



The 5 Banks' Initiative

Contributions to Enhanced Aid Efficiency in Vietnam

A summary prepared for the Consultative Group, December 2006



SUMMARY

2006 has seen progress in many areas of the Aid Effectiveness agenda in Vietnam. With the Hanoi Core Statement (HCS) in place the targets have been set and the emphasis has been on implementation. This has resulted in tangible progress in many areas. It has also revealed the ambitious nature of the task the government and donors have set themselves in putting the HCS principles into action in all government-donor business.

A highlight this year has been the development or updating of an impressive string of regulations and official guidelines, on ODA management, public investment, procurement and environment. These reforms bring the use of government regulations by the 5 Banks closer - but gaps remain that will need to be addressed to achieve full alignment with government systems. These changes, in part, reflect the inputs from the 5 Banks analytical work and the group's active contributions to the Thematic Groups under the Partnership Group on Aid Effectiveness (PGAE).

Another important shift this year has been the adoption of some topics previously handled by the 5 Banks by PGAE Thematic Groups, including procurement management, public financial management, and environmental and social safeguards. This has broadened the discussion and ownership of these areas to all donors. The 5 Banks will remain active contributors to these groups. In light of the changes in Vietnam's development needs, and the aid effectiveness agenda, the 5 Banks are now undertaking a stock taking with Government to identify the critical issues most relevant to lending institutions, as Vietnam moves quickly towards middle income status.

BACKGROUND

After Vietnam resumed borrowing in 1992/93, the major development Banks established extensive ODA project portfolios. It soon became apparent that the aid they provided faced delivery problems; often due to discrepancies between Vietnam's regulations and the Banks' own guidelines for use of funds. This situation was further complicated by differences between the 5 Bank's own guidelines. ADB, JBIC and WB identified a range of common performance issues with the government during the first Joint Portfolio Performance Review (JPPR) in 1999. Four JPPRs have now taken place (with AFD and KfW joining the initiative in 2003). These informed the 5 Banks' involvement in Vietnam's aid effectiveness agenda based on the realities of implementation.

In the last two years, the 5 Banks have remained at the centre of the agenda derived from the "Hanoi Core Statement on Aid Effectiveness". In this process, the 5 Banks have adapted their efforts to changing needs. For example, from their original focus on procedural harmonization among the Banks, the initiative is now geared towards strengthening country systems. The aim being to achieve the "alignment" targets of the Paris and Hanoi declarations, and in so doing improve the delivery of the 5 Banks assistance to Vietnam.

The Main 5 Banks Contributions on which the 5 Banks have contributed so far include: (a) the overall legal and institutional framework; (b) procurement management; (c) environmental and social safeguards; (d) project preparation; and (e) project monitoring. Many of these areas also benefited from input from other PGAE donors (see PGAE report). Consequently only areas where the 5 Banks have contributed significantly are included below:

Achievements/Expected outputs	Progress in 2006
Legal and Institutional Framework	
<ul style="list-style-type: none"> - Improvement in the laws and regulations on public investment and ODA management 	<ul style="list-style-type: none"> - Advice on the revised Decree on ODA Management and the development of implementation guidelines based on international experience. e.g. the Circular on PMU Structures. - Advice on the Public Investment Decree/Law. Comments on draft Public Investment Decree (May and November 2006).
<p>Next steps: Support for development of circulars and dissemination of new regulations to government and donor staff to mainstream their use. Support MPI test the application of the new circular in projects.</p>	
Procurement	
<ul style="list-style-type: none"> - Improved Procurement regulations (Procurement Law (2005) and Decree (2006)) - Near finalization of aligned bidding documents for goods - Aligned standard bidding documents for works, standard requests for proposal, and standard bid evaluation forms - Government will have a reliable tool for monitoring procurement - Wider access to procurement information 	<ul style="list-style-type: none"> - Advice on drafting the new Procurement legislation (Procurement Law – 2005, and implementation Decree - 2006). - Support in development of Standard Bidding Documents for Goods. - Support in development of Standard Bidding Documents for Works, Standard Requests for Proposal, Standard Bid Evaluation Forms – ongoing. - Support a baseline assessment and develop a monitoring and evaluation system for public procurement performance – ongoing. - Support the establishment of the Procurement Bulletin Web-site and e- Procurement Bulletin.
<p>Next Steps: Define remaining gaps where 5 Banks and government procedures differ and identify potential sectors/programmes for adoption of common procedures and systems to monitor procurement.</p>	
Environmental and Social Safeguards	
<ul style="list-style-type: none"> - Completion of an Action Plan to harmonize and align environmental safeguard procedures - Improved capacity to undertake 	<p>The detailed comparison of environmental safeguard requirements of the Government and donors was updated following the revision of the Environment Law. A focused Action Plan was developed.</p>

Achievements/Expected outputs	Progress in 2006
<p>strategic environmental assessments</p> <p>- Gap assessment of involuntary resettlement requirements among the Banks and the Government</p>	<p>Support for amendment of the Environmental Law. Support for MONRE and Line Ministries for Strategic Environmental Assessments.</p> <p>Support to analyze differences between government and international resettlement policies.</p>
<p>Next Steps: Implement action plan to harmonize environmental procedures. Use gap analysis to develop action plan for harmonization of resettlement.</p>	
<p style="text-align: center;">Project Preparation</p>	
<p>- Identification of major gaps including the regulatory, institutional and incentive framework leading to....</p> <p>- Strengthened and aligned government procedures for project preparation in new regulations</p> <p>- Transition to modern project costing methodologies</p>	<p>- Assistance to develop a common format for Feasibility Studies and guidelines for the elaboration of Feasibility Studies.</p> <p>- These guidelines should become part of the Public Investment regulations for ODA and then all GoV investment projects. The Feasibility Study Guidelines can then be used by the Vietnamese Government and donors - thereby eliminating the need to conduct two separate studies.</p> <p>- Dialogue on the use of construction cost norms and input pricing in project preparation.</p>
<p>Next Steps: Piloting of common feasibility studies in project preparation.</p>	
<p style="text-align: center;">Project Monitoring</p>	
<p>- Aligned monitoring tool developed and agreed for implementation by the government and 5 Banks</p> <p>- Development of a government Circular that institutionalizes the aligned monitoring tool</p>	<p>- Finalization of Aligned Monitoring Tool (AMT) Development and piloting of the use of the AMT for project implementation, to reduce the reporting burden on PMUs and to improve the quality and consistency of project reporting Three pilots conducted. The AMT has been finalized. The 5 Banks and the Government are working on the detailed schedule for the launch and roll-out of the AMT expected in first quarter of 2007.</p> <p>- Assistance in developing a portfolio monitoring tool for MPI, line ministries and donors based on the AMT.</p>
<p style="text-align: center;">Inter-Ministerial Task Force</p>	
<p>Improved government and donor coordination on resolving project implementation issues</p>	<p>5 Banks worked with the IMTF resolve issues delaying implementation in Hanoi, HCMC and EVN.</p>
<p>Next steps: Move dialogue to more strategic discussion of implementation and future support issues to accelerate progress towards HCS targets.</p>	

5 Banks - Areas for Future Focus

The five banks recognize that the aid effectiveness agenda is developing rapidly - as is Vietnam. The emphasis for government and donors is now to put policy into practice. Recognizing this shift the 5 Banks are reviewing their activities to identify where the most significant results can be achieved in delivering aid, as Vietnam's needs change. The review will aim to align the 5 Banks activities to the government strategy on the use of ODA. To start this process the 5 Banks recently undertook a 'brainstorming exercise' to develop an indicative list of areas of joint work for discussion with the government, as set out below.

PGAE Support will continue to be a key component of the 5 Banks' work as the umbrella fora for Aid Effectiveness work for all donors. To improve the effectiveness of 5 Banks support, a 5 Banks lead agency will be identified in each thematic group to ensure a strong and consistent 5 Banks relationship is developed with government and donor partners.

Improving delivery rates is critical to achieving improved aid effectiveness. The SEDP sets out an ambitious target for the utilization of aid estimating that around \$11Bn will be disbursed and \$18Bn committed over the next 5 years. These targets can only be achieved if disbursement rates are significantly improved, especially in the infrastructure sectors. Consequently the 5 Banks will continue to work closely with the government to improve portfolio performance so that the 5 Banks contribution to Vietnam's development can be maximized. For example the 5 Banks will continue their work to improve and harmonize reporting and project preparation procedures with government - as these aspects are critical to achieving high quality, timely and cost effective delivery of both government and ODA supported investment projects. The 5 Banks aims to work more closely with the IMTF to address problem projects and, as a new initiative, address some of the systemic issues facing ODA delivery with the sectoral agencies directly responsible for delivery.

However this will not be enough to achieve the government and 5 Banks' commitments to the Hanoi Core Statement, consequently five additional activities will continue:

Further Legal and Institutional reforms that build on the recent improvements in the legal documents in procurement, ODA management and construction investment are required. Significant gaps remain between government and donor procedures that will remain a barrier to alignment unless addressed. The 5 Banks will continue to provide advice and support to further align procedures and untie the remaining procedural knots.

Wholesale use of government systems will not be possible until further reforms are completed. It may however be possible to adopt the use of modified government systems in specific sectors, provinces or programs where the recipient government agencies agree to implement versions of government procedures that are equivalent to international standards. The

increased delegation of ODA management provide in the Decree 131 may assist in this process but more work needs to be done on both sides to establish how realistic this approach is.

Capacity building will continue to be an important part of the 5 Banks' support to ensure that policy reforms lead to real improvements in ODA delivery. The CCBP will continue to be an important element of this work but the 5 Banks may also examine the options for the use of incentives to drive improvements in implementation capacity, linked to sector development and training plans.

Sectoral Approaches¹ will also be examined. The HCS calls for an increased use of sectoral approaches to improve alignment and reduce transaction costs. Some of the infrastructure sub-sectors are increasingly becoming candidates for such programmatic assistance. The 5 Banks are considering how such approaches can be adopted in their portfolios. In particular the 5 Banks will examine the options for implementation of the 'Joint Initiative on Sustainable Urban Development' issued by the 5 Banks with Korea and Thailand that was launched in the last WB/IMF annual meeting in Singapore, i.e. the 5 Banks will seek for more effective assistance activities in the field of urban development in Vietnam by sharing experience of good practice in planning, implementation and scaling-up of interventions for sustainable urban development.

Preparing for Middle Income Status as Vietnam gains access to a wider variety of financing options. Experience from other countries demonstrates the need to ensure a smooth transition. This requires that the systems are in place to manage more diversified sources of financing for public investment, such as less concessional finance (including ODA), sub-sovereign lending, guarantees, etc. The 5 Banks are discussing how they can assist in this transition. For example by providing international experience on institutional frameworks, regulations and capacity to use such financing instruments effectively and ensure that their liabilities and risks are recognized.

¹ The HCS defines sectoral approaches as Donor interventions that are coordinated within GoV-led policy and sector frameworks, including general / sector budget support and project modalities

