

Vietnam's Laboratory on Aid

Donor Harmonisation: Between Effectiveness and Democratisation. Case Study 1



María Delfina Alcaide
Silvia Sanz-Ramos

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María Delfina Alcaide Garrido and Silvia Sanz-Ramos Rojo

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María Delfina Alcaide Garrido is currently working as a governance specialist for the World Bank in Vietnam. Previously, she was in charge of the budget support programs of the Spanish Agency for International Cooperation in Vietnam. She is one of the authors of the UN Economic Report on Africa 2005 on poverty and employment. Among other publications, she has written a working paper with the London School of Economics on the role of government in the East Asian financial crisis.

Silvia Sanz-Ramos Rojo is currently working as desk officer for the Middle East Region at the Spanish Red Cross headquarters in Madrid. She has been a country delegate of the Spanish Red Cross in the Philippines and Vietnam for three years (2004-2007). After completing a Masters in Governance and Development at the Institute of Development Studies in Sussex University (2001-2002), she worked in the Philippines as a research fellow (Institute for Popular Democracy) and as a consultant (The Institute of Politics and Governance). She is the editor of the book 'Transformative Power: case studies on political participation of community women leaders' co-funded by the Friedrich Ebert Foundation and published by the Institute for Politics and Governance.



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Goya, 5-7, Pasaje 2º. 28001 Madrid – SPAIN

Tel.: +34 912 44 47 40 – Fax: +34 912 44 47 41

Email: fride@fride.org

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Abbreviations

AfD	French Development Agency
ADB	Asian Development Bank
CAW	Country Analytical Work online library
CCBP	The Comprehensive Capacity Building Program for ODA Management in Vietnam
CG	Consultative Group
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
DAD	Development Assistance Database
EC	European Commission
EU	European Union
HCS	Hanoi Core Statement
JBIC	Japanese Bank for International Cooperation
KfW	German Development Bank
LMDG	Like-Minded Donor Group
MDGs	Millennium Development Goals
MDTF	Multi-Donor Trust Fund groups
MTEFs	Medium-term expenditure frameworks
NAM	New Aid Modalities
OECD	Organisation for Economic Cooperation and Development
PGAE	Partnership Group for Aid Effectiveness
PMUs	ODA Project Management Units
PRSC	Poverty Reduction Support Credit
SEDP	Socio-Economic Development Plan 2006-2010
SWAPs	Sector Wide Approach partnership groups
TABMIS	Treasury and Budget Management System
TBS	Targeted Budget Support
UNDG	United Nations Development Group
V-HAP	Harmonisation Action Plan
WB	World Bank
WGs	EU Working Groups

Foreword

Written by *Stefan Meyer and Nils-Sjard Schulz*

Does aid foster or constrain freedom? Does democracy help reduce poverty and inequality? Is good governance a necessary condition for aid to be effective? These are some of the pertinent questions that have been in the background of most of the recent debates on what Northern countries should do when relating to developing countries. Although it becomes increasingly clear that issues 'beyond aid' have more impact on the lives of those living in poverty, high hopes are placed on aid and those who are charged with programming it. It is to these people that this study is addressed.

This research project – entitled: 'Donor harmonisation: between effectiveness and democratisation' – explores only one dimension of the vast theoretical debate that centres on the above questions: What are the potential collateral damages that the growing coordination and harmonisation of aid donors may cause for the social contract in developing countries? And what are the implications for aid agencies in their approaches to political dialogue, policies, institutional set-up and human resources strategies?

We depart from the position that a new aid architecture has been constructed over the last decade. The state as developmental actor has made a comeback after years of public service erosion during the era of the Washington consensus. Today, a new consensus is being formed. Landmark events have been the Millennium Development Declaration in 2000 that defined objectives, the Monterrey Conference in 2002 that defined the resources and mutual obligations between North and South, and lastly the Paris Declaration in 2005, that set about defining the modes and institutions of delivery. In the meantime, new initiatives are fine-tuning the consensus. Amongst these are a push for better complementarity, as in the EU Code of Conduct on Division of Labour, initiatives to connect regional integration with institution building

and development outcomes at the national level, and the continuing debate on new roles for multilateral organisms.

Accordingly, the relation between recipient countries, recently re-baptised 'partner countries', and donors is changing. Since the 80s, conditionality reigned – either in the crude form of economic conditionality for liberal market principles or in its second-generation form of demands for political opening and accountable public office. Mutual accountability between donors shall replace this unfruitful relationship. We diagnose a 'post-conditionality regime', departing from confrontational approaches and bypassing structures, towards new modes of government-donor cooperation, that are, however, no less intrusive.

In the background of this research lies the assumption that not only state capacities, but also a social contract between citizens and the state forms the base for successful and just development. There is a large range of institutional configurations that can potentially enshrine this contract, and these are legitimate in their local definitions as historical sediments of social negotiations.

For our research on the interplay between aid harmonisation and democratisation, we use a political economy approach that calls for citizens to have the opportunities to be informed, to participate and to hold those in power to account. What we are interested to explore is what are the local definitions of these configurations in countries in the South - Vietnam, Nicaragua, Mali and Peru in particular. Furthermore we ask what is the influence on these political scenarios of Western countries in their role as donors? Is there a trend to harmonise more with the partner government, but maybe less with other relevant local actors, such as parliaments, civil society or public oversight institutions?

This research project aims to inform donors from a participative perspective that incorporates the opinions of a wide range of actors. Particularly, this research may be helpful for the future of the Spanish aid

system. It was conceived during a previous project that took a snapshot of the rapid reform process of the policies and institutions of Spanish development cooperation. It is also meant to facilitate dialogue between European donors, on their practices and lessons learned. We want to thereby work towards a common European development policy.

The project has three phases. In the first we present an analytical framework and methodology for the country studies. The case studies are then delivered in the second phase. Mostly they are being drafted in partnership with researchers from the southern countries in question. The third phase is a conclusion and the design of an applicable instrument of analysis. The aim is for the findings to be taken into account in the daily practice of aid planners and implementers. Alongside the publication of the working papers, we

attempt to integrate practitioners, policy makers and academics as much as possible by offering them work-in-progress presentations.

The current document on Vietnam is the first case study. It is something of an exception as it was written before the beginning of this project – indeed it even inspired its formulation. It relates in detail the mechanisms of donor coordination and the leading role of government in a country that is at the forefront of international aid practice and clearly deserves to be termed a ‘laboratory’. It then enters into the particular political dynamics that have achieved among the best results in terms of poverty reduction whilst scoring poorly in terms of political openness and democratisation. Thus, this is just one of many different stories of how the ‘spirit of Paris’ is reflected locally.

Introduction

The Rome (2003) and Paris (2005) Declarations stated clearly that in order to improve aid effectiveness it would be necessary to adhere to the principles of ownership, alignment and harmonisation. Since those Declarations and even before them, Vietnam has been working strenuously to translate these three principles into practice, with a strong will and plenty of innovative and pilot initiatives. Because of this, Vietnam can be considered a laboratory and a global leader in the implementation of the Declarations, and consequently it is an interesting case for study by donor agencies that are willing to improve aid effectiveness in their various country missions.

This paper addresses the different structures that the government and donors in Vietnam have created to implement the international aid effectiveness agenda and the main problems they are facing in pursuing this goal. Based on the Vietnamese experience, some key lessons are drawn for donor agencies, both for their headquarters and country offices, to help them improve the effectiveness of the aid they are giving in their various country missions around the world.

Structures to Implement the Aid Effectiveness Agenda

This section presents a list and a brief explanation of different structures that have been created in Vietnam to implement the three core principles of the international aid effectiveness agenda, namely ownership, alignment and harmonisation. The aid effectiveness agenda is also referred to as 'new aid architecture'. Accordingly, by 'structures' we understand declarations of objectives, strategies,

institutional arrangements, financial arrangements and other initiatives through which the 'new aid architecture' can be built in a recipient country.

It is important to clarify that a big part of the success of the aid effectiveness agenda in Vietnam is due to an element which is exogenous to the structures that will be mentioned here, namely, the genuine and strong ownership of the Government of Vietnam. Despite the fact that Vietnam is one of the top ten recipients in the world of net ODA flows², it is a non aid-dependent country that has achieved much on its own. Since the start of the *Doi Moi* in 1986, cautious liberalisation, building upon a foundation of investments in human development and egalitarian land distribution, resulted in high growth and extraordinary rates of poverty reduction. Therefore, even if it is true that the Government of Vietnam has been a very receptive pupil to the good ideas of donors, it has always managed to hold donors tight to the principle of national ownership. In Vietnam, unlike in other countries, it is not possible to 'buy' reforms. Donors have had to adopt an unusually flexible approach and engage with the government based on sound analytical work and constructive policy dialogue.

The structures listed here support the already existing strong ownership of Vietnam and they also promote the alignment and harmonisation of aid in Vietnam. The structures are the result of a joint effort by government and donors, and they are ultimately led by the Government of Vietnam.

² According to OECD-DAC statistics, in 2004 Vietnam was number four in the world ranking of aid recipients after Iraq, Afghanistan and China. In 2003, Vietnam was number seven in the ranking after DRC, Iraq, Indonesia, Afghanistan, China and Ethiopia. Data for 2005 is not yet complete.

Structures for Statement of Principles

The **Hanoi Core Statement (HCS)** is the main structure through which the principles of the aid effectiveness agenda are declared. The HCS in effect translates the main elements of the Paris Declaration to Vietnam. This localisation of the Paris Declaration was actually the first one in the world. The HCS was endorsed in June 2005 by government, donors and private sector and civil society representatives. The HCS contains 24 commitments from the government and donors in Vietnam to comply with the three core principles of the Paris Declaration and four commitments with regard to the management of the results of the HCS and the achievement of mutual accountability. All information related to the HCS and its implementation, as well as other information in relation to aid effectiveness in Vietnam, can be consulted in a website³.

Apart from the HCS, Vietnam also has a **Harmonisation Action Plan (V-HAP)** which was finalised in June 2004. The objective is the harmonisation of donors' procedures with the ultimate goal of aligning to government systems. In addition, at the European Union (EU) level, Vietnam was nominated a pilot country for EU co-ordination of policy and harmonisation of procedures, and an action plan called **EU Roadmap on Harmonisation** was approved in February 2005. The EU Roadmap established important new goals and concrete annual actions to EU harmonisation and coordination in Vietnam, in line with the Paris Declaration and the HCS.

³ <http://ccbp.mpi.gov.vn>

Structures for Dialogue

In Vietnam there are 23 bilateral donors⁴ and the following multilateral donors: 12 United Nations agencies, the Asian Development Bank (ADB), the European Commission (EC) and the World Bank (WB). There are various structures that organise the dialogue between all these donors for the purposes of harmonisation, alignment and support for the ownership of the government.

The **Partnership Group for Aid Effectiveness (PGAE)** is one of the largest and most important structures in Vietnam for dialogue about the aid effectiveness agenda. It was formed in December 2003. It comprises representatives from different ministries, as well as all the bilateral donors, the ADB, the EC, UNDP and the WB. It also includes a representative from the NGO coordination unit. The PGAE offers a regular forum to discuss aid effectiveness issues and to propose initiatives to advance the implementation of the Vietnam aid effectiveness agenda. Apart from holding regular meetings, the PGAE produces an annual report on progress achieved in the aid effectiveness agenda and coordinates seven thematic groups that work on procurement, public financial management, ODA on budget, environmental impact assessments, social impact assessments, cost norms, and HCS communications.

Another large dialogue structure in Vietnam is the **Consultative Group (CG)**. This Group has been holding meetings twice a year since 1998. It is co-chaired by the Government of Vietnam and the World Bank and attended by government representatives, external donors and increasingly by private sector and civil society representatives. The CG constitutes a common forum for debate about how development and aid in Vietnam is evolving and what the future direction should be. The CG

⁴ Three of these bilateral donors (France, Germany and Japan) are supported by a development bank.

has also served as a vehicle for addressing partnership issues. As a result of the government's suggestion at the CG midterm meeting of 1998, several government-donor-NGO partnership groups were formed. Currently there are 25 partnership groups, each of them covering a different sector. Vietnam's partnership group activities are documented in a report for each mid-term and annual CG meeting.

The **European Union (EU)** is another key structure for dialogue on harmonisation and alignment. In Vietnam it is formed by the EC and 16 European bilateral donors. Every month the development representatives of these organisations meet in the **EU Development Counselors Group**. In these meetings, the main development issues in the country are discussed. The EU also has several **EU Working Groups (WGs)** that manage activities which are jointly undertaken by the EU donors in Vietnam.

The **United Nations Development Group (UNDG)** in Vietnam is composed of 12 UN member agencies and one observer (the WB). The UNDG meets at least three times a year to decide issues on country level coordination to achieve the Millennium Development Goals (MDGs). The UNDG also works on joint programming to promote harmonisation. Since 2005 the UNDG has been dialoguing with the government and other development partners in order to move towards 'One UN' in Vietnam.

One very special and unique dialogue structure in Vietnam is the **Five Banks Group**. The five banks are the ADB, AfD (French Development Agency), JBIC (Japanese Bank for International Cooperation, KfW (German Development Bank) and the WB. The group was founded in 2000 with three banks (WB, ADB and JBIC) in order to start a joint effort in solving portfolio problems faced by all the banks. In 2003, KfW and AfD joined the group and the five of them launched the Five Banks Harmonisation Initiative.

The **Like-Minded Donor Group (LMDG)** is an ad-hoc grouping of 12 Hanoi-based bilateral donors (Australia, Canada, Denmark, Finland, Germany,

Ireland, Netherlands, New Zealand, Norway, Sweden, Switzerland and the United Kingdom) who are drawn together by a common commitment to align themselves to the Vietnam Poverty Reduction Strategy Paper (PRSP) for their ODA planning and delivery and to improve the quality of aid in Vietnam.

There are also dialogue structures related to new aid modalities. The most important of these is the **Poverty Reduction Support Credit (PRSC) partnership**. The PRSC is the name of the general budget support operation in Vietnam. This group started in 2000 with the WB and four co-financiers. Currently there are 11 co-financiers (ADB, Canada, the EC, Denmark, Germany, Ireland, Japan, Netherlands, Spain, Sweden and the United Kingdom). Other dialogue structures originated from the use of new aid modalities in Vietnam are the **Targeted Budget Support (TBS) partnership groups** and the **Sector Wide Approach (SWAp) partnership groups**. The largest and strongest of these groups is the TBS Partnership Group on Education, which is formed by Belgium, Canada, the EC, New Zealand, Spain, the United Kingdom and the WB.

Other important dialogue structures include the **Multi-Donor Trust Fund (MDTF) groups** and the NGO groups. In Vietnam there are currently four operational MDTFs in the areas of public financial management, sub-national government capacity building, post-WTO accession, and forestry. There are also 17 active NGO working groups and an international NGO forum. A coordination unit organises the various NGO groups and brings their perspectives to forums such as the CG and the PGAE.

Structures for Procedures Harmonisation and Alignment

One of the big pillars of the aid effectiveness agenda is the harmonisation of donors' procedures and their alignment with government procedures. The V-HAP and some of the commitments of the HCS and the EU Roadmap on Harmonisation constitute the broad frameworks for the achievement of the above-mentioned objectives. The specific initiatives under those frameworks are described here.

One of these initiatives is the **Five Banks Harmonisation Initiative** from 2003, which is a priority program with the objectives of upgrading government procedures to international standards and harmonising the Five Banks' procedures around the areas of procurement, financial management, environmental and social safeguards, project preparation and project monitoring and reporting. The fact that the Five Banks represent more than 75% of ODA in Vietnam says a lot about the relevance of this initiative for the harmonisation and alignment of procedures in the country. The cooperation between the development banks also exists in other nations, but not to the same high degree as in Vietnam.

One United Nations in Vietnam, which started in 2005, is an initiative that brings to fruition the concept of harmonisation of procedures, because it aims to unify them. In particular, the initiative aims at reaching a unified management structure in the second half of 2006, a unified program and budget by the end of 2006, a unified set of management practices by the end of 2007 and a single physical location by the end of 2007. A two-track approach will be followed, with 'OUN' being formed of UNDP, UNFPA and UNICEF at first. Other UNDG member agencies may join the

unified structure if and when they choose. This type of initiative is also taking place in other countries, but Vietnam is piloting an advanced model.

At the EU level, one key initiative for the harmonisation and alignment of procedures is the revision of EU cost norms⁵ for Vietnam, which was finalised in November 2005. The revision ended with the publication of common guidelines for EU donors in Vietnam for the financing of local costs in development co-operation. The harmonisation brought about by the revision of EU cost norms helps avert harmful competition for projects between EU donors. Moreover, with the revised EU Cost Norms for Vietnam, EU donors also take further their commitment to use country systems for the management of external assistance. The guidelines abolish paid incentives for government officials administering EU external aid, prohibit the financing by EU donors of basic salaries for government permanent staff and request EU donors to commit not to create new parallel structures for external aid management (PMUs). At a wider level, the activities of the PGAE Thematic Group on Cost Norms are also key for the harmonisation and the alignment of ODA cost norms. In particular, the Thematic Group is conducting a baseline study on existing cost norms in Vietnam and elaborating an action plan for the alignment of donors with the government's project management cost norms for ODA by 2010 latest.

The existing MDTFs also function as initiatives for the harmonisation of procedures, as they pool funds from several donors, which are managed using the procedures of one single donor. Moreover, the MDTFs executed by the government, such as the MDTF on public financial management, use some of the government systems, thus playing an important role in the alignment efforts. Like the MDTFs, the system of delegated cooperation of the LMDG constitutes an initiative for the harmonisation of procedures. The system is used in several sectors and is based on a single donor taking the lead with pooled financing.

⁵ Cost norms are the price norms regulating the financing of local personnel (eg: salaries, transport, accommodation, daily subsistence allowance, etc.) in development cooperation projects and programs.

Major steps towards alignment with government procedures have been taken in Vietnam thanks to the increasing use of budget support instruments, because these instruments require the use of government systems. Every year the amount of ODA funds and the number of donors participating in the PRSC is larger. Currently PRSC funds represent approximately 8% of total ODA funds and there are 12 donors participating. In addition there has been a proliferation of TBS and SWAp⁶ initiatives over the past 18 months. It is important to highlight the fact that some TBS initiatives in Vietnam include a component aimed at strengthening the capacity of the government to implement the supported sector program. This capacity building component helps build donor confidence in the use of the government systems of the supported programs.

Budget support modalities can also be used to facilitate the harmonisation of grant and loan agreements. In the area of general budget support, for example, there has recently been a proposal to move from a single donor trust fund to a multi-donor trust fund. This proposal would reduce significantly the current necessity for the government to comply with multiple donors' grant and loan arrangements. Another example is the **Joint Memorandum of Understanding (MOU) for the Education TBS**, in which all the TBS donors agree with the Government of Vietnam on a set of common rules and common requirements to be met by the government. The individual grant and loan agreements of the TBS donors have to comply with this joint MOU.

Strengthening government capacity and systems is crucial to encourage the alignment of donor and government procedures. One of the areas in which there

⁶ A SWAp is a program-based approach that represents an approach or framework rather than an aid modality. SWAp financing could include budget support but also project aid, technical assistance or a combination of different modalities, and it may or may not be disbursed using government systems. The defining feature of a SWAp is that donor funding supports a set of sector policy reforms and a single expenditure program irrespective of how money is disbursed and accounted for. SWAps that disburse funds separately from the recipient country's system are less flexible than budget support and represent a lower level of commitment to using and strengthening government systems and institutional capacity, at least in the short term.

is an important set of joint government-donor initiatives to strengthen capacity and systems is in ODA management. **The Comprehensive Capacity Building Program for ODA Management in Vietnam (CCBP)** is one of the most remarkable initiatives. Its goal is to review Vietnam's framework for aid management, to identify capacity shortcomings and to codify lessons learned. It also trains government officials so that they can operate more effectively under streamlined procedures. The CCBP has a website⁷ with all the relevant information about the project and, more generally, about ODA management in Vietnam. Another remarkable initiative is the **ODA Strategic Framework on ODA Attraction and Mobilisation 2006-2010**. The framework provides a guide for mobilisation and utilisation of ODA in support of Vietnam's Socioeconomic Development Plan 2006-10. It outlines the Government's investment priorities for ODA and includes policies and measures to increase ODA effectiveness and efficiency.

Other important initiatives include the creation of the **Development Assistance Database (DAD)**, the **Strategy of the PGAE Thematic Group on ODA on Budget (PGAE Strategy)** and the conduction of a study on **ODA Project Management Units (PMU study)**. Once it is completed, the DAD will gather simplified and real time information on ODA flows, covering the entire aid portfolio in Vietnam. It will also provide policymakers and development partners with direct and unrestricted access to that information. The PGAE Strategy establishes that the government will propose concrete measures to improve the recording of ODA on national budget and that the donor community will identify measures to improve aid predictability. In fact, options to strengthen the predictability of aid are currently being studied and it is expected that guidelines will be created for improving the reporting of donors on ODA commitments and disbursements. The guidelines should also improve the inclusion of ODA in annual budgets and medium-term expenditure frameworks (MTEFs). The PMU study is analysing the organisation, the structure and regulations for ODA

⁷ <http://ccbp.mpi.gov.vn/>

Project Management Units. The study will serve the HCS commitment of avoiding the creation of “parallel” PMUs⁸.

Apart from ODA management, there are other areas in which there are important joint government-donor initiatives to strengthen government capacity and systems. The PGAE Thematic Groups cover capacity-building activities in the areas of procurement, public financial management, environmental impact assessments and social impact assessments. Likewise, the MDTFs are involved in capacity building in the areas of public financial management, the implementation of WTO accession commitments, and planning at sub-national levels.

The strengthening of government capacity and systems has not stemmed solely from joint government-donor initiatives. There are also purely government initiatives to strengthen its own capacity and systems. The role of donors here has been to offer financial and technical support. These initiatives are mostly in the areas of public administration reform, public financial management, procurement and anti-corruption.

Some significant progress has been observed in the last years. For example, in the area of public sector administration, a ten-year **Master Plan on Public Administration Reform (PAR)** was adopted in 2001, followed by a **PAR Action Plan for the period 2006-2010** approved in February 2006 to move forward with the reform and to improve the weaknesses encountered during the first phase of implementation. Remarkable improvements have been achieved in the area of public financial management, such as the enactment of the **2004 State Budget Law**, the establishment of the State Audit of Vietnam as an independent organisation, and the design of an integrated **Treasury and Budget Management System (TABMIS)** among others. In the area of procurement,

a new procurement law was approved and came into effect in April 2006. This law introduces new provisions to improve transparency and competition in public procurement.

Finally, it is worth mentioning the increasing attention given by the government to the fight against corruption, partly motivated by some big corruption scandals and by the celebration of the 10th Communist Party Congress this year. As a result, Vietnam has seen, in the last few months, several statements from the Party and the Government showing strong commitment to the fight against corruption. It is also reassuring to see that a **Law on Corruption Prevention and Control** started to take effect in June 2006. This law includes provisions on public disclosure and transparency in several areas and the compulsory declaration of assets and income of state employees.

Structures for Policy Ownership and Alignment

There are a series of structures in Vietnam to support the ownership of policies by the Government of Vietnam and to facilitate the alignment of donors to those policies, as encouraged by the HCS. These structures are significantly empowering the Government of Vietnam in policy-making.

The **Comprehensive Poverty Reduction and Growth Strategy (CPRGS)**, the Vietnamese version of the Poverty Reduction Strategy Paper (PRSP), has been the core structure for the alignment of donors' with government policies from 2001 until 2005. According to the OECD survey, 100% of donors in Vietnam have relied on the CPRGS when programming ODA. From 2006 until 2010 the policy alignment structure is the **Socio-Economic Development Plan (SEDP) 2006-2010** of the

⁸ Project Management Units (PMUs) are dedicated structures that are responsible for the day-to-day management and implementation of aid-financed projects and programs. “Parallel” PMUs are usually created outside the existing structure of the project implementing ministry and often duplicate or recreate ministry functions and capabilities.

Government of Vietnam. Most donors in Vietnam have already (re)formulated or are currently (re)formulating their country strategies for the next years based on the SEDP. The use of the government master plan instead of the use of the PRSP for alignment clearly represents a major step forward in enhancing Government's ownership of the reform process. The SEDP 2006-2010 has been given this honour because of its qualitative improvement with respect to the previous master plans. The SEDP 2006-2010 incorporates key characteristics of the CPRGS such as a result-driven orientation, a poverty focus and a broad consultation process.

The use of **New Aid Modalities (NAMs)** in Vietnam has also contributed to the effective ownership of the Vietnamese government and has served as a mechanism for the alignment of donors to government policies. There are three types of NAM that have been introduced or are being introduced in Vietnam: the general budget support called Poverty Reduction Support Credit (PRSC), the Targeted Budget Support (TBS) and the Sector Wide Approach (SWAp).

The PRSC is a financial mechanism supporting the broad socioeconomic strategy of the Government of Vietnam. In particular, since the PRSC was introduced in 2000, it has supported the CPRGS for six years (2000-2005). In the next five-year cycle (2006-2011) the PRSC will support the SEDP. During the course of each PRSC operation there is dialogue between government and PRSC partners on which policy actions to support, on how to accomplish those actions and on the progress on the accomplishment of those actions. As seen by donors, the policy dialogue of the PRSC has a more important effect than that of the PRSC funds. The PRSC policy dialogue ends up influencing a larger part of the government budget than the PRSC funds. This is partly due to the fact that the Government of Vietnam, although it exercises strong ownership, is receptive to new and better ideas.

In Vietnam there are currently three TBS instruments being piloted: in the education sector, in the rural

transport sector and one in Program 135⁹. By using these instruments, the TBS partners align to a specific government sector program. The introduction of these instruments has been led by the government, which is keen to explore NAMs, and by a few donors such as DFID and the WB which have ventured into these newer operations and encouraged other donors to join.

SWAp instruments are currently being introduced in Vietnam in several sector ministries at sub-sector level, in particular in rural water supply and sanitation, forestry, health and the private sector. At the moment, Vietnam is still in a very preliminary stage in the development of these SWAps, but in all the cases at least one partnership group has been formed with the objective of trying to develop a SWAp in a ministerial sub-sector.

A website¹⁰ providing real-time lesson learning on TBS and SWAp instruments in Vietnam has been created. This website clearly plays an important role in the improvement and proliferation of TBS and SWAp aid modalities and ultimately in the enhancement of government policy ownership.

Structures for Other Joint Activities

Vietnam has also several structures to support joint analytical work and joint missions, which constitute an important part of the aid harmonisation agenda. Below are listed the main ones.

An **online library on Country Analytical Work (CAW)**¹¹ has been set up and donors are being encouraged to update their CAW in this website. Moreover, donors, together with the government, local

⁹ Program 135 is the program for socioeconomic development in communes faced with extreme difficulties.

¹⁰ www.sbsvietnam.org

¹¹ www.countryanalyticwork.net

universities, think-tanks and NGOs, have produced several major joint analyses such as various Vietnam Development Reports, the Public Expenditure Review and Integrated Fiduciary Assessment, and the Integrated Operational Work Program for Avian and Human Influenza 2006-2010.

The joint analytical activities of the EU, the LMDG and the Five Banks Group also deserve attention. The EU donors in Vietnam work together in policy analysis, such as in the revision of the new Socio-Economic Development Plan 2006-10 and sector strategies. The LMDG often works together with the EU in providing joint analytical work on the main policies. The Five Banks Group undertakes collaborative analytical work to help upgrade government procedures to international standards by means of providing proposals and suggestions for new laws, decrees and circulars.

As regards joint missions, a mechanism to increase the number of joint review and evaluation missions is being established by the Ministry of Planning and Investment.

Main Challenges in the Implementation of the Aid Effectiveness Agenda

This section describes the main challenges that Vietnam is encountering in pursuing the implementation of the international aid effectiveness agenda.

- **Transaction costs of coordination.** The process of coordinating with other donors and attending all the necessary meetings is very time consuming. This is very much the case in Vietnam, where there are many dialogue structures and donors often belong to several of these dialogue structures. For example,

Germany belongs to the CG, the PGAE, the PRSC, the EU, the Five Banks Group and the LMDG. The process is not only time consuming but also complex. There are too many coordination structures to handle and understand, and the risk of duplication of efforts between structures is high. For example, for the issue of public financial management, there is an MDTF, a PGAE Thematic Group, a Partnership Group and a PRSC policy dialogue sector. All these transaction costs represent a challenge for both the quantity and the quality of human resources in donor country offices. Staff are overloaded with coordination meetings and they need specific skills to handle the coordination arrangements and the new aid modalities. This burden especially affects small donors, as they are endowed with very few human resources and they are forced to participate in several dialogue structures. It also affects NGOs disproportionately. NGOs have less human resources than other bilateral and multilateral donors and they are more linked to the field. Therefore it is very difficult for them not only to coordinate with other NGOs in the context of the NGO Resource Center but also to participate in the broader donor dialogue structures. Only a few big NGOs can afford this more direct participation in the donor dialogue structures.

- **Political conflicts of coordination.** Coordination also has costs in terms of potential political conflicts. Top donors tend to fight for power, influence and leadership in the dialogue structures. Small donors tend to fight not to be ignored and to have some influence. Donors have different agendas and are tempted to hijack the policies of the general budget support operation. But generally these problems are not a source of significant problems in Vietnam. Normally one can see a cordial and cooperative atmosphere in the various dialogue structures. To a large extent, this is due to the fact that the lead donors in Vietnam are competent in management, transparent with all members of the team, open to the ideas of others and capable of finding agreement. This is indeed an effective way of avoiding political conflicts but it has a drawback in terms of efficiency. It makes the process slower.

- **Conflicts with headquarters: operational obstacles for NAMs and MDTFs.** Several donors in Vietnam such as the EC and Spain have to work with old formats that were designed for projects and cannot be used for NAMs. At best, this makes the process of participating in new aid modalities very time consuming, adding to the transaction costs. Participation in MDTFs can also be constrained by headquarters. Donors at headquarter level have different framework agreements with the World Bank, which is normally the institution that administers the MDTFs in Vietnam. Adapting these framework agreements to be able to participate in MDTFs, if that is possible, makes the process very lengthy. For example, it took about 15 months for the EC in Vietnam to join the MDTF on Public Financial Management. A high-level debate at headquarters level on the adaptation to the NAMs and MDTFs of the development legislation is still needed.
- **Conflicts with headquarters: national parliaments' demands.** Bilateral agencies in Vietnam are also struggling with how to report to their national parliaments on the use and impact of budget support funds. Politicians need clear linkages between inputs and results and this is very difficult to provide in the case of budget support funds. Bilateral donors are also struggling with headquarters on the issues of transparency and accountability. In this respect, the recent major corruption scandal, possibly involving ODA funding for transport investment, has not helped at all. However, the renewed Party and Government spirit in the fight against corruption, as well as the recent mechanisms that are being put in place to fight corruption, will probably help allay national parliaments' concerns. In any case, it is only the continuity of these anti-corruption efforts and the provision of positive results that can convince donors' national parliaments over the long-term. And this is something which still has to be seen in Vietnam.
- **Conflicts with headquarters: insufficient decentralisation.** Decentralisation to donor country offices is crucial in order to facilitate joint efforts with other donors in the implementation of the aid

effectiveness agenda at the country level. While a number of donor agencies have continued decentralisation to their country offices in Vietnam, a common understanding of the nature of decentralisation, and a joint donor policy towards decentralisation based on this common understanding, is yet to be developed. Moreover, some donor agencies like Spain still have very low levels of decentralisation, which prevents them *inter alia* from making their aid flows to Vietnam predictable. The latest survey of indicator number 12 of the HCS indicates that the average percentage of donor aid delegated in Vietnam is 56%. This indicator could be taken as an estimate of the level of decentralisation in Vietnam and it is clear that there is still a long way to go to improve it.

- **Conflicts with headquarters: harmonisation of procedures and agreements.** Big steps towards the harmonisation of procedures in Vietnam have already been taken. Probably the most important of these is the Five Banks Harmonisation Initiative, as these banks represent roughly 75% of ODA in the country. However, donors in Vietnam still face constraints from headquarters on the harmonisation of procedures. Donors face difficulties in harmonising procedures and systems among themselves as they receive different instructions from their respective headquarters. This is, for example, the case with the MDTFs, which some donors have serious difficulties joining. Moreover, many donors also have the obligation to write agreements and report to headquarters using mandated formats. This creates problems in, for example, the harmonisation of grant or loan agreements in the PRSC and TBS operations.
- **Low use of government systems by donors.** The level of donor use of government systems in Vietnam remains quite low. According to the latest HCS Baseline Survey¹², the average percentage of total ODA in Vietnam that uses government systems is 38% for procurement systems, 37% for budgeting

¹² This is an annual survey which tracks progress on the HCS based on 11 indicators.

systems, 33% for reporting systems, and 26% for auditing systems. These percentages are mostly determined by the percentages of ODA that go to budget support modalities, as the use of government systems in project modalities is very low or negligible. Projects are perceived by local counterparts – i.e. government bodies and mass organisations¹³ – as being the responsibility of donors and NGOs. Therefore, donors and NGOs have to use their own systems for projects or financially sustain the very weak systems of their counterparts, e.g. donors and NGOs have to make complementary contributions to the salaries of their counterparts. Generally speaking, there are several reasons that explain this low use of government systems, including sub-standard systems, absence of government-sector frameworks (which is an important requirement for the use of SWaps), obligations to report to head office using mandated systems and a general reluctance to rely on uncertain recording and reporting systems. On a more encouraging note, and as explained in the previous section, there are currently structures in place to build government capacity at both the national and sub-national levels.

- **Poor harmonisation and alignment in cost norms.** Cost norms for the financing of local costs by donors and NGOs is a very problematic area in Vietnam. One set of problems is the poor *de facto* harmonisation of current cost norms. The recent EU Guidelines of Cost Norms harmonise local cost norms practices for EU donors, but so far there has been a poor dissemination strategy to ensure that all EU organisations operating in the country and government counterparts are aware of the guidelines and aware of their obligation to comply with them. Moreover, beyond the EU level, there is no harmonisation at all of cost norms. The lack of coordination amongst donors in cost norms entails various risks for the effective management of ODA

projects such as potential competition among donors for local human resources, misallocation of available resources and the time and resources consumed by donors and government in entering into agreements. Another set of problems has to do with the difficulties in aligning with government systems for cost norms. The EU Guidelines, by abolishing paid incentives and prohibiting the financing by EU donors of basic salaries for government permanent staff, have made an important move forward in the direction of alignment. However, these efforts have proved to be counterproductive, as government officials do not have any incentives to do the jobs of donors and NGOs and to produce good results. This lack of motivation has its origin in the low salaries of government officials. As a result, some donors and NGOs in Vietnam continue making complementary payments to the salaries of government officials. A third and last set of problems with cost norms in Vietnam are the levels at which the EU has harmonised local costs norms for salaries of local consultants. Permanent government officials who work together with the donor-financed local consultants perceive these levels as too high and unfair. This often results in personal conflicts between the staff working in the same project, ultimately undermining the quality of the project. However, local consultants feel the levels are not too high, as they are earning much less than international consultants who are similarly qualified.

- **Poor aid coordination at sub-national levels.** At the provincial and other sub-national levels aid coordination is low. Coordination at those levels depends on the willingness and commitment of donors and NGOs operating in the area, but it also depends significantly on the characteristics of the sub-national government body. Low levels of coordination at sub-national levels are linked to the low capacity of the government administration at those levels, as ultimately the leadership for coordination has to come from the government. They are also linked to the extreme difficulties donors and NGOs face in accessing information from local counterparts. The international provincial

¹³ Mass organisations are institutions under the leadership of the Vietnamese Communist Party. They are important recipients of NGO funding. Some examples of mass organisations are the Vietnam Women's Union, the Vietnam Farmers Union and the Vietnam Youth Union.

departments and other government departments at provincial levels do not proactively share information about ongoing programs.

- Poor dissemination and enforcement of HCS at sub-national levels.** Although the HCS has a dissemination strategy, the strategy has proved to be ineffective so far in disseminating the HCS at sub-national levels. The information has reached neither the lower administrative levels of the government nor the NGOs, mass organisations and civil society organisations. Furthermore, there is resistance from local government officials and other local counterparts to abiding by the principles and implications of the HCS such as the provisions on paid incentives and salaries of permanent government staff laid out in the revised EU cost norms. This is a severe problem in Vietnam because many of the projects and programs, and even some pilot TBS initiatives, are executed at sub-national levels, and because there is a high degree of budget decentralisation (the share of sub-national governments in total expenditures is approximately 50%).
- Drawbacks in donors' mentality.** There are several aspects of donor mentality that are being challenged in Vietnam with the implementation of the aid effectiveness agenda. One of these aspects is the reluctance by some donors to engage in NAMs. There is still a set of project-oriented donors that are ill-prepared for the demands of the NAMs. New aid modalities in Vietnam have been pushed by a more entrepreneurial set of donors such as the DFID or the WB, with more donors gradually joining the initiatives afterwards. The reasons behind the continuing project-focused mentality of some donors are probably a combination of historical inertia and the belief that the government does not comply with minimum requirements to ensure the good functioning of NAMs. Other obstacles in donor mentality, although they are not applicable to every single donor in Vietnam, are the rigid prioritisation of procedures by headquarters, short-term thinking, poor adaptation to government timeframes and space, and a tendency to interfere in policy making instead of dialoguing and influencing.
- Drawbacks in government mentality.** In Vietnam there are still significant differences in the political willingness of ministries to move away from a project-focused system and towards the use of new aid modalities. Although there is some degree of dissemination of the HCS and the new aid modalities at central level, the project culture remains in some ministries, sub-national levels and mass organisations. Some government bodies and mass organisations tend to perceive projects as being the responsibility of donors and as a source of income to finance their weak systems. Another problem with the mentality of the Vietnamese government is their tendency to hide information. This mentality is part of the Vietnamese culture, which associates information with power. It is also connected to the fear lower-level public officials have of being dismissed for revealing certain information. This mentality problem makes it difficult and time-consuming for donors to coordinate with the government and amongst themselves.
- Inter- and intra-ministerial coordination problems.** Coordination between and within ministries is very poor and sometimes non-existent in Vietnam. In spite of having identical objectives, there are sometimes different and even conflicting agendas between various ministries. This represents an obstacle for the good functioning of budget support approaches, as they normally require cooperation between and within ministries. Another obstacle to the development of budget support approaches are the weaknesses of cross-cutting ministries. Sector Wide Approaches (SWAs) imply a change in the function of sector ministries from being institutions of policy implementation to also being policy-making institutions. This implies that cross-cutting ministries should not only issue decrees but also enter into dialogue with sector ministries.
- Top-down approach in decision-making.** Decisions within government administrations, ministries and mass organisations are made in a top-down manner, concentrated on high-level positions. Moreover, as the

Government and the Party want to maintain control over civil society, consultations with civil society, although increasing, are still very limited. Consultations so far have taken place mainly in the elaboration of the SEDP, in the development of some laws by the National Assembly, and in various works at the commune administrations level¹⁴. All this results in the fact that the ownership of the reform process in Vietnam is highly “monopolised” by the leaders of the Government and the Party, very often ignoring the opinions of lower level government officials and Vietnamese society.

What Can Donor Agencies Learn?

The two previous sections have shown all the main initiatives that have been taken in Vietnam to implement the aid effectiveness agenda and also the main challenges that Vietnam is encountering in pursuing this goal. Based on this experience, which is widely recognised as one of the most advanced in the world, this section draws lessons for donor agencies, both for their headquarters and also for their country offices around the world.

The first message to be given to donor agencies from the Vietnamese experience is a message of hope. Vietnam, in very little time, has advanced a great deal in the implementation of the international aid effectiveness agenda. It has shown to the world that, in spite of all the challenges, it is indeed possible to make very significant steps in applying the three theoretical principles of the Paris Declaration, both at the goal and strategy level (eg: statements, roadmaps, action plans, guidelines) and at the action level (eg: partnership groups, new aid modalities, strengthening of government systems). However, donors should not

overestimate this hope, as a significant part of the success of Vietnam is due to the characteristics of the government. As previously mentioned, the Government of Vietnam has a genuine and strong ownership of the socioeconomic reform process, which is certainly behind the effectiveness of aid in Vietnam. Moreover, the Vietnamese government has proved to be very willing to lead and own the aid effectiveness agenda and to be receptive and responsive to all sorts of ideas on how to implement it. In other country contexts, in which these characteristics do not exist or are less notable, the efforts of donors in the implementation of the aid effectiveness agenda would not be as fruitful. Nevertheless, the scope for donors to improve aid effectiveness would almost certainly be positive and significant, and donors should therefore be encouraged to do their best to push the process forward, notwithstanding recipient government constraints.

One set of actions that donor country offices could consider would be, based on sound analytical work, the replication of some of the advanced structures of Vietnam that are not in place in their countries, such as the localisation of the Paris Declaration through a country core statement, the creation of a donor-government partnership group to promote aid effectiveness, the harmonisation of procedures of the development banks (especially if the banks represent the majority of the ODA in the country), the introduction of a component in capacity building for sector budget support operations, and the introduction of new aid modalities on a pilot basis, etc. The replication of some of these structures in other country contexts might not be feasible, but in any case Vietnam provides a very rich set of proposals for consideration and for adaptation to other country-specific situations. The adoption of new structures for aid effectiveness is something that donors should do jointly and it will require a strong existing partnership structure. As individual entities, donors should on the one hand bet hard on partnering for dialogue and on the other hand have the courage to initiate the introduction of these structures.

As we have seen from the experience of Vietnam, the time-consuming and complex nature of the required

¹⁴ Consultations in communes are regulated by the Grassroots Democracy Decree of 2003.

dialogue structures may be an important obstacle to the implementation of the aid effectiveness agenda. Donors should therefore provide country offices with enough personnel to be able to meet all the coordination challenges. Personnel should also have strong interpersonal skills, ability to work in a multi-cultural environment, strong dialogue and negotiation skills and deep knowledge of public policies. With the new aid modalities, one of the important new roles of donors is to evaluate and influence public policy through dialogue. The example of general budget support in Vietnam shows that the policy dialogue effect has the potential for greater impact than that of financial contributions of donors.

The experience of Vietnam also shows that coordination has other costs such as the potential for conflicts between donors because of competition to become the leaders of dialogue and joint initiatives (normally in the case of the big donors) or because of the feeling of being excluded from dialogue (normally in the case of the small donors). The experience of Vietnam also shows that these problems can be overcome or ameliorated if lead donors are competent in the management of operations, transparent with the rest of the team members and good conciliators. The problems can also be ameliorated by an agreed division of labor between the leading donors according to their comparative advantages. Therefore, it is very important that donor agencies at headquarter levels, especially those agencies that are willing to take a leadership role, select and train their country personnel on the above-mentioned skills. The representatives of donor agencies in the field have to bear in mind very clearly that they are not working on their own, but together with other donors and they need to do that in a harmonious, peaceful and conciliatory way. If they fail to do so, their mission will also be a failure, as the development process of the country will be undermined.

The Vietnamese experience makes an important call to donors' headquarters for quantitative and qualitative changes of personnel in the country offices, and it also asks for other changes at donors' headquarters that go far beyond personnel issues. There are several conflicts

and incompatibilities between the aid effectiveness agenda at the country level and the rules set by donors' headquarters. First of all, headquarters should adapt the existing report and agreement formats to the new aid modalities. The development of a specific format for new aid modalities would be a big step forward in this regard. Secondly, donor agencies at headquarter level should coordinate with each other to harmonise their procedures or alternatively they should give more autonomy to country offices so that the harmonisation of procedures at country level can become a reality. Third, headquarters should increase the autonomy they give to their country offices so that these offices face as few constraints as possible in making moves towards the advancement of the aid effectiveness agenda in their respective countries. Last but not least, in order to assuage concerns from national parliaments about the use of funds for new aid modalities, it is necessary that donors take some initiatives to raise awareness among parliamentarians about the long-term benefits of these new aid instruments and about their different functioning and characteristics. It is equally important that donors at the country level work together with the government to gather as much evidence as possible about the use and impact of funds to be able to inform donors' national parliaments. It is also very important that donors duly inform national parliaments about the initiatives that are in place to improve the use of funds, such as the capacity building initiatives to strengthen government systems and the anti-corruption initiatives.

The case of Vietnam, through its multiple initiatives on capacity building, shows the importance of strengthening government systems in the aid effectiveness agenda. The case of Vietnam also shows that these initiatives have come simultaneously with the introduction of new aid modalities. Therefore, donor agencies should not be discouraged from introducing new aid modalities in their country missions by the existence of deficiencies in government systems. The best approach is a gradual and selective introduction of new aid modalities on a pilot basis, accompanied by decisive and joint initiatives on capacity building in those government systems which are weaker. Part of this capacity-building agenda

should include work on the accountability and transparency of public institutions as a means to reduce corruption. Only investment in capacity building can guarantee good results in the use of new aid modalities and ultimately the advancement of the principles of ownership and alignment.

Vietnam also provides lessons with respect to norms for financing of local costs in all development cooperation projects and programs. If problems relating to competition between donors for local human resources and problems relating to a lack of incentives for local staff to undertake donors' jobs are to be avoided, it is necessary that donors harmonise their cost norms and support the improvement of government cost norms (i.e. by encouraging pay reform in the government administration) with the ultimate objective of aligning to them. It is also necessary to disseminate information about the agreed rules on local costs norms and to ensure their enforcement by all levels of the government administration and by other counterparts of donors and NGOs. Finally, it is necessary that in the determination of the levels at which cost norms are harmonised, fair remuneration criteria, based on labour qualifications and productivity, are applied. Otherwise, personal relations problems can arise within a project, undermining the end result of the project.

Donors' country offices should learn from Vietnam that being myopic about the sub-national levels in the implementation of the aid effectiveness agenda is a big mistake, especially in countries such as Vietnam where many of the projects and programs are executed at the sub-national levels, where the state budget is highly decentralised. Donor agencies cannot afford to forget about the dissemination and enforcement of the aid effectiveness principles in those lower levels. Nor can they forget to explain the implications of the aid effectiveness agenda in terms of local cost norms. They must likewise remember the importance of building capacity at those levels and coordinating well with other donors, also at those levels. Of course all this is the responsibility of the recipient government too, but donors certainly have an important role to play.

The example of Vietnam should also make donor agencies reflect on the importance of adopting a proactive attitude in proposing initiatives to advance the aid effectiveness agenda. The Vietnam aid effectiveness agenda has moved forward thanks to the leadership of the Government of Vietnam but also thanks, to a large extent, to a few donors that have been quite entrepreneurial in the aid effectiveness agenda by launching new initiatives and inviting other donors to join them. Donor agencies should therefore learn from this more entrepreneurial attitude. This does not mean venturing into risky initiatives, but rather having a more proactive attitude in thinking about ways to move forward, based on sound analysis of feasibility, benefits and costs. Even if there is still a small element of uncertainty about the success of the initiative, there is still a strong case to try, as pilots at small scale are a good way to minimise the consequences of failure. However, this type of attitude at the country level should be backed by headquarters. For example, by giving more autonomy to country offices, by preparing country staff better on the aid effectiveness agenda and on cost-benefit analysis, etc. It is important to note that the entrepreneurial attitude always goes hand-in-hand with partnership participation. Partners can give support to the initiatives, help with the analytical work, etc. If nothing else, this mere involvement in partnerships facilitates a move away from the project culture.

Last but not least, donor agencies can learn from Vietnam that one of the ways to move forward in the aid effectiveness agenda is to overcome not only the obstacles that they are facing on their own side, but also to support the government in tackling its own obstacles. As illustrated by the case of Vietnam, some of the challenges that governments might have to face in the aid effectiveness agenda include: weak capacity of government systems, low remuneration and incentives of government officials, absence of sector frameworks, poor intra and inter-ministerial coordination, weak roles of cross-cutting ministries, project mentality cultures, poor knowledge of new aid modalities, and poor knowledge of the principles of the aid effectiveness agenda and their implications.

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FRIDE

Vietnam's leadership has demonstrated a strong commitment to putting the principles of government-led development planning and donor harmonisation into practice. In so doing it has become one of the countries conducting the largest number of pilot initiatives in this field. The Southeast Asian nation, which is considered a laboratory and a world leader in the putting in motion of declarations, could potentially become a significant case for donors and aid recipient governments alike. This study relates in detail the mechanisms of donor coordination and the leading role played by the government. It then enters into the particular political dynamics of a country that has achieved amongst the best results in terms of poverty reduction, while scoring poorly in terms of political openness and democratisation. Thus, this is one of the many different stories of how the 'spirit of Paris' is reflected locally. This document is the first of four case studies in the project, 'Donor harmonisation: between effectiveness and democratisation'.

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