafting of the CPRGS and consulting women National Assembly members and Women's Union members at local level. In 2002 the Gender Action Partnership was formed; this includes representatives of all key government, non-government, bilateral and multilateral agencies, and meets four times a year. The group has focused on enhancing the awareness of gender in the CPRGS. A CPRGS gender analysis dialogue was carried out by a working group under the GAP. They expressed concerns regarding the lack of linkage between the CPRGS and the Plan of Action for the

Advancement of Women, which is the main government strategy document on gender produced by NCFAW.

C1.6 During PRSCs 1–3, gender was only included in PRSC1 with a policy action for land use certificates to be re-issued in the names of both husband and wife and a trigger of 95% land use certificates re-issued in the name of both spouses. This has been a key concern raised by GAP, given the fundamental role of access to and awareness of land in income generation, access to formal credit, shared wealth ownership and the security of women and children, especially in the case of divorce. The PRSC policy action supports the targets set in the CPRGS for land use certificates to be issued in the names of both men and women by 2005. In practice this has proved difficult to meet with the Implementation Completion Report for PRSC2 (World Bank 2004c) stating that progress was difficult to assess. Other documentation suggested that in 2003 only 2.3% of land use certificates were in the name of both husband and wife (Joint Government-donor-NGO Partnership Groups 2004). After PRSC1, gender dropped out of the matrices, although it is now included in PRSC5 with a policy action to issue a planning manual for ministries and provinces which includes information on the mainstreaming of gender.

C1.7 To date there has been no attempt to mainstream gender issues within the PRSC by including any comprehensive initiatives aimed at gender or examining the gender impact of PRSC policy actions. It is also indicative of a more general design issue that once a policy action has been included then if it is not achieved it is not followed up in subsequent PRSCs. In this case, according to the World Bank, it proved difficult to monitor this particular policy action and it was not possible to design other easily monitorable policy actions, which explains why gender was not included in other PRSCs.

HIV/AIDS

C1.8 HIV/AIDS infection is relatively low in Vietnam although the rate of infection is accelerating. At the end of September 2003, the Ministry of Health reported 72,240 infected individuals and 6,195 fatalities (World Bank 2003c). The majority of infections (85%) are among men, with nearly half of new infections in the 15–29-year-old age group, and mainly confined to drug users, sex workers and male clients. However, evidence points to the beginning of an epidemic as the infection has begun to spread to those outside these vulnerable groups and into the general population (World Bank 2003c).

C1.9 In the past there have been significant differences in GOV and IP strategies towards HIV/AIDS with IPs preferring a preventative public health approach whereas GOV perceived HIV/AIDS to be a social problem. A HIV/AIDS policy forum was established and co-chaired by the Vice Minister of Health and the UN Resident Coordinator, and participants included people with HIV/AIDS. The group has contributed to the recent HIV/AIDS National Strategy and, according to various respondents, these discussions between government and IPs within the health working group have been instrumental in changing government policy towards HIV/AIDS from one of isolating those affected to prevention (see ¶B5.15).

C1.10 In PRSC2 a policy action was for a programme for the HIV/AIDS strategy based on a public health approach to be developed, and in the draft PRSC4 there is a policy action which involves the issuing of a tuberculosis prevention plan, accounting for its interaction with HIV/AIDS. In the Implementation Completion Report for PRSC2 (World Bank 2004c), it was noted that that no progress has been made, but in the PRSC4 documentation it is reported that an HIV/AIDS strategy has been adopted and initial steps have been taken towards implementation (World Bank 2005b). Therefore, the PRSC has made some progress towards strengthening government policy towards HIV/AIDS, although this complements other projects and approaches that were being implemented at the same time through other aid modalities,

which were also aimed at the same objective. Given the slow response typical of governments in the face of the pandemic (with frequent denial) the support lent by the PRSC to government awareness/action can be seen as a very positive contribution.

Environment

C1.11 There has been a decline in environmental resources in Vietnam as a result of increased economic growth and population pressure (Poverty Task Force 2002: 7). This is mainly related to a deterioration in access to clean drinking water, a decline in forest cover and increase in air pollution. The poor suffer the most from environmental degradation as they are more dependent on natural resources and are less able to protect themselves from environmental degradation. This problem has been acknowledged and analytical work on environmental issues was undertaken as part of the CPRGS process and was included in the localisation of the MDGs. Prior to this, environmental protection was already a priority sector for the GOV as outlined in Decree 188 in 1997 and Decree 17 in 2001. The new SEDP (2006–2010) also has the protection of the environment as one of the three pillar goals (economic growth, poverty reduction and environmental protection).

C1.12 An International Support Group on the Environment was formed in 2002 with the objective of improving the efficiency and effectiveness of aid to the environment. This was to be undertaken by ensuring that aid was in line with government policy and to implement the National Strategy for Environment and Protection 2001–2010 and the National Environment Action Plan 2001–2005. The group was then transferred from the Ministry of Science, Technology and the Environment to the Ministry of Natural Resources and the Environment. At that point it became inactive and did not begin meeting again until the beginning of 2004.

C1.13 The environment is an area which many interviewees pointed to as having experienced some success in influencing GOV policy. This has been due to strong interest and engagement by the GOV and the efforts of CIDA, who have taken the lead in this sector. CIDA brought their previous expertise from undertaking projects in this sector and used contacts in the relevant ministries to facilitate the process. This is an example of an IP taking the initiative and establishing contacts and frameworks in which to work rather than waiting for the World Bank to set up the consultative arrangements. It also shows how different aid modalities can complement and support the PRSC process.

C1.14 There were environmental targets included in the CPRGS, and the PRSC has included a variety of measures aimed at enhancing the regulatory framework. The passing of the National Strategy for Environmental Protection was included as a policy action in PRSC2. In PRSC3 the “polluter pays” principle was to be established with the closure of the worst polluters. Decrees were also to be issued on wetlands conservation and sustainable development and a decentralisation for environmental impact assessment (EIA) of investment projects to local level. In PRSCs 4–5 a Natural Disaster Mitigation Strategy is to be developed as a policy action, as is an amendment to the Law on Environmental Protection with adoption of EIA requirements for plans above project level. The development of tools for pollution prevention and control are also included as well as the development of instructions to improve land use and zoning.

C1.15 Review of the policy actions under PRSCs 1–2 rated two environmental outcomes as unsatisfactory (a framework in place to assess environmental impacts of projects and mechanisms to handle waste and pollution offenders), an expansion of forest cover to 38% was difficult to assess and no further degradation of forests and wetlands was rated as satisfactory (see Annex 4). By 2005, the PRSC4 documentation indicated that progress has been made on introducing a polluter pays principle of waste water discharges and Departments of Natural Resources and Environment (DONREs) had been established in all provinces for environmental review of projects. The environment was also included as one of the 15 triggers for PRSC4 and the trigger that related to submission to the National Assembly of an amendment to the law on environmental protection was assessed as satisfactorily completed. Thus the environment has been extensively incorporated into the PRSC process with the expansion of policy actions from PRSCs 2–5. This indicates that there has been follow-up of these actions with further policy actions building on work already undertaken in previous PRSCs which has supported the development of a comprehensive environmental policy (see ¶B5.15).

C1.16 Although there have been successes in incorporating discrete actions related to the environment a World Bank assessment of PRSCs indicates that there has been less success in terms of mainstreaming the environment throughout the PRSC process (Bojo et al 2004). Vietnam for PRSC 3 achieved the average score for environmental mainstreaming and it was acknowledged that the environment is incorporated but it was not scored as a best practice example.

Democracy and Human Rights

C1.17 Vietnam is not a pluralist democracy and Amnesty International noted a lack of improvement in civil and political rights in 2004, including attacks on freedom of expression and association and the continued use of the death sentence in Vietnam (Amnesty International 2005). The World Bank Country Policy and Institutional Assessment (CPIA) ratings also rank Vietnam as low but improving on a broader assessment of governance in 2003 (World Bank 2004a).

C1.18 Traditionally, the GOV has not always been willing to engage in dialogue on democracy and human rights with IPs. As a result, IPs have not pressed either subject, but human rights are being addressed in a broad sense through complementary initiatives such as legal reform which is being undertaken through a project-based approach. The exception to this is Sida, who have a record of working with the GOV on issues relating to human rights and democracy using their long-established relationship with the GOV as the basis for dialogue.

C1.19 There has recently been a debate among PRSC co-financiers regarding the inclusion of human rights within the PRSC policy matrix. At present, Pillar 3 of the PRSC focuses on governance, but none of the policy actions specifically addresses human rights or democracy. Some co-financiers have requested that human rights be included within PRSC4 through the inclusion of policy actions relating to freedom of the press, which would be incorporated into other governance initiatives under Pillar 3. There has been much debate among IPs about this issue, but the view of the World Bank has predominated; it felt that it was inappropriate to include this, arguing that the PRSC should only include issues that are already on the GOV agenda. Also the Bank's articles only allow decisions to be made based on economic considerations and not those of human rights. As a result, it seems unlikely that either democracy or human rights will be included in the PRSC 6–10 cycle. Political governance issues are discussed further in Chapter C5 below.

C2. Public and Private Sector Issues

Introduction

C2.1 Critics have suggested that budget support is likely to put too much emphasis on government expenditures for social services, to the neglect of the private sector development on which growth, and therefore poverty reduction, ultimately depends. This chapter reviews private and public sector issues in the context of Vietnam's PRSC. It is clear, however, that these issues take a very different form in Vietnam than in the low-growth, highly aid-dependent countries of Africa.

GOV Policies on Growth and Private Sector

C2.2 The Government of Vietnam has placed great emphasis on encouraging growth at the same time as focusing on poverty reduction. This was reflected in the renaming of the PRSP as the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) and the emphasis in the GOV reform programme on restructuring the economy to move towards a modern market-based economy. The GOV has gone some way towards liberalising the domestic economy, although much of the larger-scale economy still remains in the public sector. The share of the public sector in GDP was 56% in 2003, while domestic private sector activity accounted for 25% and foreign private sector activity 20% (World Bank 2005c). Structural reform has been slower, particularly in the financial sector where the GOV still owns five large banks, which provide around three-quarters of bank credit, although one of these banks, Vietcombank, is currently in the process of being equitised. Progress in SOE reform has been slower than expected with around four thousand SOEs still owned by the GOV which account for around 31% of industrial output and 30% of non-oil exports (World Bank 2004e).

C2.3 There have been recent initiatives to encourage private sector activity with the National Assembly passing a competition law and an enterprise law which has streamlined business registration, while restrictions on FDI are also being removed (EIU 2005). The Common Investment Law has recently been approved by the National Assembly, which provides an equal playing field for foreign and local investors. A key objective of recent GOV activities has been towards achieving WTO membership and significant trade liberalisation has been achieved as a result (World Bank 2005b). Although the target date of end-2005 for WTO membership has not been achieved, it is expected that it will accede in due course.

C2.4 There have also been moves towards the marketisation of service delivery through the introduction of user fees in health and education and the implementation of Decree 10 in public administration (this allows for fiscal decentralisation through delegation of responsibility to spending units). Managers have been given much more autonomy to make their own decisions on organisational structure, salary levels and streamlining of procedures, which has resulted in scope for considerable flexibility (World Bank 2004e).

PRSC Influence

C2.5 The PRSC has supported these policy reforms designed to develop a more liberalised competitive economy, and many of the Pillar 1 policy actions have aimed to bring about a stronger role for the private sector and less government intervention. Pillar 1 specifically is aimed at achieving transition to a market economy through actions to encourage private sector development, SOE reform and financial reform, trade integration and infrastructure development (see Annex 3D for specific policy actions). Significant progress has been made in moving

towards trade liberalisation and WTO accession with policy actions in earlier PRSCs aimed at the removal of quantity restrictions and lowering of tariff barriers, with more recent PRSCs focused on achieving WTO requirements (World Bank 2005b: 52) (see ¶B5.22 and ¶B5.23). Various initiatives have been put in place to level the playing field for private companies through the establishment of laws and regulatory frameworks. As mentioned above, SOE and financial sector reform have made less progress even though a substantial number of policy actions have focused on these two areas. The reason for this relates to the constraints of the consensus-led political decision-making process which means that no clear decision has been made on reform in these two areas (B5.10). Nevertheless, progress has been made in other areas of Pillar 1, particularly those relating to trade liberalisation and the private sector.

C2.6 Overall, the PRSC has very strongly promoted the role of the private sector and reduced government intervention in the economy. This appears to be achieving results, with not only a substantial amount of policy actions implemented, but also a significant increase in private sector growth, which has outpaced that of the state sector in recent years (EIU 2005).

C3. Government Capacity and Capacity Building

Capacity Building

C3.1 There are a variety of non-PRSC initiatives in place to build capacity through TA at both provincial and central level, the PAR and PFMR being the largest programmes and others such as the Comprehensive Capacity Building Programme (CCBP) are designed to strengthen the effectiveness of aid management. Despite this, there is still a significant variation in capacity at all levels between provinces as well as at line and core ministry level. As noted previously in Chapter B5, lines of authority within government are often unclear and responsibilities are overlapping within institutions and between ministries. This allows blame to be placed on other institutions for mistakes or non-performance as this ambiguity results in a lack of institutional accountability (Gallagher 2004). Furthermore, strategic policy-making can be weak, as well as capacity in legal drafting (Armytage and Cao Xuan 2005).

C3.2 The PRSC process involves a significant amount of policy actions that must be implemented by central and sector government agencies but does not include capacity building or TA as this is undertaken by the complementary projects and activities. Policy actions have increased from 18 in PRSC1 to 41 in PRSC3 and not only has the GOV committed to implement them, but additional funds channelled through the budget require strengthened financial oversight functions. In interviews it was significant that most respondents spoke of implementing new systems and approaches without the acknowledgement that this will not be effective unless the people using those systems are given the necessary skills and knowledge to function effectively. Often this requires organisational change and changing of mind sets and attitudes as well as working practices. Most of the capacity building in Vietnam has traditionally consisted of training via courses and workshops, which is a less effective method of strengthening capacity than alternative techniques such as action learning, coaching and mentoring.

C3.3 Capacity building is an important issue which the PRSC is addressing to some extent, particularly in areas related to GOV systems both at central and provincial level. On the one hand, there are still systemic weaknesses which, if not addressed, may lead to policy actions not being translated into effective outcomes in the future (see ¶B7.12). This also has implications if IPs decide that they wish to scale-up funding contributions to the PRSC as more funds flowing through GOV systems will require effective management of these funds and the capacity to implement policy actions and coordinate related activities. On the other hand, it can be argued that as projects weaken government capacity by bypassing government systems and operating parallel structures, PGBS also offers opportunities to strengthen capacity.

Decentralisation

C3.4 Decentralisation is also an issue as in practice government in Vietnam is highly decentralised despite the formal government structure appearing quite centralised (see ¶B1.23). A process of decentralisation of authority and responsibility has been under way since the late 1990s resulting in an increasingly large number of government decisions made at lower levels of the administrative structure. There has been a devolution of management and decision-making to the provinces and allocation of planning, implementation and accountability for selected national anti-poverty programmes to the communes, combined with fiscal decentralisation. Although there are clear benefits of decentralisation to the local level, capacity at provincial level varies significantly in both policy implementation and the ability to establish and use PFM systems. Additionally, there is variation in provincial implementation of policy as there are no standardised implementation mechanisms, while variations in capacity are related to provincial

poverty with poorer provinces having weaker structures and capacity. This has the potential to exacerbate inequality as the decentralisation process progresses.

C3.5 At present, 44% of budget expenditure occurs at sub-national government level, and a significant majority of these funds go straight to the provinces and bypass sectoral ministries (World Bank 2005). Some sectors such as health are very decentralised with delegation of significant amounts of budget discretion to spending units under Decree 10/2002/ND-CP, which also applies to other sectors such as education. Again, weak accountability is a problem and a further insight into service delivery decisions was provided by an attempt to trace through the process of resource allocation and budget execution in education from the centre to the school level by Brooke et al (1999). They found that although the financing system gave the impression of being mechanistic with the use of expenditure norms, in practice these were used only as guidelines and as a basis for negotiations. The central and provincial level also used different norms as the basis for budget plans. Overall the outcomes were non-transparent with an increase in opacity the further down the system one tracked.

C3.6 The Public Administration Reform (PAR) programme is the main programme which is specifically working to assist with decentralisation and strengthening capacity at lower levels of government, while policy actions within the PRSC framework aim to strengthen and harmonise regulatory frameworks at the provincial level. These initiatives have begun since PRSC3, which included a policy action to establish HCFPs in all provinces and pay central government contributions. In PRSC4 there is a policy action aimed at the establishment of standardised land registration offices in all provinces, and in PRSC5 an appropriate regulatory framework must be developed for provincial infrastructure funds and the adoption of medium-term plans for education at provincial level. Therefore, decentralisation has been addressed within the PRSC and also in related projects such as PAR (see ¶B4.16).

C4. Quality of Partnership

Introduction

C4.1 The shift to PGBS was designed to overcome weaknesses of structural adjustment, particularly the problems experienced from previous approaches to conditionality that relied on buying reforms. This had proved to be ineffective and had undermined recipient government ownership (World Bank 1990, White 1999). In contrast, PGBS should embody partnership principles and should support partner country ownership by being based on nationally owned plans and strategies, with conditions agreed not imposed, while transaction costs for recipient government should be kept to a minimum (OECD DAC 2005b). This chapter considers whether this has occurred in the case of the PRSC in Vietnam. It also reviews the quality of partnership in terms of the interaction between PGBS and other aid modalities and of its influence on transaction costs in utilising aid.

Ownership and Conditionality

C4.2 There is strong government ownership of policy and the reform programme (see ¶B5.8). This is evidenced in the PRSC by the fact that reforms that previously the government has been hesitant about undertaking such as SOE and financial sector reform have still not made significant progress. As such it is clear the PRSC is not designed to make reforms happen, but rather supports the government reform programme. The PRSC provides an incentive to keep the reform programme on track and strengthens the hand of reformers within government (see ¶B1.22).

C4.3 Strong government ownership has also influenced the design of the PRSC as both the ESAFs and SACs stalled due to non-compliance with conditions, while the AsDB loans experienced disbursement delays as a result of GOV difficulties in meeting conditions (see Chapter A3). The PRSC itself has evolved from PRSC1, which was essentially a SAC style loan, to a softer version which is now reflected in “triggers” that are evaluated using a bottom-line assessment allowing for judgement rather than on a strict quantitative basis (World Bank 2005b: 16). This was a result of difficulties with co-financiers’ disbursements for PRSC1, as specific triggers had not been met, which meant that they were not able to disburse according to their own organisations’ guidelines (see ¶B1.28).

C4.4 The triggers measure achievement of the GOV’s own policy goals and the partnership dialogue focuses on the particular measures needed to reach these goals. The triggers are chosen from a sub-set of the policy actions and constitute policy actions which must be undertaken prior to the next PRSC and the extent to which they are fulfilled are used to determine the level of lending (see ¶B1.13). There were 15 triggers in PRSC4 chosen from a total of 44 policy actions. Although the World Bank maintains that these triggers are not conditions, they are used to evaluate and monitor progress in the reform programme. Meeting all triggers leads to high-case lending and progress across most triggers leads to base-case lending (World Bank 2004e). To date all lending has been at the base-case level.

C4.5 As outlined in Chapter B1, there were a variety of different perceptions among government and IPs as to whether these triggers do in fact represent conditionality or not. Among IPs, some saw the triggers as a way of monitoring progress of the reform programme, whereas others still saw them more as conditions that the government had to meet. The general view was that the PRSC was designed to “buy into dialogue” with government, so in this sense the idea of triggers being conditions becomes redundant and their use is in practice more to

monitor progress. The government view was that triggers were actions that had to be met in order to receive funding and operated in the same way as conditions, although it was acknowledged they were not as stringent as in the pre-PGBS era. It is also worth noting that discussion with some parts of government indicated that PGBS with conditions attached was no longer acceptable and forms of aid such as DFID's targeted support to Programme 135 were becoming increasingly attractive to the GOV as there were perceived to be fewer conditions attached.

C4.6 Overall, the evidence on conditionality and dialogue indicates that the PRSC in Vietnam can be judged as incorporating many aspects of the partnership GBS approach and as such represents a fundamental difference in approach from previous programme aid modalities.

Interplay between Aid Modalities

C4.7 The design of the PRSC means many of the policy actions reinforce activities that are being undertaken with support from other aid modalities. This means that in principle there is complementarity, but the extent to which they are coordinated differs depending on whether the implementing organisation is a PRSC co-financier (see ¶B2.24). In practice, many of the activities supported are World Bank projects while a significant number of policy actions require the implementation of regulatory or policy frameworks which assist other IPs in coordinating their activities within the structure outlined. The main area where there is little linkage is to capacity-building activities such as the PAR.

C4.8 There is also an interplay between PGBS and sector budget support initiatives that are currently being piloted (see ¶A3.8 and ¶B9.14). These are all being undertaken by various PRSC financiers and aim to support initiatives included within the PRSC policy matrix or to strengthen capacity. An example of this is the targeted budget support for the National Education for All Implementation Programme (World Bank 2005c). This supports the PRSC 2–5 policy actions which aim to increase expenditure and the effectiveness and efficiency of education expenditure. Other initiatives such as DFID's Pilot Budget Support Programme to Phu Tho and Lai Cai provinces support the decentralisation process and provide capacity-building assistance at provincial level (DFID 2005).

C4.9 There are synergies from PRSC dialogue into other areas which enhance the overall aid environment. The inclusion of cross-cutting issues in the PRSC gives IPs and the GOV a platform to address these issues which affect other aid modalities as well. Examples of this are the joint development of approaches to the environment, HIV/AIDS and corruption. Additionally, IPs have always found it difficult to engage in the policy-making process in Vietnam due to uncertainty regarding who the key policy-makers are (see ¶B5.19). The PRSC could be seen as one part of an overall strategy by IPs to engage in dialogue on policy with different parts of government and related policy-making institutions using different means. Being a co-financier raises the overall profile of IPs, particularly the smaller IPs, giving them more leverage in accessing government, which assists them in their other non-PRSC activities (see ¶B1.22). Conversely, IPs bring government contacts and expertise in particular areas that they have gained through undertaking project-related activities and these enrich the PRSC process. The inclusion of environmental issues into the PRSC is one example of this (see ¶C1.11).

Transaction Costs

C4.10 Due to the prevalence of projects in Vietnam it is believed that transaction costs of aid are relatively high. This was borne out by a DFID-funded transaction costs study (Fozzard et al 2000) which, although it was unable to quantify these costs, supported the general view that they are substantial. Many of these transaction costs stemmed from government standards and

procedures not meeting IP requirements, suggesting the need for government systems to be strengthened before IPs relax these requirements. However, differences in the detail of IP requirements caused substantial burdens on government, which has to meet different sets of standards for each IP (see ¶B2.23).

C4.11 The PRSC uses government systems to disburse funds, which represents a fall in the transaction costs of government in terms of not having to use multiple procedures. This means that transaction costs are not only reduced at the negotiations stage but also throughout the project implementation cycle as there is no necessity to use parallel systems which differ from those of government (see ¶B3.15). There are clearly transaction costs involved in negotiating the PRSC on an annual basis, but these are less than if negotiations had to take place with each of the co-financiers individually. As around 10% of ODA is now flowing through the PRSC, this should represent a significant gain for government.

C5. Political Governance and Corruption

Governance

C5.1 Vietnam has a one-party system and as such is not a pluralist democracy. Nevertheless, the government has been responsive to calls for more accountability. The Grassroots Democracy Decree in 1998 was directed at increasing transparency, participation and accountability at local levels (a response to an outbreak of protests against officials at local levels), while the National Assembly has steadily increasing powers of oversight over state affairs. There have also been a variety of other initiatives aimed at strengthening financial accountability and transparency (see ¶B4.12 and ¶B8.19).

C5.2 Some of the PRSC policy actions have been aimed at improving the accountability and transparency of budget systems which reinforces democratic accountability as a whole. These relate to the adopting of the Budget Law and publication of financial information by the government, which have improved the accessibility of this type of information (see ¶B4.8).

C5.3 Overall, it would seem that accountability to donors for undertaking the PRSC policy actions does not detract from domestic accountability as the PRSC is based on the government reform programme, which is owned by the government and built through a process of consensus. Rather the PRSC has worked to strengthen institutions for democratic accountability.

Corruption

C5.4 Corruption is a serious concern in Vietnam and is believed to be widespread. The problem is particularly severe in some service delivery units and in public projects (World Bank 2005b). As a regional comparison, the Political and Economic Risk Consultancy (PERC) gave Vietnam a score of 8.65 points on a scale of 0–10 (with 10 being the worst score), which was just ahead of the Philippines and Indonesia but behind India. Transparency International's corruption index ranks Vietnam as 102nd out of 146 countries.

C5.5 The two main concerns regarding corruption that relate to PGBS are that first, failure to curb corruption could result in the benefits of economic growth accruing to elite sections of society rather than being distributed more equally, which would also undermine the poverty reduction focus of the reform programme. The second is the fiduciary risk element of using GOV systems to channel PRSC funds which may result in leakage if there are not appropriate mechanisms for financial oversight put in place.

C5.6 The GOV has recently stated that it will give priority to anti-corruption initiatives and the Government Inspectorate is revising the anti-corruption ordinance and related legal documents. The IP community has focused on long-term structural reforms through PAR, legal and judicial reform and procurement reform and promoting transparency and accountability in public expenditure in order to address the issue. Anti-corruption measures were first included in PRSC3 through policy actions aimed at stronger procurement procedures and the banning of business inspections by non-authorised government agencies (see ¶B8.16 and ¶B8.17). In PRSC4, a comprehensive action to develop and implement an anti-corruption strategy was included, although the extent to which there is the political will to undertake this is unknown (EIU 2005). However, the trigger in PRSC4 related to this has been assessed as satisfactory and the issuing of an anti-corruption law is included as a trigger for PRSC5. This indicates that the

PRSC is being used to try to address corruption within government, although at present it is too soon to judge how effective this strategy will be.

C5.7 Fiduciary risk involved in PGBS was addressed prior to the introduction of the PRSC and has been ongoing through initiatives to strengthen PFM systems (see ¶B4.6). By the time the PRSC began, as Annex 4 shows, fiduciary risk was considered to be at an acceptable level in Vietnam. A certain amount of leakage is acknowledged to occur from projects; it appears reasonable to believe that this will be no more or even less from the PRSC. Overall, corruption is still a concern that is highlighted in PRSC documentation (World Bank 2005a: 41), but the PRSC is providing a mechanism to coordinate IP support for anti-corruption and reduce fiduciary risk, which means that the PRSC is dealing with GOV corruption directly, rather than seeking to bypass it.

Overall Conclusion

C5.8 The main policy cross-cutting issues have not been fully addressed in the PRSC, although there has been a focus on the environment and HIV/AIDS, which have been included in some detail and addressed successfully. This probably reflects GOV interest in these areas as well as the “filtering” process of the negotiation of PRSC policy actions, which results in some issues dropping out of the matrix; gender being an example of this. All of these CCIs are areas that should in practice be mainstreamed throughout the PRSC dialogue and policy actions rather than just being seen as discrete sectors to be addressed individually.

C5.9 The analysis in this chapter and in previous chapters has highlighted the impact of the decentralisation process, weaknesses in government capacity and accountability and high levels of corruption. These issues are addressed to differing degrees within PGBS, but they have the potential to limit the effectiveness and particularly the poverty reduction impact of PGBS if they are not adequately engaged with through either the PRSC or complementary programmes. On the other hand, in terms of transaction costs and ownership there have been strong positive effects from the PRSC process and design.

PART D: SYNTHESIS – OVERALL CONCLUSIONS AND RECOMMENDATION

D1. Overall Assessment of PGBS in Vietnam

Introduction

D1.1 This chapter provides an overall assessment of the effects of PGBS, and summarises the strengths and weaknesses of the PGBS process in Vietnam. Chapter D2 then highlights key issues that are likely to influence the applicability of PGBS in Vietnam and discusses the implications for PGBS taking account of the interplay with other aid modalities. Finally, in Chapter D3 a summary of conclusions and recommendations is given.

Overall Conclusion

D1.2 Overall the broad conclusion of the evaluation was that the PRSC in Vietnam represented a successful example of government–donor collaboration, of learning from experience and achievement of objectives. Vietnam provides a good illustration of the effectiveness of PGBS where there is already a good government track record on poverty reduction and macroeconomic management and the policy regime is nationally owned. In this case, the role of PGBS is to reinforce and provide additional incentives and influence to ongoing policies, strategies and activities of the GOV and increase alignment with government policy and systems. Given the GOV's good record on poverty reduction, providing the GOV with additional funding through PGBS would also seem to be an efficient and effective way to support poverty reduction.

D1.3 The main effects of the PRSC were found to be from all three main flows of PGBS (funds, institutions and policy) with a strong effect on the policy side, which is not surprising given that PGBS is designed to support the GOV reform programme, through strengthening policies and implementation. A more detailed analysis of the effects on PGBS in Vietnam is discussed below.

Summary of Causality Findings

D1.4 Annex 5 provides a systematic review of the effects of PGBS in Vietnam in relation to the causality map. This indicates that the Level 1 inputs were all present, although TA and capacity building was provided by complementary projects and programmes which were related to the PRSC but not part of the “PGBS package” (see ¶B1.18). There were strong effects from harmonisation and alignment, policy dialogue and conditionality at Level 1 to immediate effects and activities at Level 2 (see ¶B2.25). For PGBS funding the effect was moderate (see Chapter B3). From immediate effects (Level 2) to outputs (Level 3), there was found to be a strong effect from policy dialogue, conditionality and harmonisation and alignment in encouraging the GOV to strengthen pro-poor policies and PFM systems (see ¶B3.15 and ¶B3.16). There were also flow-of-funds effects that led to moderate increases in funds for basic service delivery (see ¶B7.15), while complementary TA/CB were found to have a moderate effect on strengthening PFM as well.

D1.5 After this point the linkages become less clear at Level 4 (outcomes) and Level 5 (impacts). At Level 4 there was a moderate link between appropriate sector policies to address market failures leading to more responsive and pro-poor service delivery, and a moderate linkage between appropriate private sector regulatory policies leading to a more conducive growth-enhancing environment (see ¶B5.22 and ¶B6.17). These are then likely to have some

impact at Level 5 on income and non-income poverty, although there is not sufficient evidence to link this to a specific PGBS effect with any certainty. This is because the PGBS measures on service delivery are relatively recent and the effects of many policy actions are yet to feed through and become clearer, particularly those relating to sector policies and expenditure frameworks which were introduced in later PRSC cycles (see ¶B7.9). The lack of monitoring of PGBS outcomes also means that there is little evidence on the results of policy actions and it is also difficult to disentangle the PGBS impact from other factors (particularly other aid initiatives in similar areas) which may have had an influence (see ¶B9.17).

Strengths of PGBS

D1.6 The causality analysis indicates a number of strengths of PGBS in Vietnam, as follows.

Relevant, evolving, pro-poor design

D1.7 The design of PGBS is relevant to the country context and has become increasingly pro-poor as the policy agenda has expanded. PGBS design responds well to previous weaknesses in aid management systems (see ¶B1.28). As such it is designed to influence the content of policy rather than impose policies themselves. It also strongly reflects the objectives and strategies related to poverty reduction and has evolved and changed over its three cycles to reflect the concerns of GOV and co-financiers (see ¶B9.11). Even though there have been recent difficulties regarding a divergence in interests between co-financiers, the recent stock-taking process indicates a willingness to learn lessons and develop mechanisms to overcome differences (see B9.12). In this sense, the PRSC has proved to be an adaptable mechanism which augurs well for future sustainability.

Increased aid coordination and alignment with GOV policy

D1.8 PGBS has played an important role in increasing alignment with government systems and aid coordination overall. The PRSC provided a practical opportunity for IPs to build on previous H&A initiatives and, as the number of co-financiers has risen, the overall alignment benefits have been strengthened. It is unlikely that this would have occurred through previous forms of programme aid: although they used GOV systems, they did not result in policy alignment as they were not owned by the GOV and did not provide a coherent policy framework within which IPs could work (see ¶B2.26). In the future the effect on alignment and aid coordination is likely to be enhanced due to the demonstration effects of the PRSC (see ¶B2.19).

D1.9 Using GOV systems for the PRSC has increased IPs' confidence, making them more willing to use them for other aid modalities. Overall, there is likely to have been an increased aggregate effectiveness of aid flows from spillover effects from the PRSC as the increased level of engagement between IPs and between IPs and government enhances cooperation and dialogue in other aid modalities (see ¶B2.22).

Strong disbursement record

D1.10 Due to the dependence on projects in Vietnam disbursement delays have always been a problem. The disbursement record of the PRSC is very good in comparison, with only the second tranche of PRSC1 being disbursed late. A comparison of PRSC and project disbursement confirms this (see ¶B3.13).

Lower transaction costs

D1.11 The PRSC uses government systems to disburse funds, which represents a fall in the transaction costs to government in terms of not having to use multiple non-government procedures. There are clearly transaction costs involved in negotiating the PRSC on an annual basis, but it is assumed that these are less than if negotiations had to take place with each of the co-financiers individually. As around 10% of ODA is now flowing through the PRSC, this should represent a significant gain for government through the consequent reduction in transaction costs (see ¶B3.15).

Strengthening policy and implementation through dialogue

D1.12 One of the main objectives of the PRSC is to engage in high-level policy dialogue with the GOV and influence policy content, which appears to have been successfully achieved. There has been active IP participation in the development of regulatory frameworks and sector policy, particularly the environment, health and education, which has assisted in strengthening the implementation of the GOV reform programme (¶C1.15).

Potential linkages on service delivery and poverty impacts

D1.13 Many of the PRSC policy actions have focused on improving policy and the efficiency and effectiveness of service delivery in health and education. These policy actions have played an important role in reinforcing GOV commitment to improvement in these sectors. Although the evaluation judged the impact to be moderate, as many of the measures are still recent, there is potential for strong future effects which should also be experienced at Level 5 – poverty impacts (see ¶B7.9 and ¶B7.11)

Complementing other modalities and addressing CCI's

D1.14 PGBS has been a useful complement to other aid modalities, both at sector level and in relation to a number of cross-cutting issues (e.g. environment and HIV/AIDS – see Chapter C1).

Weaknesses and Challenges

D1.15 There were also areas of weakness, which stem either from issues in the PGBS design or from an inadequate national response to these issues.

Alignment, disbursement and predictability

D1.16 Commitments are made by most co-financiers on an annual basis. This results in uncertainty for the GOV in terms of the overall funding that can be expected from PGBS for each annual budget and often commitments are not confirmed until after the budget preparation process has begun (see ¶B2.13 and ¶B2.14). Some co-financiers have already moved to making multi-annual PRSC co-financing commitments and the predictability of funding for GOV would be improved if all co-financiers were able to undertake similar commitments. As co-financiers make disbursements throughout the fiscal year, providing a schedule which notified the GOV of the timing would also increase predictability and improve overall IP alignment with GOV planning and budget cycles.

Recommendation: Co-financiers should make long-term funding (three-year to five-year) commitments and provide schedules for disbursement.

Monitoring and evaluation

D1.17 Monitoring of PRSC outcomes is based on the CPRGS methodology which lacks a comprehensive set of indicators to monitor and evaluate the economic reform programme

(B9.17). There is limited feedback into subsequent cycles of the PRSC as there is insufficient analytical work, both for the ex ante selection of policy actions and the ex post evaluation of policy action impacts to inform decisions regarding adjustments in institutional or policy reforms. Insufficient (theoretical and empirical) linkages to specific outcome indicators make monitoring difficult. This is a concern as evidence of impact and progress is needed in order to keep the momentum of the PRSC going, and to feed into an ongoing process of review and adjustment of the policy matrix.

Recommendation: Develop an evaluation system to provide adequate evidence on impact and progress towards achieving outcomes for PRSC 4 to 5 and for the next PRSC cycle 6–10.

Gender

D1.18 CCIIs have been addressed to different degrees within PGBS. While the environment and HIV/AIDS have been included with some success, the treatment of gender has not been as satisfactory. Gender was included in PRSC1, in a policy action that was not successfully implemented and gender issues have not been mainstreamed within PGBS (see ¶C1.6).

Recommendation: More attention should be paid to the inclusion of gender issues and gender mainstreaming within the PRSC policy matrix.

Managing more co-financiers

D1.19 The number of co-financiers has increased considerably over the PRSC cycle and is expected to have increased further by PRSC5. This has brought growing difficulties of coordination and cohesion, creating tension regarding the organisation and content of the PGBS process. In particular, new co-financiers bring different agendas which may be in conflict with those of the current PRSC and there is a risk of “hijacking” of the PRSC process (see ¶B2.23). An option for resolving this issue and ensuring that it does not become a problem in the future is to develop a set of guiding principles for the operation of the PRSC which co-financiers agree to abide by before they join.

Recommendation: Establish a set of guiding principles for the PRSC which co-financiers agree to when they join. (This could be undertaken in tandem with the recommendation on the development of an overall strategy for budget support outlined in ¶D2.2.)

Quality of PRSC dialogue

D1.20 The annual nature of the process and the fact that, as a World Bank-led mechanism, it has to adhere to a World Bank internal timetable, means that there is often not sufficient time for dialogue and consultation (see ¶B1.34 and ¶B2.21). This is an issue for co-financiers, as is the fact that often discussion with GOV is undertaken by the World Bank on behalf of the co-financiers. This could be resolved through the formation of a PRSC negotiating team involving other co-financiers, which would increase IP involvement in negotiation with the GOV and enhance overall participation. Another option would be to have ongoing dialogue and forums for discussion which do not necessarily adhere to the two-year PRSC timetable, but are ongoing between GOV and co-financiers.

Recommendation: Formation of a PRSC negotiating team involving other co-financiers and the development of ongoing forums for discussion and consultation that bridge the annual PRSC negotiation cycles.

Wider consultation

D1.21 There is little participation in the PRSC dialogue from stakeholders such as NGOs, line ministries and donors who do not co-finance the PRSC (see ¶B1.25). In order to increase participation and ownership a wider range of stakeholders needs to be included in dialogue and

consultations, particularly as dialogue and consultation focus on core ministries which may not be appropriate given the need for sector ministries to implement policy actions. Better consultation between PRSC working groups and other partnership groups as well as with non-financiers would improve the overall coordination of aid activities.

Recommendations:

- (a) Include line ministries in the consultation process and generally raise awareness regarding PGBS.*
- (b) Consider involving non-PRSC co-financiers through giving them observer status (IMF, UNDP etc).*
- (c) Widen the policy dialogue and consultation process to include a wider range of stakeholders – NGOs, business community, sector ministries, non-financiers.*

Coherence with other aid modalities

D1.22 Even though the PRSC reinforces through policy actions activities in other projects, coordination is often poor, as is the linkage of non-PRSC projects with the PRSC (see ¶B4.16). Stronger coordination would enhance the synergies between the PRSC and other aid modalities and provide better feedback on progress and measures needed to achieve policy actions. This would be useful if, according to the recommendation below (see ¶ D1.23), capacity building and TA were to be included within the PRSC. This would allow for review and adjustment of the policy matrix and improve the overall level of aid coordination.

Recommendations:

- (a) Improve linkages between partnership and PRSC working groups.*
- (b) Ensure that there is stronger mapping of ODA activities to PRSC areas and coordinate more closely with projects linked to the PRSC reform programme.*

Inadequate attention to capacity building

D1.23 More explicit attention should be paid to capacity building. If systemic weaknesses in GOV capacity are not addressed, policy actions may not be translated into effective outcomes (C3.3). The PRSC involves a significant amount of policy actions that must be implemented by central and sector agencies but does not directly include any capacity-building element. The main capacity building has been undertaken in other project or programme activities which are not necessarily closely linked to the PRSC (see ¶C3.6).

Recommendations:

- (a) Include capacity building and TA within PRSC activities, or*
- (b) Ensure closer coordination with PRSC policy actions and complementary activities being undertaken through other aid modalities.*

The Counterfactual

D1.24 The key counterfactual question is whether the achievements noted above could have been achieved with another mix of aid instruments. It is unlikely that the same effects would have occurred through a non-PGBS approach, particularly project support, which is the dominant aid modality in Vietnam. Other aid modalities have not involved the degree of adaptation to the Vietnamese context that PGBS has done or the breadth of policy dialogue and aid coordination and alignment that has occurred. Furthermore, the disbursement record of both project aid and non-PGBS BS has not been as anywhere near as good as in the PRSC. At the same time, it should be noted that PGBS initiatives are designed to complement activities that are being undertaken through other aid modalities, so there is a synergy between them. On balance it is judged that PGBS has been an advance on other forms of both project and previous programme aid, and has been a useful complement to other aid modalities.

D2. PGBS in Vietnam – Future Prospects

Introduction

D2.1 This chapter examines significant issues relating to PGBS in Vietnam that are likely to influence the applicability of PGBS and overall aid effectiveness. These issues are the relationship between PGBS and other aid modalities, decentralisation, the incorporation of the CPRGS into the SEDP, accession to MIC status, the pro-poor emphasis of the PRSC and issues regarding the scaling up of aid. These specific themes are discussed below and where appropriate, recommendations are given which aim to enhance the efficiency, effectiveness and sustainability of PGBS processes.

Move to Other Budget Support Modalities

D2.2 There has been a move towards experimenting with other forms of budget support and currently there are various sector budget support initiatives that are being piloted directed at government poverty programmes and sector budget support (see ¶B9.21). The synergies between PGBS and other forms of BS should be carefully considered as, although they may in some cases be complementary, they have potential to undermine the benefits of the PRSC. More specifically the benefits of aid coordination and the reduction in transaction costs for government could be lost. This means that there should be careful discussion regarding the risk of fragmentation in the overall aid framework that may result, and consideration of the way in which other forms of budget support or SWApS could reinforce each other rather than being perceived as alternatives.

Recommendation: Formulate principles/strategy to guide when other forms of budget support can be used to complement PGBS.

Decentralisation

D2.3 Government in Vietnam is highly decentralised with around 44% of the budget channelled directly to provinces and an increasing amount of decisions made at lower levels of government (see ¶C3.5). One risk of central budget support is that it reinforces central budget control and there may well be a case for allocation to provincial level budgets. As capacity varies at provincial level and it is at this level that many decisions and policy actions will be undertaken, consideration to capacity building at this level should also be given.

Recommendation: Consider the option of giving provincial budget support within a PGBS framework and undertaking complementary capacity-building programmes at provincial level.

Incorporation of the CPRGS into the Five-year Socio-Economic Development Plan

D2.4 Currently the CPRGS acts as a basis for the policy matrix and has represented a comprehensive framework for the PRSC which addresses well the GOV reform programme and IP pro-poor agenda. In the 2006–2010 PRSC cycle, the CPRGS will be replaced by the GOV's own five-year SEDP 2006–2010 (see ¶B1.4). This is clearly an opportunity to ensure that the PRSC is based directly on GOV policies and priorities, but it implies that there will have to be a reworking of the three-pillar policy matrix to reflect the SEDP. It is important that the principles of the PRSC policy matrix remain and that there are follow-up measures included from the previous PRSC cycle. There is also a need for the development of an effective framework for monitoring the outcomes of policy reforms (see ¶B9.10).

Recommendations:

- (a) *Ensure that sufficient analytical work is undertaken to support the shift from using the CPRGS to the SEDP and that it provides an adequate basis for the development of policy actions.*
- (b) *Develop an effective framework for monitoring and evaluation (see recommendation in ¶D1.17).*

Accession to MIC Status

D2.5 It is likely that Vietnam will graduate from being a low-income to a middle-income country (MIC) in about 2010. This will have implications for the sustainability of the PRSC programme. The next five-year cycle of the PRSC is planned to run from 2006 to 2011; after this point, if Vietnam does become an MIC, it may not qualify for concessional funding from the World Bank. Although most other co-financiers provide grants, the World Bank would have to switch to loans at higher rates. This may be a less attractive option for the GOV as the transaction cost of negotiation and complying with PRSC conditionality may well outweigh the benefits and Vietnam may choose to borrow on external markets (see ¶B9.11). On the other hand, funding through PGBS could provide a mechanism through which a smooth transition to lower levels of aid flows could occur. Given that the institutional developments envisaged by the PRSC require a long time scale it is important the PRSC process survives the end of concessional lending in order to ensure that these objectives are achieved. In the light of this, more attention should also be paid to stronger coordination and linkages with other aid modalities undertaking complementary activities to the PRSC to ensure that they are continued, and in developing a strategy to ensure a continuation of the PRSC/PGBS process.

Recommendations:

- (a) *Ensure stronger coordination and linkages with other aid modalities undertaking complementary activities to the PRSC to ensure that they are continued.*
- (b) *Develop a strategy to ensure a continuation of the PRSC process.*

Scaling-up and Aid Effectiveness

D2.6 The amount of funding provided through budget support has increased significantly during the course of the PRSC cycle. Further scaling-up of budget support would seem logical on the basis of the benefits that stem from this aid modality as outlined in Chapter D1. In particular, channelling more funding through budget support should increase aid effectiveness, increase donor harmonisation and alignment, and reduce transaction costs (see ¶D1.8 and ¶D1.11). However, this would imply that capacity within the GOV, particularly at sector ministry and provincial level, should be strengthened and more attention should be paid to the impact of decentralisation (see recommendations from ¶D1.23 and ¶D2.3).

PRSC Poverty Focus

D2.7 Analysis of poverty reduction trends suggest that, although poverty has been substantially reduced through achieving high rates of economic growth, this trend may not continue in the future. Poverty rates have remained high in more remote regions and among ethnic minorities who have not benefited so much from growth (see ¶B8.7). This suggests that the PRSC should pay more attention to the poverty impacts of policy actions in order to ensure that it is achieving its poverty reduction goals. This requires more robust monitoring and evaluation (see ¶D1.17) to determine poverty reduction impacts with adjustment to the inputs of the PRSC as required. It may also imply that the PRSC may not be the only aid instrument that is needed to achieve poverty reduction in these harder-to-reach groups. It could be that other aid modalities are appropriate and there needs to be careful consideration of the way in which they complement each other (see ¶D2.3 and ¶D2.2).

Recommendation: Formulate overall strategy for use of different aid modalities in the context of poverty reduction objectives.

D3. Summary of Conclusions and Recommendations

D3.1 The main recommendations from the study are summarised below and are grouped according to priority of implementation.

High Priority

- R1 Co-financiers should make long-term funding (three-year to five-year) commitments and provide schedules for disbursement.
- R2 Development of an evaluation system to provide adequate evidence on impact and progress towards achieving outcomes for PRSC 4–5 and for the next PRSC cycle 6–10.
- R3 Formation of a PRSC negotiating team involving other co-financiers and the development of ongoing forums for discussion and consultation that bridge the annual PRSC negotiation cycles.
- R4 Ensure that sufficient analytical work is undertaken to support the shift from using the CPRGS to the SEDP and that it provides an adequate basis for the development of policy actions.
- R5 Establish a set of guiding principles for the PRSC which co-financiers agree to when they join. This could be undertaken in tandem with the recommendation on the development of an overall strategy for budget support.

Medium Priority

- R6 Widen the policy dialogue and consultation process to include a wider range of stakeholders – NGOs, business community, sector ministries, non-co-financiers.
- R7 Improve linkages between partnership and PRSC working groups.
- R8 Pay more attention to the inclusion of gender issues and gender mainstreaming within the PRSC policy matrix.
- R9 Ensure that there is stronger mapping of ODA activities to PRSC areas and coordinate more closely with projects linked to the PRSC reform programme.

Lower Priority

- R10 Development of a strategy to guide when other forms of budget support can be used to complement PGBS.
- R11 Consider the option of giving provincial budget support within a PGBS framework and undertaking complementary capacity-building programmes at provincial level.
- R12 Include capacity building and TA within PRSC activities or ensure closer coordination with PRSC policy actions and complementary activities being undertaken through other aid modalities.
- R13 Ensure stronger coordination and linkages with other aid modalities undertaking complementary activities to the PRSC to ensure that they are continued after MIC accession and develop a strategy to ensure a continuation of the PRSC process.

D3.2 Finally, the matrix at Table D3.1 provides a summary of the evaluation's main findings, conclusions and recommendations. It demonstrates, in particular, how the recommendations derive from the evidence presented and the conclusions reached during the evaluation of PGBS in Vietnam. The last column indicates who should be responsible for implementation of the recommendations. The timeframe for this to happen is also suggested, with the following key:

- I means for immediate action;
- ST means for action in the short term that is, roughly, 6 months to a year;
- MT means for action in the medium term that is, will take more than a year.

Table D3.1: Summary of Findings, Conclusions and Recommendations

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ1 Relevance of PGBS</p> <ul style="list-style-type: none"> PGBS design is relevant to the Vietnamese context as it responds well to previous weaknesses in aid management systems, particularly the previous use of conditionality to push reform which resulted in delays or suspension of disbursement. It also strongly reflects the objectives and strategies related to poverty reduction. More recently divergence has occurred in expectations and approaches of IPs and GOV as PGBS has evolved and the number of co-financiers has increased. There is clearly a high level of ownership at central agency level but not at the level of line ministries, who are often not represented in the dialogue. 	<ul style="list-style-type: none"> The emphasis of PGBS is to influence the content of policy rather than impose policies themselves (¶B1.26). Dialogue and consultation focus on core ministries, which may not be appropriate given the need for sector ministries to implement policy actions (¶B1.25). 	<ul style="list-style-type: none"> Include line ministries in the consultation process and generally raise awareness regarding PGBS (¶D1.21). 	<ul style="list-style-type: none"> GOV/IPs (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ2 Harmonisation and Alignment</p> <ul style="list-style-type: none"> PGBS has contributed to increased IP alignment with GOV policies, by providing a framework to align with, although there has been less impact on harmonisation. There has been little reliance on GOV aid coordination, analytic work or TA management. There has, however, been a moderate impact of PGBS improving overall coordination and complementarities of IPs' programmes. The PRSC planning cycle itself is aligned with the GOV budget cycle and the WB and some co-funders have aligned commitment and disbursement with GOV planning and budget cycles but not all. There has been a demonstration effect from PGBS resulting in increased use of GOV implementation systems, bringing more funds on-budget, but there is a low level of complementarity between PGBS and other forms of aid. 	<ul style="list-style-type: none"> PGBS has arguably been an effective method of achieving alignment with GOV policies and has enhanced aid coordination (¶B2.9–¶B2.26). There could be better alignment between co-financiers' commitment and disbursements with the GOV budget cycle (¶B2.13–¶B2.14). There has been a move towards piloting targeted and sector budget support which could dilute some of the benefits of PGBS (¶B9.21). As the number of co-financiers grow, the difficulties of coordination and cohesion create tension regarding the organisation and content of the PGBS process (¶B2.23). Coordination could be improved between PRSC working groups and partnership groups as well as coordination with non-co-financiers' activities (¶B2.21). 	<ul style="list-style-type: none"> Co-financiers should make long-term funding (three-year to five-year) commitments and provide schedules for disbursement (¶D1.16). Formulate principles/strategy to guide when other forms of budget support can be used to complement PGBS (¶D2.2). Improve linkages between partnership and PRSC working groups. Involve non-PRSC co-financiers though giving them observer status (UNDP, IMF etc) (¶D1.21). Consider establishing an on-going consultation process and wider consultation via a negotiating team (¶D1.20) and establish a set of guiding principles for the PRSC which co-financiers agree to when they join (¶D1.19). 	<ul style="list-style-type: none"> IPs (MT) IPs/GOV (I) IPs (MT) IPs/GOV (MT)
			(104)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ3 Public Expenditures</p> <ul style="list-style-type: none"> PGBS funds influence the share of pro-poor expenditures and are used to finance the budget deficit. The scheduling and delivery of PGBS funds has had an impact on the efficiency of public expenditure and has increased the predictability of aid flows. PGBS has had a moderate impact on external funds subject to the national budget, an improvement which has been reasonably stable over the long term. Transaction costs for the GOV of the budget process and utilising aid have decreased due to PGBS, as there is no need to use parallel systems. For IPs evidence also points to a fall in transaction costs. 	<ul style="list-style-type: none"> The flow-of-funds effects are found both in supporting pro-poor expenditures and funding the implementation of policy actions and through financing the budget deficit (¶B3.10, ¶B3.11, ¶B6.11). Most external funds are still off-budget with the PRSC being the major instrument which brings funds on budget (¶B3.12). There has been short-term volatility in PRSC disbursement but compared to other aid modalities the disbursement record of the PRSC has been very good (¶B3.13). In comparison to other aid modalities, the transaction costs to both GOV and IPs are lower (¶B3.15). 	<ul style="list-style-type: none"> Co-financiers should make long-term funding (three-year to five-year) commitments and provide schedules for disbursement (¶D1.16). 	<ul style="list-style-type: none"> IPs (ST/MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ4 Planning and Budgeting Systems</p> <ul style="list-style-type: none"> PGBS has had little impact on the budget process as there is strong ownership by GOV. There has been a weak effect on the commitment to a more efficient budget allocation process and moderate effect from PGBS of improving the accountability of public expenditures. These improvements have occurred through policy actions focused on strengthening these areas, but the extent to which they have been internalised within government is weak. Also the degree to which capacity development in PFM is being better addressed and coordinated is weak. 	<ul style="list-style-type: none"> The main impacts are not from flow-of-funds effects, but from institutional impacts due to the implementation of budget-related policy actions included in the PRSC policy matrix (¶B4.10–¶B4.11). Even though the PRSC reinforces through policy actions activities in other projects, coordination is often poor, as is the linkage of non-PRSC projects with the PRSC (¶B4.18). 	<ul style="list-style-type: none"> Ensure there is stronger mapping of ODA activities to PRSC areas and coordinate more closely with projects linked to the PRSC reform programme (¶D1.22). 	<ul style="list-style-type: none"> IPs (MT)
<p>EQ5 Policies and Processes</p> <ul style="list-style-type: none"> The reform process is strongly owned by the GOV and, as the PRSC policy matrix is based on this and the CPRGS, it provides an additional incentive to undertake the reforms. The PGBS process also provides support to the reformers within the GOV and the Party which plays a role in keeping the reform programme on track. Participation in the policy dialogue process is limited to co-financiers and potential co-financiers and mainly core GOV ministries. Engagement in policy processes through PGBS is weak, although there is moderate influence on policy content related to public, private and sectoral policy. 	<ul style="list-style-type: none"> PGBS provides a mechanism to engage in high-level policy dialogue with GOV and provides an incentive to keep the reforms on track. Therefore there are clear policy effects from PGBS by providing inputs into discussion regarding policy content and implementation (¶B5.9). There is limited participation in policy dialogue from line ministries, NGOs, the business community and non-co-financiers (¶B5.17). 	<ul style="list-style-type: none"> Widen the policy dialogue and consultation process to include a wider range of stakeholders – NGOs, business community, sector ministries, non-co-financiers (¶D1.21). 	<ul style="list-style-type: none"> IPs (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
EQ6 Macroeconomic Performance <ul style="list-style-type: none"> The GOV has always had a good record on macroeconomic and fiscal stability. Controlling inflation and the budget deficit have always been priorities. PRSC funding represents a significant proportion of the budget deficit, reducing the costs of financing. There was no adverse effect found of PGBS crowding out private sector investment or on the collection of domestic revenues. 	<ul style="list-style-type: none"> PGBS funds have had a limited effect on macroeconomic performance as macroeconomic and fiscal stability would have probably been maintained regardless of PGBS funding (¶B6.10). 		
EQ7 Delivery of Public Services <ul style="list-style-type: none"> The PRSC has had a moderate impact on increasing pro-poor service delivery. This has been through the adoption of policy actions which related to education and health and are designed to increase efficiency and effectiveness. There has, however, been little associated capacity building in sector ministries or service delivery institutions. There is evidence of the PRSC supporting service delivery institutions to become more responsive to beneficiaries, again through policy actions which in some cases have supported implementation by other projects and activities. 	<ul style="list-style-type: none"> The impact of PGBS is likely to become stronger in the future as many of the policy actions relating to health, education and sector MTEFs have been included in recent PRSC cycles. As a result is not possible to find strong evidence of their impact at present (¶B7.11). 		

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ8 Poverty Reduction</p> <ul style="list-style-type: none"> The GOV has a good record on poverty reduction. The PRSC has supported policies in education and health which are designed to increase access by poor groups and these have had a moderate impact. Pillar 1 of the PRSC is focused on strengthening the macroenvironment and again this has been moderately successful. There has been a weak impact on empowerment of the poor as administration of justice, greater participation in decision-making and accountability of government have only partially been engaged with in PGBS. 	<ul style="list-style-type: none"> The main effect of PGBS has been on non-income poverty, with only weak effects on income poverty reduction and empowerment of the poor (¶B8.21). 		

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ9 Sustainability</p> <ul style="list-style-type: none"> The PRSC has evolved over its three cycles and has changed to reflect the concerns of GOV and co-financiers. However, the increase in co-financiers has created problems of coordination as agendas begin to differ. There has been a weak review process with little adjustment to the three flows and there is little ex post evaluation of impacts. Additionally the transition to MIC status which is forecast to occur around 2010 has implications for PRSC sustainability as concessional lending will cease. 	<ul style="list-style-type: none"> There is a danger that, as the number of co-financiers grows, the policy agenda will get “hijacked” (¶B2.23). Better monitoring and evaluation of impacts, particularly on poverty, is needed to provide feedback to stakeholders and ensure their continued commitment (¶B9.17). Given that the institutional developments envisaged by the PRSC require a long time scale it is important the PRSC process survives the end of concessional lending in order to ensure that these objectives are achieved (¶B9.19). 	<ul style="list-style-type: none"> See first recommendation in EQ2. Develop an evaluation system to provide adequate evidence on impact and progress towards achieving outcomes for PRSC 4–5 and for the next PRSC cycle 6–10 (¶D1.17). Ensure stronger coordination and linkages with other aid modalities undertaking complementary activities to the PRSC to ensure that they are continued and develop a strategy to ensure a continuation of the PRSC process (¶D2.5). 	<ul style="list-style-type: none"> GOV/IP (I) IPs (I) GOV and IPs (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>PART C C1 Policy CCI</p> <ul style="list-style-type: none"> CCIs have been addressed to different degrees within PGBS. Of the policy CCIs, the environment and HIV/AIDS have been included with some success, with regulatory frameworks for environment and an action plan for HIV/AIDS produced. Gender was included in PRSC1, in a policy action that was not successfully implemented and gender issues have not been mainstreamed within PGBS. Democracy and human rights were deliberately not included due to the GOV's unwillingness to engage in dialogue on these issues. 	<ul style="list-style-type: none"> The environment has been a particularly successful instance of a policy CCI being addressed within PGBS (¶C1.13). Gender has not been adequately addressed (¶C1.6–C1.7). 	<ul style="list-style-type: none"> More attention should be paid to the inclusion of gender issues and gender mainstreaming within the PRSC policy matrix (¶D1.18). 	<ul style="list-style-type: none"> IPs and GOV (ST)
<p>C2 Public and Private Sector Issues</p> <ul style="list-style-type: none"> Pillar 3 of the PRSC aims to encourage structural reform and liberalisation of the economy. A stronger role for the private sector has been encouraged and the main area of progress has been made in establishing the legal framework to provide a level playing field for private companies. Progress on SOE and financial reform has been slow due to political constraints, whereas significant progress has been experienced in WTO accession and trade liberalisation. 	<ul style="list-style-type: none"> PGBS has addressed this area as far as it is able, but political constraints have prevented progress in SOE and financial sector reform – problem experienced in previous GBS programmes (¶C2.5). Progress on WTO accession has been an example of where “behind-the-scenes” influence from PGBS has assisted in moving this area forward (¶B5.11). 		

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>C3 Government Capacity and Capacity Building</p> <ul style="list-style-type: none"> The PRSC involves a significant amount of policy actions that must be implemented by central and sector agencies but does not include any explicit capacity-building element. The main capacity building has been undertaken in other project or programme activities which are not necessarily closely linked to the PRSC. The system of government in Vietnam is in practice highly decentralised with an increasing number of decisions made at provincial level and 44% of budget expenditure occurring at sub-national government level. 	<ul style="list-style-type: none"> Attention should be paid to capacity building as, given systemic weaknesses in GOV capacity, if they are not addressed then policy actions may not be translated into effective outcomes (§C3.3). One risk of central budget support is that it reinforces central budget control and there may well be a case for allocation to provincial level budgets. As capacity varies at provincial level and it is at this level that many decisions and policy actions will be undertaken, consideration to capacity building at this level should be considered and possibly provincial level BS (§C3.5). 	<ul style="list-style-type: none"> Include capacity building/TA within PRSC activities or ensure closer coordination with PRSC policy actions and complementary activities being undertaken through other aid modalities (§D1.23). Consider the option of giving provincial budget support within a PGBS framework and undertaking complementary capacity building programmes at provincial level (§D2.3). 	<ul style="list-style-type: none"> IPs/GOV (MT) GOV and IPs (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>C4 Quality of Partnership</p> <ul style="list-style-type: none"> There is evidence of strong GOV ownership of policy and the PRSC is designed to support the GOV own reform programme. The dialogue then provides a forum for engaging in discussion on policy content and implementation with IPs bringing their sectoral expertise to the table. The triggers measure achievement of goals and represent a “soft” form of conditionality although they are still perceived as conditions by government. Although many of the PRSC policy actions support activities undertaken through other aid modalities, the extent of complementarity differs depending on whether the IP is a co-financier. Given the prevalence of the project approach in Vietnam and the high transaction costs involved, the transaction costs for GOV of aid management are lower in PGBS. 	<ul style="list-style-type: none"> PGBS represents signs of a shift in aid management relations which are now based more on partnership principles (¶C4.6). 	<ul style="list-style-type: none"> Ensure stronger coordination and linkages with other aid modalities undertaking complementary activities to the PRSC to ensure that they are continued and develop a strategy to ensure a continuation of the PRSC process (¶D2.5). Ensure there is stronger mapping of ODA activities to PRSC areas and coordinate more closely with projects linked to the PRSC reform programme (¶D1.22). 	<ul style="list-style-type: none"> IPs and GOV (MT) GOV and IPs (MT)
<p>C5 Political Governance and Corruption</p> <ul style="list-style-type: none"> Vietnam has a one-party system and is not a pluralist democracy as such. PGBS has included policy actions aimed at increasing participation, transparency and accountability. These have only had weak impacts. Corruption has recently been addressed through an anti-corruption strategy which has been included in PRSC4, but it is too soon to tell if there is political commitment to implement these measures. 	<ul style="list-style-type: none"> Failure to curb corruption could undermine the poverty reduction focus of PGBS (¶C5.6). 		

Bibliography

- 2AC (2004). *Vietnam Public Finance Management Diagnostic Study March–May 2004*. Draft final report. (June 2004) 2AC Associés Audit et Conseil.
- Adams, S. (2004). *Inflation Note*. Informal Memorandum (22 September 2004) Hanoi: IMF.
- Akram-Lodhi, H. and Sepehri, A. (2005). *Transition, savings and growth in Vietnam: a three-gap analysis*. Journal of International Development 17(4), pp. 553–575.
- Amnesty International (2005). *Report 2005*. Annual Report. (May 2005). Amnesty International.
- Armytage, L. and Cao Xuan, P. (2005). *Strategy to Improve Legal Drafting Skills in the Vietnamese Central Administration*. Draft No. 1. Hanoi.
- Asian Development Bank (2001). *Country Strategy and Program 2002–2004*. Hanoi: Asian Development Bank.
- Asian Development Bank (2002). *Program Performance Audit Report on the Agriculture Sector Program in the Socialist Republic of Vietnam*. Manila: Asian Development Bank Operations Evaluation Department.
- Asian Development Bank (2002). *Women in Vietnam. Country Briefing Paper*, Manila. Regional and Sustainable Development Department and Mekong Department.
- Asian Development Bank (2004). *Country Strategy and Program Update 2005–2006 Viet Nam*. Manila: Asian Development Bank.
- Bartholomew, A. and Lister, S. (2002). *Managing Aid in Vietnam. A Country Case Study for the DAC Task Force on Donor Practices*. Oxford: Mokoro Ltd.
- Bojo et al (2004). *Environment in Poverty Reduction Strategies and Poverty Reduction Support Credits*. J. Bojo, K. Green, S. Kishore, S. Pilapitiya and R.C. Reddy. Paper No.102. (November 2004) World Bank Environment Department.
- Brooke et al (1999). *Education Financing Study. Primary Education in Vietnam*. P. Brooke, D.T.T. Mai, N. Huu Tu and K. Stewart. Hanoi.
- CIDA (2004). *Approval Document for the Poverty Reduction Support Credit Co-Financing*. Gatineau, Quebec: Mainland Southeast Asia Division, Asia Branch, CIDA.
- Claussen, J. (2004). *Multi Donor Trust Fund Administration Benchmark Study*. Mission Report (28 September 2004) Oslo: Nordic Consulting Group.
- Consultative Group Meeting Chairman (2004). *Twelfth Meeting of the Consultative Group for Vietnam Hanoi, Vietnam December 1–2, 2004 Chairman's Report to the Board (draft)*. Hanoi: Consultative Group.
- Conway, T. (2004). *Politics and the PRSP Approach: Vietnam case study*. London: ODI.
- DFID (2004). *Vietnam: Country Assistance Plan 2004–2006*. London: DFID.
- DFID Vietnam (2005). *DFID Vietnam: Ongoing Projects (Updated May 2005)*. London: FCO. Available from http://www.fco.gov.uk/Files/kfile/DFIDV_projects_may05.doc [Accessed 20 July 2005].
- DFID, Foreign and Commonwealth Office and HM Treasury (2005). *Partnerships for Poverty Reduction: Rethinking Conditionality*. London: DFID, FCO and HM Treasury.
- Dijkstra, G. (1999). *Programme Aid Policies and Politics. Programme Aid and Conditionality*. Stockholm: Sida.
- Donge et al (1999). *Fostering High Growth in a Low Income Country: Programme Aid to Vietnam*. J.K. Donge, H. White and L. Xuan Nghia. Sida Evaluation Report. Stockholm: Sida.

- EC (2002a). *EC – Vietnam Country Strategy Paper 2002–2006*. Brussels: EC.
- EC (2002b). *National Indicative Programme (2002–2004) Vietnam*. Brussels: EC.
- EC (2002c). *Revised National Indicative Programme 2002–2004 Vietnam*. Brussels: EC.
- EC (2004). *Aid Delivery Methods Volume 2: Guidelines and Management of General Budget Support*. Brussels: EC.
- EC (2005). *National Indicative Programme (2005–2006) Vietnam*. Brussels: EC.
- Economist Intelligence Unit (2004). *Country Report Vietnam*. London: EIU.
- Economist Intelligence Unit (2005). *Country Report Vietnam*. London: EIU.
- EU Donors and LMDG (2005). Comments on *Draft Programme Document for proposed PRSC 4*. Hanoi: EU Donors and LMDG.
- Fozzard et al (2000). *Aid Transaction Costs in Viet Nam*. A. Fozzard, A. Brown, F. Naschold, T. Conway, H. Bui Quang, T. Duong Quoc. London: Centre for Aid and Public Expenditure (CAPE), ODI.
- Gallagher, E. (2004). *Strengthening the Capacity of the Office of the Government of Vietnam. The Management Regime*. Colorado: Strengthening the Capacity of the Office of the Government Project.
- General Statistics Office (2004). *Statistical Yearbook 2003*. Hanoi: Statistical Publishing House.
- Glewwe et al (2004). *Economic Growth, Poverty, and Household Welfare in Vietnam*. P. Glewwe, N. Agrawal, D. Dollar, eds. Washington, D.C.: World Bank.
- Government of Vietnam (2002). *Public Investment Programme 2001–2005*. Hanoi: MPI.
- Government of Vietnam and Development Partners (2005). *Hanoi Core Statement on Aid Effectiveness*. Sixth consultative draft. Hanoi: Government of Vietnam and Development Partners.
- Government of Vietnam and World Bank (2005). *Vietnam: Managing Public Expenditure for Poverty Reduction and Growth. Public Expenditure Review and Integrated Fiduciary Assessment, Volume I: Cross Sectoral Issues*. Hanoi: Government of Vietnam and World Bank.
- GTZ (2004). *National Monitoring of Sustainable Poverty Reduction Strategies: Volume 2: Country Study Vietnam*. Bonn: GTZ.
- IDD & Associates (2005). *Joint Evaluation of General Budget Support: Inception Report*. (May 2005) Glasgow: DFID.
- ILO, Sida, UNDP (2004). *Promoting Rapid, Sustainable and Pro-poor Growth for Achieving Millennium Development Goals in Vietnam*. Hanoi.
- IMF (2002). *2001 Article IV Consultation and First Review Under the PRGF and Request for Waiver and Modification of Performance Criteria – Staff Report; Staff Statement; Public Information Notice; News Brief; and Statement by the Executive Director*. Washington, D.C.: IMF.
- IMF (2003a). *Vietnam: Statistical Appendix*. Washington, D.C.: IMF.
- IMF (2003b). *Vietnam: 2004 Article IV Consultation – Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Vietnam*. Washington, D.C.: IMF.
- IMF (2004a). *Vietnam: Evaluation of the Poverty Reduction Strategy Paper (PRSP) Process and Arrangements Under the Poverty Reduction and Growth Facility (PRGF)*. Washington, D.C.: IMF Independent Evaluation Office.
- IMF (2004b). *Vietnam Ex Post Assessment of Longer-Term Program Engagement*. Washington, D.C.: IMF.

- IMF (2005). *Vietnam: 2004 Article IV Consultation – Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Vietnam*. Washington, D.C.: IMF.
- JBIC (2002). *Monitoring Survey Results for the 'New Miyazawa' Initiative*. (April 2002) SAPS Report, Volume 1.
- Joint Government–Donor–NGO partnership groups (2004). *Moving Towards 2010: Vietnam Partnership Report*. Hanoi.
- Joint Nordic Monitoring Exercise (2003). *Review of Nordic monitoring of the World Bank and IMF support to the PRSC process*. Joint Nordic Monitoring Exercise.
- Klump, R and Bonschab, T. (2004). *Operationalising Pro-Poor Growth: A Country Case Study on Vietnam*. Various: Joint initiative of AFD, BMZ (GTZ, KfW Development Bank), DFID and the World Bank.
- Larsen et al (2004). *Vietnam's Public Investment Program and its Impact on Poverty Reduction*. T. Larsen, H.L. Pham. and M. Rama. Hanoi: World Bank Poverty Reduction and Economic Management Unit, East Asia and Pacific Region.
- Larsson, K-A. (2002). *Background Report for the Support to Economic Reform and Debt Relief to Vietnam 2003*. Memo. (28 October 2002) Hanoi: Embassy of Sweden.
- Le Dang, D. and McCarty, A. (1995). *Economic Reform in Viet Nam, 1986–1994* in Than, M. and Tan, J. eds. *Asian Transitional Economies*. Singapore: Institute for Southeast Asian Studies.
- Lister, S. (2003). *The Use of Different Aid Instruments in Asia: Vietnam Country Study*. Oxford: Mokoro Ltd.
- McCarty, A. (2001). *Governance institutions and incentive structures in Vietnam*. Presented at *Building Institutional Capacity in Asia (BICA)* conference. (12 March 2001) Jakarta.
- McCarty, A. (2002). *The Policy Making Process in Vietnam*. Working Paper for AsDB. Hanoi: AsDB.
- Minford, M. (2004). *A Review of National Targeted Programs in Vietnam*.
- Minford et al (2004). *An Expenditure Tracking Study of the Hunger Eradication and Poverty Reduction Programme and Programme 135: Final Report*. M. Minford, M., D. Quang, H.T. Nguyen and P. Brooke) Hanoi: UNDP.
- Ministry of Agriculture and Rural Development (2004). *Forest Sector Support Program and Partnership* [online]. Hanoi: Ministry of Agriculture and Rural Development. Available from <http://www.vietnamforestry.org.vn/about.html> [Accessed 20 July 2005].
- Ministry of Foreign Affairs of Japan (2004). *Japan's Country Assistance Program for Vietnam*. Ministry of Foreign Affairs of Japan.
- Ministry of Home Affairs and UNDP Viet Nam (2001). *Support to the Implementation of the Public Administration Reform (PAR) 2001–2010 Master Programme. Project VIE/01/024/B*. Hanoi: Ministry of Home Affairs and UNDP Viet Nam.
- Nokkala, M. (2005). *The challenges for developing a poverty monitoring system in Vietnam*. Riihimäki, Finland: Excellensia Consulting.
- Nørlund et al (2003). *Dealing with the Donors: The Politics of Vietnam's Comprehensive Poverty Reduction and Growth Strategy*. I. Nørlund, Tran Ngoc Ca, Nguyen Dinh Tuyen. Helsinki: Institute of Development Studies, University of Helsinki.
- OECD DAC (2003). *Rome Declaration on Harmonisation*. High Level Forum 24–25 February 2003, Rome.
- OECD DAC (2005a). *Harmonising Donor Practices for Effective Aid Delivery. Volume 2: Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management*. DAC Guidelines and Reference Series. Paris: OECD.

- OECD DAC (2005b). *Paris Declaration on Aid Effectiveness*. High Level Forum 28 February–2 March Paris.
- OECD DAC (2005–2006). *International Development Statistics Databases*. Available from <http://www.oecd.org/dac>. [Accessed 2005 and 2006].
- Ohno, I. and Nijya, Y. (2004). *Good Donorship and the Choice of Aid Modalities – Matching Aid with Country Needs and Ownership*. Tokyo: GRIPS Development Forum.
- PEFA Secretariat (2005). *Public Financial Management: Performance Measurement Framework*. (June) Washington, D.C.: PEFA Secretariat, World Bank.
- PGAE (2004). *Harmonisation and Alignment for Greater Aid Effectiveness in Vietnam – Report 2004*. Partnership Group on Aid Effectiveness.
- Pincus, J. and Nguyen Thang (2004). *Poverty Reduction Strategy Process and National Development Strategies Asia: A Report to DFID. Vietnam Country Study*. London: CDPR, School of Oriental and African Studies.
- Poverty Task Force (2002). *Localising MDGs for Poverty Reduction in Vietnam: Ensuring Environmental Sustainability*. Hanoi.
- Sepheri et al (2005). *Penalizing patients and rewarding providers: user charges and health care utilization in Vietnam*. A. Sepehri., R. Chernomas, H. Akram-Lodhi. Health Policy and Planning, 20(2) pp. 90–99.
- Shanks et al (2004). *Understanding pro-poor political change: the policy process – Vietnam*. E. Shanks, C. Luttrell, T. Conway, V.M. Loi, J. Ladinsky. London: ODI.
- Sveriges Ambasad (2003). *Aide-mémoire*. Hanoi: Government of Sweden.
- UNDP (1998). *Overview of Official Development Assistance in Viet Nam*. Hanoi: UNDP.
- UNDP (1999). *Overview of Official Development Assistance in Viet Nam*. Hanoi: UNDP.
- UNDP (2000). *Overview of Official Development Assistance in Viet Nam*. Hanoi: UNDP.
- UNDP (2001). *Overview of Official Development Assistance in Viet Nam*. Hanoi: UNDP.
- UNDP (2002). *Overview of Official Development Assistance in Viet Nam*. Hanoi: UNDP.
- UNDP (2003a). *Viet Nam Development Cooperation Report*. Hanoi: UNDP.
- UNDP (2003b). *Millennium Development Goals: Closing the Millennium Gaps*. Hanoi: UNDP.
- UNDP (2004). *Overview of Official Development Assistance in Viet Nam*. Hanoi: UNDP.
- UNDP (2005a). *Basic Facts about Viet Nam* [online]. Hanoi: UNDP. Available from <http://www.undp.org.vn/undp/fact/base.htm>
- UNDP (2005b). *Viet Nam Development Cooperation Report*. Hanoi: UNDP.
- Van Arkadie et al (1999). *Country Assistance Programme Evaluation, Vietnam*. B. Van Arkadie, Nguyen Quoc Hung, Ngo Quang An. Asian Development Bank.
- Van Arkadie, B. and Mallon, R. (2003). *Vietnam: A Transition Tiger*. Canberra: Asia Pacific Press.
- World Bank (1990). *Report on Adjustment Lending II: Policies for Recovery and Growth*. Washington D.C.: Country Economics Department.
- World Bank (1998). *Assessing Aid*. Washington, D.C.: World Bank.
- World Bank (2000). *Vietnam: Managing Public Resources Better. Public Expenditure Review*. Hanoi: World Bank Poverty Reduction and Economic Management Unit, East Asia and Pacific Region.

- World Bank (2001a). *Report and Recommendation on a Proposed Poverty Reduction Support Credit to the Socialist Republic of Vietnam*. Hanoi: World Bank Poverty Reduction and Economic Management Unit, East Asia and Pacific Region.
- World Bank (2001b). *Vietnam Country Financial Accountability Assessment*. Report No. 22987-VN. Washington, DC: World Bank East Asia and Pacific Region Central Operational Services Unit.
- World Bank (2002a). *The Role and Effectiveness of Development Assistance: Lessons from World Bank Experience*. Presented at the United Nations International Conference *Financing for Development* (18–22 March 2002) Monterrey, Mexico.
- World Bank (2002b). *Vietnam Country Procurement Assessment Report. Transforming Public Procurement*. Report No. 25144-VN. Hanoi: World Bank.
- World Bank (2003a). *Project Appraisal Document on a Proposed Credit for a Financial Management Reform Project*. Hanoi: World Bank Poverty Reduction and Economic Management Unit, East Asia and Pacific Region.
- World Bank (2003b). *Implementation Completion Report for a Poverty Reduction Support Credit*. Hanoi: World Bank Poverty Reduction and Economic Management Unit, East Asia and Pacific Region.
- World Bank (2003c). *Poverty: Vietnam Development Report 2004*. Hanoi: World Bank.
- World Bank (2004a). *Country Assistance Strategy Progress Report for the Socialist Republic of Vietnam*. Hanoi: World Bank Vietnam Country Management Unit, East Asia and Pacific Region.
- World Bank (2004b). *Program Document for a Third Poverty Reduction Support Operation*. Hanoi: World Bank Poverty Reduction and Economic Management Unit, East Asia and Pacific Region.
- World Bank (2004c). *Implementation Completion Report Socialist Republic of Vietnam Second Poverty Reduction Support Credit*. Hanoi: World Bank Poverty Reduction and Economic Management Unit, East Asia and Pacific Region.
- World Bank (2004d). *From Adjustment Lending to Development Policy Lending: Update of World Bank Policy*. Washington, D.C.: World Bank.
- World Bank (2004e). *Vietnam Development Report 2005: Governance*. Hanoi: World Bank.
- World Bank (2005a). *World Development Indicators 2005*. Washington, D.C.: World Bank.
- World Bank (2005b). *Proposed Credit to the Socialist Republic Of Vietnam for a Fourth Poverty Reduction Support Operation*. 23 May 2005. Hanoi: World Bank Poverty Reduction and Economic Management Unit, East Asia and Pacific Region.
- World Bank (2005c). *Project Information Document (PID) Appraisal Stage. For Targeted Budget Support for National Education For All Plan Implementation Program*. Hanoi: World Bank Human Development Sector Unit, East Asia and Pacific Region.

JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004

Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam

Vietnam Country Report

ANNEXES

April 2006

Joint Evaluation of General Budget Support VIETNAM COUNTRY REPORT ANNEXES

Contents

ANNEX 1: APPROACH AND METHODS	123
Annex 1A: Summary of the Evaluation Methodology	123
Annex 1B: Note on Approach and Methods adopted in Vietnam	131
Introduction	131
Team and Timetable	131
Research Methods	131
Applying the Evaluation Framework	132
Reflections	133
ANNEX 2: COUNTRY BACKGROUND	135
Annex 2A: Basic Country Data	135
Annex 2B: Public Expenditure Data	141
ANNEX 3: AID TO VIETNAM	145
Annex 3A: Aid Data	145
Annex 3B: Inventory of GBS and Related Programmes	149
Annex 3C: Donor Involvement with PRSC Issues	157
Annex 3D: The Policy Matrix for the PRSC Programmes 1–5	159
Annex 3E: The Triggers for the PRSC Programmes 1–4	171
ANNEX 4: PUBLIC FINANCE MANAGEMENT IN VIETNAM	175
Introduction	175
Overview of PFM in Vietnam	176
Key Source Documents on PFM in Vietnam	177
ANNEX 5: SUMMARY OF CAUSALITY FINDINGS	185

Figures

Figure 1A.1: The Enhanced Evaluation Framework (schematic view)	124
Figure 1A.2: Causality Map for the Enhanced Evaluation Framework	127
Figure 2A.1: Population trends 1993–2003	138
Figure 2A.2: Population by sex 1993–2003	138
Figure 2A.3: Population by urban/rural 1993–2003	138
Figure 2A.4: GDP per capita trends 1993–2003	139
Figure 3A.1: Official Development Assistance (ODA) as % of GNI 1994–2004	145
Figure 3A.2: Top ODA Sectors in 2003	145
Figure 3A.3: ODA Disbursement by Type in 2003	146
Figure 3A.4: Total ODA Disbursements	146
Figure 3A.5: Quick-Disbursing and Other ODA 1993–2003	147
Figure 5.1: Key to the Causality Map	186

Boxes

Box 1A.1: General Definition of Budget Support and GBS	123
Box 1A.2: The DAC Evaluation Criteria	123
Box 1A.3: Enhanced Evaluation Framework – Logical Sequence of Effects	125
Box 1A.4: Key Evaluation Questions	128

Tables

Table 1B.1 Organisations Visited	133
Table 2A.1: Vietnam Key Data	135
Table 2A.2: Vietnam Millennium Development Goals	136
Table 2A.3: Composition of State Budget Expenditure 1994–2004	140
Table 2B.1: Vietnam – Government Budgetary Operations 1997–2003	141
Table 2B.2: Discretionary Budget Expenditure	142
Table 2B.3: Cost of PRSC Prior Actions	143
Table 3B.1: Standard Summary of PGBS Flows	149
Table 3B.2: Inventory of GBS and Related Programmes	150
Table 4.1: PEFA PFM Performance Measurement Indicators for Vietnam	179
Table 5.1: Causality Map – Summary of Findings on Causality in Vietnam	187

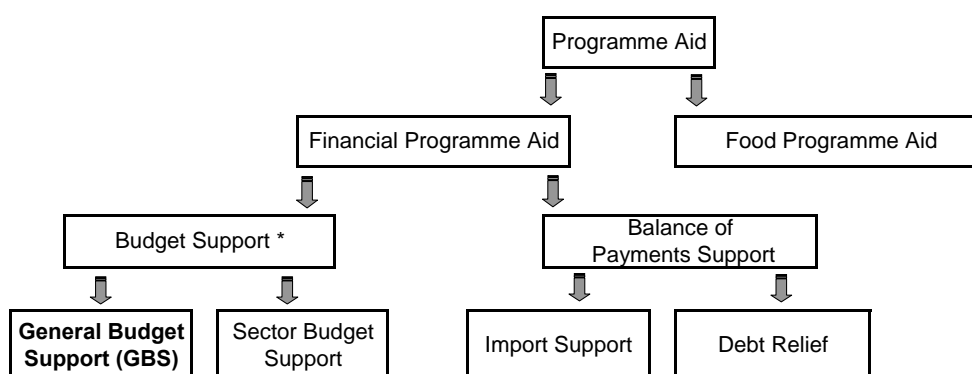
ANNEX 1: APPROACH AND METHODS

Annex 1A: Summary of the Evaluation Methodology

1. This Annex provides a short summary of the evaluation methodology. For full details please refer to the Inception Report (see also the Note on Approach and Methods which accompanies the Synthesis Report). Box 1A.1 shows how GBS relates to other forms of programme aid, while Box 1A.2 defines the DAC (Development Assistance Committee) evaluation criteria. Figure 1A.1 provides an overview of the Enhanced Evaluation Framework (EEF).

Box 1A.1: General Definition of Budget Support and GBS

As defined for the purpose of this evaluation, **programme aid** can be divided into food aid and financial programme aid. Financial programme aid includes both budget support and balance of payments support (such as debt relief and import support). Budget support in turn can be divided into Sector Budget Support (SBS) and General Budget Support (GBS).



*Referred to as direct budget support in the *Evaluation Framework*.

The general characteristics of **budget support** are that it is channelled directly to partner governments using their own allocation, procurement and accounting systems, and that it is not linked to specific project activities. All types of budget support include a lump sum transfer of foreign exchange; differences then arise on the extent of earmarking and on the levels and focus of the policy dialogue and conditionality.

Sector Budget Support is distinguished from **General Budget Support** by being earmarked to a discrete sector or sectors, with any conditionality relating to these sectors. Additional sector reporting may augment normal government accounting, although the means of disbursement is also based upon government procedures.

Source: IDD & Associates 2005: Box 2.1.

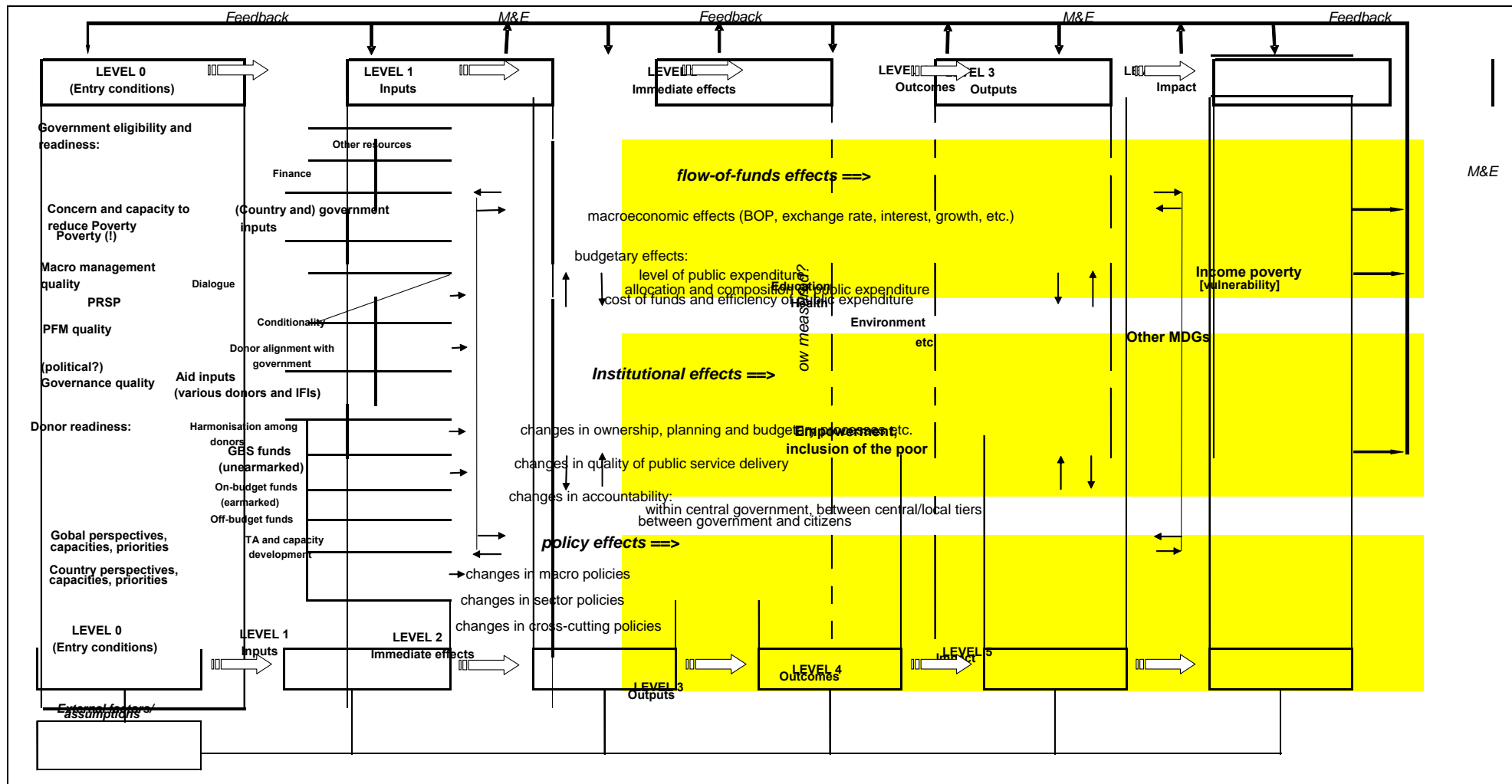
Box 1A.2: The DAC Evaluation Criteria

The five DAC evaluation criteria are:

- **Effectiveness:** the extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
- **Efficiency:** a measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results.
- **Relevance:** the extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies.
- **Impact:** positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.
- **Sustainability:** the continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time.

Source: IDD & Associates 2005: Box 3.1.

Figure 1A.1: The Enhanced Evaluation Framework (schematic view)



2. Box 1A.3 shows, for each level of the logical framework, the main effects that are hypothesised to result from GBS. These hypothesised effects form the first column (the "logical sequence") of the detailed evaluation questions which are annexed to the Inception Report.¹

Box 1A.3: Enhanced Evaluation Framework – Logical Sequence of Effects

Level 1 (the design)
<p>1. Adequate quantity and quality of inputs are provided by new GBS:</p> <p>1.1 Funds</p> <p>1.2 Policy dialogue</p> <p>1.3 Conditionality</p> <p>1.4 TA/capacity building linked to:</p> <ul style="list-style-type: none"> • public finance management (PFM) • pro-poor sectoral policies and good governance. <p>1.5 Alignment and harmonisation</p> <ul style="list-style-type: none"> • IPs' alignment to government goals and system • IPs' harmonisation
Level 2 (the immediate effects/activities)
<p>2.1 More external resources for the government budget (additionality)</p> <p>2.2 Proportion of external funds subject to national budget process increased (increased fungibility)</p> <p>2.3 Increase in predictability of external funding of national budget</p> <p>2.4 Policy dialogue and conditionalities focused on pro-poor policy framework and improved PFM</p> <p>2.5 TA/capacity building established to:</p> <ul style="list-style-type: none"> • improve PFM processes including budgeting, accounting, financial control, audit • improve the linkage between PFM and pro-poor sectoral policies and good governance <p>2.6 Actions to ensure IPs' alignment are in place</p> <p>Actions and agreements to improve IPs' harmonisation are in place</p>
Level 3 (the outputs)
<p>3.1 Increased resources for service delivery:</p> <ul style="list-style-type: none"> • External resources are treated as additional • Cost of funding budget deficit reduced <p>3.2 Partner government is encouraged and empowered to strengthen PFM and government systems:</p> <ul style="list-style-type: none"> • to use the budget to bring public sector programmes into line with government goals, systems and cycles (Poverty Reduction Strategy Paper/Medium Term Expenditure Framework) • to set up performance monitoring systems to measure the effectiveness of public expenditure at the level of the final beneficiaries • to promote alignment and harmonisation by IPs <p>3.3 Partner government is encouraged and empowered to strengthen pro-poor policies:</p> <ul style="list-style-type: none"> • to establish and execute an adequate sequence of reforms to ensure macroeconomic stability and private sector development • to establish and execute pro-poor policies and targeting in health, education, agricultural and rural development • to enhance social inclusion policies, through decentralisation and participation of the civil society, reform of the administration of justice and respect for human rights <p>3.4 Improved aggregate fiscal discipline:</p> <ul style="list-style-type: none"> • more predictable funding flows • incidence of liquidity shortfalls reduced, hence less use of Central Bank overdrafts and less accumulation of arrears <p>3.5 Operational efficiency of public expenditure is enhanced:</p> <ul style="list-style-type: none"> • by reductions in certain types of transaction costs to partner government (e.g., non-standard procurement systems, brain-drain effects of parallel project management structures) • better planning, execution and oversight reduces wasteful spending, controls corruption better, spreads positive lessons across the public sector

¹ See IDD & Associates 2005 Annex G for the full set of detailed evaluation questions.

3.6 Allocative efficiency of public expenditure is enhanced:

- by a more effective budget process: multi-year, results-oriented, transparent, participatory; with effective execution and audit; with an adequate tracking system
- by increased capture of project funds in budget
- by stakeholders taking the domestic budget more seriously (because that's where the money is)

3.7 Intra-government incentives and capacities are strengthened:

- Official reporting lines are more respected (vertical through government to cabinet, not horizontal to IPs)
- Public-service performance incentives are strengthened, so that policies are made and implemented, audit and procurement systems work, and corruption is reduced

3.8 Democratic accountability is enhanced:

- Greater role of parliament in monitoring budget results
- Accountability through domestic institutions for IP-financed spending is enhanced
- Conditions for all-round democratisation are thereby improved, including the trust of people in their government and hence their level of expectations

Level 4 (the outcomes)

4.1 Macroeconomic environment is favourable to private investment and growth:

- Inflation controlled
- Realistic exchange rate attained
- Fiscal deficit and level of domestic borrowing sustainable and not crowding out private investment

4.2 Regulation of private initiative works to ensure business confidence, equity, efficiency and sustainability:

- Policies on corruption, property rights resolutely pursued
- Market-friendly institutions developed

4.3 More resources flowing to service delivery agencies

4.4 Appropriate sector policies include public actions to address major market failures, including those arising from gender inequalities

4.5 More effective and accountable government improves administration of justice and respect for human rights, as well as general confidence of people in government

4.6 More conducive growth-enhancing environment

4.7 Public services effectively delivered and pro-poor:

- Service delivery targets met for key pro-poor services
- Evidence of increased use of services by poor (including poor women)

Level 5 (the impact)

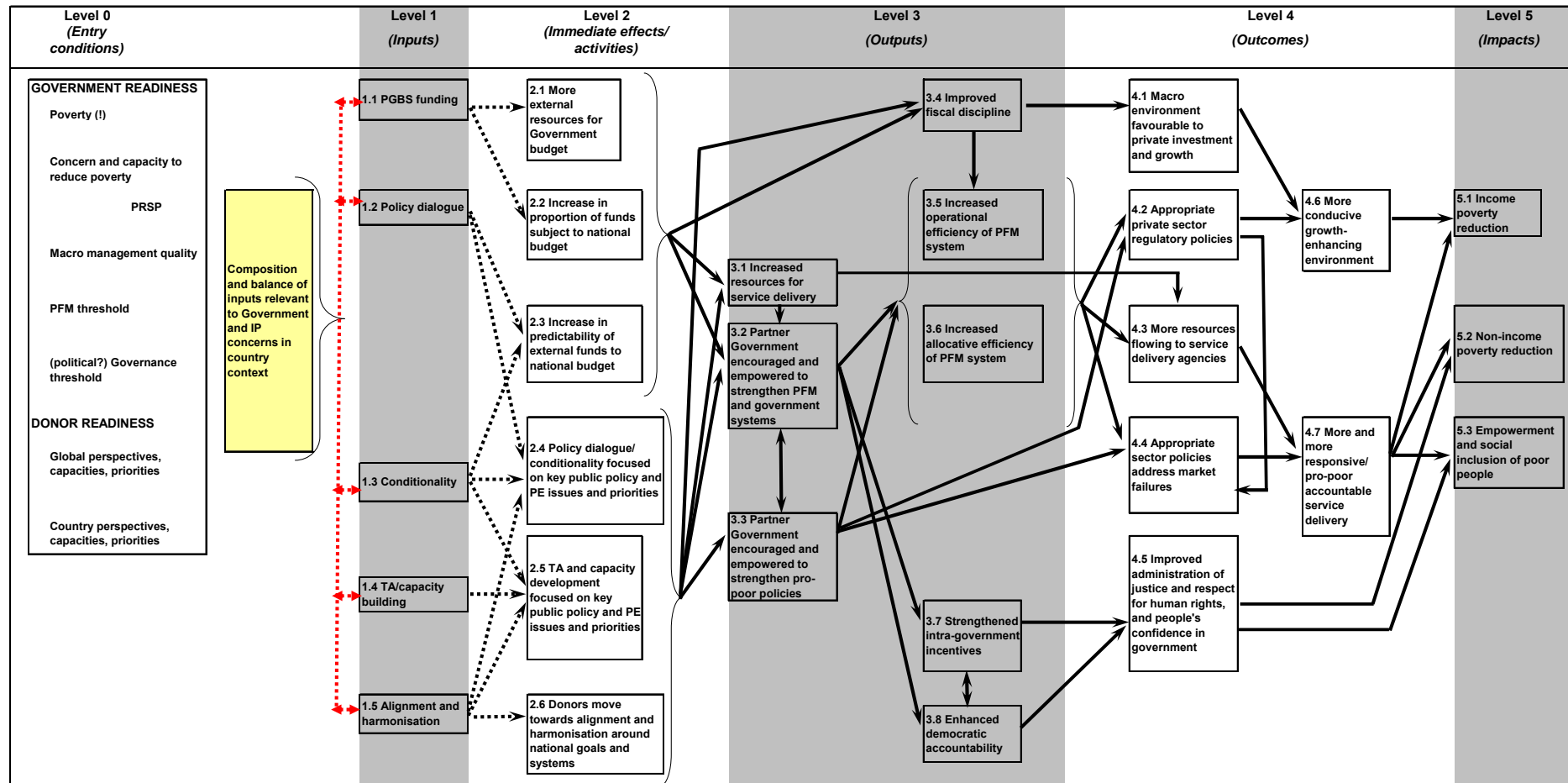
5.1 Income poverty reduction

5.2 Non-income poverty reduction

5.3 Empowerment and social inclusion of poor people.

3. The main hypothesised links between inputs and subsequent effects at different levels are depicted on the causality map (Figure 1A.2). Note that these are not the only possible links; the evaluation teams also considered whether other links appeared important in particular countries.

Figure 1A.2: Causality Map for the Enhanced Evaluation Framework



4. A set of over-arching key evaluation questions (Box 1A.4) provides an organising framework for the country evaluation and a structure for the country reports.²

Box 1A.4: Key Evaluation Questions

1. How does the evolving Partnership GBS (PGBS) design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?
2. Has PGBS contributed to greater harmonisation and alignment of the aid process?
3. How efficient, effective and sustainable has been the contribution of PGBS to the performance of the public expenditure process?
4. How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?
5. How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?
6. How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?
7. How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?
8. How far has PGBS strengthened government impact on poverty?
9. Is the PGBS process itself sustainable?

5. Under each main evaluation question, a series of sub-questions (evaluation criteria) are posed (the shaded boxes within each of the chapters in Part B of the main report). To facilitate comparisons and consistency across the countries studied, symbols are used to give approximate ratings for the general situation and for the influence PGBS is judged to have had. The key to the ratings and symbols is as follows:

(a) Where the logic of the (implicit) question requires it – i.e. in Chapters B2–B8³ – the ratings distinguish between the general situation to which the question refers and the influence of PGBS upon it. For the general situation, the rating is expressed as a *level* and a *trend*.

(b) PGBS influence is expressed in two ratings:

- For *effect*. This assesses the difference that PGBS makes to the general situation.
- For *efficiency*. It is perfectly possible that PGBS will be found to have a weak or null effect not because PGBS is inherently ineffective, but because it is relatively small ("a drop in the bucket") vis-à-vis the general situation. "Efficiency" therefore assesses whether PGBS has a significant effect relative to the resources deployed via PGBS. (Roughly, has PGBS been a "value-for-money" way of pursuing this effect?)

(c) For both the general situation and the PGBS influence, a separate *confidence* rating is given.

(d) The same symbols are used against "level", "effect", "efficiency" and "confidence" ratings:

***	<i>strong/high</i>
**	<i>medium/moderate</i>
*	<i>low/weak</i>
null	<i>the level/effect is either zero or negligible</i>
nf [not found]	<i>we found no evidence either way</i>
na	<i>rating is not applicable to this question</i>

(e) The "trend" is the trend at the end of the evaluation period, and the options are:

² See IR Annex K for the full matrix of key evaluation questions, including judgement criteria, evidence, data sources, counterfactuals. The final *Note on Approach and Methods* will note minor amendments and assess the experience of using the Enhanced Evaluation Framework.

³ The evaluation criteria in Chapters B1 and B9 refer directly to PGBS itself, so there is no separate "general effect" to consider.

+	<i>increasing/improving</i>
=	<i>stable (or no discernible trend)</i>
–	<i>declining/worsening</i>
na	not applicable if the accompanying level is rated null/not found/not applicable

(f) In the few cases where perverse effects are identified (a negative effect when the question implies a positive one is expected), this is shown as "perverse" (and will always be highlighted in the text explanation).

(g) As a rough guide to confidence ratings:

***	strong/high confidence: <i>We're sure what evidence is needed to answer this question, and the evidence we have appears robust and conclusive (so we would be surprised if more evidence changed the rating).</i>
**	medium/moderate confidence <i>There is some uncertainty whether the evidence we have is both robust and sufficient; more evidence might lead to a somewhat different rating.</i>
*	low/weak confidence: <i>There is uncertainty about what evidence is relevant to the question, and/or the evidence we have is limited or unreliable.</i>

(h) The ratings for "general situation" and "PGBS influence" may be based on different (though overlapping) sets of evidence; it is perfectly possible that confidence levels will differ, so they are rated separately.

(i) As a rough guide to ratings for effect:

***	strong effect: <i>PGBS has made a definite and very significant difference to the general situation; it is not necessarily the only factor which has made such a difference, but it is an important one.</i>
**	moderate effect: <i>PGBS has made a definite and moderately significant difference to the general situation; but it may be a subsidiary factor, or one among a considerable number of significant factors.</i>
*	low/weak effect: <i>PGBS has made only a small difference to the general situation.</i>
null	<i>PGBS is assessed to have made no difference, or only a negligible difference, to the general situation.</i>
nf [not found]	<i>We did not find evidence either way of a PGBS effect.</i>
na	<i>The implied question is not applicable in this case.</i>

(j) As a rough guide to ratings for efficiency:

***	highly efficient <i>PGBS exerts a strong influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
**	moderately efficient <i>PGBS exerts a moderate influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
*	low efficiency <i>PGBS exerts only a weak influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>

null	<i>PGBS is assessed to have exerted no influence, or only a negligible influence, towards the effect in question.</i>
not found	<i>We did not find evidence either way of a PGBS influence.</i>
na	<i>The implied question is not applicable in this case.</i>

6. The evidence used to assess ratings is explained in the text, and it follows general guidelines in Annexes G and K of the Inception Report (IDD & Associates 2005). The ratings have been checked for broad consistency across the country studies. At the same time, the study team recognises their limitations. It is neither possible nor desirable to reduce qualitative issues entirely to quantitative judgements. The ratings are only an adjunct to the text.

Annex 1B: Note on Approach and Methods adopted in Vietnam

Introduction

1. This annex describes and comments on the approach and methods for the study in Vietnam. It complements Chapter A1 and Annex 1A, which outline the conceptual framework for the study as a whole.

Team and Timetable

2. The study involved two visits to Vietnam. A two-week inception visit in October 2004 was followed by another three-week visit in May 2005.

3. Team members were Ann Bartholomew (Team Leader), Robert Leurs, Stephen Lister (participant in first visit), Brian Van Arkadie (quality support and participant in first visit) and Adam McCarty (local consultant). The team had considerable previous experience in Vietnam having undertaken a study for the OECD DAC on Donor Practices and Harmonisation, an assessment of pilot block grant budgets in Ho Chi Minh City and work on the Pilot Restructuring of Three General Corporations Project.

4. DFID Vietnam was the coordinating IP and chaired an in-country steering group which included representatives from the EC, the Netherlands and Sida. The government contact point was the Ministry of Planning and Investment (MPI).

5. During the first visit a dissemination workshop was held for donors to outline the purpose and approach of the study. A wrap-up was then held with the in-country steering group. The second visit began with another dissemination workshop, which included both government and donors. The workshop planned at the end of the visit to discuss findings was cancelled by MPI and instead a presentation was given to MPI and the in-country steering group. The Team Leader and local consultant took part in a Poverty Reduction Support Credit (PRSC) Stock take in October 2005 which was undertaken by the World Bank, donors and government.

6. An Interim Note was produced in November 2004 to outline the preliminary findings of the visit. The Interim Report was submitted in December 2004 and the Draft Country Report in September 2005.

Research Methods

7. A wide variety of literature was reviewed. A listing of principal sources can be found in the Bibliography, which precedes the Annexes. In addition to the documents listed in the Bibliography, the team made extensive use of informal documentation and "grey literature" (e.g. PRSC aides-memoires, official correspondence and so forth).

8. A series of interviews was undertaken in Hanoi, which included mainly donors in the first visit and a selection of donors, government ministries and NGOs in the second. A list is given in Table 1B.1 at the end of this Annex.

9. During the inception phase of the project a questionnaire was sent to all donors asking them to outline the aid instruments they had used over the study period with details of commitments and disbursements. The response to this was low, with only six questionnaires

returned out of around 30, despite follow-up on the questionnaire by the local consultant over a number of months. As a result it was not possible to use the questionnaires to provide financial data on GBS by donor.

10. Despite attempts by the team to arrange collective group meetings with NGOs and the business community, it did not prove possible in practice.

11. The main difficulty experienced by the study team was in the first field visit. The Government of Vietnam (GOV) originally intended to manage the study and organise meetings with government, through a tripartite group of key ministries (the State Bank of Vietnam, MPI and the Ministry of Finance [MOF]). However, this intended arrangement was not finalised by the time of the inception visit, as a result of which very few meetings with government were able to be held. However, a GOV representative from MPI was nominated in time for the second visit and he, in consultation with the country team leader, identified appropriate ministries and people to meet on the government side and was responsible for organising all the GOV meetings during the second visit.

12. Useful feedback on the earlier draft of this report was received from the in-country steering group, and from the overall management group for the evaluation, and others. This final draft incorporates responses to points that were accepted by the evaluation team.

13. Further feedback was gained by the team from the PRSC stock take in October 2005. There was discussion regarding the design and operation of the PRSC, much of which had been highlighted by the draft country report. This provided useful insights for the revision of the report about donors and government perceptions of possible ways forward for the PRSC 6–10 cycle. Also, additional feedback on the report was given in response to the team leader's presentation at the stock take.

Applying the Evaluation Framework

14. The main issue with applying the evaluation framework was the difficulty of attempting to trace separate and easily identifiable effects of PGBS. Given that in the case of Vietnam the PRSC is specifically designed to reinforce implementation of policies and activities that are being undertaken through other aid modalities, it is difficult to distinguish between the PGBS and other influences. There is a similar situation with policy dialogue as there are separate networks of partnership groups which operate independently from PRSC sector working groups, but they are often covering overlapping issues. Again, it makes it difficult to distinguish between effects.

15. Related to this is where to draw the line between what is GBS and what isn't. There is clearly an interdependency between PGBS and other projects and programmes, but in the methodology it was decided not to include these as PGBS.

16. In the case of Vietnam the PRSC only began in 2001 and PRSC1 was focused on a structural reform agenda. PRSC3 began in 2003 and it is only since then that many of the policy actions have been put in place that should yield some of the expected benefits of PGBS. Therefore it is too early for impacts from Levels 3 to 5 of the EEF to be discerned with any certainty.

Reflections

17. Overall, the evaluation framework provided a useful mechanism to trace through PGBS impacts. The degree of complexity involved particularly at the lower levels of the EEF made it difficult to disentangle PGBS and non-PGBS effects as noted above. Also, although flow-of-funds and policy effects were reasonably easy to discern, this was less so than for institutional impacts.

Table 1B.1 Organisations Visited

Government of Vietnam
Ministry of Agriculture and Rural Development
Ministry of Education and Training
Ministry of Finance
Ministry of Health
Ministry of Planning and Investment
Ministry of Transport
Ministry of Labour Invalids and Social Affairs
Office of the Government
State Bank of Vietnam
Aid Agencies
Asian Development Bank (AsDB)
Australian Embassy
Canadian Embassy
DFID Vietnam
EC Delegation
Embassy of Finland
German Embassy
Groupe Agence Française de Développement
International Monetary Fund (IMF)
Japan Bank for International Cooperation (JBIC)
Embassy of Japan
Norwegian Embassy
Royal Danish Embassy
Royal Netherlands Embassy
Sida
UNDP
USAID
World Bank
Other
Oxfam GB
Save the Children, USA

ANNEX 2: COUNTRY BACKGROUND

Annex 2A: Basic Country Data

Table 2A.1: Vietnam Key Data

	1999	2002	2003
People			
Population, total	77.5m	80.4m	81.3m
Population growth (annual %)	1.3	1.2	1.1
National poverty rate (% of population)	—	—	—
Life expectancy (years)	—	69.7	—
Fertility rate (birth per woman)	—	1.9	—
Infant mortality rate (per 1,000 live births)	—	20.0	—
Under 5 mortality rate (per 1,000 children)	—	26.0	—
Births attended by skilled health staff (% of total)	—	85.0	—
Child malnutrition, weight for age (% of under 5)	36.7	—	—
Child immunisation, measles (% of under 12 months)	93.0	96.0	—
Prevalence of HIV (female, % ages 15–24)	—	—	—
Literacy total (% of ages 15 and above)	90.3	—	—
Literacy female (% of ages 15 and above)	86.9	—	—
Primary completion rate, total (% age group)	—	97.1	—
Primary completion rate, female (% age group)	—	95.2	—
Net primary enrolment (% relevant age group)	96.3	—	—
Net secondary enrolment (% relevant age group)	61.4	—	—
Economy			
GNI, Atlas method (current USD)	28.1bn	34.8bn	38.8bn
GNI per capita, Atlas method (current USD)	360.0	430.0	480.0
GDP (current USD)	28.7bn	35.1bn	39.2bn
GDP growth (annual %)	4.8	7.0	7.2
GDP implicit price deflator (annual % growth)	5.7	4.1	5.3
Value added in agriculture (% of GDP)	25.4	23.0	—
Value added in industry (% of GDP)	34.5	38.5	—
Value added in services (% of GDP)	40.1	38.5	—
Exports of goods and services (% of GDP)	50.0	55.5	—
Imports of goods and services (% of GDP)	52.8	59.2	—
Gross capital formation (% of GDP)	27.6	32.1	—
Current revenue, excluding grants (% of GDP)	18.8	19.1	—
Overall budget balance, including grants (% of GDP)	-1.6	-2.5	—

Source: World Bank, Vietnam Data Profile, www.worldbank.org

Table 2A.2: Vietnam Millennium Development Goals

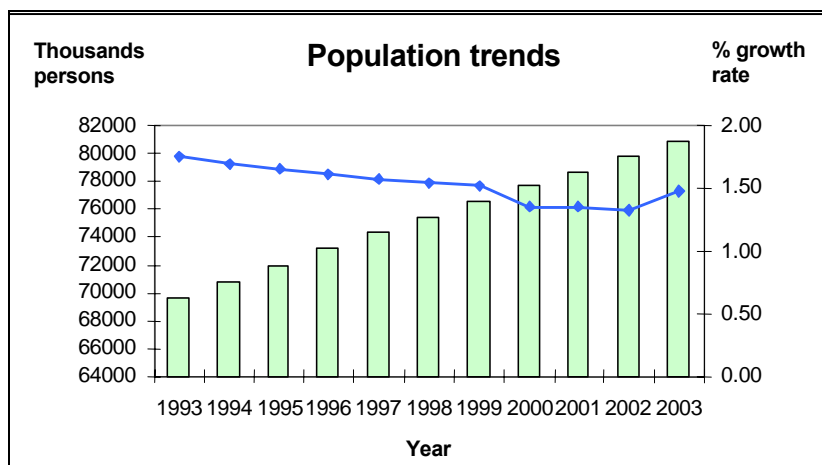
	1990	1995	2001	2002
1 Eradicate extreme poverty and hunger	2015 target: halve 1990 USD1 a day poverty and malnutrition rates			
Population below USD1 a day	—	—	—	—
Poverty gap at USD1 a day	—	—	—	—
Share of income or consumption held by poorest 20 %	—	—	—	—
Prevalence of child malnutrition (% of children under 5)	45.0	44.9	33.8	—
Share of population below minimum level of dietary energy consumption	27.0	21.0	19.0	—
2. Achieve universal primary education	2015 target: net enrolment to 100			
Net primary enrolment ratio (% of relevant age group)	—	87.8	94.0	—
% of cohort reaching grade 5	—		89.0	—
Youth literacy rate (ages 15–24)	94.1	94.4	—	—
% of cohort reaching grade 5	—	—	—	—
3. Promote gender equality	2005 target: education ratio up to 100			
Ratio of girls to boys in primary and secondary education	—	—	92.7	—
Ratio of young literate females to males (% ages 15–24)	99.1	99.9	—	—
Share of women employed in the non-agricultural sector	52.9	—	—	—
Proportion of seats held by women in national parliament	—	18.0	—	—
4. Reduce child mortality	2015 target: reduce 1990 under 5 mortality by two-thirds			
Under 5 mortality rate (per 1,000)	53.0	44.0	30.0	26.0
Infant mortality rate (per 1,000 live births)	38.0	32.0	23.0	20.0
Immunisation, measles (% of children under 12 months)	85.0	96.0	97.0	96.0
5. Improve maternal health	2015 target: reduce 1990 maternal mortality by three-fourths			
Maternal mortality ratio (modelled estimate, per 1,000 live births)	—	—	130.0	—
Births attended by skilled health staff	—	77.1	69.6	85.0
6. Combat HIV/AIDS, malaria and other diseases	2015 target: halt, and begin to reverse, AIDS, etc.			
Prevalence of HIV, female (ages 15–24)	—	—	0.2	—
Contraceptive prevalence rate (of women ages 15–49)	—	75.3	—	78.5
Number of children orphaned by HIV/AIDS	—	—	22,000	—
Incidence of tuberculosis (per 100,000 people)	..	—	179.0	192.5
Tuberculosis cases detected under DOTS	—	30.0	85.0	81.9
7. Ensure environmental sustainability	2015 target: various			
Forest area (% of total land area)	28.6	—	30.2	—
Nationally protected areas (% of total land area)	—	3.0	3.1	3.5
GDP per unit of energy use (purchasing power parity USD per kg oil equivalent)	2.6	3.5	4.4	—
CO2 emissions (metric tons per capita)	2.6	0.4	0.7	—
Access to an improved water source (% of population)	55.0	—	77.0	—

Annex 2A: Basic Country Data

Access to improved sanitation (% of population)	29.0	—	47.0	—
Access to secure tenure (% of population)				
8. Develop a Global Partnership for Development	2015 target: various			
Youth unemployment rate (% of total labour force ages 15–24)	—	—	—	—
Fixed line and mobile telephones (per 1,000 people)	1.5	10.8	53.0	71.8
Personal computers (per 1,000 people)	0.1	1.4	8.6	9.8
General Indicators				
Population (in millions)	66.2	73.0	79.5	80.4
Gross national income (USD bn)	8.5	18.5	32.3	34.8
GNI per capita (U.S. \$)	130.0	250.0	410.0	430.0
Adult literacy rate (% of people ages 15 and over)	90.4	91.5	90.3	
Total fertility rate (births per woman)	3.6	2.7	1.9	1.9
Life expectancy at birth (years)	64.8	67.1	69.1	69.7
Aid (% of GNI)	3.1	4.1	4.5	3.6

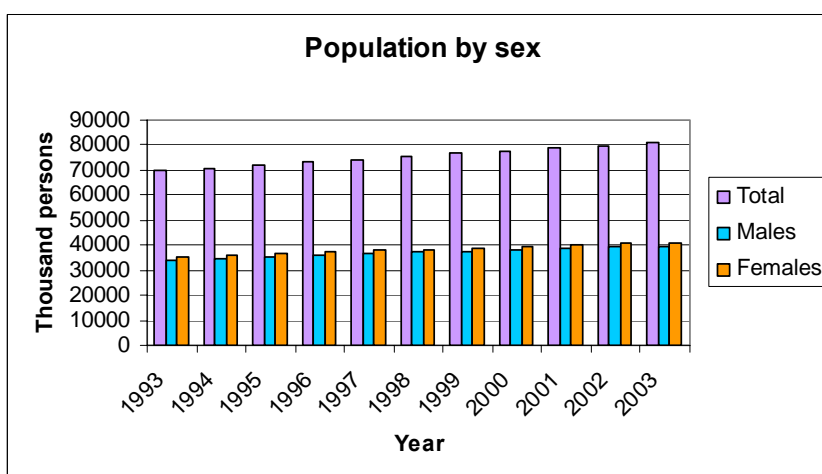
Source: IMF Article IV Consultation (IMF 2005a).

Figure 2A.1: Population trends 1993–2003



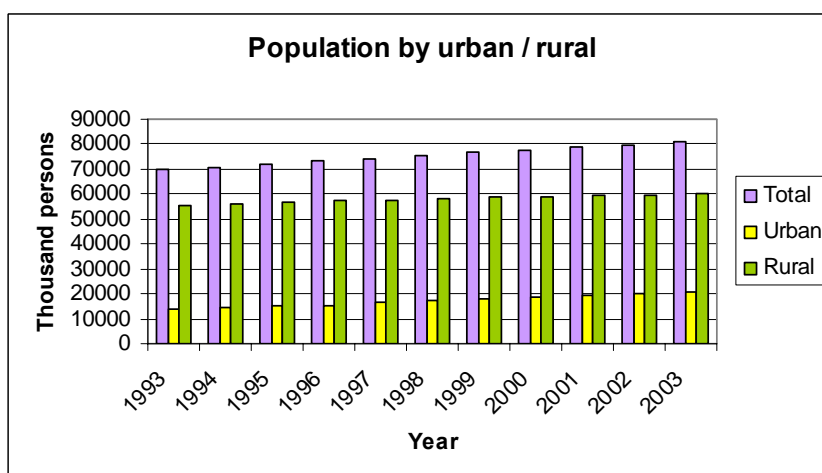
Source: General Statistics Office of Vietnam data.

Figure 2A.2: Population by sex 1993–2003



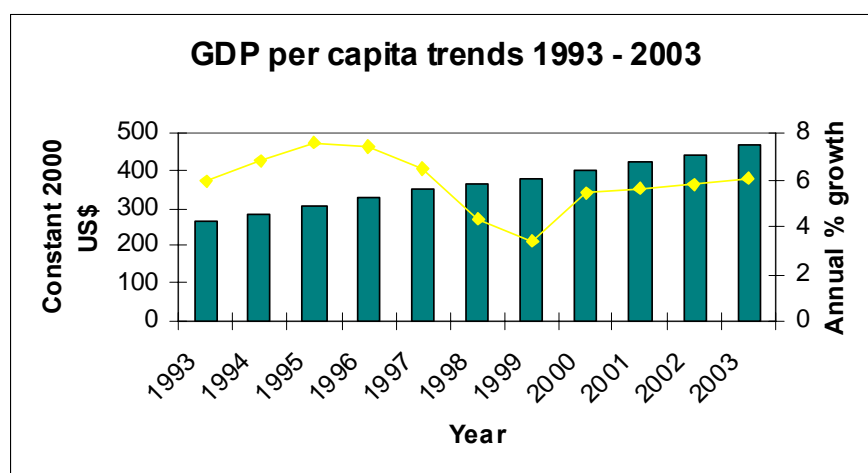
Source: General Statistics Office of Vietnam data.

Figure 2A.3: Population by urban/rural 1993–2003



Source: General Statistics Office of Vietnam data.

Figure 2A.4: GDP per capita trends 1993–2003



Source: World Bank WDI 2005.

Table 2A.3: Composition of State Budget Expenditure 1994–2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 Est	2004 Est
Total expenditures in VND bn	44,655	54,589	62,889	70,749	73,419	84,817	103,151	119,403	133,877	158,415	182,875
Current expenditure	33,355	42,510	47,259	51,267	52,903	55,120	70,127	77,049	84,216	103,212	117,845
Administration expenditure	3,850	5,683	6,354	7,138	6,741	6,793	8,089	8,734	8,599	11,322	12,472
Economic expenditure	3,230	4,004	4,192	4,473	4,849	4,772	5,796	6,288	7,987	8,378	10,543
Social expenditure	13,601	18,249	20,317	23,708	24,716	25,576	30,694	37,369	40,747	50,145	53,865
<i>Of which:</i>											
Education	3,702	4,722	5,500	7,150	7,653	7,994	9,910	12,006	13,758	17,665	19,064
Training	1,182	1,643	1,315	1,569	2,070	2,341	2,767	3,426	4,086	5,099	5,694
Health	1,876	2,387	2,761	3,033	3,064	3,117	3,453	4,211	4,656	5,388	6,276
Social subsidies	5,250	7,382	8,191	9,179	9,006	9,002	10,739	13,425	13,221	16,600	17,299
Interest payment	2,234	2,895	2,700	1,916	2,050	2,237	3,514	4,485	5,330	6,692	6,000
Other current expenditures	10,440	11,679	13,696	14,032	14,549	15,652	22,034	20,173	21,553	26,675	34,965
Capital expenditure	11,300	12,079	15,630	19,482	20,514	29,697	29,624	40,236	45,218	51,003	59,030
Others							3,400	2,145	4,443	4,200	6,000

Source: IMF Governance Finance Statistics (GFS).

Annex 2B: Public Expenditure Data

Table 2B.1: Vietnam – Government Budgetary Operations 1997–2003

(VND trn)

	1998	1999	2000	2001	2002	2003	2004 projected
Total revenues and grants	73.0	78.5	90.7	103.9	118.9	141.8	166.3
Total expenditure (including on lending)	78.8	88.9	112.6	122.3	135.4	172.1	192.0
Total expenditure excluding on-lending [1]	73.4	81.8	102.7	117.3	129.0	154.3	172.8
Total current expenditure (cash basic)	52.9	55.1	70.1	77.0	84.9	103.0	116.9
Capital expenditure and on-lending	25.9	33.8	42.5	45.2	50.5	50.9	75.3
Overall fiscal balance (excluding on lending)	-0.4	-3.3	-12.0	-13.4	-10.1	-12.1	-5.7
As % GDP	-0.1	-0.8	-2.9	-2.8	-1.9	-2.0	-0.8
Financing	0.5	3.3	12.0	13.4	9.9	12.1	5.74
PRSC Funding USD m [2]	0	0	0	150	122.6	140.0	157.0
PRSC Funding VND trn				2.2	1.9	2.2	2.5
PRSC Funding as % of overall fiscal balance				16.4%	18.7%	18.8%	43.0%
Nominal GDP VND trn	361.0	399.9	441.7	481.3	536.1	605.5	717.0
Exchange Rate USD/VND (period average)				14,806	15,272	15,514	15,764

Source: IMF Article 4 Consultation (IMF 2005).

Note:

[1] Total expenditure data - Table A2.3 and Table 2B.1 total expenditure data are from different datasets and therefore there is a small variance in the annual data.

[2] PRSC funding shows disbursement in GOV financial year.

Table 2B.2: Discretionary Budget Expenditure

(VND trn)

	1998	1999	2000	2001	2002	2003
Total revenues and grants	73.0	78.5	90.7	103.9	118.9	123.9
General administrative services	6.7	6.8	8.1	8.7	9.1	7.5
Economic services	4.8	4.8	5.8	6.3	7.8	7.9
Social services	24.4	25.6	30.7	37.4	39.6	41.4
Education	7.7	8.0	9.9	12.0	13.8	15.0
Health	3.1	3.1	3.5	4.2	4.6	4.9
Social subsidies	8.7	9.0	10.7	13.4	12.5	12.6
Other	5.0	5.5	6.6	7.7	8.7	9.0
Other non-interest expenditure	14.8	15.7	22.0	20.2	22.5	32.4
Interest payments (paid)	2.1	2.3	3.5	4.5	6.0	6.7
Total non-discretionary expenditure	52.8	55.2	70.1	77.1	85.0	95.9
<i>As % of the total budget</i>	72.3	70.3	77.3	74.2	71.5	77.4
Total discretionary expenditure	20.2	23.3	20.6	26.8	33.9	28.0
PRSC funding				2.2	1.9	2.2
<i>As % of discretionary expenditure</i>				8.2	5.5	7.75

Source: Government of Vietnam World Bank 2005 (PER-IFA).

Table 2B.3: Cost of PRSC Prior Actions
(USDm)

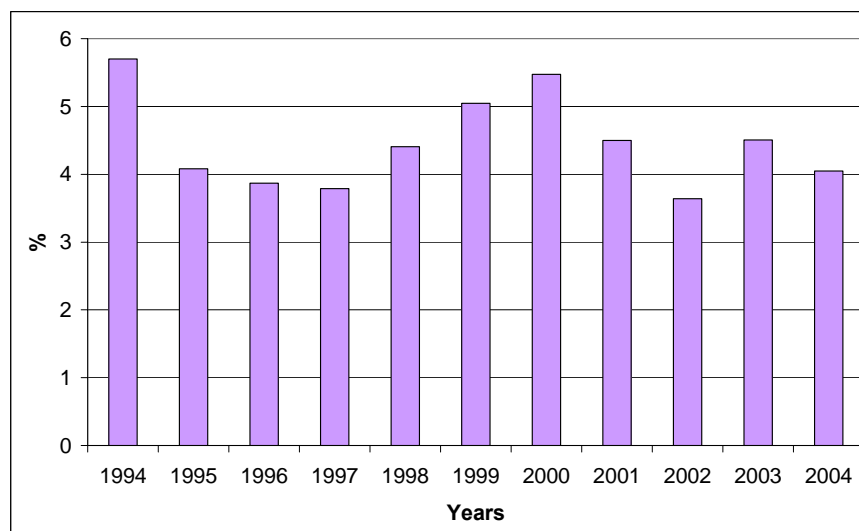
	2002	2003	2004	2005	Total
SOCB recapitalisation	307	292	101	0	701
Social safety nets (State-owned enterprise reform)	2	34	83	95	214
Health Care Funds for the Poor	0	29	45	86	160
Education budget increases	0	0	197	348	545
Total	309	355	426	529	1,619
Total as % of PRSC funding	48.5%	34.3%	28.9%	37.8%	

Source: World Bank: PRSC Stock Take Workshop.

ANNEX 3: AID TO VIETNAM

Annex 3A: Aid Data

Figure 3A.1: Official Development Assistance (ODA) as % of GNI 1994–2004

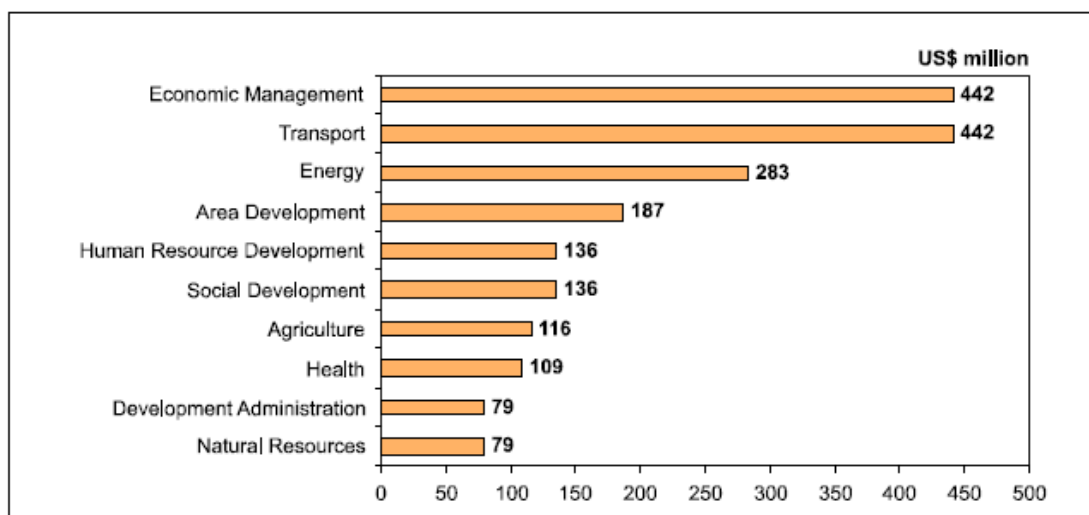


Source: OECD DAC International Development Statistics (OECD DAC 2005–2006).

Notes:

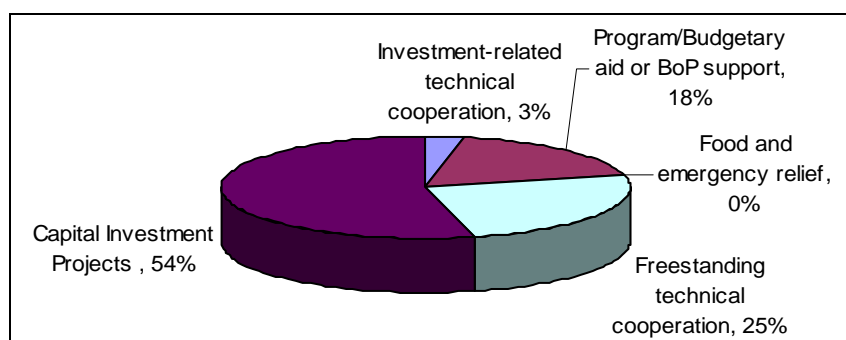
1. Aid by sector for 2003 is shown in Figure 3A.2 below.
2. The large inflows to transport and energy are explained by the preference of Japan (the largest IP) for infrastructure projects.

Figure 3A.2: Top ODA Sectors in 2003



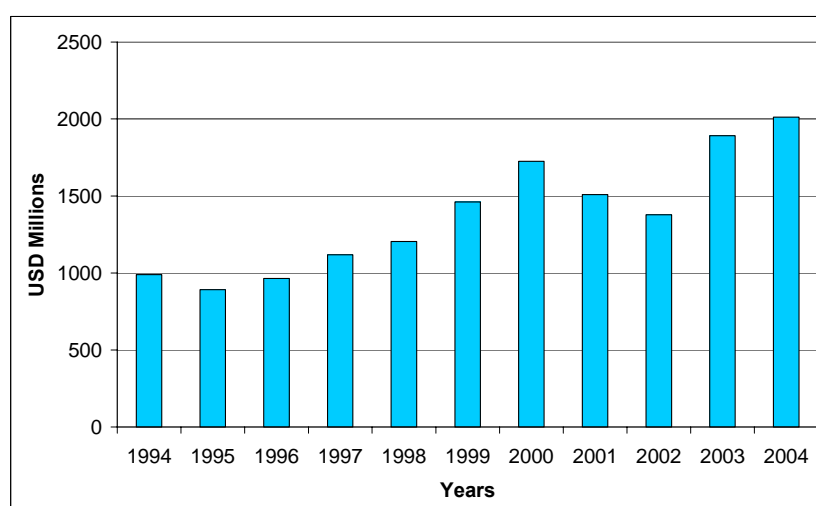
Source: taken from UNDP (2005b p. 29).

Figure 3A.3: ODA Disbursement by Type in 2003

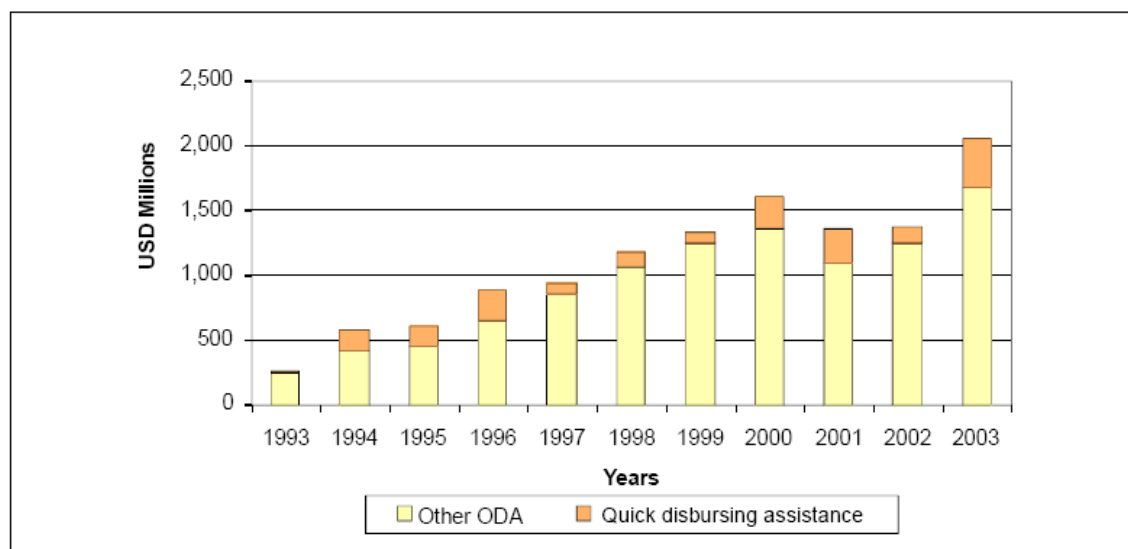


Source: data from UNDP (2005b p. 30)

Figure 3A.4: Total ODA Disbursements



Source: OECD DAC International Development Statistics (OECD DAC 2005–2006)

Figure 3A.5: Quick-Disbursing and Other ODA 1993–2003

Source: taken from UNDP (2005b p. 33).

Annex 3B: Inventory of GBS and Related Programmes

Table 3B.1: Standard Summary of PGBS Flows

(all in USD million unless indicated otherwise)		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A)	Total ODA (actual) [1]	989.65	891.40	964.67	1,118.61	1,204.38	1,461.48	1,725.25	1,509.24	1,378.24	1,891.72	2,012.65	OECD DAC
(B)	Total ODA excl. emergency and food aid (actual) [1]	987.23	885.00	955.98	1,109.09	1,199.00	1,453.89	1,710.95	1,499.31	1,371.24	1,871.92	1,988.86	OECD DAC
(C)	Total Partnership GBS disbursements [2]	0	0	0	0	0	0	0	150.00	122.60	140.00	157.00	
	Donors providing PGBS								WB	Denmark, Netherlands, Sweden, UK, WB	Denmark, Netherlands, UK, WB	Same and AsDB, Canada, EC, Japan	Annex 3B – Table 3B.2 Inventory
(D)	[ESAF programmes] followed by PRGF (disbursements)	0	0	0	0	0	0	0	105.00	77.00	0	0	Annex 3B – Table 3B.2 Inventory and IMF International Financial Statistics (IFS)
(E)	Total other unearmarked programme aid	0	0	0	0	0	217.00	71	0	0	0	0	
	World Bank SAC1 (1994–2000)												
	Japan Miyazawa						174.00	0	0	0	0	0	
	AsDB Programme lending (1995–2000) [3]						43.00	71.4	0	0	0	0	
	i) Agriculture sector loan												
	ii) Finance sector loan												
	Donors providing other unearmarked programme aid						Japan, IMF, AsDB	IMF, AsDB	IMF	IMF	None	None	
(F)	HIPC funding	0	0	0	0	0	0	0	0	0	0	0	
(G)	Central Government Expenditure (USD)	407.22	494.54	570.03	605.56	553.35	608.30	728.07	810.88	876.19	1,021.40	1,130.63	IMF Governance Finance Statistics (GFS)
(Ga)	ODA as % of GNI	5.70%	4.08%	3.87%	3.79%	4.41%	5.05%	5.47%	4.50%	3.64%	4.51%	4.05%	OECD DAC
(H)	PGBS as % total ODA (%)	0%	0%	0%	0%	0%	0%	0%	9.94%	8.90%	7.40%	7.80%	
(I)	PGBS as % central government expenditure (%)	0%	0%	0%	0%	0%	0%	0%	18.50%	13.99%	13.71%	13.89%	
Notes													
[1] OECD DAC data for 2004 is provisional – data has not been collected from all donors. OECD DAC data is in nominal terms. OECD DAC total ODA data is new loans extended plus grants disbursed.													
[2] In line with Annex 3B (inventory), PGBS is considered to have started with the PRSC 1 in 2002 by WB and co-financiers, and continued with PRSC 2, PRSC 3 and PRSC 4.													
[3] The data for AsDB programme lending funds are estimates.													
Memorandum items													
(J)	Emergency Aid	no data	6.29	7.40	6.06	4.47	4.36	6.48	7.45	6.54	2.92	3.81	OECD DAC
(K)	Development Food Aid	2.42	0.11	1.29	3.46	0.91	3.23	7.82	2.48	0.46	16.88	19.98	OECD DAC
(L)	Central Government Expenditure (VND billion)	44,655	54,589	62,889	70,749	73,419	84,817	103,151	119,403	133,877	158,415	182,875	IMF GFS
(M)	Exchange rates refer to period averages.												
	USD/VND	10,965.70	11,038.30	11,032.60	11,683.30	13,268.00	13,943.20	14,167.70	14,725.20	15,279.50	15,509.60	16,174.58	1994–2003 IMF IFS; 2004 www.oanda.com

Table 3B.2: Inventory of GBS and Related Programmes

Programme (name, dates)	Inputs (by IP)	Appropriateness ("relevance") to country	Intent of programme	Have the inputs been delivered? How well?
		<i>(issues addressed; intended results; links between components; preconditions and risks identified in design; management and decision-making; disbursement triggers).</i>		
1994 World Bank SAC 1	USD 2,885m committed; USD 360m disbursed.	Implemented on the assumption that there would be one adjustment operation every other year. In practice between FY1994 and 2000 only one adjustment credit was approved for approx 6% of total commitments. 45 conditions were included directed at structural reform.	Support to structural reforms and transition to a market economy.	Although an OED audit found the outcome satisfactory, in retrospect the impact was modest as most of the reforms were not undertaken for some time and the measures were not very relevant.
1994–1997: IMF three-year ESAF arrangement	USD 538m committed; USD 353.5m disbursed.	This focused on structural policy concerns, to push forward the pace of reform particularly in the finance sector, trade liberalisation and state-owned enterprise (SOE) reform. In the second arrangement the IMF pushed for a less piecemeal approach to reform but this approach reflected the lack of domestic political consensus on the pace of reform and thus an agreement was not reached. The first ESAF contained 11 structural conditions, the second 21 conditions.	To speed up the process of structural reform.	The second arrangement was completed but the agreement on a third one was not reached and the facility expired in Nov 1997 with no further programmes until 2001.
1995–2000 AsDB Programme lending	USD 310.8m Agriculture; USD 220m Finance and Industry.	Policy-based lending operations in agriculture and finance. Aimed at liberalisation of agricultural market and regulatory reform intended to provide quick-disbursing balance of payments support and to promote economic reforms. Dependent on rapid passage of laws which did not occur so disbursements delayed. Didn't provide assistance to design regulations which held up tranches when revisions were needed.	To align lending with government policy and support reform.	The agriculture sector loan promoted a series of reforms and the loan conditions were met and it was successfully completed. In the case of the financial sector loan, there was a delay in disbursement of the second tranche because of failures to introduce required measures. The 1999 Country Assistance Programme evaluation found them effective.

Annex 3B: Inventory of GBS and Related Programmes

Programme (name, dates)	Inputs (by IP)	Appropriateness (“relevance”) to country	Intent of programme	Have the inputs been delivered? How well?
1999: JIBC “New Miyazawa Initiative” Economic Reform Support Loan	JPY 20m.	In response to the Asian crisis to provide support for various policy actions in three areas: private sector promotion; auditing 100 SOEs and tariffication of non-tariff barriers.	Supported economic reform and private sector promotion.	A JBIC monitoring survey in 2001 found substantial progress on actions designed to support the business environment and organisational process and less success in improving the financial environment and auditing of SOEs.
2001–2004: IMF three-year Poverty Reduction and Growth Facility (PRGF) programme	USD 370m committed; USD 182m disbursed.	Policy issues addressed were SOE reform state-owned commercial banks and trade liberalisation. Even though it was developed before the CPRGS, policy was broadly in line with it in these three areas. Conditionality was short-term, which was not good for dealing with longer-term structural issues. Reflected a slower, less targeted approach to SOE and SOCB. The PRGF included 22 structural conditions.	To support structural reform.	This was suspended in 2002 due to compliance problems with IMF safeguard policy, after which no further lending occurred. The arrangement expired in April 2004. An ex post assessment of longer-term programme engagement (focusing on experiences under the PRGF) was carried out in 2004.
Master Programme on Public Administration Reform (PAR) 2001–2010	USD 5.5m (from UNDP, Switzerland, the Netherlands, Sweden, Canada and Norway).	Addresses four key reform areas (institutional reform; organisational reform; renovation and improvement of the contingent of cadres and civil servants; public finance management reform) and focuses on seven national sub-programmes. The Ministry of Home Affairs is in charge of Project Management and the Ministry of Home Affairs, Office of the Government, Ministry of Justice and MOF are designated as the co-implementing agencies.	Overall goal is “successfully building a democratic, clean, strong, professionalized, modernized, effective and efficient public administration system which operates in line with the principle of the socialist State ruled-by-law under the leadership of the Party; public cadres and civil servants will have appropriate capabilities and ethical qualities able to respond to the requirements of the cause of nation building and development” (Ministry of Home Affairs and UNDP 2001)	Not aware of any evaluations.

General Budget Support in Vietnam

Programme (name, dates)	Inputs (by IP)	Appropriateness (“relevance”) to country	Intent of programme	Have the inputs been delivered? How well?
2001–02: World Bank PRSC1	USD 250m plus USD 22.6m in co-financing from: Sweden: USD 2m Denmark: DKR 78m Netherlands: EUR 15m UK: GBP 14m.	Included measures to liberalise foreign trade, restructure SOEs, strengthen banking system, facilitate development of private sector and improve efficiency, effectiveness and transparency of public expenditure. Supports the CAS and CPRGS (budget support). 56 conditionalities included via policy matrix. Disbursed in two tranches on completion of policy actions. Risks include erosion of domestic political support for reform, insufficient institutional capacity for implementation and rising costs of bank recapitalisation.	Support Interim Poverty Reduction Strategy Paper (I-PRSP) implementation. Focus on structural reform agenda, with policies articulated in five main areas: liberalising trade, reforming SOEs, strengthening the banking sector, improving the environment for the private sector, and improving management and transparency in public finances.	Implementation completion report rated outcomes of the project “satisfactory”, sustainability as “highly likely”, institutional development impact “substantial”, Bank performance “satisfactory” and borrower performance “satisfactory”.
2003: PRSC2	USD 100m plus USD 40m in co-financing from: UK: GBP 10m Netherlands: EUR 8m Denmark: DKR 19m.	Expanded to health and education with three-pillar format. Based on fulfilment of 33 policy triggers to assess the pace of reform, linked to subsequent budget-support operations. Disbursed in a single tranche.	Support CPRGS implementation. Focus on broader range of economic reforms than PRSC1. Included various policy actions aimed at keeping development inclusive and building modern governance. Measures related to education and health sectors, environmental sustainability, land management, legal development and PFM also included.	Implementation completion report rated outcomes of the project “satisfactory”, sustainability “satisfactory”, institutional development impact “substantial”, Bank performance “satisfactory” and borrower performance “satisfactory”.
2003–2007: Public Financial Management Modernisation Project (PFMMP)	Multi-Donor Trust Fund executed by the World Bank with USD 0.6m of co-financing by the UK, the Netherlands, Sweden, Denmark, Norway, Canada, Switzerland and the EC.	The programme has six sub-components which are: state budget management, tax policy and administration, state-owned enterprise monitoring and supervisions, national debt management, public asset management and reserves and price control.	It provides support to the GOV Modernization Programme in the area of financial management with the aim of achieving greater transparency and accountability in public administration and more effective and efficient service delivery (DFID Vietnam 2005).	An evaluation of the MDTF Administration concluded that the MOF had the required capacity to take full responsibility for management of the MDTF (Claussen 2004).

Annex 3B: Inventory of GBS and Related Programmes

Programme (name, dates)	Inputs (by IP)	Appropriateness (“relevance”) to country	Intent of programme	Have the inputs been delivered? How well?
2003–2009: Public Financial Management Reform Project (PFMRP)	World Bank: USD 54m; UK: USD 10m.	There are three components: i) the implementation of an integrated Treasury and Budget Management Information System (TABMIS), ii) of state budget and investment planning, including the development of a Medium Term Fiscal Framework (MTFF) and of Medium Term Expenditure Frameworks (MTEFs) in four pilot sectors and four pilot provinces, iii) strengthening of the Government’s ability to manage Vietnam’s public debt and to begin monitoring fiscal risks that emanate from state-owned enterprise (SOE) liabilities.	The objective of the PFMRP is to strengthen budget planning, execution, reporting and accountability through: i) strengthening and integrating core treasury and budget management information systems; ii) strengthening links between budget management and the developmental goals set out in the Government’s Comprehensive Poverty Reduction and Growth Strategy (CPRGS) within a medium-term expenditure framework; and iii) to improve the management of public debt and other fiscal risks.	Not aware of any evaluations.
2003–2006: Agricultural Sector Development	AsDB: USD 67.30m.	Follows on from previous programme-based support loan and gives policy support focused on liberalisation and strengthening of the agricultural sector.	To align lending with government policy and support reform.	No evaluations found.

General Budget Support in Vietnam

Programme (name, dates)	Inputs (by IP)	Appropriateness (“relevance”) to country	Intent of programme	Have the inputs been delivered? How well?
2004: PRSC3	USD 100m plus co-financing USD 57m. The following commitments were made by co-financiers: UK: GBP 20m EC: EUR 15m Denmark: DKR 420m Netherlands EUR 12m Japan: USD 18m Canada: CAD 6.3m AsDB: USD 6.4m.	Larger in scope extending beyond structural reforms to socially inclusive development and governance.	Support CPRGS implementation. Same broad coverage as PRSC2.	Not yet evaluated.
2005 PRSC4 ⁴	USD 100m World Bank credit with potential co-financing of USD 125m from AsDB, Spain, France, Canada, Denmark, UK, EC, Ireland, Japan, the Netherlands, Sweden.	Will focus on CPRGS development outcomes, with a stronger emphasis on actions related to Pillar 2, Social Inclusion.	Continues to support reforms under the three pillars of the CPRGS (Transition to Market Economy, Social Inclusion and Environmental Sustainability and Modern Governance).	Not yet implemented.
2005–2007: AsDB Financial Sector Programme Loan	USD 36.05m.	Follows on from previous policy-based support loan given to the financial and industrial sector.	To align lending with government policy and support reform.	Only just started implementation.

⁴ PRSC 4 is currently being finalised, and, along with the subsequent programmes mentioned, formally falls outside the evaluation period. However, they highlight the continued evolution and expansion of budget support and related operations.

Annex 3B: Inventory of GBS and Related Programmes

Programme (name, dates)	Inputs (by IP)	Appropriateness (“relevance”) to country	Intent of programme	Have the inputs been delivered? How well?
2005: Pilot Budget Support Programme for Phu Tho and Lao Cai provinces ⁵	One- year pilot, providing USD 0.5m each to two provinces for their transport plans. It is linked to DFID’s future support to the Rural Transport 3 Project, which DFID will co-finance with the WB (GBP 15m over three years). A provisional USD 1m is expected for 2006.	The support is designed to strengthen the process of decentralisation and provide more targeted capacity-building assistance at provincial level.	“i) To develop the mechanism for providing provincial budget support to provinces for implementation of their transport plans. ii) Learn lessons on how to arrange financing, monitor implementation and ensure accountability. iii) Provide evidence for and influence the design of Rural Transport 3” (DFID Vietnam 2005).	Not yet implemented.
2005–2006: Poverty Reduction Budget Support to Programme 135 (UK)	Allocation of phase 1 consists of GBP 10m direct budget support and GBP 0.25m stand-alone TC.	Two-phased approach to tackle social exclusion in Vietnam by engaging directly with Government’s own strategies and programmes with poverty reduction budget support and associated technical support and monitoring.	Strengthen GOV Programme 135, which aims to reduce poverty and foster secure and sustainable livelihoods for those living in the country’s poorest and most marginal communes.	Not yet implemented.

⁵ Information on this and support to Programme 135 taken from DFID Vietnam (2005). DFID Vietnam: On-going Projects (Updated May 2005). London: FCO. Available from http://www.fco.gov.uk/Files/kfile/DFIDV_projects_may05.doc (accessed 20 July 2005).

General Budget Support in Vietnam

Programme (name, dates)	Inputs (by IP)	Appropriateness (“relevance”) to country	Intent of programme	Have the inputs been delivered? How well?
2005–2008: Targeted Budget Support for a National Education for All Plan Implementation Program ⁶	Committed: World Bank USD 50m; Belgium, Canada, EC and UK total of USD 85m.	Will provide budgetary support to an existing National Education For All Action Plan, which was approved in July 2003 and has been reviewed and endorsed by IPs and NGOs.	Will provide targeted budgetary support for selected subcomponents of the Educational National Target Programme (NTP), designed to enhance the quality of basic education, and will strengthen the administration of the programme. In addition, the project will also promote an overarching policy framework in education finance, planning, and governance that will act as an enabling environment for improved service delivery. There are two components: achievement of fundamental school quality levels and technical assistance (TA) and capacity building to strengthen the administration, implementation and evaluation of the Education NTP.	Not yet implemented.

⁶ Information on this taken from World Bank (2005c). *Project Information Document (PID) Appraisal Stage. For Targeted Budget Support for National Education For All Plan Implementation Program*. Hanoi: World Bank Human Development Sector Unit, East Asia and Pacific Region.

Annex 3C: Donor Involvement with PRSC Issues

	Main areas of involvement in the policy dialogue PRSC3	Main areas of involvement in the policy dialogue PRSC4
AsDB	Trade integration, Financial sector reform, Private sector development, Education, Health, Environment, Planning processes, Legal development, Public administration reform, Anti-corruption	Trade integration, Infrastructure, Education, Health, Land, Water, Environment, Gender, Planning processes, PFM, Financial accountability, Public administration reform, Legal development, Anti-corruption
AECI (Spain)		Land, Water, Environment, Social protection, Planning processes
AFD (France)		SOE reform, Financial sector reform, Infrastructure, Water
AusAID		Trade integration, Private sector development, Water
CIDA (Canada)	Education, Health, Environment, Legal development	Trade integration, Financial sector, Private sector development, Education, Health, Environment, Gender, PFM, Anti-corruption, Legal reform
Danida (Denmark)	Water, Public administration reform	Trade Integration, SOE reform, Private sector development, Land, Water, Environment, Planning processes, PFM, Financial accountability, Public administration reform/legal development, Anti-corruption, Legal reform, Social protection
DFID (UK)	Trade integration, SOE reform, Private sector development, Infrastructure, Education, Planning processes, PFM, Financial accountability, Anti-corruption	Trade integration, SOE reform, Private sector development, Infrastructure, Education, Environment, Gender, Planning processes, PFM, financial accountability, Anti-corruption, Social protection
EC	Trade Integration, Financial sector reform, Private sector development, Education, Health, PFM	Trade integration, SOE reform, Financial sector reform, Private sector development, Planning processes, PFM, Financial accountability
Finland		Public administration reform, Legal development
Germany		Water, Environment
JBIC (Japan)	Trade integration, Private sector development, Infrastructure, Planning processes, PFM, Legal development, Public administration reform, Anti-corruption	Trade integration, SOE reform, Financial sector reform, Private sector development, Infrastructure, Land, Environment, Planning processes, Public administration reform/Legal development, Anti-corruption, Social protection
Netherlands	Health, Water, Environment, PFM, Anti-corruption	Trade integration, Financial sector reform, Health, Water, Environment, Gender, PFM, Financial accountability, Public administration reform, Legal development, Anti-corruption
Norway		Education, PFM, Public administration reform, Legal development
Sida (Sweden)		Health, Environment, Public administration reform, Legal development, Anti-corruption, Legal reform
SDC (Switzerland)		Environment, Public administration reform, Legal development

Source: Information taken from PRSC3 Project Document and PRSC4 Draft Project Document.

Annex 3D: The Policy Matrix for the PRSC Programmes 1–5

Pillar I: Transition to a Market Economy					
Sector	PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
Trade integration	<ul style="list-style-type: none"> • Adopt AFTA roadmap to gradually reduce tariffs on ASEAN imports. • Liberalize trading rights for all domestic enterprises and expand to foreign ones. • Eliminate quantitative restrictions for liquid soda and plastic packaging 	<ul style="list-style-type: none"> • Transfer the last tranche of items to Inclusion List (IL), and lower IL tariffs. • Eliminate QRs for cement, clinker, steel, glass, paper, vegetable oil and tiles. • Issue regulations for Most-Favored Nation Treatment (MFNT) and National Treatment (NT). 	<ul style="list-style-type: none"> • Conduct detailed preparatory work for WTO accession, including tariff scenarios. • Eliminate QRs on the imports of petroleum products. • Adopt the Early Harvest Program reducing tariffs for agricultural products • Direct the use of transaction value as the basis for customs valuation • Harmonized Classification and Coding System applies to all trading partners. 	<ul style="list-style-type: none"> • Make strong progress in the multilateral and bilateral negotiations towards WTO accession. • Eliminate 80 percent export requirements on foreign direct investments. • Submit Customs Law for electronic environment, self-assessment, risk management and post audits. • Establish a national SPS notification body and Enquiry Point. • Adopt an action plan for SPS, food safety and agricultural health. 	<ul style="list-style-type: none"> • Issue regulations on import licensing in accordance with WTO requirements. • Eliminate quantitative restrictions on imports in accordance with WTO requirements. • Issue new Intellectual Property Law in accordance with WTO requirements. • Issue decree on rules of origin in accordance with WTO requirements.

(Continued)

Pillar I: Transition to a Market Economy					
Sector	PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
SOE reform	<ul style="list-style-type: none"> • Equitize 400 SOEs, with final state share of capital of 35 percent or less in 200. • Adopt comprehensive restructuring plans for three General Corporations. • Design and activate fund to finance the social safety net for redundant SOE workers. • Streamline the equitization process and improve its transparency 	<ul style="list-style-type: none"> • Approve and publish 104 detailed SOE transformation plans for 2003-2005. • Establish a central Debts and Assets Trading Company and develop a pilot. • Instruct all SOEs to report timely financial information to authorized agencies. 	<ul style="list-style-type: none"> • Substantially accelerate the SOE ownership transformation process. • Broaden the equitization process to large SOEs and GCs. • Issue guidelines for the operation of the Debts and Assets Trading Company. 	<ul style="list-style-type: none"> • Issue a much narrower positive list of sectors where state intervention is justified. • Adjust the 104 SOE restructuring plans and make sustained progress in their implementation. • Strengthen the mechanisms for the equitization of SOEs, including the auctioning of shares. • Equitize a number of large SOEs, including GCs, with substantive participation of outside investors. • Introduce holding company model allowing GCs to exercise control over their affiliated SOEs. • Submission of self-assessment reports by SOEs, in line with Decision 271. 	<ul style="list-style-type: none"> • Implement plans for the restructuring of selected large SOEs. • Conduct IAS audits on 10 large SOEs. • Classify SOEs in accordance with Decision 271 and publish the results. • Issue an appropriate regulatory framework for the State Capital Investment Corporation.

(Continued)

Pillar I: Transition to a Market Economy					
Sector	PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
Financial sector reform	<ul style="list-style-type: none"> Establish DAF and VBSP to phase out policy lending from banking system. Complete IAS audits for 2000 of the four largest SOCBs. Close 12 JSBs, merge 2 and ensure the regulatory compliance of all others. Adopt restructuring plans for four SOCBs and achieve first year milestones. Issue regulation to bring loan classification in line with international practice. Initiate implementation of revised NPL classification and provisioning. 	<ul style="list-style-type: none"> Instruct four biggest SOCBs to develop detailed plans to resolve unsecured NPLs. Complete key periodical milestones of restructuring plans of four biggest SOCBs Plan to resolve unsecured loans of 20 heavily indebted SOEs by each large SOCB. 	<ul style="list-style-type: none"> Issue plan to strengthen SBV supervision capacity and level playing field for banks. Adopt a new chart of accounts for banks to improve transparency Instruct SOCBs to put into effect credit manuals for better risk management Impose a 60-day limit for SOCBs to submit their IAS audits to the SBV Adopt decision to equitize two SOCBs, with a strategic investor for one of them. Issue regulations for DAF operations restricting policy lending. Further develop securities market through easier listing and investment funds. 	<ul style="list-style-type: none"> Announce the separation of the SOCB management and supervision functions of SBV. Issue directives on loan classification based on IAS, applying to all SOCBs Produce a first report on the current stock of NPLs in SOCBs, based on IAS. Implement credit manuals, internal audit committees and loan computerization in all SOCBs. Issue plan for the equitization of Vietcombank, allowing the participation of a strategic investor. Issue a decree establishing an anti-money laundering regime. 	<ul style="list-style-type: none"> Issue a comprehensive roadmap for the reform of the financial sector. Complete the Basel Core Principles self-assessment to identify weaknesses in banking supervision. Complete the preparations for the equitization of Mekong Housing Bank, with a strategic investor. Progress on provisioning for NPLs based on their IAS classification. Submit a Securities Law to support the development of capital markets. Improve disclosure requirements for companies listed in the stock market.

(Continued)

Pillar I: Transition to a Market Economy					
Sector	PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
Financial sector reform (Cont.)				<ul style="list-style-type: none"> Enact a regulatory framework for the operation and supervision of microfinance institutions. 	
Private sector development	<ul style="list-style-type: none"> Approve the Enterprise Law and remove 195 business licenses to facilitate entry Permit automatic registration of export-oriented investments 	<ul style="list-style-type: none"> Adopt plan to implement Party resolution on private sector development Issue regulations to further implement the Enterprise Law. 	<ul style="list-style-type: none"> Unify the corporate income tax rate to 28 percent irrespective of ownership. Strengthen administration of intellectual property rights through NOIP. Improve the legal framework for the operation of business associations 	<ul style="list-style-type: none"> Issue a new Competition Law, limiting the dominant market position of SOEs. 	<ul style="list-style-type: none"> Establish an independent competition authority to address restrictive commercial practices. Issue a Unified Enterprise Law leading to equal treatment for firms regardless of ownership. Issue a Common Investment Law including the move of incentives to other legislation. Improve the transparency on the issuance of licenses and permissions.

(Continued)

Pillar I: Transition to a Market Economy					
Sector	PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
Infrastructure			<ul style="list-style-type: none"> Expand the CPRGS to address large-scale infrastructure issues. Open Internet and mobile telephone services to competition. Reduce international telephone and leased line prices to regional levels 	<ul style="list-style-type: none"> Issue an Electricity Law allowing the equitization of EVN units and creating a regulatory agency Create a regulatory framework for network interconnection in telecoms. Accelerate the equitization of construction SOEs affiliated with MOC and MOT Deaths from traffic accidents reduced by X percent through education and effective prevention. 	<ul style="list-style-type: none"> Establish a regulatory agency for electricity, in charge of prices, licenses, penalties and safety. Equitize six selected power plants. Issue appropriate regulatory framework for provincial infrastructure funds. Pilot a Medium-Term Expenditure Framework in the transport sector.
Education		<ul style="list-style-type: none"> Adopt the Education For All framework to attain targets by 2015. 	<ul style="list-style-type: none"> Raise the expenditure share of education and training to 17.1 percent of the budget Adopt minimum quality standards for primary schools nationwide. 	<ul style="list-style-type: none"> Evaluate 8 percent of all teachers based on the new Primary Teacher Profile for career development. Bring Z percent of schools in poor zones up to minimum quality standards. 	<ul style="list-style-type: none"> Implement a Medium-Term Expenditure Framework for education sector. Issue an inclusive education strategy for children with disabilities.

(Continued)

Pillar II: Social Inclusion and Environmental Sustainability					
Sector	PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
Education (Cont.)				<ul style="list-style-type: none"> Open the tertiary education level to private sector participation. 	<ul style="list-style-type: none"> Adopt medium-term plans for education in pilot provinces.
Health		<ul style="list-style-type: none"> Issue Decision creating province-level Health Care Funds for the Poor. 	<ul style="list-style-type: none"> Establish HCFPs in all provinces and pay central Government contribution Action program for the HIV-AIDS strategy based on a public health approach 	<ul style="list-style-type: none"> Issue an action plan for tuberculosis prevention, accounting for its interaction with HIV/AIDS. Strengthen the regulation and pricing of pharmaceuticals. 	<ul style="list-style-type: none"> Issue regulation for the operation of provincial Health Care Funds for the Poor. Pilot a Medium-Term Expenditure Framework addressing the under-funding of key programs.
Social protection				<ul style="list-style-type: none"> Revise the design, components and procedures of targeted poverty alleviation programs. 	<ul style="list-style-type: none"> Issue a Social Security Law making the system financially viable and extending its coverage.
Land		<ul style="list-style-type: none"> Issue LUCs for 35 percent of urban land users and 60 percent of forest land users. 	<ul style="list-style-type: none"> Support access to land for all sectors and community land-use practices. 	<ul style="list-style-type: none"> Improve the implementation of the Land Law, especially on land registration and land pricing. Restructure SFEs, including transfer of land to households, communities and the private sector. 	<ul style="list-style-type: none"> Adopt a Medium-Term Expenditure Framework for agriculture and rural development. Set up a standardized land registration offices in all provinces. Issue the National Forest Development Strategy.

(Continued)

Pillar II: Social Inclusion and Environmental Sustainability					
Sector	PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
Land (Cont.)				<ul style="list-style-type: none"> Submit a new law on Forest Protection and Development. 	
Water			<ul style="list-style-type: none"> Irrigation management transferred to cooperatives or associations of water users. 	<ul style="list-style-type: none"> Issue decree on integrated river basin management, laying out policy and institutional arrangements. 	<ul style="list-style-type: none"> Assign responsibilities in line with the National Rural Water and Sanitation strategy. Issue strategy on integrated coastal zone management.
Environment		<ul style="list-style-type: none"> Approve the National Strategy for Environmental Protection 	<ul style="list-style-type: none"> Issue the decree on wetlands conservation and sustainable development. Decentralize responsibility for EIA of investment projects to local levels. Establish the “polluter pays” principle irrespective of enterprise ownership. Issue regulation to upgrade, move or close the worst pollution offenders. 	<ul style="list-style-type: none"> Submit the amended Law on Environmental Protection. Issue the Natural Disaster Mitigation Strategy. Approve strategy on solid waste management at the provincial level. Issue strategy for the Clean Development Mechanism under the Kyoto protocol. 	<ul style="list-style-type: none"> Undertake Environmental Impact Assessments for plans above the project level Develop economic, administrative and information tools for pollution prevention and control. Issue policies on waste water management for urban areas.

(Continued)

Pillar III: Modern Governance					
Sector	PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
Planning processes		<ul style="list-style-type: none"> Set up a steering committee for CPRGS and the PRSC/ PRGF processes. 	<ul style="list-style-type: none"> Issue guidelines to roll out the CPRGS approach to provincial planning Pilot a MTEF in the education sector. 	<ul style="list-style-type: none"> Integrate the CPRGS approach in the preparation of the next Socio-Economic Development Plan. Scale up the CPRGS roll out process to a more determined effort to improve provincial planning. Issue planning guidelines transferring public investment decisions to lower government levels. 	<ul style="list-style-type: none"> Evaluate the potential social and economic impacts of WTO accession, identifying counter-measures. Issue a SEDP based on broad consultation, with a poverty focus and appropriate monitoring tools. Issue planning manual including the mainstreaming of gender issues.
Public financial management	<ul style="list-style-type: none"> Public Expenditure Review with timetable to implement its recommendations. State Treasury to manage information system for Government expenditures Publish sectoral breakdowns of at least 75 percent of Government spending. 	<ul style="list-style-type: none"> Adopt a Budget Law with progress on decentralization and transparency. 	<ul style="list-style-type: none"> Unify the accounting systems of the State Budget and the State Treasury. Design an overall Treasury and Budget Management Integrated System 	<ul style="list-style-type: none"> Improve the evaluation of the socio-economic returns of public investment projects. Issue regulations to improve financial disclosure for all state budget entities, including SOEs. Launch an assessment of the fiscal risks associated with SOEs, SOCBs and DAF. 	<ul style="list-style-type: none"> Issue transparent budget allocation norms redistributing resources to the poorest provinces. Adopt the multi-year rolling principle in budget preparation. Adopt International Public Sector Accounting Standards for cash basis.

(Continued)

Pillar III: Modern Governance					
Sector	PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
Public financial management (Cont.)				<ul style="list-style-type: none"> Unify the management of foreign debt and reckon all government guarantees on it. 	<ul style="list-style-type: none"> Strengthen the accountability of public service delivery units operating under Decree 10. Facilitate community participation and supervision in local investment projects. Review and streamline internal control framework for government expenditures
Financial accountability			<ul style="list-style-type: none"> Enact a revised Accounting Law in accordance with international practice. Subject SOEs to auditing by independent auditors instead of State Audit of Vietnam. 	<ul style="list-style-type: none"> Transform the State Audit into an independent body reporting directly to the National Assembly. 	<ul style="list-style-type: none"> Complete the issuance of accounting and auditing standards consistent with international practice.

(Continued)

Pillar III: Modern Governance					
Sector	PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
Legal development		<ul style="list-style-type: none"> Legal documents to be published in Official Gazette for their effectiveness. Transfer the management of local courts from MOJ to the Supreme People's Court. 		<ul style="list-style-type: none"> Condition the effectiveness of legal documents on stakeholders' consultation and on publication. Approve a legal and judicial development strategy based on the Legal Needs Assessment. 	<ul style="list-style-type: none"> Establish the prevalence of WTO principles over national legislation in case of conflict. Take effective steps towards an enhanced independence of courts at all levels.
Public administration reform			<ul style="list-style-type: none"> The OSS model promulgated as a national policy The report card approach to service delivery piloted in four urban sites. 	<ul style="list-style-type: none"> Better align civil service pay to the market alternatives of government employees. 	<ul style="list-style-type: none"> Issue an action plan for the simplification of administrative procedures. Make provisions for the introduction of e-government at all levels.
Anti-corruption			<ul style="list-style-type: none"> Stronger public procurement through open bidding and Procurement Bulletin. Ban inspections of businesses by non-authorized Government agencies. 	<ul style="list-style-type: none"> Issue a comprehensive action plan to develop and implement the new anti-corruption strategy. 	<ul style="list-style-type: none"> Complete and make public a comprehensive diagnosis of corruption and its modalities.

(Continued)

Pillar III: Modern Governance					
Sector	PRSC 1	PRSC 2	PRSC 3	PRSC 4	PRSC 5
Anti-corruption (Cont.)					<ul style="list-style-type: none"> • Issue Anti-Corruption Law including inspections, denunciations and monitoring of assets. • Issue a revised Procurement Ordinance focused on publicity and allowing for e-procurement. • Publish public tenders and contracts in the procurement bulletin.
Information availability		<ul style="list-style-type: none"> • Issue Statistical Law, with emphasis on data quality and accessibility. 		<ul style="list-style-type: none"> • Strengthen the criteria used to measure poverty and to target the poor. 	<ul style="list-style-type: none"> • Issue policy for public access to disaggregated survey data.

Annex 3E: The Triggers for the PRSC Programmes 1–4

Sector	PRSC1 (completed 2001)	PRSC2	PRSC3	PRSC4
Pillar 1: Transition to a Market Economy				
Trade integration	i) Adopt the ASEAN Free Trade Area (AFTA) road map on tariff reduction ii) Liberalise trading rights for all domestic enterprises and expanded trading rights of foreign invested enterprises iii) Remove QRs from eight product groups and adopt a timetable for further QR removal	i) Transfer the last tranche of items to inclusion list and lower inclusion list tariffs ii) Eliminate QRs for cement, clinker, steel, glass, paper, vegetable oil and tiles iii) Issue regulations for most-favoured nation treatment and national treatment		Issue regulations on import licensing in a transparent manner in accordance with WTO requirements
State-owned enterprise reform	Complete equitisation of 408 SOEs	i) Approve and publish 104 detailed SOE transformation plans for 2003–2005 ii) Establish a central Debts and Assets Trading Company and develop a pilot iii) Instruct all SOEs to report timely financial information to authorised agencies	i) Timely implementation of ownership transformation under the new SOE reform plans ii) Actual rating of SOEs according to the criteria set out in the Decision on SOE Performance Evaluation and Monitoring	Revise key decrees to establish a legal framework for the equitisation of large SOEs and General Corporations
Financial sector reform	i) Separate policy lending from commercial lending with the establishment of the National Development Support Fund and a separate bank for social policy lending to phased out policy lending from state-owned commercial banks (SOCBs) ii) Strengthen joint stock banks (JSBs) with closure, merger and under special control of State Bank of Vietnam iii) Develop a comprehensive restructuring plan for Vietcom Bank, one of the four large SOCBs for implementation under the programme	i) Instruct four biggest SOCBs to develop detailed plans to resolve unsecured non-performing loans (NPLs) ii) Complete key periodical milestones of restructuring plans of four biggest SOCBs iii) Plan to resolve unsecured loans of 20 heavily indebted SOEs by each large SOCB	i) Four largest SOCBs to meet the loan-loss provisioning and NPL resolution targets set in their restructuring plan, including the loan-loss provisioning NPL resolution, and phase-in and conditional recapitalisation ii) Adopt a plan with a clear timetable to enable one SOCB to seek equity participation by a reputable international partner iii) Draft a new legal document to replace or supplement Decree 43 providing a sound regulatory framework for policy lending	Require a comprehensive evaluation of SOCBs and a plan for NPL resolution as preconditions to issuance of equity or equity-like instruments

General Budget Support in Vietnam

Sector	PRSC1 (completed 2001)	PRSC2	PRSC3	PRSC4
Private sector development	<ul style="list-style-type: none"> i) Approve Enterprise Law ii) Remove business licences in 145 different trades, industries and services to facilitate entry to private firms iii) Revise Foreign Investment Law to permit automatic registration of export-oriented investment and government guarantees for large projects 	<ul style="list-style-type: none"> i) Adopt plan to implement Party resolution on private sector development ii) Issue regulations to further implement the Enterprise Law 	More than 1,200 new private enterprises registered on average every month	Draft new (unified) Enterprise and Investment Laws in accordance with the Guiding Concepts and Principles dated 26 April 2004
Infrastructure				Submit for approval by the National Assembly the Electricity Law, which includes provision for a regulatory agency for the sector
Pillar 2: Social Inclusion and Environmental Stability				
Education		Adopt the Education for All Framework to attain targets by 2015	Draft the 10-year strategy for tackling HIV/AIDS	Finalise a primary teacher profile to be used as the standard for career development and compensation purposes
Health		Issue Decision creating province-level Health Care Funds for the Poor	Draft the regulation of Fundamental School Quality Levels	Prepare a draft strategy to implement an effective and sustainable National Tuberculosis Programme
Land		Issue land use certificates for 35% of urban land users and 60% of forest land users	Submission of a bill for the revision of the Land Law, supporting land tenure security, customary land-use practices and access to land for all sectors	Issue a decree on the restructuring of state forestry enterprises, including transfer of under-used land to households, communities and the private sector
Water			—	Submit for approval a decree on integrated river basin management, laying out the policy and institutional arrangements to support it
Environmental Stability		Approve the National Strategy for Environmental Protection	Conduct a broad consultation to support the drafting of regulations to implement the EIA	Submit for approval by the National Assembly the Amendment to the Law on Environmental Protection

Annex 3E: Triggers for the PRSC Programmes 1–5

Sector	PRSC1 (completed 2001)	PRSC2	PRSC3	PRSC4
Pillar 3: Modern Governance				
Planning processes		Set up a steering committee for CPRGS and the PRSC/PRGF processes	Progress in the implementation of CPRGS planning processes in one sector Progress in the implementation of CPRGS planning processes at the provincial level	Expand the implementation of the MTEF pilot to the health sector for better coordination of capital and recurrent expenditures
PFM	i) Completion of a public expenditure review and finalisation of a detailed timetable for the implementation of its recommendations over two years ii) Initiation of an integrated PFM system	Adopt a Budget Law with progress on decentralisation and transparency	Progress in the set-up of an integrated treasury and budget management information system	Improve the evaluation of the socio-economic returns of public investment projects
Legal development		i) Legal documents to be published in Official Gazette for their effectiveness ii) Transfer the management of local courts from the Ministry of Justice to the Supreme People's Court	Publication of legal documents in the Official Gazette as required by the amended "Law on Laws"	Approve a Legal System Development Strategy based on the Legal Needs Assessment
Anti-corruption				Issue a decree supporting community participation in investment projects leading to increased disclosure and participation
Information availability		Issue Statistical Law, with emphasis on data quality and accessibility		Submission for approval of revised criteria to measure poverty and to target the poor more in line with common international practices

ANNEX 4: PUBLIC FINANCE MANAGEMENT IN VIETNAM

Introduction

1. Budget support is always accompanied by a focus on public finance management (PFM). Donors considering disbursing through government systems have a special interest in the government's fiduciary standards. Moreover, one of the principal claims for budget support is that using government PFM systems can make a special contribution towards strengthening them. Hence a growth in the number of PFM diagnostic reports (Public Expenditure Reviews (PERs), Country Financial Accountability Assessments (CFAAs), Country Procurement Assessment Reports (CPARs) etc.), as well as donor-specific fiduciary analyses. In six of the seven GBS study countries, the donor demand for tracking of Heavily Indebted Poor Countries (HIPC) relief funding was pivotal, with assessment and action plans (AAPs) as path-breakers; Vietnam, not in the HIPC group, is an exception.

2. The scope for collaboration and harmonisation in PFM analysis and PFM capacity development has been increasingly recognised. The second volume of DAC guidelines on *Harmonising Donor Practices for Effective Aid Delivery* (OECD DAC 2005a) includes a chapter on capacity development for PFM. A PFM Performance Measurement Framework has been developed under the auspices of the multi-agency PEFA (Public Expenditure and Financial Accountability) programme (PEFA 2005).

3. The Performance Measurement Framework identifies the critical dimensions of performance of an open and orderly PFM system as follows:

1. **Credibility of the budget** – the budget is realistic and is implemented as intended.
2. **Comprehensiveness and transparency** – the budget and the fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public.
3. **Policy-based budgeting** – the budget is prepared with due regard to government policy.
4. **Predictability and control in budget execution** – the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. **Accounting, recording and reporting** – adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
6. **External scrutiny and audit** – arrangements for scrutiny of public finances and follow-up by executive are operating.

4. A set of 28 high-level performance indicators has been developed, as a basis for assessing improvements in PFM performance over time. Three further indicators assess aspects of donor performance. PEFA has developed a detailed scoring methodology (fully described in PEFA 2005), in which the assessment for each high-level indicator is based on a number of specified components.

5. It is beyond the scope of this study to undertake a full PEFA-based analysis (and in any case the PEFA scoring system was not finalised until 2005). However, in the interests of standardisation and comparability, the PFM analysis of the GBS study has been oriented towards the PEFA indicator framework as far as possible. We have used a standard matrix (see Table 4.1 below) to consider PFM issues against the principal dimensions defined by PEFA, drawing on the secondary sources available (these are listed below). This matrix also shows the HIPC AAP indicators and diagnostic results (although these do not apply in the case of

Vietnam). Our main assessment is of the current state of PFM, although we also examine developments during the evaluation period and offer a judgement as to whether systems are improving. The resources available for the evaluation did not allow for collection of data needed for application of the PEFA methodology. Therefore we do not attempt the rigorous scoring prescribed by PEFA, but express our judgement as *good*, *moderate* or *weak* on the basis of available data. Where insufficient information was available, no such judgement is offered. In the future, rigorous assessment and reporting according to the PEFA guidelines should provide a much more robust and transparent basis for assessing the quality of PFM systems than was available during the evaluation period. It will also allow progress in capacity development to be more systematically monitored.

Overview of PFM in Vietnam

Current status

6. The current situation is summarised by the EC Diagnostic Study (2004):
The Government of Vietnam is clearly capable of managing its public expenditure well in support of public policy objectives and is well aware of areas where further improvement is required (2AC 2004).
7. Disciplined systems are in place for ensuring that expenditure conforms to budgeted allocations. The government is demonstrably in control of total expenditure, and revenue collections regularly exceed budget estimates, so that the ability to implement the approved budget is not an issue. There have been important recent improvements in treasury management and control of budget execution, and these also offer the prospect of improved and more timely analytical information on budget performance (which will be further enhanced as an integrated financial management information system – TABMIS – is introduced in the next few years). These improvements form part of government's public finance reform strategy under the overall Public Administration Reform Master Plan.
8. There remain significant areas of weakness. These include:
 - issues in transparency, concerning not only the configuration of budgets and expenditures but the process of budget formulation;
 - related issues in budget comprehensiveness, with "sensitive" parts of the budget (including defence) not reported, and significant off-budget expenditures (including capital expenditures financed by bond issues); disbursement of much aid outside the budget contributes to this problem; so too does the existence of a large SOE sector with insufficiently clear separation between government and enterprises;
 - audit systems that lack transparency and are not sufficiently independent of the government; this is a salient issue with corruption acknowledged to be a significant problem;
 - procurement systems that are insufficiently open and competitive.

Trends

9. In the 10-year time frame of this review there have been major changes and improvements in PFM, and there is a strong impression of accelerated improvements in recent years. One of the main drivers for change has been the government's decentralisation policies. The most recent State Budget Law (enacted 2002, effective 2004) gives provinces a much higher degree of budgetary autonomy, and consolidates reforms under Decree 10 and Decision 192 that have accorded greater managerial discretion to both administrative and service delivery units of government. At the same time there is a strengthening of accountability to elected bodies at national and sub-national levels. Reforms reflect the characteristic Vietnamese pattern of careful review and limited piloting of reforms before they are rolled out on a larger scale. There have been major improvements in transparency, and an increasingly

productive dialogue between government and aid partners in the course of reforms. The Government's modernisation agenda and its desire for increasing integration into the world economy (cf. WTO accession) will continue to exert pressures for the adoption/adaptation of international standards of public finance management.

Aid and PFM

10. The 1996 PER was famously frustrated by the Government's unwillingness to share information on public expenditures, with the entire state budget then treated as secret. There was a natural tendency for donors to operate through project modalities with their own disbursement and reporting arrangements not closely integrated into government PFM systems. The Government itself has been used to managing its capital budget through project management units, and has had more ownership of PMUs implementing aid-funded projects than in many recipient countries (cf. Bartholomew and Lister (2002), which also documents the growing problems of project disbursement during the 1990s which led to increasing efforts towards harmonisation of donor procedures and strengthening of government systems).

11. Aid, including TA, has also played a significant role in the PFM reforms that have taken place and are continuing; it has been most effective when supporting government-led reform efforts. PFM has increasingly been seen as an area that requires coordinated action by donors and government, with a focus on the strengthening of government systems so that special fiduciary protection for aid-funded expenditures becomes less necessary.

12. Our perception is that changing donor attitudes towards Vietnam's PFM systems, and towards the use of government systems in the delivery of aid, reflect a combination of trends:

- Undoubted improvements in the quality of PFM.
- A better appreciation by donors of the strengths of Vietnam's PFM systems. Greater transparency has itself been an important improvement, and has also made certain strengths of the system – e.g. its degree of budgetary discipline – more visible to outsiders. At the same time there have been more concerted efforts to understand the political economy of GOV systems.
- A growing appreciation of the costs imposed by operating outside of government systems. This has made many donors more willing to consider channelling aid directly through the budget, especially when it seems that doing so can itself help to further strengthen PFM.

Key Source Documents on PFM in Vietnam

13. There has been a lot of PFM diagnostic work in recent years – including PERs in 1996, 2000, 2004 (the latter was a combined PER and Integrated Fiduciary Assessment), a review of fiscal transparency in 1999, a CFAA in 2001, and a CPAR in 2002 (the last two both updated in the course of the 2004 PER/IFA). In parallel with the PER/IFA, the EC commissioned a Public Finance Diagnostic Study. The GBS study team has drawn heavily on these secondary sources.

2AC (2004). *Vietnam Public Finance Management Diagnostic Study March–May 2004*, draft final report, June 2004, 2AC Associés Audit et Conseil.

Government of Vietnam and World Bank (2005). *Vietnam: Managing Public Expenditure for Poverty Reduction and Growth. Public Expenditure Review and Integrated Fiduciary Assessment, Volume I: Cross Sectoral Issues*. Hanoi: Government of Vietnam and World Bank.

PEFA (2005). *Public Finance Management – Performance Measurement Framework*, Public Expenditure and Financial Accountability Secretariat, June 2005, Washington, World Bank.

World Bank (2001b). *Vietnam Country Financial Accountability Assessment*. Washington, DC: World Bank East Asia and Pacific Region Central Operational Services Unit (Report No. 22987-VN).

World Bank (2002b). *Vietnam Country Procurement Assessment Report. Transforming Public Procurement*. Hanoi: World Bank (Report No. 25144-VN).

Table 4.1: PEFA PFM Performance Measurement Indicators⁷ for Vietnam

(Note: the assessment below is based on a review of secondary sources, not on a rigorous application of the PEFA diagnostic criteria; scores are indicative, with a moderate level of confidence.)

No.	Subject	Score [date]	Score 2004	Trend	Comments and analysis
	A. PFM OUT-TURNS: Credibility of the budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget		good	→	Aggregate expenditure control is strong. Control of, and reporting on, expenditure categories within the overall budget is less satisfactory (PERs have been unable to do a detailed comparison of sector budgets with out-turns).
PI-2	Composition of expenditure out-turn compared to original approved budget		moderate	→	
3	<i>Reliability of budget as guide to out-turn (level and composition of outturn is "quite close" to budget)</i>		<i>good</i>		
PI-3	Aggregate revenue out-turn compared to original approved budget		good	→	Revenue collections regularly exceed budgeted amounts. (EC diagnostic reports average excess of 17% 1999–2003.)
PI-4	Stock and monitoring of expenditure payment arrears		weak	→	Substantial arrears (notably in relation to public investment in transport and agriculture).
8	<i>Level of payment arrears (very few or no arrears accumulated)</i>				

⁷ The PEFA indicators (PI-1 to PI-28 and D-1 to D-3) are taken from the June 2005 version of the PEFA PFM Financial Management Framework. The 16 HIPC AAP indicators (2004 version) are included in italics.

No.	Subject	Score [date]	Score 2004	Trend	Comments and analysis
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and transparency				
PI-5	Classification of the budget		moderate	↑	Being addressed through TABMIS (computerisation) linked to better classification (unified Chart of Accounts) supported under PFMRP. At present difficult to get meaningful disaggregated budget and expenditure data at province level and below. Some poverty-targeted programmes are clearly identified, but general difficulty of aggregating central and provincial expenditures in key sectors.
5	<i>Classification of budget transactions (functional and/or program information provided)</i>				
PI-6	Comprehensiveness of information included in budget documentation		moderate	↑	Much donor funding known to be off-budget, while not all government spending is disclosed.
1	<i>Composition of the budget entity (very close fit to government finance statistics (GFS) definition of general government)</i>				
PI-7	Extent of unreported government operations		weak	↑	Budget costs of SOE and SOCB reform not transparent. Various other off-budget operations. About one-fifth of total budget figures are not broken down in detail.
2	<i>Limitations to use of off-budget transactions (extra (or off) budget expenditure is not significant)</i>				Significant off-budget expenditure linked to SOEs; use of off-budget bonds to finance capital expenditure.
PI-8	Transparency of inter-governmental fiscal relations		moderate	↑	State Budget Law of 2002 is an important advance. Scope for clarification of revenue and expenditure assignments.
PI-9	Oversight of aggregate fiscal risk from other public sector entities		weak		Significant risks from SOEs and SOCBs.
PI-10	Public access to key fiscal information		moderate	↑	The budget has become a public document; increased requirements for transparency at local as well as national levels; but value of information limited by delays in reporting and lack of timely reporting in classified detail.

No.	Subject	Score [date]	Score 2004	Trend	Comments and analysis
	C. BUDGET CYCLE				
	C(i) Policy-based budgeting				
6	<i>Identification of poverty-reducing expenditure (identified through use of classification system)</i>		moderate		<i>Identification of national targeted programmes is clear; strong classification system still being developed; GOV regards growth-promoting expenditures as key to long-term poverty reduction.</i>
PI-11	Orderliness and participation in the annual budget process		weak	↑	Process lacks transparency (derivation of recurrent expenditure norms is not transparent; capital expenditure norms rather simplistic); decentralisation now produces added uncertainty by allowing provinces separately to determine sub-province systems. Poor coordination of recurrent and capital budgeting.
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting		moderate	↑	Strong tradition of five-year, 10-year and long-term plans; plans not tightly linked to budget preparation; moves towards more systematic MTEF approach, with pilots in key sectors and provinces.
7	<i>Quality of multiyear expenditure projections (projections are integrated into budget formulation)</i>				Stability period in inter-governmental transfers provides important element of predictability.
	C(ii) Predictability and control in budget execution				
PI-13	Transparency of taxpayer obligations and liabilities				not reviewed
PI-14	Effectiveness of measures for taxpayer registration and tax assessment				
PI-15	Effectiveness in collection of tax payments		good	→	Aggregate revenue targets regularly exceeded.
PI-16	Predictability in the availability of funds for commitment of expenditures		good	↑	Effective January 2004, MOF eliminated quarterly cash ceilings and guaranteed the availability of the full year budget to each agency.
PI-17	Recording and management of cash balances, debt and guarantees		moderate	↑	Recording of domestic debt and credit (e.g. through DAF), and of state guarantees, is weak. Responsibilities for recording internal and external debt are fragmented.
PI-18	Effectiveness of payroll controls		moderate	→	Concerns that trends towards block granting may loosen control.
PI-19	Competition, value for money and controls in procurement		weak	↑	Significant inefficiencies and fiduciary risk in public procurement. Reform programme under way, with establishment of Public Procurement Department, but will be a lengthy process.

No.	Subject	Score [date]	Score 2004	Trend	Comments and analysis
16	<i>Effective procurement (Procurement processes promote competition, transparency and value for money)</i>				
PI-20	Effectiveness of internal controls for non-salary expenditure		moderate	→	
PI-21	Effectiveness of internal audit		weak	↑	Inspection function within government does not yet conform to international standards on internal audit.
9	<i>Quality of internal audit (effective internal audit function)</i>				
	C(iii) Accounting, recording and reporting				
PI-22	Timeliness and regularity of accounts reconciliation		moderate	↑	
11	<i>Quality of fiscal/banking data reconciliation (satisfactory and timely reconciliation of fiscal and monetary data)</i>				
13	<i>Classification used for tracking poverty-reducing expenditures (good-quality, timely functional reporting derived from classification system)</i>				
PI-23	Availability of information on resources received by service delivery units		weak	↑	Budgets now released in full, but more evidence required of adequate funds reaching front-line service delivery units.
10	<i>Use of expenditure tracking surveys (tracking used on regular basis)</i>				
PI-24	Quality and timeliness of in-year budget reports		moderate	↑	Improving timeliness and encouraging trends towards report formats with more useful management information.
12	<i>Timeliness of internal budget reports (monthly expenditure reports provided within four weeks of end of month)</i>				
PI-25	Quality and timeliness of annual financial statements		moderate	↑	Long delay before final budget year accounts are available.
14	<i>Timeliness of accounts closure (Accounts closed within two months of year-end)</i>				

No.	Subject	Score [date]	Score 2004	Trend	Comments and analysis
	C(iv) External scrutiny and audit				
PI-26	Scope, nature and follow-up of external audit		weak	↑	Strengthening of audit laws and standards has focused on performance of audits more than their follow-up. The State Audit of Vietnam lacks independence.
15	<i>Timeliness of final audited accounts (audited accounts presented to legislature within one year)</i>				
PI-27	Legislative scrutiny of the annual budget law		weak	↑	Role of National Assembly (and People's Councils) is being strengthened; less independent discretion for the PM.
PI-28	Legislative scrutiny of external audit reports				
	D. DONOR PRACTICES				
D-1	Predictability of Direct Budget Support		moderate	↑	Improving (see analysis in Chapter B3).
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid		weak	→	Government continues to have extremely limited information concerning grants directly executed by donors.
4	<i>Data on donor financing (donor-funded expenditures included in budget or reports)</i>				
D-3	Proportion of aid that is managed by use of national procedures		weak	↑	Full analysis not available, but growth of PRSC and some sector/programme support is improving the position.

ANNEX 5: SUMMARY OF CAUSALITY FINDINGS

1. In Figure 5.1 (below) links between elements at the different levels of the Enhanced Evaluation Framework/Causality Map have been “keyed”. The findings related to each link and the PGBS effect on this link are recorded in Table 5.1 with entries which refer to the key letters assigned in Figure 5.1. Each entry in the table also indicates the chapters in which related findings are to be found (mainly in the “Principal Causality Chain” section of the chapters in Part B).

2. A few “cross-cutting features” affecting potentially all the causality chains have been keyed too, namely feedback loops and transaction costs. Corresponding entries in Table 5.1 present an overview of how these features have affected the causality chains and PGBS effects on these on the whole.

Figure 5.1: Key to the Causality Map

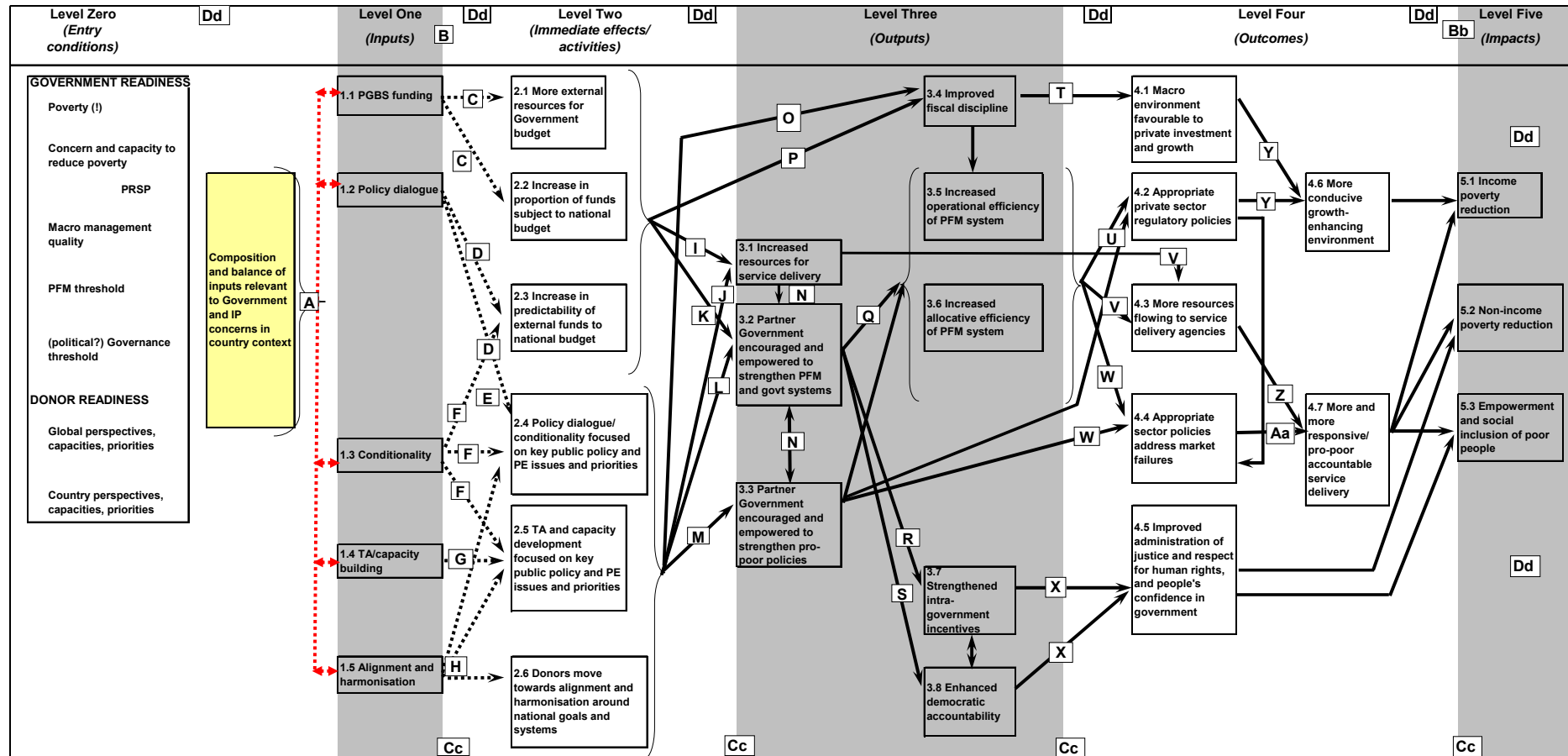


Table 5.1: Causality Map – Summary of Findings on Causality in Vietnam

A	Level 0 → Level 1 <i>The design and its relevance.</i>
	Design is highly relevant with a strong poverty emphasis and GOV ownership which has evolved over time. Weakness is in the tight PRSC cycle which limits scope for ongoing dialogue and consultation. All inputs are present, although TA/CB is undertaken through complementary projects and programmes. [B1]
B	Level 1 → Level 2 <i>Overview of inputs to immediate effects</i>
	Direct effects from Level 1 to Level 2 with strong effects from policy dialogue, conditionality and H&A. Moderate effects for PGBS funding and effects from TA/CB. Strong aid coordination effect. [B1, B2, B3]
C	1.1 → 2.1/2.2 <i>PGBS effect on total external resources for budget and the proportion of funds subject to the national budget.</i>
	Moderate effect on total external resources and a strong effect on the proportion of funds subject to the national budget. PGBS has never been greater than 1.8% of the GOV budget, but represents around 10% of aid flows. [B3]
D	1.2/1.3 → 2.3 <i>Effects of dialogue and conditionality on predictability of external funding to the budget.</i>
	PGBS has a higher disbursement rate than other aid modalities and is more predictable. There is some variation in donors' disbursement within the budget year and most donors only make annual commitments. [B3]
E	1.2 → 2.4 <i>Increased focus of dialogue on key public policy and expenditure issues.</i>
	Policy dialogue is strongly focused on public policy and PE issues. This is reinforced by the policy matrix and complementary TA/CB. [B1, B3]
F	1.3 → 2.3/2.4/2.5 <i>Influence of conditionality on predictability of funding, on focus of dialogue, and on TA/CB.</i>
	In PRSC1 the nature of the conditions caused delays in disbursement which led to a redesign of conditions to prevent this reoccurring. Conditionality is now more focused on monitoring outcomes of dialogue and policy actions. [C4]
G	1.4 → 2.5 <i>PGBS immediate (direct) effect on TA/CB</i>
	Although TA/CB inputs have not been explicitly included as part of the PGBS "package", PGBS is designed to complement and reinforce implementation of TA/CB activities that co-financiers are undertaking. This could be better coordinated. [B1, B4, C3]
H	1.5 → 2.4/2.5/2.6 <i>Moves towards harmonisation and alignment with national goals and systems, reflected in dialogue and TA/CB work.</i>
	H&A effects have been strong as PGBS has provided a mechanism for increased aid coordination, alignment with GOV systems and policy and harmonisation between donor activities. [B2]
I	2.1/2.2/2.3 → 3.1 <i>Increased resources for service delivery (flow-of-funds effects)</i>
	Moderate increase in funds for service delivery. This is as a result of more funds on budget which reinforces a previous shift in GOV policy towards more funding for education and health. [B3]
J	2.4/2.5/2.6 → 3.1 <i>Increased resources for service delivery (dialogue/TA/H&A effects)</i>
	There have been strong impacts from policy dialogue as policy actions have been aimed at increasing funds, particularly to education. [B3]
K	2.1/2.2/2.3 → 3.2 <i>Flow-of-funds effects on empowerment to strengthen PFM etc. systems</i>
	Flow of funds have provided an incentive to improve PFM systems by providing an additional motivation to undertake improvements and through strengthening the budget process. [B3, B4]

L	2.4/2.5/2.6 → 3.2 <i>Dialogue/TA/ H&A effects on empowerment to strengthen PFM etc.</i>
There has been a moderate effect through policy actions aimed at strengthening PFM and complementary TA/CB programmes.	
M	2.4 → 3.3 <i>Dialogue encourages and empowers strengthening of pro-poor policies</i>
There is a strong impact through policy actions aimed at strengthening pro-poor policy. This supports an already pro-poor GOV reform programme. [B5]	
N	3.1 → 3.3 <i>PGBS funding encourages and empowers strengthening of pro-poor policies</i>
PGBS funding supports government expenditure which is already relatively pro-poor, while specific PRSC policy actions aim to increase expenditure in specific pro-poor sectors. [B3]	
O	2.4/2.5/2.6 → 3.4 <i>Non-flow-of-funds effects on fiscal discipline</i>
Fiscal discipline was already maintained prior to PGBS. Therefore, there is weak a link in this instance as PGBS only supports this process. [B6].	
P	2.1/2.2/2.3 → 3.4 <i>Flow-of-funds effects on fiscal discipline</i>
Again, fiscal discipline was already present, although PGBS brings funds on budget and increases the resource envelope. [B6]	
Q	3.2 → 3.5/3.6 <i>PFM empowerment of government → improved allocative and operational efficiency</i>
There is a moderate link as allocative efficiency has improved due to PGBS and operational efficiency has been assisted by related TA/CB. [B3]	
R	3.2 → 3.7 <i>Government empowerment to strengthen systems → stronger intra-government incentives</i>
Moderate link found. Strengthened role of MOF assists in better national planning and budgeting and encourages better coordination by GOV. [B4]	
S	(2.2 →) 3.2 → 3.8 <i>Government empowerment to strengthen systems → enhanced democratic accountability</i>
There is only a weak link to democratic accountability as there have been moves towards greater transparency of the budget process but accountability is still not strong. [B4]	
T	3.4 → 4.1 <i>Link from fiscal discipline to growth-enhancing macroenvironment.</i>
PGBS has supported fiscal discipline, but as fiscal discipline was already present the overall impact on the macroenvironment is positive but weak. [B6]	
U	3.3/3.5/3.6 → 4.2 <i>Better PFM system and government empowered to strengthen policies → Appropriate private sector regulatory policies</i>
There is a moderate link as policy actions have supported measures aimed at levelling the playing field for private sector companies. [B5]	
V	3.1/3.5/3.6 → 4.3 <i>Increased resources for service delivery and better PFM → More resources flowing to service delivery agencies</i>
The moderate link in this case stems from policy actions which are designed to increase the flow of funds to service delivery agencies. [B7]	
W	3.3/3.5/3.6 → 4.4 <i>Better PFM system and government empowered to strengthen policies → Appropriate sector policies address market failures</i>
Policy actions that strengthen the regulatory environment and liberalise the economy have led to a moderate link. [B5]	
X	3.7/3.8 → 4.5 <i>Government incentives/democratic accountability → people's confidence in government, administration of justice and human rights</i>
Weak link as human rights are not included within PGBS and justice and democratic accountability are not addressed. [B8]	
Y	4.1/4.2 → 4.6 <i>Influence of macroenvironment and private sector policies on environment for growth</i>
PGBS influence as support for GOV reform programme which aims to shift the economy towards a more market-oriented approach.	

Annex 5: Summary of Causality Findings

Z	4.3 → 4.7 <i>More resources reach service delivery agencies → more and more responsive pro-poor service delivery</i>
Moderate contribution through increase of funds and more efficient PFM systems. [B7]	
Aa	4.4 → 4.7 <i>Influence of sector policies on pro-poor service delivery</i>
Moderate impact through influence of policy dialogue, but likely to be stronger in the future as more recent PGBS policy actions (health and education) address these issues. [B3, B7]	
Bb	Level 4 → Level 5 <i>PGBS outcomes → poverty impacts</i>
Specific links cannot be tracked from Level 4 to 5. It can be inferred that as PGBS dialogue has focused on the GOV reform programme which enhances the macroeconomic environment which has in the past been the main mechanism for reducing income poverty, that PGBS is supporting this process. Also empowerment effects from improved service delivery should be reducing non-income poverty. [B8]	
Cc	(all levels) <i>Transaction costs</i>
There are transaction costs of negotiation and management of PGBS for both donors and the GOV. It is assumed that the transaction costs of aid management have fallen for the GOV as PGBS brings funds on budget in a project-dominated environment. [B3, C4]	
Dd	(all levels) <i>Feedback</i>
PGBS provides feedback through monitoring provided by the policy matrix and triggers. This has resulted in adaptation over the PRSC cycle and a recent stock take exercise shows willingness to learn lessons. Monitoring of impacts over the medium to long-term needs to be strengthened. [B9]	

Published by The Department for International Development on
behalf of the Steering Group of the Joint Evaluation of General
Budget Support

DFID
1 Palace Street
London
SW1E 5HE

and at:

DFID
Abercrombie House
Eaglesham Road
East Kilbride
Glasgow
G75 8EA

Switchboard: 0207 023 0000 Fax: 0207 023 0016
Website: www.dfid.gov.uk
Email: enquiry@dfid.gov.uk
Public Enquiry Point: 0845 300 4100
From overseas: + 44 1355 84 3132
ISBN: 1 86192 768 1