

**PERCEPTIONS OF DEVELOPMENT PARTNERS
AND EVIDENCE ON AID EFFECTIVENESS**

VIET NAM CASE STUDY

Jacquemin & Bainbridge

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ABBREVIATIONS

Aid Effectiveness (A/E)
Asian Development Bank (ADB)
Canadian International Development Agency (CIDA)
Comprehensive Poverty Reduction and Growth Strategy (CPRGS)
Danish International Development Assistance (DANIDA)
Department for International Development (DFID)
Foreign Economic Relations Department (FERD)
German Technical Cooperation (GTZ)
Gross Domestic Product (GDP)
Hanoi Core Statement (HCS)
Harmonisation Action Plan Vietnam (V-HAP)
Harmonisation and Alignment (H&A)
Hunger Eradication and Poverty Reduction (HEPR)
International Monetary Fund (IMF)
Japan Bank for International Cooperation (JBIC)
Japan International Cooperation Agency (JICA)
Like Minded Donor Group (LMDG)
Millennium Development Goal (MDG)
Ministry of Planning and Investment (MPI)
Norwegian Agency for Development Cooperation (NORAD)
National Target Program (NTP)
Official Development Assistance (ODA)
Project Management Unit (PMU)
Poverty Reduction Support Credit (PRSC)
Swiss Agency for Development and Cooperation (SDC)
Socio-Economic Development Plan (SEDP)
Swedish International Development Agency (SIDA)
Sector-Wide Approach (SWAP)
United Nations Development Programme (UNDP)
Vietnam Development Goal (VDG)
World Trade Organization (WTO)

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EXECUTIVE SUMMARY

1. Donors in Viet Nam have strongly supported moves to increase aid effectiveness and a number of initiatives are underway to promote and improve aid effectiveness via increased harmonisation, use of government systems and improved capacity building.
2. The two key documents to guide increased aid effectiveness in Viet Nam are the Harmonisation Action Plan (V-HAP) and the Hanoi Core Statement (HCS). Both enjoy widespread support from donors and high-level support from the government. A target setting exercise will sharpen the focus of the HCS.
3. The HCS has given focus to the question of aid effectiveness in Viet Nam with donors and government in broad agreement about the definition of aid effectiveness as “providing the greatest efficiency of aid, the best output relative to inputs and having a measurable affect on poverty alleviation”. The Hanoi Core Statement is widely viewed to capture the essence of the definition of aid effectiveness.
4. According to the DAC survey of donors, 65% of donors are aligning to the government’s strategies¹. The PRSC has proved a success in attracting the support of a variety of donors – including donors such as France and Japan that until recently did not support such instruments - and a process is underway for donors to align behind the SEDP for 2006-2010.
5. While the HCS and the V-HAP are comprehensive, principle documents, the areas of particular focus, interests and priorities may differ among various donor groups/donors and between different government ministries. A JBIC representative described Japan as the “most cautious and prudent” harmoniser, CIDA, AusAID and USAID emphasised pragmatic and case-by-case approaches to harmonisation. The EC has recently played a strong role through co-chairing of the Partnership Group for Aid Effectiveness. The Like Minded Donor Group² is viewed a leader in piloting and advocating harmonised approaches and the use of government systems. DFID is viewed as being at the forefront of piloting new aid modalities.
6. Other donors, such as Denmark, the five banks and the Netherlands emphasise that the Government of Viet Nam needs to improve its procurement and financial management to make working through government systems more attractive.
7. Some of the five banks, Belgium and JICA all face policy obstacles at headquarters level while others face some contradictory internal policies.
8. Most donors highlighted the need to move from broad statements to actions. Among some donors there was a sense of fatigue with the A/E agenda and impatience to see concrete actions emerge. In this context putting the V-HAP into action in the next 12 months will be vital to sustaining A/E momentum.

1 DAC survey page 138

2 Currently Sweden, Denmark, the Netherlands, Canada, Finland, Norway, Switzerland, Australia and the United Kingdom

9. A paucity of hard evidence exists on the success or otherwise of A/E and H&A activities in Viet Nam. Donors cited the complexity of the task of proving the effectiveness of H&A and the fact that Viet Nam is still in the early stages of trialling new approaches as key reasons for the lack of specific evidence. In this context the baseline study planned in the V-HAP should prove an invaluable document to substantiating the arguments around H&A in Viet Nam. Other areas for possible future research include the affect of decentralisation on donor’s ability to participate in A/E activities, the costs and cost saving incurred through harmonised sector approaches and a comparative analysis of progress on implementing the Paris Declaration in the region.

METHODOLOGY

10. This review had two major objectives: (i) to better understand the views of partners in Viet Nam on A/E, and their perceptions, intentions and commitments; and (ii) to gather evidence in support of substantiating the dialogue on A/E.
11. To achieve these objectives, the consultants reviewed key documents relating to the A/E agenda in Viet Nam and conducted a series of interviews with key stakeholders.
12. In particular, the consultants reviewed the EU roadmap for harmonisation, the LMDG action plan, the OECD-DAC survey, the Vietnam Development Report, Harmonisation Action Plan and the Hanoi Core Statement. Donors were not able to provide documents that reflected country positions in relation to A/E activities for a variety of reasons. In some cases country strategies were developed prior to the agency committing to greater A/E, others, such as Belgium were subject to review and therefore future plans were not finalised, others, eg France, plan to release their country strategies after the GoV releases the SEDP.
13. Secondly, the consultants conducted interviews in Hanoi with heads of agencies, other key personnel in donor organisations, and a limited number of government representatives³. The interviews aimed to elicit both personal views and corporate positions in relation to A/E. Due to the limited availability of donor documents, interviews formed the bulk of the inputs to this review, as per the table below.

| | OBJECTIVES | |
|--------------|---|-------------------------|
| METHOD | Perceptions/intentions/ commitments E/A | Arguments pro/contra AE |
| Lit review | XX | X |
| Consultation | XXX | XXX |

(X = weight)

14. Donors were asked to share their views frankly and anonymously and have not been identified by name in the report. Public positions of agencies have been attributed to those agencies.

³ A substantial survey of Government views on transaction costs can be found in: Study on Donor Practices in Vietnam—Grant Aid and Transaction Costs—Listen to the Voice of the Recipient, JICA&CIEM (2003)

15. A consistent interview schedule was not used for all interviews. At the time of undertaking the consultancy a number of aid counsellors were finishing their tenure in Viet Nam or were on summer leave. As such not all were available to be interviewed for this report. However as part of work undertaken under a separate TOR the consultants had already gleaned some general information relevant to this report, which has been incorporated.

VIET NAM CONTEXT

POLITICAL AND ECONOMIC

16. **Moving to a market economy:** The Vietnamese economy has changed dramatically since the *doi moi* reforms begun in the late 1980s. The country has rapidly and consistently moved away from a centrally planned state economy towards a modern market economy. It is successfully exploiting the opportunities of globalisation and trade, and is to become a member of the WTO in the near future.
17. **Strong growth and effective poverty reduction, but with limitations:** The economy has averaged better than 7% growth p.a. for the past decade and Viet Nam has shown both a strong commitment to, and good track record on, poverty alleviation. At the same time, the gap between rich and poor has widened rapidly, and certain regions such as the Northern Mountains and Central Highlands, as well as certain sections of the population like the ethnic minorities, seem to be largely left untouched and marginalised by these developments.
18. **Strongly centralised:** Viet Nam's structure of government remains strongly centralised in Hanoi, reflecting a history of rigid state planning. However, it is also true that the policy and operational links among the MPI, line ministries and provincial governments are not necessarily strong and that they are sometimes disconnected. In Vietnam the line ministries and provincial governments have discretion to interpret the rules and regulations set by the central government⁴ Also, the government is in a process of decentralising and devolving powers to the local level, both legally and in practice, and is aiming for a greater role for civil society through the Grassroots Democracy Decree. Donors have been actively supporting the decentralisation process in many different ways.
19. **High levels of corruption:** Cross-country surveys tend to suggest that the level of corruption in Viet Nam is significant⁵. In its most recent report, Transparency International, the leading global institution monitoring and measuring corruption, has ranked Viet Nam 102nd out of 146 countries (the 146th being the most corrupt).

DEVELOPMENT CONTEXT

20. **Many donors:** Viet Nam is attractive to foreign aid and has consistently been among the top ten recipient countries for aid. Some 25 bilateral donors and 15 international organisations are present in Viet Nam and pledges have risen steadily to now more than US\$3 billion per year,

⁴ Izumi Ohno and Kenichi Ohno (2005) "Fostering True Ownership in Vietnam: From Donor Management to Policy Autonomy and Content," GRIPS Development Forum, in Izumi Ohno (ed.) True Ownership and Policy Autonomy: Managing Donors and Owning Policies.

⁵ Governance, Vietnam Development Report 2005

although disbursements are typically much lower. Recently small donors, such as Ireland, have also shown interest in providing aid to Viet Nam. A number of donor groups exist: the 5 Banks, the Like Minded Donor Group, the EU, the UN and the Japan group. In addition, international NGOs jointly disburse more than US\$100 million per year in Viet Nam⁶.

21. **Non-aid dependent:** In spite of the high influx of aid, which is mainly attributed to “a modest but noticeable shift in [global] aid toward better policy performers”⁷, Viet Nam is a non-aid dependent country for which ODA represents between 4% and 6% of GDP. Government ownership of public policy is very strong and it has shown itself willing to forgo ODA rather than accommodate certain donor demands.
22. **Motivation and nature of aid:** ODA to Viet Nam is not humanitarian assistance, it is development assistance with long term aims and objectives. Donors to Viet Nam cite a range of motivations for giving aid, of which influencing reform is an important one, acknowledged by government. Since 1996 the largest share of aid to Viet Nam has been in major infrastructure development⁸, which is seen as a key to supporting Viet Nam’s quest to maintain strong economic growth and further reduce poverty. Other key areas of interest for donors are in legal reform, anti-corruption measures, poverty alleviation, water and sanitation and health – especially HIV/AIDS. Work undertaken to address corruption, support banking, administrative and legal reform is geared to help Viet Nam integrate with the global economy.
23. **Likely to graduate:** The GoV predicts that GDP per capita will have reached \$US1,000 by 2010. This is also the time when most donors expect to start scaling back their ODA to Viet Nam or focussing it solely on the pockets of persistent poverty in certain areas. The Netherlands, DFID and Ausaid all expect to reduce their ODA at around this time, while the IFIs expect to move to less concessional lending instruments.
24. **Harmonisation pilot country**⁹ : Viet Nam has invested considerable political capital in its status as a pilot country on harmonisation. It has been a very active participant at OECD/DAC meetings. In the lead-up to the 2008 High Level Forum Vietnam will host a regional meeting on aid effectiveness. The willingness of the government, and donors, to promote the harmonisation agenda was clear with the development of the HCS so soon after the Paris Declaration.
25. **Motivation for government to harmonise and aim for greater A/E:** The “disbursement of ODA funding for projects is painfully slow in Vietnam,” according to the Vietnam Development Report 2005. “As a result, the attainment of development outcomes is delayed, and the potential for demonstration effects reduced¹⁰.” Given this context, Viet Nam has become more open to greater A/E and, particularly, new aid modalities such as budget support that allow for faster and more efficient disbursement.
26. Further, given the imminent graduation of Viet Nam to becoming a middle-income country, remaining an attractive destination for ODA is important to the government. As one government

6 Governance, Vietnam Development Report 2005

7 Overview of Overseas Development Assistance in Viet Nam, UNDP, 2004, p2

8 Overview of Overseas Development Assistance in Viet Nam, UNDP, 2004, p 11-12

9 A comprehensive list of harmonised activities in Viet Nam can be found at http://www.aidharmonization.org/ah-cla/ah-browser/index-abridged?rgn_cnt=vn&master=master

10 Governance, Vietnam Development Report 2005

official noted: "Donors face a choice to support Viet Nam or to support another country and increased aid effectiveness has a direct impact on where donors will put their money in the future. If development assistance brings nothing then I'm afraid donors will just put their money elsewhere."

27. As a result, Viet Nam is open to innovative ways of doing business¹¹. This is not only indicated by its demands for greater donor harmonisation and alignment of policies and procedures, but also for example by the opening up of government systems and policies to donor involvement, as demonstrated by the recent joint government-donor evaluation and re-design of the government's two major poverty programmes (HEPR and P135), and by the merger of the CPRGS and the SEDP.

THE AID EFFECTIVENESS AGENDA IN VIET NAM

28. The debate on aid effectiveness in Viet Nam started in earnest in 1999 when the government raised concerns about the burden of ODA administration at an MPI-donor workshop on partnerships¹². Following this the GoV assigned the Foreign Economic Relations Department (FERD) of MPI to co-ordinate aid effectiveness issues. Specifically the GoV was concerned about harmonisation issues related to excessive procedures and time consuming reporting requirements.
29. The Partnership Group For Aid Effectiveness (PGAE) is the prime forum for government-donor dialogue on A/E and is co-chaired by a government and a donor representative. The PGAE has met regularly since 2003 and provides a forum for the GoV and donors to promote A/E under a common umbrella. The major outputs of the PGAE have been the Harmonisation Action Plan and the Hanoi Core Statement.
30. The Hanoi Core Statement is the principle document with reference to aid effectiveness in Viet Nam. All donors have now signed the HCS, although both France and Denmark suggested a full commitment to the HCS should wait until after the global targets have been clarified in September. The HCS also needs the approval of the Prime Minister, something MPI is currently seeking.
31. The activities of donors have centred on the harmonisation of procedures in Viet Nam as an area where donors can find substantial common ground and with a view to broadening the approach to A/E over time. "The donor community and the Government agree that the ultimate objective is to align operations to Vietnam's own strategies, priorities and systems. Working toward this objective, strengthening Government's public administration capacity and systems are crucial and donors are currently providing assistance in this regard¹³."
32. A range of practical and ad hoc initiatives also serve as arenas for discussing A/E issues. This includes those linked to the PRSC coordination which has increased the harmonisation and alignment around policy and "developed into an effective instrument for ensuring a coherent

11 Overview of Overseas Development Assistance in Viet Nam, UNDP, 2004, p2

12 EU Roadmap for closer Co-Ordination and Harmonisation Among EU Donors in Vietnam, p5

13 Harmonization and Alignment for Greater Aid Effectiveness in Vietnam – Report 2004, PGAE

donor approach to macro-economic and structural reform policy issues, [and] is increasingly also a powerful platform for building agreement on sectoral strategic issues amongst the wider donor community and the Government”¹⁴.

33. The five banks - ADB, Agence Française de Développement (AFD), JBIC, KFW and the World Bank – are responsible for 80% of the aid flows to Viet Nam. The five banks group has taken the lead in supporting the government in its work on harmonisation and alignment of procedures focusing on five areas; project preparation, procurement, financial management, environment and social safeguards and portfolio management. The five banks initiative was placed under the PGAE umbrella in 2003.
34. The United Nations Development Assistance Framework (UNDAF) is the planning framework for the development operations of the UN system at country level. A Common Country Assessment has been developed for the next UNDAF, which will align to the SEDP¹⁵.
35. The ad hoc LMDG aims to improve A/E and has a wide ranging action plan to support country led development that includes promoting government ownership and aligning donor assistance to the SEDP (including the possible development of a shared results framework). The LMDG “operates delegated cooperation in a number of sectors. This system is based on a single donor taking the lead with pooled financing significantly reducing the transactions costs among donors and providing faster and more flexible responses to Government”¹⁶.
36. EU development counsellors hold regular meetings with a view to sharing information and avoiding overlaps. The EU roadmap for harmonisation outlines a range of measures for EU donors to take to harmonise among the member states, such as providing joint statements to the Consultative Group meeting. The EU has established common EU norms for local costs in development activities, which have served as reference point for other donors¹⁷”
37. A range of other forums, including the twice-yearly Consultative Group meetings between donors and GoV, around 20 sectoral Partnership Groups, and the Inter-ministerial Task Force to improve ODA delivery also touch on questions of A/E: “Government ownership is reported to be strong in some with a donor agency taking a stronger leading role in others”¹⁸
38. Additionally donors have moved, or are planning to move, toward multi-donor instruments in areas such as forestry, education and water. Implementation of these programmes has provoked discussions among donors and government around the practical issues associated with working in a harmonised way.
39. Other harmonisation related initiatives include the Comprehensive Capacity Building Programme (CCBP) for ODA management, implemented by the Ministry of Planning and Investment and funded by around US\$4mil in commitments from Japan, managed by the the World Bank and the Like-Minded Donor Group. The CCBP was launched in 2004 to revise and update the regulatory framework for ODA, to solve problems in project implementation and to train staff in

14 Harmonization and Alignment for Greater Aid Effectiveness in Vietnam – Report 2004, PGAE

15 EU Roadmap for closer Co-Ordination and Harmonisation Among EU Donors in Vietnam, p5

16 Harmonization and Alignment for Greater Aid Effectiveness in Vietnam – Report 2004, PGAE, p12

17 The Timid Giant - European Union Progress on Aid Effectiveness, <http://www.eurodad.org/articles/default.aspx?id=616>

18 DAC Survey, p136

project management and new aid modalities. It is a core part of building government leadership of the A/E agenda.

40. Viet Nam is revising Decree 17/2001/ND-CP for ODA management and utilisation as well as developing an ODA Master Plan with the aim of contributing to the enhancement of ODA effectiveness. A 2nd Draft of Decree 17 has been submitted to the Prime Minister for consideration. The 2nd Draft of the ODA Master plan has been finalised and is being reviewed before circulation and presentation to donors at a workshop.
41. All donors expected their future country strategies to reflect moves towards harmonisation and be consistent with the Hanoi Core Statement.

STAKEHOLDER PERCEPTIONS OF AID EFFECTIVENESS

Introduction

42. The evolution of the CPRGS and SEDP, the process of dialogue through the PGAE and the development of the HCS have all acted to narrow the gaps between donors on interpretations of aid effectiveness as a means to get “the best development and poverty reduction outputs relative to inputs”. A consensus has emerged with strong support from donors for the HCS. The HCS has successfully brought new attention to the A/E agenda and involved new donors. The US, which had been generally uninvolved in A/E questions prior to signing the HCS, is now a member of the PGAE.
43. The sector groups have provided practical venues for donors and government to discuss issues such as alignment and transaction costs, but not necessarily with reference to the HCS. When the HCS was presented to the Education Sector Working Group, few members had prior knowledge of it.
44. Recognising that large inflows of aid to Viet Nam may decline over the next decade the Vietnamese government has shown an interest in promoting A/E as a way of optimising the use of aid in the next few years.
45. However there is a commonly – though not universally - held view that the implementation of the A/E agenda has been too slow.
46. A number of donors, including some of the strongest proponents of the HCS, agreed that there has been a disconnect between talk and action in Viet Nam. “The documents from the PGAE tend to be framed in a lot of intentional language. To achieve alignment “donors will need to get behind the HCS with concrete measures and ways to achieve targets,” one donor representative said. According to one donor there is scepticism in the wider donor community about the implementation of the Hanoi Core Statement. “At the CG everyone agreed on principles but could not agree on targets. That will be the hard part. Japan, for example, will never give up its own procurement on big projects,” he said. Although a Japanese representative countered that this was incorrect since “a large part of Japanese aid is already untied”.

47. Representatives of Japanese agencies agreed the A/E agenda had in fact slowed the delivery of aid. "In Viet Nam we have been very good at formulating documents on harmonisation but if you compare us to the Philippines we are very slow at implementation," one Japanese representative said.
48. Another Japanese representative agreed, arguing that the move to developing and agreeing to the HCS was premature. "We should have stopped and evaluated the Harmonisation Action Plan to see what's been achieved before setting out to write and endorse the HCS," he said. He argued the process of adjustment to harmonised practices, especially for Japanese agencies would be very costly and time consuming. "There is too much focus on the aid effectiveness agenda. We have produced so many documents that we have to adjust locally in order to meet these international agreements. Then it tends to dominate our work and produce a lot of paperwork but very little on the ground."
49. The targets in the HCS are aggregated; therefore the burden of implementing the HCS is likely to fall unevenly, depending on each agencies specific profile. For example many agencies typically implement projects via PMUs while others do not. Therefore the HCS target of not creating new parallel PMUs will be more difficult for some agencies than others. Moreover not all donors are involved in all targets, e.g. the proposed target "50% of donors channelling at least 50% of their funds through the country system". Some donors felt this would allow agencies to rely on the efforts of others to meet the overall targets.
50. Typically, country offices would like to proceed faster than their headquarters on aid effectiveness. Although from a government perspective there was scepticism about those who cite limitations from headquarters. "It can be a way of manoeuvring for those who are not fully committed. Some donors have the same institutional arrangements but one agency will still do better than the others. From our perspective the attitude of the people in country is the most important thing."
51. Some donors considered the A/E agenda to be based on the experiences of donors in Africa and thus were not entirely applicable to the Vietnamese or Asian context. Donors also reported that that GoV representatives were often not receptive to aid lessons developed in the African context.
52. While acknowledging that harmonisation needs to be tailored to the particular circumstances of Viet Nam one DFID representative countered the position that aid necessarily "works well" in Viet Nam. "The history of projects in Viet Nam has been shown to be not sustainable, this is the basic problem with the old model".
53. A government representative argued the localisation of the Paris Declaration had made it more relevant to Viet Nam by, for example, placing less emphasis on the need for ownership, which is already strong in Viet Nam, and more on harmonisation and alignment

Perception of DFID's role

54. DFID is viewed as one of the driving forces of the aid effectiveness and harmonisation debate in Viet Nam through its role on the PGAE and in the LMDG. In particular it is viewed as a leader in promoting new aid modalities such as budget support which is typically viewed as both a

progressive and a high risk approach. "Without a doubt DFID is the most progressive donor in Viet Nam," was a typical response from other donors.

55. Donors that are in the process of advocating a more progressive stance to their headquarters, such as Belgium and Japan, found the presence of DFID useful in providing practical examples of successful practices of alignment through, for example, DFID budget support to Programme 135.
56. DFID is also seen as strategic in its approach to drawing other donors into the A/E agenda, but it is also viewed as insensitive to competing agendas or the priorities of other agencies. DFID was criticised by some as being in favour of cooperation but not as equal partners, for increasingly "doing its own thing" in a way that is typical for a big donor, and to be using the LMDG for its own agenda to promote a rapid shift to sector budget support without taking into account the reservations of other donors about the timing of this move. The latter, according to one donor, had in fact relieved the pressure on government to improve its procurement and financial management systems.

Perception of Ownership: Vietnam defines operational development policies

57. According to the PGAE report "The term 'ownership' is commonly understood to imply the way in which the Government drives its development process¹⁹".
58. All donors agreed that government ownership in Viet Nam is very strong. Viet Nam is not aid dependent and has shown over time that it will act independently. Foreign investment and remittances from overseas Vietnamese both outstrip ODA as sources of foreign income. There was a strong consensus that the Vietnamese government could be influenced, but not intimidated or coerced by donors. In 2004 the GoV discontinued the IMF's loan arrangement with Vietnam under the Poverty Reduction and Growth Facility (PRGF) rather than comply with IMF conditions.
59. Donors interviewed agreed that the A/E agenda was focused on increasing the influence of donors on government policies and practices. Donors, particularly those from technical agencies, emphasised the importance of technical assistance to driving innovation and reform in Viet Nam. Several suggested that modalities that emphasised government ownership, such as budget support, should not be implemented at the expense of technical support. "The government needs a range of resources, not just financial, what donors can bring is technical expertise," according to one.
60. One DFID representative conceded that budget support could diminish donor influence but suggested that created a "much healthier partnership" with the government in the driver's seat.
61. Donors report that many, but not all, sectoral partnership groups enjoy strong government leadership²⁰.

19 Harmonization and Alignment for Greater Aid Effectiveness in Vietnam – Report 2004, PGAE, p6

20 OECD DAC Survey

62. Significantly the merger of the CPRGS with the SEDP places donor efforts on poverty reduction within a government owned framework. Donors have placed strong emphasis on the need for a consultative process that takes into account the interests of civil society in developing the SEDP.
63. On A/E the Vietnamese government has shown strong leadership emanating from the Ministry of Planning and Investment and, in particular the Foreign Economic Relations Department. High-level commitment to tackling the problems of aid effectiveness and efficiency was apparent at the 2004 National Disbursement Conference, which was chaired by Deputy Prime Minister Vu Khoan for the first time. The Deputy PM criticised donors for slow disbursements and cumbersome procedures at the conference²¹. This was followed by Directive 17, issued by the Prime Minister, which emphasised the need for greater coordination of ODA and the updating of the legal framework for ODA.
64. Viet Nam took just one month to localise the Paris Declaration²² in the form of the HCS and both the government and donors signalled a strong commitment to the HCS at the mid-term CG meeting in June 2005. Along with the Harmonisation Action Plan it is a key document in moving the aid effectiveness agenda forward in Viet Nam. The existence of the V-HAP and the HCS gives donors a very clear framework, endorsed by the government, to operationalise A/E activities in Viet Nam. As one government source says the A&E and harmonisation agenda is relatively new to Viet Nam but has progressed very quickly. "This only started to be discussed a few years ago. With the HCS it has now moved up from MPI to the government level and we are trying to build awareness through the V-HAP".
65. At line ministries and other levels of government work is underway, through the CCBP, to educate and inform civil servants about new aid modalities and more harmonised approaches to aid delivery.

Constraints

66. While government ownership extends to ownership of the A/E process at the highest levels, the knowledge of, and interest in the A/E agenda, is limited both in depth and breadth according to government interviewees and most donors. Vested interests make line ministries reluctant to embrace the A/E agenda, according to a number of donors.
67. "The HCS is just an agreement between the MPI and the donors. Line ministries, sectors and provinces don't know what it is," according to one Japanese representative. "Harmonisation knowledge is very limited in the government, basically to two people at MPI," one European donor said. The same donor argued it was not in the interests of MPI in general to promote alignment of donors to sectors, especially via sector budget support. "Other people in MPI will stand to lose a lot of power if line ministries manage their own funds," he said. That donor identified the government as the key stumbling block to moving toward greater H&A. "The main factor for Viet Nam is their unwillingness to move toward harmonisation. They just don't feel the pressure to do it," he said.

²¹ Aid Coming Too Slow For Growth, VNEconomy, 29-3-04 <http://www.vneconomy.com.vn/eng/?param=article&catid=01&id=040329114352>

²² The Paris Declaration commits donor countries, multi-lateral organisations, and partner countries to the strengthening of aid effectiveness through far-reaching and monitorable actions, reforming the way aid is delivered and managed.

68. Some donors argued that due to vested interests the line ministries would not support the HCS goal of eliminating PMUs. "We want to move away from parallel structures but the government likes PMUs. It is not in the interests of line ministries to get rid of PMUs," said one UN representative. Staff at PMUs earn higher salaries and have access to benefits such as cars and overseas study that make them attractive places to be employed. A contradiction exists between the goal of government ownership and of alignment with government structures because elements of the government had a strong desire to maintain parallel structures, he said.²³
69. The government has encouraged donors to align to the next 5-year Socio Economic Development Plan (SEDP), something donors have indicated a willingness to do. A draft of the SEDP has been produced and is currently being examined by donors. The SEDP and CPRGS process will merge in the 2006-2010 period and could serve as the main coordinator of ODA activities in that period, although, according to the Vietnam Development Report, donors will only be willing to align to the SEDP if it embodies ambitious reforms²⁴.

Perceptions of Alignment: Donors align with Vietnam's strategies and commit to use strengthened country systems

70. Japan has very strong alignment to government priorities in its development programme but has procedural barriers to using government systems. "The difficult issue for us is procurement and financial management. The Japanese government is quite strict and conservative about the accountability issue," one Japanese representative said.
71. Different philosophies exist between the different donor groupings; the five banks have worked to align procedures among themselves with the view to eventually aligning the procedures to improved government procedures; LMDG donors, on the other hand, are working toward using existing government procedures wherever applicable.
72. A number of donors have already moved in significant ways to use Viet Nam country systems. DFID has granted budget support to the government's P135 poverty reduction programme. In the education sector the World Bank, along with DFID, New Zealand, CIDA, Belgium and the EC agreed to support the achievement of the Government's Education For All goals by providing targeted budget support to the government's National Target Programme.
73. Similarly AFD, a representative says, does not impose detailed or systematic guidelines of its own, to areas such as procurement, but limits its requirements to a general reference to the global good practices recommended by the OECD. Therefore "in practise, the use of AFD financing is already aligned, to a large extent, to national systems and gaps that still exist between the national systems and the global practises are addressed on a case by case basis, at the review/no objection level."

²³ The Joint Portfolio Performance Review IV, May 2005 has a discussion on potential advantages and disadvantages of different PMU structures

²⁴ Governance: The Vietnam Development Report 2005, p141

Constraints

74. A lack of willingness to compromise on the part of the government was criticised by one IFI representative for undermining the five banks efforts to achieve alignment and harmonisation in procurement. “The problem is the government system is too rigid. We had two years of discussion to get an agreed form on bidding for goods but the government couldn’t accept it. Why would the banks make compromises when the government won’t change?” he said. For its part the GoV saw the proposed procedure as an example of “harmonising up”, that is the proposed procurement form collated many of the most stringent conditions of all five banks to create a complex and difficult procedure.
75. Donors cited the lack of transparency in the operation of, for example, the salary structures of government as a key obstacle to aligning more closely with the government system. “The government prefers donor cost norms because they can’t come clean about their own salary schemes,” one donor said.
76. Visibility was an impediment to using country systems for a number of donors, including Ausaid, Japanese agencies and the EC. Non-project approaches, such as budget support, can eliminate opportunities to “show the flag”.
77. In the Vietnamese context most country offices are ahead of their headquarters in promoting the harmonisation agenda. Despite national governments having signed off on the Paris Declaration, the culture of many agencies has not changed sufficiently to allow for positions that are fully supportive of A/E. A number of donors find significant obstacles to using country systems due to resistance from headquarters. One EC official, for instance, said “Brussels says wherever possible we need to align with the government and to harmonise. However a lot of people in Brussels still think in project mode and therefore, the preparation of SBS programmes is not always easy. In the field everyone recognises that harmonisation and alignment is the only way to go but back at headquarters they are still contradictory. Every project document has guidelines on visibility but that is impossible to do in a harmonised approach. The only visibility should be that of the Government of Viet Nam,” the same official said.
78. Alignment was criticised by one technical advisor for being an approach that would not drive innovation or excellence. “If you only do what the local system wants to do you will get no vision. For example five years ago Viet Nam had no interest in joining the WTO – innovation in Viet Nam is brought to the table by donors,” he said.

Perceptions of Harmonisation and Simplification: Donors implement common arrangements and simplify procedures

79. Every significant donor to Viet Nam is keen to push forward with harmonisation. The differences between agencies tend to be ones of the emphasis each gives to H&A and the speed and sequencing with which they wish to approach H&A activities.
80. There is clear direction from the government on the need to harmonise. “Recognizing the potential complexities of ODA management processes and faced with rapidly increasing ODA

flows, the Government of Viet Nam early urged donors to build partnerships to reduce the management burden on the country's administration²⁵."

81. Interviewees pointed out the alternative of doing nothing was unacceptable. "The burden on government is clearly high so something needs to be done," one donor said. For example Viet Nam received around 400 donor missions in 2003 absorbing valuable government time and resources²⁶. Oft cited was the example that the Ministry of Finance had built an entire building just to house its numerous donor funded PMUs. The government is demanding streamlining, greater alignment and effectiveness, even if some of its constituent elements work against this. Not harmonising runs the risk of burdening the government to the point that it will simply rationalise donor inputs, as India did, by only dealing with large donors, according to one interviewee.
82. "One reason the harmonisation agenda picked up quickly in Vietnam," according to one donor representative "was that fact that the donor's procedures 'clashed', maybe more than in other developing countries, with detailed/complicated and sometimes internally conflicting national procedures. There is in my opinion a tendency of the GoV to "over-regulate" not only the use of aid, but the use of government funds in general. One consequence of "too many" regulations, directives, circulars,... is that these regulations are sometimes not harmonised between themselves (project preparation or procurement are good examples in this respect). In the field, the project implementers have clear difficulties in coping with these diverse regulations and these difficulties are not only related to the limits of project management capacity. There is therefore a need for "internal harmonisation". In this context, the emphasis on "simplication", in the HCS et VHAP, is most welcome .

Constraints

83. Japan has argued strongly that it is not in the interest of the government of Viet Nam to have too few voices from the donor community: "The Japanese position is that diversity and complementarity is essential. There is a danger that donors will put too much pressure on the government . Diversity of donors gives the government a wider portfolio to choose from and mitigates against the fluctuations of ODA volumes. If donors speak with one voice then there is a monopoly, this might be good for donors but not for the development of the country. It is a question of balance, twenty donors might be too many, but one is too few," one Japanese representative said.
84. A lack of incentives at the country level led to some donors being less engaged with harmonisation than others. One European donor made the point that "International commitments don't really mean very much. We need to have real bilateral commitment within our own systems." While that commitment is formalised in DFID it tends to be more vague at other agencies. Danida, Finland and Norad have quite strong direction to engage in harmonisation and alignment. Danida, for example, has its programme regularly audited by headquarters, which assesses, among other things, its progress in terms of harmonisation and alignment.

25 Harmonization and Alignment for Greater Aid Effectiveness in Vietnam – Report 2004, PGAE, p5

26 DAC survey p143

85. Other agencies including AusAID, NZAID, the World Bank, CIDA and USAID have been given general direction on H&A by their headquarters but H&A is one of a range of criteria for performance assessment rather than at the top of their agenda.
86. A lack of decentralisation limited some other agencies participation. While Belgium is a signatory to the Paris Declaration it has no specific harmonisation plan and very little decentralisation in decision making, "Decentralisation is critical to harmonisation. All the offices that are decentralised are able to support it more. In practice our flexibility is so low that there is little we can do," a Belgian representative said.
87. This position was echoed by the Dutch representative who argued the delays in the formulation of harmonised programmes, such as that in the forestry sector, would be significantly reduced with greater decentralisation of decision making to country offices.
88. In the case of several multi-donor arrangements evidence exists that harmonised approaches can be slow and time consuming. Six donors collaborated to fund the National Target Programme on Education in a process that was drawn out by the need for such a large number of donors, with different systems and priorities, to agree, to gain the consent of their headquarters and due to some GoV delays. Donors first endorsed the National Education for All Action Plan in September 2003 but the programme of assistance to the National Targetted Programme on education is not expected to begin until October 2005.
89. Conversely several donors pointed out that no one should expect systemic change to be fast or easy but that it could be expected to deliver results in the long term.
90. In relation to the sluggishness of some harmonised approaches such as the forestry SWAP and the NTP in Education most donors accepted that there was bound to be a steep learning curve in pioneering such novel approaches. "The first time you do it, it is bound to be laborious because it is breaking new ground but afterwards you would expect it to be simpler and faster for all the stakeholders involved," one donor said. "Even if the start up costs are high the running costs are much lower," according to another.
91. Moreover while these approaches may be slow, that is not to say that bilateral projects are necessarily much faster, according to one donor.
92. A government informant insisted donors needed to take a longer-term perspective on this question. "What is aid about? It is there to support the country not to create dependency. It is true that donors can employ consultants and parallel structures and implement their projects much faster but this does nothing to build capacity for Viet Nam's long term independence from ODA."

Table 1: All donors support harmonisation to a greater or lesser degree. Donors could be loosely thought of as being of one of four types:

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| (a) Enthusiastic harmonisers | Some donors have set the goal of fully aligning their programmes with government programmes; Norway is one example. DFID has been a champion of harmonisation in Viet Nam and has led the way in using government systems through budget support. |
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| <p>(b) Cautious harmonisers</p> | <p>One interviewee distinguished between harmonising policy and harmonising process. While some agencies are very interested in harmonised policy through aligning programmes to the SEDP they see more obstacles in aligning to common donor processes. There is a large gap, for instance, between Japanese grant aid, which is provided in kind, and the grant aid delivered by most other donors.</p> <p>JBIC has been very actively involved in harmonisation and the formulation of the HCS in Viet Nam but views its position as one of “cautious and prudent harmonisation”. “Our general direction is the same but it is a question of the speed and sequence of events,” according to a JBIC representative. This, it was noted by a DFID observer, represents a significant shift to a more favourable approach to harmonisation compared to a few years earlier.</p> <p>Donors that emphasise a cautious approach often suggest that along with the harmonisation efforts, Vietnamese government’s capacity development and structural reform be facilitated to strengthen the country systems so that donors can strengthen alignment to the enhanced system - with an aim to ultimately merge their assistance into the government system.</p> |
| <p>(c) Limited harmonisers</p> | <p>Representatives from agencies such as AusAID, NZAID, CIDA and USAID and the UN group all emphasised a pragmatic and practical approach to H&A and argued for modest ambitions and achievable targets in harmonisation both in international agreements and in the Vietnamese context.</p> <p>An AusAID representative, for example, indicated that pipeline projects would reflect the goals of harmonisation it was not the aim that every initiative be harmonised. “We take a pragmatic approach and we are not at the forefront of harmonisation. We have general guidelines to move toward harmonisation but would reserve the right to go with a stand-alone project if we thought that was right in the circumstances. Australian national interest is a goal as well as poverty reduction.”</p> <p>USAID is a newcomer to the H&A agenda in Viet Nam. However USAID missions have been instructed to “significantly increase the use of local contracts and grants; to funding host country experts, NGOs and firms in providing technical assistance; and to programming funds through the host government, where appropriate policies and accountability exist”²⁷.</p> |
| <p>(d) Constrained harmonisers</p> | <p>Those agencies typically most constrained in their ability to harmonise with other donors are those with by policies dictated by their headquarters and those with complex organisational structures.</p> <p>The IFIs are constrained by headquarters policy. According to one ODI study the World Bank country offices receive contradictory direction. “In the Board of the World Bank harmonization is not always an issue that everybody agrees with. Relaxing procurement guidelines to allow for more openness provoked reactions from shareholders worried about losing contract opportunities. Country offices are told to harmonise but at the same time to maintain a leadership position and be present in all priority sectors”²⁸.</p> <p>ADB representatives viewed some restrictions as an impediment to alignment but nonetheless valuable. Social and environmental safeguards for example were considered</p> |

27 Notice To Mission Directors –The Paris Declaration on Aid Effectiveness, Andrew S. Natsios

28 Incentives for Harmonisation in Aid Agencies, Overseas Development Institute

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| | <p>non-negotiable but were also seen to add considerable value to project and programme design.</p> <p>The JICA interviewee noted the gap between the 'Japanese model' and that employed by most bilateral donors: "We are positive for harmonization and alignment of the strategy level. But it is rather difficult for JICA to harmonise its operational procedures with other donors. Compared with procedural similarity among the banks or the LMDG, JICA has a unique procedure because we give in-kind assistance so it would be not cost-effective to harmonise with other grant donors in the short term. Thus we are taking a bilateral approach to rationalise and simplify our procedures based on the request of the Vietnamese government, which we consider more practical and cost effective to reduce procedural transaction costs in the short term," a JICA representative said.</p> <p>In the case of Japan a review of policy in light of the Paris declaration is underway in Tokyo. Field offices expect this to eventually relieve some of the constraints on harmonisation in country. Similarly a review of French aid was undertaken in 2004 and could change French willingness and capacity to harmonise. Currently while French agencies have been given general direction to harmonise with other donors, in practice there is little in the way of resources at the country level for them to do so. Similarly reform of German agencies is on the political agenda in Germany and could lead to changes that would enhance aid effectiveness – such as the possible merger of KfW and GTZ.</p> |
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Perceptions of Managing for Results: Managing resources and improving decision making for results

93. According to the PGAE report: "Managing for Development Results is an emerging, and increasingly important concept. This means shifting the focus of monitoring to results and outcomes in the development process, rather than inputs. In this direction, Vietnam has started to introduce results-based management (RBM) in several key sectors and sub-sectors. Subsequently, these could form the basis for resource allocation. The integration of results-based elements into planning and formulation, as well as the monitoring and evaluation system of the country would be the most effective way to realise this new agenda."
94. The Comprehensive Poverty Reduction and Growth Strategy (CPRGS), which was approved in 2002, is much more focused on attaining development outcomes, such as the Vietnam Development Goals (the localized MDGs), than production targets²⁹.
95. A number of agencies (including the UK, The Netherlands, Denmark, France and Sweden) have shifted to more results oriented frameworks³⁰. For GTZ managing for results is a "guiding principle, I think we are far ahead in our instruments," a representative said.

²⁹ Vietnam Development Report

³⁰ The Timid Giant - European Union Progress on Aid Effectiveness

96. According to one European donor there needed to be more discussion of managing for results among donors to Viet Nam. "This should be on the PGAE agenda more and should stay consistently on the agenda". However, he made the point that the critical locale for debate about managing for results should be in the sector groups. "It needs to be talked about where you can really set concrete targets."
97. Currently the PRSC is "not really outcome-oriented, it is more indexed on monitoring process," according to one IFI representative. "The PRSC discussion this October will put the question of a more results-oriented framework on the table," he said.
98. A number of bilateral donors indicated they would be looking to scale back their aid after 2010 with the expectation that Viet Nam would have made significant progress towards reaching the MDGs/VDGs. The government is currently preparing an ODA Master Plan, which takes account of this fact. According to one government interviewee Viet Nam would be looking to consultations on the Master Plan as a forum to consider a broad range of questions raised by the government's need to adjust to this situation and donors need to consider "responsible exiting".

Constraints

99. A government official said donors needed to give more consideration to new aid modalities in shifting to more results oriented development programmes. "Everybody is in favour of managing for results but not everyone realises what is needed. It is very important to identify in this regard where new aid modalities work to promote aid effectiveness. It is our duty to show which modalities work best for which sectors".
100. However one European donor criticised the focus of MPI on promoting the use of budget supporting the context of managing for results. "The Vietnamese try to present this as a case of budget support versus other instrument but that is beside the point," he said. "There is no blueprint, we have to look at the sector and then choose the modality, not the other way around".
101. Government capacity was also an issue. "Within our agencies I don't think all Vietnamese agencies really understand managing for results. We must explain what it is and work to incorporate it into our five-year plan or sector plans," one official said.

Perceptions of Mutual Accountability: Government and donors are accountable for development results

102. The HCS provides for an annual assessment conducted jointly by donors and the GoV. "The will is there for mutual accountability," one donor said. "Donors are ready to make themselves accountable but there remain a lot of technical questions about how you measure your impact, that is the difficult part".
103. One of ten priorities of the PGAE in the period to mid 2006 is the completion of: "An independent assessment of donors' operations and performance, including, among other things,

alignment to the sector/provincial strategies, country analytical work, donor comparative advantages, aid modalities used³¹.”

Constraints

104. Some donors internal systems, including CIDA, do not allow for multi-annual commitments.

105. An IFI representative suggested the HCS was lopsided with strong targets and indicators for action by donors but weak targets/indicators for government. We would have like to have seen a stronger commitment from government. Where the Paris Declaration called for 'broadly accepted practice' in procurement and financial management the Vietnamese only agreed to 'mutually agreed' standards in the Hanoi Core Statement," he said.

RECOMMENDED NEXT STEPS

(1) STRENGTHENING THE DIALOGUE AND ACTION

Focus the PGAE and make it more action-oriented: Leadership by the PGAE is critical to taking forward the A/E agenda in Viet Nam. It provides, in the words of one government representative a “mini-CG” once a month. However, patience with the PGAE is wearing thin in some quarters. There is a widespread frustration that the PGAE is yet to operationalise harmonisation. The implementation of the V-HAP will be critical in this context. One donor suggested the PGAE to become more streamlined and action-focussed, acting as a steering committee and creating sub groups that are accountable to putting interim targets into effect.

Maintaining profile of the Hanoi Core Statement: Following the CG the HCS has achieved a high profile but it is clearly not at the top of the agenda for all donors or widely understood in the government. DFID should focus on practical steps that will maintain the profile of the HCS. Other PGAE and LMDG members should be invited to support this. Disseminating a pamphlet style ‘guide to the HCS’ which outlined and explained the document, its history and its implications may be an option. Further, the HCS should be disseminated through the sector groups and their activities adapted to the HCS where possible.

Advocate among new aid counsellors: Personnel, not just policy, is significant in determining each country office’s approach. DFID should work with the LMDG and the PGAE to involve the new aid counsellors in Viet Nam in the A/E agenda. A workshop to welcome new aid counsellors would be useful in this context.

Advocate via headquarters: Many country offices are constrained by their headquarters policy, especially in those organisations with little decentralisation. DFID should highlight this contradiction in discussions with other signatories to the Paris Declaration and at the OECD/DAC.

Broadening the government understanding/awareness: Work, through the CCBP, is already underway in disseminating the messages of A/E and H&A throughout the government. DFID should

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continue to support this work and look for new opportunities to enhance the understanding of the A/E agenda at line ministries and at the provincial and local level. DFID should disseminate the experiences of provinces selected for inclusion in pilot budget support programmes, such as Phu Tho and Lao Cai designed to inform the Rural Transport 3 programme.

(2) GATHER EVIDENCE

V-HAP baseline survey: A baseline survey is to be conducted as part of the V-HAP. This could become a critical document in demonstrating the flaws in more traditional and less harmonised approaches to aid delivery. It will also be a useful tool for showing progress over time. Donors should monitor the results of this survey.

Project sustainability: It is often claimed that projects sometimes do not have significant outcomes, and/or that when there are significant outcomes these are often not sustainable. A document review of bi-lateral and multi-lateral project evaluations could garner evidence on the limitations of the project approach in Viet Nam. Assumptions of unsustainability of projects could be tested by appraisals X number of years after project termination.

Quantify the costs and savings of harmonisation: Several donors commented that sector approaches could be expected to have high up-front costs but lower running costs over time. Lessons learned from sector approaches were also believed to lower the transaction costs of subsequent sector approaches. The sector approaches underway in Viet Nam in forestry and education may provide an opportunity to statistically measure/quantify the cost of harmonised approaches against the cost of the same deliverables in the absence of a harmonised approach. The experience of these approaches could also be treated as a baseline to measure the time delays/costs of future SWAPs in Viet Nam.

Comparative analysis of harmonisation progress: Viet Nam is considered a leader in adapting the Paris principles to the local context but was also said to be slow in implementing harmonisation by comparison to the Philippines. The cross country study (of which this report is merely one component) should provide evidence in the Southeast Asia and South Asia region on the implementation of the Paris Declaration. A further study of the same type should be added for the Philippines since it is perceived by some donors as a leader in harmonisation actions.

Study on decentralisation: The degree of decentralisation of aid organisations is assumed to be quite critical for the level of donor commitment in Viet Nam towards the Paris Declaration localisation and implementation. A small study focused on a few countries and organisations could probe further to see whether this is a true or false assumption (GoV says it's just an argument conveniently used by some donors). If true, efforts to remove the main obstacles to effective implementation of the EA agenda may have to focus more on national government levels of certain donor countries.

Study on budget support: A DFID study on lessons learned through the implementation of sector budget support, primarily based on stakeholder perceptions, is already underway in Viet Nam. This study could be broadened in scope and include a critical examination of claims by some donors that providing budget support has, in various ways, a negative impact on the effectiveness of aid and poverty reduction.

Capture best practices: Common sense tells us that H&A will contribute in various ways to more effective aid delivery and poverty reduction, yet hard evidence to support these assumptions is limited. Where available in other countries DFID should make an effort to capture best practices as an advocacy tool to demonstrate the potential benefits of increased H&A for overall E/A.

Aid diversity: Some donors maintain that 'too much harmonisation' leads to an unhealthy monopoly. This is a significant issue that justifies further attention though identifying a reliable methodology to test this assumption will not be easy to develop.

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