

**Fostering True Ownership in Vietnam:
From Donor Management to Policy Autonomy and Content**

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1. Introduction

This paper analyzes the type of ownership demonstrated by the Vietnamese government. Although ownership is a multi-dimensional concept, we focus on just two of its aspects: (i) donor management; and (ii) policy autonomy and content. It is shown that the Vietnamese government excels in the first aspect while there is much to be desired in the second aspect. The lack of effective internal mechanisms to design and implement development policies is a serious problem in realizing sustainable growth and poverty reduction in Vietnam.

Donor management refers to the capability of owning the relationship with the donor community. This requires the leadership in policy dialogue, coordination of diverse requests, selective adoption of donor advice, handling friction with diplomatic grace, and maintaining national pride. This capability is required and exercised mainly by a relatively small segment of the government, namely the administrative body in charge of aid receipt (the Ministry of Planning and Investment (MPI) in the case of Vietnam).

By contrast, *policy autonomy and content* are concerned with owning development policies. This requires the capacity for identifying national development goals, rallying human and nonhuman resources toward these goals, setting coherent and realistic action plans and timetables, executing them without delay, responding to unforeseen situations, coping with income gaps and other problems generated by growth, management of globalization and associated risks, and so on. As such, it is a much broader task than donor management. It calls for the execution of development itself, of which the mobilization of ODA is only a part. It must be supported by the concerted actions of all administrative bodies both horizontally and vertically. In fact, intra-governmental coordination is the prerequisite for owning policy autonomy and content.

In the following, we will first explain the context of Vietnam's aid and development in the recent years, and then analyze the type of its ownership in light of the two aspects mentioned above. In doing so, we will pay attention to four cases: (i) the formulation of growth-oriented Poverty Reduction Strategy Paper (PRSP); (ii) the management of aid harmonization process; (iii) the need to concretize the content of growth strategies; and (iv) challenges of internal harmonization and public administration reform. We will conclude by suggesting implications for future challenges and the role of donors in Vietnam.

2. The Context of Vietnam's Aid and Development

Growth, Globalization and Poverty Reduction

In 1986, Vietnam launched a domestic economic reform called *Doi Moi*. Around 1992, it initiated a vigorous process of international integration vis-à-vis the Western countries and international organizations. The country restored diplomatic relation with the US and joined ASEAN in 1995, joined APEC in 1998 and signed a US bilateral trade agreement in 2001. Negotiations for WTO accession are continuing. Within a relatively short period of ten years, the Vietnamese economy has come to be deeply integrated into the global economy through trade, investment and aid. The synergy of domestic liberalization and external opening provided the engine for high economic growth, which has averaged at 7 to 8 percent per year. The growth is broad-based, and Vietnam has made remarkable achievements in poverty

reduction over the past decade. Between 1993 and 2002, the proportion of the population living below poverty line declined from 58 percent to 29 percent.

Nevertheless, Vietnam still faces many challenges. The latest VHLSS 2002 shows that the rate of poverty reduction has slowed and that disparities between rural and urban tend to increase. While the rates of its economic growth are fairly good, they are not commensurate with the growth of investment or with the country's potential and requirement. The investment, production and business environments are still facing many difficulties and bottlenecks which lead to high investment and production costs.

Aid Partnership

Throughout the 1990s, the nature of Vietnam's aid relationships has significantly transformed. While the UN agencies and Sweden have a long history of assisting Vietnam, other donors including Japan, the World Bank, the ADB, Germany, France, Denmark, Australia and UK resumed full aid programs to Vietnam by the mid-1990s¹. The overall level of aid jumped rapidly from 1993 to 1994.

As a low-income country with per capita income of US\$430 [WB data on 2002], Vietnam cannot isolate itself from the influence of global aid debates if it wishes to attract sufficient aid flows. For this reason, particularly since 1999, the Vietnamese government has been actively engaged in aid partnership activities, following the principles of the Comprehensive Development Framework (CDF) introduced by the World Bank. These include the formulation of the Vietnamese version of the Poverty Reduction Strategy Paper (PRSP)—i.e., "*Comprehensive Poverty Reduction and Strategy Paper*" (CPRGS)—and the participation in aid harmonization discussions.

Vietnam became the first CDF pilot country in East Asia in 1999. This led to the establishment of more than twenty partnership groups, including the Poverty Working Group/Poverty Task Force (PWG/PTF), charged with cross-cutting poverty agenda, as well as other sector-specific thematic groups covering wide-ranging issues. Vietnam completed a Full-PRSP ahead of other East Asian countries in May 2002.

Currently, there are 25 bilateral donors (including 21 making aid pledges on an annual basis) and 16 multilateral agencies. With good track records of growth and poverty reduction, Vietnam enjoys high aid flows. Since 1995, donor pledges at the Consultative Group (CG) have exceeded US\$2 billion (annual figures), reaching a record-high of US\$2.8 billion in 2003.²

¹ After unification (in 1975) until the late 1980s, Vietnam heavily depended on aid from the ex-Soviet Union. During the period prior to unification (1955-1975), the US provided massive aid to South Vietnam, the largest of any other aid provided by the U.S. to a single country or territory during 30 years after the World War II. South Vietnam alone accounted for one-sixth of the total US aid (both economic and military aid) to foreign countries during this period (economic and military). [Dinh, 2000]

² Vietnam is now the largest IDA-only borrower from the World Bank. In FY2002, it is the third largest recipient of Japan's ODA (following Indonesia and India). In addition, some 500 INGOs provide over US\$80 million of annual grant aid commitment.

Low Aid dependency

Although Vietnam receives high levels of aid for a country of its size, it is not heavily aid dependent—if measured by the macroeconomic effects of aid. Compared to the average of low-income countries in Sub-Saharan Africa or Latin America, the ratio of aid to macroeconomic aggregates is not particularly high. In 2001, aid accounted for around 3.1 percent of GDP and one tenth of imports. Aid’s share in the government budget is relatively small, at 12 percent of government revenues and at about 15 percent of investment. Aid is just one of several sources of foreign exchanges. [IMF and OECD/DAC data] In financial terms the role of aid has been modest, while export revenues are the most important source. Also, FDI, private remittances, tourism receipt are as important as aid receipt.

It is notable that such favorable situation has emerged only recently. Until the 1980s Vietnam was a typical aid dependent economy, with aid paying for over half of imports, nearly three-quarters of investment and over two-thirds of government expenditure. It was the growth turnaround and stabilization, resulting from *Doi Moi* that had brought about remarkable changes on the fiscal side and reduced Vietnam’s aid dependency. Major changes included: (i) a large increase in revenue and the corresponding rise in public expenditure; (ii) a switch from non-tax to tax revenue; (iii) substantially reduced net transfers to state-owned enterprises (SOEs); and (iv) a large increase in the expenditure share of the social sectors. The order of magnitude of all these changes is such as to accord a relatively small role to aid. [Donge et al. 1999]

Table 1 : Aid as a percent of Macroeconomic Aggregates (2001)

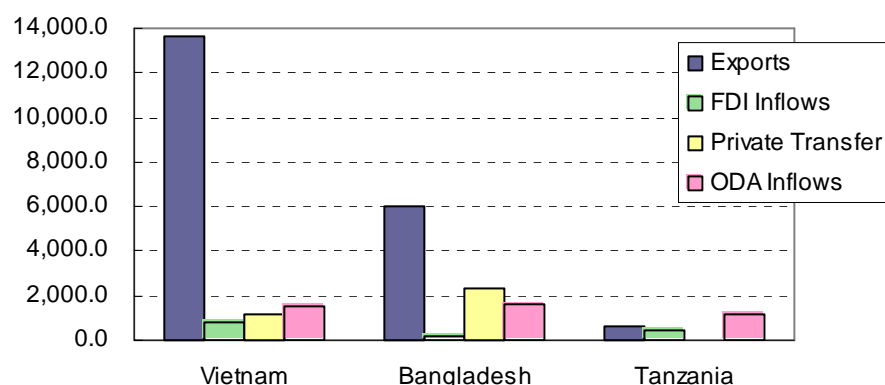
	GDP	Imports	Forex. Revenue	Investment	Gov't Exp.
Vietnam	4.6	9.4	7.0	14.8	17.9
Bangladesh	3.3	18.2	14.1	13.1	22.8
Tanzania	14.3	89.2	41.8	83.8	75.0

Unit: (%)

Source: IMF Statistical Appendix (2003), IFS (2003), OECD/DAC.

Note: The aid data (gross disbursement) are based on donor report to OECD/DAC, which may not coincide with those reported by the government.

Figure 1 : Selected Sources of Foreign Exchange Inflows (average of 1999-2001)



Source: IMF Statistical Appendix (2003), OECD/DAC.

3. Donor Management—Selectivity and Diversity in Dealing with Donors.

Vietnam is often praised by donors as one of the model countries with strong ownership [Donge et al. 1999, Jerve et al. 2003, Pincus & Thang 2004]. So far, the government has skillfully managed its relationship with donors. It has kept a restrained relationship with donors and made clear its wish to retain selectivity and diversity in obtaining donor advices. Although partnership groups are active, their role has been primarily to facilitate information sharing and coordination of assistance among donors. This is quite different from the practices in many low-income countries, where more open, extensive relationship prevails or is implicitly assumed. Particularly in highly aid-dependent countries in Sub-Saharan Africa, partnership groups discuss intensively the policy framework and conditionality (overall and sectoral), budgetary allocation, and performance monitoring—because aid finances substantial parts of the government’s core functions. And donors are united behind this process.

Despite such a restrained attitude toward donors, Vietnam has maintained its status as a popular aid recipient. Not so many low-income countries have successfully managed their relationship with donors and attracted considerable amount of aid—like Vietnam does.

Factors Affecting Vietnam’s Donor Management

At least three factors have contributed to shaping Vietnam’s unique style of donor management. First, as noted before, Vietnam’s growth and poverty reduction record over the past decade, combined with the country’s manageable external debt and healthy export growth, afforded the government an unusual degree of bargaining power vis-à-vis donors. [Pincus and Thang 2004]

Second, historically, national sovereignty has been a cornerstone in Vietnam’s external relationships. A strict separation between external advice and domestic decision-making process exemplifies Vietnam’s nationalistic bent to donor-government relations. The World Bank-funded CDF case study for Vietnam confirms that the government regards ownership as the most important of the four CDF principles. [Morten et al. 2003] The government is sensitive to any form of aid conditionality and shows a strong resistance when donors push on policy reform³. The existing literature frequently cites tensions between for instance, the government and the IMF on the audit of the State Bank of Vietnam under the Poverty Reduction Growth Facility (PRGF) conditionality, and the World Bank on health sector policy and state-enterprise reform. [Pincus and Thang 2004, Donge et al. 1999, Morten et al. 2003]

Third, Vietnam has unified institutional setting for aid management. The Ministry of Planning and Investment (MPI) is a powerful ministry, which holds centralized functions for development planning, FDI absorption and aid coordination. MPI is responsible for policy formulation (“*Strategy for Socio-Economic Development in the Period 2001-2010*” or the so-called Ten-Year Strategy, the “*Seventh Five-Year Plan for Socio-Economic Development 2001-2005*” or the so-called Five-Year Plan, CPRGS, and so on), prioritizing and channeling

³ It is well known that foreign advisers assigned to the Ministry of Planning and Investment (MPI) are not allowed to have offices within MPI. They are normally located in donor agencies’ local offices and visit MPI when necessary. The only exception is the recent acceptance of a Japanese adviser (in August 2004), who is in charge of coordinating a JICA-supported capacity development project in MPI.

of internal and external resources for socio-economic development (capital expenditures based on the Public Investment Program), as well as foreign investment promotion. Within MPI, the Foreign Economic Relations Department coordinates all types of aid (grants and loans) with multilateral and bilateral donors, and serves as the link to line ministries and agencies and provincial governments.⁴ The Ministry of Finance (MOF) is another important organ charged with the allocation of recurrent budget and the negotiations with legal agreements with donors; but its role is largely confined to the treasury.

The following two cases illustrate how Vietnam has dealt with donors while maintaining autonomy, through: (i) the formulation of the growth-oriented PRSP (CPRGS); and (ii) the management of aid harmonization process. Both are very popular and highly debated agenda in global aid partnership. Generally global debates tend to dominate these undertakings, but the two cases show how Vietnam has successfully incorporated country-specific factors into the PRSP and harmonization process. Moreover, through these cases, Vietnam has effectively appealed to donors for the importance of adapting to diversity.

Case 1: CPRGS Formulation and Expansion

There are two aspects that make Vietnam's PRSP very unique, compared to early PRSPs: its strong growth-orientation including comprehensive reference to the role of large-scale infrastructure in pro-poor growth; and its status as supplementary to the existing strategic documents such as the Five-Year Plan and Ten-Year Strategy.

Making PRSP Growth-Oriented

The Vietnamese government formulated a growth-oriented PRSP in May 2002, called the "*Comprehensive Poverty Reduction and Growth Strategy*" (CPRGS). This was the first PRSP in Asia which sharply differed from early PRSPs, typically those in Sub-Saharan African countries, that had focused on social policies and direct-poverty targeting programs. MPI, in coordination with other ministries, played a central role in the preparation of CPRGS. CPRGS was produced on the government's own schedule, written by Vietnamese in the Vietnamese language, and only later translated into English for donor input. Moreover, the Vietnamese government renamed PRSP to CPRGS, adding the terms "comprehensive" and "growth."

More recently, the government has expanded CPRGS by adding a new chapter on the role of large-scale infrastructure in growth and poverty reduction. CPRGS expansion was proposed by the Japanese government at the 2002 CG meeting, and agreed by the Vietnamese government and other donors. The revised CPRGS, including the new chapter on large-scale infrastructure, was approved by the Prime Minister in November 2003 and presented at the 2003 CG meeting.⁵ The new chapter recognizes the interaction between growth and poverty reduction, especially the important role of large-scale infrastructure in achieving pro-poor

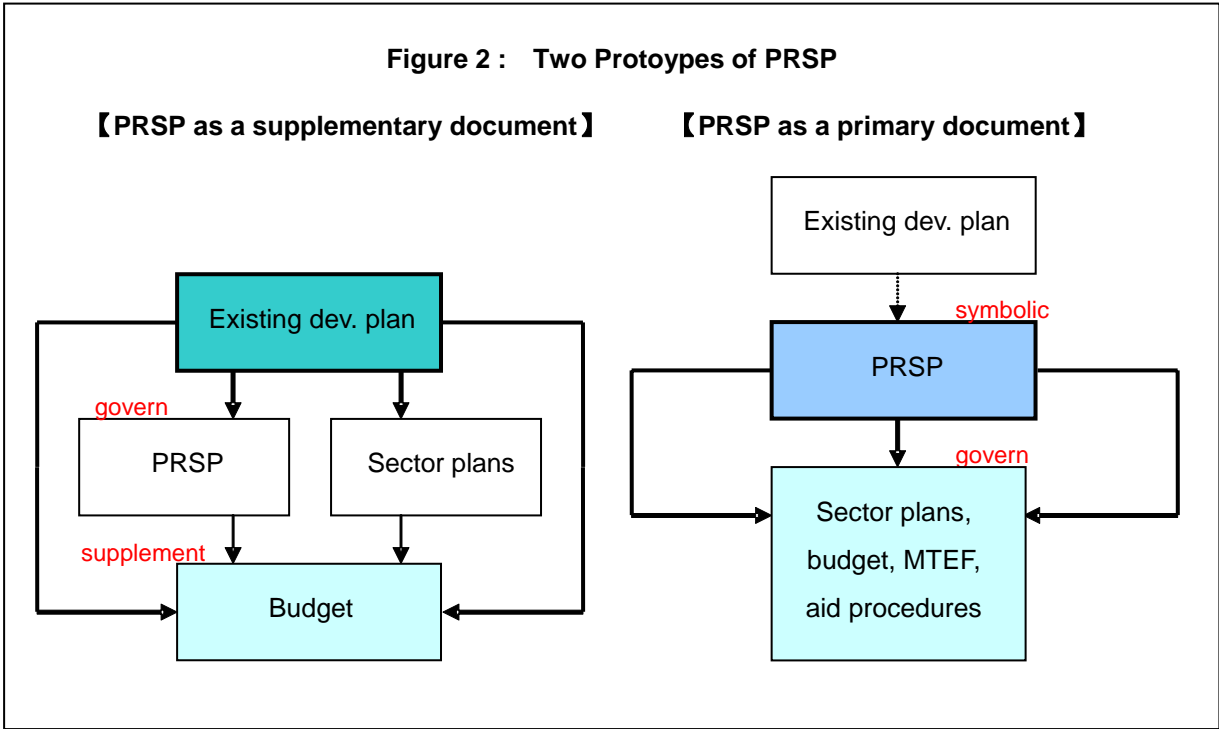
⁴ MPI was established in 1996 through the merger of the State Planning Committee (SPC) and the State Committee for Cooperation and Investment (SCCI). MPI is a lead agency in preparing a national list of priority project/program priority and mobilizing donor resources. In addition, MPI is a focal point of high-level donor coordination, such as the Consultative Group meetings (biannual) and international forums of ODA.

⁵ GRIPS Development Forum assisted the Vietnamese government in this process, by providing an analytical framework for the role of large-scale infrastructure in growth and poverty reduction. See GRIPS Development Forum (2003).

growth—directly and indirectly—through economic activities such as labor movement between regions, sectors, etc. and also contributing to enhanced social equity through income redistribution by tax, finance and investment policies to help the poor.⁶ With explicit reference to large-scale infrastructure as one of the growth promotion measures, CPRGS has become further comprehensive and consistent with the government’s Public Investment Program (PIP).

PRSP as Supplementary Document

CPRGS also differs from early PRSPs in its relationship with the existing planning framework. Vietnam has the existing policy configuration, where all sector plans, public investment plans, and annual budget allocation are guided by the two core documents—i.e., the Ten-Year Strategy and the Five-Year Plan. These were reviewed by the Communist Party and concerned ministries and approved by the Party Congress. They tower above numerous other official documents in terms of legitimacy and accountability. Here, CPRGS is a *supplementary document* to the two planning documents and is never intended to dictate overall budget allocation⁷. Certainly, PRSP can reinforce the existing development plans with special attention to poverty reduction in a cross-cutting manner and the participatory process. However, it is not expected to become an overarching document by replacing the existing core documents.



⁶ *The Comprehensive Poverty Reduction and Growth Strategy (CPRGS)*, revised, November 2003. The Socialist Republic of Vietnam.

⁷ This view coincides with the findings of DFID-funded study on Vietnam’s PRSP. The study states that reflecting its status as an action plan of the Five-Year Plan rather than a new policy statement, the CPRGS itself was not submitted to the assembly for approval but instead was signed by the prime minister. It also points out that one of the major motivations for drafting the CPRGS was the government’s desire to access concessional financing from the World Bank and IMF. [Pincus and Thang 2004]

This is different from the case in which PRSP serves as a *primary document*, and the operational procedures of the budget, sector plans and receiving aid are all governed by PRSP.

For example, in Tanzania (as a front runner of PRSP in Sub-Saharan Africa), the newly-introduced PRSP exerts a stronger influence than the existing plans over the budgetary and legal framework.

The Vietnamese government regards CPRGS as an action plan that translates the Ten-Year Strategy, the Five-Year Plan and sector policies into concrete measures. The economic goals and budget allocation are simply copied from the Ten-Year Strategy and the Five-Year Plan. However, to complement these plan and strategy with a strong accent on growth, CPRGS emphasizes the “quality” of growth and proposes ways to minimize income and regional disparities, cut poverty and achieve social equity in the process of rapid growth.

In fact, the recent studies suggest that CPRGS is not a well-known document within government circles. [Norlund et al. 2003, Pincus and Thang 2004, Comway 2004]. Responsibility for its production was assigned to one department within MPI. Even within central government agencies knowledge of CPRGS is not widely-spread. Within the line ministries, awareness of the document is limited to those individuals directly involved in the process. Unlike the Ten-Year Strategy, it was not disseminated widely or publicized through the mass media. Familiarity with the document is even more limited at the provincial level. Also, there exists confusion at the central and provincial levels regarding the relationship between the Ten-Year Strategy and CPRGS, and the steps that must be taken to implement the latter. [Pincus and Thang 2004]

In sum, the growth-orientation of CPRGS is built on the existing development visions (such as the Ten-Year Strategy and the Five-Year Plan) which clearly spell out East Asia’s aspiration for economic catch up.

Case 2: Aid Harmonization

Harmonization is an important means to help achieve greater aid effectiveness, by reducing the transaction costs of aid delivery. In recent years, various initiatives have been launched to simplify and harmonize donor practices, with substantial involvement of recipient countries. Vietnam has succeeded in adding diversity to harmonization and modality debates and managing procedural harmonization—by donor group.

Adding Diversity to Harmonization and Modality Debates

Vietnam is one of the 13 pilot countries selected for OECD/DAC Harmonization Task Force and has been actively participating in the Task Force discussions, e.g., the Rome High-Level Forum on Harmonization (February 2003) and the hosting of the Asian regional workshops on aid effectiveness (January and October 2003). Through these occasions, Vietnam has emerged as a model distinct from those widely practiced in Sub-Saharan Africa, adding diversity to the harmonization discussions.

In Sub-Saharan Africa, the harmonization issue is linked to a shift to new aid modalities, such as budget support and pooling funds under the Sector-wide Approach (SWAp)⁸. The underlying assumption is that donors unify aid procedures (and modality in an extreme case) and provide support through the government's systems. This is understandable because harmonization and modality discussions have emerged, primarily to respond to the problems associated with stand-alone projects—e.g., high transaction costs of aid delivery, donor-driven projects leading to inefficient public spending, and parallel off-budget systems and proliferation of Project Management Units (PMUs) undermining the effectiveness of government systems and accountability. Donor-imposed, policy conditionality under the Structural Adjustment Program has also proven its limitations. Under such circumstances, a high priority is placed to build the core functions of the government. Budget support is expected to help building the government's systems, through enhanced ownership. Donors are encouraged to act jointly to support these efforts, by adopting new aid modalities and harmonizing their procedures consistent with the government's systems.

By contrast, harmonization and modality issues are more loosely linked in Vietnam. The government strongly argues for the diversity of aid modalities and treats the issue on new aid modalities part of the broad harmonization agenda. Of course, Vietnam is not free from problems with the transaction costs of aid delivery and those faced by Sub-Sahara African countries.⁹ But, with the government's core functions being in place (although not perfect) and with low aid dependency, the nature of Vietnam's development priority is different from that of Sub-Saharan Africa. Moreover, the government is cautious about the full-scale introduction of budget support because it is normally accompanied by policy conditionality.

For this reason, project aid continues to be dominant in Vietnam. Major donors—Japan, the World Bank, and the ADB—provide project aid in various sectors. Budget support is yet to be introduced, except for the World Bank-supported Poverty Reduction Support Credits (PRSCs)¹⁰. As of mid-2004, SWAp has not yet started (planned in primary education). The government also interprets SWAp as a sector policy framework, under which projects and non-projects coexist in an integral manner. The government's plan is to first build awareness of new aid modalities, and then pilot these on a small, manageable scale in terms of sector or geographical areas before replication. [MPI 2003b]

Managing Aid Harmonization by Donor Group

In Vietnam, Decree 17-CP, promulgated in May 2001, lays the foundation for all the harmonization efforts. The decree established the common framework for ODA-related procedures and regulations by: (i) regulating the management and utilization of all types of ODA resources including both grants and loans and covering balance of payments support, program aid, project aid, technical assistance; (ii) changing the procedures and regulations governing all stages from project identification to monitoring and evaluation; and (iii)

⁸ The defining characteristics of a SWAp are that all significant public funding for the sector supports a single sector policy and expenditure program, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all public expenditure, however, funded. [Brown, Foster Norton and Naschold 2001]

⁹ For example, see OECD(2002) and JICA/CIEM (2003).

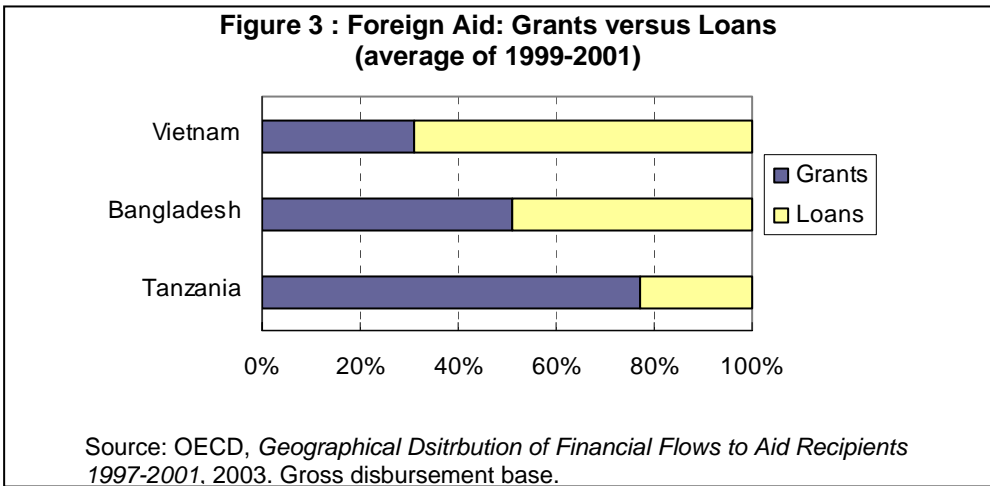
¹⁰ PRSCs-I & II were co-financed by UK, Denmark, Netherlands, and Sweden through the trust funds established in the World Bank. So, the form of participation of these bilateral donors is not strictly "general budget support" as practiced in Sub-Saharan Africa. More recently, UK is exploring a possibility of extending sector budget support to poverty-targeted programs.

clarifying the responsibilities of various Vietnamese agencies involved in the ODA process. More recently, the government elaborated an *Action Plan on Simplification and Harmonization of ODA Procedures*, and presented it at the December 2003 CG Meeting, together with a proposal for comprehensive capacity building program for ODA management. This action plan is guided by the principles of: (i) country-owned; (ii) country-led; and (iii) diverse modes of ODA delivery within a common framework.¹¹

Based on the above principles, the government is encouraging the donor community, by donor group, to simplify and harmonize respective procedures. Its approach is to treat donors separately group by group, rather than jointly, and to create room for diverse voices.

More specifically, four different donor groups are working to simplify and harmonize respective procedures, especially in terms of timing and documentation formats used in the different stages of the project cycle. The groups include: (i) 5 Development Banks (the World Bank, ADB, JBIC, KfW, and AFD); (ii) Like-minded Donor Group (LMDG consisting of Canada, Denmark, Finland, Germany, Netherlands, Norway, Sweden, Switzerland and UK); (iii) UN system (UNDP, UNICEF, and UNFPA); and (iv) EU (Member States and the European Commission).[Box 1] Since loan aid accounts for nearly 80% of aid commitment in Vietnam (two-thirds on a disbursement basis)¹², procedural harmonization among 5 Banks should significantly improve the efficiency of aid delivery. [Figure 3] LMDG and EU pay special attention to the introduction of SWAp and budget support (such as PRSC) because they consider such aid tools an effective way to reduce transaction costs in aid delivery and collectively support the implementation of key elements of CPRGS.

In addition, bilateral effort is underway between the Japanese government and MPI, focusing on Japan’s grant aid and technical assistance, to address the selected issues identified by the



¹¹ Similarly, at the Asian Regional Harmonization Workshop in January 2003 (held in Hanoi, prior to the Rome High-Level Forum in February 2003), the MPI stressed the four principles of harmonization including: (i) country leadership based on a clear, transparent and implementable regulatory framework, (ii) respect for partner diversity, (iii) practical selection of harmonization areas, and (iv) cost-benefit analysis of harmonization exercise. [the statement by Mr. Duong Duc Ung, Director General of Foreign Economic Relations Dept., MPI]

¹² Cumulative figure during 1993—end of 3rd quarter of 2003. MPI data presented at the 2003 CG Meeting.

JICA-commissioned study on transaction costs of aid delivery¹³.

At the same time, the government is making efforts to improve the ODA management system and internal procedures (including the revision of Decree 17-CP) in order to reinforce the common framework. But, the progress in this respect has been slow, as will be explained in Case 4.

Box 1 : Aid Harmonization by Donor Group

Currently, four groups of donors (with similar aid schemes) and some individual donors are working to simplify and harmonize respective procedures, guided by a common and coordinated framework established by the Vietnamese government. The progress as of June 2004 includes:

- 5 Banks: In May 2002, the World Bank, the ADB, and JBIC (Japan) agreed a joint statement to harmonize the areas of procurement, financial management, environmental and resettlement issues. This was joined by KfW (Germany) and AFD (France) in 2003. The coverage of harmonization efforts by the 5 Bank Group centers around the five agreed priorities: (i) project preparation practices and procedures; (ii) procurement process; (iii) financial management; (iv) environmental and social safeguard policies and practices; and (v) portfolio management.
- LMDG: In 2001, the LMDG undertook a study to compare six donor practices and examined options for harmonization^{*1}. On the basis of this study, the group is working on the standardization of documents and procedures, also applicable to the government. Their work includes the initial analysis of project reporting formats and current public procurement institutional framework, as well as stock-taking of project management training. The LMDG also promotes capacity-building support, common development vocabulary, and wider use of multi-donor financing mechanisms.
- EU: The Hanoi-based representatives of the twelve Member States involved in cooperation with Vietnam and the EC Delegation agreed on an Action Plan for Harmonization and Coordination in May 2003. The plan is based on the preceding efforts (e.g., the EU local cost norms) and takes a practical approach, focusing on the coordination of efforts at different phases of the project cycle in certain sectors (i.e., health, education, trade, private sector development, and governance) and one geographical area (i.e., the Central Highlands).
- UN Group: As part of the UN global initiative for simplification and harmonization among the member of the UN Development Group (UNDG), the UN Country Team in Vietnam is preparing its Common Country Assessment and UN Development Framework for 2006-2010 in consultation with the Vietnamese government (to be ready by end-2004). Subsequently, UNDP, UNICEF, and UNFPA will develop the Country Program Documents (high-level agreement between agencies and government) and Country Program Action Plans (more detailed programming documents) under common formats.
- Japan's grant aid and technical assistance: As a follow-up to the JICA/CIEM study (March 2003), bilateral effort is underway between the Japanese government and MPI to address the selected issues identified by this study ("Sit down and Talk" initiative). Through a series of discussions, a Joint Action Plan has been finalized by June 2004, which focuses on: (i) strengthening of dialogue; (ii) information sharing on procedures; (iii) improving transparency; and (iv) participation and capacity building.

^{*1} Grant Thornton (2001).

Source: elaborated by the author, based on MPI [2003b] and MPI [2004].

¹³ The JICA/CIEM study collected the voices of recipients on 80 projects (i.e., rural development, health, education and training, and transport). The study finds that the burdens of transaction costs differ, at each stage of projects, with most transaction costs being felt at the stages of project design, appraisal and implementation.

4. Policy Design and Implementation—Need for Greater Coherency in Policy and Institutions

The above achievements are laudable for a low-income country. Nevertheless, this does not mean that Vietnam satisfies the requirements for the other level of ownership—i.e., the capacity for effective policy design and implementation. The strength of Vietnam’s ownership, especially its skillful donor management, is largely confined to the overall aid coordination and negotiation by MPI and exercised by relatively a small segment of the government.

Features of Vietnam’s Internal Administration

Vietnam’s public administrative system is highly fragmented, and decision making requires consultations among many fractious constituencies.¹⁴ The existing literature cites such problems as lack of overall strategic vision, lengthy consultation, and conflicting outcomes. [Donge et al.1999, McCarthy 2001, Pincus and Thang 2004, Conway 2004].

The experiences of East Asia’s advanced economies suggest the vital role of economic technocrats in formulating and implementing rational economic policies [WB1993]. In contrast, Vietnam’s decision making takes place in a complicated web of vertical and horizontal authorities. Responsibility is diffused and the process is not transparent. Policies lack clarity and consistency, and response is slow when speed is needed. Thus, there exist dual systems of accountability—one for dealing with donors, and the other for country’s internal affairs. Seemingly a strong state of Vietnam may not necessarily hold domestically.

The following two cases illustrate how Vietnam’s internal system of accountability constraints the government in exercising effective policy and institutional responses. We focus on the challenges of: (i) concretizing the content of growth strategies; and (ii) integrating ODA management in the internal administrative system. The former can be contrasted with Vietnam’s strong growth orientation in the CPRGS (Case 1 above), while the latter can be compared with aid harmonization (Case 2 above).

Case 3: The Content of Growth Strategies

To become an industrial country by 2020 is the national goal for Vietnam. As shown in Case 1, the official documents—typically the Ten-Year Strategy, the Five-Year Plan, and the CPRGS—give numerical growth targets up to 2010. Beyond these, however, details are not spelled out. After eighteen years since the *Doi Moi* reform, and after roughly a decade of serious international integration, Vietnam is still not prepared to take full advantage of trade and investment liberalization for economic development. The fact that international integration comes with both challenges and opportunities is generally well understood, but concrete action to raise international competitiveness is slow to emerge.

¹⁴ McCarty calls such Vietnamese style of decision-making “consensus governance.” Consensus governance involves a conscious choice not to delineate lines of authority and responsibility. Power is to be shared as widely as possible. Extensive consultations are required, involving protracted delays to accommodate the various concerns of stakeholders. [McCarthy 2001]

Lack of Realistic Industrial Vision

The reform process in Vietnam sharply differs from the experience of the East Asian tigers. It was not a matter of an all-powerful leader at the top enacting the recommendations of insulated technocrats. [Fforde and de Vylder 1996, Riedel and Turley 1999, Watz 2001] There was no articulate overall and long-term strategic framework or roadmap to guide the *Doi Moi* reform process. The decision making on reform has been characterized by a gradual, step-by-step, and trial and error approach.

Such decision-making style did work in the 1980s—when Vietnam needed to manage the transition to a market economy and external opening while maintaining political stability. However, it is an open question whether or not Vietnam’s policymakers and institutions have the qualities needed to execute effective development policies in the age of globalization. [Riedel and Turley 1999, Ohno 2004] Current economic decision making is too decentralized, and various elements of industrial policy are not united. The challenge now is no longer to maintain the delicate social balance under international isolation, but to raise productivity, encourage investment, and compete with formidable regional rivals under increasingly free trade. It is essential that the government provide a clear industrial vision—in terms of both the direction of overall industrialization and specific strategies for individual key industries—as well as a stable policy environment in which domestic and foreign businesses can operate.

At present, industrial strategy (Ministry of Industry: MOI), FDI and ODA (MPI), trade negotiations (Ministry of Trade: MOT), tariff structure (MOF) and technical standards (Ministry of Science and Technology and Environment: MOSTE) are dealt with by different ministries with little coordination in substance. Various measures such as industrial promotion, enterprise reform, FDI absorption, and trade and investment policy are not integrated. The lack of transparency and certainty in policy environment remains the most serious obstacle for both domestic and foreign firms. Under these circumstances, it is very difficult to introduce policies for individual industries in an economically meaningful manner.¹⁵

While aid donors praise Vietnam, the foreign business community bitterly criticizes Vietnam’s economic policy as one of the worst in East Asia. The poor business environment, especially the lack of predictability, is cited as the main reason why Vietnam loses so many investment projects that might have come had the policy been more conducive.¹⁶ Policy inconsistencies are routinely reported in the newspapers. For example, domestic garment exporters complain that the allocation of export quotas to EU is nontransparent, inefficient and unfair. The admission of as many as fourteen foreign automobile manufacturers in Vietnam’s tiny market, coupled with unstable tax policy, is driving these producers to despair. In 2002, local and foreign assemblers of TV sets were alarmed that the announced tariffs for 2003 and beyond had a reverse structure which favored importing finished products to local production. This inadvertent distortion was corrected in the tariff revision of July 2003, but a similar problem remains for home appliances.

In September 2002, the Vietnamese government suddenly announced new quotas for importing motorbike parts, which were immediately allocated to individual motorbike

¹⁵ For the more detailed explanation of the problems in industrial policy, see Kenichi Ohno[2004].

¹⁶ The recent research by Vietnam Chamber of Commerce and Industry (VCCI) shows that nearly one third of enterprises do not satisfy with the public reform progress and most of them agree that business license procedures is still complicate, costly and time consuming. [World Bank 2004].

assemblers based on their business plans submitted to MPI years ago at the time of investment approval. Such a regulation is unheard of anywhere in the world. A few Japanese factories were forced to stop operation as they had already used up the number of parts allocated to them for 2002. Among Japanese investors, this incident became the symbol of Vietnam's irrational industrial policy. It was reported widely in the Japanese press. This and other problems prompted the Japanese government to launch the Japan-Vietnam Joint Initiative and revise its aid policy in 2003, making the general quantitative direction of Japanese ODA to Vietnam conditional on the policy efforts of the Vietnamese government, including the speed of improvement in the business condition.

The above examples suggest that Vietnam urgently strengthen its policymaking process and create a coherent and united economic team. There is a need to establish a small group of highly capable professionals, with full authority for economic policy making and supervision of all economic ministries and organizations. Such top-down decision-making has been adopted by many East Asian countries for a few decades in order to sustain an economic catching up. Under severely limited human and non-human resources, agility and flexibility in policy making can be realized by concentrating authority in this small group¹⁷.

Case 4: Challenges of Internal Harmonization

As explained in Case 2, the government has skillfully handled the discussions on aid harmonization, by treating donors group by group. But, this does not necessarily mean that its ODA management capability is satisfactory. Donors constantly complain about the problems with slow ODA disbursements and implementation at the line ministries and provincial levels. Complex arrangements for decision making related to ODA, a lack of donor understanding of the Vietnamese system, and a lack of government capacity and understanding of donor requirements resulted in major delays in project approvals and implementation.

In the recent years, there have been steady improvements in disbursement ratio. Nevertheless, much work remains to better integrate ODA in regular development administration and harmonize national procedures with international standards. For example, the World Bank's Country Portfolio Performance Review (CPPR), completed in October 2003, shows that between FY2000 and FY2003, disbursements on investment credits almost doubled (from \$160 million to \$298 million), with the disbursement rate increasing from 12.1 percent to 14.3 percent. But, it also notes that the number of projects facing implementation issues has increased over the past few years.¹⁸

Incompatibility between ODA Management and Internal Administrative Systems

The introduction of Decree 17-CP in 2001 was a major attempt to rectify these problems. However, compared to the management of harmonization of donor practices, the progress in improving the government's ODA management system and internal procedures has been slow. More lately, the government is beginning its effort to revise the current Decree 17-CP, by assigning MPI to submit a proposed draft by end-2004.

¹⁷ Needless to say, concentration of economic policy authority is a different matter from the question of how to distribute political authority.

¹⁸ World Bank (2004)

Luan and Loi [2004] argue that harmonization in the Vietnamese context is more difficult than harmonization of aid procedures by donor groups. Two issues deserve attention.

First, there are many inconsistencies of policies and regulations within the Vietnamese administrative system. There is ambiguity over responsibilities in implementing regulations. Specific problems include: (i) inconsistencies between policies/guidelines made at the central level and practices at the provincial level; (ii) multiple-doors accountability system, where technical departments at provincial level have to report to both higher level in the ministry and to the provincial People Committee; and (iii) poor coordination among related ministries/agencies and between central-provincial levels, and so on.¹⁹ There is a need to advance harmonization internally among Vietnamese agencies involved in projects/programs funded by the donors. [Luan and Loi 2004]

The JICA/CIEM study [2003] reveals that not negligible transaction costs are attributable to the Vietnamese system. It cites a concrete example of complicated internal procedures for project appraisal and approval as follows:

...a number of problems occurred in getting approval from the Vietnamese side which created a number of burdens for the recipient agency and its sectoral ministry. Although the government has developed clear procedures and timetables for issuing ODA project approval, these procedures were not strictly followed. Submission of the project documents to MPI and other line ministries was asked for twice after a series of delays and problems with the sectoral ministry in charge. As a result it took 20 months to get approval for the operation of the project. In addition, a range of unclear rules also added to the costs that the project had to bear, such as the importation of a car for the project. ...[JICA/CIEM, p.23]

Second, there are many incompatible procedures and requirements concerning budget allocation and use between the donors' side and the Vietnamese side. This is because Vietnam's political and administrative systems significantly differ from respective systems in donor countries. Harmonization, then, would require Vietnamese government to speed up Public Administration Reform (PAR), taking into account the requirement of the relationships with donors. The government's *Action Plan on Simplification and Harmonization* also recognizes the need to further streamline and simplify the internal ODA management procedures in parallel with the PAR process. [MPI 2003]

Since 1986, there have been a series of efforts to implement administrative reforms across the state sector in order to match the role and functions of the state more closely with the changes being wrought in the economic system. One of the major initiatives was the adoption of the Resolution on Public Administration Reform at the eighth Plenum of the seventh Party Congress in January 1995. PAR is recognized as critical for further economic reform and the transition process. Also, there has been a growing involvement of donor agencies in the

¹⁹ This is not peculiar to ODA management. Le Thuc Duc et. al. [2003] gives an example of the implementation of the Foreign Investment Law (revised in 2000), as follows: "Provinces and respective ministries have to issue the detailed guidelines for implementation of the Law. However, this process has been delayed and the Law had been interpreted inconsistently at different levels of administration. Problems have arisen as contradicted directives encounter each other in practice. The middle rank authorities often do not know how to solve these problems and wait for guidelines from the relevant ministries, branches or other competent bodies."

reform program, with UNDP playing a lead role in providing and coordinating the technical assistance.

Yet, it is widely viewed that progress of the PAR program is slow in comparison with the requirements of the transition. [Painter 2003] A general framework for PAR (*Comprehensive Administration Reform Program 2001-2010*) was developed, and four key areas for reform have been identified, i.e., institutional, administration, human resources, and public finance. But, as the former representative of UNDP/Vietnam emphasizes, the lack of a strategy to guide the process, well anchored in the higher economic and social goals of the country has contributed to slowing down PAR. This is partly because the PAR process is closely tied to reforms in legislative and judicial branches, as well as renovation of the political system. [Wattez 2001]

In sum, true harmonization in the Vietnamese context can be achieved—only if refined procedures and mechanisms are integrated into regular administrative system of the Vietnamese government.

5. Future Challenges and Implications for the Role of Donors in Vietnam

As our analysis suggests, the Vietnamese government has demonstrated high capacity for donor management—namely, through the CPRGS formulation and aid harmonization processes. Nevertheless, Vietnam has not yet developed the effective economic policy decision structure like the ones advanced East Asian economies had established during the period of economic take-off. Vietnam’s seemingly strong capacity for dealing with donors should not be confused with the capacity for policy and institutional response for improved global performance. Further efforts are required to concretize growth strategies and reform the domestic administrative system and procedures, in order to sustain poverty-reducing growth and catch up with the East Asian tigers.

The four cases above also suggest that promoting policy and institutional reform requires a rethinking of “doing aid” in Vietnam. Donors should be sensitive to the nature of Vietnam’s ownership and recognize that there are limits to the extent of donor influence. The government welcomes better coordination of aid at an operational level, but not at the expense of diversity in bilateral relations. [Jerve et. al. 2003] The government listens to donor advice, but never accepts it blindly. It picks up new ideas and selectively adopts them.

In this connection, the new Enterprise Law offers a good practice of how donors might engage the Vietnamese authorities in deepening policy and institutional reforms. As part of the institutional reform component of PAR, this experience shows that much scope exists for carefully targeted and responsive assistance to the Vietnamese administrative reform process. It also shows that donor support, if integrated in the government’s own agenda, has better chances of bringing results. [See Box 2]

Box 2 : The new Enterprise Law

The Enterprise Law was adopted in May 1999 by the National Assembly and took effect in early 2000. As part of the institutional reform component of PAR, UNDP provided support to the drafting process. The Law is regarded, by all parties (national and international), as both a model in drafting process and a critical step towards private sector development. Beyond substantially streamlining business registration procedures, the Law has led to the abolition of 180 types of permits since its enactment. [SRV 2003a] The duration for business registration has been shortened from 15-20 days to 10 days by the end of 2001 and 2003, respectively. New registrations rose from 12,000 in 2000, to 18,000 in 2001, and to 20,000 in 2002. [Le Thuc Duc 2003 et. al] As of September 2003, 72,601 private companies had registered under the new law. In contrast, approximately 45,000 companies registered from 1999 through 1999 under Vietnam's original private company legislation. [MPI 2003a]

In-depth assessment of needs (including what external agencies and experts could deliver), strong engagement of the Vietnamese counterpart, recognition of the benefits from earlier assistance, wide-ranging consultations, analyses of constraints and impacts of proposals and so on, are considered some of the key for its successful drafting work and subsequent comprehensive implementation.

Source: Adapted from McCarty 2001. MPI [2003a]

In conclusion, emerging lessons for “doing aid” in Vietnam are to: (i) work with the existing institutions, based on an incremental approach (instead of imposing another, new institutional framework); (ii) make donor assistance relevant to and integrated into the national agenda; and (iii) identify entry points carefully and sharpen targeting of their assistance (to be realistic and practical). To this end, donors must accumulate deep knowledge of Vietnam. [Wattez 2001, McCarty 2001].

The new planning cycle has just begun in Vietnam, and the government recently initiated the preparation for the Eighth Five-Year Plan (2006-2010). Sector ministries and provincial authorities are requested to formulate their proposals (typically, draft master plans) to MPI by the end of 2004, to be considered for inputs to the next Five-Year Plan. This timing coincides with the preparation of the next round of the CPRGS, which should cover three-year period starting from mid-2005.

It is interesting to see how government-donor discussions would evolve regarding the treatment of the future Five-Year Plan and CPRGS. By now, donors have well understood that CPRGS will never attain the political salience of the Five-Year Plan and the Ten-Year Strategy and that the CPRGS roll-out (at the provincial level) has met limited success. There are also views that continued reference to CPRGS may prove counterproductive in this context, with a risk that CPRGS is seen as either a ‘donor’s document’ or document imposed on local government and line agencies by central planners such as MPI. [Pincus and Thang 2004]

It is desirable that the involvement of donors in the next round of CPRGS process should be through the support to the formulation of the Five-Year Plan. By working with the existing policy and institutional framework, there will be greater chances to engage the Vietnamese

policymakers in the substance of policy debates and required institutional reforms, such as the content of growth strategy and specific aspects of public administration reform.²⁰

Another, potentially effective and justifiable role of donors would be to increase the quantity and quality of policy debates and stimulate domestic policy research and training. These activities require long-term investments, but should produce outputs in the form of the second generation of policy makers and officials. [McCarthy 2001] Such assistance should contribute to fostering true ownership in Vietnam and help the Vietnamese to help themselves.

²⁰ It is important to note that at the mid-year CG meeting in 2004 (held in Vinh), the MPI authorities hinted their preference that the CPRGS would be integrated into the next Five-Year Plan. [see Press Release http://www.worldbank.org.vn/news/press52_01.htm]

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