



**THEMATIC STUDY**  
**THE DEVELOPMENTAL EFFECTIVENESS OF UNTIED AID:**  
**EVALUATION OF THE IMPLEMENTATION OF THE PARIS**  
**DECLARATION AND OF THE 2001 DAC RECOMMENDATION ON**  
**UNTYING ODA TO THE LDCS**

**VIETNAM COUNTRY STUDY**

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## Table of Contents

<b>List of Acronyms</b> .....	v
<b>Executive Summary</b> .....	vii
<b>1. Introduction</b> .....	1
1.1 Purpose and Scope.....	1
1.2 Synopsis of Vietnam.....	2
1.3 Economic Background of Vietnam.....	2
<b>2. Aid and tying/untying status</b> .....	5
2.1 Overview.....	5
2.2 Paris Declaration (PD) and the Hanoi Core Statement (HCS).....	6
<b>3. Statistical review of ODA to Vietnam</b> .....	8
3.1 ODA Overview.....	8
3.2 Donor Review.....	10
3.2 Statistical review of ODA to Vietnam.....	22
<b>4. Econometric Analysis</b> .....	28
<b>5. Consequences of untying for aid uses</b> .....	33
5.1 ODA to Vietnam and the Hanoi Core Statement.....	33
5.2 Introduction to the Discussion of Aid uses and Causality.....	33
5.3 Procurement Options.....	34
5.4 'New' Aid Modalities.....	35
5.5 Aid Instruments.....	35
5.6 Technical Cooperation.....	36
<b>6. The process and consequences of untying – project analysis</b> .....	37
6.1 Rules and Regulations.....	40
6.1.1 Vietnam Procurement Law (VPL).....	40
6.1.2 Project / Programme specific procurement guidelines.....	41
6.2 Practices.....	43
6.2.1 Contracts at the Primary Level.....	43
6.2.2 Sub-contracting and workers at the ground level.....	46
6.2.3 Procurement of goods and services.....	47
6.3 Conclusions from case studies.....	48
<b>7. Aid and developmental effectiveness</b> .....	49
7.1 Cost Effectiveness.....	49
7.2 General Aid Effectiveness.....	52
7.3 Developmental Effectiveness.....	53
7.4 Cross-effectiveness issues.....	56
7.5 Issues of Implementing Untying.....	57
<b>8. Conclusions</b> .....	58

<b>Annex A: Case Study Of The Saigon River Lowlands Flood Prevention Project ...</b>	<b>61</b>
<b>Annex B: Case Study Of The Rural Water Supply And Sanitation National Target Programme .....</b>	<b>72</b>
<b>Annex C: Case Study of the Nam Tuan Irrigation Project.....</b>	<b>88</b>
<b>Annex D: Case Study of the Phan Ri-Phan Thiet Irrigation Project .....</b>	<b>108</b>
<b>Annex E: Econometric Analysis .....</b>	<b>127</b>
<b>References.....</b>	<b>137</b>

### **List of Tables and Figures**

Table 1: Indicators and targets in the Hanoi Core Statement.....	3
Table 2: Planned, signed and total ODA by sector 2006-2008 and 2006-2010 .....	9
Table 3: Japan ODA to Vietnam; value by aid instrument and year (100 million JPY) .....	14
Table 4: NET OECD ODA 2000-2008 in US\$ Million .....	22
Table 5: Net Untied ODA, 2004-8 (US\$ Millions).....	23
Table 6: Top donors (bilateral and multilateral) in Vietnam over the period 2005-2007 (US\$ Millions),(inclusive of negative disbursements ) .....	24
Table 7: Tying status of bilateral ODA of DAC donors during 2004-2006.....	25
Table 8: CRS Tying status of bilateral ODA by sector; 2005-2007.....	26
Table 9: Flow type (Grants / Loans) shares.....	27
Table 10: Commitments by donor and flow over the period 2005-2007 .....	27
Table 11: Donor Aid Modalities, Procurement and Untied Status.....	38
Figure 1: ODA Committed, Signed and Disbursed, 1993 - 2008.....	8
Figure 2: ODA Structure: by Sectors and Areas, 1993-2008.....	9
Figure 3: ODA Source 2000-2003 .....	10

## List of Acronyms

ADDA	Agricultural Development Denmark Asia
AFD	French Development Agency
ATTF	Agency for Transfer of Financial Technology (Luxembourg)
AusAID	Australia Agency for International Development
CDPF	Country Development Programme Fund
CG	Consumer Group
CIRAD	Centre for International Cooperation and Agricultural Development Research
CNRS	French National Centre for Scientific Research
CPI	Consumer Price Index
CPO	Central Project Office (GoV)
CSP	Country Strategy Paper
CTA	Chief Technical Advisor
DAC	Development Assistance Committee
DARD	Department of Agriculture and Rural Development (GoV)
EA	Executing Agency
EC	European Commission
EDCF	Economic Development Cooperation Fund
EOI	Expression of Interest
EU	European Union
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprise
FSP	Priority Solidarity Fund (French)
GBS	General Budget Support
GoV	Government of Vietnam
HCMC	Ho Chi Minh City
HCS	Hanoi Core Statement
HIC	High Income Country
ICB	International Competitive Bidding
ICT4D	Information Technology for Development
IRD	International Research and Development
JICA	Japan International Cooperation Agency
LCB	Local Competitive Bidding
Lux-Dev	Luxembourg Agency for Development Cooperation
MARD	Ministry of Agriculture and Rural Development
MFA	Ministry of Foreign Affairs
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOH	Ministry of Health
MPI	Ministry of Planning and Investment
NCB	National Competitive Bidding
ODA	Overseas Development Assistance
PBS	Programme-Based Support
PD	Paris Declaration
PMU	Project Management Unit (GoV)

PPC	Provincial People's Committee
PRSC	Poverty Reduction Support Credit
QBS	Quality Based Selection
ROK	Republic of Korea
SBS	Sector-budget Support
SCP	Singapore Cooperation Programme
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs (Switzerland)
SEDP	Socio-Economic Development Plan (GoV)
SME	Small-Medium Enterprise
SOE	State-Owned Enterprise
SPO	Sub-project Management Office (GoV)
TAD	Tender Approval Dossier
TPBS	Targeted Programme Budget Support
UNDP	United Nations Development Programme
UN-REDD	UN collaborative programme on Reducing Emissions from Deforestation and Forest Degradation
VAST	Vietnamese Academy of Science and Technology
VND	Vietnam Dong
VPL	Vietnam Procurement Law
WRM	Water Resource Management
WSS	Water Supply and Sanitation
WUAs	Women's Union Association

## **Executive Summary**

### **Introduction**

In the 2008 Phase I study *The Developmental Effectiveness of Untied Aid*, it was found that aid to LDCs is now overwhelmingly untied (excluding exempt categories, technical co-operation and food aid). However, it was also found that there existed very little formal analysis of both the donor practices in partner countries and the actual consequences of untying aid at a country level. The Phase II study is in response to the proposals of the Working Party on Aid Effectiveness and the Development Assistance Committee (DAC) Network on Development Evaluation and the reporting requirement in the 2001 DAC Recommendation on untying ODA to LDCs.

Phase II of the project is intended to provide evidence-based conclusions about the implications of untying aid and its impact on aid effectiveness in selected case-study countries, for presentation to the DAC by December 2009. This report provides the results of the Vietnam Country Study.

This report provides the results of the Vietnam Country Study and is part of the LDC South East Asian Laos-Vietnam Country pair. Using a sample of four project case-studies, combined with a brief statistical and econometric review, this study aims to contextualise the key issues of aid effectiveness and implications of untying aid in Vietnam. The selected project case-studies focus on procurement practices of the donors and governmental executing agencies, which may have a significant impact on how goods and services are purchased, with implications for aid effectiveness.

The four selected case studies were:

- two irrigation projects funded respectively by Lux-Development and JICA
- a water supply and sanitation programme funded by AusAID, Danida and the Netherlands
- a flood prevention construction project funded by AfD.

### **Statistical and Econometric Analysis**

ODA commitments to Vietnam have increased steadily since 1993, with larger contributions in the past decade. In an overall review of OECD ODA to Vietnam, donor countries had by 2007 formally untied over 70% of their ODA commitments. From 2005 to 2007, Vietnam received aid through both grants (41%) and loans (59%), with donors providing a significant amount of technical assistance. Approximately 65% of all ODA commitment to Vietnam was untied from 2005 to 2007. A large proportion of donor ODA to Vietnam is in the form of technical co-operation (TC), and the tying status of this kind of ODA is not reported to the DAC.

The aim of the econometric analysis is to determine whether ODA, the tying status and the different modalities through which aid is provided (loans and grants) have any significant impact on aggregate donor export flows at the country level, in this case to Vietnam. The results suggest that grants from donor countries have trade-distorting effects on donor exports, and possibly allude to informal or *de facto* tying of grants. However, the analysis for Vietnam is not conclusive.

### **Aid Modalities and Tying**

Although the majority of donors in Vietnam continue to provide ODA through a project based approach, there is an increasing trend to move towards non-project based modalities and use country systems, through general or sector budgetary support and pooled funding. Donors providing ODA through project based approaches are progressively tailoring projects to ensure untying status through greater use of country systems, by decentralising project implementation and execution at sub-national levels and, in some cases, ensuring government agencies remain the main contracting authority for procurement. As of 2008, 'untied aid' represented 74.3% of all committed aid received by Vietnam from DAC countries.

### **Project Analysis**

The four selected case studies consisted of three active projects and one programme, all located within the water supply and sanitation sector. Aid modalities varied across the case studies, yet all four were similar in that they largely involved procurement of services, while the procurement of equipment and materials was relatively similar, allowing for cross-comparison.

1. The Saigon River Lowlands Flood Prevention Project was handed over for financing to AfD in 2007, after the Government of Vietnam decided it was no longer able to continue funding the project. AfD is contributing US\$ 11.8 million, through general budget support. The executing agency through MARD is the Hydraulic Project Investment and Construction Management Board 9 (ICMB-9), responsible for the projects along the right bank, and the Ho Chi Minh City PMU for projects along the left side of the Saigon River.

2. The Rural Water Supply and Sanitation National Targeted Programme II (RWSS NTP II) is a follow up programme to the Rural Water Supply and Sanitation programme (RWSS NTP I), which started in the early 1990s in co-operation with Australia and Denmark, with the government. The RWSS NTP II is a pooled funding programme between Denmark, Australia, the Netherlands and the government, and it is expected to run from 2006 to 2011. Total funding for the project is US\$ 315 million, of which AusAID has committed US\$ 34 million. Danida contracted the Danish company Mercer Ewer to assist in the procurement of the international TAs, while AusAID contracted the Australian company URS to procure national consultants and TAs for this programme.



3. The Nam-Tuan Irrigation project is a single-donor project which commenced in April 2006, and is expected to complete in April 2010. Luxembourg Development is supporting the project, at the request of the government, through a non-reimbursable grant of EUR 3,293,100. The international TC is of British nationality, directly appointed by Lux-Dev. Lux-Dev remains the contracting authority for all services and construction works contracts, but the executing agency responsible for procurement is the DARD, specifically the PMU of the Nam-Tuan Irrigation project, led by the international TC.

4. The Phan Ri-Phan Tiet Irrigation project is funded by JICA through a loan agreement, and is intended to be implemented from March 2006 until December 2012. JICA is the sole donor, committing a total ODA loan of US\$ 51.9 million to the government. The aid modality is project based aid assistance, and the project is executed through the 'Central Project Office' (CPO) under MARD, which is responsible for its management, including holding responsibility for procurement of contractors and the employment of consultants. BCEOM Company (France) was awarded the contract to provide consultancy services for project implementation, and was procured through short listed method. All construction contracts were awarded to Vietnamese firms.

#### **Cost and Development Effectiveness**

At the sub-national and national level, development effectiveness was improved through knowledge transfers, firstly between donors and the government, and secondly between the international TAs and national consultants or project owners. Local labour and local sourcing of goods increased the incomes and employment of some of Vietnam's poorest provinces, where these development initiatives take place. Yet problems of seasonal or temporary employment question the sustainable long-term development impact. Difficulties also lie in determining whether the effect on local employment is a direct effect of the untied nature of the projects, i.e. there is little evidence to assume that if these projects were tied that they would source labour from foreign markets.

In terms of cost effectiveness, certain projects indicated a clear trade-off between time-efficiency and cost effectiveness, such as the Nam Tuan Irrigation Project and the AfD Saigon River Flood Prevention, both of which used Vietnamese government agencies to procure consulting services and construction works. However, the projects suffered delays due to bureaucratic procedures or often in efforts to prevent collusion. By comparison, AusAID outsourced the procurement of national consultants to an Australian firm, which led to the timely procurement and awarding of national consultancy contracts.

The four case studies indicated that prices paid for equipment and materials procured through the GoV project implementation units is likely to have been above or equal to the market price due to the effect of direct contracting, local supply constraints and social networks.

## **Conclusion and Recommendations**

In actual practice, the procurement of goods and services for all four projects suggests little evidence of implicit or *de facto* tying of aid by donors, since the decentralisation of all four projects ensured extensive use of local suppliers for both services and works contracts.

The biggest obstacle to untying aid completely in Vietnam is the government's current capacity to procure quality contracts in a timely, effective and transparent manner. Efforts have been made by all four donors to enhance the Vietnamese Procurement Law (VPL) in various ways to improve this. However, this can lead to confusion and overlapping, inevitably resulting in an ineffective procurement system. Further efforts need to be made to ensure an improved VPL is applied to all donor projects.

Furthermore, the strong donor focus on monitoring and evaluation constrains ODA from being completely untied. Based on the findings from the case studies, policies which strengthen government's capacity in international procurement and enhance the government's financial and project monitoring systems would perhaps bring about some improvement.

ICB is the preferred method of selection, since it is considered the most open and most competitive, and is strongly related to untying. If ICB is not practical, this encourages uncompetitive selection and direct hire. Therefore, as international competitors increase their presence in Vietnam and have greater market access, this will also enable more ICB selection procedures and greater untying.

Regardless of the aid modality, from the cases reviewed, a significant effort has been made to ensure that ownership over ODA lies in the hands of the government, through the use of country systems, national TAs and the greater involvement of government executing agencies. Although counterfactuals are not available for comparison for this report, untying aid is judged to have contributed to improving aid effectiveness on development in Vietnam. Furthermore, despite Vietnam's fast approaching middle-income country status, donor provision of ODA continues to play a significant role in the country's economic and social development, which could be accelerated by continuing to open the procurement process and enable more recipient country ownership.

# 1. Introduction

## 1.1 Purpose and Scope

The purpose of the study is to provide the Development Assistance Committee (DAC) and the 2009 High Level Meeting (HLM), as well as the wider development community, with a comprehensive assessment of current donor policies and practices regarding the tying status of aid and an assessment of the effects of the untying status on aid effectiveness with reference to Vietnam.

Phase II of the project is intended to be an exploratory study providing provisional, but evidence based conclusions, about the implications of untying for aid effectiveness. This study is also designed to provide a benchmark from which further actions and policies toward untying can be assessed. The case studies will provide an assessment of the key short-term outcomes of untying aid and identify best practices for implementation of the objectives of the Paris Declaration (PD) through untying. The effects of untying on procurement will be considered in terms of procedures used, the sourcing of goods and services and the implications for the local/regional economy. The study will focus especially on the water and sanitation sector (WSS). The cost-effectiveness of untied aid will also be explored for selected goods and services in that sector.

One hypothesis to investigate is the effect of asymmetric information on procurement and open tenders which can result in *de facto* tying of untied aid. Despite unrestricted procurement and formally open tender offers, donor country suppliers are better informed of the opportunities to tender, resulting in indirect tying of aid. A second hypothesis to explore is the role of donors and agencies in determining the choice of technology, or in specifying standards and designs, which could result as a source of trade bias. The third hypothesis is that aid leads to the creation of goodwill or loyalty between the aid recipient and donor and results in an implicit trade distortion.

The sourcing of goods and services also has developmental implications the investigation will consider not only discrimination amongst high-income country (HIC) suppliers but also in the opportunities for local and regional suppliers to compete for contracts.

The country study includes an investigation on whether aid modality impacts the sourcing of goods and services. Specifically, considers the extent *untied aid* (in the absence of informal or unintentional tying practices) is associated with higher levels of recipient country imports from the donor country than would be unlikely (i.e. inconsistent with the pattern of commercial trade) without such aid. This aids in exploring the third hypothesis outlined above; aid leads to the creation of goodwill or loyalty between the aid recipient and donor and results in an implicit trade distortion.

## **1.2 Synopsis of Vietnam**

Vietnam is a heavily populated maritime country with over 87 million people. The country has undergone over 40 years of war in the 20<sup>th</sup> century followed by international isolation due to its national and foreign policy until c. 1990 when it began re-integration into the international community. As a result of major bilateral and multilateral FDI and ODA<sup>1</sup> flows, Vietnam is approaching middle income country status, which it hopes to achieve by 2015.

Vietnam has committed to the Paris Declaration (PD) via the Hanoi Core Statement on Aid Effectiveness (HCS) of 2005, which closely follows the structure and objectives of the Paris Declaration, including the central pillars of Ownership, Harmonization, Alignment, Results and Accountability. In many cases, however, these targets are more ambitious than those found in the PD, although it excludes untied aid indicators. The HCS constitutes a guideline for improved aid effectiveness in Vietnam and is fully integrated into the country's 5-year Socio-Economic Development Plans (SEDP), as indicated in table 1.1 below.

According to Richard Manning, OECD DAC Chair, who visited Vietnam in early 2005 just prior to the publication of the HCS: "Vietnam is a very interesting test case for examining how far good practices agreed amongst donors are actually applied at country level. With its rapid growth and integration into the global economy, but also its deep poverty and structural problems to surmount, and significant though not dependency-creating aid flows the aid effectiveness agenda is highly relevant. As one DAC member representative said to me while I was in Hanoi, Vietnam seems a case where there is a 'virtuous circle' between the international discussion of good practice and the way in which the local dialogue and practice is developing. It will continue to be well worth watching".<sup>2</sup>

## **1.3 Economic Background of Vietnam**

The economic history of Vietnam can be divided into several phases beginning with the colonial period to 1939, continuing with the war time period until 1975, unification and isolation, 1975-1986; and, finally, the introduction of Doi Moi and integration into the world economy, an ongoing process. Overall the country has made the complicated transition from being a colony to independence while suffering from nearly 35 years of warfare, a further 15 years of isolation and is now working toward becoming a middle-income nation.

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<sup>1</sup> ODA is about 5% of GDP

<sup>2</sup> [http://www.oecd.org/document/21/0,3343,en\\_2649\\_33721\\_34982933\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/21/0,3343,en_2649_33721_34982933_1_1_1_1,00.html)

**Table 1: Indicators and targets in the Hanoi Core Statement**

	<u>Indicator</u>	<u>Indicative Targets to 2010</u>
	Ownership	
1	5 Year Socio-Economic Development Plan (SEDP) is finalised, CPRGS principles are integrated; SEDP is effectively implemented.	5 Year SEDP targets are achieved
	Alignment	
2	Donor assistance strategies are aligned to the SEDP and related national, regional, provincial and sector strategies	All donor assistance strategies
3	Donors strengthen GoV capacity by avoiding parallel PMUs	No parallel PMUs
4	Capacity building objectives are clearly set out in the SEDP and related national, regional, provincial and sector strategies, and PAR. GOV and partner agencies lead comprehensive capacity building programmes with co-ordinated donor support – <i>Percent of aid for capacity building per se delivered through partner-led and coordinated programmes</i>	100% partner-led and coordinated programmes
5	Public procurement systems are strengthened to mutually agreed standards taking into account such recommendations as CPAR, PAR – <i>Percent of aid flow and percent of donors using GoV procurement systems.</i>	At least 50% of aid flows and at least 50% of donors channelling at least 50% of their funds through country systems
6	a) Public financial management systems strengthened and PER / CFAA recommendations are implemented b) GoV publishes timely, transparent and reliable reporting on budget execution, audited by State Audit of Vietnam in accordance with INTOSAI	At least 50% of aid flows and at least 50% of donors channelling at least 50% of their funds through country systems
7	More predictable aid – <i>Percent of aid disbursed according to agreed schedules in annual or multi-year frameworks</i>	75% of aid disbursed on schedule
8	GoV and donors improve environmental and social safeguards – <i>Percent of EIAs and SIAs implemented to international standards and using government systems</i>	At least 100% of EIAs and SIAs under donor funded projects implemented to international standards and at least 30% of these carried out using government systems.
	Harmonisation and Simplification	
9	Fewer, better, core diagnostic and country analytical reviews of Vietnam's development needs. – <i>Percent of country/sector diagnostic reviews and studies used by 2 or more donors.</i>	Core diagnostic reviews used by all donors; at least 75% of country analytical reviews used by 2 or more donors
10	Common project cycle management tools agreed and used throughout the project/programme cycle (planning, design, implementation, management reporting etc.) – <i>Percent of donors using common project/programme cycle tools</i>	At least 50% of donors
11	Donor interventions are co-ordinated within GoV-led policy and sector frameworks, including general / sector budget support and project modalities. The % use of different aid modalities (by volume) will be monitored each year	At least 75% of aid is national or sector programme based
12	Donors enhance capacity of country offices and delegate authority to them – <i>Percent of donors and aid interventions that are managed at the country level</i>	At least 75% of aid interventions
	Managing for Results	
13	Results framework developed and used to assess the performance of the SEDP and sector programmes – Composite score based on 4 characteristics of a results-oriented framework (objectives, availability of indicators, M&E capacity and information use in decision making)	Score of 3 based on DAC criteria and continuous monitoring
	Mutual Accountability	
14	Periodic mutual assessment of progress in implementing agreed commitments on aid effectiveness	Annual assessment

In the last ten years, the government has focused on liberalizing the economy by bring it in line with the global market place and globalization processes, while at the same time maintaining control of the macro economic structure. As part of the strategy Vietnam joined the WTO in 2007 and is actively integrating the economy to meet international standards.

Since 2000 GDP has grown from VND441, 646 billion to VND1, 144,015 billion in 2007 while growth per annum has risen from 6.8% to 8.5% in the same period at about 0.2% per annum<sup>3</sup>. Per capita GDP has risen from VND5, 689 thousand to VND13, 435 over the same period while per capita GNI has risen from VND5, 607 thousand to VND11, 322 thousand in 2006. The IMF forecast GDP growth is estimated to be 3.3% in 2009, as against Government plan of 6.5%, and 4% in 2010.<sup>4</sup>

Between 2000 and 2007 employment in Vietnam has risen from 37.6 million to 44.2 million though the percentage employed in agriculture has fallen from two-thirds to about half the labor force, even though the actual number has risen by 6.5 million. However lay offs have become common in the last 12 months with up 20% loss in some sectors and industrial zones.

Whether rapid economic growth is sustainable is open to debate. Even before the global downturn the macro-economy was facing some difficulties as judged by the doubling in the CPI from 2004 to 2007 to between 7.5-8.5% which has created massive inflationary pressures on the basic living standards with a knock-on effect on competitiveness and exports. In 2008 the situation worsened with inflation reaching just under 23% (food prices almost doubled); it peaked in August at 28% but fell to 19% by December. Inflation in the first quarter of 2009 is estimated at 14.5%, mostly from rises in the price of food at 22%<sup>5</sup>. The IMF has suggested that it will fall to 6% by the end of 2009.

The economic future of Vietnam will strongly depend on a combination of global and national factors that are difficult to forecast depending on the path developed economies will follow and whether the long-term forecast of Asian economic superiority will come to fruition. In the meantime, Vietnam's economy is fragile and still overly dependent on forces outside of its control so the timing of its overall plan of becoming a middle-income country is hard to predict or confirm.

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<sup>3</sup> Economic Data, ADB, 2008

<sup>4</sup> <http://www.imf.org/external/country/VNM/index.htm>

<sup>5</sup> [http://www.itpc.gov.vn/investors/news/2009/03/2009-03-25.611508/MISNews\\_view/?set\\_language=en](http://www.itpc.gov.vn/investors/news/2009/03/2009-03-25.611508/MISNews_view/?set_language=en)

## 2. Aid and tying/untying status

### 2.1 Overview

Though Vietnam has received ODA since the 1960s; it was only after the introduction of Doi Moi in 1986 and the 1993 Paris Round Table Conference that large scale non-political bilateral and multilateral aid became significant. Vietnam has become a regular attendee of the annual Consultative Group (CG) and become a vice-president; the donor community has broadened to 30 bilateral and 23 multilateral donors and is now one of the largest recipients of aid in the world<sup>6</sup>.

Before 1974 the country received large amounts of US aid but in the 1980s most ODA came from the USSR (10% of GDP) with limited aid from the UNDP, Swedish International Development Agency (SIDA) and other non-aligned nations, while the UN assisted with access to international aid organizations, particularly when emergency food aid was needed. For political reasons the World Bank and IMF did not provide loans, but after 1990, provided some technical and management expertise and facilitated a 1990 meeting between the ministries of finance from Vietnam with Malaysia, Indonesia and Korea. Once this policy framework was deemed satisfactory, large scale ODA started to arrive (3% of GDP) that supplemented Soviet aid, which had collapsed to 1% of GDP in the meantime<sup>7</sup>.

In the 1990s most of the specialized UN agencies opened offices in Vietnam and by 1993 the World Bank had lent US\$1.3 billion for 12 projects. The most important bilateral donors were Japan, France, Australia, Scandinavia and Kuwait; Japan was the largest and focused on infrastructural construction and technical assistance, important for attracting Japanese FDI. However, according to Ngoc Thu in an article on the impact of ODA on Vietnam's economic development, Vietnam could not take the initiative in attracting ODA, unlike FDI, because it depended on donors, whose objectives were sometimes differed from recipients<sup>8</sup>.

By the mid 1990s the three largest donors were Japan, the World Bank and the Asian Development Bank (ADB) providing 70% of the committed ODA, which mostly went to economic and social infrastructure, i.e. industrial infrastructure (25%, mainly power, important for industrialization and modernization), communications infrastructure (15%, mainly roads seen as imperative to improve local economies) and irrigation and forestry (12%). Social infrastructure projects included 29 national programs aimed at rural development and human resources development<sup>9</sup>.

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<sup>6</sup> Evaluation of the Poverty Reduction Strategy Paper (PRSP) Process and Arrangements Under the Poverty Reduction and Growth Facility (PRGF), IMF, 2004

<sup>7</sup> Assessing Aid, World Bank, 1998

<sup>8</sup> Impact of ODA on Vietnam's economic development, Ngoc Thu 1997-  
[www.ueh.edu.vn/tcptkt/english/1997/thang4/ngocthu.htm](http://www.ueh.edu.vn/tcptkt/english/1997/thang4/ngocthu.htm)

<sup>9</sup> Impact of ODA on Vietnam's economic development, Ngoc Thu, 1997  
<http://www.ueh.edu.vn/tcptkt/english/1997/thang4/ngocthu.htm>

By the end of 2008 total ODA disbursement had reached US\$22.065 billion, accounting for 52% of total commitments and 62.65% of the total signed ODA<sup>10</sup>. But while the amount has increased year by year, according to the Ministry of Planning and Investment (MPI), it remains insufficient in meeting the targets set out in the country's 5-year Socio-Economic Development Plan (SEDP), and the disbursement rate is below average levels regionally and worldwide. At the World Bank Consultative Group for Vietnam meeting of December 2008, foreign donors pledged US\$5.01 billion of ODA for Vietnam for 2009, a drop from US\$5.4 billion the previous year; however the subsequent rejoining of Japan in May 2009 has since increased the figure to c. US\$6 billion. When ODA disbursements minus repayments (US\$1.5-2 billion, an estimated 2% of national income, or 50% of ODA, is spent on debt servicing) are taken with low disbursement rates then available funds are much less.<sup>11</sup>

As indicated below in Chart 3, over the last 15 years ODA has primarily been allocated to Agriculture and Rural Development (US\$5.5 billion), Energy (US\$7.6 billion) and Infrastructure (US\$9.88 billion) which has absorbed two-thirds of disbursements. Health, Education and Training, Environment, Science and Technology has received US\$4.3 billion. Generally since the 1990s infrastructure has received over 40% of ODA, human and rural development 15-20% each and policy and governance the balance. Loans have risen from around 50% in 1996 to 60% in 1998 and currently are about 65-70%<sup>12</sup>. In 2006 there were 127 projects worth US\$22.7 million and programs and 613 calling for ODA worth US\$42 million.<sup>13</sup>

## **2.2 Paris Declaration (PD) and the Hanoi Core Statement (HCS)**

The PD was adapted to the Vietnamese situation through the 2005 Hanoi Core Statement on Aid Effectiveness which includes “The Government of Vietnam and donors jointly assess, and carry out annual independent reviews, on progress in implementing agreed commitments on aid effectiveness and improved development outcomes through existing and increasingly objective country level mechanisms (Indicator 14)”.<sup>14</sup> However the issue of tied/untied aid is not referred to in the Core Statement, the Ministry of Planning and Investment's 2006 Questions and Answers on the Hanoi Core Statement<sup>15</sup>, the Partnership Group on Aid Effectiveness 2006 Report ‘Driving forward the realization of Hanoi Core Statement’, or 2008 Report ‘Independent Monitoring Report on Implementation of the Hanoi Core Statement’<sup>16</sup>. However the Ministry of Planning and Investment's Q & A on the Accra

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<sup>10</sup> Overview of 15 year receiving ODA of Vietnam, (1993-2008) MPI, 2008

<sup>11</sup> Proceedings from the 4<sup>th</sup> High Level Round Table Meeting on 20 year review of Doi Moi, UNDP, 2007

<sup>12</sup> Vietnam – Development Cooperation, UNDP, 2005

<sup>13</sup> SEDP - 2006-10, MPI, 2006

<sup>14</sup> Point 27, <http://www.aidharmonization.org/download/256123/HanoiCoreStatementfinalversion2July.pdf>

<sup>15</sup> <http://www.isgmard.org.vn/Information%20Service/Experience/Q&A%20on%20HCS-e.pdf>

<sup>16</sup> The 2008 Survey Orientation Workshop states that there is no HCS equivalent to PD indicator 8 and it is not included in survey. [ccbp.mpi.gov.vn/.../HCS-PD%20Monitoring%20Survey%202008%20-](http://ccbp.mpi.gov.vn/.../HCS-PD%20Monitoring%20Survey%202008%20-)



Agenda for Action does contain the recommendation that the amount of tied aid should be reduced but it is seen as a ‘sensitive’ issue along with aid with conditionality, division of labor among donors, use of developing country systems etc.

A Needs Assessment Report Survey on Partners’ Priorities and Perspectives on Harmonizing Donor Practices<sup>17</sup> prepared for the Organization for Economic Development, Development Assistance Committee (OECD DAC) Task Force on Donor Practices found for Vietnam, that “If aid was tied then choice was restricted, the equipment purchased was not always of an adequate quality or compatible with existing equipment and it was always more expensive than in a competitive bid. Thus tied aid was cited as a factor that most diminishes the value of aid.” Other issues were long and complicated procurement procedures and restrictions against specific companies such as SOEs and local companies where the project was to take place.

According to the Vietnam Chapter of the 2006 Survey of Monitoring the Paris Declaration 67% of 89% of OECD 2004 commitments was untied. This was described as “encouraging, although there remains room for further progress”; the 2010 target is over 67% should be untied. However if technical assistance, 12% of ODA is free standing and 35% has a TA component, is included than only 60% is untied<sup>18</sup>.

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%20Key%20questionnaires%20for%20key%20indicators.ppt. See MPI’s ODA newsletter, no. 32, May 2009, for ‘Efforts to improve Aid Effectiveness over the 6 months of 2009’. It is also not referenced in any of the 20 year RTM reviews of Doi Moi.

<sup>17</sup> International Development Department, School of Public Policy, The University of Birmingham, 2002

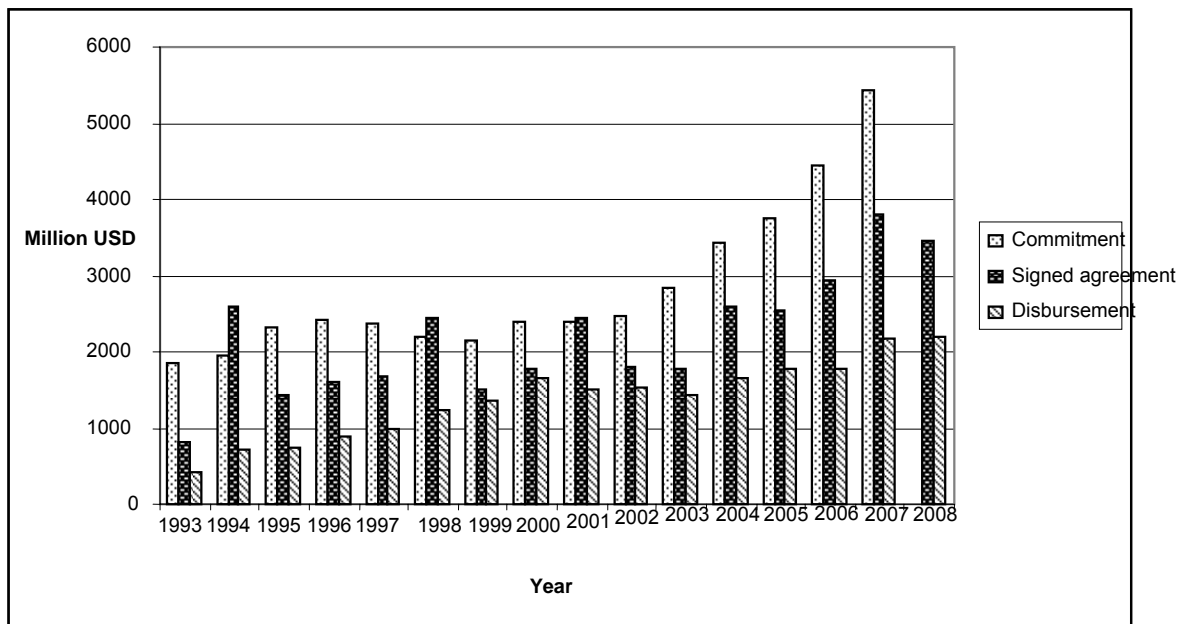
<sup>18</sup> CSOs and Aid Effectiveness Regional Workshop, NGO Forum, Hanoi, 2007

### 3. Statistical review of ODA to Vietnam

#### 3.1 ODA Overview

According to the Ministry of Planning and Investment (MPI)<sup>19</sup> (see chart below) there has been major problems in translating commitments into disbursements and while the former has risen sharply from 2002, actual disbursements have risen much more slowly and is below the average regional rates.

**Figure 1: ODA Committed, Signed and Disbursed, 1993 - 2008**



Source. ODA Newsletter, MPI, No.32, May 39

The table below <sup>20</sup> provides an overview of signed ODA structure by sector for the period 2006 combined with the planned disbursement for 2006-10. The table indicates growth of ODA in industry, energy and infrastructure by about 16% with declines in agriculture, including related sub-sectors, and social spending, such as health, education etc. This shift indicates investment is being concentrated into economic industrial and services development as rural poverty declines.

<sup>19</sup> Overview of 15 year receiving ODA of Vietnam (1993-2008), Vietnam Ministry of Planning and Investment, 2008

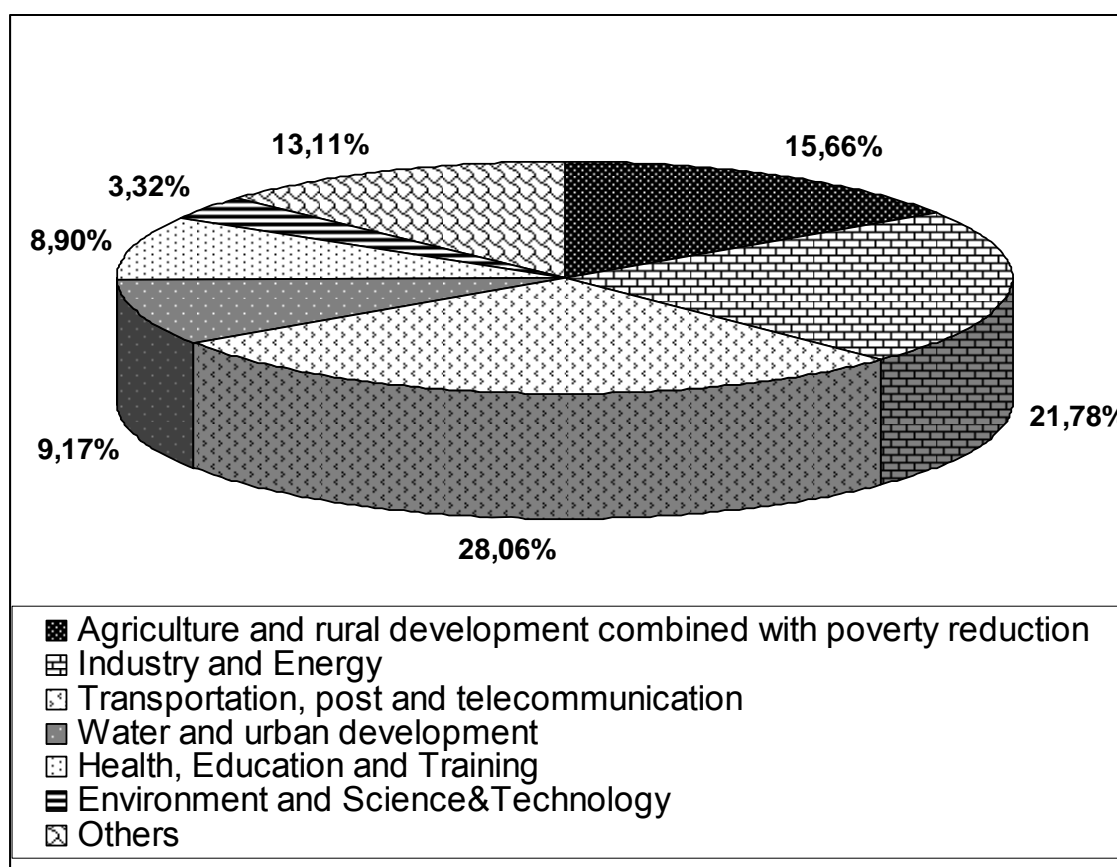
<sup>20</sup> ODA Newsletter, MPI, No. 32, May 2009

**Table 2: Planned, signed and total ODA by sector 2006-2008 and 2006-2010**

Sector	Planned signed ODA structure, 2006-10 (%)	Signed ODA structure, 2006-8 (%)	Total signed ODA, 2006-8 (US\$ million)
Agriculture, Irrigation, Forestry, Fisheries, Rural Development & Poverty Reduction	21	13	1477
Industry & Energy	15	23	2541
Transportation, Post & Telecommunication, Urban Water Supply & Drainage	33	42	4622
Health, Training & Education, Environment, Science & Technology, etc.	31	22	2430

In the broader context, the breakdown of ODA by sector is shown in the chart below, which indicates that sector allocation of ODA has been fairly constant since 1993.

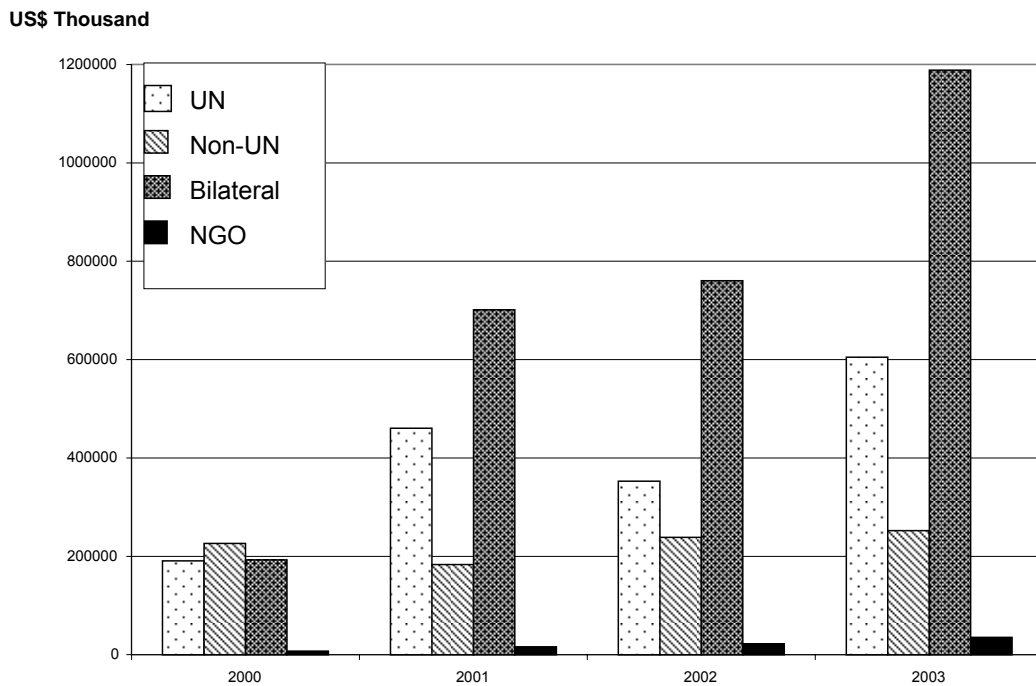
**Figure 2: ODA Structure: by Sectors and Areas, 1993-2008**



Source: MPI (2008) 'Overview of 15 year of receiving ODA of Vietnam 1993-2008'

The following chart shows the origin of ODA indicating that bilateral aid is the most common source and is growing rapidly, while ODA through UN agencies are also significant. Other multilateral aid is fairly stable, while NGOs, though relatively small, has risen by five times over this period<sup>21</sup>.

**Figure 3: ODA Source 2000-2003**



Source: Vietnam Development Corporation, UNDP (2005) and VFO / NGO Resource centre

### 3.2 Donor Review

The list of donors have been divided between DAC members and non-DAC members in order to draw a comparison between the ODA policies of the two groups, as well as the range of aid modalities employed within each group.

#### *DAC Members*

##### **European Commission**

The EC has granted €3.9 million for the Multilateral Trade Policy Assistance Programme since 1998 primarily for WTO accession with a further €10 million for 2008-12<sup>22</sup>.

<sup>21</sup> Vietnam – Development Cooperation, UNDP, 2005. NGO figures come from VFO/NGO Resource centre database but only represents those registered with them and not the total registered with PACCOM

<sup>22</sup> <http://www.mofa.gov.vn/en/nr040807104143/nr040807105039/ns080618095635>

The EC will further disburse €58.75 million in grants as part of EC development assistance for 2007-2010, through a varied forms of aid modality, including budget support to the SEDP, 2006-2010, through the Poverty Reduction Support Credit (PRSC) (€44 million) and capacity-building support to the health sector (€14.75 million of which €2 million is contributed by Luxembourg) through a Programme Based Approach (PBA).

### **Austria**

As one of the smaller donors to Vietnam, Austria employs ODA export assistance credit which obliges beneficiaries to buy equipment from Austria through Austrian banks. Between 1980-1997, it granted non-refundable aid for “Restoration of tractor” project in Vietnam worth US\$1.06 million to restore 1,500 imported tractors from Austria.

### **Australia**

Australia untied its overseas aid program to Vietnam in 2006. Its has a humanitarian and a practical interest in ensuring that Vietnam achieves long-term stability and prosperity for reasons of regional security, expanding commercial and privately-funded university markets. Total ODA is AU\$104 million and for 2008-9 will be AU\$77 million.<sup>23</sup>

### **Belgium**

Vietnam is the only country in Asia given ODA priority by the Belgian government. Since 1993, it has given about €120 million (€19.6 million in 2004 and 2005), including €40 million worth of preferential credit and €80 million worth of aid, provided through bilateral and multilateral cooperation, non-governmental organizations (NGOs), and cooperation among universities; with a focus on cooperation in agricultural and rural development, education and training, healthcare and environment. For 2007-2010, Belgium has pledged to grant €32 million giving priority to human resources development, water source management, environmental protection, and improvement of health and living standards<sup>24</sup>.

### **Canada**

Canadian ODA to Vietnam, has steadily increased in recent years; US\$18 million in 2003, US\$24 million in 2004, US\$26 million in 2005, US\$33 million in 2006 and US\$29 million in 2007. The country development programme framework (CDPF) plan 2004-9, covers poverty-reduction priorities and focuses on the core sectors of governance, rural and private-sector development, and basic education, with gender equity as a crosscutting theme.

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<sup>23</sup> <http://www.usaid.gov/country/country.cfm?CountryID=33&Region=EastAsia>

<sup>24</sup> [http://vibforum.vcci.com.vn/news\\_detail.asp?news\\_id=15847](http://vibforum.vcci.com.vn/news_detail.asp?news_id=15847)

## **Denmark**

ODA from Denmark<sup>25</sup>, 1993-2007, is almost US\$800 million; currently annual ODA is over US\$60 million. Recently ODA from Denmark has focused increasingly on sector programs, mainly in the fields of construction material industry, fisheries, agricultural and rural development, via Agricultural Development Denmark Asia (ADDA), water supply, environmental and natural resources protection, public administration and legal reform, support for local businesses, finance and banking.

## **Finland**

From 1995-2004, Finland disbursed approximately US\$10 million a year to Vietnam and between 2005-7 €18.3 million was granted focusing on forestry, rural development, poverty reduction and energy<sup>26</sup>. It has continued to pledge non-refundable aid and concessionary credits for urban infrastructure (water sector & ship repairs) and rural poverty reduction.

The aid appears to be partially tied, for instance the tender documents for the supply and installation of plant and equipment, civil works and services for South Binh Duong Waste Treatment Complex is open to ‘eligible Finnish contractors’ but the Government does make unconditional grants to INGOs (€2.2 million in 2007<sup>27</sup>). According to the Finnish Minister of Foreign Trade and Development, Paavo Väyrynen in 2009, “Finnish commercial and industrial organizations could be more widely involved and contribute to the establishment of economic foundations for development.”<sup>28</sup>

## **France**

France’s current strategy is that all aid is untied<sup>29</sup> a reversal that took place around 2003. Vietnam receives ODA, preferential loans from the French Development Agency (AFD), and soft loans from the Priority Solidarity Fund (FSP). Vietnam is now the seventh largest recipient of French ODA and has received €1.2 billion for over 210 projects (US\$406 million in 2005<sup>30</sup>), focusing on legal and political reform; education system modernization and research program; economic restructuring; poverty reduction and social welfare via community healthcare<sup>31</sup>.

An interesting development is the tripartite cooperation between Vietnam, France and other NGOs in Africa, i.e. Mali, Burkina Faso and Senegal in the fields of agriculture and health care, though the

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<sup>25</sup> [http://www.mofa.gov.vn/en/cn\\_vakv/euro/nr040819111225/ns071001074317](http://www.mofa.gov.vn/en/cn_vakv/euro/nr040819111225/ns071001074317)

<sup>26</sup> [http://www.mofa.gov.vn/en/cn\\_vakv/euro/nr040819111730/ns041129143352](http://www.mofa.gov.vn/en/cn_vakv/euro/nr040819111730/ns041129143352)

<sup>27</sup> <http://formin.finland.fi/public/default.aspx?contentid=92428&nodeid=15409&contentlan=2&culture=en-US>

<sup>28</sup> <http://formin.finland.fi/Public/default.aspx?contentid=160718&nodeid=15409&culture=en-US>

<sup>29</sup> [http://www.afd-chine.org/jahia/webdav/site/afd/users/administrateur/public/plaquettes/AFD-Vietnam\\_GB.pdf](http://www.afd-chine.org/jahia/webdav/site/afd/users/administrateur/public/plaquettes/AFD-Vietnam_GB.pdf)

<sup>30</sup> <http://patrick.guenin2.free.fr/can Tho/vnnews05/triples.htm>

<sup>31</sup> [http://www.mofa.gov.vn/en/cn\\_vakv/euro/nr040819111708/ns041129144143](http://www.mofa.gov.vn/en/cn_vakv/euro/nr040819111708/ns041129144143)

amount and proportion of aid that is tied, under the guise of sharing development experiences, remains to be investigated.

### **Germany**

The German government has pledged over €117 million for 2008-2009 for €22 million for Technical Cooperation and €95 million for Financial Cooperation. Current focus is on sustainable economic development including technical and vocational training; environmental policy, conservation and the sustainable use of natural resources, including sewage treatment and waste disposal and improving health care, especially in rural areas<sup>32</sup> German aid is, depending on method of calculation, either 94% (baseline-weighted) or 64% (average-weighted) untied of which 50% of technical cooperation is untied,<sup>33</sup>

### **Ireland**

All Irish aid is untied. In Vietnam, €7.5 million was spent in 2005 and 2006 on development cooperation programs. A Country Strategy Paper (CSP), 2007-2010, is aligned with Vietnam's 5-year SEDP, 2007-2010. The total budget for the CSP (2007-2010) is €87.53 million with €22.6 million allocated in 2008<sup>34</sup>.

Irish Aid<sup>35</sup> has agreed to support the UN One Plan by providing untied funding to support UN core programs while, at the same time, promoting reform and reducing duplication of mandates and activities.

### **India**

India solely provides preferential credit and has financed the construction of Nam Chien and A Luoi Hydroelectricity Projects at a cost of US\$72 million<sup>36</sup>

### **Italy**

Italian aid by concessional loans is tied by law unless specific waivers are applied for, though informally modified to take DAC recommendations into account. Italian aid<sup>37</sup> tends to be project and TA based such as two recent tied loans which fund the building of the water system in the city of

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<sup>32</sup> <http://www.bmz.de/en/countries/partnercountries/vietnam/zusammenarbeit.html>

<sup>33</sup> Evaluation of the Implementation of the Paris Declaration, Case Study of Germany, 2007, pp. 21 & 66

<sup>34</sup> <http://www.irishaid.gov.ie/vietnam.asp>

<sup>35</sup> <http://www.irishaid.gov.ie/vietnam.asp>, The Irish Government gave €7.5 million in 2004-5 and €87.53 has been allocated for 2007-10, all its aid is untied

<sup>36</sup> <http://oda.mpi.gov.vn/index.jsp?sid=1&id=52&pid=51> India.doc

<sup>37</sup> [http://www.hipc-cbp.org/files/en/open/Guide\\_to\\_Donors/Italy\\_31\\_03\\_09.pdf](http://www.hipc-cbp.org/files/en/open/Guide_to_Donors/Italy_31_03_09.pdf)

Quang Ngai (€2.3 million) and an Italian company is setting up a floods monitoring system (€2.5 million)<sup>38</sup>. In 2007, the previous Italian Government proposed that, among other measures, all aid should be untied under legal reform though both the DAC/OECD and Centre for Global Development report that the country has made the least amount of progress.

In 2007, Italy<sup>39</sup> pledged to give €42.15 million in ODA to Vietnam, including €4.05 million in non-refundable aid, and €38.1 million in preferential loans. 77% of Italy's ODA is usually allocated to social field, while human resource development receives 5%, production development and marketing 12%, and poverty reduction 6%.

### Japan

Most of Japanese ODA to Vietnam is in the form of loans, which have generally centered on economic infrastructure development (mainly transportation and sewerage / drainage). Japan has extended a lesser proportion of aid as grants, mostly for projects centering on basic human needs and social development, as well as technical assistance. In FY 2008, Japan provided grant aid for projects including Groundwater Development in Central Highland Provinces, Reinforcement of Custom Functions in Ho Chi Minh City port, and 28 projects of Grant Assistance for Grassroots Human Security. Japan states that between 2004 and 2006, 64% of its aid to Vietnam was untied (CRS). Japan continues to tie its aid to Japanese primary contractors under grant aid projects, although these projects will often use Vietnamese or foreign sub-contractors. All loan based Japanese projects are now officially untied. From 2004-2006, more 11% of Japan's aid was partially tied.<sup>40</sup>

**Table 3: Japan ODA to Vietnam; value by aid instrument and year (100 million JPY)**

Fiscal Year	ODA Loan	Grant Aid	Technical Cooperation (JICA)
2003	793.30	56.50	55.77
2004	820.00	49.14	57.11
2005	908.20	44.65	56.61
2006	950.78	30.97	52.75
2007	978.53	21.19	51.98
2008	832.01	26.67	59.65

Source: Japan MOFA, 2008

There was a hiatus when Japan suspended its loan assistance due to a corruption case involving Tokyo-based Pacific Consultants International and Vietnamese officials relating to the Saigon East-West

<sup>38</sup> <http://actionaiditaly.blogspot.com/2007/11/italian-tied-aid-some-examples.html>

<sup>39</sup> [http://www.mofa.gov.vn/en/cn\\_vakv/euro/nr040819111416/ns041129145414](http://www.mofa.gov.vn/en/cn_vakv/euro/nr040819111416/ns041129145414)

<sup>40</sup> <http://www.endpoverty2015.org/global-partnership/resource/japan-and-mdgs>



Highway project in HCMC and the alleged bribery of officials in the PMU in return for consulting contracts in 2001-2003. After negotiations Japan resumed aid in February 2009 and is making low-interest loans of US\$900 million for several recent large infrastructure projects including an urban railway system for Hanoi, drainage and environmental improvements in Hanoi and Haiphong, and rural bridge improvements<sup>41</sup>. Overall Japan has committed US\$14 billion since 1992, a third of all ODA to Vietnam during this period, which has been primarily in infrastructural development.

### **Luxembourg**

All Luxembourg ODA is completely untied. During 2002-5 Luxembourg disbursed €35 million primarily in healthcare, education, rural development, environmental improvements and poverty reduction and have committed a further €50 million for 2006-10<sup>42</sup>. Luxembourg has made efforts to ensure explicit untying of aid through its relationship with national NGOs; most are eligible for 66-75% unconditional funding while in more specific cases, 80% of unconditional funding for multi-year agreements between the GoV and the NGO on the basis of a geographically and/or sectorally targeted intervention strategy.<sup>43</sup> A 2007 bilateral agreement will cover the strengthening of the legal framework, consolidation of initial public offerings (IPOs) and trading securities, IT information systems, and capital market supervision will be implemented by the State Securities Commission of Vietnam, together with ATTF and Lux-Development, the Luxembourg agency for Development Cooperation.<sup>44</sup>

### **Netherlands**

Since 2007 the Netherlands is shifting its focus from solely development cooperation to a range of relationship types. The embassy will reduce its financier role, phasing out general budget support with €9 million for 2008-9. It will continue existing commitments in water, forestry and health until 2011 (€11 million committed) and focussing on growth and distribution; sustainability, energy and climate and HIV.

In the water management sector, the Netherlands wishes to remain a silent partner and will look for initiatives where other actors, such as academia and the private sector, stand to benefit and can provide several business opportunities for Dutch institutions and experts (consultancies, education and training services, goods and equipment, investment), especially in areas where the Netherlands has niche knowledge<sup>45</sup>.

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<sup>41</sup> [http://www.mofa.go.jp/announce/announce/2009/3/1189857\\_1130.html](http://www.mofa.go.jp/announce/announce/2009/3/1189857_1130.html)

<sup>42</sup> <http://english.vietnamnet.vn/biz/2006/03/549669/>

<sup>43</sup> <http://webapps01.un.org/nvp/frontend!policy.action?id=841>

<sup>44</sup> <http://www.mofa.gov.vn/en/nr040807104143/nr040807105001/ns071011081406>

<sup>45</sup> <http://www.netherlands-embassy.org.vn/development>

## **New Zealand**

New Zealand aid is largely untied and has risen from 76% in 2002 to 92% in 2005, and includes contributions to the UN.<sup>46</sup>

New Zealand granted NZ\$11.4 million in 2005-2007 and from 2007-10, aid will increase to over NZ\$10 million per year focussing on human resources, agricultural and rural development, health, primary education and state management<sup>47</sup>.

New Zealand is targeting ODA at both national and sub-national levels. Support is given at the national level in support of Vietnamese government programs in primary education and avian influenza. NZAID is also providing US\$ 4 million over four years (2007-2010) to the One Plan Fund of the United Nations in Vietnam. At the provincial level, it is supporting early childhood education, a maternal child health program, and is developing a new rural livelihoods initiative in Binh Dinh province. It is resuming sustainable rural livelihoods, education and health cooperation with the neighbouring Gia Lai province from 2008.<sup>48</sup>

## **Norway**

Norway's total grant-aid<sup>49</sup> until 2007 was c. US\$186 million, and has focused on gas and petroleum, seafood, poverty reduction, administration reform, primary school education and shipbuilding. In 2004-2005, it pledged US\$9 million for governance, education and economic development. There are totally 15 projects implemented in Hanoi, Quang Tri, Ninh Binh, Lai Chau and Thua Thien-Hue. Norway's Global Fund erased US\$5.7 million debt, which was converted into a poverty reduction program grants for Ha Giang and Quang Binh provinces.

## **Singapore**

Vietnam is one of the top beneficiaries of Singapore's technical assistance under the Singapore Cooperation programme (SCP), that gives scholarships for training courses for government officials in a wide variety of fields, including English Language, Information Technology, Public Administration, Trade and Tourism as part of its technical assistance through the International Relations Department of the Vietnamese Ministry of Education and Training<sup>50</sup>. The Framework Agreement on Vietnam-Singapore Connectivity allows Singapore and Vietnam to leverage on each country's competencies,

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<sup>46</sup> Evaluation of the implementation of the Paris Declaration, NZAID, 2008, pp.29 & 106

<sup>47</sup> [http://www.mofa.gov.vn/en/cn\\_vakv/ca\\_tbd/nr040819103506/ns050131110011](http://www.mofa.gov.vn/en/cn_vakv/ca_tbd/nr040819103506/ns050131110011)

<sup>48</sup> <http://www.nzaid.govt.nz/programmes/c-vietnam.html>

<sup>49</sup> [http://www.mofa.gov.vn/en/cn\\_vakv/euro/nr040819111625/ns041129150322](http://www.mofa.gov.vn/en/cn_vakv/euro/nr040819111625/ns041129150322)

<sup>50</sup> <http://app.scp.gov.sg/scholarabt.asp>

creating opportunities for the private sector in Singapore to contribute to Vietnam's development, and for greater people-to-people exchanges.<sup>51</sup>

### **Spain**

Spain is a tied-aid donor as per its “anti-crisis plan for the internationalization of the Spanish economy”<sup>52</sup>; total tied ODA was at 30% in 2006<sup>53</sup> and 17% in 2008, though in Vietnam it channels around 78% through the country’s procurement systems<sup>54</sup>. It made a €65 million preferential loan for 2008-10 for socio-economic development, specifically for transport infrastructure, energy, post and telecommunication and water management and also committed €3 million in non-refundable aid for Spanish companies to make feasibility studies in Vietnam. Another €200 million will be made available should Spain become involved in the construction of Ho Chi Minh City’s metro system

### **Sweden**

Ever since the establishment of diplomatic relations in 1969, Sweden has made uninterrupted contributions to national construction and socio-economic development in Vietnam. Total ODA to 2007 is over US\$3 billion (US\$40 million in 2007). Initially, the focus was on humanitarian assistance and infrastructure projects but then shifted to supporting Doi Moi. Sweden is currently moving away from direct ODA to partner-driven cooperation as Vietnam moves towards middle-income status. In 2008, the two countries agreed to become equal partners in the Health sector to replace the donor-recipient relationship. The shift aims to increase the sustainability and payment capacity in healthcare for both sides, and to develop a broader partnership between companies, organisations and research institutions from the two countries. The main areas for co-operation include Poverty Alleviation, Public Administration Reform, Economic Reform, Public Financial Management, Health Care, Legal Reform, Natural Resources and Environment, Rural Energy, Research Cooperation, Culture and Media<sup>55</sup>.

### **Switzerland**

Switzerland carries out its strategy of development cooperation through Swiss Agency for Development and Cooperation (SDC) and State Secretariat for Economic Affairs (SECO) via non-refundable aid and support through mixed credit agreements according to which a commercial interest rate is applied to 50% of the total amount and the rest is non-refundable aid. Since 2007 Vietnam has

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<sup>51</sup> <http://www.mfa.gov.sg/>

<sup>52</sup> [http://www.cidse.org/uploadedFiles/Publications/Publication\\_repository/CIDSE%20financial%20crisis%20policy%20paper%20April%2009%20EN.pdf](http://www.cidse.org/uploadedFiles/Publications/Publication_repository/CIDSE%20financial%20crisis%20policy%20paper%20April%2009%20EN.pdf)

<sup>53</sup> EU aid: Genuine Leadership or misleading figures? Joint EU/NGO report, 2006, p. 25

<sup>54</sup> [http://www.hipc-cbp.org/files/en/open/Guide\\_to\\_Donors/Spain\\_31\\_03\\_09.pdf](http://www.hipc-cbp.org/files/en/open/Guide_to_Donors/Spain_31_03_09.pdf)

<sup>55</sup> [http://www.mofa.gov.vn/en/cn\\_vakv/euro/nr040819111931/ns071211103624](http://www.mofa.gov.vn/en/cn_vakv/euro/nr040819111931/ns071211103624)

received US\$750 million for financial and banking cooperation, production, energy, transportation, etc. Currently, the focus is on global integration and post-WTO development, education and training, with priority given to personnel training in tourism, finance-banking, and hi-tech industries, i.e. nuclear energy and nano technology. The two countries have also agreed to negotiate a program for government-level education and training cooperation for 2012-2015<sup>56</sup>.

### **United Kingdom (UK)**

The UK, through their Department for International Development (DfID), has funded projects in Vietnam since 1992 with a total value of c. US\$498 million and has steadily increased from around US\$31.6 million in 2001 to c. US\$100 million per year since 2006. The current Assistance Plan for Vietnam will focus on three areas including ensuring continued strong economic growth and opportunities for the poor as Vietnam integrates into the global economy, improving the quality and inclusiveness of basic services for the poor, and promoting effective and accountable governance<sup>57</sup>. In 2007 it disbursed UK£4 million to the One UN Initiative<sup>58</sup>. All current projects are untied.

### **United States of America (USA)**

As might be expected the relationship between the USA and Vietnam is complicated but since the late 1990s has been normalized with various treaties and agreements. Current USAID programs focus on governance (technical assistance regarding the BTA), HIV and H1N5, education, health care, employment, etc. to people with disabilities, anti-trafficking, ethnic minorities, public-private partnerships in agriculture and IT, plus humanitarian disaster relief assistance.

The USA stopped reporting the tied/untied status of aid in 1996, which, at the time, was 28% untied<sup>59</sup>; currently the OECD estimated it to be about 46% in 2006<sup>60</sup>, while further estimates stated it was 69% in 2007<sup>61</sup>. USAID only supplies 45% of total ODA while the Departments of Defense<sup>62</sup> and State provide 31%<sup>63</sup>. The USA is in a somewhat anomalous position as it is believed that the country ties aid

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<sup>56</sup> <http://www.mofa.gov.vn/en/nr040807104143/nr040807105001/ns090205084258>

<sup>57</sup> <http://www.mofa.gov.vn/en/nr040807104143/nr040807105039/ns080521085005>

<sup>58</sup> <http://www.mofa.gov.vn/en/nr040807104143/nr040807105001/ns070831080258>

<sup>59</sup> [http://www.nyu.edu/fas/institute/dri/Easterly/File/Where\\_Does\\_Money\\_Go.pdf](http://www.nyu.edu/fas/institute/dri/Easterly/File/Where_Does_Money_Go.pdf). For the justification see: <http://www.dredge.com/news/tiedaid.htm>

<sup>60</sup> [http://www.oxfamamerica.org/whatwedo/campaigns/aid\\_reform/news\\_publications/Tied-Aid-AidNow-FactSheet.pdf](http://www.oxfamamerica.org/whatwedo/campaigns/aid_reform/news_publications/Tied-Aid-AidNow-FactSheet.pdf)

<sup>61</sup> [http://blogs.nyu.edu/fas/dri/aidwatch/2009/02/unsung\\_hero\\_resurrects\\_us\\_tied.html](http://blogs.nyu.edu/fas/dri/aidwatch/2009/02/unsung_hero_resurrects_us_tied.html)

<sup>62</sup> ODA stands for 'Operational Detachment Alpha' in the Department of Defence

<sup>63</sup> [http://www.oxfamamerica.org/newsandpublications/publications/briefing\\_papers/foreign-aid-101/Foreign-Aid-101.pdf](http://www.oxfamamerica.org/newsandpublications/publications/briefing_papers/foreign-aid-101/Foreign-Aid-101.pdf)

to political support in the UN<sup>64</sup>. Other research<sup>65</sup> indicates a correlation between membership of the UN Security Council and increase of U.S. ODA (59%) and UN aid (8%, particularly via UNICEF); this may be of significance to this study since Vietnam is a non-permanent member of the Security Council for 2008-9<sup>66</sup>. Cooperation in Missing-in-Action (MIA) search and repatriation programs is also likely to be a factor.

The 2005 Paul Simon Water Bill states that “Several USG agencies already leverage considerable resources from non-USG sources, promote environments where private sector investment becomes attractive, and strengthen the climate for international trade with U.S. environmental technology firms. Federal agencies have also developed a significant range of partnerships with private sector companies, non-governmental and private voluntary organizations, academic and research institutions, faith-based organizations, host country governments, and international donor partners in strong, mutually supportive relationships that support U.S. water sector interventions as well as the interests of the partnering organizations”.<sup>67</sup>

### ***Non-DAC Members***

#### **China**

Overall Chinese foreign policy is through ODA support and economic cooperation, “Resource Diplomacy”, across resource-rich countries; they are believed to be gaining a competitive advantage in the struggle for energy resources. In the case of Vietnam the shared border has developed into a strong bilateral trade relationship. Notwithstanding their history and current competing territorial claims, it gives concessional credits to Vietnam, focusing on such sectors as heavy industry, natural mineral exploitation, railways, textile and garment, chemicals, and infrastructure<sup>68</sup>.

#### **Czech Republic**

The Czech Republic has actively attended donor conferences in Vietnam and in 2006 it committed US\$1.2 million for environment protection, agriculture, labour and modernization of industrial infrastructure; US\$750,000 for waste treatment and micro organic fertilizer facilities in Hai Duong

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<sup>64</sup> Does US aid buy UN general assembly votes? A disaggregated analysis, Public Choice, Dreher, A. Nunnenkamp P., Thiele R., Vol. 136, nos. 1-2, 2008

<sup>65</sup> How Much is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations Kuziemko I. & Werker W. Harvard, 2006

<sup>66</sup> With Libya, Burkina Faso, Costa Rica and Croatia

<sup>67</sup> <http://www.state.gov/g/oes/rls/rpts/67447.htm>

<sup>68</sup> <http://oda.mpi.gov.vn/index.jsp?sid=1&id=52&pid=51> Trung Quoc2.doc

province; US\$200,000 for bird flu control (channelled through the EU); and US\$2.1 million for health care services and environmental protection activities<sup>69</sup>.

## **Hungary**

Hungary recently made a tied soft loan of €35 million to develop public water supply and sewage treatment that will use at least 51% Hungarian participation<sup>70</sup>.

## **Korea**

Korean ODA policy includes building plants for energy resource extraction and production in countries receiving aid, building social infrastructure, and increasing trade and investment between the countries and that Korea's ODA is most significantly affected by the amount of exports from Korea to the recipient country. Since 1999, FDI and loans have shown a clear positive correlation<sup>71</sup>. In a recent analysis of Korean ICT4D ODA programs worldwide most were tied and recipient country enterprises were excluded from participation<sup>72</sup>.

By 2007, the Republic of Korea (ROK) had committed and disbursed US\$309 million in soft credits from the Economic Development Cooperation Fund (EDCF) and US\$54 million from grants. Under the EDCF frame work agreement the ROK's total financial assistance to Vietnam will increase to US\$100 million per year for 2007-2009<sup>73</sup>. A further US\$1 billion will be disbursed in 2008-11; refundable aid will focus on roads, ports, telecommunications, and human resources, while non-refundable aid is for vocational training schools, healthcare services and poverty reduction<sup>74</sup>.

It is policy for ROK enterprises to actively contribute to Vietnam's social development and thus have implemented 95 projects, funded with aid totalling US\$46.5 billion, focussing on care homes for the elderly, children's homes scholarships and health care, i.e. supply of vaccines and humanitarian medical operations<sup>75</sup>. A Hyundai Engineering-led consortium gave US\$10,000 to Quang Ngai province to repair recent flood damage after receiving a contract to construct a factory in 2008.<sup>76</sup>

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<sup>69</sup> [http://www.mofa.gov.vn/en/cn\\_vakv/euro/nr040819111809/ns070925100130](http://www.mofa.gov.vn/en/cn_vakv/euro/nr040819111809/ns070925100130)

<sup>70</sup> <http://www.vnbusinessnews.com/2009/03/hungary-to-provide-more-oda-for-vietnam.html>

<sup>71</sup> [www.fas.nus.edu.sg/ecs/scape/doc/09Jan09/Determinants%20of%20Korea's%20official%20development](http://www.fas.nus.edu.sg/ecs/scape/doc/09Jan09/Determinants%20of%20Korea's%20official%20development)

<sup>72</sup> <http://www.ejisd.org/ojs2/index.php/ejisd/article/viewFile/496/252>

<sup>73</sup> [http://www.mofa.gov.vn/en/cn\\_vakv/ca\\_tbd/nr040818112237/ns070817144925](http://www.mofa.gov.vn/en/cn_vakv/ca_tbd/nr040818112237/ns070817144925)

<sup>74</sup> [http://vibforum.vcci.com.vn/news\\_detail.asp?news\\_id=14082](http://vibforum.vcci.com.vn/news_detail.asp?news_id=14082)

<sup>75</sup> <http://www.mofa.gov.vn/en/nr040807104143/nr040807105039/ns090121094146>

<sup>76</sup> [http://www.mofa.gov.vn/en/cn\\_vakv/ca\\_tbd/nr040818112237/ns071130102104](http://www.mofa.gov.vn/en/cn_vakv/ca_tbd/nr040818112237/ns071130102104)

## **Kuwait**

The Kuwait Fund for Arab Economic Development was an early provider of ODA and made eight low interest loans of US\$110 million for rural infrastructure up to 2008, focusing on irrigation and roads<sup>77</sup>. Vietnam has since applied for a further US\$28 million for 2008-10 for the northern mountain areas<sup>78</sup>.

## **Thailand**

Primarily involved in FDI Thailand provides some technical cooperation in agriculture, rural development, healthcare, human resource development and state management; its ODA is 100% tied. It runs many short term training courses for Vietnamese civil servants on the key contents of the cooperation program between the two countries<sup>79</sup>.

### ***DAC Members relative to Non-DAC Members***

ODA provided by DAC members to Vietnam is employed via a wide spectrum of aid modalities from general budget support by the Netherlands, France and the European Commission, to measures such as ODA export credits by Austria, preferential credits by India and Belgium. Although countries such as New Zealand, Luxembourg, and France are explicit in their efforts to comply with the Paris Declaration and Accra Agenda, there are several DAC members who continue to execute tied aid policies overtly, such as Italy, Spain and the United States, while others provide tied aid more discreetly as in the case of Finland.

On the other hand, for non-DAC donors, data availability on their ODA is much lower compared to DAC donors so there is limited positive evidence on their approach to ODA and untying and changes over time. However it is known that ODA is operated in similar way to DAC donors; grants as well as loans are provided and donors will often focus on certain sectors in Vietnam (e.g Korea- social infrastructure and trade, Czech Republic- agriculture). Non-DAC donors to Vietnam have on average a greater proportion of tied aid than DAC donors.

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<sup>77</sup> <http://www.mofa.gov.vn/en/nr040807104143/nr040807105039/ns080114160903> and [http://www.kuwait-fund.org/index.php?option=com\\_content&task=view&id=298&Itemid=148](http://www.kuwait-fund.org/index.php?option=com_content&task=view&id=298&Itemid=148)

<sup>78</sup> <http://www.mofa.gov.vn/en/nr040807104143/nr040807105039/ns071211081942>

<sup>79</sup> <http://oda.mpi.gov.vn/index.jsp?sid=1&id=52&pid=51> Thailand.doc

### 3.2 Statistical review of ODA to Vietnam

The following section presents tables of key indicators of ODA to Vietnam, with data drawn from OECD's data. As illustrated in Table 4, the top bi-lateral donors to Vietnam in 2008 were the US, UK, Germany and France. It also shows a large jump in untied aid between 2004 and 2005 and then a more gradual increase over the past 3 years. Table 4 below provides an overview of the net inflow of ODA into Vietnam from 2000-08 period. ODA has been increasing rapidly over this period, indicating a 64% increase, however the percentage of aid untied has remained relatively stable from 2004-08

**Table 4: NET OECD ODA 2000-2008 in US\$ Million<sup>80</sup>**

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008 (b)
Australia	987	873	989	1 219	1 460	1 680	2 123	2 669	3 166
Austria	440	633	520	505	678	1 573	1 498	1 808	1 681
Belgium	820	867	1 072	1 853	1 463	1 963	1 978	1 953	2 381
Canada	1 744	1 533	2 004	2 031	2 599	3 756	3 683	4 080	4 725
Denmark	1 664	1 634	1 643	1 748	2 037	2 109	2 236	2 562	2 800
Finland	371	389	462	558	680	902	834	981	1 139
France	4 105	4 198	5 486	7 253	8 473	10 026	10 601	9 884	10 957
Germany	5 030	4 990	5 324	6 784	7 534	10 082	10 435	12 291	13 910
Greece	226	202	276	362	321	384	424	501	693
Ireland	234	287	398	504	607	719	1 022	1 192	1 325
Italy	1 376	1 627	2 332	2 433	2 462	5 091	3 641	3 971	4 444
Japan	13 508	9 847	9 283	8 880	8 922	13 126	11 136	7 679	9 362
Luxembourg	123	139	147	194	236	256	291	376	409
Netherlands	3 135	3 172	3 338	3 972	4 204	5 115	5 452	6 224	6 993
New Zealand	113	112	122	165	212	274	259	320	346
Norway	1 264	1 346	1 696	2 042	2 199	2 786	2 954	3 728	3 967
Portugal	271	268	323	320	1 031	377	396	471	614
Spain	1 195	1 737	1 712	1 961	2 437	3 018	3 814	5 140	6 686
Sweden	1 799	1 666	2 012	2 400	2 722	3 362	3 955	4 339	4 730
Switzerland	890	908	939	1 299	1 545	1 772	1 646	1 685	2 016
United Kingdom	4 501	4 566	4 929	6 262	7 905	10 772	12 459	9 849	11 409
United States	9 955	11 429	13 290	16 320	19 705	27 935	23 532	21 787	26 008
<b>TOTAL DAC</b>	<b>53 749</b>	<b>52 423</b>	<b>58 297</b>	<b>69 065</b>	<b>79 432</b>	<b>107 078</b>	<b>104369</b>	<b>103487</b>	<b>119759</b>
<b>Total Untied</b>					59 474	78 894	78 995	77 337	89 004
<b>Total Untied %</b>					74.9%	73.7%	75.7%	74.7%	74.3%

<sup>80</sup> [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)



Although the US is one of the largest contributors of ODA to Vietnam, as Table 5 illustrates below it remains largely tied. From 2004-08, 10 donors contributed 90% or more of their committed ODA through untied aid, with 100% of ODA from the UK, Sweden and Ireland being untied.

**Table 5: Net Untied ODA, 2004-8 (US\$ Millions)**

Year	% 2004-8	Untied	Total	Untied	ODA
			2004-8		
Ireland		100			4 865
Sweden		100			19 107
United Kingdom		100			52 393
Belgium		99			9 641
Norway		99			15 478
Luxembourg		98			1 536
Finland		95			4 310
Netherlands		95			26 588
Denmark		94			11 040
Switzerland		92			7 971
Japan		86			43 193
Austria		83			6 008
France		83			41 450
Portugal		70			2 022
Germany		69			37 434
Canada		66			12 437
Spain		60			12 657
United States		53			63 053
Australia		49			5 438
Italy		30			5 882
New Zealand		30			423
Greece		25			581

Table 6 below examines the top donors (both bilateral and multilateral) in Vietnam over the period from 2005-07 includes negative disbursements from donors.

**Table 6: Top donors (bilateral and multilateral) in Vietnam over the period 2005-2007 (US\$ Millions),(inclusive of negative disbursements )**

Donor	2005	2006	2007	2005-2007
Japan	674.3	657.7	0.0	1332.0
France	97.4	95.4	175.6	368.4
Germany	83.4	133.6	100.6	317.7
United Kingdom	79.3	86.5	97.0	262.8
Netherlands	56.8	61.7	48.5	166.9
Australia	51.2	48.5	63.1	162.7
EC	42.4	41.8	67.7	151.9
Sweden	39.7	41.0	47.0	127.8
United States	31.3	48.4	43.8	123.5
Denmark	30.6	40.6	0.0	71.3
Canada	21.6	27.9	18.2	67.7
Norway	15.6	15.2	30.0	60.8
Switzerland	18.5	18.3	20.0	56.9
Belgium	16.5	19.1	19.5	55.1
Spain	9.8	15.7	22.5	48.1
Finland	1.6	18.9	26.8	47.3
Luxembourg	11.7	12.0	14.5	38.2
Ireland	3.9	7.6	25.4	36.9
Global Fund	11.9	4.6	9.7	26.2
UNDP	6.9	5.8	5.9	18.6
UNICEF	5.9	4.7	4.3	14.8
UNFPA	5.6	3.5	4.3	13.4
Austria	1.5	2.3	6.4	10.1
New Zealand	3.3	2.8	0.0	6.1
IDA	4.9	0.0	0.0	4.9
Italy	3.2	1.6	0.0	4.8
UNAIDS	0.3	0.2	0.9	1.4
Greece	0.0	0.0	0.3	0.3
Portugal	0.0	0.0	0.0	0.0
AsDF	0.0	0.0	0.0	0.0
IFAD		0.0	0.0	0.0
<b>Total ODA</b>	<b>1329.3</b>	<b>1415.3</b>	<b>852.1</b>	<b>3596.7</b>

*\*These figures have been collected from the OECD, however other sources report discrepancies in the disbursement figures for Japan, Belgium and Denmark.*

**Table 7: Tying status of bilateral ODA of DAC donors during 2004-2006**

DAC Donors	Bilateral ODA commitments reported to CRS (US \$ millions)	Untied aid share of bilateral ODA (%)	Partial tied share of bilateral ODA (%)	Tied share of bilateral ODA (%)	Not Reported share of bilateral ODA (%)
Japan	2573.6	63.7	10.8	17.4	8.1
France	935.5	52.8	0.0	31.8	15.5
Germany	295.9	63.9	0.0	23.6	12.5
United Kingdom	240.6	100.0	0.0	0.0	0.0
Denmark	238.0	90.2	5.0	0.3	4.5
Netherlands	228.1	84.7	0.7	14.5	0.0
United States	160.4	42.7	0.0	57.3	0.0
Finland	104.5	79.4	0.0	19.5	1.1
Australia	103.5	33.1	0.0	18.7	48.2
Canada	95.2	50.5	20.0	28.2	1.3
Belgium	81.5	82.6	0.0	17.4	0.0
Switzerland	59.4	76.7	0.0	0.0	23.3
Spain	58.4	60.0	16.9	7.8	15.4
Norway	53.7	96.2	0.0	3.8	0.0
Sweden	50.6	100.0	0.0	0.0	0.0
Luxembourg	38.2	100.0	0.0	0.0	0.0
Ireland	36.9	100.0	0.0	0.0	0.0
Austria	35.2	0.0	0.0	100.0	0.0
Italy	33.2	6.9	58.0	27.5	7.5
New Zealand	23.1	57.3	17.7	0.6	24.4
Greece	0.3	4.2	0.0	91.3	4.4
Portugal	0.0	100.0	0.0	0.0	0.0
<b>All donors</b>	<b>5445.8</b>	<b>65.1</b>	<b>6.3</b>	<b>19.7</b>	<b>8.9</b>

Table 7 provides an overview of the tying status of bilateral ODA donors of the DAC to Vietnam from 2004-2006. As shown in the table, the United Kingdom, Sweden, Luxembourg, and Ireland all reported 100% of their bilateral ODA was untied, followed by Norway, Denmark, the Netherlands, and Belgium. The top five countries reported to tie aid as part of their bilateral ODA to Vietnam, in declining order, was Austria, Greece, the United States, France and Canada.

Table 8 illustrates the tied status of ODA by sector for the period 2005-2007. As indicated below, approximately 65 % of all ODA in Vietnam is untied. Apart from general budget support, disaster management and debt management assistance which are provided with 100% untied ODA, there are several sectors which are provided with untied aid, including the banking and financial sector, energy, fishing and forestry, as well as the water supply and sanitation sector, among others. As of 2007,

sectors with reportedly high tied ODA status were predictably in sectors of food security assistance and trade policy.

**Table 8: CRS Tying status of bilateral ODA by sector; 2005-2007**

Sector	Untied aid share of bilateral ODA (%)	Partial tied share of bilateral ODA (%)	Tied share of bilateral ODA (%)	Not Reported share of bilateral ODA (%)	Bilateral ODA commitments reported to CRS (US \$ millions)
I.1.a) Education, Level Unspecified	72.4	2.8	1.1	23.8	97.7
I.1.b) Basic Education	50.2	0.0	4.0	45.8	20.6
I.1.c) Secondary Education	46.5	1.2	17.0	35.4	24.0
I.1.d) Post-Secondary Education	40.2	2.1	26.1	31.6	279.6
I.2.a) Health, General	55.0	6.8	12.9	25.3	78.0
I.2.b) Basic Health	72.1	0.3	20.6	7.0	114.8
I.3 Population Programmes	64.2	0.0	35.0	0.7	136.5
<b>I.4 Water Supply &amp; Sanitation</b>	<b>85.4</b>	<b>5.0</b>	<b>7.9</b>	<b>1.7</b>	<b>395.3</b>
I.5.a) Government and civil society - general	70.7	6.0	13.1	10.2	247.9
I.5.b) Conflict, Peace and Security	60.7	0.0	36.4	2.9	11.6
I.6 Other Social Infrastructure & Services	51.1	0.0	19.4	29.5	79.4
II.1 Transport & Storage	36.4	16.2	42.7	4.7	1732.4
II.2 Communications	65.8	11.4	18.0	4.8	49.4
II.3 Energy	96.0	0.1	2.8	1.2	576.0
II.4 Banking & Financial Services	94.1	0.0	0.9	5.0	106.2
II.5 Business & Other Services	51.3	3.5	9.0	36.2	30.3
III.1.a) Agriculture	77.9	0.6	2.4	19.1	288.9
III.1.b) Forestry	80.0	0.5	0.4	19.2	60.2
III.1.c) Fishing	96.1	0.0	0.7	3.1	46.4
III.2.a) Industry	79.1	0.6	2.6	17.7	171.5
III.2.b) Mining	27.6	0.0	2.7	69.7	4.6
III.2.c) Construction	100.0	0.0	0.0	0.0	32.0
III.3 Trade Policy and Regulations	6.2	1.0	53.8	39.1	13.9
III.4 Tourism	83.5	0.0	3.1	13.4	3.5
IV.1 General Environment Protection	72.1	1.3	6.8	19.7	77.4
IV.3 Other Multi sector	89.0	0.4	4.9	5.7	367.0
VI.1 General Budget Support	100.0	0.0	0.0	0.0	161.6
VI.2 DFA/Food Security Assistance	0.1	0.0	99.9	0.0	11.4
VI.3 Other Commodity Assistance					0.0
VII. Action Relating to Debt	100.0	0.0	0.0	0.0	154.8
VIII.1 Emergency Response	89.7	0.0	5.8	4.4	16.1
VIII.2 Reconstruction Relief & Rehabilitation	43.6	0.0	1.4	55.0	2.4
VIII.3 Disaster Prevention & Preparedness	100.0	0.0	0.0	0.0	0.4
IX. Administrative costs of donors	60.5	0.0	18.9	20.6	11.0
X. Support to NGO's	80.3	0.0	5.2	14.6	13.6
XI. Refugees in Donor Countries	81.5	0.0	18.2	0.2	1.8
XII. Unallocated/Unspecified	43.6	0.0	7.0	49.4	27.8
<b>Total</b>	<b>65.1</b>	<b>6.3</b>	<b>19.7</b>	<b>8.9</b>	<b>5445.8</b>

Table 9 distinguishes the inflow of ODA into Vietnam by percentage of grants, loans and other aid modality instruments such as equity investments from 2005-2007. During this period, Vietnam received the greater proportion of its ODA through loans, although ODA via grants remained substantial. Newer aid modality instruments such as equity investments during this period, although not very significant, showed a steady decline.

**Table 9: Flow type (Grants / Loans) shares**

Percentage %	2005	2006	2007	2005-2007
Grant	44%	38%	41%	41%
Loan	56%	62%	59%	59%

Table 10 shows the commitments and aid modality of donors over the period of 2005-2007. As seen again here, Vietnam receives the greater proportion of its ODA through loans, represented by about 59%, where as grant ODA is approximately 41%. Japan, France and Italy are the three donor countries that provide the majority of their ODA to Vietnam through loans, at approximately 90 % , 83%, and 72 %, respectively. The majority of all other DAC donors provide ODA to Vietnam through grant funding.

**Table 10: Commitments by donor and flow over the period 2005-2007**

	Grants (US\$ mn)	Grant %	Loans (US\$ mn)	Loans %	Total (US\$ mn)
Australia	104	100	0	0	104
Austria	35	100	0	0	35
Belgium	82	100	0	0	82
Canada	95	100	0	0	95
Denmark	237	99	0	0	238
Finland	95	91	0	0	105
France	159	17	776	83	936
Germany	218	74	74	25	296
Greece	0	100	0	0	0
Ireland	37	100	0	0	37
Italy	9	28	24	72	33
Japan	258	10	2315	90	2574
Luxembourg	38	100	0	0	38
Netherlands	228	100	0	0	228
New Zealand	23	100	0	0	23
Norway	50	94	0	0	54
Portugal	0	100	0	0	0
Spain	43	74	15	26	58
Sweden	51	100	0	0	51
Switzerland	44	75	0	0	59
United Kingdom	241	100	0	0	241
United States	160	100	0	0	160
<b>Total</b>	<b>2209</b>	<b>41</b>	<b>3205</b>	<b>59</b>	<b>5446</b>

## 4. Econometric Analysis<sup>81</sup>

### 4.1 Introduction - objectives and scope of investigation

This section investigates econometrically whether there is any evidence that bilateral aid and associated tying practices are trade distorting. The aim is to understand whether Official Development Assistance, its tying status and the different forms in which aid is provided (different aid instruments: loans and grants) have any discernible impact on aggregate donor export flows at the country level, in this case to Vietnam.

The econometric investigation is undertaken for each of the six case study countries and an overall analysis for the six countries will be provided in the Draft Synthesis Report (DSR) for the Thematic Study. The six countries are deliberately paired according to trading region: Vietnam, here analysed, is one of six studies including Laos, also in South East Asia region and ASEAN, Ghana and Burkina Faso in West Africa, and Zambia and South Africa in SADC region.

The chapter is organized as follows. Sections two and three respectively briefly describe the methodology and the data used. Section 4 provides the results of the empirical analysis of the relationship between aid and trade flows for Viet Nam and also compares these with those for Laos.

### 4.2 Methodology

The basic idea is to find out what variables influence total bilateral exports of donor countries to Viet Nam. Hereafter, a range of possible explanatory factors are explored.

1) *GDP and GDP per capita* of donor countries, which proxy respectively for their economic size and level of development, are potentially important determinants of donor bilateral exports. It could be expected that the larger the donor country's GDP the higher the level of exports, with countries such as Japan or United States exporting more than Luxembourg or Switzerland.

2) *Geographic proximity of donor and recipient country*. Empirical investigations have found that bilateral trade between two regions (countries) is inversely related to the *distance* between them; distance usually proxies for transport costs as well as time, unfamiliarity, market access barriers and so on. *Common language*, as in general the existence of common cultural factors, can help to facilitate trade flows between countries.

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<sup>81</sup> The econometric analysis was carried out by the core team at ODI to maintain comparability across cases. As such all econometric specific queries should be directed to e.clay@odi.org.uk

3) *Aid flows* from donor countries to Viet Nam might be a possible influence on exports; but it is important to distinguish between a donor's ODA and ODA that Viet Nam receives from all other bilateral donors. The basic idea is to consider whether there is any trade distorting effects of aid at an aggregated level by examining whether bilateral aid from a particular donor to a recipient country affects trade between that donor and recipient pair differently from aid from other donors. It could also be that certain aid instruments impact differently on trade flows; it might therefore be important to disaggregate ODA into *loans and grants* and keep distinguishing aid instruments based on the origin of the flows. Moreover, when a donor provides tied aid, the recipient is constrained to the purchase of donor country exports and so there is a direct link between formally tied aid and trade. The *formal tying status of aid*, computed as the percentage of donor ODA reported as tied, could therefore be a potentially important factor in determining bilateral exports.

4) *Foreign direct investment* is another potentially important influence on trade between countries as well as *export credits*. It has sometimes been suggested that the ACP-EU relationship might be an influence on exports from EU countries; so including a variable for *EC disbursements* is a way to explore further this relationship.

To investigate the above relationships, a gravity model was chosen; this model, used extensively in the literature, is adapted to the country level analysis to estimate bilateral export flows from DAC donors to Viet Nam incorporating many of the influences listed above as explanatory variables.

There might also be a number of unmeasured influences that affect both aid and exports in the model. The omission of variables representing such influences (either difficult to measure and unquantifiable relationships such as political ties between the donor and the recipient, or simply underlying relationships not identified as potential determinants) could lead to attributing too great an importance to the explanatory power of foreign aid. Aid could be proxying for a complex relationship including several of these omitted variables. In order to overcome this problem an OLS regression of imports to the donor from the recipient is estimated and the *residuals* from this regression are included in the original equations. This procedure is carried out on the assumption that underlying relationships, and more in general unmeasured variables, between the donor and the recipient (trading partners in this case) affect imports and exports in the same way (Wagner, 2003).

Annex X includes further details on the empirical specification as well as the theoretical framework, a review of possible methodologies and a brief discussion of the problems in estimating the determinants of exports related to the nature of the aid and trade relationship.

### 4.3 Data

Empirical estimation includes 22 DAC donor countries to Viet Nam with observations covering the years 2002-2007 because of data quality issues and availability; further details are given in the Annex X. The bilateral trade data are from the IMF Direction of Trade Statistics database, ODA data are taken from the OECD CRS database and official export credits are as reported to the OECD.

The analysis uses aid disbursements and not commitments, because trade effects are expected to follow actual disbursements and not commitments. Data on the tying status of aid, however, is not available in disbursement form<sup>82</sup>. Therefore, a proxy for the tying status is computed by applying the share of tied commitments to total commitments (average of the previous two years) and then assuming the tied share in disbursed aid to be the same.

Data for GDP and GDP per capita are taken from the World Development Indicators (WDI) Online database. All nominal variables (exports, export credits, GDP and GDP per capita) are deflated into 2000 constant US dollars using DAC deflators. Data for distance and common language dummy are taken from the CEPII Distance Database.

### 4.4 Results comparison with Laos

Limitations on the availability and quality of the data, the small sample and potential problems with the econometric model, warrant caution in interpreting the results<sup>83</sup>. Findings at the country level suggest probabilistic and not necessarily robust economic relationships. The Draft Synthesis Report will provide a fuller and possibly more robust analysis comparing results from six countries, highlighting similar patterns and systematic differences.

The results for Viet Nam are presented in Table 4.1. In line with expectations and previous published findings, the size of donor economy seems to be an important determinant of bilateral exports. The parameter estimate<sup>84</sup> indicates that a 1% increase in GDP is associated with around a 1% rise in exports.

In accordance with the theory, distance is found to be highly significant and negative; an increase in the distance leads to a decrease in exports from donor countries.

Aggregated aid flows, from the donor as well as from other bilateral donors, have a significant impact on donor exports. Results indicate that a 1% increase in donor aggregate aid flows is associated with

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<sup>82</sup> In the OECD Creditor Reporting System, tying status is reported against new commitments only.

<sup>83</sup> See data section in annex for further details.

<sup>84</sup> The parameter estimates commented in this section refer the last specification of table 4.1.



around a 0.17% rise in exports, whereas a 1% increase in aid flows from other bilateral donors causes a 0.8% increase in exports. This result is partially unexpected for a country such as Viet Nam, a relatively less aid dependent country, which receives levels of ODA less than 5% of GDP. Moreover, in Viet Nam, other sources of finance such as FDI are more significant than aid flows, but unfortunately, such relationships could not be explored because of data unavailability disaggregated for individual donors. In general, aid flows estimates do not seem to support the existence of any trade distorting effects of aid at least at an aggregated level.

When aid is disaggregated in terms loans and grants, grants from the donor country are found to be positively associated with donors exports; a 1% increase in grants from the donor country causes a 0.113% increase in bilateral exports. Differently, grants from the rest of bilateral donors are not significant. Such results are suggestive of some informal or *de facto* tying of grants: it is difficult to explain why bilateral grants from a particular donor to a recipient country should affect trade between that donor and recipient pair differently from grants from other donors. Grants could however result in an increase in trade with the donor, reflecting the goodwill on the recipient part towards the donor or it could be that the aid relationship might simply facilitate trade between the donor and the recipient increasing recipient's proclivity to procure goods from the donor (reinforcing commercial ties)<sup>85</sup>.

For Viet Nam a disaggregation of ODA into loans and grants is potentially interesting because unlike Laos and other countries considered, the proportion of bilateral aid is not extremely skewed towards grants: loans represent around 48% of aid flows excluding equity investments. Results are however of difficult interpretation: whereas loans from all the rest of bilateral donors are not significant, loans from the donor country are statistically significant, although with a negative sign.

The direction of the relationship between formally tied aid and exports is as expected, but not at all robust: positive but not always significant.

The statistical relationships found may simply highlight influences reflecting the available data; in reality there could be other relationships often difficult either to identify or measure. The import residuals variable, which is used to control for such underlying relationships between the donor and the recipient countries, is highly significant and positive in all specifications, implying that special relationships between trading partners do exist and impact positively on the exports level. This result suggests the existence of a complex reciprocal relationship.

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<sup>85</sup> See theoretical framework in Annex for further details.

The EC variable result is significant but negative; a 1% increase in disbursements from the EC impacts negatively on EU donors' exports (-0.039%). This could be because the EC is actually encouraging local and regional procurement under partially tied aid contracts.

Other potential influences are found to be wholly insignificant: common language, the level of development of donor countries measured by their income per capita level and export credits have no impact on bilateral export flows.

*Viet Nam and Laos compared:* it is interesting to compare results with those for neighbouring Laos (Table 4.2), a least developed country highly dependent on development assistance, with those obtained for Viet Nam, also a low income country in the same trading area, ASEAN.

The results are broadly similar for the two countries, notwithstanding some differences in the basis of the computations<sup>86</sup>. GDP plays a significant role in explaining exports in both countries. There is no robust indication that formal tied aid is associated with higher bilateral export flows to either country. As expected, ODA levels are more strongly associated with higher donor exports to Laos compared to Viet Nam, where the results for Laos show a 0.3% increase in donor exports for every 1% increase in ODA, which is almost a doubling of the effect compared with Vietnam's value of 0.17%. Vietnam is a country that relies much less on development assistance; however ODA from other bilateral donors is significant only in Viet Nam. The Laos results therefore support the hypothesis that aid flows could be informally or *de facto* tied, as bilateral ODA from a particular donor affect bilateral exports with that donor differently from ODA from other donors. This finding is also confirmed at the disaggregated level for grants and loans. Grants to Laos are more strongly associated with higher bilateral export flows than those to Viet Nam; this result could be explained by the comparatively high aid dependency which characterizes Laos. Loans, which are an unimportant form of aid in Laos, are not a significant influence on donor exports.

Import residuals are significant for both Laos and Viet Nam; suggesting a complex of reciprocal relationships between these countries and trading partners. A difference between Vietnam and Laos is that whereas the variables for distance and EU disbursements are significant and negative for Viet Nam, in the case of Laos both are insignificant.

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<sup>86</sup> Laos specification does not include export credits.

## **5. Consequences of untying for aid uses**

### **5.1 ODA to Vietnam and the Hanoi Core Statement**

Since the signing of the Hanoi Core Statement (HCS) in 2005, bi-lateral and multi-lateral donors in Vietnam have been moving toward aid disbursements through approaches that follow the values agreed upon in the HCS and in the Paris Declaration (PD). Although the HCS does not directly refer to the issue of tied or untied aid, its strong focus on the pillars of alignment, ownership and harmonization imply a shift in aid modalities in Vietnam. Since the signing of the HCS there has been a move in ODA from donor project based assistance to funding directly to the GoV with general budget, sector and targeted programme support. The general trend towards aid delivery in accordance with the pillars of the PD and the HCS, has placed greater importance on ‘untied’ aid in Vietnam. As of 2008, ‘untied aid’ received by Vietnam from DAC countries represented 74.3% of all committed aid from the DAC.

### **5.2 Introduction to the Discussion of Aid uses and Causality**

The recent focus on untied aid has had both a direct and indirect effect on aid modalities, instruments, procurement policies and technical cooperation in Vietnam. This brings to light issues of causality between aid status as tied, untied or hybrid, and project design. The aid status of a project or programme is understood to be determined by the donor in coordination with the recipient, in this the relevant GoV departments. Therefore, to meet the objectives of both parties regarding the untying of aid, projects and programmes are designed with modalities that are supportive of the untied approach, such as sector budget support. In Vietnam, the increased use of ‘new’ aid modalities is a result of the recent focus on the PD and HCS and alignment with the government’s own development objectives and capacity building requirements. Pressure is on the donors, both from the GoV and from the donor community, to move away from program support bypassing the government’s own delivery systems to aid disbursed with full donor coordination and Government project ownership.

There is also a strong degree of dual causality between the tied or untied approach of a project or programme and its design. For example, the increased use of NCB in aid projects and programmes, naturally increases the number of contracts awarded to Vietnamese companies and therefore regardless of the project design itself, decreases the scope for tying projects and programmes to donor countries. This is an improvement for local development and further enhances Vietnam’s capacity to manage their own project implementation in the future.

In most cases reviewed in Vietnam, the relationship between untied status and project design was flowed from donor and GoV commitments toward the principles of untied aid to project design. For example, in the joint donor funded Rural Water Supply and Sanitation National Target Programme (RWSS NTPII) the choice of fund disbursement through a pooled fund account is a direct result of the

donor focus on untied aid and the choice of an aid modality supportive of this focus. Similarly, the JICA funded Phan Ri-Phan Thie Irrigation project, funded through loans, design is heavily influenced by the 2005 JICA policy to untie all ODA funded through loan agreements.

Only one of the projects reviewed for this study appeared to have causality flowing from project design to untied aid status. For the AFD funded Saigon River Lowland Flood Prevention project was inherited by AFD as an already operational project. At the request of the GoV, AFD entered into a loan agreement for the already operating project and therefore inherited a project that was already completely designed as untied. .

### **5.3 Procurement Options**

In Vietnam, the alignment of ODA with the GoV's own commitments and initiatives through project and programme design with government ownership in both the planning and implementation phases has resulted in an the increased use and development of the Vietnam's Procurement Law (VPL).

VPL regulations, amended in 2005, have led to an increase in open bidding procurement through NCB processes which has been matched by decline in the number of ICB procurement processes. The focus on procurement through NCB is an outcome of two main factors;

- Limited capacity of the GoV to hold successful ICB
- Project design of the contract sizes / values

Donor and GoV efforts to untie aid accross all aspects of project design and implementation has drawn attention to these pros and cons of the current GoV procurement process. Although the VPL has been very successful in procuring national (NCB) contracts, both the donor community and the GoV have acknowledged the limited capacity of the government to attract qualified International consultants and technical advisors (TAs). The limited capacity of the GoV to hold successful ICB is related to a number of challenges such as a lack of experience in managing ICB procedures and evaluations, the advertising requirements and information asymmetries, time consuming and lengthy bidding procedures, low GoV cost norms and the tendency to split large projects into sets of smaller contracts (AFD interview Aug4th, 2009). This recognized procurement constraint has influenced project design in two key ways; (1) a focus on project designs that further develop GoV's procurement capacity and (2) project designs in which the donors retain control or remain highly involved in the International consultant / TA procurement process. For example, sdonors can bypass the GoV procurement process of International staff by providing TA 'in-kind' or in addition to the specific sector programme or project funds, such as was the case design in the AusAID, Dandia and Netherlands funded NTP RWSS II reviewed for this study.

In cases where both donor and VPL procurement guidelines are applied there is usually a joint review by the donors and the GoV executing agency as to which procurement laws will hold and how the procurement process will take place to ensure the priorities of all parties are met. This process was necessary for the LuxeDev irrigation project when Luxe-Dev and EU procurement guidelines were in direct conflict with a rule in the VPL stating that depending on contract value agencies can publish a cost estimate for bidders. The GoV project implementing agency, DARD gave the PPC a cost-estimate to publish with the invitation to bidders, upon realizing this was planned for publication LuxeDev wrote to the PPC explaining that this would go against their own rules and regulations and they therefore would not be able to fund it. This process resulted in the PPC keeping the cost estimations from publication.

Dual causality between aid use and the untied status of aid is particularly strong in regards to procurement. Projects designed as untied use comparatively more NCB procedures and therefore source the majority of their contracts locally. On the other hand, projects which may initially have no untied requirements quickly become untied (*de facto untied*) when NCB is the main method of procurement. The *de facto* untied aid result occurs for three main reasons limiting the incentives for International of Foreign invest bidders to submit bids;

- (1) Information asymmetries in favor of National / Local providers,
- (2) Small contract sizes, and
- (3) Lengthy process of the procurement process required by VPL discourages International bidders

#### **5.4 'New' Aid Modalities**

The trend for donors to commit more untied aid has had an indirect impact has been matched by a shift to general-budget support (GBS) or sector-budget support and away from project based support mechanisms. . This shift illustrates the effectiveness of these modalities in supporting untied aid objectives as they increase both GoV project ownership and alignment between GoV and donor objectives.

#### **5.5 Aid Instruments**

Statistics on Vietnam's ODA indicate a greater proportion of ODA provision through loans (59%, CRS, 2007) and a greater percentage of untied aid (65.12%, CRS, 2007). The results from chapter 4 also indicate that in Vietnam there is a statistically significant relationship (at the 1% significance level) between grants, as an aid instruments, and exports from the donor country to the recipient country. Using increased exports, as a result of increased ODA, as a measure of tied aid suggests that the increased use of grants, as a aid modality, has resulted in an increase of tied aid from donors to Vietnam. The positive correlation found between export credits and donor exports (implying tied

status), however, lost this statistically significant relationship once the EC export credits were included in the analysis. Interestingly, the gravity model test on loans found that increasing loans, as an aid modality, had a negative impact on exports from donors to Vietnam.

However, these findings might not depict the most accurate picture of ODA within in Vietnam. There are cases where previous commitments delivered through grants are still in place for projects and or programmes which remain tied in some non-conventional sense, for example with the donor maintaining responsibility for the procurement of International TA resulting in the *de facto* tying of aid when a contract is awarded through a non-competitive procedure to an individual or group from the donor country.

### **5.6 Technical Cooperation**

Although implementation at the local level, i.e. civil works contracts and / or use of local consultants, has become increasingly untied, donors in Vietnam are still strongly involved in both the process of procuring and monitoring International Technical Assistance.

As mentioned above, there are a number of reasons that donors wish to retain control of the procurement process for TA including;

- Limited capacity of government to procure qualified Intl TA under the current VPL
- Desire to use own donor or other International procurement laws / guidelines
- Benefits of existing donor procurement methods or policies

The choice of which stakeholders manage the procurement of International TA appears to be unaffected by the untied aid status of a project, although by maintaining control for the procurement process donors also leave the door open for tying TA and / or consultancy to their own home countries or regions. It is important to note that although donor guidelines require ICB processes for International TA contracts, many of the contracts awarded to ODA TAs and consultants in Vietnam fall below the International thresholds and result in direct appointment or limited tender bidding, such as in the NTP RWSS II assessed for this study. When this non-competitive donor led procurement process results in an individual / company from the donor country winning the contract, aid becomes *de facto* tied, although the original project design was never explicitly tied.

## **6. The process and *consequences of untying* – project analysis**

The purpose of this Vietnam section of the case study is to descriptively explore how variation in the provision of aid differs by the tied status of the aid by donors. This set of case studies consists of three active donor funded projects and one programme. Each case study analyzes how funds are disbursed; from the initial commitment to the procurement of goods and services at the primary level to the ground level allowing for a comprehensive understanding of the project or programme process and overall tying status.

These cases were selected from among the most active DAC donor's in Vietnam and from the WSS in order to maintain comparability across corresponding country case studies. This chapter summarizes the key findings of the procurement processes used in Vietnam and their role, and the outcomes from which help to determine untied characteristics. The subsequent chapter (7) is allocated for discussing the impact on aid and development effectiveness of project / programme funds as a result of the processes used in practice, and the untied aid status of the project or programme.

Table 11 below provides a general overview of the four projects and programmes reviewed for this study as well as of the complexity of the procurement process. Of the four projects selected, two retain a 'project' based modality while the others disburse aid through general or programme based support. In 3 of the 4 ODA projects / programmes reviewed the aid modalities chosen reflected the donor and GoV commitment to the underlying principles of untied aid, such as providing funding directly to the Government through GBS. Interestingly, this study has found that even projects which use GBS as the main aid modality can become tied if donors retain control of components of the project, for example the procurement of International TA and / or consultants.

**Table 11: Donor Aid Modalities, Procurement and Untied Status**

Project	Donor/s	Modality	Aid Instrument	Procurement						Untied Status
				Procurement Rules / Guidelines*	Agencies in Charge of Procurement	Awarded Contracts**			Nationalities	
						TA	Consultancy	Civil Works		
Saigon River Lowlands Flood Prevention Project	<b>AFD</b>	GBS	Loans (1) Payments to Imprest Account (2) Direct payments to Contractors	VPL + AFD added clause on Fraud and Corruption (Clause 57)	All Contracts - ICMB9 and HCMC PMU (Project Owners) with agreement from MARD and AFD	0	3	15	VN	Untied
Rural Water Supply and Sanitation Nationally Targeted Program Phase II (NTP RWSS II)	<b>AusAID, Danida, Netherlands</b>	TPBS	Grants (1) Donors disburse funds into a 'pooled' account with the Gov (2) Donors provided TA 'in-kind'	VPL + NTP RWSSII Specific guidelines drafted by MARD + Danida / EU Guidelines (for TA contracts only)	International TA – Danida with agreement from GoV counter-parts and other donors Local Consultants - AusAID with agreement from Programme clusters  Civil Works – GoV Provincial People’s Committees in targeted provinces	8	26 + 1 Consultancy Firm in charge of Procurement of all Local Consultants (URS)	Varies by Province	British, Danish, Aus, Belgium, VN	Hybrid
Nam Tuan Irrigation Project	<b>Lux-Development (LD)</b>	Project	Grants (1) Direct payments to contractors (2) Direct payments to agreed project divisions using 'activity-based budget plans'	LD, EU Procurement Guidelines and / or VPL*** + clause pertaining to use of VPL if Tender Approval Dossier (TAD) validated by LD	International TA – LD  National Consultants – LD  Civil Works – PMU of DARD with LD approval	1	6	5	British, VN	Untied
Phan Ri-Phan Thiet Irrigation Project	<b>JICA</b>	Project	Loan -JICA disburse monthly to project account in Vietcom bank	JICA Loan guidelines + VPL	Consultants – Irrigation CPO (under MARD) with JICA agreement  Civil Works – SPO in	0	1 firm	9 (out of 25)	French, VN	Untied



					province (under MARD) and PMU (under DARD of Binh Thuan Province)					
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*\* Choice of Guidelines used will vary based on contract details but will follow at least one of the guidelines listed here*

*\*\* Indicates awarded contracts only, other contracts maybe planned or pending*

*\*\*\* Depending on contract LD or VPL guidelines are used (case-by-case basis)*

## **6.1 Rules and Regulations**

The rules and regulations used to implement a donor driven aid activity play a key role in determining the untied status of aid. Particularly, rules and regulations applied to the procurement of TA, consultants, civil works contracts and the purchasing of goods and services.

### **6.1.1 Vietnam Procurement Law (VPL)**

All ODA projects / programmes reviewed for this case use the Vietnam Procurement Law (VPL) in some combination with their own donor specific guidelines. VPL sets thresholds for both civil works and consultancy / TA contract procurement process, by which the choice of open or limited tender procurement processes is decided. Under the 2005 VPL direct appointments can only be applied if the procurement package is worth less than 500 mill VND (US\$ 31,250)<sup>87</sup> for consulting services or 1 bill VND (US\$ 62,500)<sup>88</sup> for civil works packages or good purchases<sup>89</sup>.

According to VPL, limited bidding, is only applied when requested by a foreign donor or when the procurement is for highly technical packages. All other tender packages above the threshold require open bidding procedures. VPL also stipulates that unless one of the below conditions are met, procurement is to be NCB. VPL allows for ICB only when;

- (1) Specifically require by ODA packages,
- (2) Packages include goods not domestically produced, and / or
- (3) When NCB was conducted with no successful bidders

MPI is the GoV agency responsible for the administration of the procurement law and manages of the National Procurement Network, weekly newspaper and website. VPL requires that NCB tenders required are advertised in Vietnamese in the National Procurement Newspaper and on the MPI website. For ICB the same advertising requirements apply but additionally require that tenders are advertised in English.

The limitations of ICB following the VPL is demonstrated by the JICA case study, whereby the original ODA requirement to hold ICB for the one large civil works project was revised and the contract broken down into 4 smaller contracts for civil works procured through NCB.

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<sup>87</sup> 'Vietnam: National Public Procurement System Assessment Report' 2006. Ministry of Planning and Investment.

<sup>88</sup> MPI 2006.

<sup>89</sup> The current VPL formalize din 2005 is currently under review with the objective of increasing the thresholds for direct appointment.

The project design was revised after the GoV led ICB procurement failed to attract International bidders with enough technical experience and capacity to implement the full project.

Evaluation of all contracts emphasizes technical requirements, giving the highest score (70-80%) to the score for technical evaluation. With regards to ICB, VPL notes preferences should be given to bidders already established in Vietnam and operating in accordance with Vietnam law. The JICA funded Phan Ri Phan Thiet Irrigation project, whereby ICB was held for the consultant company for the project, also illustrates this preference for Vietnamese business and consultants even when using ICB. In this case, even though the contract for consultancy was awarded to BCOM, a French consultancy company, BCOM allocated 100 man months of work to Vietnamese consultants and 70 man months to International consultants. Therefore, even though an ICB procedure was held, and the awarded company was foreign, a large proportion of the hired consultants for the contract were sourced domestically from within Vietnam.

Although there is no explicit statement in the VPL tying procurement to donor countries or Vietnam, contracts have been tied to national individuals and companies through contract specific requirements, similar to the JICA illustration above, for all procurement processes, ICB and NCB. There is however an explicit statement in the VPL untying the source of goods from donors or anywhere else by prohibiting the “designation of a specific brand name or origin of supplies in the bidding documents for goods, civil works or EPC packages<sup>90</sup>.” A careful review of GoV bid invitation letters however, has revealed a strong tendency toward the suggestion of suppliers for goods and services at the provincial and district level. For example, in the NTP RWSS II programme, interviewed contractors mentioned requirements in invitation letters to buy from basic civil works goods from local providers.

### **6.1.2 Project / Programme specific procurement guidelines**

The Saigon River Lowland Flood Prevention project is the only project reviewed that directly added a clause to the VPL in order to address its perceived short-comings. The additional “Fraud and Corruption” clause was added by AFD partially because of the project design, whereby the GoV project owners are responsible for the procurement of all contracts (consultant and civil works) with AFD maintaining a monitoring / ‘no objection’ role. The additional clause defines corrupt, fraudulent, collusive and coercive practices and states that any borrowers of AFD loans found to be actively engaged in any of these practices during the

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<sup>90</sup> EPC Package “is a procurement package that covers all tasks of engineering, procurement of equipment, materials, and civil works” (VPL p.83)

implementation of a project or contract will be sanctioned. VPL with the additional 'Fraud and Corruption' clause are applied for both consultancy and civil works contracts.

The AFD funded project includes an aspect of resettlement therefore AFD added a requirement specifically for civil works contracts regarding resettlement and land acquisition. Before civil works can begin the resettlement action plans must already be implemented and validated by an independent consultant and any required lands must already have been acquired.

All other projects reviewed use a combination of the VPL and the donor specific guidelines; the most formal example being the drafting of programme specific guidelines by MARD for the Rural Water Supply and Sanitation National Target Programme (NTP RWSSII). These guidelines were drafted at the request of the donors after an independent assessment of the VPL by AusAID found that non-transparent and uncompetitive practices led to collusion between bidders. Although designed to improve the VPL, the revised NTP RWSS II specific procurement document have been criticized for carrying key flaws in the VPL over to the new programme specific guidelines (Bartholomew et al. 2009). These flaws relate to the capacity to attract qualified bidders because of reasons suggested above such as low cost norms, lack of government experience in ICB procurement and evaluation, limited advertising, etc.

For the Lux-Dev irrigation project, Lux-Dev donor thresholds are applied to determine whether International tender, local tender, abridged tender or simplified consultation procurement processes is used for the acquisition of goods, services and works<sup>91</sup> (See Appendix C for Table of Thresholds). For all tenders, an open bidding procedure was held with the final decision resting with an evaluation committee comprised of both donor and GoV counterparts.

Deviations from Lux-Dev procurement guidelines in order to follow VPL are made on a case-by-case basis. In order to address possible conflict between the two guidelines Lux-Dev added a procurement clause stating that the use of national (GoV) procurement processes is possible subject to validation of the TAD by Lux-Dev.

There are two sets of donor guidelines used in Japanese funded Phan Ri-Phan Thiet Irrigation project; (1) for the procurement of consultancy services and; (2) for the procurement of construction works. Procurement on the project is required to follow both JICA procurement

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<sup>91</sup> Tender divisions based on LuxeDev own global donor thresholds and associated categories of tender

guidelines and the VPL. For consultancy services, bids are evaluated using a quality based selection (QBS), where consultants are graded by technical merit. Whereas the bid evaluations for construction contracts are made by comparing bids which conform to the technical specification and are responsive to the bidding documents on the basis of their evaluated cost (i.e. using a quality-cost based selection (QCBS)). This latter method favours neither national nor foreign bidders as, for example, foreign bidders may have a highly technical proposal but at a high cost and domestic bidders may offer a less technical proposal at a more reasonable cost.

For the JICA irrigation project, the GoV central project office (CPO) is responsible for the procurement of consulting services, with JICA monitoring agreement to the TOR and reviewing the short-listed candidates. For the procurement of construction goods and services JICA considers ICB to be most appropriate and does not offer any thresholds below which NCB can be applied. Instead, JICA procurement guidelines list circumstances where ICB may be not be appropriate (See Appendix D).

None of the donor funded projects or programmes reviewed contained explicit requirements in the donor or GoV specific procurement guidelines requiring the sourcing of goods, services or other contracts from any particular sources.

## **6.2 Practices**

In order to get a full picture of a project and its tied status it is necessary to review the practices followed through the implementation and management of a project or programme. Understanding formal and informal practices give reality to the above formal rules and regulations.

### **6.2.1 Contracts at the Primary Level**

Primary level contracts include all contracts issued for a project or programme that were directly procured and signed by either a donor and / or the government executing agency.

The AFD Saigon River Lowlands Flood Prevention project has followed their procurement guidelines and procured all contracts for consultancy and civil works through a NCB process led by the GoV project owners. To date, this process has resulted in the procurement of 3 consultancy and 15 civil works contracts, all with individuals or companies of Vietnamese nationality. The low contract value of the advertised tenders and the use of the VPL procurement process, requiring advertising in Vietnamese and English through the Vietnam Procurement Network, also resulted in a limited number of foreign companies or individuals submitting a tender.

The joint donor supported RWSS NTP II has a comparatively much more complex procurement process with variation in practice, sourcing and funding by the type of contract. The division of procurement responsibilities for the programme is as follows: Danida leads the procurement of international TA, AusAID manages the procurement of all National consultants and the provincial level executing agencies, the Provincial People's Committees (PPC), procure all civil works and goods contracts. Danida and AusAID provide the funding for International TAs and National consultants 'off-budget', or separate from the pooled donor programme account. The funds for the contracts sourced by the PPCs are funded by the overall programme budget.

The 'off-budget' provision of International TA by Danida and of National Consultants by AusAID is considered provision '*in kind*,' or additional bilateral contributions provided separate from donor commitments to the programme pooled account. These services are tendered using the process described below through the assistance of private procurement and consultancy companies. Although donors cite the limitations of the GoV procurement system, following the VPL, as the reasoning for maintaining control of the procurement process for TA and consultancy, the decision also creates an opportunity to tie services to the donor countries.

For example, for Danida's procurement of the the five international TA positions for the RWSS NTP II , two short-term contracts were awarded through limited bidding or direct appointment to a Danish and Australian company as the contract sizes fell below the EU bidding threshold requirements for open bidding (< 500,000 DKK). For the short-term TA position awarded to a Danish company the bid was only advertised on the Danida website, creating a information asymmetry in favour of Danish companies. The short-term position awarded to the Australian company was awarded by direct appointment to a company recommended by another TA for the programme. In this sense these limited bidding procedures resulted in the *de-tying* of tying of TA services to 2 of the 3 donor countries contributing to the project.

The other 3 contracts, with contract sizes above the EU bidding thresholds, were advertised in Danish, Australian and Vietnamese newspapers, offering a comparative advantage (access to information) to TAs and consultants based in the donor or recipient countries. Short-listed candidates were then evaluated on their technical capacity before a panel of donor representatives and government counter-parts.

In the agreement between donors for the NTP RWSS II, Dandia provides International TA ‘*in kind*’ and AusAID provides National consultants ‘*in kind*.’ For the procurement of National consultants AusAID procured a consultancy company to manage the consultant candidates by selecting consultants for from their consultancy database as well as recruiting consultants as needed for the programme. The contract for the consultancy company was sourced through a limited tender process as it is considered a ‘small value contract’ below the AusAID open bidding threshold (AUD 450,000). The tender was sent to 3 consulting firms, Australian, Danish and Vietnamese. Two companies responded to the tender and the contract was awarded to the Australian company, URS. Although URS procures only Vietnamese consultants for the programme, therefore keeping the consultancy untied, the use of the Australian company, URS, itself *de-facto* ties the programme to the donor as the company was procured through a limited procedure targeted at the donors. To date, URS, has awarded 26 contracts to Vietnamese consultants on be-half of AusAID for the programme.

All contracts for the Nam Tuan Irrigation project were procured using the Lux-Dev procurement guidelines. In practice however, each tender issued under NCB or simplified procedure thresholds were discussed between the provincial project management unit (PPMU) and Lux-Dev to determine which aspects of VPL should be included in the procurement guidelines. The International TA (Chief Technical Assistant or CTA), of British Nationality, was procured directly by Lux-Dev using an ICB open bidding procedure. A team of 6 national consultants were also procured by Lux-Dev using the donor-specific guidelines with GoV specific advertising norms. This resulted in 6 Vietnamese nationals being awarded the contracts, after approval by both Lux-Dev and DARD, and keeps the project fully untied at the primary level. The procurement of civil works contracts has followed a similar process as that used for National Consultants, but is led by DARD and advertised both on Lux-Dev websites and local Vietnamese press. The tenders for these contracts are prepared in consultation between the Chief technical consultant (CTA) and DARD. All active civil works contracts to date have been awarded to Vietnamese firms.

The JICA funded irrigation project designates the management and sourcing of all procurement to the MARD CPO for irrigation. At the primary level, one contract was awarded to an international consulting company, procured through an ICB, to BCEOM, a company of French nationality. The nationalities of the other short-listed companies for the contract were Dutch, American, Australian and Japanese. As mentioned above, the French firm, BCOM, was awarded a contract of 70 months for international specialists and 100 months by local (Vietnamese) specialists. Construction work was originally designed as one

ICB procured contract, which was revised after no qualified bidders submitted a bid, and was split into four smaller contracts awarded through NCB.

The tendency above in the JICA example, and in all the projects / programme reviewed for this case study, for the GoV to break large civil works contracts down into smaller packages is illustrative of the inverse relationship in Vietnam between contract size and the number of potential Vietnamese bidders.

### **6.2.2 Sub-contracting and workers at the ground level**

Although sub-contracting was permitted in the Saigon River Flood Prevention Project the current division of the civil works packages between the project owners, ICMB9 and the HCMC PMU, are such that sub-contracting is not necessary, i.e. they are small contracts focused on a particular geographic and technical aspect of the project. All workers on the ground level for the AFD project were sourced locally or from surrounding provinces, although some technical experts and civil engineers from further away were brought in for the project.

For the 3 provinces in which information for the RWSS NTP II was collected, there was two contracts that were awarded to companies which submitted a 'join' bid, but none which directly sub-contracted. The procurement of all civil works contracts at the provincial level is the responsibility of the Provincial People's Committees (PPC) and may or may not allow for sub-contracting in the other provinces. The sourcing of labor on the ground also varies by the Province, but based on the responses from the 3 provinces reviewed here for the Nation wide programme it appears that the PPCs have placed a high priority on sourcing both labor and supplies locally from within their respective provinces.

For the Lux-Dev irrigation project sub-contracting was prohibited in order to avoid the challenges related to managing multiple smaller companies. An exception to this has been made for areas in which skilled labor, for example electrical engineers, are needed. To date none of the awarded civil works contractors have sub-contracted any aspects of the project. A ground-truthing visit to the Lux-Dev project revealed that all labour was sourced locally, except for one contractor which brought 10 workers from the non-neighboring province of Nghe An.

The Phan Ri-Phan Thiet Irrigation Project (JICA) allows for sub-contracting but requires that it be included in part of the original bid submission by the awarded contractor. So far only one contractor has sub-contracted due to the scale and technical nature of the work. Similarly



to the Luxe-Dev case, a ground-truthing visit to the JICA project revealed that the majority, 2/3rds, of labor on the ground was sourced locally with the other labors from nearby provinces in southern Vietnam.

All unskilled laborers working on-site for the case studies reviewed here have been of Vietnamese nationality.

### **6.2.3 Procurement of goods and services**

For the RWSS NTP II the only procurement for goods at the primary level was the purchasing of 5 Mazada Bravos in 2005 at a cost of approximately US\$ 31,320. The vehicles were procured through, Crown Agents, a Danish procurement company, on be-half of the donor group and the make and model of the vehicles was decided at the request of MARD (GoV counter-part). The procurement process required market-price comparisons before the purchasing of the vehicles. The procurement of all other equipment and goods for the programme is managed by the respective PPCs and awarded contractors. Procurement at the provincial and district level is required to follow the VPL. Interestingly, it was noted that in many of the invitation letters, from the PPPCs to qualified bidders, the choice of suppliers for basic goods to be used in the programme implementation was strongly suggested, i.e a locally produced brand of sand or cement. For the research conducted here it is unclear if the sourcing suggestions for basic goods are (1) a method of encouraging investment in local industries and supply chains or (2) a method of for political figures within the PPCs to offer pay-offs or support to leading business figures in the community.

Lux-Dev similarly procured vehicles for the Nam Tuan Irrigation Project. The procurement included 3 vehicles and 1 made in Vietnam truck, at the request of the Cao Bang DARD. The two vehicles were procured by the same Danish firm, Crown Agents, with whom Lux-Development had an on-going partnership in vehicle procurement. In 2008, Lux-Dev ended the procurement partnership with Crown Agents, as due to its reputation of conducting market-price comparisons. The 2 x Nissan Patrols were imported for the project to fulfill the vehicle requirements and purchased at a cost of approximately 20,000 EUR. Lux-Dev also purchased office equipment, sourced mainly from Hanoi, for the project valued at 10,000 Euros. Although DARD originally requested the office equipment be purchased locally from Cao Bang province when the equipment was not available there it was agreed that it could be sourced from Hanoi.

All other equipment and goods procured for the case studies reviewed followed VPL requirements and was either locally sourced, for basic goods such as cement, sand, etc. or domestically sourced, such as large-scale equipment.

For the case studies reviewed, the bidding requirements for civil works projects included bidders submit a list of equipment required to implement the project and their ability to access it at no additional costs. Therefore, the procurement of new large scale equipment specifically for these projects / programme was relatively low as the need to procure equipment would have been evaluated negatively during the bid evaluation phase. All contractors interviewed stated that there were no formal restrictions on the sourcing of goods used for project implementation, although invitation letters and other documents were very suggestive. The majority of contractors also stated that they already owned or had access to the equipment necessary to implement the survey. For non-‘hi tech’ materials, such as steel, concrete, plastic, etc., purchased by the contractors reported that they goods are available in local markets and unlikely to have been imported (See Appendix A & D).

### **6.3 Conclusions from case studies**

In examining the different ODA cases it is clear that there are several factors determining the tied status of a project. From an external standpoint, all of the case studies reviewed hold characteristics of untied status, giving Vietnam a strong country ownership over their ODA projects, from the use of Vietnam’s procurement guidelines, the involvement of government executing agencies, and the contracting of national TAs and local firms through NCB processes. The only exception found was a case of *de-facto* tying for the joint-donor funded NTP RWSS II whereby by maintaining control over the procurement process for TA and National consultants donors unintentionally tied their aid to their respective countries by procuring Danish and / or Australian companies through closed or limited bidding procedures.

An analysis of the the procurement requirements for the purchasing of goods and materials revealed that procurement sourcing was unrestricted and the majority of basic materials were purchased locally or domestically for goods in low supply locally

Determining the tied status of a project is complex, Classification cannot simply be made at the donor level, nor can it be made on the ground. The different components and multiple layers involved in a project alter its classification and determine whether it can be defined as tied or untied.

## **7. Aid and developmental effectiveness**

This chapter will analyze the descriptive findings presented in chapter 6 in order to relate the process and practice of untying to aid effectiveness through impacts on cost effectiveness, general aid effectiveness and developmental effectiveness. Trade-offs between these three areas will also be considered.

### **7.1 Cost Effectiveness**

In the context of this study, cost effectiveness is defined as the most cost efficient use of funds allocated to a specific project. A Cost effective project or programme can be defined as one which minimizes costs across all aspects of project implementation while maintaining set standards of quality. Part of the argument for untying aid is that by eliminating sourcing restrictions significant cost savings occur and allows for more goods or services to be obtained with the same amount of funds. The following project areas are reviewed in order to determine cost-effectiveness; (1) the procurement of key contracts and (2) the procurement of physical equipment and materials.

The practices for procuring primary level contracts as described in the previous chapter varied by the sourcing and funding of the contract and the type of contract procured. Generally the pattern across all the case studies showed the use of ICB for international TA contracts, NCB process for large civil works and national consultant contracts, or smaller localized civil works contracts and direct appointment for contracts below threshold norms. Although contract values were provided by the donors for primary level contracts, a direct cost effectiveness assessment is not possible due to the very specific nature of each contract (Contract values included in Appendixes). In other words they could not be effectively compared to other consultancy, TA or civil works contracts procured in another manner.

What can be assessed, however, is the cost-effectiveness of the procurement process and the resulting awarded contracts. ICB and NCB procurement processes all follow a system of pre-qualifying which requires candidates to meet minimum criteria in order to be considered for the contract. On the other hand QBS evaluations require a full review of technical capacity with a pre-set cost and QCBS evaluations include both a quality and cost based assessment. The choice of procurement and evaluation process for a particular tender must therefore be one that guarantees the highest quality and the lowest possible cost with the lowest possible transaction costs for the procurement process.

Whether the chosen procurement process is cost-effective or not will depend on the project design itself, for example can the project maximize on economies of scale? If so ICB is likely to be the most appropriate procurement process. But, for example, if a project is structured such that there is a large geographic split between different components of the project than the most cost-effective approach is likely to be NCB with smaller contract sizes.

For example, all the contracts for the Saigon River Lowland Flood Prevention project (AFD) were appointed through a NCB procedure it can be assumed that the results of the procurement process are cost-effective. This is because the project design, prior to AFD signing into a loan agreement for the project, consisted of multiple small contract sizes by the GoV, split between right and left sub-bank civil works projects along the Saigon river, with a relatively straight forward technical requirement. By appointing contracts through NCB, the project kept advertising and other transaction costs related to the procurement process comparatively low, and was able to attract candidates from a wide enough pool (National civil works companies) to ensure the quality requirements could be met at the lowest cost.

What is more difficult to ascertain for the other case studies is whether or not the choice of the procurement process as ICB or NCB was the most cost-effective. For example a comparatively more expensive ICB may have been held when procuring with NCB may have also attracted equally qualified candidates at a lower cost, or vice-versa a NCB may sacrifice the capabilities level of candidates in a desire to contract relatively less expensively.

For the RWSS NTP II, the original project design included the use of International TAs in all implementation provinces, but during the programme pilot it became clear that the provincial level GoV implementation agencies did not have the capacity to effectively work with the International TAs. Therefore, following the pilot the programme was re-designed with an increased role for National consultants and matched reduction in the role for International TA to highly specialized positions. This demonstrates that the original decision to use ICB and International TAs, although they provided a high quality of work, was not the appropriate choice for the project and that a national consultant could provide a more appropriate level of quality at a lower cost and that consequently NCB turned out to be the most cost-effective method for procurement of programme consultancy.

To gain an understanding of the cost effectiveness of project funds used for procuring equipment and materials used during the projects' construction phases, a cost effectiveness analysis was undertaken in 3 out of the 4 project case studies. This analysis was performed by comparing prices paid for items of equipment on a project (where available) with local market price data obtained from suppliers in Hanoi and Ho Chi Minh City of similar

comparable goods (price averaged from three sources). The ratio of the two prices (the price paid per item relative to the local market price) is calculated as an indicator for cost effectiveness. Hence, approximately speaking a ratio greater than one can be interpreted as cost ineffective- price paid on the project greater than the alternative reference price; and a ratio less than one interpreted as cost effective - a lower price was obtained on the project than the market price. In theory untied aid should produce a cost effectiveness ratio for goods close to one or less than one on average.

Several items had to be excluded from the analysis for various reasons, for example if there was insufficient specification information for the good, or the good was purchased second hand and only first hand market prices were available. The results of the cost effectiveness analyses by item are presented in the annexed case studies.

Project price data was obtained for heavy equipment and materials procured by contractors on the AusAID, Lux Dev, and JICA case study projects. From the AusAID cost effectiveness analysis, 11 items were reviewed and the results found that 6 of these items had cost effective ratios less than 1, including sand, cement, excavators, electric welding, and threading machine, and therefore cost effective. Whereas 5 items had ratios greater than 1 and found to be cost ineffective, including concrete mixers, grinders, rocks, bulldozers, and locating machine.

Cost effectiveness analysis for the Lux Dev project also produced mixed results; steel and concrete mixers were found to be very close to the market price; meanwhile another type of steel, water pump, and cement were procured above the reference price (between 111% and 146% of market price). The Nissan Patrol car procured directly by Lux Dev was significantly below the reference price (32% of the reference price). The cost analysis of procurement of goods by contractors for the JICA project showed more signs of cost effective procurement. Items including sand, earth mover, steel, cement, bricks, and PVC all had cost effectiveness ratios very close to 1, while the prices paid for cement mixers and Hyundai cars were found to be expensive relative to the market price, 316% and 152% of market prices respectively, and therefore not a cost effective use of project funds.

The reasons for these mixed cost effectiveness results, given that all the projects were overall untied, are not entirely clear. The method used for cost effectiveness analysis was very approximate since the goods for which prices were compared were not identical and had different specifications, qualities, years, and so on. To obtain a perfectly accurate market reference price is difficult in practice. This factor may have affected the results considerably.

On the other hand, these results may be an indication of mal-practice on the part of agents involved in the project, where procurement may have been informally restricted to certain sources and therefore not been most cost effective.

## **7.2 General Aid Effectiveness**

The signing of the Paris Declaration (PD) and the Hanoi Core Statement (HCS) in 2005 brought to the forefront of ODA key issues of aid harmonization, ownership and alignment with a focus on results and accountability. From the four Vietnam case studies presented here it is clear that the effort of donors to untie aid and work closely with the GoV has had a positive effect on the achievement of the PD and HCS stated objectives. For example, all three projects and the one programme examined here are formally untied in terms of project implementation and are managed at the project level by GoV counter-parts, although particular components were found to be *de-facto* tied. Donors retain involvement in the projects or programmes by coordinating project design, procurement policy and monitoring components along with the GoV. In this sense objectives regarding GoV project ownership and alignment are naturally addressed and donors are also able to play a supportive role in capacity development.

Of particular interest is the AFD Saigon River Lowland Flood Prevention project whereby the donor was invited to join an already operating government run project. GoV original project funds were re-allocated in post-flood emergency and the GoV turned to AFD in a request for the lost funds. In this sense AFD inherited an already government run project and is completely untied. Although there was little impact on overall project design, the signing of AFD loan agreement was agreed at the meeting of conditions set by AFD, such as the combining of the two projects into one project comprised of two sub-projects, the addition of an anti-corruption clause to the VPL, a supplementary requirement regarding resettlement and monitoring / reporting systems. The addition of these slight changes to the project through the signing of the AFD loan agreement has created an opportunity for the GoV to learn from the project management experience of AFD.

Another unique example from these case studies is the joint-donor funded RWSS NTP II which uses a pooled donor account to fund the programme. By pooling funds AusAID, Danida and the Netherlands naturally harmonize aid and align donor funds with the long-term GoV National Programme Objectives<sup>92</sup>. On the other hand, AusAID and Danida, by retaining control of International TA and consultancy through provision '*in kind*' or in addition to the

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<sup>92</sup> The RWSS NTP II is part of the GoV long-term Socio-Economic Development Plan (SEDP)

pooled account, still maintain some bilateral control over the programme and therefore increase the possibility of non-alignment.

All four ODA funded projects and the programme assessed here are owned by the GoV and are designated a project owner. For the JICA project and the RWSS NTP II, the project design requirements for cross-ministry or provincial-district coordination encourage stronger ownership in the procurement and project monitoring process. The RWSS NTP II also, by using a TPBS, a ‘new’ aid modality, was cited to have led to the opening of policy dialogue space between donors and the GoV, which resulted in the addition of the sanitation component of the programme (Bartholmew et. al 2009).

Each of the projects and the programme reviewed here have placed a strong emphasis on capacity building of the GoV, particularly with regards to procurement and financial management. The focus on capacity building is re-enforced by the dual causality between project design and untied aid objectives. In terms of general aid effectiveness this case study finds that in Vietnam, GoV project led implementation has greatly increased project ownership by the recipient country and aligned the ODA with GoV own development priorities, paving the way for increased sustainability and independence from donors in the long-run. The increased GoV capacity in financial management and monitoring was found to be particularly strong in projects or programmes implemented using GBS (Saigon River Flood Prevention) or TPBS (RWSS NTP II). Regardless of whether the project or programme was joint or single donor funded objectives of aid harmonization are achieved by avoiding parallel funding through coordinating and designing the projects / programmes directly with MPI and the GoV.

### **7.3 Developmental Effectiveness**

Development effectiveness refers to the long-term dynamic social and economic impacts of the processes and results of sourcing goods and services for ODA funded projects. Advocates of untying aid suggest that the process of untying will have positive results for the development of the recipients’ economic and social development. Possible examples of development effectiveness include increased local employment, income and skills transfers, enhanced productivity through knowledge transfers and impacts on local markets and links to regional and / or global markets. This assessment aims to analyze whether these positive development benefits have occurred indirectly in Vietnam as a result of ODA project or programmes designs which untie aid. The discussion below is split by impacts on local and sub-national / national development effectiveness.

At the national and sub-national level the key impact on development effectiveness has been through knowledge transfers and capacity building. At the sub-national and national level development effectiveness was improved through knowledge transfers between; (1) committed ODA project / programme donors and the GoV and (2) the international TAs and national consultants or project owners. For all the projects and the program reviewed there was strong evidence of knowledge transfers from donors to the GoV regarding procurement policies and guidelines. This is evidenced by heavy donor involvement in the procurement process and in the drafting or revision of procurement guidelines. For example, the absence of a standardized Lux-Dev-VPL procurement guideline for the Nam Tuan Irrigation project was purposely done to emphasize discourse and dialogue on the procurement process for each tender offer between the CTA and PPMU as a capacity building measure.

Other examples of knowledge transfers between donors and the GoV found in this study include:

- RWSS NTP II. Through the use of the National Standing committee and financial monitoring and reporting systems donors have supported increased cross-ministry coordination.
- AFD. In the AFD funded Saigon River Lowland Flood Prevention project the priorities set by AFD on monitoring project spending and milestones has resulted in the use by the GoV counterparts of the Aligned Monitoring Tool (AMT). The capacity of the project owners in this case, ICMB9 and HCMC PMU, to monitor and track budgets and progress is thus being expanded through the AFD project monitoring requirements.

Knowledge transfers from International TAs to GoV contracted or assigned counter-parts was found in the RWSS NTP II and the Luxe-Dev, whereby International TAs work on site and along side national consultants and within relevant government ministries. The guidance provided directly to the GoV executing agencies, project / programme owners and national consultants by the internationally sourced TAs also creates opportunities for increased future productivity through the exchange of technical knowledge between the international expert and national counter-parts. As mentioned above, the originally allocated International TAs to provinces for the RWSS NTP II had to be withdrawn due to the limited capacity of the provinces to work effectively with the TA. This illustrates the importance of building the capacity of National and GoV staff to work with International TAs. At the project implementation level, evidence from the donors, GoV counter-parts, GoV project owners and civil works contractors suggests all projects / programmes reviewed employed the majority of



their labor on the ground locally and sourced basic goods and materials from local markets wherever possible. The focus on local labor and local sourcing of goods increases the incomes and employment of some of Vietnam's poorest provinces where these development initiatives take place. However, work is often seasonally or temporary bringing to question long-term employment stability. For example, during the ground truthing visit to the JICA funded irrigation project it was found that labourers at the ground level worked between 1 to 7 months a year.

What is more difficult to determine is whether the effect on local employment is a direct effect of the untied nature of the projects; i.e. there is little evidence to assume that if these projects were tied that they would source labor from foreign markets. What is likely to have differed though, if these projects were tied, is the contract sizes and cost norms. Contract sizes are likely to have been larger with higher cost norms, as opposed to the smaller contracts created with the low cost norms prescribed by use of the VPL, and therefore attract large scale international bidders who would be less likely to view employing labor and sourcing goods locally as cost effective during the project implementation. .

A similar story applies to the local sourcing of basic goods. As mentioned in the previous chapter, there has been little / no procurement of high-tech equipment by contractors working on this project for two key reasons (1) tender requirements and criteria requiring a minimum ownership of required equipment for the project implementation and (2) nature of construction industry whereby successful construction companies are likely to own or have access to all equipment required for a contract. Interviews with contractors revealed that all basic goods (cement, plastic, etc.) are sourced either locally or domestically from elsewhere in Vietnam. If not sourced locally, research showed that the sourcing of goods was from the urban centers of Hanoi or Ho Chi Minh City where the prices of goods are comparatively lower due to larger supplies. For example, in the Nam Tuan Irrigation project (Lux-Dev) contractors ventured to Hanoi to buy materials produced in Vietnam but not sold locally. The use of local markets is assumed to have had positive development effects by boosting the incomes of local suppliers and the development of local market. Although this was not evident in the projects / programmes reviewed for this case study, the use of local labor and local markets for a large scale ODA project / programmes also runs the risk of becoming falsely inflated, i.e. when the project finishes the labor and supply markets that have developed locally to support it will no longer have any source or work or purchasers.

#### **7.4 Cross-effectiveness issues**

Although untying aid is viewed as cost effective in the short-term and / or development effective long-term, it increases the risks related to quality, long-term durability, safety or health standards, timing etc. Trade-offs between types of aid effectiveness, such as cost-effectiveness and development effectiveness, need to be considered in a full assessment of the implications of untying or tying aid. This case study focused on project and programmes still in the implementation phases, and therefore a long-term view of the future sustainability of these projects and whether or not they will meet their development objectives has not been possible.

In the Saigon River Flood Prevention Project, the most formally and directly untied of the projects / programmes assessed for this case study, there was a clear trade-off between time efficiency and cost-effectiveness. The Saigon River Flood Prevention Project was the only project / programme reviewed that had sourced all services, TA, consultants and civil works contracts, with Vietnamese owned firms or enterprises. Strong government ownership of the project has also meant a strict adherence to the VPL, along with the additional clause on corruption added by AFD. In an interview with AFD it became clear that the timing and lengthy procedures involved with GoV led procurement for the project had resulted in (1) delays of 3 to 12 months in awarding contracts and (2) decreased incentive for foreign owned companies or individuals to place a bid due to the time consuming process for small contract values. From this stand-point the implementation of the project has been delayed because of the untied status of the project, but it not possible to objectively ascertain whether a foreign owned or Vietnamese owned company would implement the project with higher quality standards. The positive correlation between the level of GoV control over a project or programme and the increase to delays was also noted in an interview with MPI (September 2009).

On the other hand, the RWSS NTPII out-sourced the procurement of National consultants to URS, an Australian firm, which has led to the timely procurement and awarding of National consultancy contracts. This *de-facto* tying of the procurement process to an Australian owned company has resulted in greater time efficiency at a trade off to cost, especially in comparison to the Saigon River Flood Prevention Project whereby no high procurement costs were incurred in the procurement process as it was led by the GoV.

### **7.5 Issues of Implementing Untying**

Evidence from the ODA projects / programmes reviewed for this case study suggest that the biggest obstacle to fully untying aid in Vietnam is the current capacity of the GoV to procure quality contracts in a timely, effective and transparent manner. Both the donors and the GoV ministries interviewed stated that the current following the VPL and other MPI procurement guidelines is not the most effective means of attracting highly technical international staff / companies. One of the main reasons cited for the lack of effectiveness of the GoV procurement process was the GoV cost norms (AusAid Interviews June 2009, AFD Interview August 2009). Other commonly cited reasons included lengthy procedures and complicated bidding applications, limited advertising, contract sizes and the GoVs limited experience in procurement, i.e. how to evaluate, pool of international candidates, etc. Partially, for these reasons in the projects / programme reviewed donors have maintained a high level of involvement in the procurement process, especially for the procurement of international TAs and consultants.

The strong donor focus, particularly in the Saigon River Lowland Flood Prevention project and the RWSS NTPII, on monitoring and reporting also suggests that the GoV systems of reporting and evaluating the use of funds and project milestones presents a constraints to the full untying of aid. Based on the findings of this case study it appears that policies which strengthen the GoV's capacity in international procurement and enhance the governments' financial and project monitoring systems would ease some of the challenges of implementing untied aid projects in Vietnam.

A further issue or barrier to untying aid in Vietnam is the difficulty in conducting successful ICBs for certain projects. In the case of the JICA project, the original project design consisting of three ICBs proved to be unfeasible to due to lack of qualified applicants, and was decomposed into several NCB packages. ICB is the preferred method of selection since it is considered the most open and most competitive and strongly related to untying. If ICB is not practical this also encourages un competitive selection and direct hire. Therefore as international competitors increase their presence in Vietnam and have greater market access, this will also enable more ICB selection procedures and greater untying.

## 8. Conclusions

The findings of the research exercises conducted for this study have been presented in this report as a detailed description of the untying of aid process by bilateral donors in Vietnam and an investigation into the impact of untying on aid effectiveness. The analysis and evaluation of the different issues relating to untying of aid explored in this report have been based on country level information and four in depth project case studies.

Despite Vietnam's fast approaching middle-income country status, ODA continues to play a significant role in the country's path towards economic and social development, and donor supply of funds shows no signs of slowing down. It was found that several DAC member donors are currently active in the country, committing over US\$500 million of ODA in 2007 (CRS, OECD). The provision of ODA in Vietnam is diversified across the spectrum of aid modalities. With efforts by the government to improve the capacity levels, donors are encouraged to shift to 'newer' aid modalities such as budget support and pooled funding, while others continue to provide support through conventional methods such as project-based ODA. Regardless of the aid modality, from the cases reviewed significant emphasis has been made to ensure ownership over ODA lies in the hands of the GoV through the use of country procurement systems, national TAs, and the greater involvement of government executing agencies. Aid instruments were found to be roughly equal between the proportion of untied grants and loans (64.2% and 65.4%, CRS, 2007), and this was also reflected from the case studies reviewed.. The majority of total ODA from DAC donors to Vietnam is now untied (65.12%, CRS, 2007) according to donor reporting figures to donors' headquarters, and has shown a steady increasing trend over the last decade. Based on the findings of this case study, this figures sounds accurate with some project components remaining tied in the general trend toward the complete untying of aid in Vietnam.

From the in depth project case studies it was found that projects as a whole cannot simply be classified as tied or untied, but in fact include multiple components with opportunities for tying. Overall the four case study projects were found to be largely untied, with some areas of *de-facto* tying discovered, particularly in the area of international consultants. Interestingly though, no equipment or materials in these four projects were found to be tied, a typical area of tying in the past. This may be a signal that tying is shifting away from the more obvious and traditional tying practice of donors exporting goods for their projects, and more towards tying services of donor origin.

Using the detailed account of the disbursement of donor funds and procurement performed in the case studies, the study focused on analysing these practices to determine the impacts on aid effectiveness. The conclusions reached from this analysis were that the aid funds on untied projects were overall used efficiently; competitive and unrestricted procurement mechanisms such as ICB and NCB ensured low cost contracts and items were bought. Developmental effectiveness from untied aid was concluded to be positively impacted through such channels as increased local skilled and unskilled employment, sourcing of goods and services from local suppliers, and knowledge spill-overs. Although cross effectiveness issues, such as the GoV procurement process or issue related to timing and delays, were identified in the study, they are issues that were recognized by both donor and GoV counterparts, the awareness of which suggests that these issues are being addressed..

In conclusion, the Vietnam untied aid country study has provided a useful contribution and insight into the practical functioning and processes of different donor funded infrastructure projects in the context of a South East Asian middle-income country. The study has enabled the identification and separation of the components of a project where untying and tying are occurring, particularly in regards to International TA and consultancy, and has showed that most donor projects in Vietnam are close to fully untied in practice. In addition the implication of the untied status of projects for cost effective use of aid and developmental effects for the Vietnamese economy were discussed in reference to key findings from the case studies, and found to have an overall beneficial impact on aid effectiveness. The limitations to the findings on cost-effectiveness are recognized to be a result of the fact that options for ‘tied’ projects to review in Vietnam from which to provide a comparison were limited.

To improve the untying process further in Vietnam, and aid effectiveness in general, it can be recommended on the basis of this report that further steps are taken to encourage newer aid modalities (e.g. budget support), increased use of country procurement systems and further support to the GoV in developing procurement systems which are timely and attractive to highly qualified bidders. Further action could be taken to untie the service components of projects by developing the skilled labour sector through education and training activities, and increasing the supply of qualified consultancy services in Vietnam.

## **ANNEX: Project Case Studies for Vietnam Country Study**

- **Annex A: Case Study of The Saigon River Lowlands Flood prevention Project (AFD)**
- **Annex B: Case Study of the Rural Water Supply and Sanitation National Target Programme (AusAID)**
- **Annex C: Case Study of the nam Tuan Irrigation Project (LuxeDev)**
- **Annex D: Case Study of the Phan Ri-Phan Thiet Irrigation Project (JICA)**

## **Annex A: Case Study Of The Saigon River Lowlands Flood Prevention Project**

### **1. Background**

The Saigon River Lowland Flood Prevention project is a joint Government of Vietnam (GoV) and Agence Francaise de Development (AFD) project composed of two components; the construction of infrastructures for water resources and assistance for design and other studies.

The project was initiated by the GoV in 2005 as two projects:

- (1) Works to the Right Bank in District 12 of Ho Chi Minh City (referred to as sub-project HCMC)
- (2) Works to the Left Bank in the An Son-Lai district of Binh Duong Province (referred to sub-project An Son-Lai)

These projects were later merged into one project, comprised of the two sub-projects, at the request of AFD. The objectives of the project are to resolve inundation problems in the areas surrounding Saigon River in the Southern Industry zone of Binh Duong and Ho Chi Minh City, provide water resource management (WRM) to surrounding agricultural areas, to reclaim transportation systems along the river and to supply water for both domestic and industry use. These objectives are indicative of the broader aims of the project, to facilitate agricultural production and improve water resource management within the flood inundated area.

The project, managed by Ministry of Agriculture and Rural Development (MARD), requested AFD funding in 2007 when the originally GoV apportioned funds were re-allocated to disaster relief in a post-flood emergency. AFD was approached because of the small size of the project and because of AFD sector specific experience in WRM and disaster-relief. AFD agreed to contribute through a project loan agreement valid from February 2007 to January 2013. AFD financial contributions to the project were conditional on the addition of an anti-corruption policy, priorities on resettlement and land acquisition and on strengthening monitoring / assessment tools. AFD also required the two projects being merged as one project consisting of two sub-projects, the HCMC right bank and the An Son-Lai left bank.

This project is of particular interest for two main reasons:

- (1) Provides an example of an untied aid project by default whereby the donor entered into a loan agreement with the GoV for a project already designed and managed by the Government.
- (2) Strongly representative of a large scale water supply and sanitation (WSS) project with large scale construction works.

## **2. Objectives of Case Study and Methodology**

funds for a specific project from commitment by the donor to disbursement by the lead implementing agency down to the ground level. From this account, funds dispersed will be investigated to determine the organizational structures of disbursements, the procedures used at each stage, and the exact source in terms of countries of origin of the goods purchased and services employed for the project.

A key feature of these case studies will be to identify factors which led to the discrimination of goods and services on the basis of nationality and how this occurred, for example a rules and regulations based explanation, or due to procurement in practice. The second step of the case studies will be to assess the impact of the sourcing of contracts on the cost effectiveness and developmental effectiveness of the original disbursement for the project.

In order to investigate the tracking of funds from the donor's commitment to disbursement by the project implementing agencies, several sources of information and lines of investigation have been pursued. This has included the review of secondary data sources including accessible project design documents, loan agreements between AFD and the GoV, procurement guidelines and evaluation criteria, tender instructions and project reports including a quarterly produced monitoring report. In addition primary research collection was initiated through discussions with AFD and GoV counter-parts, GoV implementation departments and contracted individuals and companies. Primary research was collected primarily by phone, email and face-to-face interviews using a detailed questionnaire sent all or in part to relevant contacts as well as through follow up interviews.

As this project was already in operation at the time of the AFD loan signing agreement in 2007, the division of findings between those that occurred as a result of project design and characteristics in place prior to AFD involvement and those that were a direct result of the default untied aid approach of AFD contributions to the project are difficult to distinguish.

## **3. Project Structure**

The Saigon River Lowland Flood Prevention project is composed of two parts:



- Construction of infrastructures for water resources; and
- Assistance for design and other studies.

As of July 2009, the 2<sup>nd</sup> component of the project focusing on assistance for design of other studies had yet to initiate. The project implementation requires both consultancy and construction works contracts. Consultancy and technical assistance (TA) is provided to the project as a whole, as opposed to the sub-projects by which construction contracts are divided by, with a focus on assessing environmental / social impact and monitoring / auditing systems.

#### *Consultancy Services*

The project design at the signing of the AFD loan agreement included requirements for the following services:

- Design and survey consultant
- Environmental Monitoring
- Independent Monitoring of Resettlement
- Independent Audit
- Independent Assessment Monitoring Unit

#### *Construction of Infrastructures for water resources*

The construction of infrastructures for water resources component is divided into two sub-projects due to their geographical location:

- (1) Works to the Right Bank in District 12 of Ho Chi Minh City (HCMC), sub-project HCMC. This sub-project consists of 12 construction projects.
- (2) Works to the Left Bank in the An Son-Lai district of Binh Duong Province, sub-project An Son-Lai. This sub-project consists of 6 construction projects.

Specifically, this involves the following construction components:

- Construction of dikes along Sai Gon river and main canals aims to “protected arealisation” in the right and left banks of project;
- Construction of sluice under dykes and equipment with sluice gates and culverts in order to control irrigation and drainage of the area;
- Rehabilitation of irrigation and drainage canal system (dredging and improvement of river and canal banks) to facilitate navigation on the important canals; and

- Security for road traffic and consolidation of surface of dyke and canal, construction of bridges to facilitate transportation of agricultural material and production in the area

#### *Project Management and Government Involvement*

The overall financial management of the project is provided by the Ministry of Finance in coordination with the two project owners and AFD. The executing agency (EA) is the Ministry of Agriculture and Rural Development (MARD) and the project is managed through the Hydraulic Project Investment and Construction Management Board 9 (ICMB9) based in Ho Chi Minh City (HCMC). The director of ICMB9 is also the Director of the Project. The ICMB9 has full responsibility for the management, coordination and supervision of project and maintaining project coordination with AFD.

Project ownership, under the overall direction of MARD and direct supervision of ICMB9, is divided between the two sub-projects with the An Son left bank side of the project administered by ICMB9 and the HCMC right bank side of the project administered by the HCMC project management unit (PMU).

Although both sub-projects are under the responsibility of ICMB9, further investigation showed that there was little coordination or information sharing between the two sub-projects. This would suggest although the two projects were combined to meet the AFD conditions they still strongly maintain the organizational structure of the original project design and operate as two distinct projects.

Both sub-projects, managed by ICMB9 and the HCMC PMU, are responsible for the procurement of their own construction contracts and local consultancy. Procurement requirements include financial reporting to MARD, MoF and AFD for approval.

#### **4. Funding Arrangements and Government Involvement**

##### *Financing*

The total value of the project is USD 30.7 million, with the GoV National and Local governments contributing USD 18.9 million and AFD contributing approximately USD 11.8 million. As of July 2009 all AFD project has been through General Budget Support (GBS). Table 1 shows financial contributions from all stakeholders in the project according to the various project components.

**Table.1 Schedule of Contributions to the Project**

Items	AFD	MARD	An Son-Lain (Binh Duong Province)	HCMC	Total
Construction	9,160,000	916,550	2,891,535	2,553,050	15,521,135
Research, design and other studies	360,000	357,496	-	317,200	1,034,696
Investor support	350,000	-	-	-	350,000
Compensation for site clearance and	-	-	2,552,550	7,294,000	9,846,550
Provision	1,880,000	-	408,408	1,626,300	3,914,708
<b>Total</b>	<b>11,750,000</b>	<b>1,274,046</b>	<b>5,853,493</b>	<b>11,790,550</b>	<b>30,667,089</b>

*Note. Unit: USD*

*Source Deloitte (2007) 'Saigon Lowland Flood Prevention Project: Auditor's Report'*

In the project agreement the GoV agrees to pay all taxes, resettlement costs and land acquisition costs while AFD agrees to provide GBS through project loans. Although originally AFD planned to finance through loans as well as grants as of July 2009 there had been no grants approved.

#### Method of Disbursement

AFD project loans are disbursed using two modalities:

1. Payments into a project 'imprest' account<sup>93</sup>
2. Direct payments to contractors

The 'imprest' account is accessed by the two project owners, ICMB9 and the HCMC PMU. Although the funds in the account are monitored by MARD and the MOF, the management of the account is done directly by the two sub-projects. In this way AFD deposits skip the top-level administrative ministerial agencies and are accessed directly by the local project implementation units. Use of funds in the imprest account by the project owners is strictly regulated AFD criteria and monitored through 'statements of expenditure' submitted by the project management units to AFD on a quarterly basis.

The second method of disbursement, direct payment to contractors, is for all contracts for 500,000 Euros or more. The process for direct payment into the contractors' account is (1) submission of invoice from contractor to the project owner, (2) submission of invoice from project owner to MoF, (3) MoF approval invoice, (4) AFD approval and (5) payment made directly by AFD to the bank account of the contractor.

<sup>93</sup> Special account for smaller installments and use of petty cash

## **5. Tender and Procurement Process**

Prior to the signing of the loan agreement in February 2007, AFD conducted an independent audit of all existing contracts procured for the project. All contracts found to be in accordance with AFD procurement requirements were reimbursed by AFD. All projects listed below in the Section 6 ‘Procurement Results’ signed prior to 2007 were approved by AFD for reimbursement based on the findings of the Independent Audit.

All contracts signed since the signing of the project loan agreement have been procured by the project owners, ICMB9 or the HCMC PMU, with the agreement of MARD and AFD. The procurement of consultancy, TA and construction contracts are regulated by the Vietnam Procurement Law (VPL) with the addition of an AFD required clause regarding ‘Fraud and Corruption’ (Clause 5794). The additional ‘Fraud and Corruption’ clause to the VPL is also included in the instructions to bidders and is part of the conditions of AFDs loan agreement for the project. All contracts awarded since the signing of the agreement have been held through a NCB process and are for contract values greater than 500,000 Euros. The existing contracts are therefore above the VPL and AFD threshold for direct appointment and NCB and under the thresholds for ICB.

According to the ‘Instructions to Bidders’ project guidelines, all bidders are required to pay a non-refundable 1 Mill VND fee to submit a bid along with their full technical and financial proposal.

### *Consultancy / TA Contracts*

Consultancy / TA contracts are procured by ICMB9 through a NCB process following the guidelines in the VPL with the additional anti-corruption clause added by AFD. All tenders are advertised nationally in Vietnamese and English in the Ministry of Planning and Investment (MPI) newspaper as well as on-line on the MPI website. ICMB9 then collects EOIs from candidates before submitting a short-list of candidates, meeting a technical score of at least 70 points or higher, to AFD for approval. Short-listed bidders approved by AFD are then requested to submit a full technical and financial proposal in both English and Vietnamese. From these proposals ICMB9 makes final selection which given a review by AFD for ‘no objection’ before the contract is awarded.

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<sup>94</sup> Additional clause states that all ““contractors, sub-contractors, manufactures and consultants under AFD financed contracts , observe the highest standard of ethics during the procurement and execution of such contracts” and not engage in any corrupt, fraudulent, collusive or coercive practices (VPL- Saigon Lowland Flood Prevention Project, General Conditions of Contract)

Evaluation of consultants is based on the Consultant Qualification Selection (CQS) method with a heavy emphasis on technical scores. Table 2 outlines the Consultancy Evaluation Guidelines used for the project.

**Table 2: Saigon River Lowland Flood Prevention Project Evaluation Criteria for Consultants**

Item	Score
Relevant Experience	30
Technical Competence	50
Management Capacity	10
Background	10
Total	100

### *Construction Contracts*

All construction contracts are also procured directly by the project owners, ICMB9 for projects along the right bank of An Son-Lai and HCMC PMU for projects along the left bank of HCMC. Similarly to consultancy contracts, contracts are procured following VPL with the additional clause of AFD through a NCB process. Tenders are advertised both in the MPI newspaper and on the MPI website in Vietnamese. AFD is less directly involved than in the procurement process for consultants and TAs, but is still given final approval with a ‘no objection’ option.

The evaluation criteria is based strongly on the technical score, but is also weighted by a contractors’ ownership of, or ability to mobilize, heavy equipment required to complete the contract. Section 1.6 of the official ‘Instructions to Bidders’ document requires bidders include a list of their access to 14 key pieces of equipment.

## **6. Results of Procurement Process**

Management of the procurement by the sub-project owners and the choice of NCB processes has resulted in all contracts, for consultancy and construction being awarded to Vietnamese companies. This project is therefore fully ‘untied’ to the donor. See Tables 4 and 5 for details on consultancy and sub-project HCMC construction contracts awarded to date.

**Table 3 Consultancy Contracts Awarded to the Saigon River Lowlands Flood Prevention Project**

Contract	Awarded Company / Individual	Contract Size	Start Date
Design and Survey Consultant	Hydraulic Engineering Consultant No2 (HECII)	943,000	According to AFD, as of July 2009 this contract is pending

Environmental Monitoring	Institute for water resources - Environment and Institute for Environment and Natural Resources	427,701	15/11/2008
Independent Monitoring of Resettlement	Institute of Sociology and Center for Community Development Study	842,000	

Note. Unit: VND Millions

**Table 4 Contracts for the HCMC Right Bank Sub-project**

Contract	Awarded Company	Contract Size	Signing Date
Dyke and Structures under Dyke surrounding Saigon river from K0+000-K4+505	Đức Nghĩa Co., Ltd	16 800 610 400	19/06/2008
Dyke and Structures under Dyke surrounding Saigon river from K4+665-K7+435	Construction and Rural Development JSC	11 554 000 000	25/09/2006
Dyke and Structures under Dyke surrounding Saigon river from K7+435-K9+667	Huyền Minh Construction JSC	9 278 000 000	20/12/2006
Dyke and Structures under Dyke surrounding Saigon river from K0+000-K2+400	Investment and Development of Infrastructure JSC (I.D.I)	7 883 358 000	29/08/2003
Dyke and Structures under Dyke surrounding Saigon river from K2+400-K4+438	Consultant, Investment and Myo-electric Technique Co.,	8 426 437 000	12/09/2003
Đá Hàn sluice and Management House	Nghệ An Construction Irrigation 3 JSC	8 775 955 000	18/09/2006
Dyke and Structures under rạch Tra-Bến Đá Dyke	Construction and Rural Development JSC 2	8 311 400 000	17/10/2006
Dyke and Structures under Đá Hàn Dyke	Huyền Minh Construction JSC	13 244 000 000	08/09/2006
Dyke and Structures under Bến Cát-Vàm Thuật Dyke, K0+000-K10+425	Cát Phương Nam Construction Co., Ltd	14 841 000 098	21/07/2008

Note. Unit: VND Millions

Source: AfD

The project owners, ICMB9 and the HCMC PMU, MARD and AFD carefully monitor the bidding results through the use of the quarterly submitted Aligned Monitoring Tool (AMT). The AMT is prepared by the project owners and submitted to AFD.

As well as monitoring all loans contributed by AFD, the AMT reports on all tenders procured and the reasons for objection for all short-listed candidates not awarded the contract. For the above 10 contracts awarded for construction works on the HCMC Left Bank of the project 42 bidders were short-listed.

Reasons for rejecting the other short-listed candidates included;

- (1) Did not have lowest evaluated price
- (2) Did not have required legality
- (3) Did not meet capacity, experience or finance requirements

## **7. Estimated Effects Untied Aid has had on the Project Design/Characteristics**

The untied aid modality for this project occurred because AFD joined into a loan agreement for a project already in operation and managed by the GoV. This has strongly influenced the revised design of the project in a number of key ways:

- (1) Limited donor involvement to monitoring fund disbursements and approving the GoV procurement choices.
- (2) Added AFD loan conditions to the existing project design, i.e. merging the two projects to one, addition of ‘fraud and corruption clause’ to procurement guidelines, requirements for resettlement and land acquisition prior to awarding contracts and requirements related to the project monitoring using the AMT.

The AFD added a condition requiring resettlement and land acquisition to be completed prior to awarding a contract has been noted by AFD and ICMB9 to have “affected the project implementation schedule” (AFD interview Aug.4th). The lengthy procurement process involved in following VPL has also pushed contract signings behind the project schedule.

## **8. Impact**

### *Cost-effectiveness*

A direct cost-effective analysis in this project is hard to assess given the limited procurement of goods by contracted construction companies because of the bidding requirement that contractors have in their possession, or are able to mobilize, the heavy equipment needed to

implement the project. Of the two contractors interviewed for the research, none had purchased any equipment used on the project within the last 6 years. Heavy equipment in the bidding criteria includes 14 key pieces such as a water pump, concrete mixing truck, bull dozer, generator, etc. These equipment related requirements are likely to have increased the cost-effectiveness of the project limiting costs related to purchasing of new equipment.

Alternatively, had the project been tied, or even if the procurement had not been managed by the relevant GoV project owners, there may have been no equipment requirements therefore adding additional costs for the procurement of the appropriate equipment for implementation of the project.

Contractors interviewed cited that for any basic goods or services that they procured for use on the project follows VPL on the purchasing of goods and services and all follow-up decreases passed by the GoV related to the VPL.

The project design, with small contracts procured through NCB, also makes an assessment of the cost-effectiveness of NCB versus other procurement methods difficult as the contract sizes are too small to be competitive with ICB, and too large to source with NCB.

#### *Development Effectiveness*

There are a number of local and immediate development effects as a result of this programme. At the local level, the employment of local labour and use of basic supplies available locally positively support the locally labour and construction markets. Organizing national consultancy to work with the construction and civil works contractors also allows for a knowledge transfer between the two sectors, increasing the capacity of both parties.

The required submission of a quarterly AMT report by the project owners will have also further develop the facilities of the project owners, and of MARD and MOF, for monitoring project finances, procurement and implementation.

### **9. Conclusions**

This project is unique for this research as it provides an example of an aid project untied by default, i.e. the donor entered into a project loan agreement with the GoV for a project already designed and in the operational stages. The project can therefore be reviewed from two perspectives; (1) according to the impacts that the additional donor loan requirements in regards to project design has had on project implementation and effectiveness and (2) according to the impact the project design has had on cost and development effectiveness.



From the first perspective, the loan requirements by AFD, combining of two projects, addition of anti-corruption procurement clause, quarterly monitoring and reporting systems, etc., have enhanced the project design. The AFD revised project design is likely to have enhanced the capacity of the two project owners, ICMB9 and the HCMC PMU, to monitor project process and track financial management. The use of the AMT also tracks procurement contracts allowing for a full review of the procurement process.

It is unclear for this review what effect the combining of the two projects to one has had on project implementation. At the time of this study there appeared to be limited coordination between the two sub-projects. None of the loan agreements between AFD and GoV for the project resulted in the tying of the project to the donor and all procured contracts for consultancy, TA and construction works were Vietnamese companies.

From the second perspective, certain aspects of the project design have had strong positive impacts on cost-effectiveness and immediate development objectives. The bidding requirement for construction contractors that bidders are able to mobilize all large equipment needed for the implementation of the project reduces costs related to goods procurement and can therefore be seen as cost-effective, although the requirement may limit the opportunity for smaller local contractors to bid on the projects.

As all contracts employed local labour and supplied basic goods locally the immediate development effect on the local labour and goods markets has been positive.

## **Annex B: Case Study Of The Rural Water Supply And Sanitation National Target Programme**

### **1. Background**

The National Target Programme (NTP) for the Rural Water Supply and Sanitation (RWSS) Phase II (NTP RWSS II) is based on the National Rural Water Supply and Sanitation Strategy (NRWSS). It is one of the 10 of the Government of Vietnam's (GoV) NTP priorities for 2006-2010, currently in their 2<sup>nd</sup> Phase. NTP RWSS II builds on the cooperation between the GoV, Australia and Denmark in the water sector that started in the early 1990s and signifies the beginning of cooperation between the GoV and the Netherlands in the RWSS sector. The 2<sup>nd</sup> Phase of the programme represents the official beginning of donor involvement with the signing of a programme contract between GoV, AusAID, Dandia and the Netherlands and is being implemented over a 5 year period between 2006- 2010. Funding is provided through a joint-pool of GoV, AusAID, Dandia and Netherlands funding as well as through aid 'in-kind' from AusAID and Dandia used toward the procurement of and payment for International and National consultants. The main objective of the programme is to provide approximately 7.4 million people with clean water and access to improved hygiene practices. Programme aims related to sanitation are evident through the plan to construct more than 10,000 public building latrines and to provide 1.3 million households with hygienic latrines.

This programme is of particular interest for three main reasons;

- (1) It represents a shift in donor aid modalities from Project Based Support (PBS) to new untied modalities, such as Targeted Programme Budget Support (TPBS).
- (2) The programme is a joint donor pooled funding agreement between the GoV, AusAID, Dandia and the Netherlands.
- (3) Implementation is nation-wide with national RWSS objectives and therefore provides an in-depth review of opportunities and constraints of untied aid programme at a country wide scale.

### **2. Objectives of Case Study and Methodology**

The main purpose of this case study is to take a micro level approach in tracking donor funds for a specific project from commitment by the donor to disbursement by the lead implementing agency down to the ground level. From this account, funds dispersed will be investigated to determine the organizational structures of disbursements, the procedures used

at each stage, and the exact source in terms of countries of origin of the goods purchased and services employed for the project.

A key feature of these case studies will be to identify factors which led to the discrimination of goods and services on the basis of nationality and how this occurred, for example a rules and regulations based explanation, or due to procurement in practice. The second step of the case studies will be to assess the impact of the sourcing of contracts on the cost effectiveness and developmental effectiveness of the original disbursement for the project.

In order to investigate the tracking of funds from the donor's commitment to disbursement by the project implementing agencies, several sources of information and lines of investigation have been pursued. This has included the review of secondary data sources including ex-ante project evaluation documents, donor procurement guidelines, completed case study questionnaires, project progress reports, contract documents, and bidding documents obtained from the donor and PMU. In addition primary data collection has been initiated at every stage of the investigation wherever possible.

Primary research was collected primarily by phone, email and through face-to-face interviews. Data was also collected using a detailed questionnaire sent to relevant contacts.

Due to the large-scale implementation of the programme nation wide across Vietnam, this research focuses primarily on three provinces; An Giang, Ninh Thuan and Lao Cai. These provinces were chosen because (1) they were part of the original nine provinces which the programme was piloted in between 2005 to 2006 and (2) they are representative of the three provincial clusters in which the programme is organized by, the Southern Mekong Delta Cluster, the Central Cluster and the Northern Cluster respectively.

### **3. Programme Structure**

#### *Summary of Works on the RWSS NTP II*

The design of RWSS NTP II is influenced by the Paris Declaration, the Accra Agenda for Action and the Hanoi Core Statement (HCS) with a focus on capacity building of the GoV and on harmonizing aid to reduce transaction and parallel costs. The choice of programme design and funding disbursement for the RWSS NTP II was heavily influenced by a focus on increasing National government capacity both within the sector and generally in finance, management and procurement practices.

The RWSS NTP II is divided into three periods:

Pre-pilot preparation                      February – November 2006

Pilot phase December 2006 – December 2008

National roll out phase January 2009 – December 2011

*Pilot and National Roll-Out phase (December 2006-December 2008), (January 2009-December 2011)*

The RWSS NTP II is divided into two sub-phases; the pilot phase and the National Roll-out. The pilot phase was implemented between 2006-2008 and funded by donor contributions through TPBS to nine pilot provinces. The objective of the pilot was to identify any challenges faced by TPBS and in so doing identify the necessary safeguards and trial approaches were identified to influence the roll out the programme on a national scale.

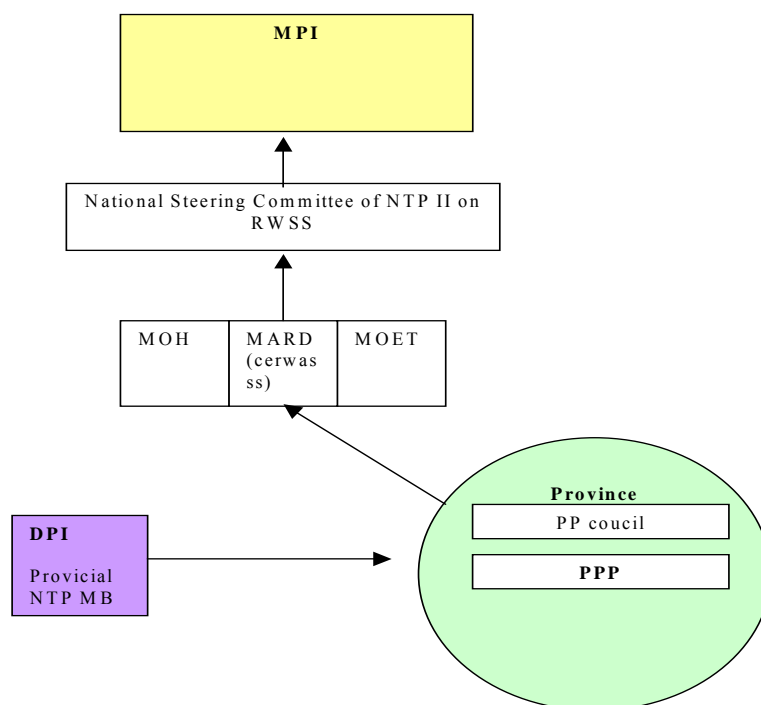
The programme, at both the pilot and national roll-out phase is composed of three components;

- (1) Capacity building, including improving financial management, budgeting and planning,
- (2) Education and Training, including focus on training for district level agencies and hygiene education, and
- (3) Construction and physical access of latrines within households, for livelihood pens and access to clean water.

#### *Organizational Structure*

As diagram 1 illustrates below the organizational structure of the NTP RWSS II is provided overall programme management by MPI with programme implementation being directed from MARD in coordination with the MOH and the MOET.

**Diagram.1 Planning Process for the NTP RWSS**



*Source. 2006 'Sector Programme Support to Water, Sanitation and Hygiene Promotion Vietnam'*

The annually meeting National Steering Committee provides the modality for donor and GoV stakeholder coordination. Donor involvement also occurs through the programme International TAs housed within the MOH, MARD and the three Provincial Clusters.

The project design includes 5 positions for International TAs to provide specialist support to the GoV ministries and provincial clusters as well as multiple contracts for national consultants. It is important to note that according to an independent assessment in 2009, the original project design for included more International TA positions to each of the provinces, but during the pilot it became clear that the “provinces did not have the capacity to use them effectively”(Batholomew et al. 2009). As a result of the pilot experience, provinces now use National consultants.

#### **4. Funding and Administrative Arrangements**

##### *Financing*

Funding for the NTP RWSS II is financed with a TBPS through a pooled funding agreement between the GoV, AusAID, Dandia and the Netherlands. Of the 315 million USD committed to the pooled fund, donors are jointly contributing 125 million USD or 40% of the total

programme budget and the GoV is contributing 190 million USD or 60% of the total programme budget (See Table 1).

**Table.1 NTP RWSS II Programme Funding**

<b>Donor</b>	<b>Funding (USD)</b>
Dandia	66 million
<b>AusAID</b>	<b>34 million</b>
The Netherlands	25 million
GoV	190 million**
<b>Total</b>	<b>315 million</b>

\*\* GoV funding is split between contributions from the State and Local Government, community contributions and preferential loans

Funding for TA, both International and National, is provided by Dandia and AusAID, respectively, ‘in-kind,’ or in addition, to the official program funding deposited in the pooled fund. The ‘in-kind’ TA is provided by the two donors separately from contributions to the pooled fund. In this sense, donors are able to retain control of tying the procurement of TA, even while using a TPBS modality and a pooled fund. However, no direct tying of TA contracts to donor countries was found for this programme.

Dandia’s contribution ‘in-kind’ represents 8% of its total programme fund. Through the TA ‘in-kind’ arrangement Dandia procures and funds International TA and AusAID procures and funds National Consultants. According to the programme document, ‘Sector Programme Support to Water, Sanitation and Hygiene Promotion Vietnam,’ total contributions to TA ‘in-kind’ by all donors represents approximately 7% of total donor contribution (November 2006). In exact cost terms this is estimated to be equal to USD 8.537 million over the course of the 5 year programme.

The team of 5 International TAs, procured and provided by Dandia, provides technical support to each of the following GoV departments and provincial programme clusters:

1. Ministry of Agricultural and Rural Development (MARD)
2. Ministry of Health (MoH)
3. Southern Mekong Delta Cluster
4. Central Cluster
5. Northern Cluster

AusAID outsources the procurement of all National consultants to an Australian company, URS, and as of August 2009, 26 contracts for National consultants had been provided by AusAID for the programme.

As well as the provision of TA 'in-kind', Dandia and AusAID fund internal auditing, studies and research for the NTP RWSS II equating to approximately 1.4% of the total donor financial contribution. In exact cost terms around USD 1.74 million across the 5 year period.

#### *Method of Disbursement*

Funding is disbursed through TPBS into a pooled donor and GoV fund. The TPBS represents a major shift from the previous modalities that focused on disbursing aid through the projects themselves, i.e. PBS, which was used as the funding modality during the 1st phase of the NTP RWSS (2000- 2005). The shift to TBPS can be contributed to a number of reasons, mainly related to the results of the evaluation of the NTP RWSS I and to recent donor and GoV shift toward the principles of aid harmonization.

Donors distribute funds on a semi-annual basis to a GoV foreign exchange bank account held with the State Bank of Vietnam (SBV). The SBV converts the foreign currency funds received into Vietnam Dong (VND) and then transfers them to a special account established by the MOF. Upon direction of MOF and State Treasury, funds are transferred to provincial treasuries on a quarterly basis for implementation of provincial RWSS plans as approved by Provincial People's Committee (PC). Donor funding and GoV contributions to the account are indistinguishable when the funds are disbursed.

The PCs and specifically the PPC's Chairman are responsible for the management of RWSS NTP II expenditures at the sub-National level. Funding is allocated at the provincial and the district level by the PC. The PC allocates these funds based on proposals made by the district level Department of Agriculture and Rural Develop (DARD) which have been approved by the Bureau of Finance (district level) and the Department of Finance (provincial level).

Although the programme agreement states that mandated Vietnamese agencies will manage the fund it, "no additional procedures of reporting or coordination of management and funding structures are to be created as a result of the donor contributions" (2006). However, it also states that there will be close and regular communications between the donor agencies and the GoV through the National Steering Committee for the NTP II and that financial spending will be monitored through the MARD managed "Value for Money Audits."

## **5. Tender and Procurement Process**

All tenders procured for the NTP RWSS II follow both the GoV procurement law (VPL) and an additional set of programme specific procurement guidelines drafted by MARD at the request of their donor counterparts. The draft of the NTP RWSS II specific procurement guidelines are based on the results of a 2009 independent assessment conducted by AusAID on the procurement process for all four of its programme based support (PBS) within Vietnam. The assessment found that non-transparent and uncompetitive practices in procurement led to collusion between bidders, particularly in the RWSS NTP strategy. Thus new procurement guidelines were drafted based on the VPL to help ensure sufficient national and provincial commitment to transparent procurement and anti-corruption measures, but as they were based on the VPL many of the challenges that existed in the original VPL were carried over to the programme specific guidelines.

Although all tenders follow the specified program and VPL guidelines for procurement apply for all contracts awarded, procurement practices vary by both the type and size of contract being procured. For this programme there are four main types of contracts;

- (1) International Long-term and Short-term TAs procured (funded by Danida)
- (2) National / Local Consults procured (funded by AusAID)
- (3) Local Contractors and Civil Works companies (funded directly from the programme and disbursed through the PCs)
- (4) Contracts for the procurement of goods / services (funded directly from the programme and disbursed through the PCs)

## **6. Results of Procurement on the Project**

The procurement process is described for each of these contracts below.

### *Procurement of International TAs*

For this programme, Dandia has procured a total of 8 International TAs over the period of 2005 to 2009 for 5 positions. The technical positions offer support to the GoV implementation system and are placed within MARD, MOH and the 3 Provincial Clusters (Southern Mekong Delta, Central and Northern). Currently 3 of the Technical Advisors are on long-term contracts and 2 on short-term. The TA team prioritizes capacity building within their respective departments or provincial clusters and is managed by the GoV.

The procurement and advertising process for each of the International TA contracts varies by the size of the contract and follows in addition to the VPL and the NTP RWSS II procurement guidelines, Danita's procurement guidelines and the EU procurement law (See Table 2).



Procurement logistics for International TAs is out-sourced to Mercer Ewer, a Danish company involved in all ‘logistical arrangements’ of the procurement process. Danida uses this company for all procurement and it was not selected specifically for this programme. Short-listed candidates for the International TA tenders are selected on their technical capacity alone as the budget is already set (no financial evaluation) and are shared across the NTP RWSS II government ministry counterparts, MoH, MOET, MARD and the MoF. Selected candidates are then interviewed by a panel of representatives from Danida, AusAID, the Netherlands, MoF, MARD, MoH and the MOET. The final selection is made based on the majority decision of the interview panel.

**Table.2 Tenders and Procurement Practices for International TAs**

<b>Tender</b>	<b>Procurement Process</b>	<b>Time Type</b>	<b>Nationality of Individual Company Awarded Contract</b>	<b>Individual or Company</b>
MARD	ICB <sup>95</sup> Advertised in Danish, Australian and Vietnam newspapers. Candidate's short-listed, technical capacity assessed and then interviewed by panel before final selection.	Long-term	British	Individual
MOH	ICB <sup>96</sup> Advertised in Danish, Australian and Vietnam newspapers. Candidate's short-listed, technical capacity assessed and then interviewed by panel before final selection.	Long-term	Danish (Original contract during Pilot awarded to Australian Individual)	Individual
Mekong Delta / Southern	Contract less than EU bidding threshold and the threshold for Dandia procurement guidelines (500,000 DKK) so contract was appointed by direct appointment.	Short-term	Australian	Company
Central	Contract was less than the threshold for EU bidding Procurement Law but within threshold for Danida procurement law, so tender advertising was limited to the Dandia web-site.	Short-term	Danish	Company
Northern	ICB <sup>97</sup>	Long-term	Belgium	Individual

<sup>95</sup> ICB – Internationally Competitive Biding

<sup>96</sup> ICB – Internationally Competitive Biding

<sup>97</sup> ICB – Internationally Competitive Biding

	Advertised in Danish, Australian and Vietnam newspapers. Candidate's short-listed, technical capacity assessed and then interviewed by panel before final selection.			
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Although the majority of contracts awarded to International TAs were procured through ICB, 2 contracts short-term contracts fell below the EU bidding threshold for competitive bidding and were appointed by direct appointment to an Australian and Danish company. These 2 positions are therefore considered to be de-facto tied, as a limited bidding procedure was held which resulted in companies or nationals from the donor countries being awarded the contracts.

The 3 TA packages procured through ICB also had selected advertising in Australian, Danish and Vietnamese newspapers, creating slight information symmetries between TAs that are nationals of the donor or recipient countries and those from other countries.

The strong involvement of Danida in the procurement of International TAs is partially due to the limited capacity of the GoV to find and attract highly qualified International TAs. It was suggested that this restricted capacity is related both to the low cost-norms and the lengthy process involved in the GoV Procurement Law (VPL).

#### *Procurement of National Consultants*

AusAID is responsible for the procurement of all local short-term consultants for the NTP RWSS II. The number of local consultancy tenders offered, both in the pilot and National roll-out phases of the programme, is demand-led and adaptive to meet the short-term needs of the programme.

AusAID also out-sources the procurement process for local consultants. The selection of a company to manage the procurement of consultants was procured through a limited tender was issued by AusAID and sent to three consulting firms based in Hanoi, one Australian, one Danish and one Vietnamese. The small contract value (450,000 AUD) does not meet the threshold requirements for NCB under Australian procurement law and therefore could be contracted through a limited procurement process. The tender was advertised to the three firms through an email in English, of which the responses to the led to the selection of the Australian consultancy firm, URS.

Since the procurement in 2008. URS has URS has organized the procurement of 26 National consultancy tenders on behalf of AusAID for the NTP RWSS II.

*Procurement of Local Contractors / Construction Companies*

The procurement of local contractors and local construction companies for the NTP RWSS II is managed by the PCs and follows the VPL as well as the programme specific guidelines. All local contracts that were above the VPL thresholds were procured through a NCB process and those below using direct appointment or limited tender bidding. Details on the contracts awarded in Ninh Thuan, An Gian and Lao Cai are listed in the Tables below.

**Table.3 Contracts awarded in Ninh Thuan**

<b>Consultancy</b>	<b>Name</b>	<b>Contract Size (VND)</b>	<b>Procurement</b>
1	Water Institution of Vietnam	309,254,908	Direct Appointment
2	Phu My Consulting Construction Design Ltd	29,268,082	Direct Appointment
3	Phu My Consulting Company	30,882,000	Direct Appointment
4	Viet Hoang Ltd.	191,961,000	Direct Appointment
5 (Insurance)	Bao Minh – Ninh Thuan Insurance	77,338,000	Direct Appointment
6	Water Institution of Vietnam	348,812,531	Direct Appointment
7	Water Institution of Vietnam	619,551,595	Direct Appointment
8	Phu My Consulting Construction Design Ltd	22,448,514	Direct Appointment
9	Phu My Consulting Construction Design Ltd	50,007,009	Direct Appointment
10	Phu My Consulting Construction Design	50,204,616	Direct Appointment
11	Hoang Long Construction Ltd.	327,116,968	Direct Appointment
12(Insurance)	Bao Minh – Ninh Thuan Insurance	154,328,593	Direct Appointment
<b>Construction</b>	<b>Company</b>	<b>Contract Value (VND)</b>	<b>Procurement</b>
1	(Joint Venture) Duy Phong Construction & Truong Thinh Construction Company	11,866,155,583	NCB
2	Thang Long Construction Company	22,608,608,680,870	NCB

**Table.4 Contracts awarded in An Giang**

<b>Consultancy</b>	<b>Name</b>	<b>Contract Size (VND)</b>	<b>Procurement</b>
1	Machinery & Electricity	40,000,000	Direct Appointment

	Consultancy & Investment Company		
2	Loc Phat Consultancy & Construction Investment (JSC)	125,000,000	Direct Appointment
3	Hung Thih Consturctio & Consultancy Design	56,000,000	Direct Appointment
<b>Construction</b>	<b>Company</b>	<b>Contract Value (VND)</b>	<b>Procurement</b>
1	Construction, commerce and Rural Development (JSC)	2,560,000,000	NCB
2	Minh Hoang Construction ltd	1,639,000,000	NCB
3	Building & Construction material 2	1,249,000,000	NCB

**Table.5 Contracts awarded in Lao Cai**

<b>Consultancy</b>	<b>Name</b>	<b>Contract Size (VND)</b>	<b>Procurement</b>
1	Lao Cai Water Construction Consultancy & Rural Development (JSC)	148,943,328	Direct Appointment
<b>Construction</b>	<b>Name</b>	<b>Contract Size</b>	<b>Procurement</b>
2	Thung Limited Company	1,450,000	Direct Appointment
3	Construction & Environmental Engineer (JSC)	207,207,000	Direct Appointment
4	No.2 Lao Cai Construction (JSC)	264,307,000	Direct Appointment

As the above tables illustrate, the majority of contracts procured at the provincial level were of small enough contract values, according to the VPL, to procure through direct appointment. The direct appointments were made by sending invitation letters to component contractors then requested to submit a bid for the project. The use of direct appointment procurement procedures and small contract values illustrates one of the short-comings of VPL in its ability to limit the scope for corruption or collusion.

For example, in Ninh Thuan province there were 10 consultancy contracts awarded and 2 insurance contracts. Of these, 8 contracts went to a consultancy, through direct appointment, already contracted for at least one other contract. By splitting contracts to smaller values the GoV implementation agencies, in this case the PPCs, can arrange contract sizes that are distributed by direct appointment limiting the opportunity for complete bidding procedures and increasing the risk of corruption.

#### *Procurement of Goods and Services*

The procurement of goods and services is also regulated by both the VPL and the programme specific guidelines.

To date the only procurement of goods at the top-level, i.e. by donors or the national GoV implementing agencies, has been the purchasing of 5 Mazada Bravos for use by the TAs and their respective GoV departments. The vehicles were procured by Danida using a Danish procurement agency, Crown Agents. The selection of the make and model of the vehicles was the choice of MARD. Danida guidelines of the procurement of goods required both a market price comparison prior to purchase and assurance that the car models are only equipped with the most basic amenities.

Details on civil works goods procured by contractors in the three focal provinces of this case study are presented in Table 6 below.

## **7. Estimated Effects Untied Aid has had on the Programme**

### **Design/Characteristics**

The choice of an untied aid modality for this programme has strongly increased the capacity of the GoV at the National level in three key ways;

- (1) Developing the capacity and space for cross-ministry cooperation, especially with the addition of the sanitation component and with the linking of the MoH and the MOET,
- (2) Furthering the ability of the GoV to plan, manage and monitor National RWSS targeted funds and
- (3) General improvements to the methods and practices of procurement for NCB and ICB tenders.

The original project design included International TA positions for each province, but during the pilot it became clear that the limited capacity of the provincial implementation units to work effectively with the TAs led to the re-designing of the program with an increased role for National consultants. This suggests, as was highlighted in an interview with Mr Cao Manh Cuong, MPI Foreign Economic Relations Department Deputy Director, that there is a gap between untied aid project designs and modalities and the plans and policies necessary to successfully implement them on the ground (Interview September 4th).

### *Extent of Untied Aid*

The RWSS NTP II thus far indicates that there is a tendency toward the de-facto tying of aid through limited tender or direct appointment contracts awarded to nationals or companies from Australia or Denmark. For the procurement of the consultancy company, to organize the procurement of all National consultants for the programme, AusAID emailed an invitation to bid to three consulting firms, of which two were the nationalities of the primary donors. The final contract was awarded to an Australian company, URS.

Similarly, according to Danida project documents, many of the short-listed companies for the international technical advisor contract were of Danish nationality, reinforcing one of the initial hypotheses regarding asymmetric information and the crowding out other international firms. Two of the International TAs were also procured through direct appointment which resulted in the awarding of the contracts to an Australian and a Danish company.

By retaining control of the procurement of TAs and consultants in the project design by offering them ‘in kind,’ and separate from the donor and GoV pooled programme fund, the donors were able either intentionally or un-intentionally, tie aid to consultants and consulting companies from their respective nations.

## **8. Impact**

### *Cost-effectiveness*

Cost-effectiveness for the programme is monitored using a new audit system for Vietnam designed during the pilot of the programme, the ‘Value-for-Money’ audits. The ‘Value-for-Money’ audits are a method of assessing whether programme investments made by MARD and other government agencies are economical with acceptable levels of efficiency and effectiveness. They are managed by MARD and conducted by the GoV State Audit of Vietnam (SAV) internal audit service on an annual basis. The ‘Value-for-Money’ Audit completed during the pilot phase of the programme concluded that for the 9 piloted provinces investments had been economical with acceptable efficiency. The vehicles were purchased for approximately USD 31,320 each.

The limited details on the procurement of construction equipment and basic goods was obtained from contractors in Ninh Thuan, An Giang and Lao Cai collected during the research were compared to average market prices to create the cost effectiveness analysis presented in Table 6.

**Table 6 Cost Effective Analysis**

<b>Equipment/Materials</b>	<b>Project price (VND) (A)</b>	<b>Market Reference Price, average (VND) (B)</b>	<b>Cost Effectiveness Ratio, C=A/B</b>
Concrete Mixer (Vietnam)	15,000,000	9,500,000	1.58
Grinder (May nghien)	1,000,000	863,333	1.16
Yellow Sand (Cat vang)	85,000	87,500	0.97
Rock 10mm and 20mm (Da')	290,000	129,333	2.24
Cement (Ha Tuyen 2) (50kg)	66,000	66,700	0.99
Excavator PC300 (bucket capacity 1.25m3) (may xuc)	900,000,000	1,115,000,000	0.81
Excavator SK07 (bucket capacity 0.7m3)	500,000,000	850,000,000	0.59
Bulldozer D50 (xe ui dat)	700,000,000	575,000,000	1.22
Electric Welding Phase 2 (May han dien)	20,000,000	21,000,000	0.95
Threading Machine	15,000,000	30,500,000	0.49
Locating Machine (From Taipei)	10,000,000	7,623,000	1.31

The cost effectiveness ratio displayed in the fourth column of the above table represents the price of goods used on the project relative to the alternative market price of similar goods. Therefore a value of  $C < 1$  implies a cost efficient expenditure by cost saving relative to the market price, whereas a value of  $C > 1$  indicates a cost inefficient expenditure, with a cost gain relative to the market price. In theory untied aid is thought to procure goods from the cheapest available source, since sourcing is unrestricted. From the above table it can be seen that some of the results support this theory, for items with a cost effectiveness ratio close to '1' (e.g. sand, earth mover, steel, cement, bricks, and PVC). However there are some conflicting results since cars and concrete mixers were procured for a much higher price. Overall procurement of equipment and materials on this project can be seen to be cost effective

#### *Development Effectiveness*

There are a number of local and immediate development effects as a result of this programme. Mainly, the employment of local labour, purchasing of locally produced basic goods for construction and the increased capacity of local companies to work on WSS programmes. For example, the Lao Cai PPC's has cited that the use of "some materials such as cement,

bricks, sand, stones, etc. used for the work are sourced from within the province and help create jobs in the area” (Questionnaire response September 2009).

From a social stand-point the involvement of the local communities in the district and Provincial level programme planning opens up spaces for future dialogue between local communities and the GoV.

It is hard to ascertain though whether these effects are the result of the TPBS aid modality used or a result of the programme requirements themselves. The contracts for local construction are in often highly remote areas and of small value, especially in the International Market. They also require a fairly low technical capacity (i.e. construction of latrines and systems for increased access to clean water). For these reasons, as long as the budget distributed to the contracts remained fairly similar to that allocated by the GoV, the choice of aid modality may have had little impact on the use of local labour and markets which may have just been a result of the technical requirements of the programme itself.

## **9. Conclusions**

The National scale of this programme along with the TPBS ‘new’ aid modality and pooled funding approached used by all donors reveals a shift towards aid harmonization in Vietnam and toward a focus on capacity building within the Government and implementing agencies.

Key Points which can be drawn from this Case Study are:

- Funding Disbursement – Pooled fund approach creates aid harmonization between the donors and the GoV as it removes the need for complex funding coordination systems and arrangements. It also prevents parallel funding from occurring between GoV RWSS programs and donor managed programmes.
- Organizational / Management Structure – The use of existing government agencies for all aspects of management and implementation of the programme, including management of the donor procured TAs, strengthens National government capacity on a number of key level;
  - (1) Capacity for cross-ministry coordination and planning,
  - (2) Capacity to manage and monitor fund disbursements,
  - (3) Improvements to the Government procurement practices,
  - (4) Capacity to work with internal International Technical Advisors and
  - (5) Capacity to monitor and jointly evaluate programme investments (‘Value-for-Money’ Audits) and programme spending.



- Procurement Process – Need for donors to continue to procure International and National TAs ‘in-kind’ illustrates challenges within the GoV procurement system in attracting qualified candidates. The following of multiple procurement processes for different types of contracts, contract sizes and contract providers also complicates the process.

## **Annex C: Case Study of the Nam Tuan Irrigation Project**

### **1. Background of Project**

The Nam Tuan Irrigation project is a rural development sector project aimed at improving the water resources and irrigation in the agricultural sector. The project is a component of a broader rural development objective of improving agricultural production and generating income opportunities for households / farmers in and around Nam Tuan Commune, of the Cao Bang Province. It addresses this by rehabilitating an existing irrigation scheme and facilitating the establishment of community-based management; by demonstrating and raising awareness of alternative crops and up-to-date methodologies; and by building Government capacity in order to provide appropriate support for farmers in the province as a whole.

The project is intended to contribute to food security and poverty reduction of approximately 6500 people in and around Nam Tuan Commune. The project is envisioned to help raise the standard of living of the population of the Cao Bang province which is one of the poorest provinces of Vietnam, (rated 61 out of 65) mostly composed of ethnic minorities, thus Luxembourg has chosen Cao Bang province as a target area for prolonged assistance.

The Nam Tuan Irrigation project is single donor funded by the Grand Duchy of Luxembourg's executing agency Luxembourg Development Agency in cooperation with the Government of Vietnam (GoV). It is of particular interest the project is supported through more traditional project based ODA funding compared to the current ODA trend of budget-sector support. The project commenced in April 2006, and is expected to complete in April 2010. Luxembourg Development is supporting the project through a non-reimbursable grant of EUR 3,293,100 combined with the GoV contribution of EUR 425,000. Luxembourg's support for funding the project was at the request of the Government of Vietnam.

### **2. Objectives of Case Study and Methodology**

The objective of the study is to monitor and evaluate the fund expenditures and procurement sourcing from the funding commitment at the donor level down to the disbursement at the project level. This includes an assessment on equipment and technical expertise procured, cost-effectiveness of equipment and machinery, and developmental impacts such as labour and local firm productivity.

Secondary research was required in order to ensure an accurate and comprehensive analysis could be formulated with respect funding commitments by donors and fund disbursement at the ground level. Secondary research included programme documents on the Nam Tuan Irrigation project, the Luxembourg Development Agency's procurement guidelines, documents listing equipment procurement guidelines and the job postings for technical advisory staff for the project

Primary research in the form of survey questionnaires and interviews were conducted in addition to secondary research in order to provide any necessary explanations, as well as observe any discrepancies between actual practices and those outlined from secondary research. Interviews were held with the donor agency, the chief technical advisor the DARD/PMU executing agency, as well as with contractors in order to obtain information on procurement, equipment sourcing, cost-effectiveness, labour impacts, local input, pricing of equipment, or to discuss any formal/informal arrangements with the lead implementing agency, specifically the donors or MARD. Questionnaires were sent to the donor agencies to provide information on their perspectives of untying aid practices and to determine the implementing agency responsible for contracting equipment, materials, and consultant services.

### **3. Project Structure**

The project is divided into six components outlining both primary objectives as well as secondary tertiary objectives to result from the Nam Tuan Irrigation project.

- (1) *Irrigation works and management transfer*
  - a. Rehabilitation of primary and secondary canals;
  - b. Timely and effective tertiary development mainly by participating farmer groups and Women's Union Associations (WUA);
  - c. Institutional and policy support to farmer groups and WUAs to guarantee success and sustainability.
  
- (2) *Training, capacity building and institutional strengthening*
  - a. Training for agricultural extension staff in agronomic aspects of irrigated farming;
  - b. Training of farmers and on-farm water management;
  - c. Training of Irrigation Management Company (IMC) staff in maintenance of primary, secondary canals and the pumping station;
  - d. Establishment of WUAs and guidance in organizational management.

- (3) *Agricultural support*
  - a. Provision of agricultural credit;
  - b. Training and establishment of commercial agents for future extension services in the communities;
  - c. Agro-forestry programme by tree-planting at farm edges;
  - d. Construction of new markets and expansion of existing markets to cater for future increase of agricultural production;
  - e. Construction of agricultural centres.
  
- (4) *Community based needs provision*
  
- (5) *Direct poverty reduction measures*
  
- (6) *Women's programme to induce alternative income-generating activities*

#### **4. Funding Arrangements and Government Involvement**

##### ***Funding***

As a general policy Lux-Development Agency does not work with loans, therefore all bilateral ODA between the Socialist Republic of Vietnam and the Grand Duchy of Luxembourg are through grants, thus the funding for the Nam Tuan Irrigation project was not project based. The total value of the project is EUR 3,718,100 ( USD 4,461,720)<sup>98</sup> of which the Grand Duchy of Luxembourg is funding EUR 3,293,100 (USD 3,951,720) representing approximately 80 percent of funding, combined with contribution from the GoV of EUR 425 000 (USD 510,000), the remaining 20 percent. The GoV funding is used for the purpose of financing the clearance of land, transportation of materials and the construction work for resettlement.

The allocation of project funding is as follows: 52% of LD funding (EUR 1,725,000) is used to finance the Irrigation Infrastructure Rehabilitation which involves renovating and constructing the irrigation scheme. The remaining 48% finances the construction of roads. Allocation for each sub-project has been previously fixed by LD; any additional funding required is supplied by the provincial government of Cao Bang province.

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<sup>98</sup> Based on the June 2005 exchange rate agreed upon between the Government of Vietnam and the Grand Duchy of Luxembourg ( 1EUR =1.2 USD)

### *Commitment*

Funding commitments were made through an agreement between the Grand Duchy of Luxembourg and the Government of Vietnam, to which the Nam Tuan Irrigation Project document is an annex. Unlike other donors who provide project based ODA, no special account is set up within the Ministry of Finance in Vietnam; rather funds are committed and disbursed through a specific LD project account.

### *Disbursement*

#### *Construction Contractors*

Construction contracts are signed in principle with the PMU of DARD (the official supervisor of works implementation), however direct payment is made from LD into special accounts which are set up depending on the value of the contract. Invoices for contract works must be approved by the PMU of DARD and the PMU of the Nam Tuan and the Chief Technical Advisor (CTA) before it is sent to Lux Development's regional office and LD Headquarters for approval. All construction contracts are also signed with LD headquarters.

### *DARD*

Disbursement of funds to DARD is based on each divisions work plan which outlines tasks/activities and budget requirements. Divisional work plan budgets must be approved by the PMU of DARD and the project CTA as well as LD, after which LD formulates a disbursement schedule for each division. The disbursements are made directly to each division based on the activity-based budget plan.

A detailed accounting system is in place to record all disbursements. The project provides finance reports on quarterly basis to the GoV, while LD requires that annual audits are made on all LD funds as Vietnamese audits for ODA funds is only conducted after completion, which can often be after 4-5 years depending on the lifetime of an ODA project. There is also no fixed rule on audits on GoV contribution to LD projects and these occur irregularly.

### *Administrative Arrangement*

The Nam Tuan Irrigation project falls under the Luxembourg's Indicative Cooperation Programme (ICP/PIC) signed on 22 September 2002 between the Governments of Luxembourg and the Socialist Republic of Vietnam.

The NT Irrigation scheme was built 25-30 years ago and has degraded rapidly because majority of canals were not concrete-lined. Given limited budgets, temporary infrastructure was constructed in Nam Tuan, awaiting external (Central government or ODA) support.

On 1 March 2004 the Ministry of Planning and Investment (MPI) of the GoV submitted a project request prepared by Cao Bang province listing five priority projects in irrigation within three districts which catered to Luxembourg's 'non-reimbursable aid'. The Ministry of Foreign Affairs (MFA) of Luxembourg requested Luxembourg Development (LD) in Sept 2004 to study the request and undertake one of the five projects, taking into consideration certain feasibility and development objective parameters as outlined in the ICP/PIC.

### **Government Involvement**

The Nam Tuan Irrigation project management of construction and rehabilitation works will be undertaken by Cao Bang Provinces' Department of Agriculture and Rural Development (DARD). The DARD hosts two Programme Management Units (PMUs): one PMU is responsible for managing the overall construction implementation within the ARD sector, while the other PMU is for the Nam Tuan Irrigation project specifically, led by the Chief Technical Advisor, an international consultant of British nationality. The PMU of the Nam Tuan Irrigation project (hereby reference as the Irrigation PMU) is composed of national technical advisors and engineers, and assisted by the Division of Irrigation and the Cao Bang Irrigation Company, a state company under the management of DARD. Although MARD is listed in the Programme document, officially they have no role.

A Steering Committee has also been set up for oversight of performance management. The Steering Committee involves the following representatives:

- All divisions within DARD, including the Director and/or Vice-Director of DARD
- PMU of DARD
- The Irrigation PMU/CTA team
- Cao Bang province's People's Committee who acts as the line manager on behalf of the GoV
- Lux-Development agency's regional office
- Embassy of the Grand Duchy of Luxembourg, Vietnam
- Cao Bang Province's Department of Planning and Investment (DPI)

The project has invited MARD to send a representative to the Steering Committee meetings however, thus far, MARD has not participated.

Below is a break down of each agency's responsibilities and functions:

*DARD*

- Management of construction activities, exploitation and management of irrigation schemes;

*Provincial Irrigation Division*

- Professional/technical division of DARD responsible for exploitation management of irrigation scheme and water resource development within the provincial area;
- Consult DARD on water resource development strategy within the provincial area;

*Cao Bang Irrigation Company*

- Responsible of exploitation of irrigation works;
- Manage and operate the irrigation works serving for agricultural production;
- Responsible for supplies of domestic water and water for use by other economic activities (i.e. Industries), including the construction sector.

**Other Involvement**

Apart from the Women and Farmer’s Union, no other specialized groups were scheduled to be involved in the implementation of the project. One national NGO was scheduled to help facilitate the Community Management component of the Nam Tuan Irrigation project; however it was decided by the project that an additional national TA would be more appropriate to carry out the Community Management mandate.

The project is also supported by the Cao Bang Provinces’ Department of Natural Resources and Environment (DNRE), the Department of Finance (DoF) and the Department of Planning and Investment (DPI).

**5. Tender and Procurement Process**

**Global Donor Thresholds**

Category	Goods	Services	Works	Validation by:
<b>A</b> <b>INTERNATIONAL TENDER</b>	X > €100,000	X > €200,000	X > € 500,000	LD Headquarters
<b>B</b> <b>LOCAL TENDER</b>	€ 50,000 < X < €100,000	€ 50,000 < X < € 200,000	€ 50,000 < X < € 200,000	Regional Representatives
<b>C</b> <b>ABRIDGED</b>	€ 10,000 < X < € 50,000	€ 20,000 < X < € 50,000	€5,000 < X < € 50,000	

<b>LOCAL TENDER</b>				
<b>D SIMPLIFIED CONSULTATION</b>	< € 10,000	< € 20,000	< € 20,000	GA-CTA

Source: Luxembourg Development Agency: Synoptic Table on the Acquisition of Goods, Services and Works

### ***Guidelines for International Tenders***

International tenders for services and mixed contracts, works and goods follow similar procedures, with few differences.

Publication of international tenders for services is mandatory on the LD website, the international press and the national press of the ODA recipient country. Communication of the over all budget for the tender is prohibited for goods, works and mixed tenders, however is mandatory for services.

The Tender Evaluation Committee is composed of 5 persons for all types of contracts, where one (1) person from LD and one (1) person from the national counterpart must be represented.

### ***Guidelines for Local Tenders:***

Local tenders for all works, services and mixed and goods tenders follow the same guidelines. Local tenders for services/mixed, goods and works tenders must be advertised on the LD website, as well as in the local press of the ODA recipient country, however publication in the international press is only required if appropriate. Communication of the budget is prohibited for goods, works and mixed tenders, however mandatory for services.

The Tender Evaluation Committee for local tenders requires a total of three (3) persons on the evaluation panel for goods and works tenders, while requires a total of five (5) persons for services and mixed contracts. Each Tender Evaluation Committee should consist of at least one (1) LD representative and one (1) national counterpart representative.

### ***Guidelines for Abridged Local Tenders***

Similar guidelines are employed for all service/mixed, construction works and goods tenders under the abridged local tender threshold.

Publication of the abridged local tender on the LD website and publication in the local press are both not mandatory, although highly recommended. Publication in the international press is only if appropriate. Similar to international and local tenders, the communication of the overall budget is prohibited for construction works and goods tenders, however mandatory for services, unless exempted.



A total of three (3) persons are involved in the Tender Evaluation Committee for abridged local tenders which includes one (1) LD representative and one (1) national counterpart representative.

***Guidelines for Simplified Procedure tenders***

Simplified procedures for all works, services/mixed and goods tenders follow the same guidelines.

Advertising in international and local press is not mandatory, and communication of the budget within the TAD is decided on a case-by-case basis. The tenders are evaluated by the CTA with consultations provided by the national counterpart, although it is not mandatory.

***Tender Evaluation and Selection Criteria***

***Evaluation Criteria:***

*Goods:* tenders that are evaluated as administratively compliant and technically substantially compliant will qualify for the award.

*Works:* tenders that are evaluated as administratively compliant and technically compliant qualify for the award

*Services or Mixed:* (Double Envelope System) tenders that are evaluated as administratively compliant and having obtained the minimum technical score qualify for the award.

*Simple Procedure for Services/Mixed, Goods and Works tenders:* evaluated based on whether they comply with evaluation criteria, those which are non-compliant are immediately rejected.

***Award Criteria:***

*Goods:* Contracts are awarded to the tenderer whose tender has been evaluated the lowest substantially compliant.

*International tenders:* Final appraisal is validated by LD Headquarters and approved by the LD contracts committee at Headquarters

*Local and Abridged Local tenders:* Final appraisal is validated by the LD Regional Office. Approval of the recommendation of award is given by the Regional Representative.

*Works:* Contract is awarded to the tenderer whose tender has been evaluated the lowest compliant.

*International tenders:* Final appraisal is validated by LD Headquarters and approved by LD Contracts Committee at LD Headquarters.

*Local and Abridged Local tenders:* Final appraisal is validated by the LD Regional Office. Approval of the recommendation of award is given by the Regional Representative

***Services or Mixed:*** (Double Envelope System) the contract is awarded to the tenderer whose tender has obtained the highest global score combining weighted technical and financial scores, thus representing the most economically advantageous tender.

*International tenders:* Final appraisal is validated by the LD Headquarters, and approval is given by the LD Contracts Committee at Headquarters.

*Local tenders:* Final appraisal is validated by LD Headquarters, and approval is given by the LD Contracts Committee at Headquarters.

*Abridged Local tenders:* Final appraisal is given by the LD Regional Office. Approval of award recommendation is validated by the LD Regional Representative.

***Simplified Procedure:***

Award of simple procedure contracts are provided by the most economically advantageous offer. The CTA is responsible for final appraisal and approval of the contract award, and contract award outcomes must be communicated to all tenderers via official writing.

Notification of outcomes of the contract award is made to all tenderers through official written notification, as well as posted on the LD website for all types of contracts at each level.

## **6. Results of Procurement on the Project**

***Procurement Guidelines Used***

All acquisitions of services, works and goods must adhere to the procurement guideline of LD; however certain exceptions were made which deviated from the LD procurement guideline. For example, the GoV requires that bidding contractors provide certain documents which are not normally included in bidding documents if LD were applying the same format in another country. Also, according to LD procurement guidelines, cost estimates for work tenders are not published, whereas GoV departments are obliged to do so if the estimate is above a certain threshold. Deviations from the LD procurement guideline are made on a case-by-case basis and are identified during the preparation of each separate tender dossier, thus a separate document outlining all the variations and exceptions on the acquisition of goods, services, and works does not exist.

All procurement guidelines were discussed between the CTA and the DARD counterpart at the time of preparing the tender dossier, once a deviation has been agreed upon, the project must seek approval from LD Headquarters Department of Acquisitions, provided a strong rationale is provided to change the LD procurement rule. In the procurement guideline, a clause has been incorporated which states that use of national procedures is *possible* subject to the condition of being validated during the Tender Approval Dossier (TAD) appraisal period and of being covered by the authorization to launch the tender. The LD procurement guideline also states that the agreement of the National Counterpart on the object of the acquisition procedure and the sharing of responsibilities is *mandatory* and must be included in writing in the TAD. However it is also stated that if LD is the Contracting Authority (for the CTA, long-term experts, audit and evaluation, etc) agreement with the counterpart is not required.

Approval from LD Headquarters is required for all major procurement changes; however there are cases when HQ approval is not necessary, such as when changes to procurement guidelines fall within the responsibility and threshold of the CTA (such as for tenders where simplified procedures are used). In such cases, although approval from LD HQ is not necessary, all funds are audited by an external party to review and ensure that changes are legitimate and fall within internationally accepted public practice. Despite slight differences in procurement guidelines, LD and the relevant GoV departments collaborate together to verify and approve all tender documents, and attempt to combine the two procurement guidelines and procedures as often as possible.

All contracts were procured under open bidding procedures, implying that no short listing was conducted in the acquisition of services, construction works and goods contracts.

#### ***Acquisition of Consultancy Contracts:***

##### *International Consultant*

The Nam Tuan Irrigation project procured one international consultant of British nationality for the CTA position through direct appointment. This was due to the urgent nature of filling the position as the previous CTA holding the position, was promoted to Regional Coordinator for Lux-Dev in Hanoi. This can be interpreted as as both tied, as the original CTA was working within Lux-Dev at the time of appointment, as well as defacto tied, since no competitive bidding was conducted to ensure that the current CTA was the most competitive. In fact, the CTA had worked previously with Lux-Dev on a similar project, and thus was appointed this position.

##### *National Consultants*

LD procured six national consultants for this project:

- Agricultural Technical Advisor (1)
- Construction works supervisor (3)
- Administrative consultant (1)
- Community Management technical advisor (1)

The national consultants were procured directly by LD using open market principles (accountability, transparency, etc) based on LD local tender on services procedures. Advertisements for these positions were made nationally and were published in Vietnam News, an English language newspaper, as well as in national Vietnamese language newspapers. All national consultants are of Vietnamese nationality. Since the national technical advisors are considered a part of the LD support team to facilitate this project, LD was responsible for the procurement and selection, based on consultations and ‘no objection’ from DARD.

***Acquisition of Goods:***

Equipment was procured to support the LD team as well as the DARD. Specifically, three vehicles were procured: (1) two vehicles for DARD of which the country of origin or type of vehicle was not specified; and (2) a small truck (maximum 5 tonnes) made in Vietnam; The two vehicles are from Japan; 2005 and 2006 Nissan Patrols estimated at €20,000 each, A Danish firm, Kjaer Group, specializing in procurement of vehicles with whom Lux—Dev has had an ongoing partnership for all vehicle procurement until February 2008, was directly appointed for this procurement as the contract value of each vehicle falls within Lux-Dev guideline to procure through simplified procedure. The truck has yet to be purchased, and the tied specification was in fact, at the insistence of the Cao Bang DARD. According to the donor, the two 4x4 vehicles were acquired through market-comparison pricing.

Office equipment with contract value of €10,000 was also acquired for this project. According to the CTA, this mainly involved the purchase of computers from a company based in Hanoi. Procurement decision was based on pricing and availability after obtaining quotations for such equipment in Cao Bang and Hanoi.

***Acquisition of Construction Contracts:***

Two construction tenders were issued under the Nam Tuan Irrigation project: (1) Irrigation Infrastructure Rehabilitation; and (2) Roads Construction in Nam Tuan.

The Irrigation Infrastructure Rehabilitation construction was issued under a single international competitive bid; however the construction project was broken down into four (4) separate lots, since the value of each lot remained within the threshold of ICB. Contractors

were not restricted to the number of lots they could bid for (i.e. they were permitted to bid on any number of lots to a maximum of all four).

The tender dossier outlined the needs and requirements of each lot. The work was divided due to the complexity of geography and location, and for easier management purposes. There were no technical specifications made for each of the lots, each were stated to be similar in technical compliance, unless certain lots were in geographic areas which required specific requirements (i.e. in areas where electricity is not available, specifications were made to include an electrical engineer, etc.).

Both the tenders adhered to the LD procurement guidelines and were advertised on the LD website in the English language, as well as local press. According to the donor, the advertisement on the LD website adhered to the guidelines of international advertising despite the fact that a separate publication was not made in any other international press.

Advertisements for both tender offers were also made within Vietnam; local contractors became aware of the tender through the MPI procurement website as well as in Vietnam's national labour newspapers, published in Vietnamese. The donor also stated that an advertisement was published in the Vietnam News, an English language newspaper.

For the procurement of construction works, the PMU of the DARD was involved throughout the entire process. The PMU of DARD helped prepare the tender dossier with consultation from the CTA, which was then approved (both technical schedule and dossier) by the DPI and sent to the Cao Bang's People's Committee for approval. As mentioned, since both construction works were held under an open tender procedure, there was no short listing or prequalification process involved.

Construction contracts were evaluated on three aspects:

- (1) Administrative Compliance
- (2) Technical Compliance
- (3) Financial Compliance

The requirements for administrative and technical compliance are standard, and were evaluated based on a 'YES/NO' process. Bidders who were unable to meet the requirements of either administrative or technical compliance were immediately disqualified. Selection of the contract award was based on the lowest cost, of which the tender dossier provided the minimum budget requirements, despite LD procurement guidelines stating that communication of the overall budget for construction works is prohibited.

The majority of companies applying for the construction lots were Vietnamese, with a few Chinese companies as well.

In regard to the procurement of the construction contractors, the CTA, representative for LD, prepared the Tender Approval Dossier which was sent to the LD Regional Office and then to

LD Headquarters for approval. Once bids were submitted, the local evaluation committee which included the project's PMU, representatives from Department of Planning and Investment (DPI) and the Department of Public Works (DPW), and the CTA, evaluated and selected a contract to recommend for award. The final appraisal of the evaluation committee's selection and approval for the recommended contract was provided by LD Headquarters; however DARD is the contracting authority.

All construction contracting firms are Vietnamese firms. Two of the five are based in Hanoi, one is located in Nghe An province, one in the Cao Bang province, and the base location of the fifth construction company could not be contacted.

**Table 2: List of Construction Contracts Procured for Nam Tuan Irrigation Project**

Name of tender/contract	Total Value	Year	Consulting services or construction	Contact Details
1. Irrigation Infrastructure Rehabilitation	€1,498,230 (5 Lots)	2006	Construction	<p><b>Lots 1 &amp; 5:</b> (JV) Manh Phu Co Ltd (Nghe An province) &amp; Tan Hung Co Ltd</p> <p><b>Lot 2:</b> Construction, Investment and Rural Development JSC 658 (Hanoi)</p> <p><b>Lot 3:</b> Viet Bac Company (Cao Bang province)</p> <p><b>Lot 4:</b> Construction, Investment and Rural Development JSC (Hanoi)</p>
2. Roads in Nam Tuan	1,381,141,331 VND	2009	Construction	Manh Phu Co Ltd (Nghe An province)

### ***Contractors and Construction Works***

*Construction, Investment and Rural Development Contractor JSC 658 (Lot 2) and Construction, Investment and Rural Development JSC (Lot 4)*

The Construction, Investment and Rural Development Company JSC 658 (CIRD JSC 658) and the Construction, Investment and Rural Development Company JSC (CIRD JSC), were informed and bid for the project based on advertisements on the MPI website as well as in national newspapers in Vietnam. All advertisements were in the Vietnamese language.

*Manh Phu Company Ltd (Lot 1 for Irrigation Infrastructure Rehabilitation, and Primary contractor for Nam Tuan Road Construction project)*

Manh Phu Company, located in Nghe An province was contracted in December 2006 to build canals, dykes, residences for resettlement as well as a separate contract for road construction in two communes, Phu Ngoc and Nam Tuan. The construction company began irrigation construction in early 2007 and finished in July 2008, and is currently in process of road construction.

The bidding for each construction project was done separately ; one was made as a joint venture with Tan Hung Company Ltd on Lot 1 of the Irrigation Infrastructure and Rehabilitation, and the other was for the road construction works in Nam Tuan. Knowledge regarding the tender was through an advertisement from a Vietnamese labour newspaper published in Vietnamese.

***Sub-Contracting and workers at the ground level***

According to the donor, sub-contracting is prohibited in order to avoid difficulties in management several different smaller companies.

From the three contractors interviewed, none of them used sub-contractors to complete the construction work stating that the value of the project was too small to hire another firm; as well the construction work was fairly simple and therefore did not require any outsourcing for specialized expertise.

***Procurement of Goods and Services (equipment and materials)***

According to the contractors contacted on construction works, they were required to follow Vietnam's Procurement Law as well as Vietnam's quality control.

Of the five construction companies used for construction works in this project, three were contacted and interviewed: Construction, Investment, and Rural Development Joint Stock Company, Construction, Investment and Rural Development Joint Stock Company 658, and the Manh Phu Company Ltd.

Each of the contractors stated that the major equipment necessary for construction had already been procured from previous work, therefore very limited purchasing of equipment and materials was required. All three contractors stated that there were no restrictions by Lux-Dev or Cao Bang DARD regarding the country of origin or brand, of equipment needed to be purchased for the project. The only requirement provided by Lux-Dev was on the productive capacity and safety standards of all equipment, which varied depending on the machinery and equipment specified.

Each of the contractors verified that since this was a simple canal construction building project, the equipment required was fairly uncomplicated and since limited specifications

were made on the type of equipment and materials to use (only on productive capacity and safety standards), contractors were able to purchase this equipment freely in the local markets.

**Equipment and Material Purchased:**

<b>Equipment/Materials</b>	<b>Project price (VND) (A)</b>	<b>Market Reference Price, average (VND) (B)</b>	<b>Cost Effectiveness Ratio, C=A/B</b>
Steel 6x8 diameter	16,652,454	11,390,179	1.46
Water Pump	3,300,000	2,830,000	1.17
Cement PCB 30 (tonne)	1,000,000	900,613	1.11
Steel	12,500	12,450	1.00
Concrete Mixer	9,000,000	9,500,000	0.95
Nissan Patrol (LuxDev) (USD)	24000	76,000	0.32

**7. Estimated effects untied aid has had on project design/characteristics**

It is difficult to ascertain whether untied aid had a significant effect on the project design, or whether the project design itself resulted in an inevitable untying of aid. The nature of the project involves construction of irrigation canals which requires quite simple construction and is located in a complex geographical area of Vietnam (northeast mountainous region) covering approximately 785 km<sup>2</sup>, therefore even if the status of the project was tied, would have resulted in severe cost inefficiencies to procure contractors, equipment and materials from Luxembourg or the EU region, thus resulting in the use of local firms and local materials in order to implement the irrigation project. On the other hand, the effect of untied aid enabled greater involvement of national consultants and national companies, as well as greater ownership and authority by the Cao Bang DARD, which would have been less likely had the project been tied.

**Extent of untied**

Based on the research and investigations conducted thus far, the Nam Tuan Irrigation project seems generally untied, at the equipment level; however there are components of tied aid in services procurement.

***Technical Assistance***

*International Technical Consultant*

The procurement of the international technical consultant indicates aspects of tied aid are associated with this project. The current CTA is of British nationality and was internally



appointed to the post despite that the contract value fell within Lux-Dev's ICB threshold. Furthermore, he was posted internally as his predecessor was posted to the Lux-Dev Regional office in Hanoi, and therefore the initial CTA was in fact an employee of Lux-Dev,

#### *National Technical Consultants*

Based on interviews with some of the national consultants, the procurement process seems untied. The advertisements were made in the Vietnamese newspaper in both English and Vietnamese, as well as posted on the MPI website.

#### ***Equipment Sourcing:***

According to an interview with one of the construction contracting companies they explained that it was likely to find equipment sourcing tied to a specific country or specific set of countries for projects that were more complex, such as the construction of dams, which require modern technology and equipment to ensure both sustainability and efficiency. For irrigation construction or road construction, materials and equipment are quite standard and are easily accessible within Vietnam's markets, thus based on the cost-advantage; it would be impractical to source equipment and materials from overseas.

#### *Use of Vietnamese Firms*

According to the donor and the PMU, there are no deliberate efforts to increase local firm participation. Although construction works were contracted by local firms, the tender was offered through a single international competitive bid and the only international advertisement was published on the LD website, as well as advertisements made in Vietnam's national newspapers, and MPI webpage in both English and Vietnamese. The lack of any other form of international advertisement resulted in asymmetric information yet this did not result in de facto tying of aid, as the majority of bidding firms were Vietnamese, with a few Chinese firms.

Furthermore, sub-contracting work to local firms is strongly prohibited, thus even if a Luxembourg construction company based in Vietnam were to bid and be awarded the contract, there would be restrictions on ensuring that local firms actually participated in the construction work.

Despite the fact that there was no indication of Luxembourg tied aid in the procurement of contractors, interestingly enough however, there was an incidence of *internal* tied aid. The ground-truthing exercise found that one of the construction companies, Manh Phu Company, based in Nghe An province, actually imported workers from Nghe An province despite the cost-efficiencies and availability of workers from Cao Bang province. Therefore, although not

tied in the conventional definition, the procurement of workers from specific regions from Vietnam indicates an aspect of internally tied aid.

#### *Decentralization of DARD*

Execution of the project falls under DARD and is decentralized from the central level however this is not a result of the untying of ODA. According to the donor, decentralization of responsibility to DARD in Cao Bang province was both a circumstance of the central governments involvement as well as a practicality and efficiency concern. According to the CTA, MARD has been invited several times to participate in the Steering Committee for the Nam Tuan Irrigation project, however has yet to participate, and although they are theoretically listed in the programme document as being involved, they have no active role. Furthermore, previous experience of using MARD as an executing agency or focal point created bureaucratic difficulties and cost concerns, slowing down the progress of projects, thus using DARD was for efficiency reasons rather than a deciding factor for Lux-Devi's untying ODA status.

## **8. Impact**

#### *Cost effectiveness*

A list of equipment was obtained from the contractors in order to conduct a cost-effective analysis for this project. In regard to the office equipment procured, DARD was responsible for procurement, and thus, often suggested local suppliers within Cao Bang as possible vendors, due to the strong social network, or as described by the CTA 'one-big-family' network. This often resulted in higher-than-average costs however LD would require cost comparisons be made in Hanoi which often resulted in cheaper equipment being procured. Thus it puts into question the limitations on the cost-effective argument in untying aid, as even though goods are purchased locally, it is not necessarily a result of the most cost-effective equipment domestically.

In addition, further limitations on the argument for cost-effectiveness through untying aid was the time and cost inefficiencies involved in executing the entire procurement process. According to the CTA, there have been several time-lags in executing certain project components as Lux-Dev wants to ensure transparency and explicitly indicate their commitment to untied ODA. This has resulted delays in project implementation, which also results in cost-inefficiencies when factoring in sunken fixed costs already incurred.

### ***Developmental effectiveness***

#### *Local Labour Market: Uncertain if any real impact made*

According to contracting firms, the Nam Tuan Irrigation project has created more jobs at the construction site with Vietnamese workers; however despite the use of Vietnamese workers, the impact on Cao Bang provinces' direct labour market is limited. From the ground-truthing exercise, it was found that one of the construction companies, Manh Phu Company, located in Nghe An province, actually recruited workers from Nghe An province instead of recruiting workers locally within Cao Bang. This not only limits the development impact but also results in cost-inefficiencies of transporting and lodging out-of-province workers. Thus the local economy is not directly benefitting from this, however relative to the counter-factual conventional tied aid scenario, the use of Vietnamese firms and thus labour has improved.

Another factor to consider regarding the impact on development is the number of skilled versus unskilled labour employed for this project. Under tied aid projects, it is likely that the majority of the national labour force is employed as unskilled labour however through untying, the use of Vietnamese firms has significantly increased the use of skilled labour as was evidenced by the site visit which accommodated the project manager, deputy project manager and technical engineer of one of the contracting companies. Furthermore, interviews with the Construction Works Supervisors, all of whom are Vietnamese and contracted by Lux-Dev, indicated significant benefits of capacity building through the experience gained from working with Lux-Dev standards. Specifically, they mentioned that although this was their first time working with Lux-Dev, they had previous experience working for multilateral and bilateral donors, thus the more opportunities to work with donors has enabled them to gain experience on international standards and norms.

Furthermore, Lux-Dev stipulates in their tender dossier and programme documents that any firm contracted by LD must adhere to local labour standards as accepted by the International Labour Organization (ILO). Therefore, there is assurance that the rights of labour are being upheld through this project.

#### *Local Production/Equipment Market: Improved slightly*

There is no impact on the equipment production within the Cao Bang province specifically since the type of equipment required and materials available are priced more competitively and easily available in Hanoi, which is then later transported to Cao Bang province. Despite lack of stimulation to the local production market in Cao Bang province, the simplicity of the construction work and the standardized equipment that is widely available is improving the national production/equipment market within Vietnam.

## **9. Conclusions**

The Nam Tuan Irrigation project has achieved untied status, however not only due to its procurement guidelines and move to untied ODA in accordance with the Hanoi Core Statement and Paris Declaration, but is also a result of circumstance from government intervention.

The Nam Tuan Irrigation project thus far seems relatively untied, and there is no formal indication that the project is tied to any source within Luxembourg

The LD procurement guidelines are clear and do not provide indication that that equipment sourcing or fund distribution should be restricted in any way to the particular donor's economy or to the EU region. Furthermore, all firms were Vietnamese and no informal procedures were implied based on the information gathered from contractors. All equipment was acquired prior to the bid for tender and commencement of construction work, and any equipment that needed to be replaced was procured from local markets and according to the contractors contacted, no specifications or guidelines (formal or informal) were made to lead the contractors to purchase or source equipment from Luxembourg. Interviews from contractors indicate that cost comparisons were made within the national market in order to ensure acquisitions were economical.

Elements of tied aid are present in the initial procurement of the international technical advisor, who left the post to pursue a position at Lux-Dev's Hanoi office. The subsequent CTA was appointed internally, despite that the contract value was within Lux-Dev's ICB threshold. Although the current CTA is of British nationality, his appointment was based on his previous experience of working with Lux-Dev on a similar irrigation project.

National consultants were procured through competitive procedures, resulting in five Vietnamese technical consultants. Since all procurement procedures were conducted via an open tender procedure, there was no short listing involved and no prequalification was employed.

Construction work for the Irrigation Infrastructure Rehabilitation work was procured under international tender, and only advertised on the LD website as well as in national Vietnamese newspapers (English and Vietnamese) and on the MPI website. The lack of an additional international publication of the construction work could have risked defacto tying of aid due to asymmetric information, however the majority of bidders were Vietnamese firms, with a few bids coming from Chinese companies. The simple construction of the irrigation and road canals combined with the geographical challenges led to separating the ICB on the irrigation construction bid into four separate lots. The contract value for each lot remained within the ICB threshold and therefore each lot was not separated into four NCBs.

Furthermore, decentralizing the executing agency to Cao Bang provinces' DARD was based on difficulties in bureaucracy as well as lack of MARD participation, enabling the Nam Tuan Irrigation project to provide more responsibility to the key stakeholders within DARD to localize and procure investment.

With regard to cost-effectiveness, although equipment and materials necessary for the project were procured domestically, there was often regional bias. One contracting firm procured workers out-of-province despite the greater expenses involved. In addition, strong social networks between the suppliers and the DARD has often led to cost-inefficiencies as suppliers mark up prices of equipment and materials. Also, the time-lag and sunken costs that are incurred in ensuring that the procurement process is transparent and competitive results in limiting the cost-effective argument in untying aid.

For development effectiveness, it is unclear whether the untying status of the Nam Tuan Irrigation project has attributed greatly to development effects within the Cao Bang province. As mentioned before, many workers came out-of-province, thus limiting the direct labour market impact in Cao Bang. The project has brought about capacity building opportunities as the increased use of Vietnamese firms increased the number of skilled labour and the national consultants procured by Lux-Dev are building their capacity in dealing with international norms and standards. It is clear however that more local equipment and materials are being purchased, however it seems that most of this equipment is procured and purchased outside of the Cao Bang province, and therefore although helping the national economy, might not be encouraging much development within the region itself as there seems to be limited spill-over effects on the direct local economy.

However, based on the research of this project and the impacts at the local level, it seems that the effects of untying have resulted in a net benefit that would otherwise not exist had the project been tied.

## **Annex D: Case Study of the Phan Ri-Phan Thiet Irrigation Project**

### **1) Back ground of the project**

The Phan Ri-Phan Thiet project is an irrigation and flood control project in the rural water supply sector, designed to establish irrigation and drainage systems in two areas of Bac Dinh district, Binh Thuan Province in the South of Vietnam. The loan agreement for this project was signed between JICA and the Government of Vietnam in March 2006 (Japanese FY 05/06), and the project is intended to be implemented until December 2012. The objective of the project is to develop irrigation and drainage facilities, develop rural infrastructure, and conduct agricultural development including strengthening of agriculture extension services, thereby expanding agricultural production. The targeted areas of Phan Ri and Phan Thiet in Bac Binh District, totaling an area of 10,500 hectares, are expected to benefit from the project by increased poverty reduction through improved incomes of farmers as a result of increased agricultural output. The main cultivated crops in the region targeted by the project include cotton, winter-spring rice, summer-autumn rice, and beans.

This area was targeted in particular due to the relatively high proportion of agricultural workers in this district (92% of population), and well below national average levels of GDP/capita (240 USD cf. 483 USD). The eastern part of Binh Thuan Province receives the lowest rainfall in Vietnam (800-1,000 mm per annum), which combined with the relatively low levels of irrigation instillation rates (approximately 30%), is a major factor contributing to the poor levels of agricultural production, and low incomes in the region. A total of 19 settlements are located in the beneficiary area.

### **2) Objectives of case study and methodology**

The main purpose of this case study is to take a micro level approach in tracking donor funds for a specific project from commitment by the donor to disbursement by the lead implementing agency down to the ground level. From this account, funds dispersed will be investigated to determine the organisations involved with the disbursements, the procedures used at each stage, and the exact source in terms of countries of origin of the goods purchased and services employed for the project. A key feature of these case studies will be to identify factors which led to the discrimination of goods and services on the basis of nationality and how this occurred, for example a rules and regulations based explanation, or due to an organisation's practices. The second step of the case studies will be to assess the impact of the sourcing of contracts on the cost effectiveness and developmental effectiveness of the original disbursement for the project.

In order to investigate the tracking of funds from the donor's commitment to disbursement by the project implementing agencies, several sources of information and lines of investigation have been pursued. This has included the review of secondary data sources including ex-ante project evaluation documents, donor procurement guidelines, completed case study questionnaires, project progress reports, contract documents, and bidding documents obtained from the donor and PMU. In addition primary data collection has been initiated at every stage of the investigation wherever possible. This has involved meeting with relevant individuals at the donor, including the senior aid coordinators for JICA, as well as JICA programme officers directly involved with this project, and meetings with personnel from the project management unit at the central project office (CPO).

### **3) Project structure**

By constructing irrigation and drainage facilities, water from the Dai Ninh hydropower dam (also a Japanese funded project) will be supplied to the irrigation canals, to improve water supply to crops in the target areas.

Civil works and services that are necessary for the implementation of the project will be provided as follows in Bac Binh District, Binh Thuan Province.:

#### **(a) Civil Works:**

- Construction of irrigation and drainage facilities, including:
  - Song Luy Head Works (awarded to a joint venture); construction of a spillway across the Luy River to provide water for irrigation canals. The spillway is downstream from a hydroelectric power project and Ca Giay reservoir
  - Construction of Main Canal, from spillway- lots 1, 2, and 3
  - Construction of two Primary Canals- lots 4, 5 and 7
  - Construction of Secondary Canal- lot 6
  - Construction of project office on site- lot 15
  - Future lots for construction other secondary canals, tertiary canals and farm canals (not yet issued)

- Rehabilitation of Dong Moi main canal (gate repair)
- On-farm development and development of 19 farm villages.

(b) Consulting services:

- Tendering assistance,
- Construction supervision assistance
- Strengthening of agriculture extension services (training of farming advisors, etc.)
- Guidance on operation and maintenance (including assistance in establishing water user groups)
- Monitoring of the environment
- Settlement and land acquisition and control of infectious diseases

As well as these main civil works and consultancy services for the project, there will also be a component where members of the local community will be trained to become responsible for maintaining and looking after the completed irrigation and drainage facilities. These are known as ‘Water User Groups’, which are farmers’ organisations to be set up for every tertiary canal, and will be in charge of the tertiary canals and field canals.

The project is also designed to take into consideration several environmental and social factors during implementation. On the environmental side, anti pollution measures will be undertaken to avoid excessive use of agricultural chemicals and chemical fertilizers, which the project may otherwise propagate. The measures involve taking steps to set up integrated pest management, in accordance with the local agricultural chemical management guidelines. In addition domestic wastewater discharged from settlement area will be treated in sewage tanks and then carried through sewage pipes to disposal ponds where it will be naturally processed.

With respect to social consideration, steps will be taken to control against mosquito-borne infectious diseases (malaria and dengue fever), which may otherwise increase from the increased irrigation facilities constructed by the project. These steps include regular surveys, distribution of mosquito nets, and examination of cases of disease, and will be carried out in cooperation with the province’s Department of Health. (The consulting services will provide assistance for the regular surveys).



The field canals and drainage canals will be developed by farmers, who are the beneficiaries of the project, using materials provided. Moreover, as stated above, operation and maintenance of the tertiary canals will be conducted by the water user groups, which are farmers' organizations. In the improvement of farm village infrastructure, reflection of residents' wishes and resident's active participation will be promoted in the design process by utilizing opportunities such as regular community meetings, etc., to hold explanatory meetings and discussions with residents who are expected to live in the project site.

#### **4) Funding Arrangements**

JICA is the single donor for this project, offering a total ODA loan amount of 4,874 million Japanese Yen (approximately 51.9 million USD) to the Government of Vietnam. The aid modality for the project is project based aid assistance, where the funds are transferred directly from the donor to the contractors and consultant to pay for the works done upon the request from the executing agency. Procurement on the project is being undertaken using both the donor's procurement guidelines and Government of Vietnam procurement guidelines, depending on the procurement method.

The project was designed and initiated by the executing agency (EA) at the Ministry of Agriculture and Rural Development (MARD). Desired projects from the Government of Vietnam are formed into a short list of projects considered high priority for implementation in Vietnam for pursuing the government's development strategy. When preference for funding of a particularly project is indicated, discussion between the donor, line ministry, and MPI is initiated to decide if funding for that project is deemed essential. Once funding has been agreed, the PMU must conduct a feasibility study to be approved by the executing agency.

#### **Government Involvement**

The executing agency for this project is MARD, under which the Project Management Unit (PMU) is responsible for managing the project, including holding responsibility for procurement of contractors and the employment of consultants. The PMU for this project is the 'Central Project Office' (CPO). MARD have established four CPOs (fisheries, agriculture, irrigation, forestry), who manage only ODA loan projects. The relevant CPO for this project is the irrigation CPO.

At the provincial level, the Department of Agriculture and Rural Development (DARD) of Binh Thuan Province will be in charge of the Head Works and the large-scale irrigation and drainage facilities (excluding tertiary canals and the field canals), known as the 'operation and maintenance system.' DARD are responsible for conducting the procurement of contractors,

with assistance from the project consultancy services. At the provincial level there are two management units responsible for implementation:

1. Sub Project Office number 7 (SPO7), under management of MARD and responsible for managing the main canal construction
2. Project Management Unit (PMU) under the management of DARD, responsible for managing the secondary canal construction

In addition to the value of the loan from JICA, an additional sum of 28 million USD is funded from the government of Vietnam's national budget. Giving a total value of approximately 80 million USD allocated to the project. Funding directly from provincial departments is very small e.g. site clearance.

When a section of work is completed, contractors submit the certificate of work done (by the consultant) and invoice to SPO7 or PMU under DARD (depending on the case), which then must be approved (in the following order) by: the treasury in province, CPO, and Ministry of Finance. Then together with the supporting document from CPO, the MOF will send the Request to JICA for disbursement. Disbursements are made directly by JICA to the contractors' (or consultants') account based on the transfer instruction from the MOF.

The Provincial People's Committee (PPC) have a responsibility in the province similar to MARD. PPC manage compensation for resettlement of households for the project, and assigned the project to DARD in Province.

## **5) Tender and Procurement process**

During the project implementation, separate sets of guidelines are used for procuring consultancy services and for construction works and equipment, where all procurement is performed by the executing agency.

For consultancy services, JICA 'guidelines for the employment of consultants' are used, where procurement follows the short listing method. However the method of procurement must also follow the Vietnam law on procurement. A quality based selection (QBS) method is used for final selection of the consultant.

For procurement of construction works, since all the construction packages under this project use NCB, procurement is conducted in accordance with the Vietnam law on procurement. However, JICA's key principles of procurement (economy, efficiency, impartiality and

transparency) highlighted in their guidelines, must also be ensured. All construction works packages are evaluated in line with the bidding documents and bid evaluation criteria. The bid evaluations are made by comparing bids which conform to the technical specification and are responsive to the bidding documents on the basis of their evaluated cost (i.e. using a quality-cost based selection (QCBS)). JICA reviews the procurement processes to ensure it meets the procurement guidelines. Sub contracting is permitted but is the responsibility of the PMU to monitor, where the donor is not concerned whether sub contracting takes place or not.

New JICA procurement guidelines were introduced in March 2009, although the project is subject to the old JICA procurement guideline (January 2005 version). One key difference between the two versions is that under the new guidelines, a quality and cost-based selection (QCBS) is the commonly recommended method for procurement of consulting services. The project is comprised of twenty four lots in total for construction and equipment, and consulting services, where nine lots have been signed to date.

## **Tender Evaluation**

### *Consulting Services*

For the evaluation and selection of consulting services (through QBS), the CPO is responsible for conducting the procedure following the ‘Guidelines for the employment of consultants under Japanese ODA loans’ as well as the Vietnam Law on Procurement. In most cases, the need to employ a consultant for a project will be jointly established by JICA and the GoV/EA and the terms of reference will be drawn up before the signing of the Loan Agreement. The selection procedure is initiated with a publically advertised call for expression of interest (EOI) with the provision of terms of reference for the candidates. The PMU must then prepare a shortlist of between three and five consultants who are invited to submit a technical proposal. Only the consultant applicant whose technical proposal is determined as ranked first will be invited to submit their financial proposal and then to contract negotiation. JICA reviews the shortlisted consultant candidates, the letter of invitation and the technical evaluation reports for ‘no objection’.

Consultant’s proposals are evaluated with the following criteria:

- The consultant’s general experience and record in the field covered by the Terms of Reference
- The adequacy of the proposed approach, methodology and work plan
- The experience and records of the staff members to be assigned the work

The weighting of the above factors will vary depending on the type of consulting services required. Note that in QBS, price is not a factor in evaluating proposals. Upon completion of the technical proposal evaluation, the consultant whose proposal is ranked highest is invited to submit the financial proposal and then contract negotiations. Once the selected consultant begins work, it is the responsibility of the PMU to supervise the consultant's performance and ensuring it is satisfactory. However, according to JICA guidelines, JICA may also monitor the work of consultants as necessary to ensure work is being carried out to the appropriate standard.

#### *Contractors and construction work*

For the evaluation and selection of construction goods and services, the PMU is responsible for conducting the procedure following 'Guidelines for Procurement of Goods and Services under Japanese ODA loans'. JICA considers that in most cases, international competitive bidding (ICB) is the most appropriate method for procurement of construction goods and services. No exact threshold contract values are given in the procurement guidelines, above which ICB should be conducted. However there are several special circumstances listed in the Japanese guidelines under which ICB may not be appropriate, which are:

- When the EA wishes to maintain reasonable standardisation of its equipment or spare parts in the interest of compatibility with existing equipment
- Where the EA wishes to maintain continuity of services provided under an existing contract awarded in accordance with procedures acceptable to JICA
- Where the number of qualified contractors is limited
- Where the contact amount is so small that foreign firms would clearly not be interested, or the advantages of ICB would be outweighed by the administrative burden involved
- Where JICA deems it inappropriate to follow ICB procedures e.g. emergency procurement

In the any of the circumstances listed above, the following procurement methods may be applied:

- Limited international bidding (LIB) i.e. ICB with direct invitation, and no open advertisement
- 'International shopping' - comparing price quotations from at least three foreign/local suppliers
- Direct Contracting

For procurement of goods and services financed by the local currency portion of the loan, these Guidelines will not apply. In such a case, the national competitive bidding (NCB) methods in line with Vietnamese procurement law and regulation will be applied. (Bid prices for contracts of LCB packages are usually stated in VND in line with the conditions of the Loan Agreement).

For works, machinery and equipment for which complete technical specifications are prepared in advance, the two-envelop bidding procedure may be adopted. Under this procedure, the bidders are invited to submit technical and price proposals simultaneously in two separate envelopes. Technical proposals are opened first and reviewed to determine if the specifications have been conformed to. After the technical review, price envelopes of the bidders whose technical proposal have been determined to conform to the technical specification are then opened publicly. Among these, the bid with the lowest evaluated price shall be selected for award.

For large and complex works, pre qualification is in principle required in advance of bidding to ensure that invitations to bid are offered only to those who are technically and financially capable. This is usually the case for applicants under ICB bidding procedures. Factors which are evaluated in pre qualification documents for contractors include: experience of and past performance on similar contracts; capabilities with respect to personnel, equipment and plant; and financial position.

The JICA guidelines state that for advertising ICB contracts, invitations to pre-qualify or to bid should be advertised in at least one newspaper of general circulation in the recipient country. Copies of bid invitations should also be sent to the local representatives of the eligible source countries.

Procurement was conducted under guidelines of JICA and GoV, where most conditions are similar. If conflict occurs between the guidelines, this must be submitted to MARD for consideration. Final decision may be made by the Prime Minister of Vietnam. Calls for bids advertised in Daily News newspaper (Vietnamese) and MPI website (Vietnamese)

Under this project, no prequalification is needed since all the packages are NCB, but certain requirements must be met, including:

1. Capacity requirements
2. Technical items- given score

3. Approach, equipment, human resources
4. Cost

In the JICA procurement guidelines, and GoV guidelines, there is no evidence of any explicit rules which suggest any forced tying outcomes with respect to procurement of goods and services for the project (i.e. no rules limiting procurement to the donor country or another specific country or region).

## **6) Results of Procurement on the Project**

### *Contracts at the primary level*

For consultancy services, one international consulting company was procured through a short listing procedure, QBS method, by the PMU. The tender was publically advertised in Vietnam News newspaper in English, calling for an EOI. Short listed candidates were then invited to submit a technical proposal, which were evaluated by the PMU in line with the Request for Proposal and Proposal Evaluation Criteria concurred by JICA. The highest scoring technical candidate was hence requested to submit the financial proposal. Once contract negotiations were complete, the contract was signed between the CPO and the consultant. Effectuation of the contract began only after the approval of the contract by MARD and concurrence by JICA.

The winner of the contract to provide consultancy services for implementation of the project was BCEOM Company (France). Five other companies were shortlisted (2007), including the following nationalities: France, Holland, USA, Australia, and Japan. BCEOM is responsible for providing assistance to CPO for project implementation tasks and activities. BCEOM is responsible for instructing and assisting both management units in the province with implementation activities. The project consultancy company also provides capacity building by assisting with the ICB procurement process, which is considered a management challenge for PMUs in general.

The services provided by BCEOM include assisting with procurement, contract management and negotiation, legal framework support, support for monitoring and evaluation, preparing evaluation reports submitted to CPO and JICA, evaluating project progress report and quality control of construction activities. The 2 project units at the province level also prepare project progress reports for CPO. Positions on the project for consultants include technical experts, and the team leader for implementation. Training by BCEOM is available for workers, management units, and beneficiaries. The consultant also delivers information about

safety, disease, and the environment, held thorough talks, where BCEOM signed a sub-contract to deliver this information.

Both local and international staff are employed by BCEOM. For consultancy services on the project, a total of 70 man months are provided by international specialists, and 100 man months provided by local (Vietnamese) specialists. Almost all consultant staff are working on site where the BCEOM temporary office is located.

The feasibility study conducted prior to the start of the project was organized by MARD for basic design (from the project budget). The first loan from JICA for the initial stage of the project was for the engineering service (detailed design) under which Nippon Koei (Japan) was selected as the consultant for the project in line with QBS method and approved by MARD. The second JICA loan for the project covers the construction phase for which BCEOM was selected as the project consultant. Upon request from the CPO, JICA provided the CPO with information of a list of consultants for reference. The short listing process was conducted by the CPO in line with VPL under which invitation for interest was called publicly. The consulting firms who were interested in the project sent the expression of interest and their profile to the CPO for evaluation. The short listed consulting firm was concurred by JICA.

For construction contracts, all procurement will be performed through national competitive bidding (NCB). Advertisements have appeared in Vietnam News (English) and Procurement News, MPI (Vietnamese). The duration from the published call for proposal to the opening of the submitted bidding documents is one month. Upon submission of the bidding documents, SPO7 or PMU under DARD (depending on the case), opens the bidding documents and evaluates them in line with the bidding document and bid evaluation criteria. Once a decision has been made, this is submitted to the CPO and JICA for approval. Currently on the project, nine construction contracts have been procured so far through NCB out of 24 contracts in total.

**Table 1: List of Contractors Procured (up to August 2009)**

Bid No.	Main Contractor	Joint venture with	Address	Person in charge	Contact number	Main activities
<b>Consultant:</b>						
	Egis BCEOM International (French)		Lang Ha	Mr Nguyen Ngoc Thanh	04.62758565	Consulting Services
		Công ty Tư vấn và xây dựng Thủy Lợi (HEC I)				
<b>Construction: (All Vietnamese)</b>						
3A	Irrigation construction joint stock company Nghe An 1		216 Nguyễn Trường Tộ, Vinh city, Nghệ An	Nguyễn Trọng Hiền	038.3537559 038.3537556	Head work - To build the spill way across the Luy River - Heighten water doorway with valve system to bring water into primary and secondary canals - electric system to heighten exhaust valve
		Nhật Quang Limited	128 Nguyễn Gia Thiều, Bắc Ninh city	Mr Dương Công Hậu	0241.6252135 (F): 0241.3874454	
3B1	Construction joint stock company 12		T10-CT1-2 Mễ Trì hạ Urban area	Nguyễn Hữu Tới	32143720 F37875053	Main Canal construction, 3.5km
		Water Construction and technology transfer company	4/95 Chùa Bộc	Nguyễn Tiếp Tân	35632297 F: 35634633	
3B2	Construction and rural development cooperation		68 Trường Chinh	Nguyễn Mạnh Hà	38696055 F38693689	Main Canal construction, 2.6km
		Khánh Giang Limited		Huynh Phu Gia	0650.3621107 0650.39627612	
3B3	Construction investment and rural development Joint stock company		40/120 Trường Chinh	Nguyễn Quốc Vương	35762447 F35762441	Main Canal construction, 3.6km
4	Binh Thuan Construction and infrastructure development joint stock company		120 Trần Quý Cáp, TP Phan Thiết, Bình Thuận	Phạm Lương Cao	062.819226 F062.3819199	Primary canal 1 construction, section 1
		Lam Dong Water				



		investment and construction Joint stock company				
7	Nam Dinh infrastructure construction joint stock company		229 Mạc thị Bưởi, phường Quang Trung, Nam Định	Dương Văn Tuất	0350.384 3292 0913299 285 F0350.38 45990	Primary canal 2 construction
5	Nghe An Water construction company 1		216 Nguyễn Trường Tộ, TP Vinh, Nghệ An	Nguyễn Trọng Hiến	038.3537 559	Primary canal 1 construction, section 2
		Thanh Hoa Construction investment and rural development Joint stock company	303 Bà Triệu, phường Hàm Rồng, Thanh Hóa	Lê nguyên Khanh	037.3960 059 0913293 596 F0373.96 0224	
6	Construction investment and rural development Joint stock company		40/120 Trường Chinh	Nguyễn Quốc Vương	3576244 7 F357624 41	Secondary canal (same company as package 3)
15	Construction company 319/QK3-Ministry of Defence		Ngõ 154 Ngọc Lâm, quận Long Biên, Hà Nội	Lê Quang Hiệp	3827253 3 3827421 0 F387314 58	Create a construction site for Bid number 3A with managing office (this is a small contract)

Source: Central Project Office (Hanoi)

Note: Contract values confidential

After procurement of the first contract, the CPO had to submit all details and bidding documents to JICA and MARD as a detailed ‘review case’ to ensure procedures were followed correctly. If a contract value is less than 80 billion VND, JICA do not need to review the procurement process (except for first contract case). Contracts with a value greater than 80 billion VND must be reviewed by JICA in step by step detail. However all contracts in this project have a value less than 80 billion VND (all contracts between 40-80 billion VND).

The total value of first 9 contracts is equal to 480 billion VND (26 million USD), and all are Vietnamese contractors. International firms are eligible to apply in theory, but contract values are relatively small so therefore not attractive to international firms. Language of advertisements is not considered a barrier since international firms will often have Vietnamese staff or interpreters if they have a presence in Vietnam.

In the initial project design JICA suggested the project should be designed with three ICB packages for the construction component. However MARD argued that this was impractical due to a very large geographic project area consisting of many canals and therefore would be difficult and costly to implement. MARD decided it would be more efficient to hold 21 NCB construction packages as an alternative. Each construction package lasts 2-3 years, where one large company may not have enough equipment or resources to finish a large area in 2 years.

One of the original ICB packages was intended for the Head Works and the Main Canal which initially had bidders from China and Korea. However these bidders could not reach the technical requirements and therefore failed. This package was then split into four NCB packages/lots.

From the beginning of project, there has been no Technical Assistance assigned to the project (National or International). However the CPO have been holding discussions with the donor (JICA) if the project should have TA starting 2010 (currently undecided).

#### *Sub contracting and workers at ground level*

Only one contract (head works) has involved sub contracting so far. This was mainly due to the large volume of work required under the main contract which involved excavation of rock requiring explosives. The intention to sub contract specific work components is included in the proposal, and must be stated before the bid submission and awarded the contract. Invitation to bid documents may specifically recommend sub contracting, including how many sub contracts. Otherwise, contractors are permitted to sub contract in general, with the condition it is stated before hand in their proposal.

The ground truthing visit for this project involved a visit to three of the key construction lots: lot 4, lot 3A, and lot 3B1 (primary canal, head works, and main canal respectively). From this exercise it was observed that all the workers at ground level are Vietnamese, including engineers and construction workers, working for the construction companies responsible for each lot. Table 2 below shows number of workers, origin of workers, pay, and work length information collected from the ground truthing exercise from lots 4 and 3A.

**Table 2: Summary information of workers for lots 4 and 3A**

Construction package no.	Total no. of workers	Workers from within province (Binh Tuan)			Origin(s) of workers from outside province
		No. of workers	Typical length of work	Typical remuneration (VND)	
4	120	120	1-3 months per year (dry season), 25 work days per month	120,000/day	N/A
3A	120	30-40	6-7 months per year (December-June) 25 work days per month	90,000 – 150,000/day	Bac Ninh, Nghe An and HCMC

*Procurement of goods and services (equipment and materials)*

The invitation to bid documents include the CPO's equipment requirements for contractors, and these requirements must be met prior to bidding. In their proposals, firms are required to list their equipment inventory, which may be subject to confirmation by an independent auditor. If some items are lacking, the firm would be required to obtain the additional items to be eligible for winning the bid for this project, which must be in the proposal with supporting documents (e.g. purchase receipts/hire contracts).

The following table provides a list of equipment used on the separate three lots giving price and origin data.

**Table 3: Price and Origin of Equipment used by three separate contractors on the irrigation project**

Construction package no.	Material/equipment	Country of origin	Company purchased from	Location purchased in Vietnam	Price (VND)	Year purchased	Purchased new or second hand?	Purchased specifically for this project?
4	PVC sealant for joints	CH/VN	Nhon Trac joint venture	Dong Nai	180,000/m	N/A	New	--
	Steel rebar	VN	VietY joint venture	HCMC		N/A	New	--
	Sand	VN	Vinh Tuyen Company	Binh Tuan	150,000/m <sup>3</sup>	N/A	New	--
	Aggregate	VN	Dai Thinh Vuong Ltd.	Binh Tuan	300,000/m <sup>3</sup>	N/A	New	--
	4 x Cars	KR	Hyundai dealer	Binh Tuan	1,400,000,000/ea	2008	New	1-2
	1 x Earth mover	JP	Kobelco dealer	Dong Ngai	1,200,000,000/ea	--	SH	Yes
	1 x Bull dozer	JP	Importer of Komatsu products	HCMC	570,000,000/ea	--	SH	No

	15 x Concrete mixer (small)	VN	Hoa Phat Company	HCMC	30,000,000 /ea	--	New	1-2
	2 x Concrete mixer (truck-mounted)	JP	Importer	HCMC	50,000,000 /ea	--	SH	Yes
	2 x Dump-truck	RU	--	--	350,000,000/ea	--	--	No
	1 x Concrete compactor	JP	Importer	Binh Tuan	20,000,000	--	SH	--
	1 x Sand compactor	US	Importer	HCMC	356,000,000	--	SH	--
	1 x Steam roller	--	Distributor	HCMC	59,000,000	--	SH	No
3A	Aggregate	VN	Dai Thinh Vuong Ltd.	Binh Tuan	300,000/m <sup>3</sup>	N/A	New	--
	Sand	VN	--	Binh Tuan	--	N/A	New	--
	Steel	VN	Southern Steel Company	HCMC	15,300-15,400/kg	N/A	New	--
	Cement	VN	Hoang Mai Company	Northern Vietnam	1,250,000/tonne	N/A	New	--
3B1	Aggregate	VN	Dai Thinh Vuong Ltd.	Binh Tuan	300,000/m <sup>3</sup>	N/A	New	--
	Steel	VN	Hoa Phat Steel Company	HCMC or Hanoi	15,500/kg	N/A	New	--
	Cement	VN	Hoang Mai Company	Northern Vietnam	1,250,000/tonne	N/A	New	--
	Bricks	VN	Bac Dinh Brick Company	Binh Tuan	800/ea	N/A	New	--
	PVC sealant for joints	CH/VN	Nhon Trac joint venture	Dong Nai	180,000/m	N/A	New	--
	Nylon fabric (filter)	VN	Truong Thinh Company	Binh Tuan	16,000-17,000/0.25m	N/A	New	--

Much of the heavy duty equipment used on the project was originally from Japan, Korea, Russia or USA (with pumps sourced from India), although all were purchased either new or second hand from suppliers in Vietnam and not imported directly. In addition most of these items were owned by the companies before the project.

There were no specific sourcing requirements for goods used on the project. Construction material requirements are also specified in invitation to bid documents, for example; type of material, technical specifications, capacity, and quantities. Again there were no specific sourcing requirements for these materials, although all materials were sourced from Vietnam due to local availability and lowest cost source. Materials used for the project sourced from within the province include sand, bricks, and aggregate. Whereas steel, cement, nylon fabric, and PVC sealant were sourced from other provinces. The irrigation canals are constructed mostly from concrete made from sand and cement bought locally, and the Head Works constructed from concrete and iron. There were very few specialised or 'hi-tec' items or materials used on the project that are only available from importing. One exception is the

‘Water bar’ (a small gate inside the canal) made by Sika group of Swiss origin, although bought in Vietnam. The number of water bars required is specified in the bidding documents, but there is no specification for origin.

**Table 4: Project equipment required for a typical contract on the project**

Equipment	Capacity	Number Required
Bull dozer	21 tons	3
Bull dozer	11 tons	2
Excavator	0.8m3 (heaped)	3
Wheel loader	2.3m3	2
Dump truck	10 tons	14
Sinker	15-20 kg	3
Vibratory roller	8-10 ton	2
Vibratory roller	1.2-1.7tons	1
Concrete mixer, portable		12

Source: Bidding documents, CPO

The PMU also procured a small number of items of equipment for the management office. For example furniture, computers, and digital cameras, which were all bought in Vietnam with an ‘international shopping’ procedure (quote comparison). Two cars have also been proposed to be purchased for the project management.

#### *Extent untied*

After holding meetings with the donors and implementing agency, reading through various procurement and project documents, investigating the source of goods and services, and conducting a ground truthing exercise, it is found the nature of procurement on the project is untied with respect to donors rules and regulations as well as practices. No informal rules or practices which unfairly favour donor national sourcing were discovered.

## **7) Impact**

#### *Cost Effectiveness*

At the time of writing, 9 out of 24 construction contracts had been procured for the project. From interviews with the PMU and from the ground truthing visit, the tender process for all nine were conducted using NCB procedures, where the lowest evaluated cost, pre qualified bid from all those submitted was awarded the contract. This process ensured companies for construction services procured on the project were of lowest cost and suitable for the contract. Therefore it is reasonable to conclude that procurement of construction services was cost effective as a result of untying since the source of services was unrestricted. In this case the

cheapest source by nationality was Vietnamese firms, although bidding was not restricted to Vietnamese firms. (All firms incorporated in line with Vietnam enterprise law are eligible).

A trivial cost comparison can be conducted for a number of items procured by three of the contractors for this project. The cost price paid for items on the project (A) is obtained from the budget per item in the annual project report, and the reference price (B) is averaged from 5 suppliers in Vietnam. From table 3 above it can be seen that not all equipment used on the project by these contractors was bought new and not all was bought specifically for this project. Analysing second hand or previously procured equipment with a current reference price for a cost effectiveness analysis reduces the accuracy of the conclusion of the impact of the untied aid for this project. Therefore the below cost comparison should be considered as an approximation only.

**Table 5: Cost effectiveness analysis**

<b>Equipment/Materials</b>	<b>Project price (VND) (A)</b>	<b>Market Reference Price, average (VND) (B)</b>	<b>Cost Effectiveness Ratio, C=A/B</b>
Sand (m3)	150,000	161,100	0.93
Hyundai Car	1,400,000,000	920,000,000	1.52
Earth mover	1,200,000,000	1,200,000,000	1.00
Concrete mixer (small)	30,000,000	9,500,000	3.16
Steel Rebar (kg)	15,500	14,900	1.04
Cement (tonne)	1,250,000	1,340,000	0.93
Bricks (each)	800	850	0.94
PVC sealant for joints (m)	180,000	178,000	1.01

The cost effectiveness ratio displayed in the fourth column of the above table represents the price of goods used on the project relative to the alternative market price of similar goods. Therefore a value of  $C < 1$  implies a cost efficient expenditure by cost saving relative to the market price, whereas a value of  $C > 1$  indicates a cost inefficient expenditure, with a cost gain relative to the market price. In theory untied aid is thought to procure goods from the cheapest available source, since sourcing is unrestricted. From the above table it can be seen that some of the results support this theory, for items with a cost effectiveness ratio close to '1' (e.g. sand, earth mover, steel, cement, bricks, and PVC). However there are some conflicting results since cars and concrete mixers were procured for a much higher price. Overall procurement of equipment and materials on this project can be seen to be cost effective

### *Developmental Effectiveness*

In terms of impacts on employment as a component of developmental effectiveness, this project employed all Vietnamese construction firms, including Vietnamese engineers and workers at ground level, thereby suggesting a positive impact on economic development during implementation. Table 2 above gives a breakdown of worker origin from two construction lots, where it is noted that both employ a high number of Vietnamese workers; 120 employees each. Of these 240 workers, over two thirds are from within the project target province, Binh Tuan Province, and the remainder from other nearby Southern provinces. This implies that benefits from increased employment and incomes provided by the project will be internalised and be developmentally beneficial for the local area and province, one of the poorest provinces in Vietnam. It was also discovered from the ground truthing visit that most workers are engaged in seasonal work on the project site, lasting several months at a time, mostly due to halting of construction during the rainy season. This implies that developmental benefits not be as extensive as first thought as employment is not permanent for the full annual year.

In terms of developmental effectiveness through increased use of local markets as a direct result of untying, we see in this project that no goods or materials were directly imported but all sourced locally. This implies a positive impact through increased sales by local traders and producers, which would in turn lead to greater incomes of local suppliers, and having a multiplier effect in the local economy. The research team also believe development benefits were generated through the working together of international and national consultants provided by the consultancy firm BCEOM, through knowledge transfers.

From the ground truthing mission to the project site, opinions were sought from construction company managers on the development impacts of the project. Their views on the impact to the province were found to be strongly positive and are summarised as follows. The project helps to improve the environment in the province and living standards; increases land value and provides resident households with extra income from wage labour during construction and compensation for resettlement. The completed project will increase productivity of agriculture, expand the cultivated area, makes water supply more convenient so allow for new farms for cattle, and new transportation links.

### **8) Conclusion**

This single donor, JICA loan funded project was found to be delivered by a fairly traditional aid modality- project based assistance, and using the donor procurement guidelines. Despite

the project not being delivered through more modern aid modalities such as general or sector budget support, or pooled funding, the nature of the project was found to be untied in rule and practice, with all construction works, materials and equipment competitively procured from the lowest cost source (and therefore cost efficient) which proved to be local domestic sourcing. The high proportion of sourcing from local labour markets and goods markets, which were exploited due to their low cost and ease of access, implies that the developmental impact from the untied project funds is positive. Meanwhile, the use of international as well as national consultants by the consultancy firm BCEOM had its own developmental benefits through capacity building activities, and had this been based purely on cost, the quality and developmental effectiveness may have been comprised to some degree. The developmental benefits of the project during implementation could have been potentially improved by the use of country procurement systems as opposed to donor procurement guidelines, assuming sufficient institutional capacity and adequate local procurement systems. This could have assisted in extending the management capacity of the project in both public and private sectors, and promoted the ownership agenda for aid effectiveness. However it can be argued that employing the use of country procurement systems which are less than adequate on a project of this nature could have a detrimental impact on the implementation and success of the project. Therefore as the Vietnam country system develops, careful consideration need to be made as to when is an appropriate time to adopt the use of these systems on large infrastructure projects.



## Annex E: Econometric Analysis

Tables 4.1 and 4.2 present the empirical results for Viet Nam and Laos respectively. Regressions have been estimated using simple OLS, fixed effects and random effects panel regressions; however, we are here reporting only results obtained using RE estimator.

**Table 4.1 – Econometric results for Viet Nam**

<i>Dependent variable: Exports</i>	<b>ODA aggregated</b>	<b>Tying status</b>	<b>ODA disaggregated (loans and grants)</b>	<b>Export credits</b>	<b>EC variable (1)</b>
GDP	0.951***	0.947***	1.071***	1.073***	1.050***
GDP per capita	-0.517	-0.553	-0.615	-0.618	-0.709
ODA i	0.167**	0.170**			
ODA All-i	0.822*	0.825*			
Distance	-1.684***	-1.693***	-2.439***	-2.475***	-2.637***
Import residual	0.794***	0.789***	0.813***	0.808***	0.784***
Tying status %		-0.007	0.224*	0.323**	0.148
Grants i			0.118***	0.116***	0.113***
Grants All-i			-0.354	-0.325	0.061
Loans i			-0.043**	-0.045**	-0.035*
Loans All-i			0.303	0.295	0.414
Export credits				-0.003	-0.003
EC disbursements					-0.039***
Constant	157.632	161.238	-63.569	-62.366	-118.521
N	127	126	126	126	126
N_g	22	22	22	22	22
r2_w	0.503	0.501	0.497	0.503	0.514
r2_o	0.791	0.802	0.819	0.819	0.822
r2_b	0.793	0.795	0.817	0.817	0.82

Note: All variables are in natural logarithms (except Common language and Tying status). All regressions include a time trend not reported.

Legend: \* significance at 10 percent \*\*significance at 5 percent \*\*\* significance at 1 percent.

Data covers the period 2002-2007.

Common language automatically dropped (no donors share common official language with Viet Nam).

FDI could not be included due to data unavailability.

**Table 4.2 – Laos**

<i>Dependent variable: Exports</i>	<b>ODA aggregated</b>	<b>Tying status</b>	<b>ODA disaggregated (loans and grants)</b>	<b>EC variable</b>
GDP	0.836***	0.679***	0.693***	0.686***
GDP per capita	1.51	0.187	0.126	0.089
ODA i	0.286***	0.307***		
ODA All-i	-0.292	-1.509		
Distance	-2.266	-1.534	-1.803	-1.995
Import residual	0.248***	0.259***	0.269***	0.271***
Tying status %		1.123	0.992	0.999
Grants i			0.319***	0.325***
Grants All-i			-1.139	-0.792
Loans i			-0.021	-0.023
Loans All-i			-0.024	-0.023
EC disbursements				-0.021
Constant	-216.785	-303.107	-247.527	-302.001*
N	104	103	103	103
N_g	20	20	20	20
r2_w	0.06	0.133	0.123	0.137
r2_o	0.46	0.485	0.494	0.488
r2_b	0.624	0.69	0.7	0.699

Note: All variables are in natural logarithms (except Common language and Tying status). All regressions include a time trend not reported.

Legend: \* significance at 10 percent \*\*significance at 5 percent \*\*\* significance at 1 percent.

Data covers the period 2002-2007.

Common language automatically dropped (no donors share common official language with Viet Nam).

Export credits and FDI could not be included due to data unavailability.

### **Theoretical framework**

The basic idea is to consider whether there is any trade distorting effects of aid at an aggregated level by examining whether bilateral aid from a particular donor to a recipient country affects trade between that donor and recipient pair differently from aid from other donors.

There could be several reasons why Official Development Assistance to a country could lead to an increase in the donor's exports (*positive impact*) to that recipient country.

The most obvious explanation is that *aid is formally tied* to exports from the donor country (*direct effect*); by definition tied aid results in trade dependency<sup>99</sup>. However, there are several ways for a donor to effectively tie aid without a formal tying agreement<sup>100</sup>. Therefore, also *de facto* tying by covert restrictions on sourcing can generate increased trade with the recipient.

There are however other *indirect effects* that might lead to a positive correlation between ODA and donor's exports. Aid might have a *macroeconomic impact* in the recipient countries; higher rates of economic growth and structural economic reforms such as trade liberalization might indirectly impact on donor's exports. Moreover, aid flows could result in

<sup>99</sup> Tied aid may simply finance donor exports that would have been procured from the donor country anyway, however, we would expect tied aid to usually increase donor's exports.

<sup>100</sup> See Annex – Data issues – 1a.

an increase in trade with the donor, reflecting the *goodwill* of the recipient towards the donor. Finally, the aid relationship might facilitate trade between the donor and the recipient increasing recipient's *proclivity* to procure goods from the donor (reinforcing commercial ties).

In theory, bilateral aid could also decrease donor's exports to the recipient country (*negative impact*); if aid were tied there might be a straight forward *substitution effect* (Osei *et al.*, 2004; Wagner, 2003; Martínez-Zarzoso *et al.*, 2008; Zarin-Nejadan *et al.*, 2008;). Other donor aid could, however, reduce a donor's aid. Also if there were a partial tying restriction, for example to local, regional or developing country sourcing, that could have a negative effect. In general, earlier studies (Nilsson, 1997; Wagner, 2003; Martínez-Zarzoso *et al.*, 2008; Zarin-Nejadan *et al.*, 2008; Nowak-Lehmann *et al.*, 2008; Petterson and Johansson, 2009) have found a positive correlation between donor aid and donor exports; these results have usually been seen to corroborate the hypothesis that aid is tied (formally or informally) to exports from the donor country (Petterson and Johansson, 2009).

### **Review of possible methodologies**

The aim of the chapter is to study the impact of ODA on bilateral exports; the initial and main hypothesis is however that tying practices are critically important in driving the trade distortion. Some of the methodologies used to study the relationship between bilateral exports and aid which could lend themselves to the possible inclusion of a tying status variable are therefore reviewed.

One option is the *gravity approach*. The original gravity model (Tinbergen, 1962; Bergstrand, 1985) has bilateral exports as a dependent variable and as explanatory variables: GDP and GDP per capita of donor and recipient; distance; dummies for a common language and colony. Additional to the typical gravity variables it is possible to add an aid variable.

Nilsson (1997) is the only study, using a gravity model, which tried to control for the degree of tying by including a dummy for those donor countries which, on average, tied more than half of their bilateral aid (the variable, however, was not found to be significant).

However, in the literature there have been criticisms to empirical studies of trade that use aid flows as an explanatory variable (i.e. gravity models). Most of the studies use cross-section or pooled data; however, the nature of the aid-trade links might differ among donor-recipient pairs. Therefore results may be misleading if estimations are performed over the whole sample. For this reason, data should be pre-tested to determine the nature of the aid-trade links for donor-recipient pairs using *Granger causality* (Osei *et al.*, 2004).

Lloyd *et al.* (2000), Arvin *et al.* (2000) and Osei *et al.* (2004) have used this methodology. Arvin *et al.* (2000) is however the only study which distinguishes aid by its tying status. Arvin *et al.* (2000) investigates the relationship between untied assistance and donor country exports using German data over the period 1973-1995.

In general, there is a very limited number of studies which have tried to include explicitly/directly the tying status of aid. Tajoli (1999) estimates the impact of Italian tied aid on total imports of recipient countries and tries to examine whether the distortionary impact of tied aid overcomes the trade generating effect.

### Methodology – Empirical specification

The gravity approach has been often praised for its remarkable explanatory variable and it is solidly based in the empirical literature (as opposed to Tajoli methodology which is only a minor approach). Granger causality itself has several limitations<sup>101</sup> and would be difficult to implement given the limited number of observations available. For this reason it was decided to use a gravity model and adapt it to the country level.

In this section, the empirical specification used to test empirically the hypotheses<sup>102</sup> is set out. This follows closely the methodology adopted by Massa and Te Velde (2009).

First, the following regression is computed in order to understand whether aid flows have an impact on total donors' export flows to the recipient country at an aggregate level.

$$\ln(Exp_{it}) = \alpha + \beta_1 \ln(Y_{it}) + \beta_2 \ln(Ypc_{it}) + \beta_3 \ln(Dist_{it}) + \beta_4 \ln(ComL_{it}) + \beta_5 \ln(ExpC_{it}) + \beta_6 \ln(ImpR_{it}) + \delta_1 \ln(ODA_{it}) + \delta_2 \ln(ODA_{All-it}) + \varepsilon_{it}$$

(ODA aggregated)

The dependent variable  $Exp_i$  represents the export flows<sup>103</sup> from country  $i$  to the recipient country;

$Y_i$  and  $Ypc_i$  measure respectively the GDP and GDP per capita of donor country  $i$ ;

$ODA_i$  is the country  $i$ 's Official Development Assistance to the recipient country whereas  $ODA_{All-i}$  represents ODA the recipient country receives from all the bilateral donors other than country  $i$ .

$ExpC_i$  stands for export credits;

$Dist_i$  stands for the distance between the exporting and the recipient country whereas  $ComL_i$  is a dummy indicating whether the donor country and recipient share a common official language<sup>104</sup>.  $\varepsilon_i$  is the error term, normally distributed, with mean 0 and variance  $\sigma_\varepsilon^2$ .

$ImpR_i$  stands for import residuals.

There might be a number of unmeasured influences that affect both aid and exports in the model. The omission of variables representing such influences (either difficult to measure, such as political ties and other unmeasurable relationships between the donor and the recipient, or simply underlying relationships not identified as potential determinants) could lead to over-estimating the explanatory power of foreign aid, which could be proxying for several of these omitted variables.

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<sup>101</sup> See Annex (Problems in estimating the determinants of exports – the aid and trade relationship) for a full discussion on the direction of causality as well as Granger causality drawbacks.

<sup>102</sup> See Annex for further details on problems in estimating the determinants of exports related to the nature of the aid and trade relationship.

<sup>103</sup> Exports include all traded goods but not services. Ideally, we would have liked to use exports of goods and services as a dependent variable; this exercise would have proved particularly interesting considering aid is often tied to consultancy services. However, exports of services had to be excluded due to the unavailability of disaggregated data (see Annex – data issues for further details).

<sup>104</sup> In order to adapt the original gravity model to the country level, we do not include in the regressions the recipient's GDP and GDP per capita (which only vary across years and not across donors). We also drop the dummy 'colony' indicating whether the donor and the recipient have been in a colonial relationship; at the country level this variable loses its interest and moreover it is likely to be highly correlated with the common language variable.

In order to overcome this problem an OLS regression is run on imports from the recipient to the donor and then the residuals from this regression are included in the original equations. This procedure is carried out on the assumption that underlying relationships, and more in general unmeasured variables, between the donor and the recipient (trading partners in this case) affect imports and exports in the same way (Wagner, 2003).

*Second*, the above regressions is re-estimated including a potentially important extra variable TS (tying status).  $TS_i$  stands for the percentage of donor ODA reported as tied. There is a direct link between formally tied aid and trade. When a donor provides tied aid, the recipient is constrained to the purchase of donor country exports.

$$\ln(Exp_{it}) = \alpha + \beta_1 \ln(Y_{it}) + \beta_2 \ln(Ypc_{it}) + \beta_3 \ln(Dist_{it}) + \beta_4 \ln(ComL_{it}) + \beta_5 \ln(ExpC_{it}) + \beta_6 \ln(Im pR_{it}) + \beta_7 \ln(TS_{it}) + \delta_1 \ln(ODA_{it}) + \delta_2 \ln(ODA_{All-it}) + \varepsilon_{it}$$

(Tying status)

*Third*, the regression above is re-estimated disaggregating ODA into loans and grants<sup>105</sup> to test whether certain aid instruments impact differently on trade flows.

$$\ln(Exp_{it}) = \alpha + \beta_1 \ln(Y_{it}) + \beta_2 \ln(Ypc_{it}) + \beta_3 \ln(Dist_{it}) + \beta_4 \ln(ComL_{it}) + \beta_5 \ln(ExpC_{it}) + \beta_6 \ln(Im pR_{it}) + \beta_7 \ln(TS_{it}) + \delta_1 \ln(Loans_{it}) + \delta_2 \ln(Loans_{All-it}) + \delta_3 \ln(Grants_{it}) + \delta_4 \ln(Grants_{All-it}) + \varepsilon_{it}$$

(ODA disaggregated)

Aid instruments are distinguished based on the origin of the flows.  $Grants_i$  is the country  $i$ 's grants to the recipient country whereas  $Grants_{All-i}$  represents the grants the recipient country receives from all the bilateral donors other than country  $i$ . Similarly,  $Loans_i$  and  $Loans_{All-i}$  are respectively the loans the recipient country receives from exporting country  $i$ , and from all the countries other than country  $i$ <sup>106</sup>.

However, the exclusion of certain potentially important factors may confound the influence of the explanatory variables on export flows. Therefore, the above regression is re-estimated including an EC variable; some donor personnel in Ghana suggested that the ACP-EU relationship might be an influence on exports from EU countries. In order to explore further this relationship we included a variable for EC disbursements.

### Data issues

- 1) Data availability. The study can only make use of the data available. However, there are two key areas where it is not immediately apparent that the wanted data is available.
  - a. Firstly, the data on tying can only capture formal tying. Both the investigation and the literature suggest that there is a substantial amount of *de facto* tying which is

<sup>105</sup> Aggregated ODA includes loans, grants, equity investment and grant-like (see Annex - definitions). However, once we disaggregate we lose information about equity investment and grant-like.

<sup>106</sup> We cannot compute the log(loans) or log(grants) when the variable is equal to zero (the log is undefined). To handle this type of problem we add 1 to the data before logging it –  $\log(0+1)$ . We assume that such adjustment is immaterial in the dataset as all positive values in the data are large numbers.

therefore not captured in the tables or econometrics. The tying status of aid is determined not only from the formal restrictions on spending which require recipients to contractually procure only from the donor country, but also from actual and practical restrictions which render aid funds *de facto* tied. There are several ways for a donor to effectively tie aid without a formal tying agreement. Informal tying might be the result of donors' commercial interests and pressures (and as such intentionally practised). It can occur when powerful donor countries are able to steer procurement towards national firms; through an implicit contract donors are able to persuade recipients to give preference to their suppliers within competitive bidding procedures (Tajoli, 1999). Donors may direct aid towards projects, goods or countries in which its industries have a comparative advantage in an attempt to assure that the procurement will happen in the donor country (Bhagwati, 1985; Jepma, 1991). Donors may also indirectly support national firms through the advertisement of the tender in publications which are not read outside of the donor country, or by evaluating bids against standards only applicable in the donor country (ActionAid, 2000). Donors might also informally tie their aid by first inviting bids and then deciding to support only those projects for which its home suppliers won the contract (U.S. Congress, 1993). Furthermore, informal tying can manifest itself as a 'secondary consequence of an arrangement already in effect' (Jepma, 1991). Tying of a small amount of aid might indirectly lead to a much larger amount. For example, large projects are usually undertaken after some preliminary examinations; when donors tie their aid to this pre-project phase, they often acquire substantial advantages in bidding for the project (U.S. Congress, 1993). In the provision of equipment with technical specifications, recipient countries might prefer to continue procurement from the same donor so as to avoid incompatibility or extra spending in technical training. The definition of (formal) tied aid might therefore underestimate the actual impact of tying practices on export flows. However, it cannot be excluded that some of the exports procured through tied aid would have been procured from the donor country anyway.

- b. Secondly, *Technical Assistance/Cooperation*, which accounts for a large slice of tied aid, does not usually enter the trade statistics. As highlighted in Stavlöta *et al.* (2006), if donor country representatives carry out consultancy services in a recipient country, the transaction will be registered as domestic (i.e. the consultants bill the donor directly which supplies them as services-in-kind) and will not enter the trade balance although these services could be regarded as export of services. This is important, as TC is both a significant share of ODA and an even larger share of tied ODA. Globally, 27% of TC related aid was tied as compared with only 13% for bilateral ODA in 2006 (Clay *et al.*, 2008, Table 3.5).
- c. Moreover, the definition of exports in the analysis is restricted to goods and does not include services. This is likely to lead to underestimating the impact of the tying status variable on donor export flows.
- d. We were also unable to get satisfactory data on additional variables for the econometrics e.g. FDI (for all countries), bilateral trade agreements, etc. FDI were only available for South Africa at a satisfactory level. Although this meant losing observations for 2007.

- 2) Data reliability is mainly an issue of reporting<sup>107</sup> quality. As quality has improved over time, we have retained data for only the latest years (2002-2007) but this restricts the sample, leaving us with a limited number of observations. This does not assist the robustness of results. Reporting was particularly bad
- a. Non response (tying status)
    - i. Overall - Some donors e.g. the US, only started reporting the tying status of ODA to the CRS this year (2008).
    - ii. Partial – e.g. reporting of TC components – a high percentage of projects by value do not report the TC status.
  - b. Differential reporting
 

Different donors interpret the reporting directives differently. For example, whether aid channelled through NGOs is tied or untied or over the precise definition of budget support. This has also changed over time and is becoming more consistent
  - c. Coverage
 

For the most part the study uses the CRS dataset as it has the project level data required however, comparison with the DAC dataset reveals that especially for the earlier years a substantial amount of ODA is not included.
- 3) Commitments vs. Disbursements. Where possible the study tries to use the most appropriate, commitments have traditionally had more complete coverage whereas disbursements are closer to reality in terms of trade effects.
- 4) The exports data used in the study includes all traded goods. However, data represents only exports of goods and not services. Data is drawn from the IMF DOTS (Direction of Trade Statistics).

## **Definitions**

Official development assistance (ODA) (source: OECD Glossary)

Grants or Loans to countries and territories on Part I of the Development Assistance Committee (DAC) List of Aid Recipients (developing countries) which are:

- (a) undertaken by the official sector;
- (b) with promotion of economic development and welfare as the main objective;
- (c) at concessional financial terms [if a loan, having a Grant Element of at least 25 per cent].

Official Development Assistance is classified by type of flow in the OECD Creditor Reporting System as follows: ODA Loans, ODA Grants, ODA Grant-like, ODA Equity investments.

## Grants

Grants are transfers in cash or in kind for which no legal debt is incurred by the recipient. For DAC/CRS reporting purposes, it also includes debt forgiveness, which does not entail new

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<sup>107</sup> Reporting the tying status of aid is not mandatory; consequently this information is often not complete and missing especially in early years.

transfers; support to non-governmental organisations; and certain costs incurred in the implementation of aid programmes.

### Loans

*Loans* are transfers for which the recipient incurs a legal debt and repayment is required in convertible currencies or in kind. This includes any loans repayable in the borrower's currency where the lender intends to repatriate the repayments or to use them in the borrowing country for the lender's benefit.

Only loans with a grant element above 25 per cent are ODA eligible. In addition, an ODA loan has to be concessional in character. This means that its interest rate must be below the prevailing market rate.

### Grant-like flows

*Grant-like flows* comprise a) loans for which the service payments are to be made into an account in the borrowing country and used in the borrowing country for its own benefit, and b) provision of commodities for sale in the recipient's currency the proceeds of which are used in the recipient country for its own benefit.

### Equity investment

*Equity investment* comprises direct financing of enterprises in a developing country which does not (as opposed to direct investment) imply a lasting interest in the enterprise.

The above definitions have been extracted from: DCD/DAC(2007)39/FINAL, Reporting directives for the Creditor reporting System [www.oecd.org/dataoecd/16/53/1948102.pdf](http://www.oecd.org/dataoecd/16/53/1948102.pdf)  
For further information on the creditor reporting system refer to the document above reported.

### Exports

The coverage of exports statistics should be sufficiently broad to encompass all merchandise leaving a country to another country, except goods being transported through a territory (i.e. transit trade) (IMF, 1993).

### Export Credits

Official or private bilateral loans which are primarily export-facilitating in purpose. They are usually tied to a specific export from the extending country and not represented by a negotiable instrument. As they have a primarily commercial motive, official export credits are classified as OOF, not as ODA. Premia paid to insure export credits, and indemnities paid under such insurance, do not constitute flows and are not recorded in DAC statistics (DAC directives available at : [www.oecd.org/dac/stats/dac/directives](http://www.oecd.org/dac/stats/dac/directives)).

## **Problems in estimating the determinants of exports – the aid and trade relationship**

### *Direction of causality*

We believe aid could be endogenous to trade. Although aid flows determine exports, there are several arguments that support that trade impacts on aid and therefore the existence of reverse causation (donors might decide to give aid to countries they have a trading relationship with; both aid and trade are likely to be high to countries donor has had a colonial relationship with; and so on). However, we are not able to instrument for aid; it proves difficult to find any variable that could be used as a credible instrument (and therefore an instrument which is



correlated with aid but which does not itself belong in the trade explanatory equation) (Pettersson and Johansson, 2009). Granger causality test could be used to pre-test the nature of the aid-trade links for donor-recipient pairs. However, Granger causality itself has several limitations (for Granger causality drawbacks see Osei et al., 2004:112) and would be difficult to implement given the limited number of observations available.

We would have like to try and control for potential endogeneity of ODA flows to exports by using lagged disbursements. However, the restrictive dataset we used did not allow us to carry out such analysis. There are a limited number of observations in the dataset and the inclusion of an extra variable (lagged disbursements) would have reduced the sample further. Moreover, it is difficult to identify the right lag structure - an assumption is needed to choose the lag lengths for the analysis and the results are crucially dependent upon the lag structure selected for the variable. Several lag lengths were tried with no clear advantage over the results without lags.

#### *Selection bias*

When estimating the determinants of exports we only observe trade information on those donor countries that export. If only 50% of DAC donors export to the recipient country under analysis, we will only have export information on those donors that trade. The problem of this kind of model is that the sample actually observed may not be random. In order correct for selection bias the Heckman procedure should be followed.

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