



**Vietnam's Experiences in Strengthening
Procurement and Public Financial Management Systems
in Harmonization, Alignment and Capacity Development**

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Mr. Chairman,
Ladies and gentlemen,

On behalf of the Vietnamese delegation I would like to express our gratitude to the Government of France, the OECD/DAC, the Multi-lateral Development Banks, and the United Nations for their joint efforts in organizing the Second High-Level Forum on Aid Effectiveness in Paris. My sincere thanks also go to the organizers of the Forum for providing this opportunity to share with you our own experiences in the implementation of the Rome Declaration at this Concurrent Session.

As you know, since the first High-Level Forum held in Rome in 2003 the world has witnessed tremendous progress in aid effectiveness at global, regional and country levels. The proven outcomes of this process have deepened and broadened both the contents and the scope of the Rome Declaration around the three level pyramid of Harmonization, Alignment and Ownership with a view to the achievement of the MDGs.

Like other partner countries Vietnam has so far made great efforts to implement the Rome Declaration Agenda:

With regard to harmonization , as the Government of Vietnam is fully aware that harmonisation is an effective tool to reduce transaction costs and to improve aid effectiveness. Since the first High Level Forum in Rome, Vietnamese agencies have actively collaborated with the donor community to move the process forward. With a large number of donors, including 25 bilateral donors, 15 multilateral donors and nearly 400 INGOs operating in the country and with a big volume of committed ODA ,

totalling US\$ 28.82 billion over the 1993 - 2004 period, Vietnam has faced a great challenge in its efforts to utilize this important resource in the most effective way, especially in the context of complexity of donor guidelines and procedures. In order to deal with this challenge successfully, Vietnam has used harmonization as an instrument for more effective aid delivery. A key challenge has been to bring together the different harmonisation initiatives of various donor groups, including the 5 Development Banks, (WB, ADB, JBIC, KfW and AFD), the Like Minded Donor Group (12 bilateral donors), the EU and the UN system. There have also been initiatives by some other bilateral donors, for example: "sit down and talk" - an initiative from JICA of Japan that aims to address and implement a number of measures to improve the effectiveness of technical cooperation and general grant aid.

Therefore, to harmonise harmonisation efforts and to maximise benefits, the Government and the donors have adopted a common framework called the Vietnam Harmonization Action Plan (HAP). This has three guiding principles (i). it is country-owned; (ii). it is country-led and (iii) it provides for diverse modes of ODA delivery. The HAP has helped the Government to make full use of its leading role in coordination, management, monitoring and evaluation of harmonization in Vietnam. The HAP has also provided excellent conditions for the establishment of the Partnership Group on Aid Effectiveness (PGAE). This brings together on a monthly basis the Government and key representatives of the different donors and donor groups and pushes the aid effectiveness agenda and monitors progress. The PGAE will, for example, after this High Level Forum benchmark progress in Vietnam against the expected declaration. The active role of the PGAE so far has made a significant contribution to speeding up an inclusive harmonization process in Vietnam. The PGAE report to our last Consultative Group meeting in December, 2004 is available to participants here.

With regard to alignment, the donors have made great efforts to support the Government in the implementation of its 10-year socio-economic development strategy (2001 – 2010), the 5-year socio-economic development plan (2001 - 2005) and the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). All have the common objective of the achievement of Millennium Development Goals (MDGs) and donors have been happy to align their aid to Vietnam particularly to the CPRGS. A number of funding facilities have been established that ensure alignment to the Government development agenda:

- With Vietnam's success in implementation of the Poverty Reduction Support Credit, a budget support programme linked to reforms planned in the CPRGS, various donors including Japan, several State members of EU, the European Commission, and other bi-lateral and multi-lateral donors have now joined with the World Bank and the Government in providing funding through this facility. The PRSC is proving an essential tool both for the rapid and efficient channelling of funds and as a framework for effective policy dialogue between donors and government across a wide range of fields.

- Non-project modalities such as budget support, programme and sector wide approaches have been explored and piloted, especially in the forestry, healthcare and education sectors, etc. along with the

improvement of public finance management (partly through the Public Finance Project co-financed by the WB and a number of bilateral donors).

- Presently, the donors, following a Government request, are supporting the preparation process of both next 5-year socio-economic development plan (2006 - 2010) and a new ODA Master Plan. The next five year plan will have a strong poverty focus and a prominent use of indicators, and we anticipate that donors will be able to align fully their support to Vietnam to it, thus making a separate poverty reduction strategy redundant.

In addition, the Government and the donors are actively making concerted efforts in improvement of legal and institutional framework together with capacity building for ODA management under the Comprehensive Capacity Building Programme for ODA Management (CCBP) funded by the PHRD/WB and LMDG.

Dear distinguished delegates,

At this workshop, I would like to share with you in particular the experience of my country in strengthening two particular areas: **Procurement and Public Financial Management Systems**.

Over the past few years, strengthening procurement and public financial management systems have been at the heart of the Government's reform agenda and are seen as a part of the overall effort to enable the Government to manage public resources more efficiently and effectively. To achieve this goal, the Government has been working closely with the donor community, especially with the 5 Development Banks and the LMDG, on various initiatives in this area. Here are some of the remarkable results:

1. Strengthening the Country Procurement System:

With regard to capacity development, the Government has been working to improve its public procurement system through the revision of relevant regulations, promotion of transparency, fair competition and tender monitoring via the launch of a nationwide information system including a Procurement Bulletin and website, preparation of standard bidding documents. We have also provided capacity building for civil servants and other stakeholders working in this area. This whole exercise is intended to help strengthen the whole procurement system of the Government, and help move this system closer to an internationally-accepted standard.

Apart from the common support provided to improve the legal framework for procurement, notably through a Procurement Ordinance which is underway, the two donor groups have a clear division of labour in this area. Whilst the LMDG has focused more on capacity building, the five Banks targeted the development of Country Procurement Assessment Reports that recommended action plans for procurement system reform, and assisted the preparation of national standard bidding documents for

goods and civil works. Concrete results of such cooperation were found in the various inputs to the revised procurement decree with clear improvement in terms of transparency of processes, of the formulation of standard bidding documents for goods which are now almost completed, and of final adjustment. Whilst there remains a certain gap between Government procedures and donor requirements, the gap has been significantly narrowed, and work continues.

Indeed, with regard to the use of the Vietnam's country system, the 5 Development Banks have already made a commitment to use the Government's standard bidding documents, with minor adjustments, for the local competitive bidding under projects funded by the Banks, once the documents are finalized. The harmonization exercise has successfully raised the relevant Government agencies' understanding of the international procurement practices and enhanced the mutual understanding on the procurement policies of the Government as well as each Bank and, as I have said, contributed significantly to the reduction of the gap between the two systems.

The lessons learnt from process of strengthening the procurement system are:

- Every step of the reform should have a broad participation of stakeholders.
- The improvement of the country public procurement system as a whole requires an appropriate policy for capacity development as well as adequate time for change, usually much longer than the establishment of a parallel and exceptional system applied only for ODA resources.

2. Strengthening the Public Financial Management (PFM):

The overall PFM agenda is a wide-ranging one that covers a number of key issues including fiscal transparency and mutual accountability for both donor and Government systems. The following are some of the key initiatives that Vietnam has undertaken over the past years:

- *The Development of a Medium-term Expenditure Framework (MTEF)*: This is based on a pilot exercise undertaken in a number of sectors and provinces. As a follow-up to the Public Expenditure Review Exercise conducted in 2000 and in order to help strengthen medium-term expenditure planning, the GOV has decided to pilot the development of Medium-Term Expenditure Frameworks (MTEFs) in four sectors and four provinces. Whilst in progress, the initial pilot exercises have provided an useful experience and have given valuable insight into how the country's fiscal planning framework should be streamlined. The process is a key stepping stone on the way to the establishment of full Sector-wide Approaches in fields such as health and education.

- *The carrying out of a specific PFM project*: This aims to strengthen the PFM system of the country through the modernization of State Budget management. It addresses processes from planning to execution, reporting, and final accounts on the basis of a modernized Financial Management Information System. It works at central and local levels, improves monitoring and supervision of budget spending in all sectors, and within spending units across the country. Very importantly, it also improves transparency in public financial management and capacity in public debt management and in the monitoring of SOE fiscal risks.

- *The Development of harmonised financial reporting tools for ODA projects*: As part of the overall 5 banks' harmonisation exercise with the Government, an initiative has also been undertaken to develop a common financial reporting format to be applied for all projects funded by the five Banks and if possible extended later to cover all aid-funded projects. The agreed format was applied to selected projects on a trial basis and feedback from the pilot implementation have already been considered and reflected upon. A few rounds of tests and revisions are expected with also an increasing number of participating donor partners before finalised formats can be issued as a circular linked to the revised ODA Management Decree No.17. As the process develops, the possibility of integrating the new harmonised formats into the reporting system for the domestic funded projects will be also considered.

The following are some key lessons learnt in process of strengthening the Public Financial Management Systems:

❖ More attention should be given to developing capacity of the national government system than to developing capacity of a separate system that is limited only to ODA resources. This can be explained by the following reasons:

- Every stakeholder would benefit from the development of the country's capacity and the government system regardless of the funding sources or aid modalities, because it is through the government system that goods are provided to all.
- Establishing a special system for ODA increases the differences in procedures applied to ODA projects /programmes and those funded by domestic resources. This kind of dual system is not sustainable and increases administrative costs and burdens.
- Since the reforms of the country system would have significant effect not only on ODA-related stakeholders but on a full range of others as well, the recipient government's strong ownership and leadership is essential. Reforms may take a long time, but their impact would be much greater than any impact gained from establishing a dual system. Respecting the Government's ownership and self-determination, a patient approach is necessary in implementing or supporting these capacity developments.

❖ It is crucial for partner countries and donors to look into the real situations of public expenditure as well as of aid management on the ground. Without concrete analysis of the realities and technicalities, and base-lining work to identify the current situation, and to set down targets and performance indicators, there is no concrete way to measure the real levels of progress or identify the roadmap for the needed reforms.

Thank you for your attention!

