

How to track policy reform processes?
-
Monitoring the “Macroeconomic Reform Program” in
Vietnam

Anna-Luisa Peruzzo and Florian Mölders

August 2009

Contents

1 Introduction.....	- 1 -
2 Project description	- 2 -
3 GTZ and Results-based Management.....	- 6 -
4 Measuring objectives in policy-reform processes	- 9 -
5 Result-chains in the “Macroeconomic Reform Program”	- 10 -
6 From result-chains to process-oriented tracking of progress	- 12 -
7 Technical implementation of the web-based monitoring system.....	- 14 -
8 Conclusion.....	- 15 -
Annex	- 16 -
<i>References</i>	- 16 -
<i>Modules and Indicators</i>	- 18 -

1 Introduction

The “Macroeconomic Reform Program” in Vietnam is jointly operated by the German Technical Cooperation (GTZ) and its partner institutions. This short guide¹ provides an overview on the program’s background and goals and discusses its specific monitoring system.

While most guides and reports on how to monitor policy processes stress the importance and difficulty of tracking the path to the actual implementation, recommendations for the implementation of effective monitoring systems² sound quite familiar: policy processes are harder to monitor than business activities or infrastructure projects as external factors contribute significantly to the outcome of the process; a structured monitoring system that takes this process into account and which builds upon appropriate indicators is therefore of particular importance. Indeed, monitoring policy reforms means that decisions by many stakeholders will have to be taken into consideration. This document is meant to give an overview on the activities in the “Macroeconomic Reform Program” of GTZ and its partner institutions. In particular, we emphasize the specific monitoring system with respect to its focus on monitoring the *processes* during the policy reform. This deviates from the conventional system, as the result-chain is adjusted to reflect the peculiarities in advising policy reforms which stem from the non-linear progress made in working with different stakeholders in a policy environment. Another focal point will be the difficulty in observing the actual outcomes in the policy process due to a lag between the use of the output and the actual outcome of an intervention.

This report is structured as follows: chapter one describes the project and summarizes the objectives of its different components. Chapter one gives an overview on the program’s activities and components. Chapters three and four introduce the monitoring policy of GTZ and describe the important difficulties in monitoring policy reform processes. This is carried over to chapters five and six which focus again on the program and its realization in monitoring. Chapter seven summarizes the technical implementation of the monitoring system

¹ This guide has been elaborated by Anna-Luisa Peruzzo and Florian Mölders as part of their internships at the “Macroeconomic Reform Program” in Hanoi. The authors would like to thank Dr. Ulrike Maenner (Chief Technical Advisor of the program) and Nguyen Hai Khuyen for helpful comments on earlier drafts and assistance. For further information please contact Ulrike.Maenner@gtz.de.

² See e.g. USAID (2000)

and chapter eight concludes. For a detailed listing of the Program's components, modules and indicators, we refer to the appendix.

2 Project description

Vietnam's economic development gained momentum with the introduction of the economic reforms (Đổi mới) in 1986 and the country's opening to the world economy during the beginning of the 1990s with the introduction of further economic reforms;³ marked by a boost in foreign direct investment (FDI) and privatization of formerly state owned companies.⁴ This opening was further emphasized by Vietnam's recent accession to the WTO in 2006. Vietnam started to restructure its economic framework more than a decade after China, but now reflects the highest growth rates in GDP in East Asia, together with China, and is on its way to catch up with the other Asian tigers. It has become one of the fastest growing economies in all of Asia with a GDP growth averaging 7.5% over the past decade.⁵ The accession to the WTO and the resulting, intensified integration into the world economy can be evaluated from very different angles: the higher integration with world markets has boosted investors' confidence from other countries and thus FDI, very much like the WTO accession of China in 2001. Furthermore, it has provided better access to foreign markets to Vietnamese producers. At the same time, the opening will also induce stronger competition for Vietnamese producers in the domestic market as cheaper products may crowd out domestic products in agriculture or industry through higher and cheaper imports. Nevertheless, the economic development under the Đổi mới- reforms has helped to reduce the poverty incidence from 58% in 1993, 20% in 2004 to an aspired 10%-11% in 2010.⁶

The high degree of integration into the world economy achieved requires further market-oriented regulations particularly in the key areas of the public finance, the planning and the financial system. This means the design of an adequate framework for the institutions responsible for the budget (Ministry of Finance), for monetary and exchange rate policy and banking supervision (State Bank of Vietnam, SBV, Vietnam's central bank) and for the planning system (Ministry of Planning and Investment, MPI). In particular, the global

³ Hau and Dickie (2006)

⁴ "During 1989-1993, the number of SOEs [*state-owned enterprises*] was halved from 12,000 to 5,800 and was since further reduced to below 3,200 by the end of September 2005" (Hau and Dickie (2006)).

⁵ <http://www.adb.org/media/Articles/2007/12204-vietnamese-poverties-reductions/>

⁶ <http://www.adb.org/media/Articles/2007/12204-vietnamese-poverties-reductions/>; Hau and Dickie (2006)

financial crisis demands competence in macroeconomic management including close coordination between the said institutions in order to strike the right balance between growth promotion and macroeconomic stability in the light of large stimulus packages implemented in 2009 that aim at cushioning the consequences for the private sector and for vulnerable groups and at boosting investments in infrastructure.

The consequences of the world economic crisis (e.g. diminished FDI, decreasing exports)⁷ and the tasks ahead on the path to a deeper integration into the world economy demand for further improvements in the regulatory framework and the budgetary, planning and the financial systems. Therefore, the “Macroeconomic Reform Program” cooperates with various partners of the Vietnamese economic system; among them are the Ministry of Planning and Investment (MPI), the Ministry of Finance and the State Bank of Vietnam (SBV).⁸ To give Vietnam a sustainable perspective in the integrated world economy and to prepare for the upcoming challenges in higher competition, GTZ supports the Vietnamese government in strengthening the regulatory policy framework, reforming the institutions responsible⁹ for the implementation of the framework and in raising the capacity of its partner institutions staff. By 2008, the “Macroeconomic Reform Program” reached its second phase¹⁰ which is scheduled to run from December 2008 until November 2011. The program’s political partner is the MPI, supported by other partners including the Central Institute for Economic Management (CIEM)¹¹ for “Social and Economic Policy”- issues, the Ministry of Finance on “Public Finance” and the SBV for “Financial Systems Development”. The components and their respective goals are defined as follows:¹²

⁷ In contrast to other East Asian economies, Vietnam was not as severely affected by the Asian crisis. Even though exports and FDI inflows dropped, the consequences were quite small (Hau and Dickie, 2006).

⁸ The SBV is Vietnam’s Central Bank.

⁹ These institutions are for example the SBV and the Ministry of Finance.

¹⁰ Phase one was under operation from 2005 until 2008.

¹¹ “The Central Institute for Economic Management (CIEM) is a national institute under the direct authority of the Ministry of Planning and Investment. Its functions are: to undertake research and put forward proposals and recommendations on economic laws and regulations (institutions), policies, planning and management mechanisms, business environment and economic renovation; in addition to research, it gives training and re-training to economic management staff and provides consultancy services in accordance with the laws and regulations.” (<http://www.ciem.org.vn/home/en/home/InfoList.jsp?area=1&cat=5>)

¹² See the appendix for a listing of the respective modules and indicators.

Table 1: Components goals and indicators of the “Macroeconomic Reform Program”**Overall goal of the “Macroeconomic Reform Program”:**

Selected market-economy institutions are better prepared to meet the requirements of an intensified integration into the world economy.

Indicators:

- Vietnamese regulations on banking supervision and monetary policy are improved, attested by article IV-consultations with the International Monetary Fund and other relevant documents (e.g. PRSC-Reviews).
- A WTO-Trade Policy Review or PRSC-Review attest the Vietnamese government compliance to its commitments and abolishment of regulative barriers (especially in the law on investments, the business law and the credit law) for private domestic and foreign companies.
- The amendment of the state budget, as well as additional regulations and decrees, has been passed. They aim at a medium-term financial planning, enhanced fiscal decentralization and first steps towards a results-based budget policy. They define the budget deficit according to international principles and stipulate borrowing-limits for provinces.

Goal of component 1 – “Social and Economic Policy”:

Market-economy oriented concepts form the basis for short-term and medium-term policy advice as well as for long-term socio-economic development planning.

Indicators:

- The results of analysis- and forecasting methods have been considered in the political decision-making process at least three times.
- The draft of a new planning law/decreed has been presented to the cabinet.
- New concepts for two important parts of the economic- and social policy have been drafted.
- The results of an annual exchange of experiences with other WTO members (e.g. on the Sino-Vietnam forum) have been documented and are available to the public.

Goal of component 2 – “Public Finance”:

With respect to budget and fiscal policy the public finance system is increasingly in line with international standards.

Indicators:

- The amendment of the state budget, as well as additional regulations and decrees, has been passed. They aim at a medium-term financial planning, enhanced fiscal decentralization and first steps towards a results-based budget policy. They define the budget deficit according to international principles and stipulate borrowing-limits for provinces.
- The draft of a law on cash-management and a draft on debt-management have been presented to the Vietnamese government for approval.
- A law on the eco-tax reform, which includes international *Best Practices*, has been presented to the parliament.
- The planned expenditures of the decentralized budgets have increased relatively stronger than the expenditures planned (on all levels) in the state budget.

Goal of component 3 – “Financial Systems Development”:

In core areas (capital market and banking sector), the financial sector is better prepared for a deeper integration in the world market.

Indicators:

- Under the framework of a new law on the central bank (which includes a clear mandate for the SBV on monetary policy and increased independence), amendments of its implementation have been drafted.
- The central bank confirms that a significant part of the commercial banks applies the relevant provisions on internal audit and control.
- The volume of company and state bonds which are traded at the Vietnamese stock exchanges has increased by 70%.
- The *Central Credit Fund* and the *Peoples Credit Funds* apply internal and external audits in accordance with the provisions of the Central Bank. A security system has been established for the *Central Credit Fund* system.
- A regulatory framework for the risk management of the business banks has been passed by the SBV.

The objectives and respective implementing partners of the three components are specified as follows:

Component 1 has the objective of developing market-based oriented concepts which serve as a foundation for short- and medium term policy advice and social-economic development planning. Its main partner is the think tank CIEM which advises the MPI, the Prime Minister and the party with respect to economic reforms. First results have been achieved in phase 1

- With respect to the implementation of the company and the investment promotion laws; a level playing field between state-owned and private enterprises has been imbedded as the guiding principles in the implementing decrees.
- A cooperation of the Ministry of Finance, SBV, General Statistics Office, the MPI and CIEM has designed and tested a forecasting model. The results have been presented to the public and have added to make the debate on inflation and growth targets more transparent for the citizen in a time of high macroeconomic imbalances when the world financial and economic crisis was beginning to be felt in Vietnam. Additionally, national and international public debates on matters of current economic policy reforms are now held in an annual forum which was specially designed for that purpose. In 2008, the forum was held under wide participation of a public and ministerial audience.

Component 2 carries on the activities of the concluded project "Support for Reform of the Budgetary System". The predecessor enabled the improvement of fiscal laws from 1996 until 2002. Additionally, an enhanced fiscal decentralization has been established with which provinces, cities and local authorities now can operate their own budget more autonomously. The project has supported this development by advising on the respective legal framework. Phase 1 included further consultation in laws and various regulations for medium-term fiscal planning, liquidity-, credit-, debt-, investment and expenditure management. The first draft of the amendment of the state budget law (regulating the budget system) includes the binding introduction of medium-term fiscal planning and will be presented to the National Assembly in first reading in 2010. Further legal regulations on debt and cash management, as well as a regulation on the harmonization of the planning procedure have been introduced and will be passed in the second phase of the project. The finances of provinces and communities have been strengthened. Allocations by the finance minister are now based on cost norms which take poorer provinces into higher account.

Component 3 succeeds the project “Support for the reform of the banking sector” which was operational from 1993 until 2006. The most crucial changes, which were necessary in the regulatory framework of the financial system after accession to the WTO, have been launched by the government and the party. Furthermore, an internal audit system has been established in most of Vietnam’s banks on the basis of a regulation of the SBV, which demands adherence to international standards. Additionally, the introduction of monetary instruments (such as open market operations which were introduced in the predecessor project) has helped to prevent a financial crisis in 2008. The Vietnamese capital market has only started to grow into international standards in this decade as the country’s first stock-trading center was established in July 2000 in Ho Chi Minh City which has since transformed into the Ho Chi Minh City Stock Exchange (HOSE). Additionally, the Hanoi Securities Trading Center (HASTC) started operations in March 2005. GTZ has provided advice and support for the Vietnam Securities Depository (*Clearinghouse*, established in 2005) in issuing regulations for its organization and operation. The amount of traded securities at the stock markets in Hanoi and Ho Chi Minh City has increased from 220 in 2007 to 376 in August 2009 and the volume of trade accounts for an average of 1,900 Mrd. VND per day.

3 GTZ and Results-based Management

“The process of getting from program activities to intended impacts involves a number of intermediate steps. These intermediate steps are in turn linked to each other through a series of cause-and-effect relationships represented by a *causal chain*.” (USAID, 2007)

Not just since the key shift towards enhanced aid effectiveness in the Paris Declaration has the monitoring of results in development cooperation become a technical imperative for development aid agencies.¹³ Results are thereby defined as the changes that are attributable to a certain activity of a program. An effective monitoring system thus does not merely represent a controlling instrument but more a tool to evaluate the results of a specific action. In order to properly monitor the results, the intended targets/goals have to be determined, and the needed changes to get to these results need to be specified. The current recommendations from GTZ

¹³ For further information on impact evaluation in the context of the German Development Cooperation, see Caspari and Barbu (2008, p. 2).

for a results-based monitoring include these steps which together form a result-chain that illuminates the complexity involved in the monitoring process. Causal relationships between the elements of a program are defined.¹⁴ They consist of:¹⁵

- The **core problem**: States the central problem in governmental/institutional capacities and justifies the program or intervention.
- **Activities**: Are generated by human and financial resources from GTZ and its partner institutions to produce outputs.
- **Outputs**: Result in the short-term which are provided to actors in order to generate changes to achieve the outcomes. This generation process is referred to as **use of outputs**.
- **Outcomes**: Direct result from the respective project that is attributable to the outputs produced and used by intermediaries and target groups.
- **Impact**: Long-term effects which are no longer directly attributable to the program itself but are also influenced by external factors. This leads to a distinction into direct and indirect benefits. Impacts are considered to be long-term effects and cause the **attribution gap** due to the indirect influences.

In order to analyze whether activities have achieved their respective objectives, indicators have to be chosen which refer to previously specified key changes. Indicators can be classified into two groups:¹⁶ (1) indicators of the achievement of objectives and (2) process indicators. The former group refers to binding standards for the measurement of objectives at the outcome level. The latter define indicators for milestones¹⁷ which lead to the overall objective and mirror changes in the implementation phase of the program. Measuring these indicators can either be conducted with quantitative or qualitative methods, as well as a mixture of both, which reflects key figures as well as descriptive evaluations. In deciding on either of these methods, the respective advantages and disadvantages have to be taken into account: quantitative indicators for example can objectively monitor the progress by providing comparative figures but nevertheless carry no comprehensive information on how processes were managed.

¹⁴ GTZ (2009)

¹⁵ GTZ (2008)

¹⁶ GTZ (2008)

¹⁷ Milestones are process-based sub-indicators, mainly on the “output” or “use of output” level.

The next example on education helps to illustrate the idea, which is universally valid with respect to indicators and expected outcomes:

Table 2: Example of a quantitative indicator

Outcome	Indicator	Baseline	Target
Nation's children have better access to preschool programs.	1. Percent of eligible urban children enrolled in preschool education.	1. In 1999, 75% of children ages 3-5.	1. By 2006, 85% of children ages 3-5.
	2. Percent of eligible rural children enrolled in preschool education.	2. In 2000, 40% of children ages 3-5.	2. By 2006, 60% of children ages 3-5.

Source: Kusek and Rist (2004).

Performance is tracked with the indicators for preschool enrolment of urban and rural children and compared to the baseline data at the beginning of the program. The targets are easily comparable to the actual numbers in any given year due to the quantitative approach chosen in this example. The quantity's nature of the indicator prevents an all too subjective monitoring due to unclear, descriptive measurements.

According to the initiative on results- management of the Donor Committee for Enterprise Development (DCED), indicators should at least fulfill the following, universal criteria in order to properly assess the success of a project:¹⁸ **(1)** for every key change, there should be at least one indicator which measures its respective success; **(2)** three indicators measuring the outreach, the additional net income and net FTE (full-time equivalent)¹⁹ jobs created should be included and **(3)** the sustainability of the project/program has to be measured with appropriate indicators. Most importantly, the amount of indicators used for the assessment should be minimized. This can be accomplished by concentrating on the most relevant indicator in each "key change" only.

¹⁸ DCED (2009)

¹⁹ "Figures for the number of persons working less than the standard working time of a full-year full-time worker should be converted into full-time equivalents, with regard to the working time of a full-time full-year employee." FTE jobs may be calculated as follows: (Days x Weeks)/Days in a Year = FTE (DCED, 2009).

4 Measuring objectives in policy-reform processes

Policy reform processes are complicated and enriched by the different perspectives and needs of multiple stakeholders. The very nature of the process is oriented in the long-run and paved by numerous milestone events that eventually lead to the actual implementation of the reform. The milestone events which structure the process into events like public, group or executive debates on drafted proposals in the policy adaption stage have to be closely monitored in order to quantify and qualify the results that are then carried on into the implementation phase of the program. At this stage, further progress is often hindered by conflicting interests of the respective stakeholders. Some groups may oppose the proposed policy if they benefitted from the preceding framework, whereas others may claim it to be there area of competence and demand more intensive involvement in the process. Reforms may change the allocation of financial resources and affect personal agendas. Thus, compromises have to be made for those groups whose situation is likely to be deteriorated by the policy.²⁰ The responsible manager (or Chief Technical Advisor (CTA)) has to take into account the political framework under which the policy is to be implemented (executive, legislative and judicial competencies), in order to delegate and communicate during the process.²¹ Therefore, the political environment under which the policy-reform is conducted is an important variable. Additionally, the media as well as the lobby and social system and political parties are likely to be diverse and changing in the partner country.

Another crucial trait that marks the monitoring of policy reform processes is the inability of observing the actual outcome and impact of an activity-generated output. In most cases a program ends before the result is visible. The output is used by the respective partner institution which signifies the end of the program but not the end of the policy reform process. The actual outcome is lagged as is critically depends on other stakeholders in the process that can alter the expected result. A monitoring-system that observes the outcome after the termination of a program is often not feasible due to cost- and time constraints.

²⁰ A draft law already finalized to be submitted to the parliament might be withdrawn and referred back to the ministry to further accommodate changes desired by certain interest groups.

²¹ USAID (2000). Project interventions may take place at each stage of the process in order to advice the desired outcome. The role of the CTA is to design the interventions in such a way that the (changing) political environment is taken into account.

Box 1: “Support to the Economic Reform in Vietnam”

In order to illustrate the characteristics mentioned in connection with the problems that occur for the monitoring system in a policy reform process, we introduce the following example:

Program: “Support to the Economic Reform of Vietnam”, duration: 10/1993 – 03/2003

Goal: Increased competence of selected staff (CIEM) in key areas of economic policy administration related to market-economy regulatory principles and steering mechanisms to support the decision making process in current topics on economic policy.

Measuring the outcome:

The project advised together with UNDP on the contents of a company law. After the company law was enacted in 1998, its operation started in 2000.

“It basically institutionalized and translated into reality the freedom to choose the type of enterprise, the freedom to establish enterprises, the freedom of organization and management, the freedom to choose the scale, location and trades, except for those that are prohibited by the law. What is remarkable is that the above freedoms were institutionalized, and mechanisms were framed so that the citizens can really enjoy and put into effect these rights.” (Tuan and Chung, 2003).

As a result, non state investment (e.g. investment of the private sector) increased its share of total investment from 22.6% in 2001 to 33.6% in 2006. This shows that a key outcome of the law could only be fully assessed after the project was finished (in 2003).

Sources: CIEM (2007), GTZ (2003), Tuan and Chung (2003)

5 Result-chains in the “Macroeconomic Reform Program”

Following the goals and indicators described in table 1 of chapter two, the three components of the “Macroeconomic Reform Program” and its main goals are structured into result-chains. These chains play an important role in order to connect the various actors (GTZ, SBV, CIEM etc.) into a results-oriented unit:

- **Component (1), Economic and Social Policy**, concentrates on the use of national experts. In selected areas, inputs based on Vietnamese know-how are complemented with international know-how via international experts and selected study tours to Germany as well as other countries for elaborating analyses, concepts and studies (e.g. for improved participatory planning, for combating inflation). These **outputs** are then **used** by the MPI and the Prime Minister to adjust regulatory measures of the socio-economic development planning to the market-economy framework and to improve strategic processes for macroeconomic management (**use of output**). This leads to “market-economy oriented concepts [which] form the basis for short-term and

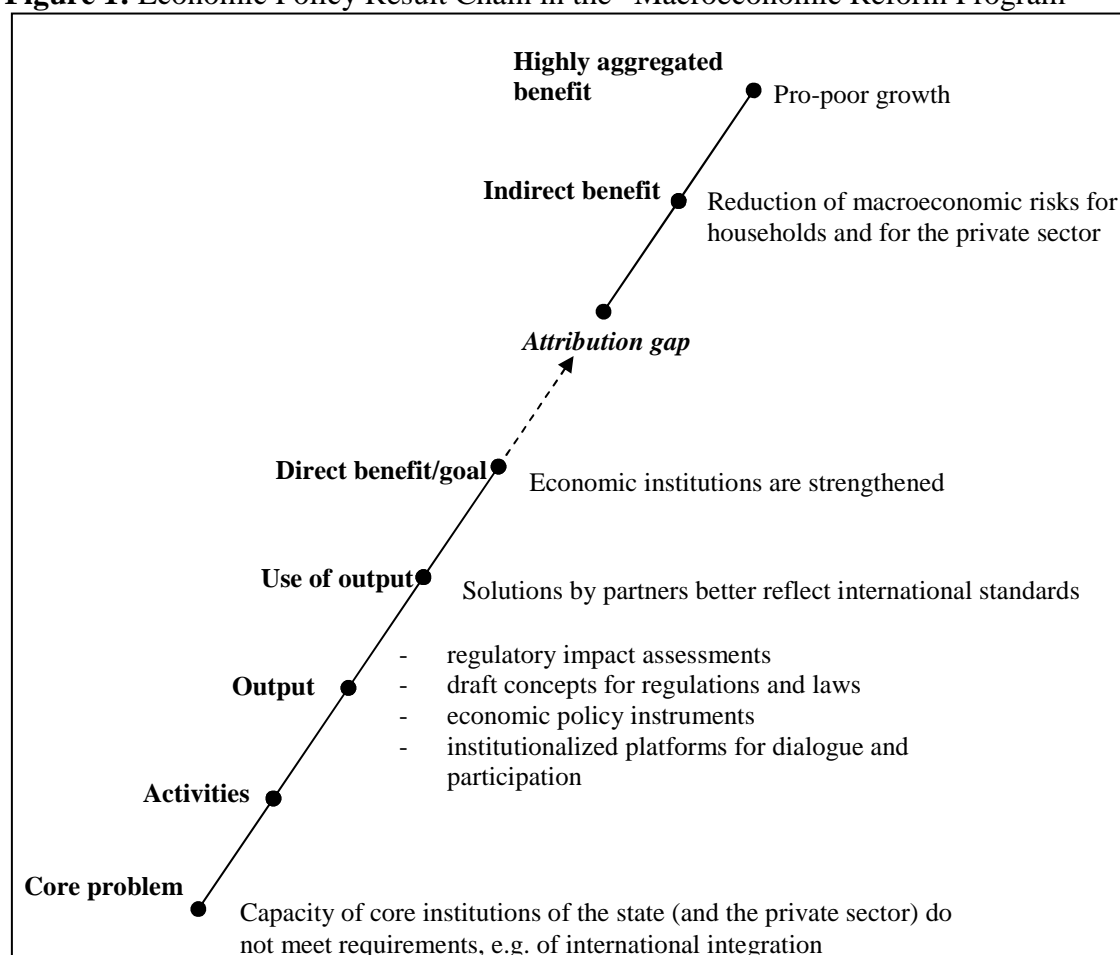
medium-term policy advice as well as for long-term socio-economic development planning” (see goal of component 1 in table 1).

- **Component (2), Public Finance,** continues its consultancies (including comments on draft laws and regulations), study tours and trainings in selected areas of budget policy and in the area of an ecological tax reform. These **outputs** are **used** by the Ministry of Finance and other governmental institutions to redraft the state budget and to elaborate respective laws on cash and debt management for presentation to the government. Furthermore, a draft of a law on an ecological tax reform is under development in cooperation with the Ministry of Environment. This is expected to lead over to the direct **goal** of the component (see goal of component 2 in table 1).
- **Component (3), Financial Systems Development,** conducts consultancies, workshops, analyses and study tours, and training to convey international knowledge and to enhance the development of concepts for the required regulations (law on the central bank, banking supervision, development of the bond market, risk management in the banking sector) (**output**). These are then used as inputs for drafting laws and decrees for the parliament and for the governor of SBV respectively (**use of output**). The passing of the laws and decrees is seen as a precondition for the financial sector to better compensate the risks of an opening of the market and, at the same time, make use of an intensified integration into the world economy (**direct benefit**) (see goal of component 3 in table 1).

The interaction of the three components and their main goals leads to the improvement of market-based institutions in Vietnam and thereby to a better preparation for a deeper integration into the world economy. Indirect effects, such as lowering macroeconomic risks for the private sector and macroeconomic stability are the results of the respective enhancements of the three components. Furthermore, the capacities of the partner institutions (CIEM, Ministry of Finance, etc.) are enhanced to improve the quality of their own policy advice and the implementation of policy reforms and to guarantee sustainability of the program. Cooperation among these institutions is also intensified. In order to illustrate the results-chain in the “Macroeconomic Reform Program”, the following figure provides a stylized result-chain that reflects the directly observable events (activities, output and use of output) as well as those characteristic of policy-reform processes, such as the indirect benefits.

This is a good illustration of a result-chain, as it differentiates between the events that are observable during the program and the ones that occur afterwards which then lead to complications in the monitoring:

Figure 1: Economic Policy Result Chain in the “Macroeconomic Reform Program”



Source: internal project documents and own illustration

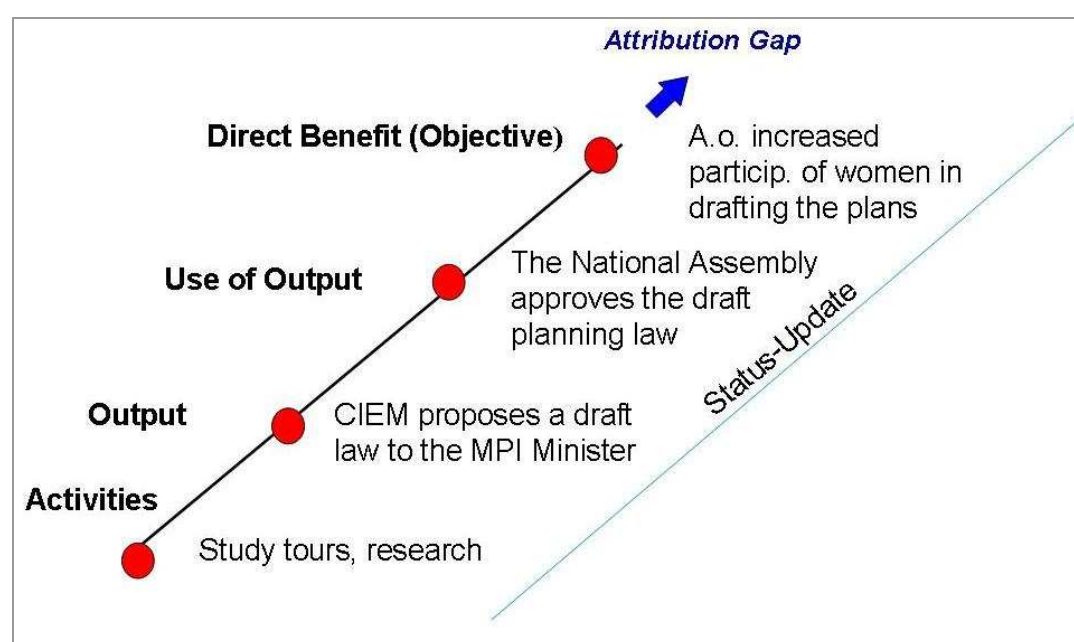
6 From result-chains to process-oriented tracking of progress

In 2008, phase two of the “Macroeconomic Reform Program” was launched and with it a new way of monitoring the results and tracking the progress. Formerly, result-chains, which reflected the systematic plan by which inputs are converted into outputs and then used by the partner institutions, were the standard.²² This system has proven to be cumbersome for senior officers responsible for the monitoring of “their” module as it often did not reflect the actual policy process in which the reforms were supposed to be implemented. Under a policy framework, the use of the output is left to the political decision makers. Laws, for example,

²² Separate result chains with indicators on all levels for all modules (themes) of the project had been elaborated.

can be passed or be rejected if the national assembly or the parliament decides against the proposed version which was drafted in connection with the project partners. Then it is referred back to the administrative level. This may lead to more activities and the project is back to the level below the outputs. This created confusion for the staff responsible for the monitoring. Therefore, a report based on processes or milestones has proven to be more convenient as it fits in better with the political processes involved. As a consequence, the result-chain reports were replaced by “summary” or “milestone” reports for each module (each module in a component has at least one indicator) that reflect the lawmaking processes and adjust to any changes in the main indicator as well as successes and failures with a detailed description on the respective causes. It should also describe how outputs of the project have been used by the partner institutions. Summary reports are updated twice a year by the senior staff responsible for the modules and shall reflect the current status with reference to the indicator. The summary reports source their information from mission reports elaborated by project staff and from experts’ reports. These two sources provide the responsible monitoring staff with the background information needed for the summary report. On the basis of the summary reports, the CTA, responsible for the implementation of the program, reports annually to the donor, i.e. the German Ministry of Economic Cooperation and Development (BMZ). In the “Macroeconomic Reform Program”, the schematic process-oriented tracking system with its different components in phase two looks as follows:

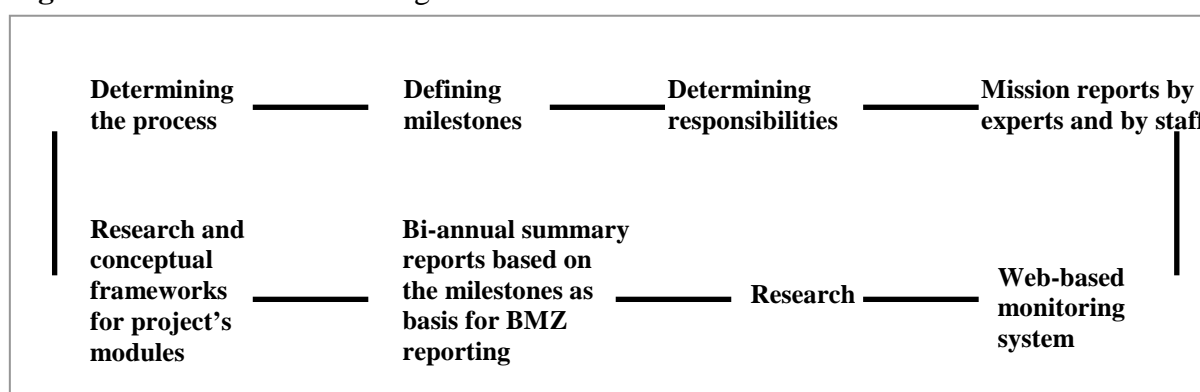
Figure 2: Process-oriented tracking of progress



Source: internal project documents

What this illustration makes clear, is that the process-oriented tracking leads to a constant update of the status on any stage of a module. The causal-chains, embedded into the result-chains in the project proposal, still serve as guidelines that are aimed to lead the way to the objective. Only the monitoring system needed to be modified in order to reflect the characteristics of the policy reform process. The steps that are needed for a process-oriented tracking of the progress are shown in the next figure. These steps are not meant to be in a chronological order as this way of monitoring demands a constant updating process. Thus, the indicated steps reflect a “circle” of monitoring events:

Figure 3: A circle of monitoring events



Source: own illustration

During its second phase, the monitoring system continues to be web-based, like it was the case during phase one. The next chapter further describes this system and gives a short summary of its core functions.

7 Technical implementation of the web-based monitoring system

The monitoring system at the “Macroeconomic Reform Program” has been web-based since phase one in 2005. Access to the system for external experts, national staff and the CTA is provided via the homepage of the program²³ and anyone who is registered as a user is able to view the current monitoring reports. Phase one, with its result-chain reports as well as the second phase, with its summary reports, build upon sub-module and mission reports that provide the needed information for the final (summary) reports. The “smaller” reports are continuously updated by the respective components’ staff and incorporate any activity (input) which is then documented via uploaded files or directly entered into the web-based system.

²³ <http://www.macroreforms.org>

As an example, let us consider component 1 (“Economic and Social Policy”) of the program: it consists of different sub-modules that contribute to the overall goal of introducing market-economy oriented concepts that form the basis for short-term and medium-term policy advice as well as long-term socio-economic development planning. These modules include, for example, the drafting of a planning law/decreed for Vietnam or economic forecasting and an annual forum on the economic situation. The monitoring- corner stones of these modules are the summary reports which are recorded by the staff being responsible for the components. As implied by their name, the summary reports comprise all the relevant information, with respect to the progress made. They also point out weaknesses and strengths of the module that have become apparent during the process. If possible, the summary reports should include recommendations made by external experts and the role of participating partner institutions.

The module “Economic forecasting and annual economic forum” is divided into two themes: “Economic forecasting” and the “Economic forum”. Both themes are further disaggregated by milestones which describe the steps needed to implement the aspired forecasting model/economic forum. Whenever the partner institution or an external expert finishes a mission, which could comprehend a study tour or a workshop, it is possible to upload a mission report to feed information into the monitoring system with which the responsible senior program officer can compile the final summary report. Therefore, these “activity-oriented” reports are essential for the knowledge management of the program and help the staff in charge to report their results. The system of updating the summary reports directly reflects the monitoring system, which refers to process-chains instead of result-chains as the political process is better incorporated and the structure becomes more flexible.

8 Conclusion

The tracking of results in policy-reform processes is a challenge in itself. Stakeholder interests have to be taken into consideration and at the same time, the results have to be monitored as accurately as possible. The “Macroeconomic Reform Program” of GTZ and its partner institutions has implemented a web-based monitoring system that builds upon information which is computerized into the system via sub-module and mission reports. The process-oriented tracking with the use of summary reports has proven to be a convenient way to mirror the policy framework under which the program has to operate.

Annex

References

- Caspari, A. And R. Barbu (2008): “Wirkungsevaluierungen: Zum Stand der internationalen Diskussion und dessen Relevanz für Evaluierungen der deutschen Entwicklungszusammenarbeit”, Evaluation Working Papers, Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung, Bonn.
- CIEM (2007): “Vietnam’s Economy in 2006 – A reference book”, Central Institute for Economic Management, Hanoi.
- DCED (2009): “DCED Results Measurement Initiative – An Introduction for Programmes”, Donor Committee for Enterprise Development, Cambridge, UK.
- GTZ (2003): “Schlussbericht zur Durchführung des Vorhabens: Unterstützung der vietnamesischen Wirtschaftsreform“, German Technical Cooperation, Eschborn, Germany.
- GTZ (2008): “Results-based Monitoring – Guidelines for Technical Cooperation”, German Technical Cooperation, Eschborn, Germany.
- GTZ (2009): “Recommended Standards for Results-Based Monitoring of Economic Policy and Private Sector Development Programmes”, German Technical Cooperation, Eschborn, Germany.
- Hau, Chu Thi Trung and Paul M. Dickie (2006): “Economic Transition in Vietnam: Doi Moi to WTO”, Asian Development Bank, Manila.
- Kusel, J. Z. and R. C. Rist (2004): “Ten Steps to a Results-Based Monitoring and Evaluation System”, The World Bank, Washington D.C.

Tuan, Vu Quoc and Nguyen Dinh Chung (2003): “Developing various types of enterprises”,
in: Dinh Van An (ed.) *Developing the Socialist-Oriented Market Economy in Vietnam*,
Central Institute for Economic Management, Hanoi.

USAID (2000): “Monitoring the Policy Reform Process”, U.S. Agency for International
Development, Washington D.C.

Modules and Indicators

In the following, we break down the three components into its respective modules and sub-modules and we refer to the indicator that is reflected by each module. The latest summary report is shown to give an idea of how the process-oriented tracking is registered in the monitoring system. In order to navigate through the various modules of the Programs' components, an index and a schematic overview are also presented in the following.

Key terms

Component	The “Macroeconomic Reform Program“ consists of three components (“Economic and Social Policy”, “Public Finance” and “Financial Systems Development”), each structured into different modules.
Module	The modules are aimed at organizing the components into comprehensible units. Each one is reflected by an indicator.
Sub-module	For some modules there are further classifications into smaller units. Each one is reflected by an indicator.
Milestone	The milestones are process indicators to monitor the steps of the law making process.

Index of the Program's components and modules

Component 1: Economic and Social Policy

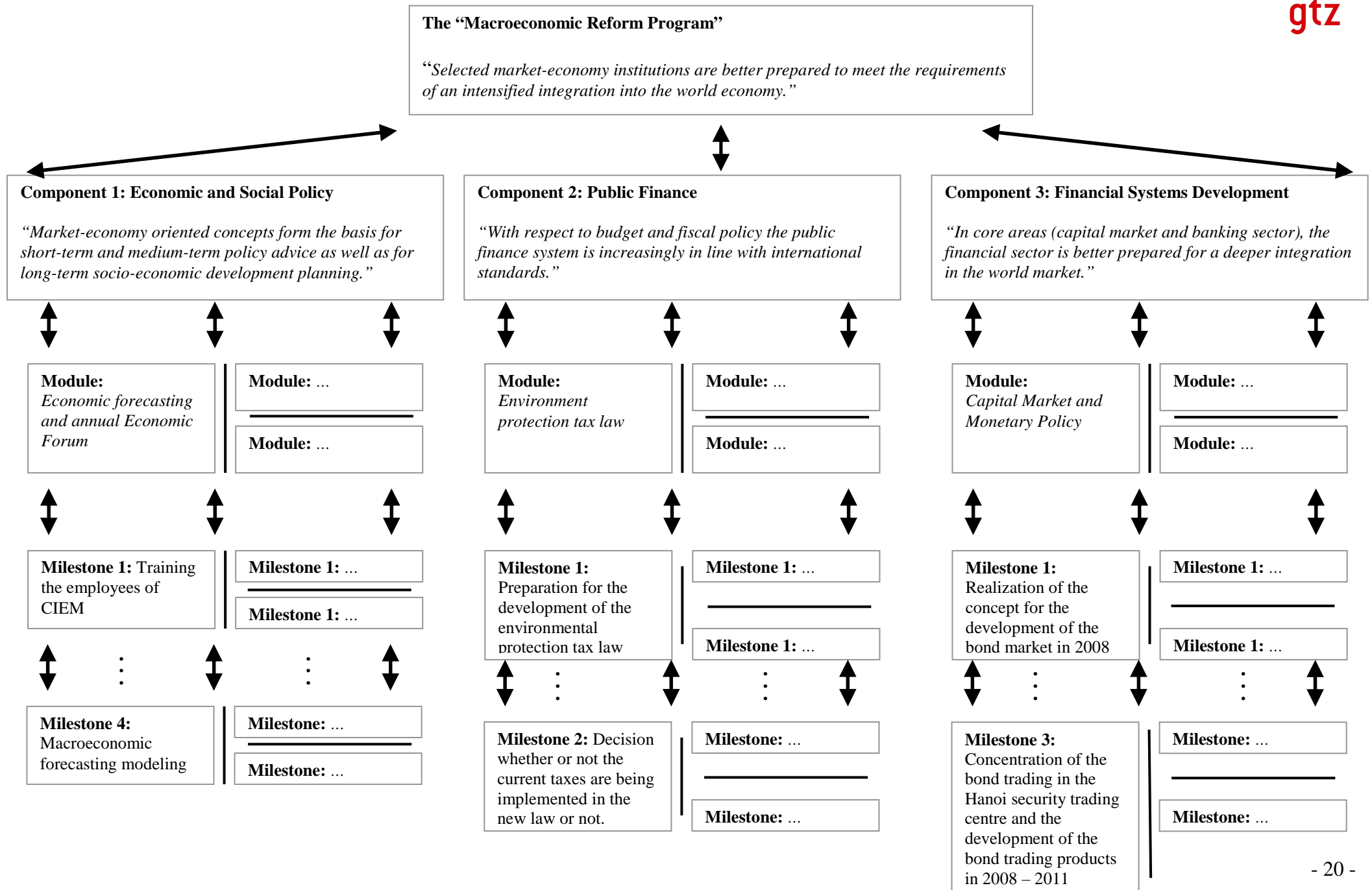
- └ **Module:** Economic forecasting and Forum
 - └ **Module:** Planning Law or Decree for Vietnam
 - └ **Module:** Concept Paper/Regional Policy
-

Component 2: Public Finance

- └ **Module:** Environment protection tax law
 - └ **Module:** State Budget Law
 - └ **Module:** Law on cash management
 - └ **Module:** Law on public debt management
-

Component 3: Financial Systems Development

- └ **Module:** Capital market and monetary policy
- └ **Module:** Central Bank Reform
- └ **Module:** Restructuring of Commercial Banks
- └ **Module:** Support for the PCF system



Component 1: Economic and Social Policy

Module: Economic forecasting and annual Economic Forum

Sub-Module: N/A

Indicators:

The results of economic analysis and forecasting methods have been considered for policy-making at least 3 times, for example at the annual economic policy forums or in a speech of the prime minister to parliament.

Summary Report:

The government and the Parliament showed in the past time that the forecasting work is still the least developed element in Vietnam's policy.

In several ministries like the MPI, the MoF and the SBV and some research institutes small forecasting groups are established. There simple forecasting models are used.

The forecasting group of CIEM has been supported by GTZ experts for many years. Their forecasting model is more complex than the other and it provides results which are closer to reality. Nevertheless, the results are not directly taken for the economic planning of the MPI and the government.

A forecasting group between CIEM, MoF and SBV was established with the support of the GTZ. Nevertheless, the cooperation does not work as good as wished. Soon there will be a department for forecasting and statistic be established. The division of labour between the departments of the MoF is still ambiguous.

With the support of the GTZ, several training courses have been performed for employees of CIEM, SBV and MoF concerning econometric modelling. The forecasting model of CIEM was supplemented by an error correction method. The model was tested and the data base as well as the processing was improved.

So far two Economic fora were organised one in 2007 one in 2008. In 2008 the forecasting results for 2009 were presented for the first time at the economic forum. The content of the economic forum will be more comprehensive and covers the most important economic policies in Vietnam like monetary and fiscal policy, social policy, etc.

Theme 1 in Module/Sub-module: Economic forecasting

Milestone 1: Training the employees on forecasting

- Training the employees of CIEM (adoption of the error correction method)
- Training the employees of the SBV on inflation forecasting by means of seminars and internships

- Training the employees of MoF on the tax forecasting and on the mid-term budget planning as well as basis courses on econometric and E-View programming

Milestone 2: Cooperation the working group “Forecasting”

- Determination of the means of cooperation between the new forecasting department of the SBV and CIEM
- Renewed establishment of the working group
- Regular and topic related cooperation of the working group

Milestone 3: Improvement of the data base

- Improvement of the coordination between the general statistics office(GSO), the SBV and MoF
- Provision and extension of the data, especially the quarterly data
- Processing of the data through the forecasting working group

Milestone 4: Macroeconomic forecasting modeling

- Implementation of the error correction method for the current structure model of CIEM
- Implementation of an appropriate model for the inflationary and monetary forecasting
- Implementation of the methods for the tax forecasting and for the mid-term budget planning as far as the budget and experts are available.
- Preparation and realization of the macroeconomic modeling on the basis of quarterly data in order to realize short-term forecasting.

Theme 2 in Module/Sub-module: Economic forum

Milestone 1: Economic fora

- Economic forum in 2009
- Economic forum in 2010
- Economic forum in 2011

Milestone 2: Improvement of the content and the use of the forum results

- Extension of the content of the forum to further important policies in Vietnam without losing its focus on to so-called “hot topics”.
- Setting the date for the forum with attention to the important political decision making processes.

Component 1: Economic and Social Policy

Module: Planning law or decree for Vietnam

Sub-Module: N/A

Indicators:

A draft of a new planning law or decree for Vietnam has been submitted to Cabinet for approval, defining the functions at national and sub-national level, allowing for participatory approaches also on the local level, promoting public-private partnerships; and the implementing guidelines have been elaborated.

Summary Report:

The idea of drafting a decree for the socio-economic development was put forward in 1995. A recent version of the draft of the decree for socio economic development was prepared to submit to the government in 2005 and the draft planning law in 2007.

Vietnam joined the WTO in 2007, since then some very important laws have been adopted. This was the reason for the decision of the National Assembly not to include the consideration and approval of the draft planning law in its 2007 legislative program. Due to this situation, the resolution No. 02/2008/ND-CP on 09.01.2008 was unanimously adopted by the Government. Following the No. II (2a) the MPI has the function to draft a decree about the formulation and the monitoring of the implementation of socio-economic development plans (SEDPs). Under the decree No. 857/QD-BKH of the MPI minister from the 09.07.2008, a committee for the drafting of the government decree was formed. The chairmanship has the Policy Principles Directorate of the MPI with the participation of the directors, the vice directors and manager of the department for institutions of CIEM as well as representatives of the MoF, the Ministry of Justice and offices of the government.

In 2006 and 2007 Component 1 of the Macro Economic Reforms Program supported various activities of CIEM like studies, business trips and workshops. The activities serve the drafting of draft law. An extended draft law was passed on to the National Assembly.

In 2008, the implementation of the Module on the Planning Law is relevant to the following departments of CIEM: Department of Economic Institution, Department for Macro Policies and Department of Rural Development. Under this Module, there have been research and seminars on the budgeting and planning processes in local areas such as in provinces. The activities gave an overview on the situation of the planning in provinces. This was supported by the GTZ through field trips, studies and seminars, where the analyses and assessments are important elements for formulating the decree.

Theme 1 in Module/Sub-module: Establishment of a decree for the implementation and monitoring of socio-economic development plans

Milestone 1: Development of the Work program for the Committee

- Development of the work plan with comments from CIEM experts
- Passed by the Minister of MPI

Milestone 2: Draft of the decree for formulation and monitoring of implementation of socio-economic development plans

- Draft of decree by the committee with comments from experts of CIEM, local and international experts
- Draft the Plan for the implementation of the decree
- Seminars/Workshops to present the draft decree with the participation of all ministries and the government
- Submission of the draft decree to the MPI Minister

Component 1: Economic and Social Policy

Module: Concept paper/Regional Policy

Sub-module: N/A

Indicators:

Concept papers in 2 relevant areas of economic and social policy have been drafted.

Summary Report:

In the strategic decision making process of Vietnam's economic and social policy reform process concept papers of CIEM are essential. It is expected that CIEM would be asked to prepare 2 concept papers for the Ministry of Planning and Investment (MPI). These concept papers will be used to prepare Vietnam's most important development strategies like (i) the Five Year Socio Economic Development Plan 2011-2016, and (ii) the National Development Strategy 2011-2020.

As early preparation for both national strategies just started CIEM has already received call for first concept paper for regional development. Further call for second strategic concept paper is expected. However, the content is not decided yet. In order to develop both concept papers CIEM will establish working groups, carry out research, organize study tours and workshops, call for comments, and publish drafts and final concept papers.

The intention of the 1st concept is to develop economic and social strategies which include poor regions into Vietnam's pro poor growth strategy. To do so Vietnam has divided the country in six economic regions. However, the country's current industrial development policy strongly focused on three regions only (i) the red river delta, (ii) the east/ southeast region, and (iii) the central coast region. Other regions (iv) the northeast border region, (v) central highland region, and (vi) Mekong delta region are left behind. As a result poor provinces are facing rising budget difficulties and a widening income gap is becoming more and more serious.

Theme 1 in Module/Sub-module:

Milestone 1: Detailed problem descriptions of both concept papers

- Study tours to selected provinces
- Detailed problem description
- Focus on most important topics (e.g. identification of most urgent problems, identification of most difficult regions)

Milestone 2: Development of a 1st drafts of both concept papers and discussion with selected stakeholders

- Workshop
- call for comments

Milestone 3: Add comments and work out 2nd drafts of both concepts
(during 2009)

- call for comments

Milestone 4: Work out final drafts and publishing of both concepts
(by 2nd quarter 2010)

- publishing
- final workshop

Milestone 5: Implementation of the 2 concept into a national development strategy
(by end of 2010)

- Submit concept papers to Ministry of Planning
- Integration into national development strategies like (i) Five Year Socio Economic Development Plan 2011-2016, and (ii) National Development Strategy 2011-2020

Component 2: Public Finance

Module: Environment protection tax law

Indicators:

An environment protection tax law according to international best practice is approved by the National Assembly (attested by an independent expert report).

Summary Report:

Due to the industrialisation, the environmental problem is going to be a central issue in the next period. The Vietnamese government and the National Assembly recognized the necessity of an extensive environmental protection tax law and plead for a better legal framework in order to create a sustainable environment policy. Therefore, the Ministry of Finance instructs to develop an environmental protection tax law. In past years, the first workings on the environmental protection tax had been introduced within the EU-Program (European Technical Assistance Programme for Vietnam, ETV2), which terminated at the end of 2008. Based on the demand of the partner, the support is going to be given through component 2 after the end of the program.

Theme 1 in Module/Sub-Module:

Milestone 1: (2009) Preparation for the development of the environmental protection tax law

- Inventory survey of the current fees in order to change and complement for missing fees.
- Workshops to make recommendations on international experiences and to change the awareness of administrator, researchers and population stratum.
- Survey of national as well as international experts concerning the problems and challenges to develop an environmental protection tax in the provinces; collection and analysis of the opinions of the provinces concerning the environmental protection tax.
- Information and propaganda on the environmental protection tax.

Milestone 2: (2010) Decision whether or not the current taxes are being implemented in the new law or not. If yes, it has to be implemented and passed through the National Assembly in 2011

- **02/2010** - Creation of the 1. draft law based on the comment of the MoF-Departments
- **06/2010** - Passing the draft law through the Government
- **11/2010** - Introduction of the draft law by the National Assembly (1. reading)
- **05/2011** - Passing of the law by the National Assembly

Component 2: Public Finance

Module: State Budget Law

Sub-module:

- Formulation and passing of the law and implementing degrees and circulars.
- Implementation of the State Budget Law

Indicators:

The State Budget Law and the implementing degrees and circulars have been approved (incl. medium-term financial planning, increased fiscal decentralization, definition of budget deficit in line with international standards, first steps towards output-oriented budgeting, and definition of limits for provincial loans).

Summary Report:

The German TC has been supporting the Vietnamese finance ministry since 1993 with regard to the budget policy reforms. The German bilateral TC of component 2 in the first phase of the project and its predecessor "Budget Policy Reforms" contributed to create the missing requirements (State Budget Law, complementary regulations and enactments) for the economic budget administration according to the rules.

Regarding the sustainability and the efficiency of the budget and financial policy, a further modernisation of the public financial system is necessary due to the high budget discipline and orientation towards international standards. The long-term support of the GTZ in the area of budget policy is highly appreciated by the partner and also wished for the following amendment of the state budget law. The state budget amendment is being supported by different activities (advice, seminars, workshops, study tours, comments, expert reports). It can be assumed that after the support period through the GTZ, there will be enough international standard based foundation and sufficient expertise in the finance ministry in order to continue the public finance without German advice.

Theme 1 in Module/Sub-module: Formulation and passing of the law and implementing degrees and the circulars

Milestone 1: (Before 31/01/2008) All sector ministries, central institutions and departments have to appoint representatives who attend the steering commission and the editorial group; Based on the appointment, the finance ministry will decide on the personal and the procedural rules of the steering commission and the editorial group.

Milestone 2: (11/2008) concept of the evaluation of the implementation of the state budget law (2002) and the corner points of the state budget law amendment are being issued by the editorial group.

- Collection of the comment of the sector resorts and provinces concerning the two papers.
- Comment of international experts; especially of German experts
- Reports of international experts
- Workshops of the editorial group
- Domestic as well as international study tours

Milestone 2: (12/2008) development of the draft law

- Submission of the report concerning the implementation of the budget law (2002) and the proposal to change and to amend the state budget law (2002) as well as the concept of the proposal to change and to amend the state budget law to the steering commission.
- Creation of the draft law based on the comment of the steering commission.
- Collection of the comment of the sector resorts and provinces concerning the draft law.
- Improvement of the draft.

Milestone 3: (End 3/2009) Presentation at the responsible levels for comments

- Presentation at the Leaders of the MoF and sending the draft law to the Ministry of Justice with the purpose of examination.
- Presentation of the draft law at the government.
- Presentation at the standing committee of the National Assembly.
- Improvements in order to introduce the draft law at the National Assembly (1. reading).

Milestone 4: (11/2009) Introduction of the draft law and passing of the law by the National Assembly.

- Examination through the Ministry of Justice (after the improvement based on the comment of the committees of the National Assembly).
- Presentation at the government and improvements.
- Passing through the National Assembly (2. reading).

Milestone 5: (3/2010) Implementing degrees and circulars concerning the implementation of the new state budget law are published.

- After the passing of the state budget law, the government and the Ministry of Finance will publish the implementing degrees and the circulars.

Theme 2 in Module/Sub-module: Implementation of the State Budget Law

Milestones: (8/2010) Holding of training courses for persons who are responsible for budget management at the central as well as local level.

- The implementing degrees and the circulars are introduced and explained at given training courses about the state budget law at the central as well as local level and

in different regions. During the trainings, the participants will be familiarized with the State Budget Law, the enforcement and the bond circular.

Component 2: Public Finance

Module: Law on cash management

Indicators:

A draft law and accompanying regulations and decrees regarding liquidity safeguarding mechanisms and a draft law on debt management have been submitted to the Vietnamese Government for approval.

Summary Report:

The cash management in Vietnam developed very well in the last years. The liquidity of the budget is well regulated, nevertheless, there are still certain missing foundations for an efficient cash management for example the regulation for cash credit reinforcement, investments or information exchanges concerning the liquidity planning. The Vietnamese Ministry of Finance (Treasury Department) has realized this problem and worked intensively since several years with the GTZ (Component 2). A development strategy for the Treasury Department until 2010 concerning the reform of the Treasury Department system was developed with the help of the German TC and passed by the government. The main focus of this strategy is the passing of the cash management law in 2010. The German TC is going to support the passing process.

Theme 1 in Module/Sub-Module:

Milestone 1: (2008) *The preliminary draft is going to be voted on internally in the Treasury Department System.*

- The central Treasury Department develops the preliminary draft, which is being commented on by the authorities.

Milestone 2: (2009) Foundation of the drafting team; collection of the comments from relevant departments in the Treasury Department system

- The draft law will be improved by the drafting team based on the preliminary draft of the Treasury Department and sent to relevant departments of the FM. Based on the comments of the departments of the FM and the expert's reports the draft law is further developed. The comments can be collected in workshops or written form.

Milestone 3: (8/2010) Government bill

- Collection of the comments from functional department, the provinces and the relevant institutions (until Feb.2010) concerning the elaboration on the draft law (2. draft). (Furthermore, workshops take place and resulting evaluations are considered to improve the draft)
- The draft will be discussed in public and worked on afterwards; and examined by the Ministry of Justice (until June 2010)

- The revised draft will be discussed by the government and decided on as government bill.

Milestone 4: (5/2011) The parliamentary proceedings on the advice and the passing by the parliament.

- Presentation at the standing committee of the National Assembly for comments (10/2010)
- Improvements based on the comments of the National Assembly (11/2010-3/2011).
- The draft law (3.draft) will be presented by the government at the first reading in April 2011.
- Second reading and the resolution through the National Assembly in the session in Nov. 2011.

The law inures the 1.1.2012

For the implementation of the law implementing degrees and circulars are passed and workshops are held (2010).

Component 2: Public Finance

Module: Law on public debt management

Indicators:

A draft law and accompanying regulations and decrees regarding liquidity safeguarding mechanisms and a draft law on debt management have been submitted to the Vietnamese Government for approval.

Summary Report:

The debts of Vietnam are currently administered by different institutions. There has been no standardized and comprehensive legal framework for public debt management. Since several years the German TC has partly supported the debt management reform through different activities (workshops, study tours, provision of legal and technical material).

The Ministry of Finance is leading the process of drafting the public debt management law in line with international standards. On demand of the partner, the Ministry of Finance is going to be supported through Component 2 in the year 2009 in order to complete the legal framework for public debt management.

Theme 1 in Module/Sub-Module:

Milestone 1: (2009) elaboration on the draft law for the passing by the National Assembly.

- The draft law is improved based on the commendation of the Ministry of Finance after the first reading at the Parliament.
- The government enacts the draft and passes it to the Parliament for the last reading and the resolution.

Component 3: Financial Systems Development

Module: Capital market and monetary policy

Sub-module: Capital market

Indicators:

The volume of corporate and government bonds emitted at the Vietnamese stock exchange increases by 70%.

Summary Report:

The capital market developed very fast in the last 3 years. Until the end of 2007, there are 293 stocks listed on 2 stock exchanges in HoChiMinh City and Hanoi with a market capitalization of approx. 43% of GDP and 479 listed bonds with a market value of approx. 15% of GDP. Nevertheless, the security market cooled down in 2008 due to the deterioration of the economic conditions in Vietnam and the global financial crisis. The market capitalization decreased to 16% of GDP in October 2008 although the listed stocks increasing to 322. Many auctions of government and corporate bonds failed. The support of the GTZ to develop the capital market in Vietnam is focusing onto 3 main areas: development of the bond market, development of the Vietnam Securities Depository (VSD) and security settlement through the Central Bank.

Theme 1 in Module/Sub-module: Development of the bond market

Milestone 1: Realization of the concept for the development of the bond market in 2008

- Workout of the concept and comments made by GTZ experts in 2008
- Approval of the concept by the Ministry of Finance in 2008

Milestone 2: Enactment of the legal regulations for the bond market

- formulation of the guidelines for the bond market and comments of the GTZ experts in 2008
- Enactment of the bond market guidelines and advice through GTZ experts in 2008

Milestone 3: Concentration of the bond trading in the Hanoi security trading centre and the development of the bond trading products in 2008 – 2011

- concentration of the bonds trading in the Hanoi trading centre in 2008
- development of the bond trading products in 2008 -2011
- establishing of the electronic trading of government bonds in 2008-2010
- establishing of the multi-dealer system of bonds trading in 2008-2011

Theme 2 in Module/Sub-module: Development of the VSD

Milestone 1: Concept for the development and the status of the Vietnam Securities Depository VSD

- Workout of the concept and status of VSD, comments by GTZ experts in 2008
- Approval of the concept by the Ministry of Finance in 2008

Milestone 2: Transformation of VSD into a public limited company

- Decision of Prime Minister to transformation of VSD into a public limited company
- Establishing of new structure of VSD Ltd. In 2009-2010
- Transformation of VSD Ltd into a joint stock company after 2010

Theme 3 in Module/Sub-module: Transfers of securities settlement from BIDV to State Bank Vietnams

Milestone 1: Concept for the security settlement through the Central Bank

- Drafting of the concept by the SSC, VSD and the SBV in 2008-2009
- Approval of the concept of the security settlement performed by the Central Bank and by the Ministry of Finance in 2009

Milestone 2: Transfer of the security settlement from BIDV to SBV

- Legal regulations on security settlement by the Central Bank in 2009-2010
- Technical transfer of security settlement by the BIDV to the SBV 2009-2010

Component 3: Financial Systems Development

Module: Central Bank Reform

Sub-module: Central Bank Reform

Indicators:

Implementing regulations for the new SBV law (defining clearly SBV mandate for monetary policy, higher independence, and modern banking supervision according to international standards) have been developed.

Summary Report:

Top leading bodies have already decided to improve the legal banking framework and to convert SBV into a modern, more independent central bank, granting SBV adequate autonomy and independence to carry out monetary policy, more effective banking supervision since 2005/2006. Whereby, the new draft laws on the SBV and on credit institutions are to be submitted in 2008. Despite this, the law drafting and submission process as well as the SBV restructuring process have been suspended, even discontinued during the reporting period of 2007.

Among others, with GTZ advice and comments, the two draft laws have been developed. Until now, there is the 7th draft law on SBV and the 3rd draft law on credit institutions available. SBV has finally left these draft laws out of 2008 legislative program and suggested to postpone them after 2010. However, under the pressures from Vietnam's top leaders to accelerate the drafting of these laws, SBV has recently restarted the drafting process.

In the meantime, SBV has striven to streamline its organizational structure and the coordination among its various departments in banking supervision. For this, a new Government Degree No. 96 on functions and organizational structure of SBV has just been approved. Obviously, Vietnam's leaders and SBV have preferred gradual change. On one hand, there is no change in position and mandate of SBV. On the other hand, there are some relevant changes in SBV structure. Particularly, monetary forecasting and statistics department, payment department will be created; four departments/units will be merged to establish a new banking supervision authority which is in charge of all supervisory functions. Currently, SBV is preparing to establish this authority. For this, a working group has been set up by SBV and chaired by a Vice Governor.

Furthermore, to ensure the sustainability of the training to SBV executives, a Training of trainers program has been conceptualized, being implemented and future trainers being supported.

Theme 1 in Module/Sub-module: Reform of relevant banking laws, including the central bank law and credit institution law

Milestone 1: *The drafting board in charge of the two laws is set up by SBV to restart the drafting process, and then by Government with involvement of other Ministries*

-

Milestone 2: The drafting process: formulation and elaboration of the two draft laws

-

Milestone 3: Submit to the National Assembly for consultation and approval (in 2009/2010)

-

Milestone 4: Prepare relevant implementing regulations for enforcing the two laws

-

Theme 2 in Module/Sub-module: Restructuring SBV in accordance with the new central bank law

Milestone 1: Reorganize SBV under the current legal framework

- Re-allocate and streamline the functions at SBV Head quarters based on the new Government Degree No. 96 (dated 26 August 2008)
- Re-allocate the tasks and functions of SBV branch network and reorganize its branch network (during 2009)
- Improve operational structure of the central bank

Milestone 2: Restructure the organization and governance of SBV (along with the implementation of the new central bank law)

- Clarify and enforce the new governance structure of the central bank, set up relevant governing bodies
- Establish regional branches of the central bank in main banking centers (after the new SBV law after 2010)
- Regional branches execute main operational central bank tasks (after the new SBV law after 2010)

Milestone 3: Further development of future trainers of the executive training series to enable them to deliver trainings to SBV staff

- Continue coaching and mentoring the potential future trainers in developing teaching materials by international experts
- Provide courses to improve teaching skills for the potential trainers

- Support the future trainers in continuous professional development, by facilitating them to attend further trainings/seminars on dedicated topics
- Enable the future trainers to deliver first training in 2009 at lower level
- Organize a joint teaching program by international and local trainers (in 2009)
- Create an incentives framework for future trainers, including providing sufficient time, paying a special financial rate based on market condition (in 2009)
- Organize training courses provided by local trainers (in 2010/2011)

Theme 3 in Module/Sub-module: Restructuring banking supervision toward a risk-based model

Milestone 1: Restructure the organization of banking supervision, geared toward becoming an operationally independent agency

- Establish the Banking Supervision Agency at level of a General Directorate under the roof of SBV, integrating all supervisory functions into a single organizational unit (expected by year end 2008)
- Restructure the branch network of banking supervision along with central bank reform with clearly defined tasks and functions of banking supervision branch network and its relationship with SBV branch network

Milestone 2: Improve supervisory approach, applying risk-based supervision

- Enact risk-focused regulation, such as MaRisk
- Improve prudential financial stability reporting system
- Improve the ongoing surveillance and examinations process
- Improve formal powers of banking supervision
- Improve the information sharing mechanism and coordination among supervisory authorities, domestic and abroad

Milestone 3: Formulate the banking supervision law

- The drafting board in charge of the banking supervision law is set up
- The drafting process: formulation and elaboration of the draft law
- Submit to the National Assembly for consultation and approval (in 2011)
- Enforce the banking supervision law

Component 3: Financial Systems Development

Module: Restructuring of Commercial Banks

Sub-module: Internal Audit of Commercial Banks

Indicators:

The SBV confirms that the majority of commercial banks (representing a total of 75% of banking deposits) apply the relevant regulations concerning internal audit and internal control.

Summary Report:

With GTZ support, two regulations on internal audit and internal control of commercial banks were promulgated by SBV which are in line with international standards based on expert's assessments. Also as assessed by experts based on workshops on the implementation status, some banks, first of all GTZ pilot banks have made positive progress in internal audit both in awareness and practical implementation.

All pilot banks have established an independent audit function and the audits being performed in accordance with international standards. All of them have recognized GTZ contribution in the development of their audit functions.

Teachers of banking universities have already applied the acquired knowledge from seminars to improve audit training of the banking community.

Looking forwards, the support in this area will primarily focus on ensuring further development and the sustainability throughout the whole industry. To this end, a Train of Trainers (ToT) program has been conceptualized, and will be implemented for one year and a half. Along with this, future trainers will be further supported and mentored to be able to deliver further trainings to the banking community.

Theme 1 in Module/Sub-module: Ensuring sustainable development for internal audit through the Training of Trainers (ToT) program

Milestone 1: Prepare ToT program on internal audit

- Conceptualize the ToT program for future trainers and further auditors, identify potential future trainers
- Creating an incentives framework for future trainers
- Prepare ToT materials along with the individual ToT training modules

Milestone 2: Implement ToT program on internal audit

- Realize ToT training modules, both in basic and advanced capacities (during 2009 and until mid of 2010), whereby 20 trainers are educated about internal audit for providing further trainings for the banking system

Milestone 3: ToT follow-up phase

- Localize training materials (three to six months after finishing the ToT program)
- Further ToT follow-up activities (updating training materials, workshops and further trainings for future trainers – on an ongoing basis)

Component 3: Financial Systems Development

Module: Restructuring of Commercial Banks

Sub-module: Risk Management of Commercial Banks

Indicators:

A regulatory framework for risk management for commercial banks is in place

Summary Report:

The former project had supported risk management for banking community since 2005 and achieved some recognized results in selected commercial banks. However, the component 3 of macro program has formally started supporting the draft of minimum requirement for risk management since 2008. The first draft of minimum requirements by SBV had several structured shortcomings and based on the advice of GTZ experts SBV Banking Supervision decided to restart the drafting process.

So far drafting team and experts have agreed on the drafting approach and overall structure of the minimum requirements. The outline for general requirements and special requirements for credit risk management are provided to SBV for approval before experts start writing in details. This outline will be approved by the end of 2008 and the writing process will start right after that. The first draft is expected to be available for SBV approval in mid 2009.

Theme 1 in Module/Sub-module: Minimum requirements for risk management are promulgated

Milestone 1: General requirements for risk management are issued (2009/2010)

- Outline is agreed between SBV drafting team and experts (2008)
- Draft is agreed between SBV drafting team and experts (2009)
- Workshop on the draft is organized (2009)
- Final draft is available (2009)
- Approval process (2009/2010)

Milestone 2: Special requirements for risk management are issued (2009-2011)

- Special requirements for credit risk management are issued (2009/2010)
- Special requirements for market risk, liquidity risk management are issued (2010/2011)
- Special requirements for operational risk management are issued (2011)
- Knowledge on management of credit risk, market risk, liquidity risk, operational risk is equipped to banking supervisors (2008-2011)
- Detailed guidelines for special requirements are available (2009-2011)

Theme 2 in Module/Sub-module: Risk management at pilot banks is improved and reflects the application of minimum requirements for risk management

Milestone 1: Risk management policy (2009)

- Internal risk management framework and policy in line with international standards are in place.

Milestone 2: Organizational structure (2009)

- Bank organizational structure (segregation of functions)
- Risk management structure (establishment and operation of risk management committees and departments)

Milestone 3: Risk management techniques (2010)

- Models, tools, instruments for effective management of credit risk; market risk; liquidity risk; operational risk

Theme 3 in Module/Sub-module: A group of potential future trainers are educated about risk management

Milestone 1: Concept for ToT program on risk management is agreed (2010):

- Concept development
- Concept discussion and revision
- Concept agreement
- Preparation of training materials

Milestone 2: ToT program on risk management is implemented (2010-2011)

- Unit 1: Regulatory frameworks for risk management
- Unit 2: Organizational and operational structure of risk management system
- Unit 3: Processes and techniques of risk management (for selected types of risks: credit risk, market risk, liquidity risk, and operational risk).

Milestone 3: ToT program follow-up (2011)

- Localization of training materials
- Incentive framework for future trainers is applied to encourage the commitment of future trainers
- Future trainers are capable of providing training on risk management for banking community.

Note: Theme 3 is incorporated based on the assumption of getting co-finance from IFC or other potential donors. Otherwise, theme 3 shall be narrowed down to core risk for Vietnam (credit risk) as role model for SBV to continue after the completion of Program or left out.

Component 3: Financial Systems Development

Module: Support for the PCF system

Sub-module: N/A

Indicators:

The CCF and PCF Association conduct internal and external audits in compliance with SBV regulations and a safety fund for the PCF system is established.

Summary Report:

With our support in terms of study tour, advice and comments, SBV has acknowledged the necessity for establishment of an audit unit within the PCF system and incorporated this idea into the development strategy for the PCF system to 2020 approved by the Governor on 5th of July 2007. However, there had been no progress in developing the concept during the reporting period as SBV intended to focus on the establishment of the safety fund in the first place. Furthermore, under Decree 96 the current department in charge (Credit Cooperative Department) was undergoing structural change merging with the Banking Department and Banking supervision. Therefore, the preparation of the concept could be delayed.

An internal audit department had been established at CCF and operational since 1 October 2008 based on our advice. All staff of this department along with some from the PCF association had been trained and coached for a couple of times on audit organization and techniques. The draft audit charter of CCF was available and now being commented and revised by other related departments at CCF. It then will be approved by CCF's board of directors for application.

A draft concept on establishment of a safety fund for the PCFs system was available and being finalised. SBV was currently consulting with Ministry of Finance on the financial regimes applied to the safety fund. It then will be approved by SBV's governor for implementation.

Theme 1 in Module/Sub-module: Concept on establishment of an audit unit within the PCF system

Milestone 1: SBV acknowledges the necessity for establishment of an audit unit within the PCF system

- Achieved
- Relevant SBV's staffs have studied the German model of cooperative banks in study tours and workshops. The idea to establish an audit unit for the PCF system has been incorporated into the development strategy for the PCF system to 2020 approved by SBV's governor on 5th of July 2007.

Milestone 2: Drafting team for the concept is established

- Not achieved

- Under Decree 96, the current department in charge (Credit Cooperative Department) is undergoing structural change merging with the Banking Department and Banking supervision. Therefore, the preparation of the concept could be delayed.

Milestone 3: Draft concept is available

- Not achieved

Milestone 4: Draft concept is approved

- Not achieved

Theme 2 in Module/Sub-module: Support for CCF in internal audit and risk management

Milestone 1: Internal audit department is established at CCF

- Achieved as of 1 October 2008
- The IAD is established at CCF's headquarter spinning off from the Internal Checking Department. The IAD currently has 6 staff operating from 1 Oct. 2008. IADs could be established at some relevant CCF's branches upon actual demand.

Milestone 2: CCF's internal auditors are trained with audit techniques

- In progress
- Trainings on internal audit techniques have been continually provided to relevant CCF's staffs for the last 3 years.

Milestone 3: CCF's internal auditors are coached in pilot audits

- In progress
- CCF's relevant staffs have also been coached in a pilot audit where they actually conduct an audit of the credit operation based on international standards under the instruction of GTZ's expert.

Milestone 4: CCF's Audit Charter is available

- In progress
- Based on the sample audit charter and advice provided by GTZ's experts, CCF has drafted their own Audit Charter. It is being finalized by the unit in charge which is the Supervisory Board.

Milestone 5: CCF's risk management is improved

- Not achieve

Theme 3 in Module/Sub-module: Establishment of a safety fund for the PCF system

Milestone 1: Drafting team for the concept is established

- Achieved as of

Milestone 2: Draft concept on establishment of the safety fund is available

- Achieved as of August 2007
- With our support in terms of study tour, advice and comments, a draft concept on establishment of a safety fund for the PCFs system was available and being finalised.

Milestone 3: Draft concept on establishment of the safety fund is approved

- Not achieved
- SBV was currently consulting with Ministry of Finance on the financial regimes applied to the safety fund. It then will be approved by SBV's governor for implementation.

Milestone 4: The safety fund is in existence

- Not achieved

Milestone 5: The safety fund's staff is trained and advised

- Not achieved