vietnam: improving oda effectiveness

an update report on harmonization of operational policies, procedures and practices

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Status of Harmonization of Procedures


Background:

1. This is the second report on the status of the harmonization program aimed at improving ODA effectiveness which was agreed at the mid-term Consultative Group (CG) meeting held on May 23-24, 2002. At that meeting it was noted that the three Banks (Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC), World Bank (WB)) would undertake to harmonize procedures and practices in the following key areas: procurement, financial management, environmental and social safeguards, portfolio management, and economic and sector work. Within this broad framework, the joint statement issued at the CG identified short-term priority actions and others which should be considered in the longer term.

2. We are pleased to report that since the last statement progress continues to be good. First, we are delighted to welcome two new members to the original group of three banks. Both the Agence Francaise de Developpement (AFD) and the Kreditanstalt fur Wiederaufbau (KfW) have joined the team, and thus this report is a joint report from all five members. The new members also concur with the agreements reached on the harmonization program to-date. Second, a regional workshop to disseminate information on the Vietnam harmonization experience and share the experience of participating countries in the area of harmonization was held in Hanoi on January 22-24, 2003; Third, the High-level forum was held in Rome on February 23-24 and Vietnam was one of the three countries “showcased” for its successful harmonization efforts. Fourth, a Joint Portfolio Performance Review (JPPR) to discuss key issues hampering implementation of projects in Vietnam was held on May 29, 2003; and Fifth, we have reached agreement on a future agenda for harmonization phase-II while continuing to work on the implementation of the agreements already reached during the first phase.

Regional Harmonization Workshop

3. As part of the preparation for the Rome High-level forum, a 2 day workshop was held in Hanoi. The main objectives of the workshop were: (i) to disseminate information on the experience of the Vietnam program; (ii) to provide an overview of the global initiatives including the MDB technical working groups, OECD/DAC taskforce on donor practices and achievements of the Like-minded Donor Group (LMDG); and (iii) to share the experiences of participating countries in the area of harmonization. The workshop, which was also attended by representatives of seven developing countries in the region, provided a useful forum for a frank and open exchange of ideas and information. The general consensus was that the Vietnam initiative was fruitful and had already yielded very tangible benefits to both the partner country and to the three banks, and would result in substantial reduction in transaction costs.

4. All participants welcomed efforts by individual donors to simplify and rationalize procedures as well as those by groups of donors who have similar aid procedures to jointly harmonize their procedures. The delegates enumerated different problems and burdens associated with different procedures and practices of the donors. Many of the problems enumerated can be resolved through harmonization among the donors, and between the donors and the partner country. Also, each donor agency itself needs to simplify its procedures and practices. In addition, there is a need to encourage harmonization between the partner country’s own ministries and agencies. All of these measures are expected to reduce transaction costs and enhance the effectiveness and efficiency of ODA.
5. All the participants endorsed the **basic principles** put forward at the workshop regarding harmonization. There was general agreement that the following key principles should guide future work on harmonization, which must be regarded as a long-term process:

   a. Ensuring Partner Country Ownership

   Harmonization can only succeed if the partner country assumes ownership of the whole effort. Since harmonization is a long-term process, donor-driven harmonization beyond partner country capacity might risk undermining this ownership. Harmonization must take into consideration the development programs and priorities of the partner country to ensure adequate country ownership.

   b. Country-based Approach

   Each country’s circumstances differ in terms of its aid dependency ratio, its history with different donors, its aid absorbing capacity, etc. Harmonization should be undertaken in a flexible and practical manner by reflecting each country’s needs and its capacity in managing aid delivery. Donors and partner countries should strengthen dialogue to identify the needs of the partner country and to develop a harmonization approach that will fit the real needs and situation of the country. Harmonization must take into consideration the capacity of the partner country to ensure that the harmonization exercise can be suitably addressed and both donors and the partner country should strengthen their efforts to develop country capacity.

   c. Diversity in Harmonization

   The need to adequately address the diversity of the partner country and of the various donors is extremely important. In pursuing harmonization, diversity of aid modalities as well as differences in the partner countries should be respected in order to allow for competitive pluralism among all development actors.

   d. Cost-Benefit Analysis of Harmonization

   Harmonization is not intended to unify or standardize all donor procedures and practices. Target areas for harmonization should be chosen between donors and the partner country after close consultation. A cost-benefit analysis of harmonization should serve as an important criterion in determining priority areas.

**High-level Forum in Rome:**

6. In accordance with agreements set out in progress reports on harmonization to the Development Committee, the High-level Forum on Harmonization was held in Rome on February 24-25, 2003. The forum held seven plenary sessions and was attended by 28 partner countries, several multilateral and bilateral agencies. The meeting was cosponsored by five multilateral development banks—the World Bank, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank—and the Development Assistance Committee (DAC) of the OECD, and hosted by the Italian Government. The meeting was opened by President B. Mkapa of Tanzania.
7. The forum was unanimous in expressing concern over the wide range of donor requirements that have burgeoned over time. The participants noted that the process for delivering and monitoring development assistance were not only generating unproductive transaction costs but also drawing down on the limited capacity of partner countries. The forum recognized that urgent, coordinated and sustained action was necessary to improve effectiveness on the ground and attached a high importance to partner countries’ assuming a leadership role. The key element to guide the reforms are expected to be a country-based approach that emphasizes government leadership, includes capacity building, recognizes diverse aid modalities (projects, sector approaches, and budget or balance of payments support), and engages civil society including the private sector.

8. One of the plenary sessions was devoted to the country and agency experiences where reports on Vietnam, Jamaica and Ethiopia were presented. Messrs. Ung (MPI), Yoshikawa (Government of Japan), Samy (ADB) and Rohland (WB) discussed the experience in Vietnam. It was interesting to note that Vietnam has made considerable progress in its harmonization agenda and was furthest along compared to its peers. Some of the key lessons that emerged from the forum include: (i) Strong Government ownership; (ii) flexibility in amending our individual institutions’ policies and procedures; (iii) implementing progressively by incorporating lessons from the past; (iv) intensive donor efforts through delegated cooperation at the country level; and (v) providing budget, sector, or balance of payments support when appropriate policy and fiduciary arrangements are in place.

9. The forum issued a joint communiqué which confirmed to further deepen collaboration in the future. As next steps the forum participants encouraged partner countries to design country-based action plans (agreed with the donor community) that set out clear and monitorable indicators while the donor community would utilize and strengthen existing mechanisms to maintain peer pressure for implementing agreements. The forum also confirmed a stocktaking in early 2005.

Joint Portfolio Performance Review:

10. As part of the harmonization process between the Government and the 5 Bank’s, the Third Joint Portfolio Performance Review (JPPR) was undertaken in May 2003. The objective of the JPPR was to review implementation performance of projects financed by the five major Official Development Assistance (ODA) development partners in Vietnam, to identify issues, both generic and specific, that are affecting the smooth and timely implementation of the overall portfolio, and to find ways in which to improve overall portfolio performance and effectiveness. In order to focus on areas that continues to restrict the smooth implementation of projects, and to align the JPPR with ongoing harmonization initiatives, the JPPR focused on two specific thematic issues, namely (i) Procurement and Disbursement Plans, and (ii) Reporting Systems. A workshop to discuss the findings was held on May 29, 2003.

11. The workshop noted that since the resumption of lending in October 1993, through December 2002, 192 project loans have been approved by the five banks for a net cumulative commitment of $11.8 billion. The speakers also noted that overall, implementation is improving, albeit slowly. For almost all the banks the number of projects at risk of not meeting their development objectives is lower and portfolio loan disbursements have improved over last year by more than 10%. Overall, ADB disbursements increased by 32%, AFD - 27%, KfW – 24% and WB – 45%. However, difficulties on the long start-up periods (characterized by effectiveness delays), extended project implementation periods, utilization of cost-savings, lack of pro-activity in cancellation of funds (less than 1% of undisbursed funds for ADB and WB and zero for the other banks), are still dominant. Clearly these need to be addressed on an urgent basis.

12. The generic issues that continue to have negative impacts on donor’s overall portfolio performance basically remain unchanged from those identified over the past few years. These generic issues can
be summarized as (i) highly centralized, cumbersome and lengthy decision-making processes, with numerous approval levels for project implementation processes; (ii) insufficient stakeholder consultation/participation; (iii) significant delays in the recruitment of consultants; (iv) delays in the preparation of procurement bid plans and subsequent approval processes; (v) lack of understanding of both government and donor guidelines by PMUs and related agencies; (vi) weak capacity in project management and insufficient experienced staff in PMUs; (vii) inadequate allocation of counterpart funds; (viii) weak contracting industry with domination by State-Owned Enterprises (SOEs); and (ix) inadequate application of social safeguards such as resettlement and environmental guidelines. These issues have been identified in the two previous JPPRs.

13. One of the lessons learned from the previous JPPRs in Vietnam and indeed from other countries is to focus on a few key tasks rather than to attempt to resolve all the issues together. In line with this thinking, the team focused on: (i) Procurement and Disbursement Plans; and (ii) ODA Reporting Systems. While the Government and the 5 Bank’s will continue efforts to resolve the identified generic issues, the above two issues were analyzed and a time-bound action—plan has been prepared.

Future Agenda:

14. As we agreed in the last CG meeting, the five Banks have agreed to a priority agenda for work over the next year. This, in order of priority is:

- Implementation of agreements reached
- Project Preparation
- Joint Monitoring, Evaluation and Reporting
- Procurement
- Environmental and Social Safeguards
- Disbursements.

The five banks will discuss with the Government appropriate mechanisms for implementing the agreed actions including establishing a steering committee to help work on the new agenda as well. This committee will develop the harmonization agenda details under these broad topics and then work on the details to reach agreement. A report on the progress made will be presented at the next CG meeting in December 2003.
Report of the Regional Preparatory Workshop on Harmonization  
Hanoi, Viet Nam, 22-24 January 2003

I. Introduction

A regional workshop on harmonization of donor procedures and practices was held in Hanoi, Viet Nam from 22-24 January 2003 in preparation for the High-Level Forum on harmonization, scheduled to be held in Rome from 23-25 February 2003. This report is a summary of the main messages and conclusions of the workshop. The major objectives of the workshop were to provide an overview of the output of the OECD/Development Assistance Committee (DAC) Task Force on Donor Practices; to disseminate information on the harmonization experience in Viet Nam; to have participating countries from the region share their views and experiences in the area of harmonization; and to provide a set of guiding principles for future work on harmonization in the region. The Asian Development Bank (ADB), the World Bank (WB), and the Government of Japan, in cooperation with the Government of Viet Nam, jointly organized the workshop. Apart from representatives of the organizers, attending the workshop were senior representatives from seven developing countries in the region, and representatives of the donor community in Viet Nam. The report begins with a brief background section. This is followed by a short description of the Viet Nam country experience to date in the area of harmonization. Then follows a section that provides the views on harmonization of the participating developing countries. The report concludes with the proposed guiding principles for future work on harmonization in developing Asia.

II. Background

The need for harmonization emanated from a desire to reduce transaction costs, build capacity in the partner country and improve overall development effectiveness. The Multilateral Development Banks (MDBs) set up a Roundtable on Harmonization in the 1990s to share experience and lessons. MDB technical working groups in several priority areas have facilitated the harmonization effort. The areas include procurement, financial management and analysis, and environment and social assessments. The G7 subsequently put forward recommendations for MDB reform and the reform agenda reinforced the need to strengthen coordination among MDBs.

The MDBs and the OECD/DAC Task Force on donor practices were requested to work together in 2001 to look at how aid can be delivered more effectively through simplifying and harmonizing donor procedures. The main purpose of the Task Force was to elaborate a set of good practice papers. The Task Force invited sixteen developing countries, representing different geographical regions and at different levels of development to consult with and to participate in meetings. The areas covered in the papers are good practices between donors and partner governments, between donor agencies, and within individual donor systems. Several subgroups were set up to report on different aspects of the harmonization exercise. In May 2002, the subgroup on Reporting and Monitoring visited Viet Nam to strengthen cross learning between Viet Nam and the DAC Task Force.

1 The developing countries represented were Bangladesh, Cambodia, Lao PDR, Indonesia, Nepal, Philippines, and Viet Nam. Both multilateral and bilateral donor agencies and financial institutions were represented.

2 Bangladesh, Bolivia, Cambodia, Egypt, Senegal, Guatemala, Kenya, Kyrgyz Republic, Mali, Morocco, Mozambique, South Pacific Forum, Romania, Tanzania, Uganda, Viet Nam.
members, to brief the government and its ODA partners on the OECD/DAC harmonization agenda and the work of the subgroups, and to motivate more local donor agencies to join the harmonization process.

The Monterrey Conference in March 2002 further highlighted the importance of building partnerships among donors and developing countries as a means of making more effective progress towards the Millennium Development Goals. It specifically called on development agencies to harmonize their operational procedures so as to reduce transaction costs and to make ODA disbursement and delivery more flexible, taking into account national development needs and objectives under the ownership of the partner country. The High-Level Forum to be held in Rome was proposed in the second progress report on harmonization prepared for the April 2002 Development Committee Meeting as a follow-up to the Monterrey Consensus. The focus of the Forum is to be on enhancing the effectiveness of development assistance through improved harmonization of donor operational policies, procedures, and practices in the context of the CDF/PRSP and similar approaches.

III. Viet Nam’s Harmonization Initiatives: Achievements and Progress

A. The ADB, WB, JBIC Harmonization Initiative

In response to the Government of Viet Nam's request to improve ODA effectiveness, the Asian Development Bank (ADB), the Japan Bank for International Cooperation (JBIC) and the World Bank (WB) undertook to harmonize procedures and practices in the following priority areas: procurement, financial management, environmental and social safeguards, portfolio management, and economic and sector work. Considerable progress has been made and the regional preparatory workshop discussed this harmonization exercise in considerable detail. The general consensus was that this harmonization initiative has been very fruitful and has already yielded very tangible benefits to both the partner country and to the banks, and will result in substantial reduction in transaction costs. It was repeatedly stressed that harmonization does not mean standardization of policies and procedures. The exercise has demonstrated the importance of ensuring country ownership of the harmonization process, the need to take into consideration both the capacity of the partner country and the views of different government agencies, and also the need to reflect the diversity of each of the banks engaged in the exercise.

A joint report prepared by ADB, JBIC and WB was distributed to the participants at the end of the workshop. The report is attached as Appendix 1. Details of the progress on each of the priority areas are given in the report. The report also contains several Annexes providing further information and documentation on the work completed or in progress.

B. Other Donor Initiatives

There are several harmonization efforts ongoing in Viet Nam apart from the ADB/JBIC/WB initiative. Various bilateral donors and UN agencies are also involved in harmonization efforts with the government, and progress on some of these was also discussed at the workshop. The so-called Like-Minded Group (LMDG) comprising several bilateral donors (including UK/DFID, Netherlands, Sweden, Switzerland, etc.) are coordinating and harmonizing their practices and procedures, and reported on the benefits that they are experiencing through their initiative. The European Union members are similarly engaged in such an exercise, as are several UN agencies operating in Viet Nam.
The number of donor agencies, multilateral, bilateral, NGOs, etc. in Viet Nam runs into the hundreds and the costs to the partner country of dealing separately with each is extremely high. The efforts at harmonization are helping reduce the costs and burden on Viet Nam.

Several studies have been done on the transaction costs of aid delivery in Viet Nam in an effort to demonstrate the need for harmonization. The studies include those by UNDP/DFID, the LMDG, OECD/DAC and JICA. The JICA study, in particular, demonstrated the various costs involved in four sectors, namely agriculture and rural development, health, education and transport. A cost/benefit analysis shows that the benefits of harmonization far outweigh the costs involved and harmonization should result in more effective and efficient use of ODA.

IV. Views on Harmonization of the Participating Developing Countries

There was general agreement from the participating countries regarding the need to harmonize procedures and practices among the various donors operating in each country to reduce the burden on the partner country in terms of transactions costs, and administrative burden. The delegates from seven partner countries (Viet Nam, Bangladesh, Cambodia, Indonesia, Lao PDR, Nepal, the Philippines) expressed their views on harmonization, including their own experiences in this field.

All participants welcomed efforts by individual donors to simplify and rationalize procedures as well as those by groups of donors who have similar aid procedures to jointly harmonize their procedures. The delegates enumerated different problems and burdens associated with different procedures and practices of the donors. Many of the problems enumerated can be resolved through harmonization among the donors, and between the donors and the partner country. Also, each donor agency itself needs to simplify its procedures and practices. In addition, there is a need to encourage harmonization between the partner country’s own ministries and agencies. All of these measures are expected to reduce transaction costs and enhance the effectiveness and efficiency of ODA.

There were several common messages that emerged. The need for the partner country assuming ownership of the harmonization effort was repeatedly stressed, as was the necessity of catering to the actual needs and capacity of the partner country. It was emphasized that local capacity building is imperative to promote country ownership. The experience of Viet Nam in the training of local staff in the area of procurement was explained in this regard.

It was noted that Consultative Group meetings, roundtable meetings and joint portfolio meetings have been utilized to discuss the harmonization process suitable to the county’s specific circumstances. In Viet Nam the discussions have led to major efforts at harmonization in the areas of procurement and financial management. In order to widen understanding on the benefits of harmonization the need for more consultation among the donors as well as between the partner government and donors was emphasized. Some delegates also added that consultation between different government agencies was as important as harmonization between donor agencies, and between donor agencies and the government.

Several participants stressed the importance of aligning donor activities to the partner country’s national or sectoral development plans. Many stated that a “one-size-fits-all approach” does not apply to harmonization in aid delivery and that harmonization should aim
at increasing the effectiveness of assistance by simplifying procedures. It was pointed out that diversity in aid modality and “competitive pluralism” of donors is crucial to respond to the development needs of partner countries. A “two-window approach” (coexistence of pooled funds and project assistance) was suggested by the Nepalese delegation. This would enable the partner country to select appropriate assistance in line with the development needs of the country. At the same time, the Indonesian delegation while providing the example of the health sector, explained the necessity of standardization in such areas as preparation of technical manuals for local workers and medical equipment specification.

The following areas were mentioned as priority areas of harmonization efforts: information sharing, appraisal and approval, procurement, bidding documents, monitoring and evaluation, and financial management. Some participants also expressed the necessity of shifting to the sector-wide approach as an avenue for easing harmonization.

During the discussion, a question concerning the costs of harmonization itself was raised and it was pointed out that the whole effort was not costless. The benefits of harmonization should outweigh the costs of the harmonization effort and such a cost-benefit analysis of harmonization should help determine priority areas for harmonization. Several specific examples were provided by the different delegates that reflected both the need for harmonization, and the areas of priority that each participating country identified in the area of harmonization. In general, the areas covered in the Viet Nam country pilot were considered of importance and were to be given priority in any future harmonization exercise.

V. Key Principles to Guide Future Actions

All the participants endorsed the basic principles put forward at the workshop regarding harmonization. There was general agreement that the following key principles should guide future work on harmonization, which must be regarded as a long-term process:

A. Ensuring Partner Country Ownership

Harmonization can only succeed if the partner country assumes ownership of the whole effort. Since harmonization is a long-term process, donor-driven harmonization beyond partner country capacity might risk undermining this ownership. Harmonization must take into consideration the development programs and priorities of the partner country to ensure adequate country ownership.

B. Country-based Approach

Each country’s circumstances differ in terms of its aid dependency ratio, its history with different donors, its aid absorbing capacity, etc. Harmonization should be undertaken in a flexible and practical manner by reflecting each country’s needs and its capacity in managing aid delivery. Donors and partner countries should strengthen dialogue to identify the needs of the partner country and to develop a harmonization approach that will fit the real needs and situation of the country. Harmonization must take into consideration the capacity of the partner country to ensure that the harmonization exercise can be suitably addressed and both donors and the partner country should strengthen their efforts to develop country capacity.
C. Diversity in Harmonization

The need to adequately address the diversity of the partner country and of the various donors is extremely important. In pursuing harmonization, diversity of aid modalities as well as differences in the partner countries should be respected in order to allow for competitive pluralism among all development actors.

D. Cost-Benefit Analysis of Harmonization

Harmonization is not intended to unify or standardize all donor procedures and practices. Target areas for harmonization should be chosen between donors and the partner country after close consultation. A cost-benefit analysis of harmonization should serve as an important criterion in determining priority areas.
VIETNAM
HARMONIZATION
OF PROCEDURES


January, 2003

Asian Development Bank
Japan Bank for International Cooperation
and
the World Bank
## Acknowledgement

The harmonization team of the three banks working on the Vietnam country pilot is comprised of members from JBIC, ADB and the WB. A large number of colleagues contributed to the program and the team is grateful for this support. The core team who contributed to this document includes:

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Background

1. In recent years, the Development Committee, the G-7 countries, IDA Deputies, the Multilateral Development Bank (MDB) Presidents, and the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD-DAC) have expressed increasing need to address the high transaction costs, fragmentation of administrative capacity, and reduction in aid effectiveness caused by the multiplicity of donor agencies’ operational policies, procedures, and practices. In their various capacities, these institutions and groups have taken steps to foster harmonization both among donors and between donors and recipient countries. Now that efforts are progressing to develop broadly accepted good practice standards or principles to guide such harmonization, attention is turning to implementation at the country level.

2. Since early 1990s the Official Development Assistance (ODA) to Vietnam has accelerated and the number of donors providing support have increased substantially. Growing cooperation among the Government of Vietnam (GOV) and its development partners has increasingly brought into focus the need for harmonization of the operational policies, practices, strategies and procedures of the donor agencies in Vietnam. The participatory preparation of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) is now complete and there is increasing momentum towards further collaboration of donor programs and projects. Such harmonization would further improve the effectiveness of partnerships by eliminating unnecessary differences in operational requirements and reducing transaction costs of development assistance, and would help strengthen the national aid management system.

3. Recently, the Government issued Decree 17, outlining its policies for the management and use of ODA, and Decree 88, governing procurement issues. Decree 17 provides that an ODA program or project preparation plan should identify the differences between Vietnam’s procedures and donors’ procedures, as well as measures needed to harmonize such procedures. However, Decree 17 is framed to manage a project-focused aid program, whereas several development partners in Vietnam are discussing sector-wide approaches supported by new lending instruments such as multi-donor trust funds, pooling arrangements, and budgetary support. Also, there is considerable room to establish and exploit linkages between the ongoing local dialogue and the international dialogue on harmonization. First, Vietnam has the opportunity to contribute to the MDB working groups and the subgroup of the OECD-DAC Task Force on good practice standards or principles in areas such as financial management, and monitoring and reporting. Second, these good practice guidelines can help guide the Government and donors at the local level in their ongoing efforts to strengthen the capacity of local systems and improve aid management in the short and medium term.

The Vietnam Harmonization Program

4. In an effort to reduce the transaction costs and increase the effectiveness of ODA, the GOV requested the Asian Development Bank (ADB), Japan Bank of International Cooperation (JBIC) and the World Bank (WB) to explore areas where these efficiencies
could be achieved through a simplification/harmonization of their procedures. During the Vietnam Consultative Group (CG) meeting held in December 2002, the three banks issued a joint statement summarizing the progress in the broader areas. The broad areas, which are detailed in Annex-I, are Procurement, Financial Management, Environment and Social, Portfolio Management and Economic/Sector work. These areas, which were categorized as short-term priority items and other priority items, are discussed below.

Procurement Agenda

Country Procurement Assessment Action Plan:

5. The Country Procurement Assessment Report (CPAR), prepared by WB and reviewed by ADB and JBIC, was recently completed and includes a range of reform measures in different areas of procurement including regulatory, institutional, procedures and processes (See Annex-II). Procurement has also been discussed in the recently completed ADB and JBIC 2002 portfolio reports. The agreed measures are expected to be implemented in the short, medium and longer terms. The GOV has held several discussions with various line ministries, identified priorities, and established a Steering Committee, consisting of representatives from the three banks, for the implementation of these measures. It also recently conducted a second workshop with participants from various line ministries to discuss the recommendations, identify priorities and agree on a timetable for implementation. The current status of discussions and agreements reached with the GOV, ADB, JBIC and World Bank are as follows:

- **Working Group**: As part of ownership of the Action Program, the GOV has established an inter-ministerial Working Group to help implement the action program.

- **Implementation Plan**: Based on the recommendations in the CPAR, the GOV (Working Group) will prepare an Implementation Plan (IP) which would include a schedule on implementation of different measures together with the financing needs.

- **Steering Committee**: To support the implementation of the Action Program, a Steering Committee (SC) chaired by the GOV has been established. The Committee would monitor the implementation of the IP and resolve any emerging implementation issues. The donor agencies have designated the members of the Committee.

- **Financial Support**: An important component for the successful implementation of the IP is the provision of funds for implementation of the Action Plan. It was proposed that the donor institutions should assist the GOV in mobilizing the necessary grant funds to support the implementation.

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1 Specific JBIC priority areas for Vietnam at the mid-term CG in May 2002 are noted with an *
In order to further improve its public procurement system (Decree 88 issued in 1999), the GOV has formulated a new Procurement Ordinance. The ADB, JBIC and WB have provided comments on this ordinance. Since it is important to ensure that the new ordinance is compatible with international practices, the SC must establish a continuous dialogue with the Working Group with the objective that the Procurement Ordinance contains regulations for efficient, economic, transparent, fair and equitable procurement policies, procedures and practices before it is finalized and approved.

**Bidding Documents for Local (National) Competitive Bidding**

The GOV, with the help of a local consulting firm, has prepared draft bidding documents for procurement of goods at the national level. These have been discussed in several joint meetings with the three banks and the new draft is being finalized by the Working Group. The GOV is also completing a draft for the Local Competitive Bidding document for civil works, expected by early 2003. The three banks are providing technical guidance and support for the preparation of this document. Once completed, these documents can be adopted for the LCB procurement of all goods and works by the GOV, ADB, JBIC and WB.

**Thresholds (Upper Limit) for Local (National) Competitive Bidding**

The guiding principle for establishing LCB thresholds (upper limits) is the developmental status of national/local manufacturing and construction industry and probability of foreign contractors’ participation. The three banks have similar principles for deciding on contracts meant for LCB. The ADB uses a threshold of $1,000,000 for civil works, while the WB uses a range, with an upper limit typically of $2,000,000. In the case of goods, the ADB uses $500,000 while the WB uses a range, but most below $150,000 are NCB. Both ADB and WB have agreed to use $2,000,000 for works while conducting further work to bridge the gap on procurement of goods. JBIC considers it more important to allow flexibility in deciding to apply LCB taking account of the size as well as contents of the contracts rather than setting a uniform threshold.

**Review of Documents for Local (National) Competitive Bidding**

The limits for review (Prior/Post) of contracts under LCB/NCB depend upon a number of factors, such as capacity assessment of implementing agencies, risk assessment of compliance, organizational structure and availability of resources of donor institutions, and fiduciary requirements and policies of institutions. Differentiated considerations of these factors in the three banks have led to differentiated thresholds as follows:

- **ADB**: Prior review of first document of each loan and 100% post review of all other LCB documents for contracts below $500,000 for goods and below $1,000,000 for civil works. Further, ADB requires prior review of all bidding documents for packages estimated to cost more than $500,000 for goods and $1,000,000 for works.
• JBIC: All LCB contracts subjected to prior review.

• WB: Goods – Prior review of first document and 20% (high risk country) of others for post review
  Works – Prior review of first document and all above US$200,000; 20% of others below US$200,000 for post review.

10. In order to have harmonized thresholds for the review process, it is essential to have a common approach for capacity assessment. However, given currently differentiated consideration of factors numerated above by the three banks, the common basis of the three banks is a prior review of the first bidding document of each loan and review of other contracts depending upon the fiduciary requirements of different institutions.

  **Eligibility of Dependent State Owned Enterprises (SOEs)**

11. The three banks agree in principle that for a fair and transparent competition there should not be a conflict of interest (COI) between the employer and bidders. In case of Vietnam there are a number of SOEs which are dependent on agencies responsible for the procurement process, which creates a COI. The current status as to how such SOEs are treated is different among the three banks. The WB has restricted participation of dependent SOEs under its funding. While the ADB currently has no such restriction, it shares the concern of COI by such SOEs and launched a mission in November to conduct a study to assess the eligibility of such SOEs, particularly those under Ministry of Agriculture and Rural Development, Ministry of Transport, and Ministry of Construction. A draft report has been prepared and a workshop to discuss the findings is envisaged in February 2003. JBIC prefers to find a solution to the issue rather than restrict their participation. JBIC recognizes that Vietnam’s economy is in transition and prefer to find effective solutions to accelerate SOE reforms and promotion of the private sector rather than exclude any SOEs from participating in bidding under JBIC-financed projects. The GOV recognizes the severity of the issue and has expressed its interest in developing its position on this issue. Progress towards a harmonized approach will depend on further government action.

**Financial Management Issues**

  **Common Assessment of Financial Management Capacity:**

12. Initially, this issue was a priority for ADB and WB, and both agreed to use the financial management questionnaire outlined in WB staff guidelines as the starting point for discussion, and for information gathering in Vietnam for financial management assessments of executing agencies. WB and ADB are currently developing the questionnaire for Vietnam specific implementation. Going forward, further work will be undertaken by the three banks to find a harmonized solution over the longer term.
Common Monitoring/Reporting of Projects:

13. The Project Management Units (PMU), who are responsible for implementing projects and monitoring performance prepare various reports on a periodic basis. These vary according to the PMU needs and the audience. Typically a PMU will prepare reports for its line ministry, the Ministry of Finance, MPI, State Bank of Vietnam, and the three banks supporting the project. These reports differ among PMUs and depend much on the sector and implementation mechanisms employed. Thus, rationalizing these varied reports and arriving at common content across all users will take time.

14. In principle, the monitoring information needed by a well managed GOV project team should not be less than the information requested by the funding agencies to monitor development projects. The ADB and WB agreed to use the World Bank document\(^2\) as the base document for discussion. There is general agreement that the procedures in the booklet are appropriate. However, it was agreed that the booklet should be redrafted in language which applies to loans from ADB and WB and that it be written from the perspective of the borrower. It should also serve as a guide by the GOV to its staff on how to undertake financial monitoring on the basis of international standards that would also satisfy the requirements of the funding agencies.

15. The Government has, with support from AusAid, established a new Monitoring and Evaluation Section in MPI. The unit is in its infancy and will need continued support in the foreseeable future. It is currently developing the necessary M&E tools (databases, reporting formats, frequency etc). However, it needs to urgently consult with the PMUs, who prepare these reports (see para above) and other Government agencies who receive these reports in order to rationalize them. The MPI have retained the services of a consultant who would consult with various stakeholders (PMUs, MPI, MOF, Line Ministries, SBV, donor agencies, etc) and propose a common reporting system which could be adopted by all (See Annex-VI). The consultant will consider the differences between revenue-earning and non-revenue earning projects in the preparation of this proposal. A draft report has been prepared and MPI has agreed to convene a workshop to discuss this soon.

Terms of Reference for Auditors (TORs)

16. The TORs developed by the MDB working group and circulated in a separate and earlier discussion group was used as the basis for discussion. A draft sample TOR has been tabled for further elaboration by the three bank, and it needs to be developed further to reflect country specific conditions in Vietnam. (See annex III).

Quality Assurance of Auditors (Common Acceptability of Auditors):

17. Separate questionnaires xxx from the MDB Technical Working Group, convensing the review of private sector auditors (incorporating amendments suggested by ADB) and

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the review of Supreme Audit Institutions (SAIs) were used as the discussion basic (See Annex IV). The private sector auditors assessment questionnaire was sent to audit firms to gather information to prepare for a joint assessment mission which will begin in February 2003.

Environment and Social Safeguard Issues

18. The key instrument through which the environment and social requirements of the three banks are applied is the Environmental Impact Assessment (EIA). The GOV has in place its own requirements for EIA (set out in Decree 175 CP of 1994 and subsequent instruments). The broad thrust of these different requirements is similar but there are a number of areas within the EIA process which were identified at an early stage in the harmonization discussions for specific attention. These include issues related to the process (coverage, consultation, mitigation measures, timing) and to the documentation, including Environment Management Plans and the related question of disclosure. On the social side, a major issue which is relevant to many investment projects is that of resettlement of people affected by the projects and in particular the levels of compensation that should be paid under different circumstances. The GOV, with ADB support, is also drafting a revised resettlement decree.

Environmental Impact Assessment

19. Discussions on convergence of requirements for Vietnam have taken place in the context of a wider dialogue between the three banks on a common framework for EIA. An emerging consensus here has provided a basis for discussions about the specific conditions of Vietnam.

20. One issue which has been discussed is how differences in lending instruments between the banks would affect any process of convergence. All three banks support project lending and this is the area where joint or adjacent operations are most likely. It is also the one in which significant environmental and social issues tend to arise. For the present, therefore, it has been agreed to focus efforts on dealing with investment projects subject to Category A assessment requirements.

21. A comparison of the specific requirements of ADB, JBIC and WB for projects has shown that the differences are not great and that in practice the approaches are quite similar. This finding has been supported by discussions with line ministry officials, project management units and consultants in Vietnam. On the basis of this comparison, an outline of “Common Requirements for EIA of Projects” has been drafted for use in Vietnam (See Annex V). This outline will be reviewed by the three banks and a consultant will be engaged to refine and expand it, drawing on feedback from technical specialists in the three banks. It will also be discussed on an informal basis with the relevant GOV Environment Agency and other local specialists.

22. There are differences with GOV requirements on some key EIA issues, especially related to consultation and disclosure. These are areas not addressed in GOV decrees and
regulations on EIA and while the requirements of the financial institutions are additional to those of GOV, they are not basically contradictory. These issues are broader than just the application of EIA and further discussion will be required over time to address them.

23. In terms of the specific items listed in Annex I, progress can be summarized as follows:

a) **EIA coverage**: All three banks have very similar requirements for Category A projects (as classified by each bank) and these are consistent with GOV Category I classification. It is clear that major construction projects will basically fall into this classification and thus be subject to a full EIA. All three banks have similar approaches to setting the scope of the EIA and further convergence will best be achieved by sharing good practice examples. It is proposed to engage an experienced local consultant to start the process of identifying and sharing good practice.

b) **EIA consultation**: Again, the requirements of the three banks are similar. In terms of specific requirements, formal consultation is to be carried out as a minimum both at the time of scoping and initiation of the EIA and also when the draft EIA has been prepared. Good practice is that consultation be a part of the whole project design and implementation process. There is no corresponding requirement in national regulation.

c) **EIA documentation**: An outline of EIA documentation that would be consistent with the requirements of the financial institutions and GOV has been discussed. It is anticipated that agreement can be reached by March 2003 on the acceptance of this outline as common guidance.

d) **EIA mitigation measures**: All the three banks require detailing of practical mitigation measures, as part of the EIA process. These are normally incorporated in the project plan and included as part of the Environmental Management Plan (EMP).

e) **Environmental Management Plan (EMP)**: The EMP is seen by all parties as a key tool for improving the implementation of the agreed mitigation measures. They are typically sector specific and one of the medium term actions under discussion is to establish a mechanism for identifying and sharing good practice. Further work is necessary in this area, and an appropriate mechanism is being discussed.

f) **EIA disclosure**: The disclosure requirements of the three banks on release of the final EIA are different, although the overall policy is similar. There is no requirement for the GOV and discussions will continue with the government on this question. Agreement on an in-country disclosure procedure could remove the need for procedural changes in the institutions.
g) **EIA timing**: The timing related to EIA preparation is similar and can be made consistent. The timing for processing of the draft EIA is dictated by internal project processing procedures and will be reviewed over the next few months.

*Involuntary Resettlement*

35. The requirements of the three banks in relation to resettlement are broadly similar and discussions have taken place to move towards a common position. There are differences with GOV on the approach to resettlement and these have been discussed in the context of a new draft decree, which is presently being prepared with ADB assistance.

*Advice on Involuntary Resettlement*

36. ADB have a TA program to provide advice on the new government decree on resettlement which is currently being circulated for comments within GOV. Once this decree is available, ADB will coordinate comments from all three banks. From the time the draft decree is issued, the Drafting Board will have 45 days to prepare an implementing circular. During this time it will be possible for the three banks to influence the contents of the circular and potentially cover gaps that may exist between the new decree and donors’ policies.

*Involuntary Resettlement Database*

37. The value of a database of documentation related to resettlement (and of other documents such as resettlement action plans), which is accessible by the agencies and GOV, is recognized by the three banks. The establishment of such a database within GOV is being discussed with the government.

*Involuntary Resettlement implementation mechanisms*

38. Further work is necessary on both compensation policies and external monitor before agreement can be reached among the three banks and the GOV due to the complexity of this issue. However, in support of implementation of the new decree and the implementing circular, the three banks will develop a common strategy for capacity building, potentially expanding ongoing training efforts already supported by the donors.

*Portfolio Management*

41. **Joint Portfolio Performance Meetings**. ADB, JBIC and WB have already held Joint Portfolio Performance Meetings (JPPM) with the GOV in 1999 and 2001 to discuss the various issues which are common for projects funded by the three banks. In addition, another JPPM among the three banks is expected to be held by June 2003. Further enhancement of role and coverage of these JPPM would be considered.
42. In addition, each bank holds its own portfolio review meetings/missions, and is now opening these meetings/mission to participation by the other banks.

Other Activities

43. It was felt that the current arrangements for ESW provide the flexibility and are appropriate; therefore no further work is envisaged in this area at the current
Annexes
Annex I:

Priority Areas for Harmonization Areas in Vietnam for ADB, JBIC and World Bank

<table>
<thead>
<tr>
<th>No.</th>
<th>Short-term Priority Items</th>
<th>No.</th>
<th>Other Priority Items</th>
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<tbody>
<tr>
<td></td>
<td><strong>Procurement</strong></td>
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<tr>
<td>1</td>
<td>Implementation of the CPAR action Plan</td>
<td>1</td>
<td>Common assessment for thresholds for prior/post review</td>
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<td>2</td>
<td>Common documents for NCB*</td>
<td>2</td>
<td>Eligibility of dependent SOEs</td>
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<td>3</td>
<td>Common thresholds for ICB/NCB</td>
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<td></td>
<td><strong>Financial Management</strong></td>
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<td>4</td>
<td>Common reporting format for select ongoing and all new projects: *</td>
<td>4</td>
<td>Collaboration in financial management diagnostic work</td>
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<td></td>
<td>• Common assessment of financial management arrangements of the implementing agency. *</td>
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<td>5</td>
<td>• Common content, format and frequency of the financial and progress reports required from borrowers. *</td>
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<td>6</td>
<td>Financial Reporting and Auditing</td>
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<td></td>
<td>• Common criteria for the acceptability of auditors, and a common, shared list of acceptable firms.</td>
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<td>7</td>
<td>• Common terms of reference (TORs) for audits of MDB financed projects.</td>
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<td>8</td>
<td>• Common approach to following up audit findings, including imposition of sanctions.</td>
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<td></td>
<td><strong>Environmental and Social</strong></td>
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<td>Environment:</td>
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<td></td>
<td>• EA Coverage*</td>
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<td>• EA Disclosure*</td>
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<td>10</td>
<td>• EA Consultation*</td>
<td>6</td>
<td>• EA Timing*</td>
</tr>
<tr>
<td>11</td>
<td>• EA Documentation*</td>
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<tr>
<td>12</td>
<td>• Mitigation Measures*</td>
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<td>13</td>
<td>• Management Plan</td>
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<td>14</td>
<td>Involuntary Resettlement</td>
<td>7</td>
<td>Involuntary Resettlement</td>
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<tr>
<td></td>
<td>• Advice to GOV on preparation of decree</td>
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<td>• Common data storage and retrieval systems</td>
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<tr>
<td>15</td>
<td>Joint Portfolio Performance Meetings* (including mid-term)</td>
<td>9</td>
<td>Joint Quarterly Review Meetings</td>
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<td></td>
<td><strong>Portfolio Management</strong></td>
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<td>8</td>
<td>Common implementation mechanisms including compensation policies and external monitor</td>
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<td></td>
<td><strong>Other Activities</strong></td>
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<tr>
<td>16</td>
<td>ESW Work (including Common Gender Action Plans)</td>
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Note: *Specific JBIC priority areas for Vietnam, which also include monitoring and evaluation.
# Annex-II:

Reform Measures for Transforming Public Procurement

<table>
<thead>
<tr>
<th>Issue</th>
<th>Recommended Action</th>
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</table>
| 1. Lack of a strong enforcement mechanism                            | Establish a new autonomous Public Procurement Office reporting directly to the top Government level. Ensure adequate resources as a key prerequisite for success of the PPO.  
  • Study the need and methodology for establishing the PPO.  
  • Prepare details of the organization, roles and responsibilities of the PPO  
  Establish PPO                                                        |
| 2. Lack of clear primary public procurement legislation              | (1) Finalize the draft public procurement ordinance  
  • Restrict the use of less competitive procurement methods other than open competitive bidding  
  • Introduce mandatory publication of invitations for bids and contract awards  
  • Introduce mandatory use of standard bidding documents including standard contracts and standard bid evaluation reports  
  (2) Issue the ordinance                                               |
| 3. Inadequate notification and advertising of bidding opportunities and lack of transparency in contract awards. | (1) Study methodology for development of a public procurement bulletin in both paper and electronic form  
  (2) Establish and trial use of the bulletin  
  (3) Mandatory notification of bidding opportunities and contract awards in the bulletin |
## Reform Measures for Transforming Public Procurement

<table>
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<tr>
<th>Issue</th>
<th>Recommended Action</th>
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| 4. Lack of guidelines that clearly stipulate details in the implementation of procurement legislation | (1) Develop guidelines for implementation based on the new ordinance  
- Ensure various procurement methods and their application are clearly spelled out. Open competitive bidding method shall be mandatory for contract packages exceeding certain specific monetary thresholds.  
- Strengthen guidelines for evaluation that explain how to determine the lowest evaluated bids.  
- Streamline the evaluation process.  
- Prepare rules for record keeping following international standards such as explained in the Guide to the UNCITRAL Model Law.  
- Prepare rules for applying the minimum mandatory qualification criteria, including rules for calculating financial strength.  
- Definitions of violations and corresponding corrective measures  
(2) Issue the guidelines |
| 5. Lack of standard procurement documents | (1) Prepare standard documents:  
- standard bidding documents for consulting services, goods and works including standard contracts following international standards  
- standard bid evaluation reports  
(2) Trial use of standard documents  
(3) Mandatory use of standard documents |
| 6. Lack of organizations specialized in procurement | Build organizations specialized in procurement using procurement specialists  
- Analyze workload in procuring agencies and concentrate procurement activities on full time procurement specialists  
- Develop accreditation system for certification of procurement professionals  
- Develop incentives for civil servants to become procurement professionals  
- Link training and accreditation of procurement professionals to administrative reform |
<table>
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<tr>
<th>Issue</th>
<th>Recommended Action</th>
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<tr>
<td>7. Lack of procurement capacity</td>
<td>Develop procurement training capacity</td>
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<td></td>
<td>• Conduct Training Needs Assessment</td>
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<td></td>
<td>• design training delivery model and sustainable financing mechanism</td>
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<td></td>
<td>• Identify and build new training capacity</td>
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Annex III: Terms of Reference for External Auditors

Guidelines for the Preparation of
Standard Terms of Reference (TOR)
For External Auditors of
Budget Support Programs and Investment Projects

Introduction

1. Audited financial statements serve the financial management needs of the borrower and/or executing agency as well as the fiduciary needs of the MDBs. The responsibility of the borrower to arrange for an audit is standard wording in MDB loan documents. Standard loan documents should also include specific requirements that accounting standards used be acceptable to the MDB, auditing standards used be acceptable to the MDB and that the auditor selected be acceptable to the MDB. While addressing all of these issues is the borrower's responsibility it may be useful for MDB staff to provide guidance to the borrower regarding conditions that will be acceptable to the MDB. This "Standard Terms of Reference (TOR) for Budget Support Programs and Investment Projects" is intended to provide guidance to MDB staff and borrowers. The Standard TOR should not be seen as universally applicable to MDB projects. Staff should use them as guidance and not as a substitute for initiative or individual thinking. Staff should select those components they consider appropriate for a particular program/project, omit inappropriate items and add matters they consider need to be specifically covered in the program/project TOR but are not covered in the standard TOR.

2. The attached terms of reference have been prepared in accordance with the Agreements Reached by the MDB Harmonization Technical Working Group (TWG) and the Development Assistance Committee (DAC) Sub-Group on Financial Management and Accountability (DAC-SG) at their respective meetings in March 2002. These agreements include the principle that the financial report covering the program/project will be based on the entire program/project and will reflect all funding sources. In many cases this will be only the borrower and an MDB. Increasingly, more complex programs and projects, particularly SWAPs, involve a number of funding sources (one or more multilateral banks and/or a bilateral agency or agencies as well as the counterpart funds provided by the national and/or local government).

Budget Support Programs

a) Structural Adjustment Loans

3. For broad based budget support the MDBs fiduciary needs should, in most cases, be satisfied with a certification that the funds were received by the Government, transferred to the
Central Bank and that the counterpart funds created were deposited to the revenue account of the Government. In other cases the MDB may wish to identify the revenue received in the annual financial statements of the Government. In these cases, financial reporting for the program of budget support would be based on the audited annual national financial statements submitted to the legislature, provided the statements include sufficient information to identify the receipt of the budget support. If required by the terms of the budget support loan agreement, sufficient information regarding the utilization of the proceeds of the budget support should also be disclosed in the audited financial statements. Revenue or disbursement information may be provided in a note to the financial statements. These arrangements should be agreed as part of loan negotiations.

b) Sector Program Loans

4. In the case of sector specific budget support delivered through a Ministry/Department of Government, the loan agreement may have requirements regarding the nature of activities supported by the program. The audited annual financial statements of the Ministry/Department would serve as the reporting mechanism. This assumes arrangements were agreed during the program negotiations to provide sufficient disclosure in the statements of both the receipt of the program funds and/or counterpart funds as well as disclosure of disbursements on the components supported by the program. This information may be provided in a note to the audited financial statements.

Non-Revenue Earning Investment Projects

5. Investment project financial statements serve the specific financial management needs of the executing agency as well as the fiduciary needs of the MDB. Where the financial statements of the executing agency (including the notes to the financial statements) provide sufficient information to identify the investment project's receipts and disbursements by project component they would serve the reporting requirements of the MDB. Where this is the case the MDB should be able to rely on the audit of these financial statements.

Revenue Earning Investment Projects

6. Revenue earning entities are usually required to issue financial statements separate from the Government's financial statements. Again, where the audited financial statements of the executing agency (including the notes to the financial statements) provide sufficient information to identify the investment project's receipts and disbursements by project component they would serve the reporting requirements of the MDB.

Accounting Standards

7. The proposed International Public Sector Accounting Standard on Cash Accounting (expected late 2002) and the proposed Accounting Standard for Development Assistance (expected during 2004) are particularly important for defining standards of financial reporting for development projects. As these standards become available, the MDBs need to

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1 International Federation of Accountants, Public sector Committee, International Public Sector Accounting Standards
review whether they should be formally incorporated into their policy frameworks. Until Governments themselves decide to incorporate International Public Sector Accounting Standards (IPSAS), currently used national accounting standards should be accepted for reporting purposes. A clear description of current accounting standards applied to the project should be included in the project financial management assessment and compared with IPSASs. Governments that decide to implement IPSASs should do so over an appropriate transition period. It is expected that capacity building will increasingly result in program/project financial reporting based on a Government accounting system, which is consistent with international standards.

**Reporting Requirements**

8. Another basic principle agreed by the TWG is that the primary focus of reporting requirements would be on utilizing the existing Government management information system. Where deficiencies are noted in the Government system, whether in the nature of information reported, frequency and relevance of reports or in the accounting principles applied capacity building should be a priority. Recognition would be given to the complexity and transition time needed to enhance existing management information systems. Independent program/project specific financial management and/or accounting systems ("Ring Fencing") are not a preferred solution because they do not contribute to developing the borrower's financial management capacity as a whole and they are not sustainable after the project is implemented. These guidelines have placed emphasis on seeking the required information for fiduciary reporting for the program/project from the audited financial statements of the executing agency. Special purpose audited financial statements are seen as a less desirable solution which represent additional costs to the borrower.

9. Where the financial statements of the executing agency include sufficient information about the program/project to meet the needs of the MDBs, the general purpose audit report of the executing agency should meet the MDBs requirements. This information may be provided in a note to the financial statements. In addition the notes to the financial statements should provide sufficient information about the funding agreement for readers to understand the principal conditions. In this case, MDB staff would need to ensure that the auditor's scope of work includes sufficient review of the program/project receipts and expenditures etc. The attached terms of reference provide guidance in this regard. Determination of the due date for audited financial statements should take into consideration the normal reporting requirements of the national legislature.

10. Where sufficient information is not available in the general purpose financial statements, separate program/project specific financial statements (including notes to the financial statements) would be required, which provide all the needed information. The accompanying audit report would be a special purpose report and would serve the program/project reporting and fiduciary needs of all program/project funding agencies, including the Government. The due date for special purpose financial statements should be between four and six months. The attached terms of reference are prepared in accordance with the principal that the financial statement(s) will be based on the entire program/project and reflect financing by all funding agencies including the counterpart funds provided by the national and/or local government(s). When a project is cofinanced, the parties would work toward agreeing
common content, format and frequency of the financial and progress reports required from the executing agency/borrower.

11. In most cases, the financial statements submitted to meet the fiduciary requirements of the MDBs would be audited annual financial statements. Project monitoring reports may require more frequent interim financial reports and in some cases may require audited interim reports. The attached terms of reference would also provide guidance for these cases. In some cases, particularly very small loans, the project monitoring as well as the fiduciary reporting requirements may differ from the above. For example, very small loans, particularly those administered by an experienced NGO with strong internal controls, may have only one set of audited financial statements covering the entire implementation period of the loan.

**Audit Standards**

12. The MDB should ensure that the auditor appointed to audit the annual financial statements to be submitted to the MDB applies auditing standards that are based on the auditing standards of the International Organization of Supreme Audit Institutions (INTOSAI), International Standards on Auditing (ISA) promulgated by the International Auditing Practices Committee of the International Federation of Accountants, or national standards which are consistent in all material respects with either of these international standards.

13. When a private sector auditor undertakes the audit either directly or as an agent of a Supreme Audit Institute (SAI) the audit should be conducted in accordance with ISA. When the audit is undertaken by an SAI the audit may be conducted under either ISA or in accordance with standards set by INTOSAI.

**Preparation of the TOR**

14. MDB staff advising a Government on or assisting a Government in preparing a TOR is expected to have thoroughly read any diagnostic reports covering the country concerned and be cognizant of the issues raised in the report and the risks (if any) identified in the report. MDB staff should also have thoroughly read or preferably participated in, the most recent assessment of the financial management capacity of the program/project implementing agency. Where the project is cofinanced a joint financial management assessment is preferable and where this is not the case staff should be familiar with the financial management assessment undertaken by the other cofinancing agency.

**Statements of Expenditure (SOEs)**

15. The Cash Flow Statement would disclose the opening and closing cash on hand or in the bank. This will represent (or include) the special/imprest account established to facilitate SOEs. The disbursements made utilizing SOE procedures will be included in the project component disbursement categories shown in the Cash Flow Statement. In accordance with international auditing standards, the scope of audit work for the Cash Flow Statement will include verification of the cash/bank balances and sampling the total population of SOEs for review and the application of audit procedures utilizing the SOE samples. The audit opinion issued on the Cash Flow Statement covers all elements of the financial statement including

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3Reports that may be available include IMF Fiscal Transparency Reports, Country Financial Accountability Assessments prepared by one or more of the MDBs, and other country specific studies.
the SOEs. Therefore a separate audit opinion covering only the SOEs is redundant and unnecessary. Similarly, a separate audit opinion covering the balance of the special/imprest account is redundant and unnecessary. Where international audit standards are not being applied, staff will need to discuss with the executing agency and/or the auditor the audit work and sampling techniques planned for inclusion in the scope of audit work to ensure adequate coverage of special/imprest accounts and SOE disbursements.

Compliance with Loan Financial Covenants

16. Standard loan documents include provisions for restricting loan disbursements and ultimately suspension or cancellation of a loan for noncompliance with loan financial covenants. International accounting standards referred to above require disclosure of the loan agreement and its principal terms and conditions in the Notes to the Cash Flow Statement. Any noncompliance that could lead to a suspension or cancellation of a significant component of the program/projects funding would be a material fact requiring disclosure in the financial statements. International accounting disclosure standards require disclosure of such material and potentially program/project viability threatening facts and international auditing standards require their disclosure if a "clean opinion" is to be issued. The audit opinion issued on the Cash Flow Statement covers all elements of the financial statement including disclosure of noncompliance with loan covenants. Therefore a separate audit opinion covering only compliance with loan covenants is redundant and unnecessary. Where international audit standards are not being applied, staff will need to discuss with the executing agency and/or the auditor the audit work planned for inclusion in the scope of audit work to ensure adequate coverage of compliance with loan covenants.

Appendix 1

17. Annex 1 to the TOR covers the qualifications of the auditor. In cases where the TOR is being negotiated between an MDB and the Government and the MDB will not participate directly in the selection of the auditor, it would be appropriate to include in the TOR the agreed qualifications of an acceptable auditor. Where the TOR is being supplied to a short list of firms as part of a request for proposals there is a presumption that the firms shortlisted have been prequalified and the list of qualifications would not be needed.

Appendix 2

18. In most cases noted above, the financial reporting requirements of the MDBs should be met by the general purpose financial statements of the borrower/executing agency. When the general purpose financial statements of the executing agency do not provide the needed information, program/project specific special purpose financial statements would be necessary and would need to be attested to by a special purpose audit report. Annex 2 provides a possible model audit report based on ISA 800.
Standard Terms of Reference (TOR)
For External Auditors of
Budget Support Programs and Investment Projects

Background

The background section of the TOR should include a brief summary of government accounting and financial management practices. Various diagnostic reports are available that provide an assessment of the government's accounting and financial management practices. Emphasis should be placed on issues raised and/or risks identified (if any) in any of these reports.

This section should also include a general description of the supervising agency (often a Ministry of the Government or Department within a Ministry) and the executing agency (often a department or division within a Ministry) and should include a statement of their economic goals. There should be a broad description of the project in the context of its contribution to achieving the economic goals of the executing agency. The auditor should understand the "purpose for which the funds are intended" in the context of the broad project objectives as well as in terms of the specific budget for the project.

Where the financial statements of the executing agency provide sufficient disclosure of the receipts and disbursements of the project and sufficient disclosure of relevant information in the notes to the financial statements its general purpose audited financial statements should meet the MDBs needs. The MDBs would need to ensure that the auditor's scope of work included sufficient coverage of the project receipts, disbursements and disclosure issues. Where that is not the case a separate special purpose financial statement with a special purpose audit report would be expected. Normally the statement would be a Cash Flow Statement, prepared on a cash basis of accounting. This TOR is directed to the audit of this special purpose financial statement.

The Executing Agency

This section should contain a fairly detailed description of the executing agency including the physical address, phone numbers, fax numbers, web sites and general email addresses. Likewise a more in-depth but still general summary of the financial management assessment of the project executing agency should be included, together with a reference that the full financial management assessment would be available to the auditor. Other details would include, at least:

- An organization chart
- A list of senior officers together with their business phone numbers and email addresses
- A list of the contact persons responsible for accounting, financial management and internal audit together with phone numbers and email addresses
- A detailed description of the project including the detailed project budget by major expenditure categories and the sources of all funding for the project.

Reports that may be available include IMF Fiscal Transparency Reports, Country Financial Accountability Assessments prepared by one or more of the MDBs, and other country specific studies.
A statement that the project appraisal report would be available to the auditor should be included.

**Accounting Standards**

This section should include a description of the accounting standards followed for the project and whether they are consistent with the government's accounting standards. Any deviations from standard government accounting practices should be specified. Likewise, any deviations between the actual accounting standards applied and best international practice should be described. Best international practice is embodied in either International Accounting Standards (IAS) published by the International Accounting Standards Board or International Public Sector Accounting Standards (IPSAS) published by the Public Sector Committee (PSC) of the International Federation of Accountants. Once the PSC issues its IPSAS on cash accounting due in late 2002, this section of the terms of reference should indicate whether the cash accounting standards used for the project are consistent with this IPSAS or include a description of important deviations from it. The cash method of accounting is frequently used for the special purpose financial statements covered by this terms of reference.

If the project is under construction by a state owned enterprise it may be utilizing the accrual basis of accounting. If this is the case there should be a clear indication of whether national accrual accounting standards are being followed (and by whom they are set) or international accounting standards (IAS) are being followed. If national standards are being utilized a clear indication as to whether they are harmonized with or are consistent with IAS should be given.

**Reporting Standards**

The usual format of reporting for development programs/projects is a Cash Flow Statement. The details of the accounting report should be provided and where a financial statement for the project has been prepared for a prior accounting period a copy should be attached as an annex. The format should include a list of funding sources to be reported separately as well as a list, agreed during loan negotiations, of the expenditure or disbursement categories for reporting purposes. The expenditure or disbursement categories should be consistent with the project components identified in the Project Appraisal Report. A list of supporting schedules also agreed during appraisal and including at least the following should be provided:

- A reconciliation of the project cash receipts with the records of each funding source
- A list of contract withholding amounts outstanding
- A list of unpaid progress bills on construction contracts

The Cash Flow Statement should show the current reporting period compared with the annual budget and accumulative figures from the commencement of the project compared with the total project budget.
Annex III

The date by which the project accountants will prepare a draft Cash Flow Statement together with the agreed supporting schedules should be specified. Audited special purpose financial statements should be issued within about four to six months after the end of the fiscal period.

Available Facilities

There should be a description of the nature and the location of all records belonging to the project. This list should specify those records kept at the executing agency's headquarters and those that are located at the project site. If computers are used to record transactions relating to the project a description of the computer specifications needs to be provided together with a description of the operating software.

The TOR should clearly state that the auditor would have full and complete access at any time to all records and documents (including books of account, legal agreements, minutes of committee meetings, bank records, invoices and contracts etc.) and all employees of the entity. The auditor should be advised that he/she has a right of access to banks and depositories, consultants, contractors and other persons or firms engaged by the project management. If an auditor may not have unrestricted access to any records, person or location during the course of the audit, this restriction should be clearly defined, with reasons, in the TOR.

Audit Scope

1. Scope of Work

The scope of the audit should be sufficiently clear to properly define what is expected of the auditor but not in any way restrict the audit procedures or the techniques the auditor may wish to use to form an opinion. It should specify at least the following:

- A definition of the entity or the portion of an entity that is subject to audit,
- The audit will be carried out in accordance with either ISA\(^4\) or INTOSAI\(^5\) auditing standards including professional or general standards, standards of field work and reporting standards (ISA for private sector auditors and either ISA or INTOSAI standards for SAIs), including:
  1. Planning and conducting the audit in accordance with a detailed audit work program which is sufficiently extensive in its coverage of the project's accounts to support the opinion given,
  2. The auditor will gather evidence and prepare working papers to properly document the evidence seen in support of the opinion given,
  3. The auditor will review and evaluate the system of internal controls in effect, including internal audit procedures, to determine the degree of reliance that may be placed upon them and to determine the extent of testing of actual transactions needed to assure the auditor of the accuracy of the accounting records,

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\(^4\) International Standards of Auditing (ISA) published by the International Auditing Practices Committee of the International Federation of Accountants

\(^5\) International Organization of Supreme Audit Institutions
• The audit period covered will include the current reporting period and the accumulative reporting period (from inception of the project), where communication with and reliance upon the audit work of previous auditors is necessary it should be clearly stated.
• Sufficient audit evidence will be gathered to substantiate in all material respects the accuracy of the information contained in supporting schedules attached to the Cash Flow Statement,
• The audit coverage will consider the risk of material misstatement(s) as a result of fraud or error. The audit program should include procedures that are designed to provide reasonable assurance that material misstatements (if any) are detected.

The TOR should require the auditor to state in the audit report if the audit was not in conformity with any of the above and indicate the alternative standards or procedures followed.

2. The Audit Report

The TOR should clearly indicate to the auditor what the auditor is expected to state or to issue an opinion upon. This would include at least the following:
• The audit report will state that it is a special purpose report and its intended use,
• The audit report will state which/whose generally accepted accounting standards have been applied and indicate the effect of any deviations from those standards,
• The audit report will state that the audit was conducted in accordance with either ISA or INTOSAI audit standards (see above),
• The audit opinion will cover both the current period and the accumulative period since commencement of the project (reliance on the work of predecessor auditors may be necessary),
• The audit opinion will state whether or not the specified Cash Flow Statement presents fairly the cash receipts and disbursements for the specified program/project and that the funds were utilized for the purposes defined by the funding agreement (and the separate grant/loan agreement if cofinancing is included; preferably a joint funding agency agreement on common accounting and reporting requirements will have been signed),
• The audit opinion will cover in all material respects the supporting schedules, including those noted above.

This section should also indicate the due date for submission of a draft audit report and the signed audit report to the management of the project, as well as the due date for the submission of the signed audit report to the MDB for compliance with the loan agreement.

Management Letter

The TOR should specify that at the completion of the audit, the auditor will submit a management letter to the executing agency with a copy submitted directly to the MDB and cofinanciers, if any. The management letter should be issued at the same time as the audit opinion. Guidance should be provided regarding the broad topics/issues to be covered in the management letter. At least the following topics/issues should be included:
• A general review of project progress and timeliness in relation to progress milestones and the planned completion date, both of which should be stated in the appraisal report. This is not intended to address whether there has been compliance with specific covenants relating to specific performance criteria or outputs. However general compliance with broad covenants
such as implementing the project with economy and efficiency might be commented upon without the legal force of an audit opinion.

- An assessment of the project’s internal control system with equal emphasis on (i) the effectiveness of the system in providing the project management with useful and timely information for the proper management of the project and (ii) the general effectiveness of the internal control system in protecting the assets and resources of the project.
- A description of any specific internal control weaknesses noted in the financial management of the project and the audit procedures followed to address or compensate for the weaknesses. Recommendations to resolve/eliminate the internal control weaknesses noted should be included.
Qualifications of an Auditor

The TOR should state that the auditor must be completely impartial and independent from all aspects of management or financial interests in the entity being audited or those of its implementing/supervising agency or directly related entities. The auditor should not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as director for, or have any financial or close business relationships with any senior participant in the management of the entity. It may be appropriate to remind an auditor of any existing statutory requirements relating to independence and to require an auditor to disclose any relationship that might possibly compromise his/her independence.

The auditor experienced in applying either ISA or INTOSAI audit standards, whichever is applicable for this audit. The auditor must employ adequate staff with appropriate professional qualifications and suitable experience with ISA or INTOSAI standards, including experience in auditing the accounts of entities comparable in size and complexity to the entity being audited.

Curriculum vitae (CVs) should be provided to the client by the principal of the firm of auditors who would be responsible for signing the opinion, together with the CVs of managers, supervisors and key personnel proposed as part of the audit team. It would be appropriate to indicate required/minimum professional qualifications necessary for the senior auditors/principals responsible for the audit. CVs should include details on audits carried out by the applicable staff, including ongoing assignments indicating capability and capacity to undertake the audit.
Sample Audit Report ¹

Auditor's report to:
The Director, ABC Project
Public Works Department of the
Government of XYZ Country and
The MDB Development Bank

We have audited the accompanying special purpose Cash Flow Statement of the ABC Project for the year ended 31 December, 20XX and cumulatively since inception of the project. This statement is the responsibility of the ABC Project management. Our responsibility is to express an opinion on the accompanying statement based on our audit.

We conducted our audit in accordance with (either International Standards on Auditing promulgated by the International Federation of Accountants or Auditing Standards promulgated by the International Organization of Supreme Audit Institutions). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

The ABC Project management's policy is to prepare the accompanying statements on the cash receipts and disbursements basis in conformity with (either International Public Sector Accounting Standard for Cash Accounting or the National Accounting Law of 19XX of XYZ Country). On this basis cash receipts are recognized when received and cash expenditures are recognized when paid rather than when incurred.

In our opinion, the accompanying statement referred to above gives a true and fair view of (or presents fairly, in all material respects) the cash receipts and disbursements of the project during the year ended 31 December 20XX and cumulatively since inception of the project in accordance with (either International Public Sector Accounting Standard XX or the National Accounting law of 19XX of XYZ Country), described in Note X.

Our audits were conducted for the purpose of forming an opinion on the special purpose financial statement taken as a whole. The accompanying special purpose Schedule of Funding Source Reconciliation and Schedule of Major Contractual Amounts Outstanding as at 31 December 20XX and 20XY, are presented for purposes of additional analyses and are not required parts of the special purpose financial statement. Such information has been

¹ This audit report is a suggested sample report based on ISA 800. Each program/project has unique characteristics that may or may not require modifications from the suggested sample. Staff should use it as guidance and not as an expected or prescribed report.
subjected to the auditing procedures applied in the audits of the special purpose financial statements and in our opinion is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Government of XYZ Country and the MDB Development Bank, as funding agencies of the ABC Project and for submission to these funding agencies and should not be used for any other purpose.

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<th>Date</th>
<th>Address</th>
<th>AUDITOR’S SIGNATURE</th>
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Guidelines for the Preparation of
External Auditor Capacity Assessments
For External Auditors of
Budget Support Programs and Investment Projects

Background
1. Standard wording in MDB loan agreements includes a requirement that the auditor appointed by the borrower must be acceptable to the MDB. Determination of the acceptability of an auditor has been decided at a project level with some inconsistency in the criteria used to make the determination. In some cases a private sector firm that has been found acceptable to one MDB has not been acceptable to another. In addition, inconsistencies have been noted in the practice of some audit firms operating in more than one country. Likewise in several cases a Supreme Audit Institution (SAI) has been accepted to audit programs/projects of one MDB and not accepted by another MDB.

2. The MDB Harmonization Technical Working Group (TWG) reached agreement in March 2002 to develop common diagnostic tools to assess the audit capacity of external auditors. In addition agreement was reached to share information about external auditor's performance.

Private Sector Auditor's Capabilities
3. Private sector external auditor capabilities vary considerably between countries and within individual countries. International Standards for Auditing (ISA) have been promulgated by the International Auditing Practices Committee of the International Federation of Accountants (IFAC). Professional accounting bodies that are members of IFAC have pledged to harmonize their national audit practices with ISA. In a number of cases the harmonization process has been slow and IFAC's ability to influence this process needs strengthening. The level of the development of the external audit profession in an individual country is covered in diagnostic tools such as Country Financial Accountability Assessments (CFAAs). Development of a strong external audit profession will make a positive contribution to good governance in general and to corporate good governance in particular. Steps to address strengthening a national external audit profession will flow from the above diagnostic tools and is not the subject of these guidelines.

4. The attached Private Sector Auditor's Capacity Assessment Questionnaire (Annex 1) will be used to gather information regarding private sector external audit firms' acceptability as auditors for MDB programs/projects in a particular country. Individual firm's assessments will be summarized in the attached Private Sector Audit Firm Capacity Assessment form (Annex 2). The review is country specific and therefore a firm operating in more than one country will be considered on the basis of that firm's national practice. The development of the external audit profession in an individual country will vary over time therefore an assessment of the profession in an individual country would be undertaken on a regular
interval or when a significant change in the professions level of practice is observed. The interval would be approximately every three years but not more than five years. Assessments of individual firms that wish to be considered for selection as auditors of MDB supported program/project loans or grant operations will be discussed in detail with the firm to assure accuracy of the assessment. Other firms may apply to be assessed between country assessments and may be added to the list of firms found to be acceptable. Firms that are not found to be acceptable may undertake revisions in their practices and may be reconsidered for acceptability, although reconsideration would not be undertaken for at least six months to ensure the revisions have been completely implemented.

5. A web site will be developed to list the firms that have been determined to be acceptable and will include the results of the questionnaire and the assessment. Initially web site access to the names of the acceptable firms will be available only to MDB staff and access to the individual firm questionnaires and assessments limited to units within the MDBs that undertake the reviews. Once the system is fully implemented access to the names of acceptable firms will be available to the public. At that time, consideration will be given to making the questionnaires and assessments available to the public.

6. Where more than one MDB operates in an individual country the above private sector assessments will be undertaken jointly and the eligibility of private sector firms will be agreed jointly. The web site would be managed jointly but system integrity and security reasons suggest it should be housed within World Bank.

Supreme Audit Institution Capabilities

7. SAI capabilities also vary considerably between countries. The International Organization of Supreme Audit Institutions (INTOSAI) has issued international audit standards for public sector audits. INTOSAI also encourages its members to follow its standards but individual SAIs usually have constitutional authority in their respective countries and are not subject to INTOSAI guidance. The level of the development of the SAI in an individual country is covered in diagnostic tools such as Country Financial Accountability Assessments (CFAAs). Development of a strong SAI will make a very positive contribution to good governance. Steps to address strengthening an SAI will flow from the above diagnostic tools and is not the subject of these guidelines.

8. The attached Supreme Audit Institution Capacity Assessment Questionnaire (Annex 3) will be used to gather information regarding SAIs acceptability as auditors for MDB programs/projects in their country. SAI capacity assessments will be summarized in the attached Supreme Audit Institution Capacity Assessment form (Annex 4). The review of an SAI's capacity would be undertaken in conjunction with an MDB's national diagnostic tool such as CFAAs. The review would be undertaken on a regular interval of at least every three years but not more then five years.

9. A web site would be developed but since there is only one SAI in any country it will contain the results of the questionnaire and the assessment only. Initially web site access to the individual SAI questionnaires and assessments limited to units within the MDBs that undertake the reviews. Decisions on public access to the questionnaire and assessments will be made in conjunction with decisions on access to CFAAs.
10. Where more than one MDB operates in an individual country the above SAI assessments will be undertaken jointly and the eligibility of the SAI will be agreed jointly. As noted above, the web site would be managed jointly but system integrity and security reasons suggest it should be housed within World Bank.
Private Sector Audit Firm
Capacity Assessment Questionnaire

Basic Information:

1. Legal Name of Firm

___________________________________________

2. Street and Postal

___________________________________________

Address of Firm

___________________________________________

___________________________________________

3. Telephone (include country and area code)

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4. Fax (include country and area code)

___________________________________________

5. Email address

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6. Address and Telephone of Branch Offices (use attachment if necessary)

<table>
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<tr>
<th>Branch Name</th>
<th>Address and Telephone</th>
<th>Officer in Charge</th>
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7. Practice license or permit number

___________________________________________

8. Date of license/permit issuance

___________________________________________

9. Expiry date of license/permit

___________________________________________
10. Name of licensing/permit agency


11. State the legal nature of the firm


12. Fully describe the ownership structure and management structure of the firm


The Firm’s Independence:

13. Does the firm have a written independence and/or conflict of interest policy? (If yes provide a copy). Are all professional staff members provided training in the firm's independence and/or conflict of interest policies? Have staff members attended training courses in professional ethics, including training in IFAC’s International Professional Practice Statements and/or Code of Ethics for Professional Accountants?

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14. Does the firm provide consulting services involving accounting or internal control matters to audit clients?

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15. Has the firm, any partners of the firm or any staff of the firm ever been subject to disciplinary action by any national accounting body to which the firm or its partners belong? If so, please indicate the nature of the disciplinary action and the reasons for it.

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16. Has the firm, any partner of the firm or any staff of the firm ever been subject to a court order involving the provision of professional services? If so, please indicate the nature of the court order and the reasons for it

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17. Has the firm, any partner of the firm or any staff of the firm ever been barred from auditing firms listed on any securities exchange or otherwise been subject to sanction or penalty by any securities exchange?

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18. Are the firm's partners and/or staff members allowed to hold shares or other investments in audit clients?

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</table>
**Affiliations with Other Firms:**

19. Does the firm have an affiliation or association with any other foreign or local professional firm(s) such as accountants, auditors, consultants or lawyers etc? If so, please provide the following:

<table>
<thead>
<tr>
<th>Firm Name</th>
<th>Legal Address</th>
<th>Home Country</th>
<th>Contact Person</th>
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20. Please describe the general nature of the affiliation(s), as follows:

a) Are any partners of the firm also domestic or international partners of the affiliated firm?

b) Does your firm or any partner of the firm share in the profits and/or liability exposure of the affiliate?

c) Does the affiliate provide training courses for the firm’s staff?

d) If the firm is affiliated with a foreign accounting/audit firm does the foreign firm have an audit manual/guideline, and does the firm have access to and use of that manual/guideline? Does the firm use it exclusively in relation to audits resulting from the foreign affiliation or does the firm also use it in relation to audits that do not result from the affiliation?

e) Other important matters

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Firm's Professional Orientation

21. Indicate which of the following services are provided by the firm and show the share of each service in relation to the firm's last complete year's total fee income. Please separate any income derived from a foreign accounting/auditing firm affiliation.

<table>
<thead>
<tr>
<th>Nature of Income</th>
<th>Derived from Foreign Acc’/Audit Affiliate(s)</th>
<th>National Income</th>
<th>Total Fee Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditing</td>
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<tr>
<td>• In accordance with ISA</td>
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<tr>
<td>• In accordance with National standards</td>
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<td>Accounting</td>
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<td>• In accordance with IAS</td>
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<td>• In accordance with National standards</td>
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<tr>
<td>Consulting Services</td>
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<tr>
<td>Other Fee Income</td>
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<td>%</td>
<td>%</td>
</tr>
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</table>

Total Fee Income 100% 100% 100%

ISA -- International Standards on Auditing
IAS -- International Accounting Standards

22. Indicate the percentage of the firm's last complete year's total fee income attributable to foreign aid/funding agreements with international agencies, bilateral aid agencies or other sources.

<table>
<thead>
<tr>
<th>Nature of Income</th>
<th>IMF/World Bank</th>
<th>Regional Development Bank(s)</th>
<th>Bilateral Aid Agencies</th>
<th>Other Aid Agencies</th>
<th>Private Sector</th>
<th>National Gov’t</th>
<th>Total Fee Income</th>
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<tbody>
<tr>
<td>Auditing</td>
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### Annex IV

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<th>Accounting</th>
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<th>%</th>
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</tr>
</thead>
<tbody>
<tr>
<td>In accordance with IAS</td>
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<tr>
<td>In accordance with National</td>
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<td>standards</td>
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<tr>
<td>Consulting Services</td>
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<td>%</td>
<td>%</td>
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<td>%</td>
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</tr>
<tr>
<td>Other Fee Income</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
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<tr>
<td>Total Fee Income</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

23. Does the firm use an audit procedures manual or guideline for staff? If so, when was it last updated? How does the firm ensure that staff adheres to the audit manual/guidelines, at all times? (Please attach a copy of the manual/guideline).

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24. Is the firm aware that various multilateral and bilateral agencies have guidelines covering accounting and auditing for projects they fund? If so please list the guidelines the firm has.

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25. Discuss the firm’s quality assurance program. Does the firm participate in a peer review program on a national basis and has the firm ever participated in a peer review as a result of an affiliation with a foreign accounting/audit firm? If so, what were the results of the last national/foreign peer review(s)?

____________________________________________________________________________
____________________________________________________________________________
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26. Describe the firm’s utilization of information technology, i.e. software tools and computer-assisted audit techniques to support auditing assignments.

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
Annex IV

**Professional Services Liability Insurance Coverage:**

27. Has the firm ever directly settled a claim involving professional services, with or without utilizing liability insurance coverage? If so please state the main issues involved in the settlement and the amount of the settlement.

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
### Personnel

28. Composition of senior staff  
(Attach a schedule(s) if needed)

<table>
<thead>
<tr>
<th>Name</th>
<th>Member of Professional Body */</th>
<th>Year of Qualification</th>
<th>With Relevant Audit Experience In Public Sector</th>
<th>Construction Contracts</th>
<th>Cash Accounting Systems</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners/Associates</td>
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<tr>
<td>Managers</td>
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</tbody>
</table>

*Refers to a member currently in good standing with the named IFAC member accounting body.

29. For each person listed in item 28 above, provide a separate attachment with a brief summary of their qualifications and professional experience, including:
- Academic or other qualifications
- Membership of foreign professional bodies
- Details of professional audit and accounting experience, stating relevant industry(ies), including experience in the public sector, construction contracts and cash accounting systems, separating domestic and foreign experience.
- Mother tongue and any other languages with written and spoken fluency.

30. What has been the turnover rate of the firm’s partners and managers during the last 5 years?

______________________________________________________________________________  
______________________________________________________________________________  
______________________________________________________________________________

### Staff Training

31. Briefly state the firms training philosophy

______________________________________________________________________________  
______________________________________________________________________________  
______________________________________________________________________________
32. Indicate post qualification training or professional education courses taken, year taken and total hours by each senior staff category in the last three years, as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Training/Courses/Year/Total Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IAS*</td>
</tr>
<tr>
<td></td>
<td>ISA+</td>
</tr>
<tr>
<td></td>
<td>National Standards</td>
</tr>
<tr>
<td></td>
<td>Other Courses</td>
</tr>
<tr>
<td>Partners/Associates</td>
<td></td>
</tr>
<tr>
<td>Managers</td>
<td></td>
</tr>
</tbody>
</table>

*International Accounting Standards
+International Standards on Auditing

33. Does the firm have a professional training manual, and is a copy provided to each professional staff member?

______________________________________________________________________________
______________________________________________________________________________
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______________________________________________________________________________

34. Indicate types of training and number of hours of training by staff category, provided by any affiliate firm over the last three years, as follows: (Attach a schedule if necessary)

<table>
<thead>
<tr>
<th>Staff Category</th>
<th>Training Year/Total Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In Country</td>
</tr>
<tr>
<td></td>
<td>Out of Country</td>
</tr>
<tr>
<td>Partners/Associates</td>
<td></td>
</tr>
<tr>
<td>Managers</td>
<td></td>
</tr>
<tr>
<td>Supervisors</td>
<td></td>
</tr>
<tr>
<td>Seniors</td>
<td></td>
</tr>
<tr>
<td>Other professional staff</td>
<td></td>
</tr>
</tbody>
</table>

Staff Training

I certify the above information is true and correct
The firm should feel free to submit any additional information that further describes the firm.
Private Sector Audit Firm Capacity Assessment

This evaluation is intended to be utilized to assess the capacity of private sector firms in a country for engagement as auditors on MDB funded projects. Total evaluation points are set at 1000. The weighting of evaluation points between major categories may vary between countries because of local conditions. However, the allocation should be kept constant within one country. The three major categories are:

- **Independence of the firm**
  - Written policy on independence/conflict of interest
  - Regular training in independence
  - Firm does not provide consulting services to clients
  - No partner or staff subject to sanctions by professional body
  - No partner or staff subject to penalties by court/securities exchanges
  - Investments in clients disallowed
  
  Total points 300 pts.

- **Experience**
  - Firm experience with ISA/INTOSAI audit standards
  - Firm experience with National audit standards
  - Firm experience with IAS accounting standards
  - Firm experience with National accounting standards
  - Firm experience with public sector accounting standards
  - Firm experience with audit of MDB/Bilateral funded projects
  - No settlements paid directly or under liability insurance
  
  Total points 400 pts.

These major categories should be broken down to provide guidance to staff in assessing and allocating points. Local conditions may influence the weighting of points across various subcategories, but it is important to maintain a consistent allocation when applying them to firms under consideration.

**Independence of the firm**
- Written policy on independence/conflict of interest
- Regular training in independence
- Firm does not provide consulting services to clients
- No partner or staff subject to sanctions by professional body
- No partner or staff subject to penalties by court/securities exchanges
- Investments in clients disallowed

Total points 300 pts.

**Experience**
- Firm experience with ISA/INTOSAI audit standards
- Firm experience with National audit standards
- Firm experience with IAS accounting standards
- Firm experience with National accounting standards
- Firm experience with public sector accounting standards
- Firm experience with audit of MDB/Bilateral funded projects
- No settlements paid directly or under liability insurance

Total points 400 pts.
Personnel and Training

- Academic and professional qualifications
- Training in ISA/INTOSAI Standards
- Training in IAS Standards
- Training in National Accounting/Auditing Standards
- Established training program for all staff

Total points 300 pts

Total of all Categories 1000 pts

All evaluation processes include an element of subjectivity. Consistency in the evaluation process is important to treating all firms equally. A minimum of 600 pts. is suggested for determining eligibility for engagement as an auditor of an MDB project.
## General Information

1. **Legal name of the Supreme Audit Institution (SAI)**
   
   ___________________________________________________________
   
2. **Institutional Authority (Please attach a copy of relevant initiating and enabling legislation)**
   
   ___________________________________________________________
   
   ___________________________________________________________
   
   ___________________________________________________________
   
   ___________________________________________________________
   
   ___________________________________________________________
   
3. **Date of passage**
   
   ___________________________________________________________
   
4. **Date of expiration (if any)**
   
   ___________________________________________________________
   
5. **Legal address**
   
   ___________________________________________________________
   
   ___________________________________________________________
   
   ___________________________________________________________
   
   ___________________________________________________________
   
6. **Postal address**
   
   ___________________________________________________________
   
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7. **Email address**
   
   ___________________________________________________________
<p>| | |</p>
<table>
<thead>
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<tbody>
<tr>
<td>8.</td>
<td>Telephone Number (Please include country and area codes)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Fax/Telex Number</td>
</tr>
<tr>
<td></td>
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</tr>
</tbody>
</table>
Structure of the SAI

10. Describe fully how the SAI is structured both internally (obtain an organization chart) and in relation to the major components of Government.

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
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___________________________________________________________________________

11. List the following regarding regional or local offices (if any)

<table>
<thead>
<tr>
<th>Name of Office</th>
<th>Address/Phone Number</th>
<th>Contact Person/Title</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

12. Describe fully how the above offices are affiliated with the main office and how they are supervised.

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Independence and Financial Resources

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Annex IV

13. Are written guidelines covering independence standards, rules and procedures provided to staff and auditees? (If so, attach a copy)

14. Does the SAI station staff in the offices of auditees all year? If so, is there a policy to rotate them to the offices of other auditees and typically how often are they rotated?

15. Describe fully how the SAI establishes and maintains independence from the Government units it audits and the branch of government supervising them.

16. Describe how the SAI maintains audit work confidentiality.

17. What branch of government does the SAI report to and to what branch/unit of government does the SAI address and deliver audit reports?

18. What branch of government sets/approves the SAI's annual budget and work plan?

19. How much is the SAI's current year budget, by major category?
20. Does the SAI charge a fee or recover the cost of the audit from the auditee?

Staff Resources

21. How many staff does the SAI employ? (A) __________

22. How many are considered professional staff? __________

23. How many are considered clerical/support staff? __________

(A) __________
24. How many professional staff are members of national professional accounting bodies?  

______________

25. How many professional staff are members of foreign professional accounting bodies?  

______________

26. Describe the academic and professional qualifications needed to become a member of the national professional accounting/auditing body. Also indicate whether there is a requirement to take a minimum number of continuing education courses to retain membership (indicate how many hours/days required).  

___________________________________________________________________________  
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27. Describe the minimum qualifications and training the SAI requires for entry level auditors.  

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28. Describe the SAI's system to retain and promote staff, indicating at least:  
   • whether clear job classifications and descriptions exist,  
   • whether individual staff development plans are prepared,  
   • whether personnel evaluations are undertaken on a regular basis,  
   • whether evaluations are based on established performance targets, and  
   • whether permanent personnel files are maintained on each staff member.  

___________________________________________________________________________  
___________________________________________________________________________  
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Management Policies and Procedures
29. Describe the process by which the Auditor General is appointed, indicating the branch of government responsibly for his/her appointment and the process and conditions that must prevail to remove an Auditor General from office.
30. Describe the process by which senior staff are appointed in the Office of the Auditor General, indicate whether they enjoy as much protection as the Auditor General does, indicate whether they are part of a permanent civil service.

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31. Describe who or which branch of government has the authority to set audit policies and establish audit procedures

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32. Describe who or what rank within the Auditor General's Office has the authority to represent the SAI in official communications with external funding agencies.

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33. Describe who has authority to sign audit opinions, reports and official letters.

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**Audit Procedures and Methodologies**

34. Describe whether the Auditor General's Office's uses INTOSAI, ISA or national audit standards. Where national standards are used, how similar/different are they to either INTOSAI or ISA standards. Indicate whether the SAI is a member of INTOSAI.

___________________________________________________________________________

54
35. Describe how the Auditor General's Office documents the audit standards to be used and how is this procedure updated.

36. Describe the auditing standards used by private sector auditors if they undertake an audit of a State Owned Enterprise (SOE) on behalf of/under contract to the Auditor General.

37. Describe the auditing standards used by private sector auditors when they audit publicly listed/traded companies (contrast with item 36 above).

38. Broadly describe the audit standards used for compliance audits and for performance audits.

Audit Planning, Documentation and Quality Control

39. Describe the audit planning process and its documentation, including assessments of risk and materiality. Is a proscribed planning document generated for each audit undertaken?
40. Describe whether an engagement letter or equivalent document is used to clearly establish responsibilities for the audit.

41. Describe whether internal controls are tested in every financial audit engagement and whether a report is produced that summarizes this testing, the results observed and the conclusions reached.

42. Describe the procedures used to document audit evidence obtained during audits and to document the conclusions drawn as a result of the audit testing. Indicate whether detailed audit programs are always used.

43. Describe the steps taken to detect fraud and error, and what procedures are followed if fraud and error are detected.
44. Describe whether the work of the SAI is subject to peer review, if so describe the arrangements and the results of the most recent peer review.

___________________________________________________________________________
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45. Describe the process whereby the audit reports issued by the Auditor General are made public. Indicate whether this is through the legislature or whether they are published.

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Recent Audit Experience

46. Describe the composition of audit work performed during the last fiscal year, as follows:

<table>
<thead>
<tr>
<th>Nature of Audit Assignments</th>
<th>Percentage of Total Audit Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Audit</td>
<td></td>
</tr>
<tr>
<td>In accordance with INTOSAI or ISA standards</td>
<td>%</td>
</tr>
<tr>
<td>In accordance with national standards</td>
<td>%</td>
</tr>
<tr>
<td>Performance Audit</td>
<td></td>
</tr>
<tr>
<td>In accordance with INTOSAI or ISA standards</td>
<td>%</td>
</tr>
<tr>
<td>In accordance with national standards</td>
<td>%</td>
</tr>
<tr>
<td>Compliance Audit</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100 %</td>
</tr>
</tbody>
</table>

47. List recent financial audit engagements of the SAI relating to government agencies/units, as follows:

<table>
<thead>
<tr>
<th>Agency/Unit Name</th>
<th>Address/Contact Name/Phone Number</th>
<th>Period under Audit</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>
48. Describe Audit experience on audits of multilateral or bilateral assistance projects, as follows

<table>
<thead>
<tr>
<th>Project name</th>
<th>Identification Number</th>
<th>Period under Audit</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

Certification

To be signed by an appropriate representative of the SAI:

I CERTIFY THAT THE ABOVE INFORMATION IS TRUE AND CORRECT

SIGNED

POSITION

DATE
Please feel free to submit any additional information that further describes the SAI.
### Supreme Audit Institution Capacity Assessment

This evaluation is intended to be utilized to assess the capacity of the National Supreme Audit Institute (SAI) of a country for engagement as auditors on MDB funded projects. Total evaluation points are set at 1000. The three major categories are:

<table>
<thead>
<tr>
<th>Category</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence of the SAI</td>
<td>300 pts.</td>
</tr>
<tr>
<td>Experience</td>
<td>200 pts.</td>
</tr>
<tr>
<td>Audit Methodology</td>
<td>200 pts.</td>
</tr>
<tr>
<td>Personnel and training</td>
<td>300 pts.</td>
</tr>
<tr>
<td>Total points</td>
<td>1000 pts.</td>
</tr>
</tbody>
</table>

These major categories should be broken down to provide guidance to staff in assessing and allocating points. Local conditions may influence the weighting of points across various subcategories.

#### Independence of the SAI
- Written guidelines on maintaining independence
- Established rotation policy for field staff
- SAI reports to independent legislature
- Budget approved by independent legislature
- Auditor General appointed by independent legislature
- Auditor General dismissed by independent legislature or judiciary

Total points: 300 pts.

#### Experience
- Experience with ISA/INTOSAI standards
- Experience with IAS accounting standards
- Experience with audit of MDB/Bilateral funded projects

Total points: 200 pts.

#### Audit Methodology
- Audit standards and procedures are well documented
- Audit plans including risk assessment process
- Audit evidence well documented
- Fraud detection procedures undertaken

Total points: 200 pts.
Personnel and Training

- SAI is adequately staffed
- Staff includes sufficient professionally qualified accountants/auditors
- Well-established staff training program utilized regularly
- Well established staff retention/promotion policies

Total points 300 pts.

Total of all Categories 1000 pts

All evaluation processes include an element of subjectivity. Consistency in the evaluation process is important. A minimum of 600 points is suggested for determining eligibility for engagement as the auditor of an MDB project.
Annex-V: Environmental Impact Assessment

Common Requirements for Environmental Impact Assessment of Category A projects supported by the three banks.

This annex is based on a technical review of the legislation and regulations of the Government of Vietnam and on the requirements of ADB, JBIC and WB. The common requirements set out here represent a basic set which are common to the three banks which do not necessarily meet all the procedures of each bank.

SCREENING PROCESS

In all approaches, the first stage is the screening process during which the likely negative environmental and social impacts of an activity are identified in generic terms, in order to determine the level of analytical work required to conduct EIA. Screening may be based on desk reviews or field reviews - the latter is preferred. This annex refers to large scale projects whose potential environmental impacts are such that the preparation of a full Environmental Impact Assessment procedure is required. Such projects are defined as Category I by GOV and as Category A by each bank.

SCOPE AND COVERAGE OF EIA

The scoping phase defines the coverage of the EIA, in terms of issues and of physical extent. In establishing the scope, potential impacts that should be considered include human health and safety; the natural environment; ecosystems and biodiversity; associated social concerns, and impacts that may lead to trans-boundary and global environmental problems. The scoping process often requires some type of field reconnaissance.

As part of the scoping process for a Category A project, consultations on the coverage are held with key stakeholders, normally during the field reconnaissance. This consultation is a requirement of ADB and WB and is consistent with JBIC guidelines but is not required by GOV. Decisions arising from the scoping phase are recorded.

PREPARATION OF EIA

Based on the scope and coverage established, preparation of the EIA typically involves the following main steps: baseline survey of the environmental and socio-economic conditions in the project-affected area, identification of the likely impacts of the proposed project as

---

6 These organizations and other International Financial Institutions are working on convergence of their EIA requirements under a “Common Framework for Environmental Assessment” and a draft of that document has informed the preparation of this outline.

7 EIA is a procedure involving a number of defined steps, one of which the preparation of a formal report, often known as an EIS. EIA tends to focus on the pre-decision making phase of an investment. For the WB, the EA is a flexible process and includes EIA as one of the possible (and the most frequently used) tool, along with others such as Environmental Audits. The initial report of the EA process is known as an EA Report.
presented to EIA; examination of alternatives which could achieve the same objectives for the project; determination of practical measures to avoid, mitigate or offset significant potential adverse impacts; and dissemination of information and discussion with communities concerned and other interested parties.

These steps are summarized in an **EIA Report**, which includes the following sections:

1. Description of the project and its area of influence
2. Policy, institutional and legal framework
3. Environmental and social baseline data
4. Environmental and social impacts
5. Analysis of alternatives
6. Environmental (and Social) management plan (see below)
7. Public participation

The Environmental Management Plan (EMP) includes a schedule of specific actions recommended to prevent or mitigate potential impacts, including assignment of responsibilities and financing requirements, capacity building requirements and monitoring and reporting. Where potential social impacts are significant, separate plans such as a Resettlement Action Plan (RAP) may also be required if land acquisition is required. These Plans should be brief, clear and action oriented. The document should reflect the scale of the works and the capabilities of the implementing units.

**IMPLEMENTATION**

The key provisions of the EMP/RAP are to be included into the project documents. Monitoring of compliance with the provisions should be established as part of systematic reporting on project progress.

Changes in project activities that have a bearing on the environmental impact should be identified during supervision and specific measures should be taken to comply with the relevant policies during implementation.
CONTENTS OF TYPICAL ENVIRONMENTAL AND SOCIAL MANAGEMENT PLAN

NOTE: If resettlement is a significant issue then it is common practice to prepare an Environmental Management Plan (EMP) and also a Resettlement Action Plan (RAP) as a separate document. (For other issues, further specific Plans may be appropriate.)

Mitigation and Management.
Options and recommendations to prevent, avoid, reduce, mitigate, eliminate or compensate for any adverse impacts of the selected alternative. This includes the schedule, assignment of responsibility and budgets for the environmental and social impact management measures.

Provisions for capacity building.
Where institutional capacity is not sufficient to carry out the key activities, provisions for capacity building should be incorporated into the management plan.

Monitoring.
The monitoring, reporting and evaluation of requirements during the execution of the operation and thereafter. The way these requirements fit within the overall Monitoring & Evaluation efforts of the project submitted to EIA should be specified for maximum effectiveness.
Annex VI: Study on ODA Reporting Systems

TERMS OF REFERENCE
STUDY ON ODA REPORTING SYSTEMS
(GOV, WB, ADB, JBIC)

I. BACKGROUND
Recent years as the ODA to Vietnam has been accelerating, the donor community continuously has expressed increasing concern about high transaction costs, fragmentation of administrative capacity, and reduction in aid effectiveness caused by the multiplicity of donor agencies’ operational policies, procedures, and practices. In their various, some donors have taken steps to foster harmonization both among donors and between donors and recipient counties. Now the efforts are progressing to develop broadly accepted practice standards or principles to guide such harmonisation, attention is turning to implementation at the country level.

In an effort to reduce transaction costs and increase the effectiveness of ODA, the Government of Vietnam (GOV) requested the Asian Development Bank (ADB), Japan Bank of International Cooperation (JBIC) and the World Bank to explore areas where these efficiencies could be achieved through a simplification/harmonization of their procedures. During the mid-term Consultative Group (CG) meetings held in May 2002, the ADB, JBIC and the World Bank identified priority areas, which they would pursue to reach agreement. The broad areas are Procurement, Financial Management, Environment and Social, Portfolio Management and Economic/Sector work.

The Project Management Units (PMU), who are responsible for implementing projects and monitoring performance, prepare various reports on periodic basis. These vary according to the governmental and donor agencies. Typically, a PMU prepares reports for its line ministry, MoF, MPI, SBV and donor agency supporting the projects.

As the first step of the process to reduce transaction costs and raise the effectiveness of ODA, in general and to reduce the burden of reporting task of PMU, in particular, MPI requested the WB to support a primary study on reporting system that the PMU(s) of projects funded by WB, ADB and JBIC are required to follow.

II. OBJECTIVES
The Study aims to evaluate various report guidelines currently adopted by PMUs for preparing reports to the Government of Vietnam, the World Bank (WB), the Asia Development Bank (ADB), the Japan Bank of International Cooperation (JBIC), in order to compare common characteristics and differences across report types and identify major issues with these reports. The Study will particularly cover the reports’ contents, format and submission.

Based on the evaluation of different reports, the Study then aims to propose recommendation on report guideline that should be universally adopted by PMUs in producing reports to respective agencies/organisations. The guideline should be comprehensive for all types of reports, and capable of providing necessary information in an efficient manner.
The objective of the Study is therefore the first harmonising step in an attempt to reduce transaction costs, improve the quality of reports, reduce burden for PMUs, and raise the efficiency of reporting activities. Due to the time constraint, the Study will only concentrate on “on-going” project reports, with focus on financial reports and physical progress reports.

III. SCOPE OF ACTIVITIES

1. Data Collection
   As the first activity of this Study, consultants will gather all necessary material, which should include report guidelines of the Government of Vietnam, WB, ADB and JBIC, and completed report samples from various sources, especially from PMUs, MPI, and the People’s Committees.

   This data collection step should further assist consultants in identifying key PMUs and line ministries for in-depth interviews, and setting some case studies for illustration of the findings and recommendations.

2. Desk Study
   - Comparing Contents, Formats and Submission
     Consultants will revise report guidelines of the Government of Vietnam, WB, ADB and JBIC in order to identify common features and differences across these reports and to produce the first draft of the comparison table. The table will continuously be added, adjusted and evaluated during the Study progress.

   - Case Studies
     Case studies may include one project on transportation system, one project on agriculture and rural development and one project which is a revenue-earning entity. Case studies will assist consultants in gaining deeper understanding of the actual implementation procedures of PMUs in reporting activities, in particular consultants will attempt to analyse reports’ contents, format and submission. The Consultants will also conduct a sample check on the link between the reported figures and the accounting system to get a better understanding of the value and veracity of this data. Projects included in the case studies are to be decided by MPI and consultants during the course of the Study.

     Furthermore, case studies will be “live” illustrations of what can be done to improve the quality and efficiency of reporting activities, and to reduce the burden for PMUs during the seminar presentation.

3. In-depth interviews
   Consultants aim to conduct in-depth interviews with select PMUs, and key ministries.

   In-depth interviews mainly aim to:
   - Identifying issues with the current reporting system from different perspectives;
   - Rationalizing the reports based on usefulness;
   - Gathering recommendations on the future guidelines.

   Key parties identified for potential in-depth interviews are:
   - Donors: WB, ADB, and JBIC
   - PMUs: PMU1, PMU18, EVN.
The Government of Vietnam: MPI, MoF, Ministry of Transport, Hanoi Department of Planning and Investment, SBV.

IV. EXPECTED OUTPUTS
There are three types of outputs to be produced by the consultants. Firstly, a comparison table of contents, submission and format of report guideline currently adopted by PMUs. Secondly, recommendations on a common guideline that should be universally used by PMUs in a rationalized reporting system. And finally, a presentation on the findings and recommendations by consultants, in a coming seminar organised by the MPI. The seminar will have participation from key ministries, major project donors, and other government agencies.

V. REPORTING ARRANGEMENTS, TIME FRAME AND BUDGET
1. Reporting Arrangements: The two-member mission will consist of a team leader and a consultant.

The team-leader is to:
- Analyse existing report guidelines and evaluate the common features/differences across the reports
- Conduct interviews
- Participate in formulating recommendations for the common guideline/ Writing final report
- Present findings/recommendation in the seminar

The consultant is to:
- Analyse report guidelines and evaluate the common features/differences across the reports
- Assist team-leader in conducting interviews
- Participate in formulating recommendations for the common guideline/ Assist team leader in writing the final report.
- Assist team-leader in presenting findings/recommendation in the seminar

The team will receive assistance from MPI and WB in the form of providing material for Study and establishing interview contacts. Mr Cao Manh Cuong will act as the coordinator between the consultants and the MPI.

2. Time Frame
Eight (8) working days: from 5th November, 2002 to 14th November, 2002. The seminar is expected to be organised on 17th November, 2002.

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Introduction

A regional workshop on harmonization of donor procedures and practices was held in Hanoi, Viet Nam from 22-24 January 2003 in preparation for the High-Level Forum on harmonization, scheduled to be held in Rome from 23-25 February 2003. This report is a summary of the main messages and conclusions of the workshop. The major objectives of the workshop were to provide an overview of the output of the OECD/Development Assistance Committee (DAC) Task Force on Donor Practices; to disseminate information on the harmonization experience in Viet Nam; to have participating countries from the region share their views and experiences in the area of harmonization; and to provide a set of guiding principles for future work on harmonization in the region. The Asian Development Bank (ADB), the World Bank (WB), and the Government of Japan, in cooperation with the Government of Viet Nam, jointly organized the workshop. Apart from representatives of the organizers, attending the workshop were senior representatives from seven developing countries in the region, and representatives of the donor community in Viet Nam. The report begins with a brief background section. This is followed by a short description of the Viet Nam country experience to date in the area of harmonization. Then follows a section that provides the views on harmonization of the participating developing countries. The report concludes with the proposed guiding principles for future work on harmonization in developing Asia.

Background

The need for harmonization emanated from a desire to reduce transaction costs, build capacity in the partner country and improve overall development effectiveness. The Multilateral Development Banks (MDBs) set up a Roundtable on Harmonization in the 1990s to share experience and lessons. MDB technical working groups in several priority areas have facilitated the harmonization effort. The areas include procurement, financial management and analysis, and environment and social assessments. The G7 subsequently put forward recommendations for MDB reform and the reform agenda reinforced the need to strengthen coordination among MDBs.

The MDBs and the OECD/DAC Task Force on donor practices were requested to work together in 2001 to look at how aid can be delivered more effectively through simplifying and harmonizing donor procedures. The main purpose of the Task Force was to elaborate a set of good practice papers. The Task Force invited sixteen developing countries, representing different geographical regions and at different levels of development to consult with and to participate in meetings. The areas covered in the papers are good practices between donors and partner governments, between donor agencies, and within individual donor systems. Several subgroups were set up to report on different aspects of the harmonization exercise. In May 2002, the subgroup on Reporting and Monitoring visited Viet Nam to strengthen cross learning between Viet Nam and the DAC Task Force members, to brief the government and its ODA.

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8 The developing countries represented were Bangladesh, Cambodia, Lao PDR, Indonesia, Nepal, Philippines, and Viet Nam. Both multilateral and bilateral donor agencies and financial institutions were represented.

9 Bangladesh, Bolivia, Cambodia, Egypt, Senegal, Guatemala, Kenya, Kyrgyz Republic, Mali, Morocco, Mozambique, South Pacific Forum, Romania, Tanzania, Uganda, Viet Nam.
partners on the OECD/DAC harmonization agenda and the work of the subgroups, and to motivate more local donor agencies to join the harmonization process.

The Monterrey Conference in March 2002 further highlighted the importance of building partnerships among donors and developing countries as a means of making more effective progress towards the Millennium Development Goals. It specifically called on development agencies to harmonize their operational procedures so as to reduce transaction costs and to make ODA disbursement and delivery more flexible, taking into account national development needs and objectives under the ownership of the partner country. The High-Level Forum to be held in Rome was proposed in the second progress report on harmonization prepared for the April 2002 Development Committee Meeting as a follow-up to the Monterrey Consensus. The focus of the Forum is to be on enhancing the effectiveness of development assistance through improved harmonization of donor operational policies, procedures, and practices in the context of the CDF/PRSP and similar approaches.

**Viet Nam’s Harmonization Initiatives: Achievements and Progress**

**A. The ADB, WB, JBIC Harmonization Initiative**

In response to the Government of Viet Nam's request to improve ODA effectiveness, the Asian Development Bank (ADB), the Japan Bank for International Cooperation (JBIC) and the World Bank (WB) undertook to harmonize procedures and practices in the following priority areas: procurement, financial management, environmental and social safeguards, portfolio management, and economic and sector work. Considerable progress has been made and the regional preparatory workshop discussed this harmonization exercise in considerable detail. The general consensus was that this harmonization initiative has been very fruitful and has already yielded very tangible benefits to both the partner country and to the banks, and will result in substantial reduction in transaction costs. It was repeatedly stressed that harmonization does not mean standardization of policies and procedures. The exercise has demonstrated the importance of ensuring country ownership of the harmonization process, the need to take into consideration both the capacity of the partner country and the views of different government agencies, and also the need to reflect the diversity of each of the banks engaged in the exercise.

A joint report prepared by ADB, JBIC and WB was distributed to the participants at the end of the workshop. The report is attached as Appendix 1. Details of the progress on each of the priority areas are given in the report. The report also contains several Annexes providing further information and documentation on the work completed or in progress.

**B. Other Donor Initiatives**

There are several harmonization efforts ongoing in Viet Nam apart from the ADB/JBIC/WB initiative. Various bilateral donors and UN agencies are also involved in harmonization efforts with the government, and progress on some of these was also discussed at the workshop. The so-called Like-Minded Group (LMDG) comprising several bilateral donors (including UK/DFID, Netherlands, Sweden, Switzerland, etc.) are coordinating and harmonizing their practices and procedures, and reported on the benefits that they are experiencing through their initiative. The European Union members are similarly engaged in such an exercise, as are several UN agencies operating in Viet Nam. The number of donor agencies, multilateral, bilateral, NGOs, etc. in Viet Nam runs into the hundreds and the costs to the partner country of dealing separately with each is extremely high. The efforts at harmonization are helping reduce the costs and burden on Viet Nam.
Several studies have been done on the transaction costs of aid delivery in Viet Nam in an effort to demonstrate the need for harmonization. The studies include those by UNDP/DFID, the LMDG, OECD/DAC and JICA. The JICA study, in particular, demonstrated the various costs involved in four sectors, namely agriculture and rural development, health, education and transport. A cost/benefit analysis shows that the benefits of harmonization far outweigh the costs involved and harmonization should result in more effective and efficient use of ODA.

**Views on Harmonization of the Participating Developing Countries**

There was general agreement from the participating countries regarding the need to harmonize procedures and practices among the various donors operating in each country to reduce the burden on the partner country in terms of transactions costs, and administrative burden. The delegates from seven partner countries (Viet Nam, Bangladesh, Cambodia, Indonesia, Lao PDR, Nepal, the Philippines) expressed their views on harmonization, including their own experiences in this field.

All participants welcomed efforts by individual donors to simplify and rationalize procedures as well as those by groups of donors who have similar aid procedures to jointly harmonize their procedures. The delegates enumerated different problems and burdens associated with different procedures and practices of the donors. Many of the problems enumerated can be resolved through harmonization among the donors, and between the donors and the partner country. Also, each donor agency itself needs to simplify its procedures and practices. In addition, there is a need to encourage harmonization between the partner country’s own ministries and agencies. All of these measures are expected to reduce transaction costs and enhance the effectiveness and efficiency of ODA.

There were several common messages that emerged. The need for the partner country assuming ownership of the harmonization effort was repeatedly stressed, as was the necessity of catering to the actual needs and capacity of the partner country. It was emphasized that local capacity building is imperative to promote country ownership. The experience of Viet Nam in the training of local staff in the area of procurement was explained in this regard.

It was noted that Consultative Group meetings, roundtable meetings and joint portfolio meetings have been utilized to discuss the harmonization process suitable to the country’s specific circumstances. In Viet Nam the discussions have led to major efforts at harmonization in the areas of procurement and financial management. In order to widen understanding on the benefits of harmonization the need for more consultation among the donors as well as between the partner government and donors was emphasized. Some delegates also added that consultation between different government agencies was as important as harmonization between donor agencies, and between donor agencies and the government.

Several participants stressed the importance of aligning donor activities to the partner country’s national or sectoral development plans. Many stated that a “one-size-fits-all approach” does not apply to harmonization in aid delivery and that harmonization should aim at increasing the effectiveness of assistance by simplifying procedures. It was pointed out that diversity in aid modality and “competitive pluralism” of donors is crucial to respond to the development needs of partner countries. A “two-window approach” (coexistence of pooled funds and project assistance) was suggested by the Nepalese delegation. This would enable the partner country to select appropriate assistance in line with the development needs of the country. At the same time, the Indonesian delegation while providing the example of the health sector, explained the necessity of standardization in such areas as preparation of technical manuals for local workers and medical equipment specification.
The following areas were mentioned as priority areas of harmonization efforts: information sharing, appraisal and approval, procurement, bidding documents, monitoring and evaluation, and financial management. Some participants also expressed the necessity of shifting to the sector-wide approach as an avenue for easing harmonization.

During the discussion, a question concerning the costs of harmonization itself was raised and it was pointed out that the whole effort was not costless. The benefits of harmonization should outweigh the costs of the harmonization effort and such a cost-benefit analysis of harmonization should help determine priority areas for harmonization. Several specific examples were provided by the different delegates that reflected both the need for harmonization, and the areas of priority that each participating country identified in the area of harmonization. In general, the areas covered in the Viet Nam country pilot were considered of importance and were to be given priority in any future harmonization exercise.

**Key Principles to Guide Future Actions**

All the participants endorsed the basic principles put forward at the workshop regarding harmonization. There was general agreement that the following key principles should guide future work on harmonization, which must be regarded as a long-term process:

**Ensuring Partner Country Ownership**

Harmonization can only succeed if the partner country assumes ownership of the whole effort. Since harmonization is a long-term process, donor-driven harmonization beyond partner country capacity might risk undermining this ownership. Harmonization must take into consideration the development programs and priorities of the partner country to ensure adequate country ownership.

**Country-based Approach**

Each country’s circumstances differ in terms of its aid dependency ratio, its history with different donors, its aid absorbing capacity, etc. Harmonization should be undertaken in a flexible and practical manner by reflecting each country’s needs and its capacity in managing aid delivery. Donors and partner countries should strengthen dialogue to identify the needs of the partner country and to develop a harmonization approach that will fit the real needs and situation of the country. Harmonization must take into consideration the capacity of the partner country to ensure that the harmonization exercise can be suitably addressed and both donors and the partner country should strengthen their efforts to develop country capacity.

**Diversity in Harmonization**

The need to adequately address the diversity of the partner country and of the various donors is extremely important. In pursuing harmonization, diversity of aid modalities as well as differences in the partner countries should be respected in order to allow for competitive pluralism among all development actors.

**Cost-Benefit Analysis of Harmonization**
Harmonization is not intended to unify or standardize all donor procedures and practices. Target areas for harmonization should be chosen between donors and the partner country after close consultation. A cost-benefit analysis of harmonization should serve as an important criterion in determining priority areas.
A. Harmonisation: some propositions based on our work in Vietnam

More than just a technical agenda
We started working together on the aid effectiveness by looking at transactions costs of ODA delivery and also by conducting a comparative study of donor and GOVN procedures. But we quickly learnt that harmonisation was much more than just a technical agenda. Field level requests for adjustments to our donor procedures met with resistance from our central HQ departments. We realise that a higher-level mandate for change is needed if this agenda is to progress. We hope the Rome meeting - and the DAC-High Level meeting in April this year - will provide such a mandate.

Inseparable from the overall development effort
Similarly we quickly found that while procedural changes may improve aid efficiency, harmonisation also had a role in the context of improved aid effectiveness. In other words, harmonisation is not an end in itself. It is a means to achieve greater aid effectiveness. The quest for improved aid effectiveness cannot be separated from the policy context of a country and from the overall (GOVN and donor) development effort. Harmonisation must therefore be located within the context of a strategic development framework. The CPRGS (PRSP) and law on ODA (Decree 17) provide such a framework in Vietnam.

Requires change in the way we conduct our business
Consensus has emerged around the need for harmonisation to be country-led and country-owned. But what do these concepts actually imply for both recipients and donors? Some have referred to a shift from an institutional to country framework. Delivering in a “country-led” mode implies that donors are able to be more flexible and decentralised in their aid delivery. At the same time there are implications in recipient countries for the integrity of core recipient government systems in the budget process, procurement, audit etc and for building capacity in these areas.

Needs greater decentralisation for donor agencies
Harmonisation will play out in the country context – but needs “enabling” support from the centre. Harmonisation requires a reduction in the proliferation of donor’s operational policies, procedures and practices, and may also require the acceptance of new GOVN procedures or the use of GOVN budgeting, procurement and audit systems. Donor agency HQs need to provide such “enabling” support. Donor representatives on the boards of multilateral institutions need to play a similar enabling role.

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1 The LMDG is an ad-hoc grouping of Hanoi-based bilateral donors (Sweden, Denmark, the Netherlands, Canada, Finland, Norway, Switzerland and the United Kingdom) who are drawn together by a common commitment to: (1) Use the CPRGS as a framework for our ODA planning and delivery; and (2) Improve the quality of aid in Vietnam. The LMDG is not an exclusive group and aims to promote change through the demonstration effects of practical actions that have concrete, measurable results.
“The LMDG approach to harmonisation is based upon building capacity in Vietnamese Government systems so that donors are increasingly able to use these systems for ODA delivery rather than using their own parallel systems.”

**Harmonisation presents serious issues for the domestic governance agenda**

GOVN systems are the starting point for harmonisation efforts in Vietnam, but building GOVN systems is a governance issue as well as an ODA management issue.

We recognise that, from the harmonisation perspective, many of the capacity improvements that would make ODA more effective are also generic improvements that would improve governance overall and have much wider benefits. For example, whilst greater budgetary transparency is desirable in terms of promoting ODA transfer through the budget, it is even more significant in terms of promoting understanding and debate over the mobilisation and allocation of GOVN’s own development resources. Other related examples include gaps between planning and investment decisions and between capital and recurrent budgeting. The ongoing process of decentralisation adds further complexity. There is also a harmonisation agenda within GOVN itself. In the LMDG, we see support for public finance modernisation and public administration reform as key elements of both a harmonisation agenda and of a much wider development agenda.

Although harmonisation is a “win-win” proposition overall, there are different incentives at different levels in the ODA chain. In particular if we see a move towards sector oriented approaches and greater use of budgetary systems for ODA transfer, then this will lead to a reduction in the demand for dedicated ODA project services such as project management units (PMUs). Clearly project stakeholders have a stronger interest in project-style ODA than in alternative more harmonised modes of ODA delivery. Harmonisation may also lead to changes in the relationship between central ministries; between central and line ministries and between ministries and provincial governments.

**Harmonisation can promote fair competition in the “aid market”**

Much progress has been made in aid untying, but much more can be done to ensure fair competition and the participation of domestic private sector companies and consultancy firms in the aid market. In Vietnam, where aid is “untied” many goods and services still seem to originate primarily from the donor countries providing the ODA rather than from competitive sources, including Vietnam.

**There are costs associated with Harmonisation**

Clearly the process of harmonisation has short-term, up-front costs. We need to be sure that our efforts are leading to both a longer-term reduction in transactions costs and a longer-term development gain. We must be clear that we are reducing – and not simply transferring - ODA transactions costs.

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2 From the LMDG CG statement 2002 (attached)
We should also pursue this task with some urgency, as there are significant opportunity costs of not improving ODA management. In Vietnam there has been a consistent gap each year between ODA commitments and ODA disbursements. In many cases this “gap” is not simply rolled over, and will be lost to Vietnam, constituting a significant opportunity cost. Similarly, if Vietnam continues on its current growth trajectory, it will at some point (this decade?) successfully graduate from IDA, ADF and other equivalent concessional finance windows. Poor portfolio management over the next few years may also result in lost opportunities in terms of access to concessional finance.

B. Harmonise for the future not the past

One of the most important lessons we have learnt is the need to look forward. In the LMDG we have made progress because we concentrate on where we agree rather than where we differ. Generally, it is easier for donors to sign up to new instruments and new ways of doing things than it is to rewrite our procedures manuals. We also need to demonstrate clear benefits from harmonisation. We therefore concentrate on new aid vehicles and new aid instruments to catalyse harmonization e.g. pooled funding, SWAPs, multi-donor trust funds, common reporting formats, shared training material etc. If we can demonstrate a better way of conducting our business than we will create a “gravitational force” which others can join. We do not promote an exclusive approach. We recognise the existing role of diversity in the Vietnamese context and do not wish to force anyone to “harmonise”. Looking ahead, we need think of incentives to reward harmonisation efforts and find ways to institutionalise them. One clear benefit we have already enjoyed in the LMDG are the considerable savings in staff time. These accrue from the sharing of tasks and material and from various forms of delegated cooperation within the LMDG. GOVN also benefit from meeting group representatives rather than a string of individual bilateral donors.

C. Harmonising amongst the harmonisers

In Vietnam there are now at least four different harmonisation efforts covering the three banks (World Bank, ADB and JBIC), the LMDG, the UN agencies and the EU. This provides an opportunity as the overall momentum resulting from the different efforts can potentially be harnessed to produce real improvements in aid effectiveness. Clearly there is complementarity between these different efforts and the challenge for the future will be one of “harmonising the harmonisers” in order to maximise the complementary effects. At the same time, the relationships between in-country and HQ activities are also crucial. We must continue to build linkages with international process and learn from experiences elsewhere. In fact to ensure that these important aspects of the Harmonization process are not lost, and to build on the momentum of the Rome event, and the guiding principles and good practice papers to be concluded at the DAC-High Level meeting in April this year, the LMDG propose to support a follow up harmonisation workshop in Hanoi in October 2003 to take forward these themes in the Vietnamese context.
1. We, the heads of multilateral and bilateral development institutions and representatives of the IMF, other multilateral financial institutions, and partner countries gathered in Rome, Italy, on February 24-25, 2003, reaffirm our commitment to eradicating poverty, achieving sustained economic growth, and promoting sustainable development as we advance to an inclusive and equitable global economic system. Our deliberations are an important international effort to harmonize the operational policies, procedures, and practices of our institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to meeting the Millennium Development Goals (MDGs). They directly support the broad agreement of the international development community on this issue as reflected in the Monterrey Consensus (Report of the International Conference on Financing for Development, March 2002, para. 43). We express our appreciation to the governments of Jamaica, Vietnam, and Ethiopia, and to the bilateral donors and international institutions that sponsored and coordinated regional workshops in Kingston, Hanoi, and Addis Ababa in January 2003, in preparation for the Rome Forum. The key principles, lessons, and messages synthesized in the reports of these workshops have provided valuable input to the Forum.

Improvements in Development Effectiveness

2. We in the donor community have been concerned with the growing evidence that, over time, the totality and wide variety of donor requirements and processes for preparing, delivering, and monitoring development assistance are generating unproductive transaction costs for, and drawing down the limited capacity of, partner countries. We are also aware of partner country concerns that donors' practices do not always fit well with national development priorities and systems, including their budget, program, and project planning cycles and public expenditure and financial management systems. We recognize that these issues require urgent, coordinated, and sustained action to improve our effectiveness on the ground.

3. We attach high importance to partner countries' assuming a stronger leadership role in the coordination of development assistance, and to assisting in building their capacity to do so. Partner countries on their part will undertake necessary reforms to enable progressive reliance by donors on their systems as they adopt international principles or standards and apply good practices. The key element that will guide this work is a country-based approach that emphasizes country ownership and government leadership, includes capacity building, recognizes diverse aid modalities (projects, sector approaches, and budget or balance of payments support), and engages civil society including the private sector.

Good Practice Standards or Principles

4. We acknowledge that while our historical origins, institutional mandates, governance structures, and authorizing environments vary, in many instances we can simplify and harmonize our requirements and reduce their associated costs, while improving fiduciary oversight and public accountability and enhancing the focus on concrete development results. We endorse the good practice work by the technical groups of the DACIOECD Task Force and the multilateral development banks (MDBs), and look forward to the expected completion next year of the UN harmonization work that is being coordinated by UNDGO. We are ready to follow existing good practices while continuing to identify and disseminate new ones.
Going Forward

5. We agree that, for both donors and partner countries, the progress we make on the ground in programs and projects will be a concrete and important measure of the success of our efforts. We recognize that such progress can be facilitated and enhanced by harmonization efforts at the international and regional levels. Building on the work of the DACIOECD and MDB working groups and on country experience, including the recent country initiatives, we commit to the following activities to enhance harmonization:

- Ensuring that development assistance is delivered in accordance with partner country priorities, including poverty reduction strategies and similar approaches, and that harmonization efforts are adapted to the country context.

- Reviewing and identifying ways to amend, as appropriate, our individual institutions' and countries' policies, procedures, and practices to facilitate harmonization. In addition, we will work to reduce donor missions, reviews, and reporting, streamline conditionalities, and simplify and harmonize documentation.

- Implementing progressively-building on experiences so far and the messages from the regional workshops-the good practice standards or principles in development assistance delivery and management, taking into account specific country circumstances. We will disseminate the good practices (synthesized in Annex A) to our managers and staff at headquarters and in country offices and to other in-country development partners.

- Intensifying donor efforts to work through delegated cooperation at the country level and increasing the flexibility of country-based staff to manage country programs and projects more effectively and efficiently.

- Developing, at all levels within our organizations, incentives that foster management and staff recognition of the benefits of harmonization in the interest of increased aid effectiveness.

- Providing support for country analytic work in ways that will strengthen governments' ability to assume a greater leadership role and take ownership of development results. In particular, we will work with partner governments to forge stronger partnerships and will collaborate to improve the policy relevance, quality, delivery, and efficiency of country analytic work.

- Expanding or mainstreaming country-led efforts (whether begun in particular sectors, thematic areas, or individual projects) to streamline donor procedures and practices, including enhancing demand-driven technical cooperation. The list of countries presently involved includes Ethiopia, Jamaica, Vietnam, Bangladesh, Bolivia, Cambodia, Honduras, Kenya, Kyrgyz Republic, Morocco, Niger, Nicaragua, Pacific Islands, Philippines, Senegal, and Zambia.

- Providing budget, sector, or balance of payments support where it is consistent with the mandate of the donor, and when appropriate policy and fiduciary arrangements are in place. Good practice principles or standards-including alignment with national budget cycles and national poverty reduction strategy reviews should be used in delivering such assistance.
• Promoting harmonized approaches in global and regional programs.

6. We wish to record that a positive by-product of our collaboration on harmonization has been increased information sharing and improved understanding of commonalities and differences during the preparation or revision of our respective operational policies, procedures, and practices. We will deepen this collaboration in the future, and will explore how such collaboration could help to ensure that new or revised policies are appropriately harmonized or "harmonizable" with those of the partner countries and donor institutions.

7. We recognize the global work on monitoring and assessing the contribution of donor support to the achievement of the MDGs. We will track and, as necessary, refine lead indicators of progress on harmonization such as those described in the DACIOECD Good Practice Papers.

8. We acknowledge the potential contribution of modern information and communication technologies to promoting and facilitating harmonization—already demonstrated by the use of audio and videoconferencing facilities in the staff work on harmonization, the Development Gateway, the Country Analytic Work website, and the early work on e-government, e-procurement, and e-financial management. We commit to further efforts to exploit these technologies.

Next Steps

9. Partner countries are encouraged to design country-based action plans for harmonization, agreed with the donor community, that will set out clear and monitorable proposals to harmonize development assistance using the proposals of the DACIOECD Task Force and the MDB technical working groups as reference points. In turn, the bilateral and multilateral agencies will take actions to support harmonization at the country level. As part of their self-evaluation processes, bilateral and multilateral agencies and partner countries will assess and report on progress in applying good practices, and on the impact of such practices. Whenever possible, we will use existing mechanisms to develop such plans and to assess and report on progress, and we will make these plans available to the public.

10. We will utilize and strengthen, including through partner country participation, existing mechanisms to maintain peer pressure for implementing our agreements on harmonization. In this regard and in the context of the New Partnership for Africa's Development, we welcome regional initiatives, such as the work by the Economic Commission for Africa, for a joint annual aid effectiveness review in a framework of mutual accountability that would also address harmonization issues.

11. Reflecting our experience over these last two days, we plan stocktaking meetings in early 2005 following the review already scheduled in DACIOECD in 2004. This follow-up would assess progress in and sustain the momentum for fundamental changes that enhance aid delivery, and would contribute to the review of the implementation of the Monterrey Consensus, the timing and modalities for which are expected to be determined by 2005.
Good Practice Standards or Principles for Harmonizing Donor Assistance

1. We welcome the collaboration of the OECD-DAC and the MDBs in the work on public financial management. We note the agreement that good public financial management should cover the preparation of the budget, internal control and audit, procurement, disbursement, monitoring and reporting arrangements, and external audit, and should promote overall fiscal discipline and efficient allocation of resources to priority needs. This collaboration reflects the importance we place on an improved accountability relationship between a partner developing country and its own citizenry that can be achieved in part through transparent public financial management processes and systems.

2. We note the good practice emphasis on working closely with governments on public sector financial reviews, and integrating these reviews into countries' poverty reduction strategies, donors' country assistance programs, and the decision-making cycles of both governments and donors. We believe that financial reviews should take account of initial country conditions; international standards, codes, and approaches; and capacity-building requirements toward compliance with these standards and codes. The OECD-DAC and MDBs have requested the International Federation of Accountants to consult broadly with donors and developing countries and prepare an accounting standard for development assistance by 2004, and we look forward to the outcome of this effort.

3. We acknowledge the considerable scope for simplified and harmonized approaches to financial reporting and auditing, including the form and content of financial reports, the financial reporting period, auditing standards, the qualifications of auditors and quality of audit firms, the selection and contracting of audit firms, the terms of reference for auditors, the due date for submission of audit reports, the coverage of management letters, and the follow-up to audit findings.

4. We note that the work of the MDB procurement group has already led to the agreement on one set of master documents for international competitive bidding, and that work toward agreement on others is far advanced. In relation to the harmonization pilots carried out in three countries, we welcome the proposed common procurement, implementation, and monitoring approaches for cofinanced sector programs and projects. We are pleased that participating donors and governments are developing standardized bidding documents for national competitive bidding and, on a case-by-case basis, common thresholds for national competitive bidding. We strongly support efforts to build partner countries' procurement capacity.

5. We note that a number of MDBs and many bilateral donors already have environmental policies and procedures that have much in common, and that there is increasing agreement on the importance of taking social impacts adequately into account in project preparation and implementation—either through environmental impact assessment or other types of social assessment. Further convergence is needed to eliminate duplication in assessing, documenting, and monitoring environmental and social impacts in the projects that donors jointly finance, and to better synchronize the consultation and disclosure processes associated with assessing such impacts. To this end, we affirm the need to harmonize with each other and with partner countries around systems and procedures that meet international good practice standards and principles and focus on country capacity-building. We will also explore the scope for
collaborating in reviews that assess adherence to undertakings to address environmental and social impacts.

6. Given that donors currently fund over 60,000 development projects and programs, and that preparing the multiple reports for each activity required by each donor often exceeds the capacity of partner countries, we agree that it is desirable for donors and partner countries to simplify individual systems and procedures and to work together toward common formats, content, and frequency for a single periodic report per project that meets the needs of all partners. In so doing, it will be important not to overburden country systems or divert existing capacity. We acknowledge that one way of achieving this would be to ensure that the reporting and monitoring systems that donors use are simplified and harmonized.
Annex B

Attendance and Organization of the High-Level Forum

Date and Place of the Forum

1. The High-Level Forum on Harmonization was held in Rome, Italy, February 24-25, 2003, in accordance with agreements set out in progress reports on harmonization to the Development Committee. The forum held seven plenary sessions.

Attendance

2. The following partner countries and multilateral and bilateral agencies/institutions were represented at the Forum:

<table>
<thead>
<tr>
<th>Partner Countries</th>
<th>Partner Countries</th>
<th>Partner Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>Honduras</td>
<td>Niger</td>
</tr>
<tr>
<td>Republic</td>
<td>Republic</td>
<td>Republic</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Jamaica</td>
<td>Romania</td>
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<td>Bolivia</td>
<td>Kenya</td>
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<td>Burkina Faso</td>
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<td>Guatemala</td>
<td>Nicaragua</td>
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</tr>
<tr>
<td>Guyana</td>
<td></td>
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</tr>
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</table>

Multilateral and Bilateral Agencies/Institutions

<table>
<thead>
<tr>
<th>Agency/Institution</th>
<th>Agency/Institution</th>
<th>Agency/Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>African Development Bank</td>
<td>Australia</td>
<td>Caribbean Community</td>
</tr>
<tr>
<td>Asian Development Bank</td>
<td>Austria</td>
<td>Caribbean Development Bank</td>
</tr>
<tr>
<td>European Bank for Reconstruction</td>
<td>Belgium</td>
<td>Corporacion Andina de Fomento</td>
</tr>
<tr>
<td>and Development</td>
<td>Canada</td>
<td>East African Development</td>
</tr>
<tr>
<td>Bank</td>
<td>Inter-American Development Bank</td>
<td></td>
</tr>
<tr>
<td>DACIOECD</td>
<td>Denmark</td>
<td>Economic Commission for Africa</td>
</tr>
<tr>
<td>World Bank</td>
<td>European Commission</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td></td>
<td>Finland</td>
<td>International Fund for Agricultural</td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>Development</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td></td>
<td>Greece</td>
<td>Islamic Development Bank</td>
</tr>
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<td></td>
<td>Ireland</td>
<td>Nordic Development Fund</td>
</tr>
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<td></td>
<td>Italy</td>
<td>Nordic Environment</td>
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<td>Finance Corp.</td>
<td>Japan</td>
<td>Nordic Investment Bank</td>
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<td></td>
<td>Kuwait</td>
<td>OPEC Fund for</td>
</tr>
<tr>
<td>International</td>
<td>Luxembourg</td>
<td>Development</td>
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<td></td>
<td>Netherlands</td>
<td>Organization of the Eastern</td>
</tr>
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<td></td>
<td>New Zealand</td>
<td>Caribbean States</td>
</tr>
<tr>
<td></td>
<td>Norway</td>
<td>Pacific Islands Forum</td>
</tr>
<tr>
<td>Country</td>
<td>Organization</td>
<td></td>
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<td>------------------------------</td>
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<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>United Nations Development Programme</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>West African Development Bank</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
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<tr>
<td>Switzerland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
I. INTRODUCTION

1. Since the early 1990’s Official Development Assistance (ODA) to Viet Nam has accelerated, and the number of donors providing support has increased significantly. Growing cooperation among the Government of Viet Nam and its development partners has increasingly brought into focus the need for harmonization of the operational policies, practices, strategies, and procedures of the donor agencies in Viet Nam in order to strengthen the effectiveness of ODA. The participatory preparation of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) is now complete and there is increasing momentum towards further collaboration of donor programs and projects. Such harmonization would further improve the effectiveness of partnerships by eliminating unnecessary differences in operational requirements and reducing the transaction costs of development assistance, and would help strengthen the national aid management system.

2. In July 1999, and as a result of poor portfolio performance, the Government, Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC), and the World Bank (WB), organized the First Joint Portfolio Performance Review (JPPR I), with a follow-up Portfolio Management Conference in April 2000. This conference agreed on a time-bound action plan that included (i) reviewing the legal framework for managing and using ODA funds; (ii) harmonizing procedures between the government and development partners; (iii) establishing standard operational procedures for project management units (PMUs); (iv) developing project monitoring and evaluation systems; and (v) developing human resources for management and implementation of ODA projects.

3. JPPR II was undertaken by the Government, ADB, JBIC, and the WB in August 2001. Through Breakout Group Sessions, the review resulted in the identification of a number of priority topic areas including (i) preparation – ownership, continuity, and capacity; (ii) implementation – government procedures, PMU capacity and authority, and resettlement and rehabilitation; (iii) procurement and contract management – human resource capacity, bid organization and management, quality control, state owned enterprises, and safety procedures; and (iv) monitoring and evaluation – establishment of monitoring and evaluation systems, strengthening monitoring and evaluation capacity, and reporting systems. The sessions identified potential solutions, responsible Ministry/Agency, and an action timeframe. While some initial actions have been implemented since the preparation of the JPPR II, much still remains to be done to improve overall portfolio performance.

4. In 2001, ODA disbursements accounted for about 12 percent of public expenditure and 45 percent of public investment expenditure. However, ODA absorption rates have generally been below the regional average due to (i) confusion caused from conflicts and inconsistencies between Government and donor’s procedures; (ii) inconsistent legal framework for public investment in Viet Nam; (iii) weak project management capacity and skills; and (iv) lack of monitoring and evaluation capacity of the Government. Responding to these issues, ODA management systems were overhauled in 2001, and in parallel, administrative and financial management reform has become a key pillar of government’s Public Administration Reform (PAR) Master Program for 2001 – 2010. The objectives of the PAR program are (i) reorganization of government including changes in central – local government relationships; and (ii) devolution of greater authority to local governments. Decentralization of budgetary authority and measures to improve transparency and efficiency in public financial management under Ministry of Finance jurisdiction are under implementation. In addition, improvements are underway in public investment planning and
management, including ODA management, under the jurisdiction of the Ministry of Planning and Investment.

5. In order to make the JPPR more inclusive, and in support of the ongoing initiatives on Viet Nam's harmonization of procedures, it was agreed in early April 2003 that besides the three initial Banks, participation in JPPR III would also include two other donor funding agencies i.e. Agence Francaise de Developpement (AFD) and Kreditanstalt fur Wiederaufbau (KfW). This now brings the five donors together in the implementation of the 2003 JPPR. At the Viet Nam mid-year Consultative Group Meeting in May 2002, possible topics for harmonization were discussed, and it was concluded that good potential existed in the areas of procurement, financial management, environmental and social safeguards, and portfolio management. While each donor undertakes their own separate annual portfolio review, the JPPR, implemented every two years, is undertaken to review implementation performance of projects financed by the five ODA development partners in Viet Nam, to identify issues, both generic and specific, that are affecting the smooth and timely implementation of the overall portfolio, and to find ways in which to improve overall performance and effectiveness.

II. LOAN PORTFOLIO PROFILE

6. Since the resumption of operations in October 1993, and up to 31 December 2002, there has been a total of 192 project loans by the five Banks with total cumulative loan commitments amounting to US$11.83 billion (ADB: US$2.09 billion; JBIC: US$5.37 billion; WB: US$3.77 billion; AFD: US$0.36 billion; and KfW: US$0.24 billion). Total net resource transfer of committed funds of the five Banks during the period to 31 December 2002 amounted to US$4.93 billion or around 42 percent of total committed loan funds. In 2002 total loan commitments amounted to US$1.23 billion (ADB: US$123.5 million; JBIC: US$553.4 million; WB: US$463.2 million; and AFD: US$90 million), while total net resource transfers amounted to US$0.75 billion. Yearly loan commitment and net resource transfer trends of the five Banks can be seen in Table 1 and Figures 1 and 2.

### Table 1: Commitment and Net Resource Transfer
(As of 31 December 2002)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Commitment 1</th>
<th>Net Resource Transfer 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>JBIC</td>
<td>WB</td>
</tr>
<tr>
<td>1992</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1993</td>
<td>261.5</td>
<td>-</td>
</tr>
<tr>
<td>1994</td>
<td>60.0</td>
<td>408.2</td>
</tr>
<tr>
<td>1995</td>
<td>233.0</td>
<td>436.1</td>
</tr>
<tr>
<td>1996</td>
<td>213.0</td>
<td>573.8</td>
</tr>
<tr>
<td>1997</td>
<td>359.6</td>
<td>663.9</td>
</tr>
<tr>
<td>1998</td>
<td>284.0</td>
<td>696.7</td>
</tr>
<tr>
<td>1999</td>
<td>120.0</td>
<td>721.3</td>
</tr>
<tr>
<td>2000</td>
<td>188.5</td>
<td>666.2</td>
</tr>
<tr>
<td>2001</td>
<td>243.1</td>
<td>637.0</td>
</tr>
<tr>
<td>2002</td>
<td>123.5</td>
<td>553.4</td>
</tr>
<tr>
<td>Total</td>
<td>2086.2</td>
<td>5356.6</td>
</tr>
</tbody>
</table>

1 Fiscal Year is from January to December
2 Project volume as approved by Donors
3 Disbursement minus interest minus fee and repayment of principal
7. As of 31 December 2002, overall sectoral distribution of the public sector portfolio showed that the transport/communications/storage sector has received the greatest funding support with around 38 percent, while the energy sector received 28 percent, social infrastructure sector 17 percent, agriculture and rural development 16 percent, banking/finance/industry sector one percent, and other sectors less than one percent. No discernible trend in donor sectoral preference is evident, however, social infrastructure and transport and communications rate within the top three of four of the five donors. Overall sectoral rankings show that the transport/communications/storage sector ranks first, mainly because of JBIC’s large investments in the sector, with energy sector ranking second and social infrastructure sectors third. Table 2 and Figures 3 show the collective sectoral distribution of cumulative public sector portfolio of the five Banks.
### Table 2: Sectoral Distribution of Cumulative Public Sector Portfolio  
(As of 31 December 2002)

<table>
<thead>
<tr>
<th>Sector</th>
<th>ADB</th>
<th>JBIC</th>
<th>WB</th>
<th>AFD</th>
<th>KfW</th>
<th>Sectoral Sub-total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>$ mil.</td>
<td>%</td>
<td>$ mil.</td>
<td>%</td>
<td>$ mil.</td>
</tr>
<tr>
<td>Agriculture and Rural Development</td>
<td>31</td>
<td>0.0</td>
<td>26</td>
<td>866.3</td>
<td>78</td>
<td>284.3</td>
</tr>
<tr>
<td>Social Infrastructure</td>
<td>31</td>
<td>549.0</td>
<td>21</td>
<td>676.7</td>
<td>7</td>
<td>25.2</td>
</tr>
<tr>
<td>Transport/Communication/Storage</td>
<td>29</td>
<td>2,770.3</td>
<td>24</td>
<td>779.6</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Banking/Finance/Industry</td>
<td>0</td>
<td>1.0</td>
<td>10</td>
<td>49.0</td>
<td>12</td>
<td>29.2</td>
</tr>
<tr>
<td>Energy</td>
<td>9</td>
<td>2,001.0</td>
<td>28</td>
<td>919.0</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0.0</td>
<td>0</td>
<td>0.0</td>
<td>14</td>
<td>34.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>5,356.6</td>
<td>100</td>
<td>3290.6</td>
<td>100</td>
<td>363.5</td>
</tr>
</tbody>
</table>

Note: Only project loans included

### Figure 3

8. Sectoral distribution of Ongoing Public Sector Portfolio shows that since the resumption of operations 9 years ago, there have only been a small number of projects fully completed and their related funds fully retired. For example, for ADB, only US$375.9 million of total committed funds has been retired, or around 18 percent of total committed funds. JBIC on the other hand has only retired US$1,078.7 million or 20.1 percent of its totally committed funds. A total of only five JBIC projects have actually been completed since they commenced lending in 1994. For the WB, a total of US$808.9 million, or approximately 25 percent of total committed funds has been retired through the completion of seven projects. For AFD, the figures indicate that around 5 percent of lending commitment has been retired while for KfW around 40 percent of lending commitments has been retired. The most logical reason for the relatively small number of completed projects funded by JBIC is that the JBIC portfolio consists ostensibly of large civil works type projects that have a slow start-up period, difficult implementation, and longer implementation periods. Table 3 and Figure 4 show sectoral distributions of the ongoing public sector portfolio. With only a limited number of projects having been completed since resumption of lending, the sectoral ranking of the ongoing public sector portfolio remains the same as the cumulative lending with transport/communications/storage ranked first, and energy and social infrastructure ranked second and third respectively.

---

1. This figure includes an amount of $157.5 million under 5 closed projects and $921.2 million retired under ongoing projects with multiple loans.
Table 3: Sectoral Distribution of Ongoing Public Sector Portfolio
(As of 31 December 2002)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Rural Development</td>
<td>29 (503.1)</td>
<td>0 (0)</td>
<td>3.6 (734.7)</td>
<td>77 (266.8)</td>
<td>16 (23.1)</td>
<td>15 (1531.3)</td>
</tr>
<tr>
<td>Social Infrastructure</td>
<td>24 (414.0)</td>
<td>10 (549.0)</td>
<td>27 (606.7)</td>
<td>7 (25.2)</td>
<td>26 (38.1)</td>
<td>16 (1633.0)</td>
</tr>
<tr>
<td>Transport/Communication/Storage</td>
<td>37 (636.1)</td>
<td>52 (2753.9)</td>
<td>20 (517.2)</td>
<td>0 (0)</td>
<td>0 (48)</td>
<td>40 (3977.6)</td>
</tr>
<tr>
<td>Banking/Finance/Industry</td>
<td>0 (0)</td>
<td>1 (32.8)</td>
<td>2 (49.0)</td>
<td>10 (35.0)</td>
<td>9 (12.8)</td>
<td>1 (129.6)</td>
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<tr>
<td>Energy</td>
<td>6 (97.0)</td>
<td>37 (2001.0)</td>
<td>22 (574.0)</td>
<td>6 (19.0)</td>
<td>0 (0)</td>
<td>27 (2691.0)</td>
</tr>
<tr>
<td>Others</td>
<td>4 (60.1)</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>1 (1.5)</td>
<td>1 (61.6)</td>
</tr>
<tr>
<td>Total</td>
<td>100 (1710.3)</td>
<td>100 (5340.2)</td>
<td>100 (2481.7)</td>
<td>100 (346.0)</td>
<td>100 (145.9)</td>
<td>100 (10024.1)</td>
</tr>
</tbody>
</table>

Note: Only project loans included

Figure 4

Sectoral Distribution of Ongoing Public Sector Portfolio
(As of 31 December 2002)

9. An area that has, and continues to have, a serious impact on the early commencement of projects, and which results in the delay of project benefits to concerned beneficiaries, is the significant time taken between donor loan approval and loan effectiveness. As of 31 March 2003 there were still a total of nine loans from a total of 16 loans approved in 2002 awaiting loan effectiveness. In analyzing the actual elapsed time from loan approval to loan effectiveness, comparison was made of actual performances in Years 2000 and 2001. For ADB, the time was reduced from 11 months to 8 months, while for the WB time was reduced from 8 months to 7 months. While JBIC projects have experienced the shortest time of all 5 donors, 2001 showed an increase to 6 months from a time of 4 months over the previous 3 years. Elapsed time for AFD – funded projects has deteriorated since Year 2000, with a time of around 15 months being required in 2001. While the length of time required for KfW projects has improved since 1998, it was still a lengthy 12 months in 2001. While there has been some general improvement in the elapsed time from loan approval to loan effectiveness of major donor projects, it is still considered unsatisfactory and the actual time needs to be significantly reduced so that implementation of projects can commence in a more timely manner. A delay in project start-up due to the delayed loan effectiveness usually results in longer implementation periods and delayed benefits to project
beneficiaries. Table 4 shows average elapsed time from donor loan approval to loan effectiveness over the past 5 years.

### Table 4: Average Elapsed Time from Loan Approval to Loan Effectiveness (1998-2002)

<table>
<thead>
<tr>
<th>Donor</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>11</td>
<td>9</td>
<td>11</td>
<td>8</td>
<td>&gt; 4</td>
<td>Improved</td>
</tr>
<tr>
<td>JBIC</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>4</td>
<td>Steady</td>
</tr>
<tr>
<td>WB</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>6</td>
<td>1</td>
<td>Improved</td>
</tr>
<tr>
<td>AFD</td>
<td>9</td>
<td>6</td>
<td>13</td>
<td>&gt; 15</td>
<td>&gt; 4</td>
<td>Deteriorated</td>
</tr>
<tr>
<td>KFW</td>
<td>2</td>
<td>29</td>
<td>12</td>
<td>17</td>
<td>12</td>
<td>Improved</td>
</tr>
</tbody>
</table>

1 By 31 March 2003, there remain projects approved in 2002 not yet effective
2 No project approved in 2002

### III. PERFORMANCE OVERVIEW

#### A. Development Objectives and Implementation Progress

10. The development objectives (DOs) and implementation progress (IP) indicators are central to assessing the performance of the portfolio. The performance of these two indicators together with the number of potential problematic projects determines the portfolio’s “at risk” rating. Of the five Banks, JBIC does not have such rating indicators, while KfW applies different performance ratings in assessing project performance. Achievement of DOs of ADB, AFD, and WB have shown improvement in 2002 over the previous 2001 figures, with ADB having around 6.3 percent of its projects rated as partly satisfactory, while AFD had around 7 percent in this category. The WB had a clean slate with all projects rated satisfactory in achieving their DOs. In respect of IP, both ADB and AFD had the same percentage of projects rated as partly satisfactory as they had for DOs, this indicating the strong correlation between DOs and IP. The WB showed considerable improvement in implementation in 2002 compared to 2001, with only one project being considered partly satisfactory. The performance of three Banks (ADB, AFD, and WB) in respect of DOs and IP has resulted in a reduction of projects in the “at risk” category, with ADB having 9.4 percent (3 projects) of its portfolio in this category, AFD having 7.1 percent (1 project), and WB similar to ADB with 10 percent (3 projects) of its portfolio in this category. The present situation however can quickly be reversed if significant project implementation delays occur, and concerned line ministries must ensure improvement in implementation progress is maintained. In the case of KfW, while projects at low and high risk have been reduced in 2002 compared to 2001, the number of projects in the medium risk category have increased by 20 percent, and unless close monitoring and improved implementation of these projects takes place, there is a risk that some of these projects will fall to the high risk category.
Table 5: Vietnam’s Portfolio Rating in Terms of DOs and IP

<table>
<thead>
<tr>
<th>Performance Ratings</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Objectives [% of PS and U/(Number)]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB</td>
<td>9.5 (2)</td>
<td>0.0 (0)</td>
<td>3.7 (1)</td>
<td>10.3 (3)</td>
<td>6.3 (2)</td>
<td>Improved</td>
</tr>
<tr>
<td>WB</td>
<td>26.6 (5)</td>
<td>0.0 (0)</td>
<td>8.7 (2)</td>
<td>7.7 (2)</td>
<td>0.0 (0)</td>
<td>Improved</td>
</tr>
<tr>
<td>AFD</td>
<td>0.0 (0)</td>
<td>0.0 (0)</td>
<td>10.0 (1)</td>
<td>8.3 (1)</td>
<td>7.1 (1)</td>
<td>Improved</td>
</tr>
<tr>
<td>Implementation Progress [% of PS and U/(Number)]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB</td>
<td>14.3 (3)</td>
<td>8.0 (2)</td>
<td>14.8 (4)</td>
<td>10.3 (3)</td>
<td>6.3 (2)</td>
<td>Improved</td>
</tr>
<tr>
<td>WB</td>
<td>21.1 (4)</td>
<td>4.5 (1)</td>
<td>8.7 (2)</td>
<td>11.5 (3)</td>
<td>3.3 (1)</td>
<td>Improved</td>
</tr>
<tr>
<td>AFD</td>
<td>12.5 (1)</td>
<td>10 (1)</td>
<td>30.0 (3)</td>
<td>25.0 (3)</td>
<td>7.1 (4)</td>
<td>Improved</td>
</tr>
<tr>
<td>At Risk [%/(Number)]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>20.7 (6)</td>
<td>9.4 (3)</td>
<td>Improved</td>
</tr>
<tr>
<td>WB</td>
<td>36.8 (7)</td>
<td>4.5 (1)</td>
<td>17.4 (4)</td>
<td>19.2 (5)</td>
<td>10.0 (3)</td>
<td>Improved</td>
</tr>
<tr>
<td>AFD</td>
<td>0.0 (0)</td>
<td>10.0 (1)</td>
<td>20.0 (2)</td>
<td>16.7 (2)</td>
<td>7.1 (1)</td>
<td>Improved</td>
</tr>
</tbody>
</table>

Projects at no/low risk

<table>
<thead>
<tr>
<th>Projects at medium risk</th>
<th>KfW</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects at high risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>NA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Deteriorated</td>
</tr>
<tr>
<td></td>
<td>80.0 (16)</td>
<td>68.0 (15)</td>
<td>74.0 (20)</td>
<td>72.3 (20)</td>
<td>89.0 (25)</td>
<td>Deteriorated</td>
</tr>
<tr>
<td></td>
<td>20.0 (4)</td>
<td>32.0 (7)</td>
<td>19.0 (5)</td>
<td>21.0 (6)</td>
<td>11.0 (3)</td>
<td>Improved</td>
</tr>
</tbody>
</table>

PS - Partly Satisfactory  U - Unsatisfactory  NA - Not available

1 No rating system applied to JBIC’s projects
2 At Risk = Partly Satisfactory, Unsatisfactory, and Potential Problem Projects

B. Loan Disbursement

11. Overall portfolio loan disbursement in 2002 has generally shown improvement over that of 2001, with an overall increase of disbursement levels of approximately 11.2 percent. This is a significant improvement on the disbursement performance in 2001 where overall disbursement of the five Banks was around 30 percent lower than the disbursement achievements in 2000. It is hoped that this upward trend can be continued, as disbursement performance is one of the key portfolio performance indicators on which overall portfolio performance is measured. Of the five Banks, only JBIC’s disbursement performance continued to show a negative performance. While the 2002 performance was a significant improvement over that of 2001, where disbursement performance was around 53.4 percent lower than the achievements in 2000, the 2002 performance was still around 19.3 percent lower than the disbursement performance in 2001. Looking at the 2002 disbursement performance of the other four Banks, and comparing figures with those of 2001, ADB showed an increase of around 31.5 percent, WB an increase of approximately 44.9 percent, AFD an increase of around 26.9 percent, and KfW an increase of 23.7 percent. The performance of ADB was particularly significant as it reversed a negative disbursement performance of 19.5 percent in 2001 to a positive performance of 31.5 percent in 2002, for a net increase of over 50 percent from 2001 to 2002. Table 5 shows the disbursement performance indicators of the 5 Bank’s.

12. The negative disbursement performance of the JBIC portfolio over the past 2 years is a matter of concern, even though the negative trend has been reduced by over 30 percent from 2001 to 2002. Low fund utilization rates impacts on new loan allocations and there is a need to find the reasons for the lower disbursement performance of JBIC projects in order to maximize future potential lending opportunities. One of the major causes of this lower disbursement ratio is that year 2001 and 2002 seems to be in the middle of two peaks of disbursement curve, as current JBIC’s portfolio contains both final phase of the large projects most of which were commenced from mid-90s and start-up phase (design, procurement, etc.) of major projects which JBIC made commitments in a few years ago. Another major cause could be associated with the fact that many of the JBIC projects are large in scope and are in sectors where resettlement requirements are significant, thus delays are experienced in the early phases of project implementation.
Figure 5 shows the disbursement trends over the past 5 years.

Table 6: Disbursement Performance (1998-2002)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>ADB</th>
<th>JBIC</th>
<th>WB</th>
<th>AFD</th>
<th>KfW</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>127.8</td>
<td>306.8</td>
<td>220.4</td>
<td>14.0</td>
<td>23.5</td>
</tr>
<tr>
<td>1999</td>
<td>191.2</td>
<td>423.8</td>
<td>157.8</td>
<td>25.0</td>
<td>31.6</td>
</tr>
<tr>
<td>2000</td>
<td>218.9</td>
<td>612.7</td>
<td>174.3</td>
<td>11.8</td>
<td>10.1</td>
</tr>
<tr>
<td>2001</td>
<td>176.2</td>
<td>327.1</td>
<td>178.0</td>
<td>30.1</td>
<td>15.2</td>
</tr>
<tr>
<td>2002</td>
<td>231.7</td>
<td>264.0</td>
<td>260.7</td>
<td>38.2</td>
<td>18.8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>945.8</td>
<td>1934.4</td>
<td>991.1</td>
<td>119.1</td>
<td>99.2</td>
</tr>
</tbody>
</table>

13. In line with disbursement performance, disbursement ratios (annual disbursements divided by effective loans minus opening balance at the beginning of the year) follow the same pattern, with all Banks, with the exception of JBIC, showing improvements in disbursement ratios in 2002 compared to those of 2001. In order to ensure disbursement ratios continue to remain robust, overall disbursement performance must continue to increase. PMUs need to maintain close coordination of timely implementation and contract management to ensure these improved results. Table 6 shows the disbursement ratios of the five Banks.

Table 7: Disbursement Ratio 1 (1998-2002)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>17.2</td>
<td>23.8</td>
<td>22.5</td>
<td>15.7</td>
<td>26.3</td>
<td>Improved</td>
</tr>
<tr>
<td>JBIC</td>
<td>15.7</td>
<td>18.1</td>
<td>23.2</td>
<td>12.2</td>
<td>8.9</td>
<td>Deteriorated</td>
</tr>
<tr>
<td>WB</td>
<td>20.7</td>
<td>12.4</td>
<td>12.4</td>
<td>12.6</td>
<td>16.9</td>
<td>Improved</td>
</tr>
<tr>
<td>AFD</td>
<td>23.7</td>
<td>22.6</td>
<td>13.8</td>
<td>17.7</td>
<td>27.2</td>
<td>Improved</td>
</tr>
<tr>
<td>KfW</td>
<td>39.5</td>
<td>66.4</td>
<td>20.1</td>
<td>15.6</td>
<td>17.0</td>
<td>Improved</td>
</tr>
</tbody>
</table>

1 Disbursement Ratio = Annual disbursements divided by effective loans - total disbursements at the beginning of the year (opening balance)

C. Extended Project Implementation Period
14. The extension of a project implementation period has a significant impact on the projects performance, as it is an indication that disbursements are behind the proposed schedule, implementation is slow and experiencing difficulties, and overall project management is inadequate and inefficient. While Table 8 shows the variation among the 5 Bank’s in the number of loans requiring extensions, with a low of 25 percent of the number of projects scheduled for closing requiring extensions, in the case of ADB, both AFD and WB required 100 percent of the loans scheduled for closing in 2002 to be extended. Another reason for the extension of projects is the utilization of savings in project funds due to low bid prices. A decision on the utilization of these savings is often delayed until the latter part of project implementation, thus requiring an extension of the loan period to allow for the implementation of the additional works. This has two negative impacts; that loan funds are initially only partially disbursed due to the low bid prices, thus disbursement performance is less than originally projected; and with the extension of the loan period, this indicates that implementation progress is slow and behind schedule with the project being categorized as “at risk” due to it being either partially successful or unsuccessful. As soon as loan savings have been identified, the PMU and Executing Agency (EA) should either request cancellation of the loan savings or seek immediate approval to utilize the savings within the original scope of the project. If this is done in a timely manner then it is possible that no extension of the loan period will be required as the additional work can be done within the original loan period. This will lead to improved portfolio performance indicators. Table 8 shows the percentage and number of projects requiring extension for the five Banks for the period 1998 to 2002.

Table 8: Extended Projects [% (Number)] ¹

<table>
<thead>
<tr>
<th>Year</th>
<th>ADB</th>
<th>JBIC</th>
<th>WB</th>
<th>AFD</th>
<th>KfW</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>75 (3)</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>(1)²</td>
<td>100</td>
</tr>
<tr>
<td>1999</td>
<td>60 (3)</td>
<td>80 (4)</td>
<td>50 (2)</td>
<td>0 (0)</td>
<td>100</td>
</tr>
<tr>
<td>2000</td>
<td>67 (4)</td>
<td>57 (4)</td>
<td>133 (4)</td>
<td>100 (1)</td>
<td>100</td>
</tr>
<tr>
<td>2001</td>
<td>80 (4)</td>
<td>64 (7)</td>
<td>75 (3)</td>
<td>100 (1)</td>
<td>100</td>
</tr>
<tr>
<td>2002</td>
<td>25 (2)</td>
<td>33 (5)</td>
<td>100 (6)</td>
<td>100 (2)</td>
<td>100</td>
</tr>
</tbody>
</table>

¹ Extended Programs = Number of projects for which closing has been extended divided by total number of projects due for closing that year.
² One Project was extended before expiry date

D. Other Performance Areas

15. Table 9 shows the value of loan funds that have been cancelled from the portfolios of both the ADB and WB. In the case of both ADB and WB, the value is less than one percent of total undisbursed loan commitments. No cancellations have applied to the portfolios of JBIC, AFD, and KfW. While the WB allows cancelled loan funds to remain available for future allocations to Viet Nam, for the ADB, any cancelled loan funds returns to the ADB treasury and is lost to Viet Nam. This could well be a factor in the government being reluctant to cancel loan funds under ADB projects. Table 10 shows the status of donor Project Completion Reports and Project Performance Audit Reports, with the results showing a generally successful outcome for those projects subject to such reports. The only unsuccessful results where 3 projects inherited by KfW from the former GDR, which is not indicative of the overall performance of the KfW portfolio.
Table 9: Cancellation of Loans/Grants \(^1\)  

<table>
<thead>
<tr>
<th>YEAR</th>
<th>ADB</th>
<th>JBIC</th>
<th>WB</th>
<th>AFD</th>
<th>KfW</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2000</td>
<td>10.732</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>1.168</td>
<td>-</td>
<td>26.850</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2002</td>
<td>5.765</td>
<td>-</td>
<td>5.430</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>17.665</td>
<td>0</td>
<td>32.280</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

\(^1\) Cancellation of loans/grants = Volume of cancellations per year (only for ongoing projects)

Table 10: Project Completion Report and Project Performance Audit Report  
(As of 31 December 2002)

<table>
<thead>
<tr>
<th></th>
<th>AD(3)</th>
<th>JBIC</th>
<th>WB</th>
<th>AFD</th>
<th>KfW</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCR Completed (No.)</td>
<td>8</td>
<td>2</td>
<td>9</td>
<td>2</td>
<td>NA</td>
</tr>
<tr>
<td>Successful (No.)</td>
<td>8</td>
<td>-</td>
<td>9</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Unsuccessful (No.)</td>
<td>0</td>
<td>-</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>PCR Ongoing (No.)</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>PPAR Completed (No.)</td>
<td>1</td>
<td>NA</td>
<td>6</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Successful (No.)</td>
<td>1</td>
<td>NA</td>
<td>6</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Unsuccessful (No.)</td>
<td>0</td>
<td>NA</td>
<td>0</td>
<td>3(^1)</td>
<td></td>
</tr>
<tr>
<td>PPAR Ongoing (No.)</td>
<td>3</td>
<td>NA</td>
<td>3</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

NA - Not applicable
\(^1\) Two projects being inherited from the former GDR

IV. PORTFOLIO PERFORMANCE ISSUES

a. Generic Issues

16. The generic issues that continue to have negative impacts on donor’s overall portfolio performance basically remain unchanged from those identified over the past few years. These generic issues can be summarized as (i) highly centralized, cumbersome and lengthy decision-making processes, with numerous approval levels for project implementation processes; (ii) insufficient stakeholder consultation/participation; (iii) significant delays in the recruitment of consultants; (iv) delays in the preparation of procurement bid plans and subsequent approval processes; (v) lack of understanding of both government and donor guidelines by PMUs and related agencies; (vi) weak capacity in project management and insufficient experienced staff in PMUs; (vii) inadequate allocation of counterpart funds; (viii) weak contracting industry with domination by State-Owned Enterprises (SOEs); and (ix) inadequate application of social safeguards such as resettlement and environmental guidelines. These issues have been identified in the two previous JPPRs.

17. In order to address these generic issues, a time-bound action plan was developed in April 2000 at the Portfolio Management Conference as a follow-up to the first JPPR \(^2\). Progress has

\(^2\) The action plan required (a) reviewing the legal framework for managing and using ODA funds; (b) harmonizing procedures between the government and the development partners; (c) establishing standard operational procedures for project management units (PMUs); (d) developing project monitoring and

10
been made in several areas of the action plan with the major accomplishment so far being the issuance of Decree 17/2001/ND-CP on the Management and Utilization of ODA Resources in May 2001 and replacing the earlier Decree 87. MPI has also issued supporting guidelines for the implementation of the Decree. During JPPR II, complementary action plans were developed for the four areas of (i) project preparation; (ii) project implementation; (iii) procurement and contract management; and (iv) monitoring and evaluation. The action plans provided focused solutions to the key issues with identification of responsibility and a timeframe for the implementation of the solutions. While the identification of the issues was both comprehensive and specific, it is now clear that the implementation of many of the solutions would be far more difficult and time consuming than was recognized at the time of the preparation of the action plan. Another constraint to the implementation of the solutions is the staff constraints within government, where most staff involved in the planning, implementation, and management of ODA programs are totally preoccupied with the implementation of these programs. If proposed solutions are complex, as many in the 2001 action plan were, it is obvious that difficulties will be experienced in implementing such solutions. Nevertheless, a number of government and donor actions are underway to respond to some of the identified issues in the action plan.

18. In response to the Government’s request to improve ODA effectiveness, ADB, JBIC, and WB undertook to harmonize procedures and practices to reduce transaction costs, build capacity in the country, and to improve overall development effectiveness. As declared at the mid-term Consultative Group (CG) Meeting in May 2002, ADB, JBIC, and WB have been undertaking consultations to harmonize procedures in procurement, financial management, environment and social safeguards, portfolio management, and others. Since then, substantial achievements have been made and, during the year-end CG Meeting in December 2002, the 3 Bank’s issued a joint statement summarizing the progress made so far. Under procurement, Bidding Documents for Local (National) Competitive Bidding for goods has been prepared and awaiting approval, while for civil works, the documents are presently under preparation. Discussions on Threshold Levels for National Competitive Bidding continue to progress, as does the limits for prior/post review of contract documents. In respect of Eligibility of Dependent State Owned Enterprises, the three Banks agree in principle that for a fair and transparent competition there should be no conflict of interest between the employer and bidders. For Financial Management, discussion between ADB and WB on Common Assessment of Financial Management Capacity, Project Monitoring/Reporting, and Common Auditing Practices, is ongoing. For Environmental and Social Safeguards, the differences among the three Banks is not significant and a review and refinement of documentation is being undertaken.

19. While the portfolio performance of the five Banks for 2002 shows some improvement over the previous years, which has avoided Viet Nam being classified as an “At Risk” borrower in terms of portfolio rating criteria as noted in Table 7 above, for ADB, AFD, and WB, the need for continuing and sustained improvement in portfolio performance continues to be of high priority. While each donor continues to initiate separate actions and measures to improve their own portfolio performance, with the support of the Government, there are still many difficulties to be overcome, especially in capacity building in project management and through more efficient and timely implementation of government guidelines and policies. Through a more inclusive approach to portfolio management by the Government and the five Banks, and through the joint identification of problems and issues, greater opportunity in resolving these problems will result. Continued close cooperation between all relevant parties is therefore essential if improved portfolio performance is to be achieved. This is particularly important when considering the increasing annual donor lending commitments and the constrained Government management capacity.

b. Thematic Issue for Priority Action under 2003 JPPR

evaluation systems; and (e) developing human resources and management and implementation of ODA projects.
In order to further improve project implementation and portfolio performance, the Government and the five Banks have decided to focus on two major thematic areas for detailed analysis during JPPR III. These areas are:

(i) Procurement and Disbursement Plans; and
(ii) ODA Reporting Systems

While the Government and the five Banks will continue efforts to resolve the identified generic issues, the above two issues, which are closely aligned to priority items under the donor harmonization initiative, will be subject to an in-depth analysis and the development of an action plan for the implementation of the findings. In respect of procurement and disbursement plans, the preparation and approval of these plans is a cause of considerable delay during project implementation. Much of the problem is due to capacity limitations of the EAs and their respective PMUs and Provincial PMUs. Procurement plans are generally unrealistic with this impacting on disbursement plans and government counterpart fund requirements. With unrealistic projections, performance indicators are affected due to lower than projected achievements. For reporting systems, PMUs are responsible for implementing projects and monitoring performance, and in doing so, are required to prepare various reports on a periodic basis. These reports vary in form between Ministries within government as well as between donors. The preparation of the reports is a very time-consuming activity and if the reporting system can be rationalized and streamlined then considerable time will be saved and better quality reports will result. A harmonized approach to reporting systems will help in reducing transaction costs, improve quality, reduce the burden on PMUs, and raise the efficiency of reporting activities. Attachment 1 and 2 provide detailed analysis of these two thematic areas along with specific recommendations. Attachment 3 provides a time-bound Action Plan resulting from breakout group discussions during the 29 May 2003 Workshop.