

Evaluation of the Implementation of the Paris Declaration

Country Evaluation

VIETNAM

Executive Summary

Vietnam is one of 24 partner countries that have agreed to participate in the second phase of the evaluation of the Paris Declaration. The first phase was conducted in 2007/8, and focused on the inputs and early outputs of the implementation process. The second phase is being conducted in preparation for the 4th High Level Forum in Korea in 2011 and emphasises outcomes and results, to establish whether the long-term goals of the Paris Declaration are being achieved. However, the methodology acknowledges that the contribution of the Paris Declaration to development results may not yet be visible, and calls for an exploration of causal chains that are only just beginning to emerge.

The main evaluation mission was conducted over a three-week period from 19 July to 7 August 2010, and involved key informant interviews with a wide range of Government of Vietnam stakeholders and Development Partners, as well as independent observers. A range of data was collected on aid flows and national development results, and a qualitative survey was distributed to stakeholders, with responses received from 11 Development Partners, four line ministries and seven provinces. The Evaluation Team would like to express their appreciation to the staff of the Ministry of Planning and Investment, who provided excellent management and logistical support to the evaluation. However, we should stress that the opinions expressed in this evaluation are entirely our own.

The evaluation report is structured around the three core questions in the evaluation matrix.

1. What are the important factors that have affected the relevance and implementation of the Paris Declaration and its potential effects on aid effectiveness and development results?

Vietnam was the first country to localise the 2005 Paris Declaration on Aid Effectiveness, and has been one of the most active in its implementation. The Hanoi Core Statement (HCS) was adopted within a few months of the Paris High Level Forum, with all major DPs signing up to its principles and commitments. It had a number of precursors. In the preceding period, a number of donor groupings had emerged to promote harmonisation and alignment. In 2004, the government created the Partnership Group on Aid Effectiveness to bring together these different initiatives under its own leadership. One of the early actions of this Group was to adopt the HCS, which mirrors the content of the Paris Declaration very closely.

Since then, Vietnam has developed an elaborate architecture for promoting aid effectiveness, including permanent dialogue structures, *ad hoc* thematic working groups and regular reporting and review processes. The Ministry of Planning and Investment is an energetic champion of the aid effectiveness agenda at both international and national levels. On the donor side, the donors who are active in aid effectiveness processes constitute together more than 95% of the total development assistance. There are different interests among the donor groups within the aid effectiveness agenda. The development banks focus mainly on boosting the efficiency of project implementation and the quality of country systems, while the bilateral donors have worked together to pilot the introduction of new aid modalities.

The One UN Reform process, of which Vietnam is a pilot country, is helping to rationalise the donor presence.

The evaluation identifies a number of contextual factors that have shaped the high level of engagement by both government and donors in the aid effectiveness agenda. First, Vietnam has very strong national ownership of the development agenda, and one of the most impressive records on poverty reduction in the world. Poverty fell from 60% over the national poverty line in 1990 to 28.9% in 2002, 16% in 2006 and a likely 10-12% in 2010. This gives donors confidence that their aid will be used effectively, despite significant institutional weaknesses. It enables the donors to introduce general budget support at a remarkably early stage in Vietnam's economic transition, before there was even a published budget. Second, Vietnam is by no means an aid-dependent country, and is strongly resistant to external pressure on its domestic policy processes. Well before the Paris Declaration, donors in Vietnam realised there was little value in attempting to use conditionality to lever policy change. This meant that Vietnam and its Development Partners achieved a more mature development partnership at an early stage. Finally, Vietnam's recent achievement of Middle-Income Country status means that there is a limited time horizon for aid. The government is therefore determined to use the HCS as a tool for extracting the maximum value from the remaining aid flows. However, some donors have already begun to shift the balance of their assistance from traditional sectoral support towards technical assistance in niche areas, which results in regression against some of the Paris Declaration indicators. The implications of this trend for the national aid effectiveness agenda are still being measured.

2. To what extent and how has the implementation of the Paris Declaration led to an improvement in the efficiency of aid delivery, the management and use of aid and better partnerships?

Vietnam has gone further than most countries in articulating aid effectiveness commitments and establishing structures and processes for taking these forward. However, it has also discovered that moving from general principles to concrete changes in aid practices is difficult and time consuming. The issues quickly become complex and technical, and protracted negotiation is needed to identify practical solutions and compromises. Many of the commitments involve changing national rules and institutions, which in Vietnam can be a slow process. There are some strong vested interests in traditional aid practices that are hard to overcome. Poor communication across government, and weak capacity in the provinces can be a real constraint. On the donor side, implementation encounters restrictive headquarter rules, risk aversion, institutional inertia, capacity constraints in small aid missions, and fatigue with time-consuming aid processes. The diplomatic norms that govern the development partnership mean that only very soft forms of mutual accountability are possible. As a result, aid effectiveness processes are inherently prone to stalling, and need to be constantly reinvigorated.

To its credit, the Ministry of Planning and Investment has not allowed the implementation process to grind to a halt, but has continued to experiment with new structures and processes to keep it moving forward. However, practical change has come in the form of small steps, rather than major breakthroughs.

Although there is gradual change underway in many areas of the development partnership, the evaluation identifies two areas of change under the HCS that are particularly important.

The first is the shift towards new aid modalities and programme-based approaches. Donors have experimented with changing aid modalities in areas such as rural water and sanitation, education, Programme 135 (targeted at ethnic minorities), rural transport and (prospectively) health. This shift has been far from easy. The initiative for changing aid modalities has come almost entirely from the donor side, and has had to overcome a range of obstacles, including a legal framework for aid management that treats projects as the default option and a set of incentives that favour traditional projects. Programme-based approaches are also more difficult to implement in Vietnam's highly decentralised system of government, especially given continuing weaknesses in financial reporting and results management. For these reasons, new aid modalities have mostly taken the form of targeted budget support delivered through national poverty reduction programmes (National Target Programmes), rather than full Sector-Wide Approaches or sectoral budget support.

Under the Paris Declaration, programme-based approaches are used as a proxy for simplification of procedures among donors. In fact, they are a more ambitious form of assistance that requires higher intensity effort on both sides than traditional projects. The real significance of programme-based approaches lies in achieving a more strategic engagement by donors in strengthening core sectoral capacities and processes for policy making, planning, budgeting and managing for results. In the sectors that have moved furthest towards programme-based approaches, we find evidence of greater policy influence for donors, particularly around the targeting of expenditure for the poorest communities. Counterparts show an increased understanding of the importance of results management and a greater willingness to experiment with new tools and approaches. There has been some strengthening of community participation in development initiatives, which is potentially an important contribution to the decentralisation process. In the health sector, the Ministry of Health and donors are working intensively on improving the quality of the national health strategy and its accompanying expenditure framework, as a precondition for sectoral budget support. These are not dramatic changes, but they are evidence that donors and their counterparts are working more intensively on issues that matter.

The second domain of change is strengthening country systems for public investment management. This is happening in a number of ways. Donors have supported horizontal reforms

of public financial management and procurement systems. There have been capacity building programmes, including strengthening the ability of central agencies like the Public Procurement Agency to conduct training across the administration. There has been joint analysis of the gaps between country systems and international standards. There have been improvements to Vietnamese regulations on environmental and social safeguards. There has been alignment of donor and country procedures in a few areas, including project feasibility studies and monitoring and reporting tools. The Six Banks have agreed with the government on a Plan of Action to address outstanding bottlenecks in project implementation.

As a result, there have clearly been some improvements in country systems and capacities for public investment management, including at the provincial level. The development banks report that there have been some recent improvements in the efficiency of project implementation. However, line ministries and provinces are still experiencing significant delays in project start-up and implementation, which remains their main aid effectiveness concern.

There are aspects of the Paris Declaration/HCS that have not received the same level of attention in Vietnam, such as improving the division of labour among donors, encouraging joint programming and delegated cooperation, increasing joint missions or improving the predictability of aid flows. While these are desirable goals and have shown some measure of improvement over the past five years, in a country that is not aid dependent they are not seen as high priorities.

3. Has the implementation of HCS strengthened the contribution of aid to sustainable development results? How?

To attribute development results to HCS implementation, we have to begin from the findings on intermediate outcomes – namely, the extent to which the HCS has brought about meaningful changes in aid practices – and then consider whether those changes have helped increase Vietnam's rate of progress towards its development goals. The changes in the development partnership identified here are still at a fairly early stage, but they do suggest where the main causal pathways from HCS implementation to development results are likely to appear in the future.

- i) The shift from fragmented project aid towards programme-based approaches leads to a more intensive engagement by donors in building up core sectoral capacities for planning, budgeting and results management, leading to greater development effectiveness at the sectoral level.
- ii) More intensive investments in improving country systems for managing development expenditure, supported by greater willingness of donors to use those systems for aid delivery, leads to efficiency gains for all development expenditure.

However, these benefits are still largely in the future. Even in Vietnam, with the high level of effort that has gone into HCS implementation, the bulk of assistance is still delivered in much the same way as it was before the HCS – neither through programme-based approaches nor using country systems. For this reason, it is not possible to conclude that there has been a major impact of the HCS on development effectiveness at this point. It would be more realistic to look for that impact towards the end of the next five-year planning cycle. However, there is enough evidence of emerging results to justify continued investment in this important agenda.

Recommendations for strengthening aid effectiveness in Vietnam

The evaluation offers a number of practical recommendations for strengthening the aid effectiveness agenda in Vietnam. These are:

- i) Improve the legal and institutional framework for aid management to provide guidance to ministries on the design of programme-based approaches and new aid modalities.
- ii) Strengthen the role of the Ministry of Planning and Investment in supporting new aid modalities, including disseminating lessons on designing and implementing programme-based approaches.
- iii) Clarify Vietnam's policy on the use of less-concessional development finance by establishing criteria based on overall development return, rather than direct financial return.
- iv) Clarify the roles and responsibilities of different government agencies in climate change finance, and establish a single body to coordinate assistance.
- v) Review the role of project management units in the Vietnamese system of aid management, to reduce fragmentation within ministries and increase the prospect of sustainable capacity development.
- vi) Increase the use of objective assessment tools for country systems, particularly in public financial management.
- vii) Pursue the development of programme-based approaches in appropriate sectors, but without adopting overly complex funding modalities, by encouraging line ministries and donors to agree on a practical agenda for strengthening core sectoral processes like planning, budgeting and results management.

- viii) Incorporate assessments of institutional capacity gaps into sectoral strategies, to help ministries and donors agree on a common capacity building agenda and division of labour.
- ix) Develop an agenda for the Aid Effectiveness Forum that covers issues that cross over aid effectiveness and development policy, and cannot be addressed in sectoral Partnership Groups. Some of the issues could be referred to donor groups to prepare positions papers to present to the Aid Effectiveness Forum.
- x) Strengthen the relationship between sectoral Partnership Groups and the Aid Effectiveness Forum by setting down guidelines on the roles of Partnerships Groups and how to improve their efficiency. Task each Partnership Group with articulating priority actions for improving aid effectiveness, and report on progress annually to the Aid Effectiveness Forum.