

JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004

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

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Department



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Researchers'
Network



Vietnam Final Country Report

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Joint Evaluation of General Budget Support

VIETNAM COUNTRY REPORT

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Acronyms

5MHRP	5 Million Hectare Reforestation Programme
AAP	Assessments and Action Plan
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
FIR	Final Inception Report
FMP	Financial Modernisation Programme
FSSP	Forestry Sector Support Programme
FSSP&P	Forestry Sector Support Programme and Partnership
FY	Financial Year
GAP	Gender Action Partnership
GBS	General Budget Support
GC	General Corporations
GDP	Gross Domestic Product
GOV	Government of Vietnam
GSO	General Statistics Office
H&A	Harmonisation and Alignment
HCFP	Health Care Fund for the Poor

HDI	Human Development Index
HEPR	Hunger Eradication and Poverty Reduction
HIPC	Heavily Indebted Poor Country
HR	Human Rights
IAS	International Accounting Standard
IDA	International Development Association
IL	Inclusion List
IMF	International Monetary Fund
IMR	Infant mortality rate
INGO	International Non-Governmental Organisation
IP	International Partner
I-PRSP	Interim Poverty Reduction Strategy Paper
JBIC	Japan Bank for International Cooperation
JC	Job Creation
KfW	KfW Development Bank
LMDG	Like Minded Donor Group
LNA	Legal Needs Assessment
LUC	Land Use Certificate
MARD	Ministry of Agriculture and Rural Development
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund
MFNT	Most-Favoured Nation Treatment
MIC	Middle Income Country
MIS	Management Information System
MOA	Memorandum of Agreement
MOC	Ministry of Construction
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOHA	Ministry of Home Affairs
MOJ	Ministry of Justice
MOLISA	Ministry of Labour, Invalids and Social Affairs
MOT	Ministry of Transport
MPI	Ministry of Planning and Investment
MTEF	Medium Term Expenditure Framework
NA	National Assembly
NCFAW	National Council for the Advancement of Women
NEAP	National Environment Action Plan
NGO	Non Governmental Organisation
NOIP	National Office of Industrial Property
NPL	Non-Performing Loan
NT	National Treatment
NTP	National Targeted Programme
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OOG	Office of Government
PAR	Public Administration Reform
PE	Public Expenditure
PEFA	Public Expenditure and Financial Accountability

PEM	Public Expenditure Management
PERC	Political and Economic Risk Consultancy
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
PMU	Project Management Unit
PPA	Participatory Poverty Assessment
PPP	Purchasing Power Parity
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
SAC	Structural Adjustment Credit
SAL	Structural Adjustment Loan
SAV	State Audit of Vietnam
SBV	State Bank of Vietnam
SEDP	Socio-Economic Development Plan
SFE	State Forestry Enterprise
SG	Steering Group
Sida	Swedish International Development Cooperation Agency
SOCB	State Owned Commercial Bank
SOE	State Owned Enterprise
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
US	United States
USAID	US Agency for International Development
USBTA	US-Vietnam Bilateral Trade Agreement
VAT	Value Added Tax
VBSP	Vietnam Bank for Social Policies
VDGs	Vietnam Development Goals
VLSS	Vietnam Living Standards Survey
VND	Vietnamese Dong
WB	World Bank
WTO	World Trade Organisation

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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 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 Final 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 PFM systems, minimising transaction costs and increasing the predictability of resources and reducing volatility (OECD/DAC 2005). 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 orientated 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 technical assistance (TA) and further funding to support implementation.

S6. PRSC1 totalled USD 150 million in funding from the World Bank and USD 21.6 million in co-financing. The amount involved in PRSC2 was lower at USD 100 million from the World Bank and USD 23.1 million from co-financiers, while in PRSC3 the World Bank provided

USD 100 million and co-funding equalled USD 106.1 million. For PRSC4, USD 100 million has been committed by the World Bank and USD 125 million by co-financiers. This represents around 10% of ODA flows and ranged between 1.1% and 1.8% of the GOV budget.

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 due to a lack of compliance on safeguards 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 PRSC co-financiers has risen from four in PRSC1 to eleven in PRSC3 and may rise to as many as fifteen for PRSC4.

S11. Funds are disbursed directly to the State Bank of Vietnam (SBV) 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 1993–2002 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 twelve 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 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 14.1% of total budget expenditure in 1997 to 16.7% in 2002. The share of health has remained reasonably constant at between 6.1% and 7.1% 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 16.2% of the overall fiscal deficit (excluding net lending) in 2001, 22.8% in 2002, 17.0% in 2003 and 61.0% 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 financial management. These have been reinforced by complementary non-PGBS programmes, such as the Public Financial Management Reform (PFMR) Initiative.

S22. The PRSC also brings Official Development Assistance (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 Public Financial Management (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 has been more successful due to a variety of factors. An already well-established framework for policy dialogue between IPs and 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 active 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 on-going 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 Organisation (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 transactions 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 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 reinforces 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 on a more equal basis, 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 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 achievement of objectives. Given the GOV 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 isn't 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 this 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 from either issues in the PGBS design or 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
- 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
- Need to follow 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
- 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 (SWAps) could reinforce each other rather than being perceived as alternatives.

S47. GOV 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. 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 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 a MIC it may not qualify for concessional funding from the World Bank and after 2010 they would have to switch to loans at a higher rates. This may be a less attractive option for the GOV as the transactions 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 suggest 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 makes the following recommendations:

- Develop a strategy to guide when other forms of budget support can be used to complement PGBS.
- Consider the option of giving provincial budget support within a PGBS framework and undertaking complementary capacity building programmes at provincial level.
- 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.

- 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.
- Co-financiers should make long-term funding (3 to 5 year) commitments and provide schedules for disbursement.
- Develop a monitoring and evaluation system to provide adequate impact on progress and outcomes for future PRSC cycles.
- 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.
- 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.
- Widen the policy dialogue and consultation process to include a wider range of stakeholders – Non Governmental Organisations (NGOs), business community, sector ministries, non-co-financiers.
- Improve linkages between partnership and PRSC working groups.
- More attention should be paid to the inclusion of gender issues and gender mainstreaming within the PRSC policy matrix.
- Ensure that there is stronger mapping of ODA activities to PRSC areas and coordinate more closely with projects linked to the PRSC reform programme.
- 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.

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 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 Final Inception Report (IDD 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. General Budget Support (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 general budget support emerged in the late 1990s, closely linked to the development of Poverty Reduction Strategies. So-called "new" or "partnership" general budget support 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 Final Inception Report (IDD 2005).

Purpose and Focus of the Evaluation

A1.4 As summarised in the Terms of Reference:

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.

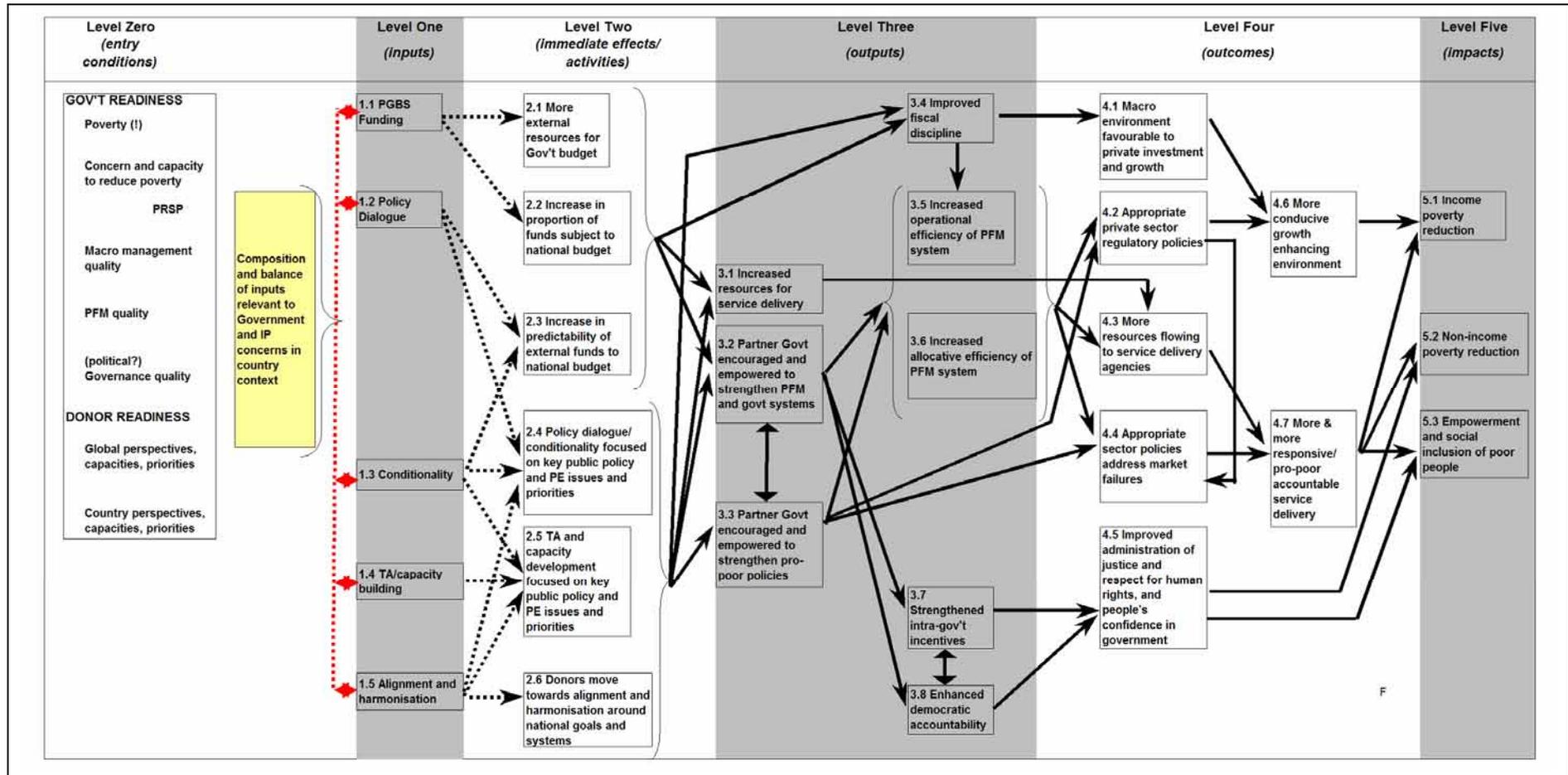
Evaluation Methodology

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, impacts 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. Policy Cross-Cutting 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

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 GOV, but a selection of interviews with GOV was undertaken during the second visit. Annex 1B provides further details on approach and methodology, including a list of those interviewed (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 (SG) 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 SG 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 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 United States (the US-Vietnam Bilateral Trade Agreement (USBTA) signed in 2001), and has applied for World Trade Organisation (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 the Ministry of Planning and Investment (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 Financial Management

A2.7 Public financial 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 (PEM) in an increasingly decentralised system. Aid and technical assistance (TA) has 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 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 (NA) meets twice a year (May and October) for ordinary sessions. A number of NA 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, 5 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

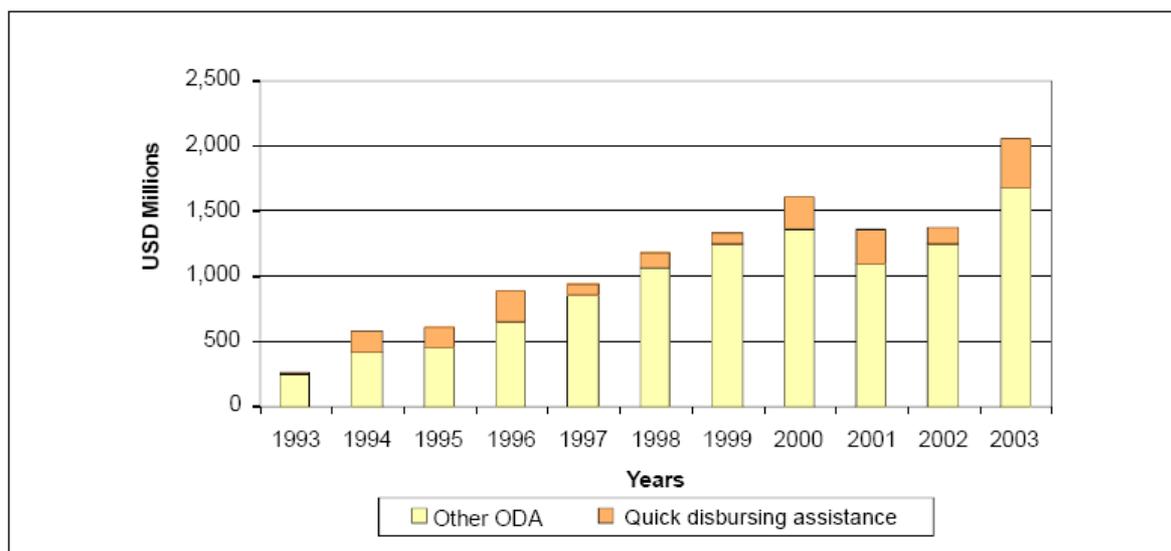
A2.13 Vietnam is not heavily aid-dependent. ODA accounted for an annual average of 4.5% of GNI from 1994–2003 (OECD/DAC 2004); as a percentage of government expenditure it comprised 18% in 2000 and 12% in 2001.

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 ten donors in 2003 were France, Australia, Denmark, the EC, the Netherlands, Germany and the UK. The top ten 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 ten 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. Technical assistance 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 Viet Nam DCAS

A2.16 Quick-disbursing aid (i.e. general budget support and balance of payments support) represented 10% of total ODA in 2002 (USD 132 million). This was down from 20% of ODA or USD 272 million 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 375 million). The increase was partly due to the disbursement of USD 189 million from the first PRSC at the beginning of 2003 instead of at the end of 2002 as planned. The second PRSC disbursed USD 123.1 million 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 20 billion 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 310.8 million was disbursed to the agricultural sector and USD 220 million 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 1988–1993, 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 A3.1 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	<p>Partial and Stalled Reforms</p> <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 1992–1985. ▪ 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	<p>First phase of Doi Moi</p> <ul style="list-style-type: none"> ▪ Sixth party congress in December 1986 launches Doi Moi (new way) redefining the role of central planning. ▪ In 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. ▪ In 1988, separation of central and commercial banking. ▪ Soviet aid dominant, Sweden is largest Western IP.
1989–1993	<p>Second Phase of Doi Moi</p> <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. ▪ In 1989 the collapse of Soviet aid occurred. ▪ Technical advice given by World Bank and IMF without funding.
1994–1997	<p>US embargo Lifted</p> <ul style="list-style-type: none"> ▪ 1994 resumption of relations with US. IMF ESAF and World Bank SACs begin in 1994. ▪ 1994 first Consultative Group meeting. ▪ 1997 decree on aid management.
1998–2000	<p>Further reforms initiated as a response to the Asian Crisis</p> <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+	<p>Development of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS)</p> <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 our 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 Inflexibility due to domestic mandates which restrict the use of non-project aid modalities has led IPs such as Germany, France and Spain to focus on TA and project- based approaches. 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 will contribute to PRSC4.

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 six bilateral IPs (Finland, 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, Germany, and Japan). The LMDG has been active in promoting the expansion of non-project aid modalities.
- ii) Organisation for Economic Cooperation 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 (of which 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 KfW Development Bank) 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 The Ministry of Planning and Investment (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 Ministry of Finance (MOF) responsible for the disbursement of ODA and the Office of Government approving new ODA inflows. The State Bank of Vietnam (SBV) coordinates general budget support, 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 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 Ministry of Finance (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 coordinate their funding and streamline policy dialogue. Although the PRSC itself involves a lot of negotiations, it has the potential to reduce the transactions 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 Financial 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 B. PRSC1 totalled USD 150 million in funding from the World Bank and USD 21.6 million in co-financing. The amount involved in PRSC2 was lower at USD 100 million from the World Bank and USD 23.1 million from co-financiers, while in PRSC3 the World Bank provided USD 100 million and co-funding equalled USD 106.1 million. For PRSC4, USD 100 million has been committed by the World Bank and USD 125 million 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 eleven 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 who 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 (SBV); 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 summarise 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 twelve 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 SBV 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 provide 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 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 public financial management. 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 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

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).

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 MPI, Ministry of Finance (MOF) and State Banl of Vietnam (SBV). This is important as the Party is a key decision maker and policies have to be approved by them (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 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 SBV) 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 SBV 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 then 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 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: ***
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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 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: ***
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B1.32 Both 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 public financial management) 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 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 zero 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 has been a variety of harmonisation and alignment 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 has 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 (High Level Forum 2005). 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 Millenium 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 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 policy, accountability for specific policies and enhanced the information sharing process at a government wide level.

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

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 (INGOs) 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 (PPA) which consulted with local officials from village to ministry level, donors, INGOs, 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 a some recent moves toward 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 SBV using 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, ten 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 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 of 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, 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 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 of 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 has 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:

- (a) 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);
- (b) 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 1997–2002. It is not possible to give figures prior to 1997 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 14.1% of total budget expenditure in 1997 to 16.7% in 2002 (Government of Vietnam and World Bank, 2005). The share of health has remained reasonably constant at between 6.1% and 7.1% of total expenditure; as total public expenditure has risen considerably, this still represents a large increase in absolute terms. Social insurance expenditure has decreased from 13.2% in 1997 to 9.7% 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 poverty reducing expenditure rose from 5.1% of GDP in 1999 to 6.13% of GDP in 2003 (IMF 2004a). They also note out 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 three million 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 programs.
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 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 technical assistance 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. Under PRSC1 the amount of additional funding for the budget from both the World Bank and co-financiers was USD 297m, under PRSC2 this was USD 133.7 million, and in PRSC3 USD 222 million. Given that these 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 this trend.

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 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 11.0% 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- or five-year basis which has assisted in giving 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 10.5 billion disbursed, out of USD 16.9 billion 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 was lacking and no data in the appropriate format was 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 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 transactions 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 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) has enhanced partner government's 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 assess 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 to: a) 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 public financial management.

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, 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 public financial management. 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 Ministry of Finance. A system of 'dual budgeting' results in the Ministry of Finance 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 show 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 Ministry of Finance 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 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) system 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.

Principal Causality Chains

B4.17 The most persuasive causal links are:

- (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 macro-economy. 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 GOV engaging in joint policy making. The CPRGS process involved wide consultation with 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 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 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 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 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 GOV on their own. For all IPs, policy dialogue with 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 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 public financial management, 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 is 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 of 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 with 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 the 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 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. GOV then comes into the negotiation process later with often junior members of 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 where 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 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 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 macro environment) 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 0–3% 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 macro-economic 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 1995–1997 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: *	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 on-going 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, 26.3% in 2003 and 61.6% 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. 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 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 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 has 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 macro-policies 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 public financial management 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 (MOET) 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 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 as policy actions are supporting their implementation. 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 particular 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 of 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 4 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 public financial management 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 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.

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

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

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 280–300,000 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 suggest 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 (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 macro-economy 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 macro-economic 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.

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

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.

included 16 policy actions in the financial sector, 11 aimed at trade integration, 10 involving state owned enterprises and 7 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, public financial management, 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 relate 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 no practice no reason why they couldn't 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 eleven in PRSC4, and it is possible that around fifteen 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 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 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 2006–2011.

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 (HDI) and Gender Development Index (GDI), while 100 are outcome indicators, 9 output indicators, 7 input indicators and 17 impact indicators and 1 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 – GSO, 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 amongst 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 amongst 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 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: **
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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 is 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: ***
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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 levels 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 makes 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 (GAP) 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 (LUCs) to be re-issued in the names of both husband and wife and a trigger of 95% LUCs 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.

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 (NEAP). The group was then transferred from the Ministry of Science, Technology and the Environment to the Ministry of National 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 has 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 PRSC's 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 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 has 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 amongst 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 address 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 Growth and Poverty Reduction 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. 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 slowly being removed (EIU 2005). 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 both through TA at provincial and central level. The PAR and PFMR being the largest programmes and others such as the Comprehensive Capacity Building Programme (CCBP) which is 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 not 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 2005). 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 been 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 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 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 transactions 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 on a more equal basis, 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 on-going 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 isn't 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 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 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 CCIs

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 from either 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 GOV of the timing would also increase predictability and improve overall IP alignment with GOV planning and budget cycles.

Recommendations: Co-financiers should make long-term funding (3 to 5 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 on-going 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 CCIs 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). 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 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 focuses 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 that relate 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 SWAs 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 5 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 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 a 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 a higher rates. This may be a less attractive option for the GOV as the transactions 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 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

- Co-financiers should make long-term funding (3 to 5 year) commitments and provide schedules for disbursement.
- 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
- 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.
- 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.
- 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

- Widen the policy dialogue and consultation process to include a wider range of stakeholders –NGO's, business community, sector ministries, non-co-financiers.
- Improve linkages between partnership and PRSC working groups.
- More attention should be paid to the inclusion of gender issues and gender mainstreaming within the PRSC policy matrix
- 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

- Develop a strategy to guide when other forms of budget support can be used to complement PGBS
- Consider the option of giving provincial budget support within a PGBS framework and undertaking complementary capacity building programmes at provincial level.
- 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
- 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 final column indicates who should implement each recommendation (e.g. GOV/IPs) and over what time scale (I = immediate; ST = short term, say six months to one year; MT = medium term, over one year).

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

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ1 Relevance of PGBS</i></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 focuses on core ministries which may not be appropriate given the need for sector ministries to implement policy actions. (¶B1.25) As the number of co-financiers grow the difficulties of coordination and cohesion create tension regarding the organisation and content of the PGBS process. (¶B1.34) 	<ul style="list-style-type: none"> Include line ministries in the consultation process and generally raise awareness regarding PGBS. (¶D1.21) Establish a set of guiding principles for the PRSC which co-financiers agree to when they join. (¶D1.19) Consider establishing an on-going consultation process & wider consultation via a negotiating team. (¶D1.20) 	<p>GOV/IPs (MT)</p> <p>IPs (I)</p> <p>IPs/GOV (MT)</p>

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ2 H&A</i></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. (¶B2.24) 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. (¶C4.8) 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 (3–5 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) 	<p>IPs (MT)</p> <p>IPs/GOV (I)</p> <p>IPs (MT)</p>

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ3 Public Expenditures</i></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. (¶B3.16) 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. (¶B3.15) 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 (3–5 year) commitments and provide schedules for disbursement. (¶D1.16) 	<p>IPs (ST/MT)</p>
<p><i>EQ4 Planning and Budgeting Systems</i></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 fund effects, but from institutional impacts due to the implementation of budget-related policy actions included in the PRSC policy matrix. (¶B4.10–B4.12) 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) 	<p>IPs (MT)</p>

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ5 Policies and Processes</i></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 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 strong 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 –NGO's, business community, sector ministries, non-co-financiers. (¶D1.21) 	<p>IPs (MT)</p>
<p><i>EQ 6 Macroeconomic Performance</i></p> <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) 		

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ 7 Delivery of Public Services</i></p> <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) 		
<p><i>EQ 8 Poverty Reduction</i></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 macro environment 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><i>EQ 9: Sustainability</i></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 agenda's 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 to 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) 	<p>GOV/IP (I)</p> <p>IPs (I)</p> <p>GOV & IPs (MT)</p>

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>PART C</i> <i>C1. Policy CCIs</i></p> <ul style="list-style-type: none"> CCI 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 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) 	<p>IPs & GOV (ST)</p>
<p><i>C2. Public and Private Sector Issues</i></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. C2.5) 		

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