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Poverty Reduction Support Credits: Vietnam Country Study

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Acronyms

AAA	Analytical and advisory activities	IEG	Independent Evaluation Group
ADB	Asian Development Bank	IFA	Integrated Fiduciary Assessment
AFTA	ASEAN Free Trade Area	IFAD	International Fund for Agricultural Development
APR	Annual Progress Report		
ASEAN	Association of Southeast Asian Nations	IMF	International Monetary Fund
CAS	Country Assistance Strategy	IMR	Infant mortality rate
CDF	Comprehensive Development Framework	IMT	International Monitoring team
CFAA	Country Financial Accountability Assessment	IP	International partner
CoA	Chart of Accounts	ISG	International Support Group
CPAR	Country Procurement Assessment Report	JBIC	Japanese Banking and Investment Corporation
CPIA	Country Performance and Institutional Assessment	KfW	<i>Kreditanstalt für Wiederaufbau</i> (German development bank)
CPRGS	Comprehensive Poverty Reduction and Growth Strategy	M&E	Monitoring and evaluation
CPS	Country Partnership Strategy	MARD	Ministry of Agriculture and Rural Development
CPV	Communist Party of Vietnam	MDG	Millennium Development Goal
CR	Completion Report	MDTF	Multi-donor trust fund
CSO	Civil society organization	MET	Ministry of Education
DAC	Development Assistance Committee	MIC	Middle-income country
DfID	Department for International Development	MOC	Ministry of Construction
EFA	Education For All initiative	MOF	Ministry of Finance
ESG	Education Sector Group	MOH	Ministry of Health
FDI	Foreign direct investment	MOLISA	Ministry of Labour, Invalids and Social Affairs
FSQL	School quality initiative	MONRE	Ministry of Natural Resources and Environment
FY	Fiscal year	MPI	Ministry of Planning and Investment
GBS	General budget support	MTEF	Medium-Term Expenditure Framework
GDCE	Gross Domestic Capital Formation	NA	National Assembly
GDP	Gross domestic product	NGO	Nongovernmental organization
GNP	Gross national product	NPL	Non-producing loan
HCFP	Health Care Fund for the Poor	ODA	Official development assistance
HIPC	Highly Indebted Poor Country (initiative)	ODI	Overseas Development Institute
IBRD	International Bank for Reconstruction and Development	OECD	Organization for Economic Cooperation and Development
ICA	Investment Climate Assessment	PAF	Performance Assessment Framework
ICR	Implementation Completion & Results Report	PAR	Public Administration Reform
IDA	International Development Association	PCR	Project Completion Report
IDF	Institutional Development Fund	PD	Program Document
		PEFA	Public Expenditure and Financial Accountability
		PER	Public Expenditure Review

PFM	Public financial management
PFMP	Public financial management
program	
PFP	Poverty Framework Paper
PG	Partnership Group
PGAE	Partnership Group on Aid Effectiveness
PM	Prime Minister
PMO	Prime Minister's Office
PREM	Poverty Reduction and Economic Management
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty reduction strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSD	Private sector development
PWG	Partner Working Group
QR	Quantitative Restriction(s)
RWSS	Rural water supply and sanitation
SAC	Structural Adjustment Credit
SAV	State Audit of Vietnam
SBS	Sector Budget Support
SBV	State Bank of Vietnam
SEDP	Socio-Economic Development Plan
SOCB	State owned commercial bank
SOE	State-owned enterprise
SWAp	Sector-wide approach
SWG	Sector working group
TA	Technical assistance
TABMIS	Treasury and Budget Management Information System
TF	Trust fund
UN	United Nations
USD	U.S. Dollars
VDG	Vietnam Development Goals
VDR	Vietnam Development Report
VHLSS	Vietnam Household Living Standards Survey
WTO	World Trade Organization

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Executive Summary

Vietnam, a one-party socialist state dominated by the Communist Party of Vietnam, has in recent years moved towards a pragmatic growth-oriented approach to economic policy. Early reform measures in 1986 with the *doi moi*, or new way, introduced a series of market-oriented reforms in industry and trade, as well as agriculture. The collapse of the Soviet Union in 1989 hastened the pace of reform, as the authorities intensified monetary, banking, and structural reforms and set the stage for substantial trade and investment liberalization, and as Vietnam's arrears with the International Monetary Fund (IMF) were settled in 1993.

Initial World Bank assistance came in the form of a structural adjustment credit (SAC), approved in 1994 and fully disbursed and closed in 1996. The initial tranche was disbursed on the basis of reform actions already completed. The second tranche was released on the successful completion of budgetary and other reforms. Discussions on a second credit failed to culminate in an agreement, due in part to the hiatus in reform momentum, but laid the groundwork for the Poverty Reduction Support Credit (PRSC) series, launched in 2001.

Differences in design and content between the PRSCs and earlier lending evolved gradually. The first PRSC, initially designed as Structural Adjustment Credit 2, continued the economic restructuring focus and two-tranche structure of the adjustment credit. The second PRSC was developed more explicitly to support Vietnam's poverty reduction strategy, with actions organized around the strategy's three pillars: completing the transition to a market economy, making development inclusive, and building modern governance. The scope increased as well, with inclusion of measures related to education, health, natural resources, the environment, and legal reform. PRSC 3 further broadened coverage with actions in the infrastructure and water sectors and deepened support to the strategy's governance pillar. Under PRSCs 4-7 sectoral coverage continued to broaden and the number of triggers, and prior actions were reduced, trends that continued during PRSCs 8-10. As Vietnam's sole general budget support instrument, the PRSCs are based on Vietnam's Poverty Reduction Strategy – the Socio-Economic Development Plan – supported by a group of 11 donors, with the Bank filling a key coordinating role.

In response to the high degree of national ownership of the reform program in Vietnam, Bank adjustment operations have demonstrated a degree of flexibility in interpreting policy conditionality, relying on a bottom-line assessment of whether overall progress on reform measures was satisfactory. This approach is based on recognition that the pace of implementation in individual policy areas is a matter for Government to determine, with Bank and international partner support linked to a broad assessment of overall progress. Some Bank sector staff and international partners contend that this approach has marginalized PRSCs in relation to deeper sector reforms and policy developments that require, in their view, more continuous monitoring and follow-through to achieve results. Clearly there are trade-offs involved, but on balance, the degree of flexibility in PRSC design and implementation appears to have facilitated a broader dialogue on Vietnam's reform agenda that would have otherwise been possible and, most important, has contributed to a greater degree of trust between the authorities and the Bank. Bank staff cite this atmosphere of trust as having facilitated policy breakthroughs outside the formal PRSC process, such as the acceleration of World Trade Organization accession and the Com-

munist Party's approval of a roadmap for banking reforms. According to Bank staff in public financial management, PRSC actions have served as a catalyst for a broad range of measures or have highlighted measures for which the Government wished to gain wide acceptance. Bank staff also regarded the PRSC as useful for locking in key measures as a complement to the extensive public financial management agenda generated through joint diagnostic work.

During the PRSC period, the public finance management system in Vietnam has been put on a better legal basis. This framework has promoted significantly greater transparency with, for example, the full disclosure for the first time of the State Budget Plan in 2005 as well as the disclosure of actual expenditures at central to district levels. Ministry of Finance officials suggested that the PRSCs have played a significant role in realizing these achievements by signaling their significance in the overall process of policy reform and thereby drawing the attention of senior officials as well as donors to the broader public finance management program agenda. The Country Financial Accountability Assessment of 2008 noted that implementation of the Budget Law has resulted in a clearer delineation of revenue collection and expenditure processes at different government levels. Coordination between collecting agencies and the State Treasury is also said to have improved, along with the overall transparency and fairness of the tax administration system. There has also been steady progress in improving budget execution processes, including greater delegation of authority to spending units with the use of block grants for recurrent expenditures.

On the macroeconomic front, overall gross domestic product (GDP) growth has averaged more than 6.5 percent per year during the 2001-2008 period, accelerating from less than 7 percent in 2001 to more than 8 percent in 2005, 2006, and 2007 before falling to 6 percent in 2008. Capital formation has also grown by about 4 percentage points, from 31 percent of GDP to more than 35 percent. The strong links between export growth, the growth of private sector investment and employment, and the growth of infrastructure services suggest that the reforms supported by the PRSC have played an important role in achieving these aggregate outcomes.

The broad sectoral coverage of the PRSC series in Vietnam reflects the preference of the Vietnam authorities for a comprehensive approach to policy formulation and the alignment of the World Bank and other international partners with that approach. Education has seen the most progress: the PRSC supported Vietnam's Education For All strategy. PRSC actions facilitated the expansion of enrollment, with greater relative gains in poorer districts. In health, the infant and under-five mortality rates declined and mechanisms were introduced to reduce out-of-pocket expenses of the poor for services. However, there is evidence of persistent disparities across population groups and regions in health outcomes, suggesting less progress in this area. In water and sanitation, the lack of an institutional focal point frustrated development and implementation of a sector strategy, although some estimates suggest good progress in service coverage.

Although the decision to convert the second Structural Adjustment Credit to the first PRSC was made late in the process, it reflected an assessment of Vietnam's readiness for a broader policy instrument. The PRSC has emerged as an appropriate instrument for achieving the objective of providing a broad platform for policy dialogue between international partners and the Government. Donors and government officials agree that the Bank has played the central role in harmonizing and aligning international partners around the PRSC matrix as the vehicle for

general budget support. Given the Bank's large office in Hanoi and its deep technical resources, no other agency has its level of capacity to carry out this function.

The Vietnam PRSC series, having now been operational over eight cycles, can begin to be assessed from a dynamic perspective. The evidence from this country study, as well as others, suggests that the PRSCs and related activities and processes have evolved to become increasingly well-suited to Vietnam's economic and institutional context, taking into account financial and political constraints. But that context itself is undergoing rapid change, which emphasizes the importance of continued adaptation and improvement in the PRSC instrument and process. The resulting dialogue could expand to include knowledge and technical assistance issues that will increasingly figure in Vietnam's policy agenda as an emerging middle-income country. Key lessons that emerge from the Vietnam study include:

- The PRSC process is strengthened through rigorous analytic underpinnings (for example, Vietnam Development Reports, Public Expenditure Reviews, and other analytical and advisory services) that provide a shared vision of the development agenda and a menu of policy actions linked to the thematic pillars of the poverty reduction strategy.
- Even in a context of high government commitment, fostering a connection to an external anchor (such as World Trade Organization accession) can help maintain momentum in the PRSC process and reform generally.
- PRSCs can function as an effective complement to, and catalyst for, sector operations including the development of sector-wide approaches and sector budget support.
- Broad sector coverage facilitates use of the PRSCs as a platform for policy dialogue between international partners and the Government but requires adherence to tight consultation schedules and rigorous criteria for inclusion of policy actions.
- With large numbers of international and government participants, it becomes increasingly important for both Government and the Bank that responsibilities for coordinating inputs and consultation and maintaining a policy overview be closely linked, defined, and adequately funded.
- The success of PRSC engagement and development of high-quality policy dialogue in particular sectors depends on getting and keeping the right staff involved from both the partner and Government sides.
- In a context of the PRSC program, rapid growth and evolution toward middle-income country status implies that the appropriate role of country governments in setting policy actions in line with the overall poverty reduction strategy and in aligning international partners around general budget support and sector-wide programs becomes increasingly important.

1. Background

Country Context

1.1 *Economic performance.* Vietnam's economic performance in the decade leading up to its first Poverty Reduction Support Credit (PRSC) (1991-2001) was already impressive.¹ Aggregate gross national product (GNP) growth averaged 8-9 percent per year prior to the Asian crisis and, even during 1997-1998, averaged over 4 percent, accelerating to 5.5 percent in 2000. During the early part of the decade, growth came largely from a supply response in agriculture. However, by the middle period, manufacturing and trade were leading the way with a rapid growth in exports (22 percent per year) primarily to other East Asian countries (the U.S. imposed a trade embargo for most of the 1990s). Foreign direct investment (also largely East Asian in origin) increased during this period, peaking at around 10 percent of Gross Domestic Product (GDP) prior to the Asia crisis. Overall gross domestic capital formation increased from 15.7 percent in 1991 to over 31 percent in 2001.

1.2 Vietnam has traditionally pursued a tight fiscal policy: budget deficits averaged 1-2 percent of GDP during the 1990s and about a point lower in response to the regional crisis in 1997-1999. Fiscal space was generated by the comprehensive debt reduction and restructuring program undertaken by the Vietnamese authorities during the 1990s, which resulted in a reduction in its debt-to-GDP ratio from 255 percent in 1991 to less than 40 percent 10 years later. Poverty decreased dramatically during the 1990s from an estimated 58 percent of the population in 1993 to 37 percent in 1998. Social indicators (infant, child and maternal mortality, life expectancy, and literacy) continued to improve from already high levels, and the small gender gaps narrowed further. The proportion of deaths from communicable diseases fell sharply. Remaining concerns at the start of the 2000s included an increase in regional inequality, as minorities shared less in these impressive improvements. In addition, many households remain vulnerable to relapses into poverty after family illnesses or natural disasters.

¹ The Poverty Reduction Support Credit (PRSC) represented a major departure from the prior adjustment lending model of the World Bank. Introduced in early 2001 in the context of global changes in aid architecture that recognized the importance of country ownership, government reform commitment, and multi-dimensional poverty reduction, PRSCs were intended to aid country-owned Poverty Reduction Strategies, support comprehensive growth, improve social conditions, and reduce poverty. Compared to previous adjustment lending, PRSCs aimed to ease conditionality, provide more predictable annual support and strengthen budget processes, all in a results-based framework. Many of its principles were reflected in the Paris Declaration of Aid Effectiveness. Within four years of their introduction, PRSCs came to account for almost 60 percent of IDA policy based lending and a quarter of total Bank policy based lending. From FY01-FY08, the Bank approved 87 PRSC operations amounting to US\$ 6.6 billion. By end-September 2009, PRSC approvals increased to 99 operations, with another 20 in the pipeline.

1.3 *Track record of performance on macro-economic policy and structural reforms.* The reform process in Vietnam began in the early 1980s with limited initiatives to liberalize agriculture. The success of these measures led to a broader reform agenda, the *doi moi* (new way or renewal), initiated by the 6th Party Congress in 1986, which introduced a series of market-oriented reforms in the industry and trade, as well as agricultural, regimes. With the collapse of the Soviet Union in 1989, Vietnam lost external support equal to 6 percent of GDP. This resulted in severe imbalances, which contributed to hyperinflation and GNP stagnation. The authorities responded with an intensification of reforms from 1990, supplementing macro-stabilization with structural reforms, eliminating price distortions, unifying the exchange rate, imposing a harder budget constraint on state-owned enterprises (SOEs), introducing competition in the banking sector, and providing substantial trade and investment liberalization. Until Vietnam's arrears with the International Monetary Fund (IMF) were settled in 1993, the Bank and IMF were only able to assist Vietnam with technical advice and support. As a result, this extensive and effective reform program was fully home-grown, with a high degree of national ownership and consensus. This high degree of ownership continued throughout the decade and into the PRSC period.

1.4 During the regional financial crisis of 1997-1999, the pace of structural reforms slowed in Vietnam as the authorities endeavored to understand the implications for Vietnam of the vulnerabilities that had been exposed in development of market systems in several countries in the region. The authorities also opted for a cautious macroeconomic stance during this period and thereby avoided any serious external or financial crises. While drawing on the knowledge and advice of the Bank and IMF, the authorities continued the process of developing their own response to the crisis, which as a consequence moved at a slower pace than the Bank had anticipated. Nevertheless, from mid-1988 onward, the Government implemented a number of measures to liberalize trade and improve the climate for private investment. It also resumed reforms in the state-owned enterprise and banking sectors, continued improvements in public finance management, and concluded a bilateral trade agreement with the United States.

1.5 *Bank support from prior adjustment lending.* The only adjustment lending prior to the PRSC series was a structural adjustment credit (SAC), approved in October 1994 and fully disbursed and closed in September 1996 after two extensions and a nine-month delay. The initial tranche of USD 90 million was disbursed on the basis of actions already completed in the course of Vietnam's reform program. The second USD 60 million tranche was released on the successful completion of eight measures dealing with budgetary reforms, audits of state owned commercial banks (SOCBs), state-owned enterprise reform plans, and trade liberalization. Delays were encountered in obtaining the necessary technical assistance particularly related to the public financial management components of the operation.

1.6 The structural adjustment credit supported significant achievements with the enactment of a new Budget law, which clarified responsibilities of different agencies and levels of government, implementation of Vietnam's first Public Expenditure Review and Public Investment Program, and improvement in fiscal revenues following the imposition of a tax on petrol. Perhaps the most important benefit in this context was the exposure of finance officials to international standards and procedures. The introduction of audits for two state owned commercial banks successfully demonstrated the importance of international oversight standards in modernizing the banking sector, a procedure subsequently extended to additional state owned commercial banks. Lack of clarity on the scope and status of state-owned enterprises led to a rather general plan of action, but the dialogue did confirm that the authorities would not opt for priva-

tization but rather “equitization” through conversion to share capital and treatment as joint stock companies. Finally the specific measure capping import duties at 60 percent had a relatively minor impact, but the pace of wider-ranging trade reform was maintained with Vietnam’s accession to the Association of Southeast Asian Nations Free Trade Area (AFTA) and announcement of its intention to pursue World Trade Organization (WTO) membership.

1.7 Overall, the achievements under its first structural adjustment credit led to a satisfactory rating by the World Bank’s Independent Evaluation Group (IEG)². Discussions on the second structural adjustment credit began in 1996 and continued the rest of the decade. Although they failed to culminate in an agreement due in part to the hiatus in the reform momentum, the discussions laid the groundwork for the first PRSC in 2001.

Situating the PRSC in the Country Assistance Program

1.8 The initiation of the PRSC series coincided with the preparation of the 2002 Country Assistance Strategy (CAS), which was organized around the three pillars of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS): high growth through transition to a market economy; an equitable, socially inclusive, sustainable pattern of growth; and a modern public administration, legal and governance system.

1.9 The Country Assistance Strategy explicitly included the PRSC series in the list of instruments that were foreseen as supporting the Comprehensive Poverty Reduction and Growth Strategy pillars; among these instruments were also included analytical and advisory services, investment projects, and partnerships. The Country Assistance Strategy also foresaw the expansion of the sectoral coverage of the PRSC series from the structural issues covered in the first PRSC to areas dealing with human development, agricultural and land policies, energy, public administration, and legal issues. The PRSC series was identified as an annual operation in the base case scenario at USD 100 million per year, with the possibility of increasing disbursements to USD 200 million per year under a high case scenario.

1.10 Performance during the Country Assistance Strategy period corresponded to the steady, but not rapid, progress foreseen for the base case. The amounts of PRSCs 2-5 remained roughly constant at USD 100 million (PRSC 1 was a two-tranche operation of USD 100 million and USD 150 million). PRSC disbursements during this period averaged 20 percent of net Bank commitments, from a high of 36 percent in FY03 (when net commitments totaled only USD 293 million) to a low of 13 percent in FY05 and FY06 (when net commitments were in the neighborhood of USD 700 million).

1.11 The 2007 Country Partnership Strategy coincided with the transition from the Comprehensive Poverty Reduction and Growth Strategy to the Socio-Economic Development Plan (SEDP) as Vietnam’s national poverty reduction strategy. It also continued the alignment of the Bank’s strategy with the pillars of the Comprehensive Poverty Reduction and Growth Strategy, plus an additional pillar for natural resource and environmental sustainability. The 2007 Country Partnership Strategy confirmed the role of the PRSC as the focal point of the Bank’s policy

² Prior to 2005, the Independent Evaluation Group (IEG) was called the Operations Evaluation Department (OED). The two names are used interchangeably in this report depending on the time period in question (pre-2005 or beyond).

dialogue in Vietnam and a key element in a broader approach to partnership and mutual accountability between international partners and the authorities. Financing for the second PRSC series was originally set at USD 150 million in the Country Partnership Strategy (somewhat less than the USD200 million proposed by the task team), but eventually settled at USD 179 million for PRSC 6, which totaled approximately 24 percent of net commitments in FY07. The 2002 Country Assistance Strategy did not foresee any form of policy based budget support other than the annual PRSC series, but the 2007 Country Partnership Strategy included the preparation of another development policy operation to support a national targeted poverty reduction program and the possibility of additional development policy sector operations. Vietnam's PRSC volumes and approval dates are indicated in Table 1 below.

Table 1. Summary of Adjustment Lending to Vietnam, FY1994-FY2010

Operation	Board Approval Date	Amount (USD millions, equiv)
SAC-I	Oct. 1994	150.0
PRSC I	June 2001	250.0
PRSC II	June 2003	100.0
PRSC III	June 2004	100.0
PRSC IV	June 2005	100.0
PRSC V	June 2006	100.0
PRSC VI	June 2007	175.0
PRSC VII	June 2008	150.0
PRSC VIII	June 2009	350.0
(PRSC IX)*	(June 2010)	(150.0)

Source: Business Warehouse, World Bank

*Approved after the completion of the main PRSC Evaluation by IEG.

2. PRSC Design

To what extent is there a discernable difference between the PRSC series and earlier adjustment lending/development policy lending?

2.1 *Design and content.* Differences in design and content between the PRSC series and earlier adjustment lending evolved gradually over the series. The first PRSC had been initially designed as the second Structural Adjustment Credit and represented a continuation of the sectoral focus and content of the adjustment credit. Although the dialogue on poverty issues had intensified and an Interim Poverty Reduction Strategy Paper (PRSP) had been prepared, these had little direct impact on the first PRSC's operational design; it focused on economic restructuring through components including private sector development, state-owned enterprises, state owned commercial banks, trade, and public financial management.³ Initial steps toward a multi-year time frame were also introduced, but not coordinated with national processes.

³ Indeed, overall, social impact mitigation actions under the first Structural Adjustment Credit were arguably more extensive than those under the first PRSC. However, the PRSC 1 did introduce a social safe-

2.2 The two-tranche structure also followed the structural adjustment credit design. The conversion of the Interim PRSP to Vietnam's overall Comprehensive Poverty Reduction and Growth Strategy during the implementation period of the first PRSC facilitated the alignment of PRSCs 2-5 with a country-owned poverty reduction strategy (PRS), which was implemented over a time frame coinciding with Vietnam's planning cycle. Consequently, PRSC 2 was developed more explicitly in support of the Comprehensive Poverty Reduction and Growth Strategy, organizing actions around its three pillars: i) completing the transition to a market economy, ii) making development inclusive, and iii) building modern governance. The scope of actions increased with the inclusion of measures related to education, health, natural resources, the environment, and legal reform. No triggers for PRSC 2 had been identified in the first PRSC, so that, while PRSC 2 was designed as a single-tranche operation, seven of its 33 actions became conditions of credit effectiveness. Progress on these was sufficient to disburse the credit on schedule and initiate PRSC 3 on the basis of triggers identified in PRSC 2.

2.3 PRSC 3 further broadened coverage with actions in the infrastructure and water sectors and deepened support to the governance pillar of the Comprehensive Poverty Reduction and Growth Strategy, and was approved on schedule despite uneven progress under the market economy pillar. Under PRSCs 4-5, sectoral coverage broadened still more with actions identified in 17 distinct areas. By the end of the first series (PRSCs 1-5), both triggers and other policy actions were more or less evenly spread across the underlying development strategy pillars. PRSCs 3-5 also supported the incorporation of the more open, consultative Comprehensive Poverty Reduction and Growth Strategy process into the preparation of Vietnam's next Socio-Economic Development Plan (SEDP) for 2006-2011. PRSC 6 could align with the three sectoral pillars of the plan (economic, social, and natural resources) plus a fourth pillar for public sector management and governance, thus completing the process of full alignment with Vietnam's own development strategy.

2.4 PRSC 6 continued the broad sectoral coverage that had evolved under PRSCs 1-5. PRSCs 6-10 also institutionalized a results framework that was spelled out more clearly, had a stronger process of review of overall progress at two points during each year, and had a medium-term perspective grounded in the national poverty reduction strategy. During the course of this evolution, the derivation of PRSC triggers and actions has become a much more inclusive process and involved a range of stakeholders, including Bank staff, government officials, international partners, and representatives of civil society. The process has also become highly structured in an annual schedule that culminates in a series of consultations organized by the Government in each of the PRSC policy areas. The content of policy actions reflects this diversity of participation and specific formulations draw on the inputs of stakeholders, with the Bank and State Bank of Vietnam as the lead agencies ultimately responsible for final formulations. This is a far more open process than the negotiations of structural adjustment credit conditions.

2.5 In terms of numbers of conditions, the first Structural Adjustment Credit identified 34 actions and 36 second-tranche actions, of which 9 were formal conditions. The first PRSC contained 46 actions for the first tranche, of which 12 were identified as core actions; 42 further actions were identified for the 2nd tranche, of which 12 were formal conditions for tranche release. PRSC 2 reduced this number to 33 actions (with no distinction between core and non-

ty net for redundant SOE workers which helped ensure relatively painless reform of the public sector by assisting some 250,000 workers at an expense of half a billion dollars.

core). The PRSC 3 Program Document restructures these into 18 actions for PRSC 1 and 19 for PRSC 2, which are presumably actions equivalent to the 18 triggers identified for PRSC 3 out of a total of 41 actions covered in the PRSC 3 policy matrix. PRSCs 4-7 further reduced the number of triggers or prior actions to around 15, with the overall number of policy actions remaining between 40 and 50. While the Bank's Good Practice Guidelines for Conditionality suggested reducing the number of triggers and policy actions, stakeholders in Vietnam suggest that the role of Government as an implementing agency for decisions taken in the political arena is consistent with a relatively large number of actions supported by the PRSC. IEG identified three lessons from the first Structural Adjustment Credit: the importance of national ownership of reforms; the need to plan for critical inputs in advance to avoid implementation delays; and the value of supporting technical and advisory activities.

2.6 The evolution of the PRSC series in Vietnam has proven a model for fostering ownership and underpinning the policy agenda with analytic work. Its success in anticipating necessary technical inputs has been less marked, especially in the complex areas of state-owned enterprise and banking reform. A waiver was required for the 2nd tranche of the first PRSC due to delays in the preparation of enterprise restructuring plans, for which necessary inputs took longer than anticipated. Government officials indicated that delays in other policy areas through the course of the PRSC series can be traced to the difficulty of getting technical support in a timely fashion, though they acknowledged that with the range of policy actions covered in the Vietnam PRSC series, some gaps in anticipating technical inputs could be expected.

2.7 *Flexibility.* Given the high degree of national ownership of the reform program in Vietnam since its inception in the 1980s, all Bank adjustment operations have demonstrated a degree of flexibility in interpreting policy conditionality, relying on the overall momentum of the program to deliver results. Thus, the first tranches of the first Structural Adjustment Credit and the first PRSC were based entirely on actions already completed during the preceding multi-year period. Second-tranche waivers in both the first Structural Adjustment Credit and the first PRSC 1 accommodated implementation delays for actions that were subsequently fully completed.

2.8 Beginning with PRSC 2, flexibility increased considerably in two dimensions: first, there was much greater latitude in adjusting the specific wording of policy actions to reflect the circumstances at the time of implementation as opposed to wording based on anticipated conditions; second, the composition of the policy matrix itself was adjusted between operations to reflect changes in the pace of implementation, availability of technical support, and new priorities and circumstances. Thus some conditions dropped out, others were picked up, dropped conditions re-emerged in subsequent years, and so forth. The criterion used to administer this flexibility was based on a bottom-line assessment of whether overall progress under an aggregate of reform measures was satisfactory, subject to the condition that there be no backtracking in any policy area.

2.9 This approach to flexibility is based on recognition that the pace of implementation in any individual policy area is a matter for the Government to determine, with Bank and international partner support linked to an assessment of the overall program. This approach has facilitated a broad coalition of international partners with diverse priorities coming together in support of Vietnam's reform agenda. It has also provided a platform for dialogue on the

implementation of the Socio-Economic Development Plan with an increasing emphasis on outcomes and results as the basis for assessing the overall program.

2.10 Nonetheless, some Bank sector staff and international partners contend that this approach has marginalized PRSCs in relation to those deeper sector reforms and policy developments requiring, in their view, more continuous engagement, implementation monitoring, and follow-through to achieve results. Some international partners also suggest that the process of including/excluding particular policy actions over a multi-year period can result in a loss of transparency and make it more difficult to assess possible or emerging gaps in the program. Clearly there are trade-offs involved, but, on balance, the degree of flexibility in PRSC design and implementation appears to have facilitated a broader dialogue on Vietnam's reform agenda that would have otherwise been possible and, most important, has contributed to a greater degree of trust between the authorities and the Bank. Bank staff cite this atmosphere of trust as having facilitated policy breakthroughs outside the formal PRSC process, such as the acceleration of WTO accession and the Communist Party's approval of a roadmap for banking reforms.

2.11 *Government opinion about PRSC-structural adjustment credit differences.* Government officials cite a number of differences between PRSCs and structural adjustment credits. They see the PRSC as performance based and the structural adjustment credits as conditionality based. This distinction might also be influenced by the association of structural adjustment with Vietnam's experience under the IMF's Poverty Reduction and Growth Facility (PRGF), which lapsed after the authorities were unable to agree with the Fund on measures to audit reserves management of the State Bank of Vietnam (SBV).

2.12 In addition, the authorities cite the medium term, forward-looking perspective of the PRSC, which they contrast with the short term, retrospective focus of the structural adjustment credit. As a result, the authorities view the PRSC as the platform for a multi-faceted dialogue between international partners and key government ministries and agencies. They considered that the broader sectoral coverage of the PRSC contributed to increased development impact. The authorities also compared the relationship between the structural adjustment credit and the Poverty Framework Paper to the relationship between the PRSC and the Socio-Economic Development Plan. The latter relied on Vietnam's own development perspective and encouraged the Government to take more initiative, thereby creating a better implementation environment. They also cite the greater predictability of the PRSCs, not only in terms of disbursement but also the link between the overall satisfactory progress of the PRSC and a base case scenario for overall donor support.

2.13 *Regularity of disbursements.* The first Structural Adjustment Credit disbursed its 2nd tranche with a delay of approximately nine months from the planned date, but this still fell within the relevant fiscal year. All PRSCs have disbursed on schedule just prior to the beginning of Vietnam's fiscal year. However, the gap between the first Structural Adjustment Credit and the first PRSC (the second Structural Adjustment Credit) did result in a very uneven pattern of budget support over the 1990s, in contrast to the regular annual disbursements that have characterized the current decade under the two PRSC series. This has benefited not only Vietnam but also the Bank, given the otherwise lagging disbursement performance from the non-PRSC portion of the lending portfolio in Vietnam.

3. PRSC Process

How effective have PRSCs been as a vehicle to help Vietnam operationalize a country-driven poverty reduction strategy?

3.1 Alignment of PRSCs with the national poverty reduction strategy and sectoral strategies. There are two inter-related processes involved in the alignment of the PRSC series with Vietnam's poverty reduction strategy. The first is the incorporation of the poverty reduction strategy into Vietnam's Socio-Economic Development Plan which occurred over the course of PRSCs 1-5, supported by specific PRSC policy actions. This began with an Interim PRSP which was developed by the authorities in the lead-up to the first PRSC. Alignment between the Interim PRSP and the first PRSC was limited to broad objectives, given that the first PRSC was built on the foundations of the second Structural Adjustment Credit and had no specific focus on social or governance actions.

3.2 However, during the two-year implementation of the first PRSC, the Interim PRSP was replaced by the Comprehensive Poverty Reduction and Growth Strategy, which reflected in both content and process a full poverty reduction strategy. PRSC 2 was much more closely aligned with the Comprehensive Poverty Reduction and Growth Strategy, including measures in all three pillars (economic, social, and governance). While all stakeholders appreciated the Comprehensive Poverty Reduction and Growth Strategy framework as a basis for the PRSC series, it was recognized that a national poverty reduction strategy should eventually be incorporated into Vietnam's national plan – the Socio-Economic Development Plan – which would then be officially discussed by the National Assembly and thereby carry greater weight with provinces and line ministries (the Comprehensive Poverty Reduction and Growth Strategy had official status but only as a directive of the Prime Minister's Office). Consequently PRSCs 3-4 incorporated actions related to the integration of the Comprehensive Poverty Reduction and Growth Strategy process and poverty analysis into the Socio-Economic Development Plan for 2006-2010, which would form the basis for PRSCs 6-10.

3.3 In order to move from these broad strategic frameworks to specific policy actions, Bank staff began in 2003 a process of “triangulation,” using the Vietnam Development Reports (VDRs)⁴ to map from the national strategies (Comprehensive Poverty Reduction and Growth Strategy and Socio-Economic Development Plan) to the policy matrices of the PRSC series. With the intermediation of this analytic work, the PRSCs were able to draw on policy content closely aligned with the poverty reduction strategy and, in turn, contribute to the operationalization of the Comprehensive Poverty Reduction and Growth Strategy and Socio-Economic Development Plan. In effect, the Vietnam Development Reports identify a menu of possible policy actions aligned with the national poverty reduction strategy/Socio-Economic Development Plan. From these, specific actions are identified annually so as to maintain the momentum of the overall poverty reduction strategy/Socio-Economic Development Plan implementation.

⁴ The Vietnam Development Reports are annual economic reports prepared by the World Bank in collaboration with other development partners (15 in the case of the seventh VDR) and Vietnamese researchers and agencies. They serve as the program background document (Joint Donor Report) for the Vietnam Consultative Group meeting each year and also provide the analytic underpinning for the key themes emphasized in the PRSCs. They are the cornerstone of the Bank's diagnostic AAA in Vietnam.

3.4 *Ownership.* National ownership has been a hallmark of the Vietnam reform program since its inception in the 1980s. The PRSC series are, in many respects, the culmination of this process. During the course of PRSCs 1-5, the authorities increasingly took the initiative in vetting proposed policy actions, moving away from a reactive mode as the implications of PRSC flexibility have become more apparent. The process of reaching agreement on each PRSC is an iterative one; some actions may be reformulated, or even replaced in the PRSC matrix, based on Government assessment of implementation that considers issues of sequencing and timing.

3.5 During the early PRSCs, the extent of line ministry involvement in the PRSC process was relatively limited. Following the PRSCs 6-10 alignment with the Socio-Economic Development Plan, line ministries have become increasingly active in the formulation of PRSC policy actions, though there is still a degree of variation across ministries. Institutionally each ministry has an international cooperation department which coordinates formal relations with development partners. The extent of PRSC involvement depends on the engagement of the international department and its outreach to the technical departments in the ministry. Ministries with multiple networks of international partnerships may tend to be less active in the PRSC process simply due to overstretched capacity. Nevertheless, and in spite of the lack of direct financial incentive for line ministries, participation in the PRSC has become a means to demonstrate each ministry's commitment to the common goal of growth and poverty reduction. For some, it may also be perceived as an opportunity to put forward ideas and proposals that could attract separate support from the large group of PRSC co-financiers and other participants in the PRSC process.

3.6 *Participation.* The introduction and promotion of participatory procedures has been an important aspect of the poverty reduction strategy format in Vietnam. These began with the Interim PRSP and were extensively elaborated in the preparation of the Comprehensive Poverty Reduction and Growth Strategy. Extensive consultations were held both at the national and provincial levels and facilitated through partnership with a group of international nongovernmental organizations. These consultations directly solicited the participation of low-income groups and, according to Bank staff, resulted in important modifications to the Comprehensive Poverty Reduction and Growth Strategy and contributed to the decision of the authorities to open up the process of planning for the 2006-2010 Socio-Economic Development Plan. For the first time, a draft five-year plan was made available for comment to a broad range of stakeholders, from international partners down to the local level.

3.7 The PRSC reinforced and supported these developments through the inclusion of policy actions supporting reforms in the planning process for the Socio-Economic Development Plan along the lines introduced by the Comprehensive Poverty Reduction and Growth Strategy. The PRSC itself has involved the extensive participation of international partners and a nongovernmental organization umbrella organization in the preparation of both the Vietnam Development Reports and the PRSC policy matrices. Still, at the upstream stage there has been little involvement of the National Assembly, local government, or civil society.

3.8 *Role of the Bank in supporting country led participatory PRSC formulation.* As discussed above, the triangulation between the Comprehensive Poverty Reduction and Growth Strategy/Socio-Economic Development Plan, the Vietnam Development Reports and PRSCs has been the key instrument to focus and prioritize the poverty reduction strategy. While the Vietnam Development Reports have been collaborative efforts with participation of an increasing num-

ber of international partners, the Bank has played the central role in pulling together the analysis, which, in turn, underpins the PRSC policy matrices. The coordinating role of the Bank is formally recognized in the PRSC structure, in which the State Bank of Vietnam coordinates government participants and the Bank coordinates the inputs of international partners. Bank strategies have highlighted the role of country ownership in Vietnam as a key feature of the policy environment. The PRSC team cites the flexibility during the first phase of the PRSC (PRSCs 2-3) as a major factor in raising Government confidence in the PRSC process as a platform for overall policy dialogue with international partners.

3.9 *Effects on government policy dialogue.* Improved dialogue and coordination between the Ministry of Planning and Investment (MPI) and the Ministry of Finance (MOF) has featured in Bank analysis and policy recommendations throughout its engagement in Vietnam. There has been a particular emphasis on stronger operational links between investment planning and associated recurrent expenditures and on developing a unified treasury system and comprehensive budget. The PRSC series has reinforced this with policy actions related to the integration of investment and recurrent expenditure in the budget and the development of a national Medium-Term Economic Framework (MTEF), including the piloting of sectoral Medium-Term Economic Frameworks in four line ministries and four provinces. Inter-ministerial dialogue has also centered on specific policy actions such as the establishment of a health care fund for the poor in all provinces, with full payment of central government contributions to such funds.

3.10 With its inter-ministerial coordinating committee chaired by the First Deputy Prime Minister, the PRSC structure has also provided a mechanism whereby lack of clarity concerning ministerial responsibilities could be identified and referred to the Prime Minister for sorting out. While this sorting out has resulted in implementation delays in some sectors (notably water and sanitation), it also helps ensure that gaps in program responsibilities are addressed and that the resulting institutional mandates and coordination arrangements are monitored. In several ministries the PRSC has also facilitated improved intra-ministerial coordination with a focus on poverty reduction through the functioning of PRSC networks or working groups (including international partners). Most of the enhanced inter-ministerial dialogue has revolved around either specific budget allocations or the role of the budget in policy implementation. Line ministry officials indicated that they regarded participation in the PRSC process as having contributed to better budget outcomes for their ministry, as its role in poverty reduction received greater recognition. Ministry of Finance officials also indicated that line ministry engagement had increased during the course of the PRSC series with better preparation for discussions on funding policy actions.

3.11 *Results focus.* Through its alignment with the Socio-Economic Development Plan, the PRSC is embedded in a Medium-Term Results Framework. The current plan marks a clear departure away from an input-output metric, towards the targeting of development impact as it affects individual citizens. As a consequence, the results framework has begun to focus on medium-term goals, but the identification of results chains linking policy actions to those goals is still in its initial stages. This limitation carries over to the PRSC series. Even though the PRSC policy agenda covers all pillars of Vietnam's reform program and each section of the PRSC matrix is now linked to a medium-term outcome (for convenience, actions and indicators are organized by policy area), attribution remains a major challenge. Actions in each area are not always the only (or even the main) driver for change, and the relative contribution of particular policy actions toward that outcome is neither specified nor measured, which leaves considerable room

for interpretation in assessing the relevance of individual policy actions. For instance, some of the key changes to ensure better health indicators may be related to public financial management and the government's ability to channel resources where they are needed. Similarly, some of the most important steps towards reducing corruption may be related to the simplification of business procedures or the adoption of IT platforms for government interfaces. With a program this broad, the sectoral log-frame approach cannot be applied mechanically.⁵ Nevertheless, the PRSC has succeeded in focusing greater attention on outcomes, particularly those related to poverty reduction. Further progress is necessary to relate these outcomes to the mix of policy actions that constitute each year's PRSC.

3.12 *Monitoring and evaluation system.* The main emphasis in monitoring and evaluation (M&E) has been to build up the results framework of the Comprehensive Poverty Reduction and Growth Strategy and, now, the Socio-Economic Development Plan. The M&E framework evolved substantially during the first PRSC cycle. The first operation in the series (PRSC 1) was conducted without a full PRSP and was still very close to structural adjustment in spirit. Identification of development outcomes and forward-looking targets was still limited, and there were only 19 outcome indicators, many of which were qualitative in nature. The Comprehensive Poverty Reduction and Growth Strategy, which became available before preparation of PRSC 2, still lacked a rigorous M&E framework. PRSC 3 identified 52 expected development outcomes; however, all but 12 were qualitative in nature.

3.13 The situation was different in the second PRSC cycle. The Socio-Economic Development Plan had an M&E framework but needed further adjustment—in terms of the quantity and type of indicators—to make it more operational.⁶ As part of the analytical and advisory work to prepare the second PRSC series, the annual Vietnam Development Report 2007 (*Aiming High*) proposed a systematic "reading" of the Socio-Economic Development Plan, policy area by policy area. As a result of this work, a total of 51 quantitative development outcome indicators (3 for each of 17 policy areas) were again identified for the second series, PRSCs 6-10. This is the M&E framework that was adopted (see Annex 2 of *Aiming High* and the PRSC 6 Program Document). Many of the indicators are from the Socio-Economic Development Plan M&E framework. However, others build on special instruments (in particular the governance module attached to the latest household expenditure survey), that use ad hoc, smaller-scale exercises as the baseline. Although not clearly linked to individual policy actions, this broad range of indicators certainly contributed to a strong overall results focus. They provided relevant information on progress toward the broad goals of the PRSC and contributed to the Comprehensive Poverty Reduction and Growth Strategy and Socio-Economic Development Plan. The indicators identified for PRSCs 6-10 represent a significant improvement in terms of quantification and reduced reliance on normative judgments. The documentation for these second series' indicators also identifies the data source and responsible agency, which considerably enhances the transparency of the M&E system.

5 An ex-ante attempt to link measures to outcomes was proposed in the *Aiming High* report. As the series comes close to an end, and the debate on whether and how to continue with a DPL series beyond PRSC 10 begins, a similar effort will need to be conducted with an ex-post perspective. This effort will be part of the broader evaluation of SEDP and the preparation for the next five-year cycle.

6 Specifically, it had too many indicators, and those related to production were over-represented compared to those related to governance. In other cases, the definition and measurement of the proposed indicators were questionable.

3.14 Given the extensive data requirements, Bank documentation states that the indicators would be monitored only twice during the series, at mid-point and end. This coincides as well with the mid-term and final reviews of Socio-Economic Development Plan implementation to which the PRSC indicators are linked, and reflects the realities of data availability. However, it is a source of frustration for some international partners who would prefer a more rigorous annual monitoring. Ministry of Planning and Investment officials in charge of rolling out the M&E framework for the Socio-Economic Development Plan noted that the shift in monitoring from outputs to outcomes had initiated with the Comprehensive Poverty Reduction and Growth Strategy before its adoption in the current plan and would require time to apply, especially at sub-national levels where capacities were more limited and familiarity with the new approach was limited. In addition to budget resources, Ministry of Planning and Investment is looking to the World Bank, the Asian Development Bank, and the United Nations Development Program to assist in this process. Line ministries (the Ministry of Agriculture and Rural Development and the Ministry of Labour, Invalids and Social Affairs) are also moving toward an outcomes-based approach. Bank staff indicated that the Bank was prepared to provide continuing support to improving the results framework and strengthening annual progress reports.

3.15 The Bank did take stock of experience at the end of the first series, the conclusions of which were reported in the Program Document for PRSC 6. Lessons drawn confirmed the importance of a broad platform for policy dialogue, but noted that uneven progress across policy areas was likely, with lagging areas related to weak political will, conflicting institutional responsibilities, and inadequate analytic work. A final lesson confirmed the relevance of a comprehensive approach that can take into account linkages across sectors.

3.16 In addition, the Bank commissioned an independent external review (commonly referred to as the Mokoro report). This built on the Vietnam case study produced by the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC) as part of its multi-country evaluation of general budget support between 1994 and 2004 (the Joint Evaluation). The Mokoro report paid particular attention to the role of PRSC in the reform process, which it found to be well suited to elaborating and operationalizing agreed policy directives, as well as to coordination and harmonization issues between the Bank and other international partners. It suggested measures intended to increase the effectiveness of consultations on proposed policy actions. The Joint Evaluation looked at major categories of outcomes and evaluated the impact of the PRSCs in relation to those outcomes; it also made a large number of recommendations related to the PRSC as a process, with particular focus on coordination issues.

3.17 Both the Mokoro report and Joint Evaluation stressed the importance of improvements in the M&E framework. In the design and implementation of the second PRSC series, the Bank took on board many of these lessons. Stakeholders cite, in particular, a more inclusive approach to the consultation process, including: the participation of non-financing partners; greater transparency in criteria governing the selection of policy actions; broader solicitation of contributions to the Vietnam Development Reports to strengthen the PRSC analytic base and the ongoing work linking the M&E frameworks of the PRSC and the Socio-Economic Development Plan. Some international partners were more critical, suggesting that the Mokoro report and Joint Evaluation recommendations concerning the organization of international partner and ministry consultations on PRSC policy areas had had relatively little impact.

How well have PRSCs been aligned with country systems, and how effectively have they contributed to predictable resource flows?

3.18 *Alignment with domestic processes.* The formulation of each PRSC series has been closely aligned with the formulation of the poverty reduction strategy in Vietnam. Beginning with PRSC 2 and the Vietnam Development Report 2003, both the underlying analytic work and resulting PRSC policy matrix were directly linked to the formulation of the Comprehensive Poverty Reduction and Growth Strategy. The transition from the strategy to the Socio-Economic Development Plan as Vietnam's poverty reduction strategy was itself supported in the policy matrices of PRSCs 3-4. Following adoption of the Socio-Economic Development Plan for 2006-2010, the 2007 Vietnam Development Report and PRSC 6 provided a similar link for the second PRSC series. However, with respect to progress monitoring, alignment has been a reverse process in a sense. The PRSC outcome and results framework has helped lead the way toward developing an outcomes-based approach for the Comprehensive Poverty Reduction and Growth Strategy and Socio-Economic Development Plan of 2006-2010, which represent the first stages of moving beyond the traditional input-output approach that previously characterized Socio-Economic Development Plan monitoring.

3.19 There is close alignment of the PRSC with Vietnam's planning and budgeting cycle. The PRSC process is completed with the Bank Board approval of the PRSC in June, just as the budget process for the coming fiscal year begins in Vietnam. This allows the Ministry of Finance to incorporate the PRSC into its revenue projections. In addition, as the suggested policy matrix for the next PRSC is incorporated in the PRSC documentation (at least the proposed triggers), both core ministries and line ministries can assess the fiscal implications of the potential policy actions and take them into account in expenditure planning. The full PRSC matrix for the coming year is available in September, which, although later in the budget preparation schedule, is still timely.

3.20 Ministry of Planning and Investment officials note that annual progress reviews under the Socio-Economic Development Plan are still mostly in the old mode of input reporting; this holds true for both the overall plan and for individual sectors. The implementation of the new approach to monitoring and evaluation has begun with a results framework for the mid-term and final evaluations of the Socio-Economic Development Plan 2006-2010. With the experience gained in this process they hope to then initiate more substantive annual progress reports dealing with policy outcomes. Many government officials see the PRSC as a central forum for policy dialogue, which can help focus the attention of the key government institutions, the Prime Minister's Office (which must approve the PRSC), and other core ministries, especially the Ministry of Finance and the Ministry of Planning and Investment, on the policy reform activities of their particular ministry or agency. Ministry of Finance officials stress the alignment of the PRSC with the budget cycle as a positive feature.

3.21 *Predictability of disbursements.* PRSC funds have been disbursed just before, or in, the first month of each fiscal year without exception, fully in line with Ministry of Finance projections. All co-financiers have also disbursed within the same fiscal year but with varying schedules, depending on their individual approval procedures. This causes some inconvenience to the Ministry of Finance, but as the amounts are relatively small in proportion to the overall budget, the problem is more one of unifying procedures to gain efficiency than improving revenue forecasting for expenditure planning. While Ministry of Finance officials confirm that the PRSC has

improved the predictability of official development assistance flows, especially as the number of co-financiers has grown, the share of the PRSC in overall official development assistance has remained roughly stable at around 10 percent over PRSCs 1-6, with some increase as the second series began. The experience with the PRSC and its reliance on government systems has leveraged increased general budget support through co-financing. Perhaps more significantly, it has begun to leverage other forms of budget support, such as the proposed sector programs in education, rural development, water and sanitation, and the national targeted Program 135, which provides small scale infrastructure to minority communities. In the context of the overall disbursement framework, the need to obtain the approval of the Bank's Board, in fact, enhances predictability by providing a fixed point that maps into Vietnam's budget cycle.

3.22 *Effects on program content and outcome.* Issues related to the trade-off between regular and predictable disbursements in a constant amount and the degree of satisfactory performance arose early in the PRSC series with PRSCs 2 and 3. In PRSC 2, seven out of 33 policy actions had not been completed by appraisal and were presented as conditions of effectiveness to keep to the Vietnam budget-aligned schedule. These circumstances revealed sharp internal divisions in the Bank on the overall PRSC strategy. Proponents of the traditional adjustment lending approach advocated holding up the processing to strengthen compliance with a key provision related to re-evaluations of unsecured loans by state owned commercial banks to state-owned enterprises. Those who favored proceeding on schedule felt that completion of the action was on track and that approval of the PRSC as scheduled was important to demonstrate that PRSCs were indeed different from previous adjustment lending.⁷ Specifically, they wanted to show that PRSCs were more flexible in terms of the timing of policy implementation and that they took a more holistic view of the reform program where *overall* progress determined whether or not monies could be disbursed.⁸

3.23 After deciding to proceed, the basic principles of the PRSC began to be established between the Bank and the Government. In PRSC 3 the issue was whether to adjust the size of the credit to reflect unsatisfactory progress under one of the 15 policy actions identified as triggers (PRSC 3 was the first PRSC in Vietnam to use a two-tier set of policy actions). In this case the decision to stick with the programmed amount (USD 100 million) reinforced the holistic approach and resolved that issue for the remainder of the series. With the resolution of these "transitional" issues in favor of the flexible, holistic approach to PRSCs, the authorities moved toward institutionalizing the PRSC process in their own annual cycle of policy discussion and implementation. This has, in turn, led to a more secure identification of policy actions each year, based on the broad menu identified for the PRSC series overall.

7 Bank country staff point out that pressures to deviate (either upwards or downwards) from original volumes of lending as established in the CAS/CPS are multiple. One reason is, as discussed, the need to express the Bank's satisfaction or dissatisfaction with the government's policy performance. Another is the need to fully use the IDA envelope at the end of the fiscal year. A third reason may be simply the need to accommodate the financing needs of the government through an instrument that allows rapid scale up.

8 This debate was linked to PRSC 2, because, as previously noted, PRSC 1 had been prepared as a structural adjustment credit and was adapted to the PRSC format at the last minute.

3.24 *Exit strategy.* Under the first PRSC series there was a direct link between PRSC performance and the low, base, and high cases of Bank support, as mandated under IDA 13⁹. Government officials confirmed their clear understanding of this framework. Under current IDA procedures the identification of low, base, and high cases has been discontinued. The most recent Bank Country Partnership Strategy (CPS) for Vietnam indicates that slippages in performance in either the PRSC matrix or Country Performance and Institutional Assessment (CPIA) indicators could lead to lower lending, including lower PRSC amounts, but the precise modality is vague. At the other end of the performance spectrum, as Vietnam moves toward middle income country status, Bank lending will shift to a blend of financing from IDA and the International Bank for Reconstruction and Development (IBRD). IDA graduation would eventually follow, but this is not foreseen during the current Country Partnership Strategy or PRSC period. Nevertheless, the future of the PRSC in a middle-income country environment was an issue raised by several international partners. The Bank's Country Partnership Strategy focuses on the Bank's role in helping to prepare Vietnam to compete effectively as a middle-income country. The Bank's PRSC team also highlighted that issue as informing the selection of policy actions under the current PRSC series.

How effectively have PRSCs contributed to donor harmonization around a country-owned, medium-term poverty reduction strategy?

3.25 *Relationship to other general budget support programs.* The PRSC is the only modality for general budget support in Vietnam. From the beginning, it has attracted co-financing support from other international partners, beginning with USD 49 million from three international partners in the first PRSC to USD 154 million from 11 international partners in PRSC 5. Over the course of PRSCs 1-5, co-financiers contributed a total of USD 468 million, compared to the Bank total of USD 550 million, the latter corresponding to roughly 55 percent of the total PRSC disbursement during the period. If the increase in the Bank's PRSC contribution in PRSC 6 to USD 175 million is maintained over the course of PRSCs 6-10, the Bank will likely continue to account for slightly more than half of total PRSC disbursements.

3.26 Although the State Bank of Vietnam and the Ministry of Finance indicated that government policy encouraged international partners to increase the proportion of general budget support in their assistance programs, several donors indicated that they had never been approached by Government to initiate or increase their PRSC contributions. This is in spite of the fact that PRSC disbursements constitute only around 2 percent of government revenue and 10 percent of annual official development assistance (ODA). Several international partners noted that in Vietnam multi-donor alignment around general budget support had preceded sector-wide approaches or multi-donor targeted or sector support, unlike many other PRSC countries which have often had long histories of multi-donor alignment at the sector level. Sector and targeted budget support is starting to emerge in Vietnam, with initial pilots in education and rural

9 The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing grants and interest-free credits for programs that boost economic growth, reduce inequalities and improve people's living conditions. IDA complements the World Bank's other lending arm—the International Bank for Reconstruction and Development (IBRD)—which serves middle-income countries with capital investment and advisory services. IDA 13 refers to the thirteenth replenishment of funds from Bank donors/shareholders to the funding for the International Development Association.

water building on Medium-Term Economic Frameworks in those sectors. In addition, several international partners, including the Bank, are supporting the national targeted Program 135 with targeted budget support. Recent evaluations of aid effectiveness in Vietnam by OECD-DAC and an International Monitoring Team (IMT) for the Vietnam Partnership Group on Aid Effectiveness (PGAE) both noted that increasing budget support in general, and the PRSC in particular, represent the most effective mechanism in Vietnam to achieve the harmonization and alignment goals that have been the two lagging areas of the Paris Declaration and the Hanoi Core Statement on Aid Effectiveness.

3.27 *Performance assessment framework and policy matrix.* There is only one Performance Assessment Framework (PAF), which is the PRSC policy matrix derived from the Comprehensive Poverty Reduction and Growth Strategy for PRSCs 2-5 and the Socio-Economic Development Plan for PRSC 6. Most international partners have aligned their programs with the plan but, as the International Monitoring Team notes, this is not a difficult task, given the broad coverage of the plan. All co-financiers of the PRSC are among the co-authors and signatories to the Vietnam Development Report 2007, which provides a “reading” of the plan that forms the basis for the PRSCs 6-10 policy matrix (there are also several Vietnam Development Report signatories that are not co-financiers of the PRSC). The matrix is used differently by different donors, however. Some chose to concentrate their effort and attention on a select group of policy actions that overlap with priorities in their project assistance. Others view their support as a multi-sectoral component to their assistance programs and adopt the PRSC matrix in their own programming documents. Both approaches are consistent with the Bank and Government view that the PRSC policy matrix constitutes a broad platform for policy engagement between Government and international partners.

3.28 *Effects of single PAF on policy dialogue and the PRSC program.* Government officials and most international partners consider the PRSC matrix to be a positive influence on the overall policy dialogue even though its broad sectoral coverage inevitably leads to limited treatment of individual policy areas and occasional lack of continuity in some policy areas. In this, they agree with the PRSC 3 Program Document that the impact of the overall quantum of policy actions carried forward each year creates greater momentum toward the ultimate outcomes than a simple sum of the impact of the individual actions. However, some international partners have regarded the Vietnam Development Reports and PRSC matrix as too restrictive a reading of the Socio-Economic Development Plan. This was perhaps a more common criticism when the PRSC matrix was linked to the Comprehensive Poverty Reduction and Growth Strategy which existed alongside the Socio-Economic Development Plan from 2001 to 2005. Virtually all stakeholders and outside observers agree that the PRSC mechanism is not suited to create consensus when there are strongly differing views among either international partners or domestic stakeholders on alternative priorities in a particular sector (many international partners cited health as an example). But the flexibility in the instrument has allowed such issues to be temporarily dropped from the PRSC matrix to be taken up again when sufficient consensus has been achieved around the formulation of specific policy actions that meet the PRSC criteria.

3.29 *Role of the Bank in harmonizing general budget support.* All international partners and the State Bank of Vietnam authorities agree that the Bank has played the central role in harmonizing and aligning international partners around the PRSC matrix as the vehicle for general budget support. With its large office in Hanoi and deep technical resources, no other agency has the Bank’s capacity to carry out this function. In addition, international partners cite the continuity

and analytical leadership that the Bank's PRSC team leaders have provided, citing in particular their vision of Vietnam's development and their commitment to making the PRSCs an effective instrument of that vision. International partners acknowledge the high standard this sets for their contributions, which is not always possible to meet with the resources at hand and in the time frame required. However, some international partners did suggest that the Bank could be more open to alternative views and to a greater role for other international partners in the policy discussion prior to finalizing each year's PRSC, particularly in areas in which Bank staff may not have a comparative advantage. The Mokoro report and the International Monitoring Team assessment also note this point.

3.30 Bank staff cite the very tight schedule that PRSC preparations must follow and the necessity of applying selection criteria for policy actions in a uniform manner. They point to a number of measures taken in recent years to improve communications among participants in the policy discussions, such as the regular circulation of short "living minutes" of each round of discussions (so-called "one-pagers"). A recent refresher workshop on the PRSC was also well appreciated by international partners. Greater familiarity with PRSC parameters has led to greater relevance and quality of international partner inputs, according to several participants, who also pointed out that international partners themselves need to take responsibility for building consensus around their proposals. Many international partners indicated that the Bank had likewise responded to these developments with greater openness to inputs from other international partners in framing policy actions and that harmonization should not be at the expense of consistency and rigor.

3.31 *Government views on PRSC alignment and donor harmonization.* Officials in the core coordinating agencies, Ministry of Finance, Ministry of Planning and Investment, and State Bank of Vietnam clearly regard the PRSC as the Government's own platform for discussions, with international partners linking all aspects of the reform agenda in the context of the Socio-Economic Development Plan. Ministry of Finance officials cite in particular the important role of the PRSC in increasing alignment and understanding of the reform program. Some line ministries that deal with many international partners and large numbers of bilateral projects report greater difficulties in achieving effective harmonization among international partners; this indicates that many international partners still maintain their own strategies and priorities within the broad envelope of the Socio-Economic Development Plan.

3.32 One of the key issues affecting PRSC alignment and harmonization in Vietnam is the complex structure of donor coordination. International departments in each ministry manage the overall relationships with international partners. Coordination takes place through International Support Groups (ISGs) at the ministry-wide level, Partnership Groups (PGs) organized to coordinate assistance in individual sectors, and Technical Advisory Groups to provide guidance on specific issues. However the functioning of this system varies considerably across ministries, depending on the relative strengths of both the international departments and the set of active international partners. Some International Support Groups and Partnership Groups function primarily as information-sharing groups, while others are more substantively Partnership Groups in terms of policy dialogue and program coordination. In this context, the interface between PRSC alignment and broader international partner harmonization varies, from being a separate and sometimes peripheral process to effective integration with the ministry's coordination structure. The selectivity of sector policy actions under the PRSC and the relative lack of experience with sector-wide approaches in Vietnam has led line ministry officials to view PRSC

alignment primarily as an important aspect of intra-governmental policy alignment and coordination rather than as the core partnership activity in implementing the sector component of the Socio-Economic Development Plan.

3.33 *Joint missions and progress reviews.* As the Bank PRSC team is located in Hanoi, there are no separate PRSC missions. However, there was for some time a strict annual schedule concentrated in the first semester of the calendar year geared toward the target date of June for PRSC approval by the Bank's Board. For the past several years, however, task teams have managed to advance the process and conduct the first round of technical meetings in the second half of the previous calendar year. All meetings are coordinated by the PRSC coordination unit of the State Bank of Vietnam, beginning with an "orientation" meeting in mid-January, followed by a first series of technical discussions around each proposed policy action.¹⁰ On the basis of these discussions, follow-up discussions and meeting are arranged during the subsequent three months prior to "appraisal" of the operation in April.

3.34 Many international partners (and the Mokoro report and International Monitoring Team evaluation) commented on this tight schedule, some indicating that it creates difficulty in organizing technical resources for commenting on proposed policy actions when those resources are not based in Hanoi. The short lead times for reviewing documentation and proposals and the rigid deadlines for achieving closure have led some international partners to advocate a more extended schedule. Bank staff point out that the July-December period is devoted to the annual preparation of the Vietnam Development Report (also in collaboration with international partners, as discussed below) and that the proposed annual PRSC policy matrix is circulated initially in September several months prior to the initial policy discussions. Other international partners and government officials hold that the tight schedule serves a useful purpose in concentrating attention on policy implementation and cite several examples of policy decisions that had languished until they were designated as PRSC actions. These participants believe that the rigid deadlines are an important factor in maintaining the overall momentum of the reform agenda. In contrast to the PRSC process itself, the evaluation process is still conducted separately by each international partner. With 11 participants in the PRSC, this represents a significant and growing burden on government agencies. The State Bank of Vietnam indicated that while it was certainly prepared to work with the individual evaluation teams, it would like to see international partners align their evaluations around the annual progress reports on the Socio-Economic Development Plan. While no international partner indicated precipitant moves in this direction, several international partners did note the scope for earlier sharing of evaluation findings and potentially coordinating the visits of evaluation teams.

3.35 *Collaboration on underlying analytical and diagnostic work.* Joint analytic work has been a long-standing feature of the Bank program in Vietnam, beginning with the period up to 1993 during which the Bank could not lend but undertook analytic work on behalf of, or in partnership with, other agencies. This trend was consolidated as Vietnam became a pilot country for implementation of the Comprehensive Development Framework. In the lead-up to the PRSC series, the 2000 Public Expenditure Review-Integrated Fiduciary Assessment was carried out jointly with the Government and several international partners. This process was developed further in the 2004 Public Expenditure Review-Integrated Fiduciary Assessment, in which eight

¹⁰ These meetings cover only policy actions in the proposed annual matrix which have not already been achieved.

bilateral partners and four international agencies took part under the leadership of the Government. Bank staff note that this multilateral approach to diagnosis of public financial management reforms has been a key factor in pulling together broad support for the PRSC. Vietnam Development Reports have also been conducted in collaboration with international partners. This is important both in terms of building consensus around the PRSC policy matrix and in terms of the evolution of the PRSC toward a knowledge partnership in Vietnam, given the relatively minor role of PRSC/general budget support resources in government revenue.

3.36 As noted above, the Vietnam Development Reports have functioned as a “translation” of national strategies (Comprehensive Poverty Reduction and Growth Strategies for PRSCs 2-5, Socio-Economic Development Plan for PRSCs 6-10) into prioritized sets of policy actions organized around three or four pillars. For each PRSC series the corresponding initial Vietnam Development Report (Vietnam Development Report 2003 for PRSCs 2-5 and Vietnam Development Report 2007 for PRSCs 6-10) laid out the broad framework and provided a matrix of related policy actions. Each of the subsequent Vietnam Development Reports has analyzed one of the pillars in greater detail – Vietnam Development Report 2004 on poverty (social pillar), Vietnam Development Report 2005 on governance (institutional pillar), and Vietnam Development Report 2006 on business (economic pillar).

3.37 This process has carried over into the second series (which has a fourth pillar covering natural resources and the environment). By the end of the first PRSC series, all co-financers were also collaborators and co-signers of the Vietnam Development Report. In addition, several international partners that do not co-finance the PRSC provide inputs to and co-sign the Vietnam Development Reports.¹¹ The Vietnam Development Reports are subject to production constraints similar to those described previously for the PRSCs. Several international partners commented that the pressures to provide inputs, review drafts, and sign off with very short deadlines limit the effective degree of collaboration; however, a large majority of international partners appreciate both the technical quality of the Vietnam Development Reports and the degree of collaboration that is possible. Government officials indicated considerable appreciation for the triangulation between Socio-Economic Development Plan, Vietnam Development Report, and PRSC, and note that as Vietnam approaches middle-income country status, the value of the PRSC process will increasingly be linked to its analytical underpinnings and the knowledge transfer that they represent.

3.38 *Alignment of donor support for capacity building around PRSC.* There has been no needs assessment for capacity development related to the PRSC. Bank staff confirm that technical assistance needs are unevenly covered, but also note that there has been a conscious decision to concentrate Bank efforts on the underlying analytics of the PRSC policy agenda, which provide the basis for international partners (including Bank sector units) and the relevant government agencies to determine capacity gaps and needs. The large number of PRSC policy areas (17) and limited Bank resources are given as additional reasons for taking this course. The PRSC team does not deny the importance of targeted technical assistance, but also considers that capacity in

11 Vietnam Development Report 2007 had 16 co-signers and also included contributions from the United Nations and nongovernmental organizations that were unable to co-sign due to difficulties in organizing consensus among all the United Nations agencies and nongovernmental partners within the time frame given by the Bank. In the case of the United Nations, there were also substantive issues that contributed to the inability to co-sign within the time allowed.

Vietnam is considerable, at least at the national level, and that delays in implementation are due more to a lack of political consensus or unclear institutional responsibilities than to any lack of capacity.

3.39 Line ministry officials often have a different perspective, given that their ministries receive no direct financial benefit from participation in the PRSC. Some argue that the PRSC process would be strengthened by providing resources directly to assist in the implementation of policy actions. Others would like to see the existing Partnership Groups play a more direct role in assessing and meeting the capacity needs associated with PRSC policy actions. International partners point out that the initiative in assessing capacity needs must reside with the Government and that there are sufficient resources to meet needs, once identified. However, some officials suggest that the resources available from donors are too heavily concentrated in technical assistance. The Bank has taken the lead in organizing multi-donor trust funds to support implementation capacity needs in priority areas such as public financial management.

3.40 *Relationship with International Monetary Fund.* The IMF has not had a lending arrangement in Vietnam since the expiration of its Poverty Reduction and Growth Facility in April 2004, following the inability to reach agreement with the Government on auditing arrangements for the State Bank of Vietnam's management of international reserves.¹² However, the Fund maintains a regular policy dialogue with the authorities and maintains a representative office in Hanoi. It also provides technical assistance in areas of Fund expertise. The Bank and the Fund collaborate actively and maintain a division of responsibility in which the Bank takes the lead in dialogue on structural and institutional reforms in a number of sectors while the Fund takes the lead in dialogue on macroeconomic policy. IMF and Bank staff collaborate on debt sustainability analysis and joint staff assessments of Vietnam's poverty reduction strategy (most recently the Socio-Economic Development Plan).

3.41 Beginning with PRSC 2, there have been no policy actions, strictly speaking, related to macroeconomic policy in the PRSC cycle. Nonetheless, many of the actions in the program make a contribution to macroeconomic stability and strengthen the capacity of the government to steer the economy. Actions related to the financial sector aim at improving loan classification, or upgrading banking supervision. Actions related to the public sector aim at preventing related party transactions within large corporations, as these can be an important source of moral hazard and economic instability. Actions related to public financial management are gradually leading to a more transparent fiscal policy (keep in mind that the State budget was just one page by the time of PRSC 1). Actions related to statistical development are associated with better access to information. On all these fronts, the PRSC series has made an important contribution to macroeconomic stability in Vietnam, but without directly entering into areas in which the Fund has stronger expertise (for example, exchange rate policy, inflation targeting, interest rate policy, and so forth).

3.42 The Fund has provided a letter of assessment for each PRSC Program Document. Fund staff noted that Vietnam is likely entering a challenging period for macroeconomic management, due in part to its increasing integration into the global economy following WTO accession and to persistently high levels of contingent liabilities, complicated by the inflationary pressures

12 The International Monetary Fund insisted on an international audit of State Bank of Vietnam, which the Government rejected as impossible under Vietnamese law.

felt throughout the region. In this context, staff felt it would be important to develop the PRSC as an instrument that could signal the Government's policy intentions to domestic and external investors, and suggested that the evolution of the PRSC be viewed in this light.

4. PRSC Results

How effectively have PRSCs helped Vietnam strengthen its public financial management systems?

4.1 *Diagnostic work underlying public financial management program reforms.* The PRSC series was preceded by a Public Expenditure Review and Country Financial Accountability Assessment, both conducted in 2000-2001, followed by a Country Procurement Assessment Report during the course of the first PRSC in 2002. This work was conducted jointly with government officials and international partners and constituted a comprehensive assessment of the public financial management program systems in Vietnam. In each case the work culminated in a set of sequenced recommendations identifying short, medium, and longer term actions. This diagnostic work identified a comprehensive set of issues that covered the legal and regulatory framework, administrative procedures, data generation, and management and institutional responsibilities and relationships across ministries and levels of government, with a focus on increasing transparency, accountability, sustainability, and the pro-poor orientation of public finances. The first PRSC referenced the 2000 Public Expenditure Review and incorporated the commitment of the Government to set up an implementation timetable for its recommendations. All the categories of public financial management reform covered in the diagnostic evaluations were represented among the PRSC actions on public financial management.

4.2 *Public financial management contents and design.* In line with the broad cross-sectoral approach under the Vietnam PRSC program, PRSC policy actions covered each major area of public financial management selectively. According to Bank staff in public financial management, PRSC actions have served as a catalyst for a broader range of measures or have highlighted measures for which the Government wished to gain wide acceptance. Bank staff also regarded the PRSC as useful for locking in key measures through a signed "legal" document as a complement to the extensive public financial management agenda generated through joint diagnostic work. Actions under the PRSC series included measures related to the legal framework, transparency, management information systems, better integration of recurrent and capital expenditures, strengthened assessment capacity and procedures, forward planning, revenue management, and auditing and accountability.

4.3 Bank staff and Ministry of Finance officials regard the menu of PRSC measures and sequencing as consistent with the overall public financial management strategy. This strategy placed initial priority on development of budget mechanisms (for example, the Budget Law in PRSC 2). This was followed by systems execution in the second phase (for example, introduction of the Treasury and Budget Management Information System and pilot Medium-Term Economic Frameworks in education in PRSC 3 and better integration of capital and recurrent

budgets in PRSC 4) and emphasis on oversight and auditing disclosure.¹³ Although the PRSC public financial management measures did not include an expenditure tracking survey, PRSC 5 did specify measures to monitor service quality and introduce user feedback. The emphasis on transparency, covered by at least one action in each PRSC operation, was particularly relevant to Vietnam, given its prior policy of keeping public finance data classified.

4.4 The measures picked up by PRSC public financial management actions generally covered the whole government sector down to the provincial level, with implementation responsibility left to the relevant units of the Ministry of Finance (and in some cases, the Ministry of Planning and Investment). The measures also included a few activities piloted in a single ministry or lower level of government (for example, the Medium-Term Economic Framework in education under PRSC 3 or community supervision of local investment projects in PRSC 4). Bank staff noted that the collaborative framework for the broad public financial management diagnostics relied extensively on inputs from government officials, who helped ensure that actions were adapted to Vietnamese conditions. The broad agenda identified by the diagnostic work included several measures on revenue growth and efficiency. However, none of these were selected as measures to be supported under PRSCs 1-5. On the other hand, actions under PRSC 6 and proposed actions for PRSCs 7-10 include simplified tax administration procedures and possible rationalization of incentives.

4.5 PRSC operations did not include actions directly linked to capacity building, but Ministry of Finance staff noted that actions under the PRSC were chosen in consultation with government officials, taking into account capacity issues that often affected more than anything else the speed at which some actions could be completed, given the relative lack of exposure to international standards in many aspects of public financial management program systems. For example, the matrix for PRSCs 6-10 includes two actions that relate to the application of Public Expenditure and Financial Accountability indicators for Vietnam: an initial internal self-assessment using the Public Expenditure and Financial Accountability indicators followed by a full Public Expenditure and Financial Accountability assessment, including disclosure to the public.

4.6 The same approach has been followed with the development of the Medium-Term Economic Framework, beginning with pilot operations in four ministries (first in the Ministry of Education under PRSC 3) and provinces before scaling up to full Medium-Term Economic Framework institutionalization in the Budget Law (PRSCs 7-10 matrix). This sequencing gave the proponents of these new approaches in the Ministry of Finance and other core agencies the time to work with colleagues in line ministries and at other levels to build the understanding and technical skills necessary for ownership of the reforms. It also recognized that the limited number of specific actions supported by the PRSC need to be incorporated in the broader public finance management program agenda, which is in turn supported by a range of other Bank activities providing support to the government's capacity building efforts. These include, notably, the Public Finance Management Project (FY03) as well as elements of the Customs Modernization and Education For All projects and the Development of the Tax Administration project. Institutional Development Fund grants have assisted in the introduction of international public

¹³ This began with transformation of the State Audit of Vietnam into an independent auditing entity under PRSC 4 and continued with alignment of auditing standards with international practice in PRSC 5 and increased disclosure in PRSC 6.

sector accounting standards, helped develop an M&E system for public procurement, and supported financial accountability. In addition, several other international partners also provide resources and technical assistance for public finance management program improvements within the coordination framework of the Public Finance Management Partnership Group.

PFM OUTCOMES

4.7 *Overall achievements.* During the PRSC period, the public finance management program system in Vietnam has been put on a sound legal footing (Country Financial Accountability Assessment, 2008) with passage and implementation of a new Budget Law (2002-04), Accounting Law (2004), Audit Law (2005-06), Procurement Law (2005-06), and Tax Administration Law (2007). Ministry of Finance officials noted that these laws continue to be reviewed by the authorities, with periodic revisions to incorporate further reforms and implement recommendations under joint diagnostic work and related technical assistance managed by the Ministry. This framework has promoted significantly greater transparency with, for example, the full disclosure for the first time of the State Budget Plan in 2005 as well as the disclosure of actual expenditures at central to district level. A significant step to improving systems execution has taken place with the unification of the State Budget and Treasury accounting systems, initiation of the Treasury and Budget Management Information System (TABMIS) and piloting of Medium-Term Economic Frameworks. The Audit Law established the State Audit of Vietnam as an independent agency reporting to the National Assembly.

4.8 Ministry of Finance officials suggested that the PRSCs have played a significant role in realizing these achievements by signaling their significance in the overall process of policy reform and thereby drawing the attention of senior officials as well as other international partners to the broader public finance management program agenda. Based on this indication of political support, the implementation of the more detailed public finance management program agenda was better able to attract both the necessary financial and technical resources.

4.9 *Core public finance management program processes.* The 2007 Country Assistance Strategy Completion Report (CASCR) and the 2008 draft Country Financial Accountability Assessment provide the most recent and comprehensive assessment of the extent to which core public finance management program process have improved during the PRSC period. The budget has become more forward looking and better aligned with the national plan (and poverty reduction strategy), beginning with the 2006 budget (coinciding with the Socio-Economic Development Plan 2006-2010). More fundamental improvements in the budget process are linked to the roll-out of the TABMIS and the full integration of Medium-Term Economic Frameworks into the budget.

4.10 In terms of coordination and coverage, Ministry of Finance and Ministry of Planning and Investment officials reported improvements in the coordination of the recurrent and capital budgets (which are the responsibility of the two agencies, respectively). Bank staff confirm this, although they also note that sectoral imbalances persist. The more in-depth analysis of budget processes has revealed more extensive off-budget revenues and expenditures than had previously been thought. Some improvement was made in the public accounting system with the integration of budget and treasury accounts; further unification and modernization of the Chart of Accounts is also linked to Treasury and Budget Management Information System implementation. Discrepancies continue between state budget management requirements and state accounting requirements.

4.11 The Country Financial Accountability Assessment 2007 notes that implementation of the Budget Law has resulted in a clearer delineation of revenue collection and expenditure processes at different government levels. In particular, the implementation of a “stability period” for central transfers has improved the framework for expenditure planning at the provincial level and below. Coordination between collecting agencies and the State Treasury is also said to have improved, as should the overall transparency and fairness of the tax administration system as a result of the new Tax Administration Law implemented in July 2007. There has also been substantial progress on treasury and budget management, on decentralization (including budget allocation norms), on tax administration (with the productivity of some taxes now close to OECD levels), on external auditing (establishing the State Audit of Vietnam as an entity reporting directly to the National Assembly has been a milestone) and on the transparency of entities using state budget resources. The areas displaying slow progress include the management of capital expenditures (a separate sectoral credit is under preparation to deal with this issue), internal control procedures, the gap between budget plan and budget execution, budget reporting, and the establishment of monitoring indicators. Procurement and oversight (audit) process improvements have lagged as regulations and directives are put in place to implement the new Audit and Procurement Laws. Overall improvement in public financial management program core processes has been moderate, with good progress in some areas offsetting slower progress in others.

4.12 *Performance of the public financial management system.* Given the highly decentralized structure of public expenditure in Vietnam (roughly 40 percent of government expenditure is delegated to local authorities), the Public Expenditure and Financial Accountability indicators would require a degree of local adaptation for Vietnam (which is part of the rationale for initial “self-assessment” action in the PRSCs 7-10 policy matrix). A rough assessment has been compiled by IEG, based on information from available diagnostics and interviews with Bank public financial management staff. Of 12 public financial management indicators, there is evidence to suggest improvement in 7, marginal or mixed developments in 3, no improvement in 1 and deterioration in 1. Areas supported by the PRSC included expenditure tracking and expenditure reviews, integration of medium-term forecasts, effectiveness of internal controls, timeliness of audited final accounts, and procurement systems. Each of these areas has been assessed as registering improvements during the PRSC period.

4.13 *Alignment of public expenditures with policy priorities.* The Vietnamese authorities have maintained overall budget discipline during the past 15 years, generally adhering to the “golden rule” of keeping the recurrent budget either in surplus or balance and borrowing only for capital expenditures. The National Assembly has, through its resolutions, imposed an effective borrowing limit of 5 percent over the five year plan period. While the off-budget expenditures (as estimated by the IMF) have added between 3.5 and 4.7 percent to the deficit, Fund staff have found Vietnam’s fiscal prospects sustainable, contingent on the continuing implementation of reforms. The PRSC series has not included macroeconomic policies among its policy actions since the first PRSC.

4.14 PRSCs have, however, been clearly concerned with the effectiveness of public expenditures. Ministry of Finance officials indicated that the broadening of the PRSC policy coverage during PRSCs 4-6 has contributed to greater impact in relation to the pillars that link the PRSCs with the Comprehensive Poverty Reduction and Growth Strategy and the Socio-Economic Development Plan. The Japanese Banking and Investment Corporation’s (JBIC) formal PRSC eval-

uation in 2008 underscored the Ministry of Finance view, finding that PRSC outputs (the broad areas of reform, including public expenditure management) were effective in supporting the outcomes associated with PRSC pillars.

4.15 The PRSC series has supported the alignment of the budget with the poverty reduction strategy in four aspects: first, increases in budget shares to the social sectors, particularly education, and rebalancing health expenditures across infrastructure, human resources, subsidies and preventive care; second, inclusion of fee exemptions and safety net provisions for the poor in the budget; third, reformulation of budget norms to be more pro-poor; and fourth, funding of PRSC policy actions to support implementation. Between 2001 and 2005, the share of the budget going to education increased from 15.5 percent to 18.8 percent, well beyond the 17.1 percent included as a policy action under PRSC 3. Overall social expenditures increased from 43.4 percent of current expenditures to 50 percent in 2005. PRSCs 2 and 3 included actions to support the creation of provincial level Health Care Funds for the Poor and mandating central government contributions. PRSC 5 supported measures to make health insurance compulsory among the poor, apply pro-poor budget norms, and revise targeted programs geared to support remote communities and ethnic minorities. The Medium-Term Economic Framework pilots in education and health were supported through PRSCs 3-5 and had, among other objectives, the goal of increasing the pro-poor orientation of sector budgets.

4.16 Ministry of Finance officials indicated that budget discussions with line ministries included an estimate of expenditures linked to the implementation of PRSC actions and that, while there was no direct allocation for this purpose, the identification of PRSC-related expenditures was certainly taken into account in determining each ministry's budget allocation. Government officials both in core ministries and line agencies confirmed that the poverty focus of the PRSC linked with specific indicators had helped start a reorientation from an input focus to identification of desired outcomes and results. This was especially true in those ministries piloting Medium-Term Economic Frameworks (education, health, agriculture and rural development, and infrastructure). The PRSC was, however, only one element in this process. The interest of international partners in a stronger results framework, as manifested in the various Partner Working Groups, and the development of a monitoring and evaluation framework for the Socio-Economic Development Plan have also contributed to a greater focus on results. In many ways, the budget remains input oriented.

4.17 During the PRSC period, Vietnam's revenue effort has improved. Revenue growth exceeded two percentage points of GDP between 2001 and 2007, of which about half was due to increased oil revenues and half to increased tax effort. PRSCs 6-10 have included measures to support the revenue side of the budget through administrative simplification (PRSC 6) and rationalization of corporate and household tax incentives (PRSCs 7-10 matrix). Customs reforms were included in PRSC 4. Ministry of Finance officials highlighted the attention to revenue measures in the PRSC dialogue and noted that the actions related to customs and tax administration had led to Bank investment operations with the Ministry of Finance supporting these areas.

4.18 *Expenditure predictability.* The predictability of aggregate expenditure in Vietnam is impacted by several factors which contribute to a significant deviation between budget execution and the budget as approved by the National Assembly. Provinces normally set higher revenue targets (about 5 percent) than those approved by the Assembly. These revenues can be spent

without further National Assembly approval. There are also large items not included in the Assembly-approved budget such as sub-national borrowing for capital expenditures, and carried forward revenue and expenditure for block grant programs. Some non-tax revenues (such as oil) have also been significantly underestimated, which has given rise to “excess cash revenue” carried forward and spent in following years. Expenditures funded by excess cash revenues carried forward are included in the final accounts but not in the Assembly-approved budget. These factors have led to budget execution ratios ranging from 111 percent to 135 percent during 2002-2004. However execution ratios have been higher on the revenue side, so that budget deficits based on final accounts have been lower than projected in the Assembly-approved budget. Most of these variations occur at the sub-national level (except for oil revenues) and impact expenditure predictability at the provincial level and below.

How relevant and effective a vehicle have PRSCs been to help Vietnam set conditions for poverty reducing growth?

4.19 *Extent and nature of growth focus in PRSCs.* A focus on economic growth has been integral feature of the PRSC series in Vietnam from the initial work on the Interim PRSP in 2000. This was confirmed in the Comprehensive Poverty Reduction and Growth Strategy approved in 2002 (during the course of the first PRSC) after a process of iteration between parallel approaches: i) a more narrowly focused approach based on a set of targeted programs under the aegis of the Ministry of Labour, Invalids and Social Affairs; and ii) the more comprehensive approach taken by Ministry of Planning and Investment for the Interim PRSP. The decision to pursue a more comprehensive growth-oriented poverty reduction strategy was based on the widely held view among government officials and other stakeholders that Vietnam’s exceptional record in reducing poverty in the 1990s (from 57 percent in 1992 to 37 percent in 1998) was closely linked to its rapid economic growth during that decade (over 7 percent per annum) and that this linkage should be sustained through appropriate policies over the medium term.

4.20 Building on the extensive preparatory work for the second Structural Adjustment Credit, the first PRSC focused primarily on growth-related structural reforms related to private sector development, state-owned enterprises, state owned commercial banks, and trade, which constituted roughly 80 percent of the policy actions supported by the credit. This predominance of economic measures continued in PRSCs 2-3, which added large-scale infrastructure to the sectors covered under the economic pillar of the policy matrix.¹⁴ With the political endorsement of a time frame to join the WTO, trade issues began to assume a predominant role as the WTO accession process became an important external driver of reforms. Beginning with PRSC 4, insti-

14 Giving more attention to infrastructure was crucial to making the government feel more comfortable with the CPRGS, since many in the government at first perceived the poverty reduction strategy as reflecting mostly Western beliefs about the necessary ingredients for growth. The addition of an infrastructure chapter in the Comprehensive Poverty Reduction and Growth Strategy was greatly facilitated by a series of analytic pieces supported by Japanese Banking and Investment Corporation and also AusAid, which looked at the growth and distributional impact of major infrastructure investments. Japanese Banking and Investment Corporation authorities indicated that this broadening of the PRSC platform was crucial in leveraging Japanese Banking and Investment Corporation co-financing, which began with PRSC 3. Bank country staff add, without going “back to the drawing board” and give attention to these more Asian views on growth, the PRSC process would not have been such an effective platform for policy dialogue with government.

tutional, social, and natural resources measures began to outnumber economic measures. In terms of proposed triggers for PRSC 7, economic, institutional, and social/natural resources measures each account for a third of the proposed triggers. While there has been continued attention to state-owned enterprise and banking reform issues throughout the period, slower progress in these areas has been balanced by more rapid progress in trade and globalization issues. Such issues continue to figure prominently in PRSCs 6-10 following Vietnam's accession to the WTO in January 2007, with policy actions intended to maximize the benefits and minimize the costs of global integration.

4.21 The PRSC-supported growth strategy was well-grounded in analytic work, especially the annual Vietnam Development Reports. Vietnam Development Reports 2002 and 2003 were specifically oriented to the challenges of regaining high rates of growth (after the deceleration of the late 1990s and early 2000s) while continuing to achieve rapid poverty reduction. The Vietnam Development Report analysis of the key prerequisites to achieving and sustaining high growth focused on the elements that had long been central to the Bank's analysis of Vietnam's growth prospects, namely, an intensification of the reform agenda, especially for state-owned enterprises, banking, private sector development, and trade. Vietnam Development Report 2002 supplemented this with an analysis of the poverty impact of the then deteriorating external environment for Vietnam that drew attention to policies related to accelerating rural growth, especially in lagging regions, establishing mechanisms for analyzing distributional impacts of trade liberalization, and improving social safety nets. The Vietnam Development Report 2003 further examined the analytic underpinning of the Comprehensive Poverty Reduction and Growth Strategy and explicitly considered the evolution of inequalities in the provision of social services as part of the social pillar of the Comprehensive Poverty Reduction and Growth Strategy, which then became the major theme of the 2004 Vietnam Development Report.

4.22 Based on the successful acceleration of growth during the PRSCs 1-5 period, the Vietnam Development Report 2007 maintained a comprehensive approach to growth and poverty reduction with an emphasis on the quality of growth as the key to sustainability. The analysis suggested that the relevant criteria for selecting among policy options should include increasing overall efficiency of resource allocation, keeping development inclusive, and developing transparent and accountable institutions. Vietnam Development Report 2007 identified a set of 14 policy priorities for the 2006-2011 period that drew on all three criteria. Bank staff characterize the overall strategy as focused on increased efficiency and financial viability of public services, with subsidized access for the poor and vulnerable groups.

4.23 Bank sector studies have provided a further analytic underpinning for a poverty reducing growth strategy, in many cases providing the building blocks for the Vietnam Development Report analysis. During the PRSCs 1-6 period, individual studies examined the link between poverty reduction and sector policies and programs for infrastructure, rural development and land reform, health, and social protection. In addition, reports on trade reforms, fishery development, rural sanitation, community-driven development, and anti-corruption all gave prominence to poverty reduction or inclusion issues. Key pieces of this work linked to the PRSC agenda have been supported by international partners as well. For example, the DfID and the Bank jointly carried out a study on voluntary social insurance for the poor which served as input to the relevant line ministry in framing its policy agenda, elements of which are included in the PRSCs 6-10 policy matrix. Government officials from both central and line ministries highlighted the poverty focus of both the analytical work and the policy discussions around

PRSC policy actions as an important feature of the PRSC that brought added value to the process.

4.24 *Extent of macro-economic management focus in PRSCs.* Vietnam has a good track record of prudent macroeconomic management throughout the 1990s and the current decade. Official fiscal deficits have rarely exceeded 2 percent, and the overall deficit (including off-budget expenditure and contingent liabilities from net lending by development banks and other state funds) has been in the 6-7 percent range. Credit growth has been more variable but has generally been managed with a view to containing inflation and curbing growth in the stock of nonperforming loans (supported by the PRSCs). The management of the exchange rate has been consistent with these policies. As a result there have been no macroeconomic conditions in the PRSCs since the first PRSC, which contained a broad condition related to maintaining macroeconomic stability (in keeping with its second Structural Adjustment Credit origin). The IMF has regularly provided letters of assessment reviewing macroeconomic conditions that have supported the PRSCs. During PRSCs 1-5, the Vietnam Development Reports suggested a somewhat more expansive fiscal stance linked to stepping up rural and community investments and operation and maintenance expenditures on existing infrastructure. Since 2005-06, however, the acceleration of inflation has led the Government to initiate additional fiscal tightening.

4.25 *Relevance of growth-enhancing reforms in light of poverty reduction goals and country capacity constraints.* The policy areas covered under PRSCs 3-5 (following alignment with the Comprehensive Poverty Reduction and Growth Strategy) and continued in PRSCs 6-10 manifest a comprehensive approach to Vietnam's development. This methodology built on Vietnam's experience as a pilot Comprehensive Development Framework (CDF) country and followed the authorities' decision to opt for an integrated growth and poverty reduction strategy, which eventually led to the merger of the poverty reduction strategy with the Socio-Economic Development Plan. As a result, the 14 broad areas of intervention on the PRSCs are fully relevant to Vietnam's development agenda. This breadth has led to something of a menu approach in the selection of individual policy actions for each PRSC, based on the set of potential actions identified through the Vietnam Development Report analyses and discussions between the authorities, international partners, and other stakeholders. Within each policy area, government officials and Bank staff apply four selection criteria for individual policy actions: i) they should originate in the Socio-Economic Development Plan or comparable national strategy; ii) they should make economic sense; iii) they should have strategic importance; and iv) they should be monitorable in either their adoption or their effect. Although these are broad criteria, their application during the period of technical discussions that led up to the final confirmation of specific policy actions¹⁵ appears well focused on ensuring that policy actions have a demonstrable connection to poverty reduction or growth sustainability.

4.26 Formulation of policy actions with an explicitly articulated link between poverty reduction and growth developed rather late in the PRSC series with actions related to planning practices and public financial management in the policy matrix of PRSC 5. These were followed by a much stronger coverage in PRSCs 6-10, in which 8 of the 17 policy areas contained actions explicitly linked to impacts on the poor or vulnerable groups. Although proposed policy actions are not specifically vetted in relation to implementation capacity, both government officials and

15 This assessment was made on the basis of observation of a sample of technical discussions on policy actions for PRSC 7 and a review of the interim "one-pagers" reporting on the status of these discussions.

international partners are well aware of the time frame for the PRSC and this clearly influences the choices and/or formulation for each year's policy actions. Prioritization and sequencing within each policy area indicates that the selection criteria have been successfully applied, in general. In 10 of the 17 policy areas, initial policy actions in the series dealt with legislation or other national policy frameworks. These were then followed by more specific measures linked to policy implementation. In two policy areas (banking reform and anti-corruption) national strategies or roadmaps came later in the sequence and reflect the culmination of a consensus-building process. State owned enterprise reform fit neither of these sequences, but this policy area built on a decade-long involvement of the Bank with mixed results due to a continuing lack of consensus on the scope and speed of state owned enterprise reform.

4.27 In broader terms, the prioritization of reforms under the PRSC series was heavily influenced by the work leading up to the second Structural Adjustment Credit and its transformation to the first PRSC. This work concentrated on economic and institutional measures linked to the transition to Vietnam's social market economy. Greater emphasis on social priorities began to emerge only toward the end of the first series, with a relatively even balance across transition, growth, social, and institutional priorities incorporated in the formulation of the PRSCs 6-10 series. However, this very comprehensiveness has led some stakeholders to question whether the Vietnam PRSCs are stretched across too many sectors, spreading the dialogue too thin and hindering in-depth follow up.

4.28 The Mokoro evaluation made this observation and suggested treating sectors with varying degrees of breadth and depth, depending on their strategic importance and track record of strategy formulation and implementation. Mokoro muted the possibility of "nesting" the dialogue in the existing International Support Group or Partner Working Groups for qualifying sectors to free up PRSC resources to focus on more difficult sectors. While Bank staff agree that maintaining an annual dialogue across 17 policy areas does strain the capacity of the Bank and the State Bank of Vietnam's technical and coordination resources, they cite the rationale of the PRSC as a broad, comprehensive platform for policy dialogue that allows cross-sectoral and inter-ministerial linkages to be identified and developed. They also question whether greater "concentration" of the PRSC on difficult areas would in fact improve outcomes, noting that lagging performance in some policy areas is due more to lack of political consensus, unclear institutional mandates, or conflicting perspectives among international partners. Bank staff consider the PRSC as ineffective in creating policy breakthroughs when these conditions apply.

4.29 The PRSC development paradigm as applied in Vietnam also considers that over the multi-year time frame of the PRSC series, forecasting the policy areas and actions that are most likely to contribute to the PRSC objectives entails considerable uncertainty, which argues for a broad-based approach that can take into account unforeseen developments more easily. Some international partners themselves question whether International Support Groups or Sector Working Groups would be the appropriate vehicle for the focused, time-bound dialogue that the PRSC requires to maintain overall momentum. Finally, the authorities and international partners are looking ahead to Vietnam's transition to middle-income country status. Current trends suggest that the PRSC can evolve as an instrument to support this transition by providing both a broad-based policy platform and by breaking the ground for targeted and sector budget support mechanisms, in addition to general budget support. For these various reasons the PRSC is viewed by most stakeholders as an effective instrument to support Vietnam's growth and poverty reduction objectives.

4.30 *Outcomes: achievement of growth related PRSC objectives and overall growth performance.* Outcomes across the five policy areas related to the PRSC's growth objectives ranged from highly satisfactory in trade and global integration to partially satisfactory in banking and financial sector reform. In trade, merchandise exports grew from 41 percent of GDP at the beginning of the PRSC period to 61 percent by PRSC 5, with the share of the private sector in non-oil exports growing from 44 percent to 77 percent during the period. All quantitative restrictions were eliminated during this period, and WTO accession was achieved in early 2007.

4.31 In terms of private sector development, private investment rose from 14 percent of GDP to 18 percent, and the numbers employed in formal wage employment in the private sector rose from 1.3 million in 2001 to over 4 million by the end of 2005. In infrastructure, the share of independent power producers rose from 7 percent in 2002 to 22 percent of installed capacity by 2005. Access to electricity by rural households increased from 77 percent in 2001 to 88 percent in 2004. During the same period, Vietnam achieved an annual growth rate in teledensity of 42 percent per annum, one of the highest growth rates in the world, with the telecommunications sector opened to competition for mobile and Internet service providers.

4.32 Although state owned enterprise reform has long been a contentious issue in Vietnam, with persisting divergent views on the role of state-owned enterprises in Vietnam's economy, there has been consensus on the need to reduce the number of state-owned enterprises and impose hard budget constraints. This resulted in a reduction of about 40 percent in the number of state-owned enterprises between 2001 and 2005 and a reduction in the share of bank credit going to state-owned enterprises from 42 percent to 32 percent (with the marginal rate at around 27 percent during the PRSC period). The collection of operational performance data on state-owned enterprises improved markedly over the period and allowed for much more specific indicators to be put in place for PRSCs 6-10. This data indicated that overall performance was better than expected, with most state-owned enterprises earning small profits.

4.33 Progress in banking sector reform was mixed, again a reflection of a lack of political consensus on the overall role of state owned commercial banks and the banking sector in Vietnam's social market economy.¹⁶ However, there were several areas of progress even prior to the political agreement on a roadmap for banking sector reform that was reached in 2005. The share of non-performing loans in outstanding credit fell from 15 percent in 2001 to an estimated 6-9 percent in 2006. Competition in the sector has increased with the opening to fully foreign owned

16 Technical assistance and technical solutions were not able to compensate for the lack of a strong political will. The Bank felt that the government could not push for strong reform on too many fronts at the same time, and that priority should go to WTO accession. By bringing competition into sectors dominated by state entities (in services, including banking) WTO accession was a tool to make reforms in those other sectors a necessity. Political consensus on WTO accession was reached, with strong involvement of the World Bank office, between 2003 and 2004. Although accession occurred only in early 2007, this consensus allowed the Bank to subsequently conduct a similar effort in favor of banking reform. The political decision was made in 2005, and translated by the government into the roadmap for banking sector reform referred to earlier. Since then, the direction of change has been clear: despite slowdowns related to the difficult macroeconomic situation, especially in terms of reaching agreement with strategic investors, the banking system of Vietnam should be very different in 2010 from what it was in 2005. Two of the four largest state operated commercial banks have already been listed, negotiations with strategic investors have warmed up with the recovery of the economy, and the key laws to modernize the financial sector are being drafted.

banks in 2004. New credit manuals and a chart of accounts for banks were introduced. Following the cessation of directed lending by state owned commercial banks, they increasingly turned to the private sector for new business, with their capital base improved through three government injections of funds. Two state owned commercial banks are in discussion with strategic investors.

4.34 There is still a significant agenda for banking reform, including the elimination of state owned commercial bank ownership rights for the State Bank of Vietnam, enhanced supervisory capacity, completing the 'equitization' of the remaining state owned commercial banks with strategic investors involved, ensuring the profit orientation and autonomy of the state owned commercial banks, and improving the quality and availability of information. Growth in national currency deposits has been strong, over 25 percent per year between 2002 and 2006. A recent study indicated that most of this growth has been among younger Vietnamese who tend to prefer to work with joint-stock and foreign banks rather than state owned commercial banks, thereby increasing competitive pressures in the sector.

4.35 Overall GDP growth has averaged more than 7.5 percent per year during the 2001-2006 period, accelerating from less than 7 percent in 2001 to more than 8 percent in both 2005 and 2006. Capital formation has also grown by about 4 percentage points, from 31 percent of GDP to more than 35 percent. Vietnam's increasing integration into the global economy has also increased inflationary pressures: inflation had risen to the 7-8 percent range by 2005-2006 and even higher in 2007. This will require careful macroeconomic management during the remainder of the PRSCs 6-10 period. The strong links between export growth, the growth of private sector investment and employment, and the growth of infrastructure services suggest that the reforms supported by the PRSC have played an important role in achieving these aggregate outcomes.

How effectively has the PRSC helped advance the dialogue and achieve results in sectors that deliver services to the poor?

4.36 *Objectives and policy content.* The broad sectoral coverage of the PRSC series in Vietnam reflects the preference of the Vietnam authorities for a comprehensive approach to policy formulation and the alignment of the World Bank and other international partners with that approach, first through the Comprehensive Poverty Reduction and Growth Strategy and then through the Socio-Economic Development Plan. As a result, the PRSCs cover some 17 policy areas, which necessarily limits coverage in any particular area. In addition the PRSCs emphasize a consultative approach in which stakeholders in each sector select PRSC policy actions based on the underlying analysis, discussions among international partners, and proposals from ministry authorities. This creates a menu of policy actions which are then vetted through the technical working groups linked with each sector (ministry) and developed in line with criteria of criticality, economic sensibility, and monitorability. This relatively open process has led to a diversity of policy actions, which are all aligned with the underlying sector and national strategies but vary in their entry point to the sector and breadth of impact. The underlying conditions in each sector also have an impact.

4.37 For example, international partners noted a much higher degree of consensus and effective collaboration in the education sector, reflected in the active role played by the Education

Sector Group. Key stakeholders reported less consensus on health policy priorities among international partners participating in the Health Partnership Group. Policy development in the water sector was still more disparate due to an unclear institutional structure on the government side, with different ministries responsible for different, but clearly related, aspects of the sector (Ministry of Agriculture and Rural Development – rural water, Ministry of Health – rural sanitation, Ministry of Construction –urban water supply and sanitation, and Ministry of Natural Resources and Environment – river basin development). The differing structural conditions have strongly influenced the design of PRSC interventions in these sectors.

4.38 The broad sector objectives of the PRSC series in the three sectors were as follows:

- **Education Objectives:** To achieve Education for All by improving access for the poor and other disadvantaged students. To improve education management through attention to sustainable financing and policies to encourage the establishment of private educational and training institutions. To improve educational quality to meet the requirements of sustaining rapid growth.
- **Health Objectives:** To achieve better access to health services for the poor and higher overall quality of health services. To introduce mechanisms for sustainable, affordable health financing.
- **Water Objectives:** To increase Vietnam’s water resources, balancing the needs of economic growth, poverty reduction, and sustainable development. To promote an integrated approach to development of the river basin region in conjunction with Vietnam’s neighbors.

4.39 These sector objectives were well linked with the PRSC’s overall objective of providing a platform for dialogue on growth and poverty reduction policies in Vietnam by focusing on access and quality in education and health and on integrated approaches, including regional partnerships, in the water sector. Policy measures supported by the PRSC series in each of these areas are shown in Box 1, Box 2, and Box 3 below.

Box 1. Education Policy Areas and Actions

Education for All	<ul style="list-style-type: none"> - Adopt Education for All framework to achieve 2015 targets - Increase the budget expenditures for education to 17.4% by 2004 - Issue regulation on inclusive education for children with disabilities - Ensure full access to education services for the poor when the education fees increase, promote scholarships for the students of special social policy and loans to the poor students
Education quality	<ul style="list-style-type: none"> - Adopt minimum quality standards for primary education nation-wide; audit all primary schools against standard quality metric (FSQL) and increase FSQL by agreed percent with faster progress in schools serving the poor - Adopt transparent criteria to decide on university admission quotas on a pilot basis - Mandate full-day schooling at primary level to increase teaching hours and reduce out- of- pocket expenses for poor

Education management	<ul style="list-style-type: none"> - Complete the evaluation of 7% of all teachers based on the new Primary Teacher Profile for career development - Use pilot Medium-Term Economic Framework to prepare sector budget - Implement unified education management information to strengthen education quality
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Box 2. Health Policy Areas and Actions

To improve access to health services for the poor	<ul style="list-style-type: none"> - Establish provincial level Health Care Funds for the Poor to finance out-of-pocket costs for eligible individuals using public health services - Extend coverage of Health Care Funds for the Poor to all provinces with full payment of the central government contribution to such funds - Make health insurance compulsory for the poor, with expanded coverage to include a larger number of persons, and supported by increased budget allocation
To improve the quality services	<ul style="list-style-type: none"> - Employ Medium-Term Economic Framework to address under funding of key programs - Improve budgetary balance between health infrastructure, human resources, subsidies and preventive care - Develop action program for HIV/ AIDS based on public health approach and issue action program for tuberculosis prevention accounting for interaction with HIV/ AIDS - Adopt HIV/ AIDS law and prepare action plans to scale up harm reduction, fight stigma and discrimination

Sources: Government of Vietnam, World Bank

Box 3. Water Policy Areas and Actions

Increase water resources balancing economic growth, poverty reduction and sustainable development	<ul style="list-style-type: none"> - Issue decree transferring management of small-scale, stand-alone irrigation and drainage systems, and secondary and tertiary irrigation systems to water user groups - Assign institutional responsibilities for the implementation of the national targeted program for rural water and sanitation among line agencies and departments under the National Targeted Program, phase II for 2006- 2010 - Develop unified national sanitation strategy and encourage greater commune and private participation in sanitation
Improve river basin management and partnership.	<ul style="list-style-type: none"> - Issue decree for the conservation and sustainable development of wetlands - Enact legal and institutional framework for integrated river basin management

Sources: Government of Vietnam, World Bank

4.40 Both government officials and international partners note that the PRSC is particularly relevant to supporting policy decisions that entail cross-ministerial follow-through once a decision has been made to delineate relevant responsibilities. In Vietnam's highly decentralized administrative environment, implementation of policy actions in the social sectors requires close collaboration with provincial and district authorities. In education, the increase in budget expenditures for education has involved the participation of the Ministry of Education, Ministry of Finance, Ministry of Planning and Investment, and provinces/cities. The promotion of the scholarship system for special students and loans to poor students requires the participation of the Ministry of Education, Ministry of Finance, the Bank for Social Policy, and local authorities for certifying the poverty status. In health, establishment of the Health Care Funds for the Poor in all provinces and full payment of the central government contribution to such funds required participation of the Ministry of Health, Ministry of Finance, and local authorities. In both sectors, the development of the Medium-Term Economic Framework entailed close coordination with the Ministry of Finance. In water, the assignment of institutional responsibilities required the participation of the Ministry of Planning and Investment and the Prime Minister's Office as well as the Ministry of Agriculture and Rural Development, the Ministry of Natural Resources and Environment, and the Ministry of Health; all other actions required the participation of the Ministry of Natural Resources and Environment and the Ministry of Agriculture and Rural Development as well as provincial and local authorities; development of a unified national sanitation strategy also involved the Ministry of Health.

4.41 *Relevance and design.* The inclusion of the education, health, and water sectors in the PRSC series reflected the comprehensive development philosophy adopted for the PRSC after the first PRSC. Education and health were included in PRSC 2 (along with land and environment) and have been represented in all subsequent PRSCs. Water was included first in PRSC 3 but was dropped from PRSC 4 pending the resolution of institutional responsibilities within the Government, an action included in PRSC 5. Delays in the implementation of these responsibilities resulted in another hiatus in coverage of the water sector in PRSC 6. PRSC 7 focuses on this institutional framework in the key areas of river basin development and sanitation. In all three sectors the PRSC is supplementary to on-going Bank and international partner activities in the sector.

4.42 Policy actions in education were clearly linked to Vietnam's Education For All (EFA) goals addressing access of excluded groups and focusing on improved quality in the system. This relevance was facilitated by the good coordination in the Education Sector Group (ESG), which allowed the PRSC to draw on the broader policy agreements between international partners and the Ministry of Education. The focus on funding was very relevant to increasing access and, in combination with the use of the Medium-Term Economic Framework, helped focus dialogue in the sector around the budget as a tool to achieve better results. Vietnam's Education For All strategy has served as a sector strategy framework and focus for the Education Sector Group. Both the relevant Vietnam Development Reports and the Public Expenditure Reviews contained an extensive analysis of education, which, in conjunction with sector project analysis, provided a clear analytic base for the actions selected in the PRSCs.

4.43 The core policy actions in health have focused on the basic issue of creating mechanisms to ensure that poor families have access to health services in the Vietnamese context of substantial private financing of health care (according to the Public Expenditure Review 2000, 80 percent of health spending was already made by households by the 1990s). These concerns were

extensively analyzed in the Public Expenditure Reviews and a health sector review and benefited from technical work undertaken with an Institutional Development Fund grant on financial and expenditure management in health. The inclusion of policy action on HIV/AIDS drew on the preparation of a World Bank investment project and the special emphasis on HIV/AIDS in the Vietnam Consultative Group. This supported the Government in reworking its strategy to deal with the disease at a relatively early stage.

4.44 The few actions related to the water sector in PRSCs 1-5 focused on institutional issues, as described above, and on the issuance of a sector strategy, with provisions to assist the poor in cost recovery arrangements. As institutional responsibilities are clarified, the potential agenda for PRSC support to improved water resources management has expanded. Many potential actions are identified in the PRSC 7-10 matrix, based on the National Water Resources Strategy supported by PRSC 5, with the analytic basis summarized in the Vietnam Development Report 2007.

4.45 In all three sectors, the active commitment of the Government to Vietnam's own Development Goals (VDGs) (based on seven of the Millennium Development Goals localized to Vietnam conditions, with the addition of four additional local goals) underpinned the actions identified in the PRSCs. The Vietnam Development Goals include 32 specific targets under the 11 goals. Three of these targets mapped directly into PRSC policy actions, one in each sector (increasing the quality of education, slowing the spread of HIV/AIDS, and reaching 60 percent rural and 80 percent urban coverage of clean and safe water). In addition the substantial analytic work related to the Vietnam Development Goals conducted by Vietnam's own Poverty Task Force, comprised of relevant government agencies, international partners, and nongovernmental organizations, provided further analytic underpinnings. Overall the PRSC has been an effective mechanism to pin down strategies and actions in each of these sectors, recognizing that the pace and scope of the policy agenda in the different sectors will be influenced by many factors outside the PRSC domain.

4.46 *Implementation.* In all three sectors there were on-going sector investment operations, both under implementation and in the pipeline which covered, in a broader context, the issues singled out in the PRSCs. The 2005 Country Portfolio Review notes that all Bank projects in education and health had components dealing with capacity development. The Bank's portfolio in rural development also provides substantial resources for capacity building in the Ministry of Agriculture and Rural Development. With this active portfolio, there is significant Bank staff involvement in the sector at all levels, from policy discussions to on-the-ground project implementation. Ministry officials confirmed that Bank staff were available when their support was needed in areas such as advising on the formulation of legislation. In most sectors there is one Bank staff person who serves as a link with the PRSC in conjunction with a PRSC team member. However, given the size of the Vietnam portfolio and consequent demands on staff, there can be some difficulty in finding a sector staff member with the appropriate skills to engage on the PRSC (for example, transport was well represented by a DfID-seconded transport economist, but it was unclear who would support the PRSC from the sector side at the conclusion of the expert's contract).

4.47 In addition to Bank resources, there were partnership groups in all three sectors, which provided a forum for the line ministries and all international partners to coordinate technical support. This process worked most successfully in education with good progress toward Sector

Budget Support and other sector-wide approach arrangements. The international partners in education share a common view of sector priorities and are therefore well positioned to support the Ministry of Education in its overall capacity-building needs, including those associated with PRSC actions. In health, such a consensus has not yet evolved but there is a functioning Partner Working Group which can supplement the capacity-building resources available under the Bank investment project, if necessary. Rural water is well covered in the Bank's portfolio of rural development projects, and the Ministry of Agriculture and Rural Development manages an active set of Partner Working Groups in the different subsectors of its mandate, including rural water supply and sanitation.

4.48 During the course of annual PRSC technical working group discussions on the individual policy actions, questions do arise on implementation capacity, and the government agencies use the opportunity to request support from international partners to implement the PRSC-supported sector program (including actions in the proposed matrix for future years). There is also a small trust fund from DfID, which has helped government agencies with resources to implement the PRSC supported sector program. More significant technical assistance requires the concerned government agencies to agree with international partners willing to provide the support.¹⁷ Some international partners, while agreeing that the basic structure for linking PRSC actions and capacity building is in place, suggest that the PRSC could more explicitly identify links between policy reforms and technical assistance/capacity building.

4.49 According to Bank country staff, PRSC dialogue around a specific policy measure is most effective when it builds on an ongoing technical assistance program by one of the co-financiers. This is because those involved in such a program have an in-depth understanding of the key players and internal debates, as well as a detailed knowledge of the draft policy documents. Thus, technical assistance is more than simply capacity building; it has the added benefit of building strong relationships between technical advisors and key counterparts.

4.50 Discussions with government officials in five line ministries indicated a broad consensus on the value-added by the PRSC relative to sector investment projects. Seven factors were mentioned:

- The time frame of the PRSC pushes ministries to complete long pending activities once they are included as a PRSC trigger or to accelerate implementation of new activities; the natural disaster and forestry strategies were cited as examples of the first, while the Medium-Term Economic Framework in health was cited as an example of the latter.
- The PRSC functions as a forum to attract donor support for technical assistance and capacity building; as one official put it, discussions on a technical assistance package had been under way for years, but once the topic was included as a PRSC action agreement was reached, and the technical assistance resources became available.
- The PRSC can be a catalyst for project development; the Ministry of Natural Resources and Environment officials felt that a land project would have never have come to fruition had the issues not received PRSC attention.

17 For example, during the discussions on the water and land use actions/triggers for PRSC 7, the representative of the German aid agency, KfW, proposed technical support to the Ministry of Agriculture and Rural Development for drafting guidelines for forestry development based on participatory land-use planning and independent monitoring.

- The PRSC, with its steering committee chaired by the Deputy Prime Minister, is an effective vehicle to draw attention to coordination issues that need to be resolved by higher authorities, such as the lack of agreement on the ministerial responsibility for rural sanitation.
- The PRSC is an effective mechanism to increase understanding and support for the policies and programs of individual ministries, particularly those requiring support from other ministries (the Strategic Environmental Impact Assessment was cited as an example); this cross-ministerial coordination is more likely for PRSC-supported actions, given the oversight of the PRSC inter-ministerial working group.
- The PRSC facilitated greater understanding around budgeting and other financial issues linking the Ministry of Finance and Ministry of Planning and Investment with particular line ministries.
- The PRSC could scale up to the national level activities that sector investment operations had effectively piloted (the school quality initiative is an example).

4.51 Bank country staff point out that the complementarity between policy reform through general budget support and investment credits runs both directions; often, policy reforms are inspired by successful projects funded by investment credits. For example, the successful experience of the Northern Mountain and Community Based Rural Development projects were most likely the inspiration for the policy reforms that ultimately led to Program 135 Phase II.¹⁸

4.52 *Results and underlying factors.* The PRSC's sectoral objectives were outlined in PRSC 2. In education, the three objectives were: an increase in primary and lower secondary enrollment to 97 percent and 80 percent respectively; a decline in the enrollment gap between ethnic minority and Kinh populations; and higher and more equal outcomes across regions and population groups. Increases in enrollment ratios have (or will be) achieved, with the latest primary ratio at 95 percent and lower secondary at 90 percent, well above the target. The Country Assistance Strategy Completion Report show medium and long-term trends, which confirm a declining gap between ethnic minority and Kinh enrollment ratios; available data confirms this trend during the PRSC period, at least for primary education. The emphasis on higher quality, more equitable outcomes is likely to have been achieved based on the improvements in school quality registered in the school quality program between the baseline in 2004 and subsequent years. Data also show these gains to have been greater in poorer districts.¹⁹

4.53 Overall, progress during the PRSC period was substantial, especially in enrollments, with growth accelerating during the PRSC period. Primary school enrollment increased only 2 percentage points between 1998 and 2002 (88 percent to 90 percent) compared to the 5 percent increase between 2002 and 2005 (90 percent to 95 percent). The acceleration was even more marked in the case of lower secondary enrollment (62 percent in 1998, 72 percent in 2002, and 90 percent in 2005). Comparable pre-PRSC data on school quality does not exist but it seems likely that there had been long-term deterioration until the introduction of the school quality initiative supported by the PRSC (and, of course, other international partner activities coordinated

18 This is a highly lauded program aimed at promoting informed participation and civic engagement at the community level in the Government's poverty-targeted public investment programs, in particular providing small scale infrastructure to minority communities.

19 An investment credit complemented the policy action by supporting the upgrade of primary schools in poorer areas to the new quality standards.

through the Education Sector Group). The 2007 survey on learning outcomes in primary school shows an improvement nation-wide, and for the majority of 63 provinces the improvement is statistically significant.²⁰

4.54 In health, four expected outcomes were identified in PRSC 2: i) a decrease in the infant mortality rate to 30 per 1000; ii) a decrease in the under-5 mortality rate to 36 per 1000; iii) a narrowing gap in survival indicators between population groups and across regions; and iv) improved and affordable health care increasingly available to the poor. By PRSC 5 the third outcome had been replaced by the setting up of a public health approach to tackle the HIV/AIDS epidemic, and the fourth outcome referred only to effective mechanisms to reduce out-of-pocket payments for health services by the poor. Progress in meeting the mortality objectives was impressive, with the infant mortality rate declining from 31 per 1000 in 2002 to 18 per 1000 in 2005 (based on estimates with a significant confidence interval). Under-five mortality also declined from 38 to 24 per 1000. In both cases, Vietnam has already achieved its Vietnam Development Goals targets. Progress on these indicators also accelerated during the PRSC period as the 1998 infant mortality rate had been 37 per 1000, and under-five mortality 48 per 1000. Progress was also substantial following the development of a national HIV/AIDS program, with new AIDS cases registering the first-ever decline in 2004, followed by a continued fall in 2005.

4.55 An array of mechanisms was introduced to reduce the substantial out of pocket expenses paid by the poor for medical services, including compulsory health insurance for the poor with top ups for uncovered amounts by the Health Care Funds. An impact evaluation by the Research Department of the World Bank of the Health Care Fund for the Poor using the 2004 Vietnam Household Living Standards Survey (and therefore covering only one year's experience) suggests that the Health Care Fund for the Poor is well targeted to the poor, with over 50 percent of beneficiaries among the poor. However, it indicates still little impact on out-of-pocket expenses or increased utilization of services for the poorest deciles of Fund users; this suggests that the initial impacts of the Fund on service utilization and cost were greater among those closer to or just above the poverty line than among the very poor. The introduction of compulsory insurance was intended to overcome this difficulty. However, the Vietnam Development Report 2007 indicated that disparities across population groups and regions in many dimensions of health outcomes remain a serious problem, suggesting less progress in this area.

4.56 In water, PRSC 2 identified only the general target that an increased share of the population, including illegal migrants, has access to water, sanitation, and waste services. Progress in this sector appears more modest but still notable, with the caveat that coverage and access data estimates vary markedly across different sources due to divergent definitions and monitoring methods and assumptions. According to the PRSCs 1-5 Implementation Completion Report, overall access to safe water increased from 76 percent in 2002 to 79 percent in 2004, and access to sanitation services from 25 percent to 32 percent. Civil society organization data from the Vietnam Household Living Standards Survey indicates that average national water supply coverage in 2002 was only 48.5 percent and sanitation coverage 25.3 percent. The long term growth rates (since 1993) for water coverage was 7.1 percent per year and for sanitation 10.4 percent per year.

20 The biggest impact on student learning improvement is found in programs that addressed teacher competencies in a whole-school approach. The share of Grade 5 students below functional reading level dropped from 11 percent in 2001 to 9.7 percent in 2007.

However, for rural areas, these data do not include hand-dug wells, which are included in the estimates of the World Health Organization/UNICEF Joint Monitoring Program and result in much higher coverage estimates closer to those reported in the PRSC documents.

4.57 Data from Ministry of Agriculture and Rural Development on the targeted rural water supply and sanitation program for 2003-2004 indicate an increase in coverage in rural areas from 50 percent to 54 percent during that year and suggest an acceleration from the 7 percent per year long term growth rate to almost 9 percent per year during this segment of the PRSC period. Based on the 2007 Country Assistance Strategy Completion Report, it is likely that some progress was made in increasing water services to non-registered migrants in urban areas, but the problem remains a significant one. Lack of clarity on institutional responsibilities has been a key obstacle to faster progress in the water sector. Although not identified as an objective in PRSC 2, PRSC 5 did include integrated river basin development as an anticipated outcome. Progress has been slower than anticipated but, as reported in the status reports for PRSC 7, agency roles in integrated river basin development have now been clarified; however, there has been no official determination of agency responsibilities for the unified sanitation strategy.

4.58 On the financing side, the relatively small size of the PRSC means that it has had little impact on sector budgets through the budgeting process per se. However, in the case of education, the PRSC has played an important role in promoting the increase in education expenditures in the budget from 15 percent in 2001 to almost 19 percent by 2006. The support from the PRSC to the health sector was also cited by ministry officials as a factor in encouraging their proposals to Ministry of Finance for an increased share of budget expenditure. In both education and health and rural water, the Medium-Term Economic Framework has played an important role in providing the information on which to base improvements in expenditure efficiency. The pilot Medium-Term Economic Framework experience has also enhanced the role of the budget as a focus for policy discussion, in addition to the more focused discussions about the budget requirements of PRSC actions themselves as reported by Ministry of Finance officials. Working group discussions around individual policy areas that led up to PRSC 7 confirmed that these fora served to emphasize the role of the budget in policy implementation.

4.59 The PRSC objectives discussed above were all closely linked to increased access to education, health, and water services. Based on these results, the Completion Report for the 2002 Country Assistance Strategy considered that satisfactory progress was made in improving education and health outcomes for the poor and in improving access to social services (including water) generally for lagging regions. Progress in raising outcomes for minorities and the urban poor (a substantial portion of whom are presumed to be unregistered migrants) was assessed as only partially satisfactory. IEG's review of the Country Assistance Strategy Completion Report concurs with these assessments.

4.60 In education, the PRSC proceeded in the context of strong ministry and international partner support to the Education For All initiative and an effective sector working group to coordinate analytic inputs and prioritize sector activities. Most international partner stakeholders and Bank sector staff suggested that the PRSC's role in this context was to pin down implementation of agreed actions. The discussions on the proposed policy actions for PRSC 7 during the technical working group suggest that the PRSC focus on poverty and budget implications serves to help ensure that these factors receive full consideration in policy implementation. In health, where the consensus around policy priorities is less clear, some stakeholders felt that

discussion regarding potential PRSC triggers and actions has helped clarify policy alternatives, without, however, making a significant impact on consensus building. In the water sector, the PRSC has served to highlight the lack of clarity in institutional responsibilities and to help raise the issue to the highest level in Government.

4.61 In the context of the Vietnam PRSC with its broad sectoral coverage, sectoral outcomes will inevitably vary, given the varying structural conditions for dialogue and policy implementation, as well illustrated by the three sectors. The PRSC will “perform” better when there is a clear sector strategy grounded in sound analytic work, consensus among stakeholders including international partners around that strategy, and clear institutional mandates to implement the strategy. But even with one or more of these elements missing, the PRSC process has contributed to identifying gaps and keeping policy actions on hold until the right structural conditions are in place.

ASSESSMENT OF OVERALL OUTCOME

4.62 The broad and inclusive structure of the Vietnam PRSC series sets the framework for an overall assessment. It covers 17 policy areas, involves more than 20 international partners either as co-financiers or as non-financing working group participants, and engages around 30 government agencies in policy dialogue. On the Bank side, the PRSC structure parallels the Bank’s Country Assistance Strategy (which, in turn, is closely aligned with Vietnam’s poverty reduction strategy, originally the Comprehensive Poverty Reduction and Growth Strategy, and, since 2006, the Socio-Economic Development Plan). This entails internal coordination across all Bank sector units and touches, with some notable exceptions, virtually all areas of Bank operational activity in Vietnam. Each set of PRSC policy actions is one of many possible mappings from the policy matrix derived from broad pillars and related development objectives of the Comprehensive Poverty Reduction and Growth Strategy/Socio-Economic Development Plan. Similarly, the intended results chain from the completed policy actions to outcomes and results are not uniquely determined. Both evolve during the course of the PRSC series based on the interaction of changing circumstances, with the choices made by stakeholders. An overall assessment should take this dynamic into account. In addition, the PRSC transfers a relatively small amount of resources (some 2-3 percent of the government budget and 10-15 percent of official development assistance). This limited financial leverage suggests that the incentive for government engagement stems as well from analytic and advisory products associated with, but not necessarily directly a part of, the PRSC. As Vietnam heads toward middle-income country status, these dynamic and knowledge aspects are likely to take on greater importance.

4.63 Three formal assessments of the PRSC series have already been undertaken. The first in November 2006 by Mokoro, Ltd (*Using Aid Well: Experience and Opportunities with Vietnam’s PRSC*) built on the earlier Vietnam Case Study of the Joint Evaluation of General Budget Support 1994-2004. The second, in June 2007, was the Implementation Completion Report for PRSC 5, which looked at the outcome of the entire PRSCs 1-5 series and was reviewed by IEG in September 2007. Finally, the Japanese Banking and Investment Corporation commissioned an independent review of the PRSC series.

4.64 The Mokoro report was commissioned by the Bank but conducted independently and was timed to provide lessons from the first series that could be applied to the second series. With this purpose in mind, the assessment focused more on PRSC processes and complementarity with other instruments, but also included an assessment of progress in PRSC reforms to

determine the effectiveness of the Credit as an instrument. The Mokoro assessment concluded that the PRSC policy dialogue was valued by both Government and international partners and varied in impact across sectors. According to the assessment, the PRSC was most effective in high-level reforms where there was broad commitment and coherence within the sector and least effective where policy breakthroughs were required or involved grass roots programs. This comparative advantage also formed the basis for complementarity with other aid instruments.

4.65 The evaluation noted improvements since the earlier Joint Evaluation case study in the coordination processes by both the Bank in its dealings with international partners and by the State Bank of Vietnam in its relationships with government agencies. It also made suggestions for additional improvements in the consultative processes, particularly in regard to the involvement of Partner Working Groups, strengthening of capacity building linkages, and development of more comprehensive M&E processes (linked to the Government's own M&E activities under the Socio-Economic Development Plan). Given its origins in the Joint Evaluation, the Mokoro report drew relatively more on the process of interaction among international partners and between international partners and Government and on the mechanics of the PRSC as an instrument for that interaction.

4.66 The Japanese Banking and Investment Corporation evaluation uses the OECD-DAC framework of relevance, efficiency, efficacy, impact, and sustainability and applies these to the results chain implicit in the PRSC series. Relevance is based on a review of the set of policy actions as inputs in relation to overall goals of poverty reduction and growth and rated highly; efficiency in terms of the effect of specific policy actions on the 17 policy areas (outputs) is also rated highly. Efficacy is judged by the link between the policy areas as outputs and the three pillars as outcomes and also rated highly, as is impact, defined as the relationship between pillars and overall poverty reduction and growth goals. The main concern raised by the Japanese Banking and Investment Corporation evaluation relates to sustainability beyond the current PRSCs 6-10 series, the question being whether this process will survive as Vietnam makes the transition to middle-income country status and the concessionality of PRSC assistance declines. This is an issue raised by other Bank staff and other international partners as well and suggests that one of the key issues is the evolution of the PRSC as a forum for policy dialogue as Vietnam becomes a middle-income country.

4.67 The World Bank's Implementation Completion Report and the IEG Review of this report rate the PRSCs 1-5 outcomes as *satisfactory*, with low to negligible risk to development outcomes. This is based on an assessment of substantial achievement of objectives under each pillar as measured by performance on 30 indicators identified early in the PRSC series (PRSC 2). Performance on seven indicators was rated highly satisfactory (concentrated in three policy areas – trade integration, health (mortality), and planning processes. Performance on eight indicators was considered only partially satisfactory (three of which related to financial sector reform and the others spread across natural resources and the environment, legal, and anti-corruption policy areas). In addition, the strong overall performance of the Vietnam economy during the PRSC period contributed to the satisfactory outcomes. Growth accelerated by almost 2 percentage points between PRSC 1 and PRSC 6 with improvements in government finances (revenue growth and improved expenditures patterns). Economic management has reacted quickly and effectively to deal with shocks such as avian influenza and commodity price increases.

4.68 The more disaggregated evaluation of performance provided by the Bank's Country Performance and Institutional Assessment ratings confirms this improvement, with a significant increase in the overall Country Performance and Institutional Assessment rating (on an effective scale of 1-5) increasing from 3.4 prior to the PRSC series to 3.9 at the time of PRSC 5. Improved performance was registered in three of four categories (economic management, structural policies, and governance), with a slight deterioration in an already high rating for social inclusion. In economic management and structural policies, gains had already been registered under the first PRSC and were sustained through the PRSC period with structural policies that continued to improve during the PRSC 2 period. This was consistent with the relative emphasis on structural policies in these operations (of course, a relationship of association, not causality). Improvements in public sector governance ratings that related primarily to the quality of budget and financial management, quality of public administration, and improved property rights were more evenly spaced during the whole PRSC period. Vietnam's improved Country Performance and Institutional Assessment ratings, as a set of indicators independent from the PRSC, confirm satisfactory outcomes during this period.

4.69 Two key factors on the government side contributed to this performance. First was the political decision in the 9th Party Congress to pursue vigorously a market-based economy and seek WTO membership within a short time frame. This gave momentum and an external anchor to the overall program. While the decision did not serve to clear the way for every reform, it underscored the Government's determination make significant progress on reforms every year. Officials came to see the PRSC as an instrument that could help deliver on this broad commitment. Second is the high priority which Vietnamese officials throughout the party and government hierarchies attach to poverty reduction, especially in terms of creating an enabling environment in which the motivation for a better life can be the prime mover in lifting families out of poverty. As a result, officials across the Government have been particularly receptive to and appreciative of the poverty-reduction emphasis in the PRSC, increasing its acceptance and effectiveness as an instrument.

4.70 On the Bank and international partner side, two factors that have reinforced the government's commitment have been the flexibility with which the PRSC has been applied and the strong link with high quality analytic work, in particular, though not exclusively, the Vietnam Development Reports. Flexibility has been the key to ensuring that the instrument remained responsive to the Government's perceived mandate to maintain reform momentum and meet external targets such as World Trade Organization membership. High-quality analysis has ensured that the substance of the reforms, although varying across sectors and from year to year, contributes to broad goals and brings added value to policy dialogue at all levels, whether the dialogue specifically relates to PRSC policy actions or is more generally framed around sectoral policy agendas. Balanced against these strengths are the significant demands that the process places on all participants for intensive and rapid engagement during key periods of the annual cycle.

POVERTY OUTCOMES

4.71 *Poverty monitoring.* Vietnam has a regular poverty monitoring system which, since 2002, has been conducted approximately every two years, the Vietnam Household Living Standards Survey (VHLSS). The Vietnam Household Living Standards Survey monitors utilization of social services as well as income/consumption poverty.

4.72 *What happened to poverty?* Vietnam has an extraordinary record in long-term poverty reduction, averaging an annual reduction of 3 percentage points between 1990 and 2004. During 2002-2004, poverty reduction as measured by the Vietnam Household Living Standards Survey accelerated, falling from 28.9 percent to 19.5 percent. While the 2002 Vietnam Household Living Standards Survey may have overestimated poverty due to methodological issues, the reduction during the initial PRSC years is still impressive. Other measures, like food poverty (a more extreme measure), also declined, falling from 10.9 percent in 2002 to 7.4 percent in 2004. Nevertheless, significant challenges remain, especially among ethnic minorities, for whom the decline was much less (from 69.3 to 60.7 percent), with the incidence still extremely high. In 2004, only about one-third of ethnic minorities in Vietnam were able to meet basic caloric needs.

5. Bank Performance

5.1 *Assessment of instrument adequacy.* Although the decision to convert the second Structural Adjustment Credit to PRSC 1 was made late in the process, it reflected an assessment of Vietnam's readiness for a broader policy instrument, based on the progress in discussions with the IMF on the Poverty Reduction and Growth Facility, the process under way in formulating the Interim PRSP, the experience of working with the authorities on the Comprehensive Development Framework, and the joint program of assessments under way on public financial management. Bank staff had also engaged in a multi-year dialogue on the issues covered in the second Structural Adjustment Credit and were well in tune with the level of understanding and commitment of the Vietnamese authorities built up over this period.

5.2 Since the PRSC was conceived from the beginning to complement other sector operations, the decision to include particular sectors was based to a large extent on the sector issues raised in the Interim PRSP and then in the Comprehensive Poverty Reduction and Growth Strategy. The PRSC has emerged as an appropriate instrument for achieving the objective of providing a broad platform for policy dialogue between international partners and the Government around the pillars of the Comprehensive Poverty Reduction and Growth Strategy and Socio-Economic Development Plan. Both the Bank, as coordinator of international partner inputs, and the State Bank of Vietnam, as coordinator of government inputs, have worked to improve the process so that it is more open and responsive to international partners and linked to the relevant agencies and officials on the government side. This evolution has been reflected in a more predictable design framework, in which the expectations of all stakeholders about what the PRSC can and cannot accomplish are more clearly addressed.

5.3 During the PRSC 1-3 period, Bank staff pulled together the three elements to form the basic PRSC framework for all subsequent PRSC operations: first, alignment to an inclusive, growth-oriented poverty reduction strategy with broad-based ownership; second, strong analytic underpinnings for each pillar of the poverty reduction strategy; and third, wide PRSC sector coverage, with flexible formulation of policy actions to accommodate the pace of implementation determined by the Government. This broad framework has proved robust in Vietnam's environment of strong government commitment to reform. Sectoral coverage has expanded

appropriately, from an initial emphasis on transition reforms (PRSC 1) to an emphasis on social sectors, a broad range of governance areas, and sectors directly relevant to pro-poor growth and in line with Socio-Economic Development Plan 2006-2010.

5.4 As emphasized by Bank staff, this comprehensive approach is based on a model of development that recognizes that the process is uneven and, to some extent, unpredictable, at least in terms of identifying where specific breakthroughs will originate. In this context, it may seem surprising that the PRSC does not deal more explicitly with agriculture and rural development, sectors that are featured in the Comprehensive Poverty Reduction and Growth Strategy and Socio-Economic Development Plan, in which the Bank is active and which are critical for income growth of the poor. However, this does not necessarily indicate that agriculture was missing as a priority pro-poor area; rather, the Bank's country team decided that it was better not to revert back to the sectoral focus of Vietnam's five-year plans with an explicit, separate "agriculture and rural development" policy. Instead, actions relating to this area – for example, land use rights, management of tertiary irrigation networks, ownership of local investment by communes, adoption of technical standards for products, and so forth) – were integrated into the overall development strategy.

5.5 Given that the pace of implementation across the 17 policy areas is determined by the Government through its ownership of the reform programs, there is inevitably considerable variation in the "criticality" of the 50-60 policy actions under consideration each year. However, the iterative process that Bank staff have developed with increasingly transparent documentation of the implementation status of individual actions (the so-called "one-pagers") has helped maintain relevance in the evolution of policy actions. The inauguration of an annual "refresher" workshop for participating international partners has also helped improve coordination. Given the alignment of the PRSC with the Socio-Economic Development Plan, Bank staff have chosen to work through the results framework associated with the national plan, especially for purposes of monitoring and evaluation. This is appropriate, as it focuses the attention of all stakeholders on strengthening this aspect of Vietnam's planning process, which has been relatively weak. However, it does mean that the PRSC results framework itself is less developed than it could be if it were promoted separately from the Socio-Economic Development Plan.

5.6 *Capacity assessment and capacity development.* The Bank has largely relied on the structure of Partner Working Group extensive working group structure, which links international partners and line ministries to identify and resolve capacity issues related to individual policy actions. This has resulted inevitably in differential coverage across sectors, with, for example, capacity issues better addressed in education with its pro-active sector working group than in health. Bank sector operations and Bank-administered trust funds have also been a source of support to capacity development. In the core areas of public financial management and PRSC coordination, the Bank has played a more direct role with the core agencies (Ministry of Finance and State Bank of Vietnam) in determining capacity needs and organizing the requisite resources through investment operations, international partner programs, or multi-donor trust funds.

5.7 *Adequacy of Bank inputs.* Bank technical input is highly regarded by both international partners and government officials. Participants recognize and appreciate the high quality of the Vietnam Development Reports and their role in underpinning the PRSCs and acknowledge that this standard sets a high bar for contributions from international partners. Stakeholders also

highly appreciate the overall management of the PRSC process, acknowledging that without the Bank leadership, the process could not be sustained. The continuity of involvement of key Bank staff has also contributed to a high level of technical input. Senior Bank managers have been involved from PRSC 1, as have key staff from the Hanoi office. This continuity has undoubtedly facilitated a trusting relationship with the authorities, which allows the PRSC to be used as a platform for policy dialogue beyond the scope of individual policy actions.

5.8 The core PRSC work is undertaken by Poverty Reduction and Economic Management (PREM) department of the Bank, with its staff responsible for each of the policy areas. PREM staff liaise with, or delegate to, designated sector unit staff to coordinate the Bank's technical inputs to the process. This process works well if the sector unit staff have the right set of skills for policy analysis. But, as several Bank sector managers commented, it is not always possible to find staff with requisite skills that are available during the tight time frame of PRSC formulation. PRSC Task Management avers that this organization of Bank inputs, which relies heavily on a core PREM team with inputs from the sector units, is the only feasible way to keep to the tight time frame across the 17 policy areas. This is undoubtedly valid, but there does appear to be a significant disconnect regarding the PRSC on the part of some sector unit staff and the PREM team which reduces the potential synergies between the PRSC and sector operations. This may reflect the transition of overall country management as well.

5.9 *Resources and incentives.* The PRSC budget is modest in relation to the breadth of the program. PRSC team management maintains that sector allocations of approximately USD 30,000 are adequate to support the requisite sector inputs, but some sector managers/staff regard the PRSC as an unfunded mandate. Given the high proportion of annual disbursements which is accounted by the PRSC and the potential role which the PRSC could play in fostering sector-wide approaches and targeted budget support, the Bank might explore modifications in budgeting. For example, it might consider changes that would provide increased incentive for policy coordination between sector units and PREM without further squeezing an already tight PRSC operational budget.

5.10 *Effectiveness in donor harmonization.* As the PRSC is the only form of general budget support, the effectiveness of international partner harmonization relates more to the role of the World Bank in bringing more partners on board to the PRSC while maintaining its coherence and effectiveness. The Bank's efforts in this area have been substantial and successful, with the number of co-financiers growing three in PRSCs 1-2 to 14 in PRSCs 5-7. In addition, several other international partners are involved in the Vietnam Development Reports and in technical working group discussions on specific policy actions.

5.11 There are trade-offs in this process that need careful management. On the one hand, there must be an openness and flexibility in the selection and formulation of policy actions to accommodate the perspective of different partners. On the other, it is important to guard against the high-jacking of particular policy areas by partners with special interests and to maintain a broad consensus and consistency across policy areas. Inevitably some tensions with particular international partners will arise in this process. Some of these were highlighted in the Joint Evaluation Report, and most international partners agree that, in response, the Bank has improved its leadership of the process through greater openness and transparency. Some international partners would like to see a further delegation to lead donors in particular sectors and increased reliance on Partner Working Groups to conduct policy dialogue. This would seem

inadvisable, given the importance of consistency across policy areas in applying the criteria of criticality, timeliness, and measurability. Current arrangements also facilitate a coordinated overview of the whole program with the national core agencies, the Ministry of Finance, State Bank of Vietnam, and the Prime Minister's Office that will be increasingly important as Vietnam approaches middle-income country status.

5.12 One persistent coordination issue concerns collaboration with apex agencies such as the United Nations and the Vietnam Nongovernmental Organization Center, which themselves represent numerous partners. This process has not worked as well as it should, due partly to the difficulties these agencies face in coordinating inputs from their constituent members within the tight schedules of the PRSC. On its part the Bank needs to explore ways in which it can better accommodate the constraints faced by such apex organizations.

6. Conclusions and Lessons Learned

6.1 The Vietnam PRSC series, having now been operational over eight cycles, can begin to be assessed from a dynamic perspective. The evidence from both other evaluations and from the current review suggests that the PRSCs and related activities and processes have evolved to become increasingly well-suited to Vietnam's economic and institutional context, taking into account financial and political constraints. But that context itself is undergoing rapid change, which emphasizes the importance of continued adaptation and improvement in the PRSC instrument and process.

6.2 *How has this evolutionary process played out thus far, in terms of key achievements, gaps and future challenges across a number of key PRSC aspects?* The alignment of the PRSCs with Vietnam's poverty reduction strategy and the evolution of the poverty reduction strategy – from the Interim PRSP on which the first PRSC was based, to the Comprehensive Poverty Reduction and Growth Strategy as the basis for PRSCs 2-5, to the Socio-Economic Development Plan 2006-2011 as the basis for PRSCs 6-10 – has been an important achievement. The Comprehensive Poverty Reduction and Growth Strategy demonstrated the value of a more open and inclusive planning process; it also clearly linked growth and the contribution of major infrastructure to poverty reduction. Both these developments were supported by the PRSCs and enabled the alignment of the second PRSC series with the Socio-Economic Development Plan, which brought a stronger administrative and political basis to the PRSCs.

6.3 The Socio-Economic Development Plan alignment has also led to a more integrated approach to monitoring and evaluation with the results framework of the PRSCs linked to the process of strengthening monitoring and evaluation for the Socio-Economic Development Plan. Building an operational monitoring and evaluation system for the PRSCs and the plan is still in the formative stage in Vietnam; the integration of PRSC results monitoring with Socio-Economic Development Plan monitoring and evaluation is an important step. Further progress on monitoring and evaluation could be considered one of the highest priorities during the

PRSCs 6-10 series to bring Vietnam closer to the policy framework associated with middle-income country status, to which Vietnam rightly aspires.

6.4 The broadening scope of the PRSC from the six policy areas covered in the first PRSC (private sector development, banking, financial sector, state-owned enterprise reform, public financial management, trade policy) to the 17 policy areas covered in PRSC 5 onwards has enabled the PRSC series to function as a broad platform for policy dialogue in the view of both the authorities and international partners. This evolution of the PRSC content from a preponderance of policy actions related to transition objectives to a roughly even balance among the economic/growth, social development, and public management/governance pillars has operationalized a comprehensive development framework based on the presumption that policies, institutions, and programs are all important and that policymakers cannot easily predetermine the sequence and linkages among these elements. In this way, new circumstances (for example, WTO membership), knowledge, and priorities (for example, the impact of climate change) can more readily be incorporated in a policy dialogue that involves both core and line ministries and most development partners than would be the case if the PRSCs were more narrowly defined.

6.5 This broadening content has proceeded in tandem with the increasing involvement of a larger number of line agencies of Government and an increase in international partners, from four co-financiers in the first PRSC to around 20 partners (14 of whom are co-financiers) in PRSCs 6-7. On balance, the trade-offs involved in having a large and growing number of partners have been effectively managed by the Bank. Inputs from international partners have been facilitated while maintaining the principle that PRSC policy actions should be instrumental in a breakthrough for growth, poverty reduction, or efficiency. The detailed analytic underpinnings of the Vietnam Development Reports and Public Expenditure Review/Country Financial Accountability Assessment with broad international partner participation, combined with the extensive staff commitment of the Bank, have been key contributing factors. The willingness of some international partners, such as DfID, to share in meeting the costs of this process, through trust fund support for analytical work and seconded staff, has certainly contributed to its overall effectiveness.

6.6 The increased coverage of the PRSCs also poses a challenge on the government side with the large number of participating agencies. With the establishment of the PRSC coordination unit of the State Bank of Vietnam mid-way through the first PRSC series, the mechanics of coordination have improved, facilitating greater government ownership of the process. However, the substantive engagement of different agencies remains quite variable. International partners point out that there is often a lack of continuity in the agency representatives at PRSC discussions or representation at a level not authorized to discuss policy options. In such cases, the PRSC objective of providing a broad platform for more transparent policy dialogue would not be fulfilled even if the appropriate messages did “filter-up” to the appropriate staff. In the absence of a systematic monitoring of the consultation process, it is difficult to assess degree to which this problem impacts on PRSC consultations. An annual retrospective on the effectiveness of the process soliciting the input of both international partners and government agencies might be useful feedback for the respective coordination units of the Bank and State Bank of Vietnam.

6.7 In line with the broadening content and increased stakeholder participation, PRSC processes have also evolved toward greater openness and transparency. During the period leading up to the first PRSC, Bank staff had undertaken extensive, largely behind-the-scenes consultations with the Vietnamese authorities linked to the preparation of the second Structural Adjustment Credit. During the initial PRSC operations the PRSC consultations and processes continued to rely on bilateral discussion and agreement prior to dissemination. However, by the end of the first series, PRSC processes had become significantly more transparent and structured around key events, beginning with the identification of proposed triggers and policy actions during the negotiations of the previous PRSC, which involve all PRSC co-financiers, and continuing through structured, open policy discussions in each of the 17 policy areas, which are open to non-financing partners as well. Thus far, these developments have been primarily intended to facilitate inputs from international partners, but the more structured processes also offer a greater opportunity to government agencies to initiate more dialogue with international partners on their own proposals linked to PRSC/Socio-Economic Development Plan goals. The resulting dialogue could expand to include knowledge and technical assistance issues that will increasingly figure in Vietnam's policy agenda as an emerging middle-income country.

6.8 Key lessons that emerge from the Vietnam case study include the following:

- The PRSC process is greatly strengthened through rigorous analytic underpinnings (the Vietnam Development Reports, Public Expenditure Reviews, and other analytical and advisory services) that provide a shared vision of the development agenda and a menu of policy actions linked to the thematic pillars of the poverty reduction strategy.
- Even in a context of high government commitment, fostering a connection to an external anchor (such as WTO accession) can be helpful in maintaining momentum in the reform process.
- PRSCs can function as an effective complement to, and even a catalyst for, sector operations, including the development of sector-wide approaches and sector budget support.
- Broad sector coverage of PRSCs facilitates the use of the instrument as a platform for policy dialogue between international partners and the Government, but requires adherence to tight consultation schedules and rigorous criteria for inclusion of policy actions.
- With large numbers of international partner and government agency participants, responsibilities for coordinating inputs and consultation and maintaining a policy overview need to be closely linked, clearly defined, and adequately funded for both Government and the Bank.
- The success of PRSC engagement and development of high-quality policy dialogue in particular sectors depends on getting and keeping the right staff involved from both the partner and government sides.
- In a country context of rapid growth and evolution toward middle-income country status, the PRSC needs to evolve toward greater reliance on government initiative in setting policy actions in line with the overall poverty reduction strategy and in aligning international partners around general budget support and sector-wide programs.

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Appendix Table 1. PRSC 5 Disbursements by Donor

Donor	From the donor's account	Origin currency	In US Dollars	In VND	Exchange rate
Spain	11/04/2007	EUR 3,001,791.89		65,063,839,216	21,675
Ireland	02/05/2007		3,934,073.14	63,170,037,824	16,049
Danida	02/05/2007		10,736,275.94	172,306,492,561	16,049
Netherlands	02/05/2007		32,010,131.77	513,730,604,777	16,049
DfID	02/05/2007		39,231,457.05	629,625,654,195	16,049
ADB	22/6/2007		15,319,442.12	247,087,281,953	16,129
Australia	25/7/2007		7,739,798.39	124,873,907,224	16,134
JBIC	17/8/2007	JPY 2497502498		346,903,096,972	138.90 VND/JPY
Germany	02/11/2007	EUR 6.003.244,33		139,743,521,514	23,278
EC	08/11/2007		12,351,074.74	198,407,664,623	16,064
World Bank	02/03/2007		102,182,163.84	1,635,434,942,544	
Total			257491723.3	4,136,347,043,403	

Sources: Government of Vietnam, World Bank

Appendix Table 2. Alignment of PRSC Process with Domestic Planning and Budgeting

Month	National Budget/Planning Process— Current Budget Cycle	Annual Plan process	PRSC Process
January 1-31			Discussion on PRSC. Participation of the WB, PRSC Secretariat, the relevant ministries/agencies of the government and various donors (including the donors co-financing the PRSC and non- financing donors).
February 1-28			
March 1-31			
April 1-30			
May 1-31	By the end of May the Prime Minister issues the Instructions on preparation of the annual plan/budgeting		Commitment to PRSC approved
June 1-31	Coordinating with MOF, MPI issues the annual planning framework showing the key planning targets and approach to be taken in the annual planning. This framework serves as the guidance for all ministries/agencies and provinces/cities in preparing annual plans.		
July 1-31	By the end of July the ministries/agencies and provinces/cities send their annual plans to MPI and MOF		
August 1-31			
September 1-30	MPI, in cooperation with MOF, completes the annual national plan based on the sectoral and provincial/city plans and submits to the Prime Minister.		
October 1-31	Prime Minister submits the national annual plan to the National Assembly for approval.		
November 1-30	The National Assembly approves the national annual plan. Prime Minister notifies national annual plan and budget allocation to ministries/agencies and provinces/cities before November 20 th .		
December 1-31	The ministries/agencies and provinces/cities allocate the budget to the spending units.		

Sources: Government of Vietnam, World Bank